Newmarket

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Incentives for Affordable and Rental Housing
Staff Report

Report Number: 2018-61

Department(s): Planning and Building Services

Author(s): Ted Horton, Planner

Meeting Date: September 17, 2018

Recommendations

1. That the report entitled Incentives for Affordable and Rental Housing dated September 17, 2018 be received;
2. That staff be directed to amend the Official Plan to authorize the Town to participate in Community Improvement Plans implemented by the Regional Municipality of York and to bring such an amendment to an open house and statutory public meeting as required by the Planning Act;
3. That servicing allocation be provided as laid out in Attachment 1;
4. That the incentives presented in Attachment 1 be approved in principle, subject to the ratification by Council in 2019 where required and to the conditions presented for each;
5. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

Council has approved the zoning by-law amendment for 175 Deerfield Road to permit a residential development comprised of three towers over two phases (two in phase one and the third in phase two). The applicant has offered certain matters and community benefits. These would be secured in exchange for both (1) additional height and density as permitted by the Urban Centres Secondary Plan and (2) with certain financial incentives.

The matters and community benefits that the applicant has committed to providing are the following. First, they will allow the Town to guarantee two buildings as rental tenure to support the Town's objectives of increasing the supply of rental housing. Second, they will allow the Town to guarantee one building as a condominium tenure building to support Council's desire for a new condominium building. Third and subject to providing

a Tax Increment Equivalent Grant (TIEG), they will provide 19 units in one rental building and 13 in the other at a guaranteed affordable price, and have noted that all of the studio and one-bedroom units in the condominium building will be sold at a price that meets the affordable ownership threshold. Finally, as part of height and density bonusing the applicant will provide $339,000 in community benefits in the form of cash or capital infrastructure to support parkland development in proximity to the site.

In further support of parkland development, the applicant will be required to obtain and convey additional park lands to the Town to satisfy the existing requirements of the parkland dedication by-law. The specifics of this are set out in the section "Parkland Dedication" later in this report.

To achieve this, this report recommends a 48-month deferral of half of fees to be paid for all buildings, to have Council agree to allow the payable development charges for the rental buildings to be 'locked in' at the current rate, and to provide a 10-year Tax Increment Equivalent Grant for the rental buildings. This report proposes that the condominium building be granted access to the "Strategic Condominium Reserve" created by Council through the Servicing Allocation Policy. This report also proposes to provide servicing allocation to the first two buildings of the development contingent on them participating in the Region's LEED program which would cause the Town to receive a refund of 30% of the allocation required for the buildings, permitting the third building to also be constructed.

The 175 Deerfield Road application includes other matters that have been the subject of further inquiry from members of Council, which are discussed in this report. In particular, additional details related to affordable housing and social housing as was discussed at the most recent Committee of the Whole meeting are presented in the section "Affordable housing and social housing" under the "Affordable housing" section.

Purpose

This report serves to provide recommendations to Committee of the Whole on the incentives requested as part of the application for zoning by-law amendment for 175 Deerfield Road (hereafter referred to as the subject lands) under Section 34 of the *Planning Act*.

This report builds on Planning Services Report 2018-17, which provided the initial comments on the application and Report 2018-52 of August 2018 in which Committee approved the Zoning By-law amendment application.

Report 2018-62 also on the agenda for this Committee meeting is a companion to this report. Report 2018-62 presents the amending Zoning By-law to secure community benefits, and should be read in conjunction with this report as the outcome of this report should determine Committee's disposition of Report 2018-62.

Background

> **Other relevant reports**
>
> - Preliminary Report (Item 7)
> - Recommendation Report

Following the adoption of the Urban Centres Secondary Plan (UCSP), the Town has worked to encourage development on the Yonge Street and Davis Drive corridors. The Secondary Plan area constitutes the future of growth in Newmarket, the achievement of required growth under Regional and Provincial growth plans, the best opportunity for efficient growth patterns and transportation planning, and a source of increased property tax revenue. The Town is working to 'market the corridors' and entice development. Staff have worked collaboratively and flexibly with developers to make building in Newmarket an attractive proposition and demonstrate to property owners that the market demand for higher-density development in Newmarket is strong.

Moreover, the Town has worked to achieve the important objectives of the UCSP in the various development applications – high quality buildings, attractive landscaping, providing parkland and open space, and achieving an increased supply of rental housing and affordable housing. Some of these objectives can be achieved collaboratively – property owners have an individual interest in having an attractive and well-designed site.

Other objectives may require incentives or requirements in order for them to be achieved – building affordable housing is inherently less profitable than market-rate housing, and is unlikely to ever be voluntarily provided by a private for-profit developer without significant incentives. In that sense, this report discusses a proposed development at 175 Deerfield Road and proposed financial incentives sought by the applicant, and should be understood in a context of encouraging development while seeking to achieve the objectives of the UCSP.

Discussion

The Town has diverse objectives for the development of the Yonge Street and Davis Drive corridors, from redevelopment and intensification to a more walkable streetscape to sustainable development and high quality urban design, among others. Many of these objectives can be achieved through the requirements of typical processes under the *Planning Act* – zoning by-laws can control height and density and encourage a built form that supports walking, site plan processes can review urban design and layout, parkland dedication requirements can oblige developers to provide land or funds for parks.

Other objectives are more elusive, and may require the use of other tools to prioritize and facilitate developments that meet the Town's objectives. For example, the Town has adopted objectives of encouraging increased rental housing supply – however, the Town cannot control the tenure (ownership model) of developments through zoning. Efforts to encourage one form or another of tenure thus require incentives for developers. Tenure is discussed in more detail later in this report. Similarly, the Town has adopted policies to require the provision of affordable housing – however, the Town currently has few tools to control the price of dwelling units, whether rental or ownership. A third example is that the Town has adopted sustainability objectives that new developments exceed the energy and water efficiency standards of the Ontario Building Code – however, the Town cannot mandate standards greater than the Code, although developers may voluntarily exceed them.

In the pursuit of objectives that cannot be secured through standard planning practices, the Town may need to employ other incentives. This report addresses incentives that are sought by the 175 Deerfield Road Zoning By-law amendment application to encourage the development, ensure viability, and provide matters and community benefits that may otherwise not be achieved.

This report discusses (1) recent incentive initiatives, (2) the state of rental housing in Newmarket, (3) affordable housing and how it works, (4) eligibility and long-term maintenance of affordability, (5) the incentives that are specifically requested as part of the 175 Deerfield Road application, and (6) recommendations on the requested incentives.

Recent incentive initiatives

The Town has employed a number of incentive programs to support redevelopment and investment. These have supported investments and development principally in the Main Street South and UCSP areas.

Town initiatives

The "Town of Newmarket Policy for Deferral of Payment of Development Charges and Planning Application Fees in the Yonge/Davis and Regional Healthcare Urban Centres" was adopted in 2012 and allowed for the deferral of development charges ("DCs") for high-rise mixed-use residential and high-rise office development for up to 18 months. The policy required a letter of credit ("LC") for the full value of the deferral. An 'enhanced' version of the deferral was also provided, which deferred all Town DCs and 50% of *Planning Act* application fees for 18 months without requiring an LC, provided that the development meet a range of stringent criteria related to sustainability and affordability. No development application ever employed the Policy as it was adopted by Council, though 212 Davis Drive received an expanded set of incentives as is discussed later in this report.

In May of 2018 Council adopted an updated version of the policy titled "Policy for the Deferral of Payment of Development Charges & Planning Application Fees within the Urban Centres". The updated policy also provides for a 'standard' and an 'enhanced' approach. The standard approach now provides a 36-month deferral of all Town DCs secured by an LC. The enhanced approach now provides a 48-month deferral of all Town DCs and 50% of *Planning Act* application fees, provided that the development meet a set of criteria including LEED certification, providing affordable housing in residential developments, and meeting all development standards of the Site Plan Approval Process Manual. To date, no development applications have employed the Policy.

York Region initiatives

York Region has adopted a “Development Charge Deferral for Purpose-Built High Density Rental Buildings” to allow developers of purpose-built high density rental buildings to defer the Regional development charges for a period of 36 months. The Regional program requires the building to be a minimum of 4 storeys in height, to guarantee the rental tenure of the building for no fewer than 20 years, and that the local municipality offer equal or greater incentives.

York Region has also recently endorsed the “Draft Rental Housing Incentives Guideline and Community Improvement Plan”. This guideline and plan proposes to offer additional incentives as part of an effort to encourage private purpose-built rental housing supply for mid-range income households. This would assist in the creation of rental units that are greater in price than affordable units (which are restricted to 125% of average market rent) and support the creation of mid-range income units (which would be restricted to 175% of average market rent).

The new Regional guideline and plan, once approved by Regional Council in 2019, would provide for a 48-month deferral of Regional development application fees (in addition to the 36-month DC deferral for purpose-built high-density rental buildings), as well as a Tax Increment Equivalent Grant (TIEG) for the Regional portion of property taxes for up to 5 years.

A TIEG is an annual grant equal to all or a portion of the property tax increase (increment) following the completion of a project that has resulted in an increase in the assessed value of the property. In effect, the increase in property tax that occurs due to the increased value of the development is phased in over a period of time as the municipality “grants back” a diminishing portion of the increase each year. The Guideline incorporates a five year TIEG with a grant for 80 per cent of the tax increment in year one, reduced by 20 per cent a year to full taxes paid in year five.

A TIEG can only be implemented through the use of a Community Improvement Plan (CIP). CIPs are authorized under Section 28 of the *Planning Act* and provide for a broad ability for municipalities to provide grants or loans in conformity with the policies of the Plan. To date the Town has adopted a CIP for the Main Street area, but has no CIP that would enable grants in any other part of Newmarket. Regional Council has directed Region staff to implement a CIP that would enable the provision of the incentives of the “Draft Rental Housing Incentives Guideline and Community Improvement Plan”, namely the TIEG.

Legal information obtained to date from the Ministry of Municipal Affairs and Housing through Regional staff indicates that the Town would not be obliged to adopt a separate

CIP in order to participate in the program and would be able to take advantage of the Region's CIP to offer incentives for the same purposes. However, in order to do this the Town would be obliged to amend its Official Plan in order to be able to participate in the CIP of the upper-tier municipality as this is specifically required by Section 28 (7.2) of the *Planning Act*. This opportunity for an upper- or lower-tier municipality to participate in the CIP of the other was implemented in an amendment to the *Planning Act* in 2006, the year that the Town's Official Plan was adopted. At the same time, a requirement for an Official Plan policy authorizing such participation was also implemented in the *Act*. For example, the York Region Official Plan reads (emphasis added):

> **8.3.6** To use the Community Improvement provisions of the Planning Act to implement the policies of this Plan. In doing so, the Region may:
>
> **a.** designate any part of the Region as a Community Improvement Project Area;
>
> **b.** enact a Regional Community Improvement Plan that utilizes incentive programs including making grants or loans within the Community Improvement Plan Area either to registered property owners or to local municipalities; and,
>
> **c. participate in a Community Improvement Plan of a local municipality.**

If Council adopts the recommendations of this report, it will authorize staff to begin the Official Plan Amendment process to implement a similar policy in the Town's Official Plan, either through a standalone amendment or as part of a larger Official Plan Amendment or review. Actual participation in any CIP would require further Council approvals.

The Town has also engaged in unique incentive programs for individual developments to ensure development viability and support the objectives of the Official Plan and Urban Centres Secondary Plan. These have included incentives for the Renessa retirement home on Gorham Street and the purpose-built rental development at 212 Davis Drive. More recently, Council has agreed to waive building permit and planning application fees for 514 Davis Drive and to defer development charges for 36 months.

Rental housing

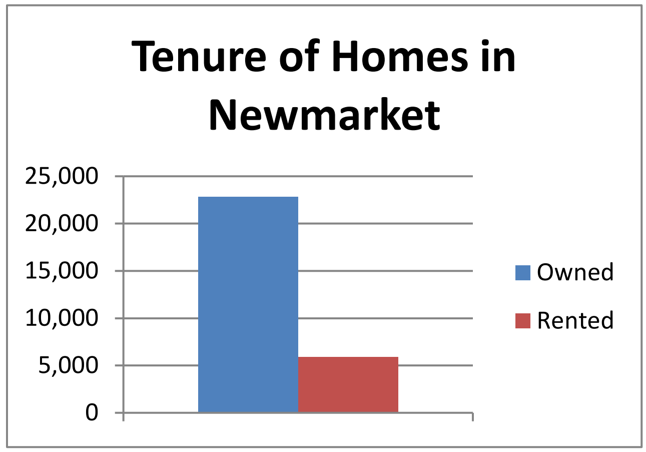
Newmarket has an insufficient supply of rental housing. Rental vacancy rates in the past two decades have hovered between 0.7% in 2001 to 1.6% in 2012 and 1.3%

in 2017, well below the 3% that is generally regarded as an indicator of a healthy market.[1]

This section will present (1) the current status of the rental market in Newmarket, (2) trends in the tenure of developments in Newmarket, (3) the importance of rental housing for economic development, and (4) a rationale for why rental housing may require different considerations than condominium developments. Through this information, Committee may consider the merits of the requested incentives to facilitate the proposed rental residential development.

Current status of rental housing in Newmarket

Newmarket has 5,875 renter households, compared to 22,795 ownership households. Much of Newmarket's rental stock is provided by small-scale private rentals. These include renting an entire home, an accessory dwelling unit (ADU), a unit within a low-rise development such as a duplex or triplex, or a room within a home. The Town's registry of ADUs includes 1,340 units.



Higher-density residential developments provide a relatively small number of rental units. Located principally on Lorne Avenue, Huron Heights, and Crossland Gate, Newmarket's larger purpose-built rental buildings provide approximately 500 dwelling units.

Conversely, Newmarket has more high-density condominiums than it does high-density rental units. While of a similar age to rental buildings, condominiums in Newmarket are concentrated on Davis Drive west of Lorne Avenue and on William Roe Boulevard. There are approximately 600 condominium units in these developments.

While ADUs and small-scale private rentals provide an important supply of rental housing, this housing stock is inherently less stable than purpose-built rentals.[2] Tenancy legislation in Ontario permits landlords to require a tenant to vacate a unit for the landlord's own use, and no rental protections of the Residential Tenancies Act (RTA) are available to tenants who share a kitchen or bathroom with the property owner. Purpose-built rental buildings tend to offer greater security of tenure and stability for tenants.[3] This is discussed in a report by the Ryerson University City Building Institute:

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[1] CMHC, Rental Market Reports
[2] Ryerson City Building Institute: Getting to 8,000
[3] Ontario Rental Market Study: Measuring the Supply Gap

This recent shift towards condominium rentals is troublesome. Units in the secondary market, including condos, are more susceptible to evictions based on the "landlord's own use" provision: tenants in secondary units can be evicted if the owner decides to move into the unit or if the unit is sold to a new owner who plans to occupy the unit. Potential units provided through the secondary market, such as new condos, can also be placed on the short-term rental market or may be intentionally left vacant.

Secondary rental units (not purpose-built rental) are an important element of the rental market that contributes to flexible housing options. However, it is important that the Town support the development of purpose-built rental housing that provides for stable housing for Newmarket residents.

Trends in housing development

The need for rental housing in Newmarket has not been met, as is evidenced by vacancy rates below those that indicate a healthy rental market. Recent applications suggest that there is increased interest in new rental developments for the first time in many years. However, key indicators of the strength of the housing system in Newmarket show that rental remains undersupplied, ownership housing continues to be the dominant tenure, and ongoing efforts are needed to support rental development.

The stock of ownership housing units has continued to outpace rental by a significant margin. Virtually all significant developments in Newmarket in the past decade have been ownership-tenure housing. This includes applications that were proposed and not built, applications that are in progress, and completed developments.

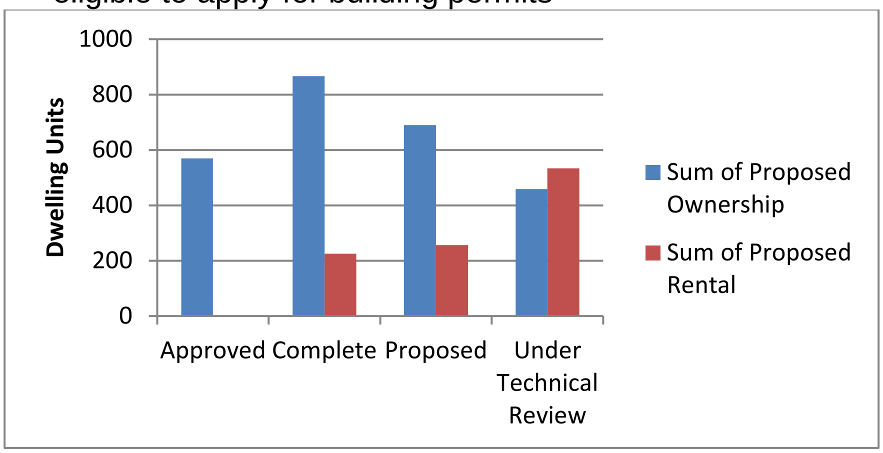
These include the following, as a non-exhaustive list of ownership-tenure developments that have been proposed or are underway:

Development	Unit Composition
345-351 Davis Drive	40 townhouse units
Marianneville (Glenway)	209 detached, 235 townhouse, and 298 apartment units
National homes	142 single detached units
Forest Green	350 townhouse units
995/955 Mulock Drive	73 townhouse units
Sundial	82 detached, 40 semi-detached, and 529 townhouse units
King George School	11 apartment and 14 townhouse units
Shining Hill	12 detached, 10 semi-detached, 162 townhouse units

260 Eagle Street	27 townhouse units
400 Park Avenue	11 apartment units and 14 townhouse units

The data clearly shows that (1) the majority of homes in Newmarket are owned, (2) the majority of homes being built in Newmarket will be owned, (3) the majority of homes proposed in Newmarket will be owned. The figure below illustrates this, showing recent Planning Act applications as follows:

- Approved – Zoning By-law amendment approved
- Proposed – Zoning By-law amendment under review
- Under Technical Review - Zoning By-law amendment approved, site plan/subdivision application under review
- Complete – Planning approval process complete, project under construction or eligible to apply for building permits



Increased rental housing supports economic development

Increased rental housing stock supports the Town's economic development goals by allowing local businesses to attract employees to a diverse and high-quality stock of housing. It has been anecdotally expressed to the Town by a number of employers that their employees have found it challenging to meet their housing needs and that additional rental housing would assist with meeting this need. As was reported in the Toronto Region Board of Trade, which includes employers across the GTHA, "Limited access to affordable and desirable housing affects our region's ability to attract and retain a world-class workforce. Astonishingly, 42% of the young professionals the Board surveyed said they were likely to leave the region because of the high cost of housing."

> The rental sector plays a critically important role in Canada's housing system. Reflecting transitions in life, many tenants are young, creating new tenant households when they leave the family home. Others are older, seeking apartment living when they no longer need or want to maintain larger family homes. Similarly, immigrant households, a critical component of labour market supply, initially rent before they transition to ownership.
> —Federation of Canadian Municipalities

Rental housing provides housing for a wide range of demographics from young professionals to downsizing seniors, and supports the employeeattraction efforts of a range of employers from high-tech workers to medium-term contract professionals such as nurses and doctors. The Town supports increased development focused on the Yonge Street and Davis Drive corridors, and increased rental supply and diversification of type and tenure of housing options are important elements of that intensification

Effects of lack of rental housing

The Ryerson City Building Institute and Evergreen report succinctly describes the critical role that rental housing plays in ensuring that municipalities have a housing system that meets the needs of all residents.

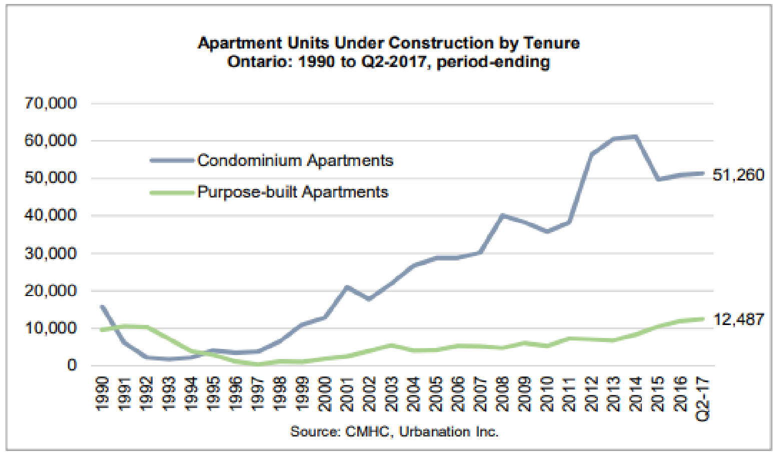
> Not providing enough rental housing contributes to negative effects on the social and economic wellbeing of a community. Without sufficient rental supply, businesses may struggle to attract employees while seniors and young adults leave communities in search of housing that meets their needs.
>
> A lack of rental housing may push households into home-ownership that is too expensive for them or choose to rent housing that is more than 30% of their income. This results in less spending elsewhere in the economy, including on essentials like food and heating.
>
> The relationship between rental and ownership is also a factor. Empty nesters, who are over-housed in a hot real estate market, are unable to find suitable down-sizing opportunities in their neighbourhoods, such as rental housing or smaller units. This causes them to continue occupying detached or semi-detached homes that would otherwise become available if appropriate and affordable downsizing opportunities existed in the area. More affordable rental options can help households move from more precarious housing situations such emergency shelters and transitional housing into longer- term options.[4]

In short, rental housing plays a critical role in meeting the needs of Newmarket's residents. Rental housing provides choice for residents at each stage of life, reduces dependency on government housing supports, and supports businesses attracting talented employees.

[4] Ryerson City Building Institute: Getting to 8,000

Why rental housing may require incentives

Financial data from the applicant combined with staff analysis indicate that developing purpose-built rental is typically more difficult than similar developments in condominium tenure.



Apartment construction rates 1990-2017

The effect of this difference is evident in the tenure of developments that have taken place across Ontario in recent decades. Data from the Canada Mortgage and Housing Corporation (CMHC) indicated in the figure at right shows the development of condominium apartments vastly outstripping purpose-built rental apartments. This trend has led to declining rental vacancy rates, increasing rents, and an increasing proportion of condominium units being leased as rental units, which provides housing that is inherently less stable than purpose-built rental, as discussed earlier in this report.

In addition to rental housing being more difficult to develop than condominium units, developing residential rental units that meet the Town's affordable housing targets is more difficult yet. The current affordable rental threshold, which is set at 125% of the average of market rents of buildings built since 1990, is $1,496 per month. Market rent for newly-built rental buildings is typically well in excess of this threshold.

Fundamental market trends that have led to the growth of the condominium developments far more quickly than rental development continue to shape the development market. These are well explained by the Ryerson City Building Institute in their report on rental and condominium market forces, in which they explain why condominiums are generally preferred by developers:

- Condos generate faster returns than rental buildings
  - Many developers prefer to build condos due to the ability to receive a return on investment more quickly than from a rental development. Profits come from sales, which means that when a building is occupied the developer can walk away.

- Financing is easier to obtain for condo projects
  - Developers have to put less of their own financing into a condominium project than a rental project, as pre-sales and deposits provide an

additional source of revenue. This reduces borrowing costs and financial risk for the developer.[5]

Notwithstanding that there has been an observed increase in interest in rental development in the recent past, the fundamental economic forces that have caused the increase in condominium development over the past twenty years have not shifted significantly. Condominium developments are inherently easier for developers, and thus encouraging rental development may require incentives to achieve a balanced housing supply.

Rental housing conclusion

In short, Newmarket's housing supply is undersupplied by rental-tenure housing. Ongoing trends show that ownership-tenure housing will continue to be the dominant sector of the market for the foreseeable future. Rental-tenure developments tend to be more challenging to achieve economic viability. The lack of rental housing has detrimental effects on Newmarket residents.

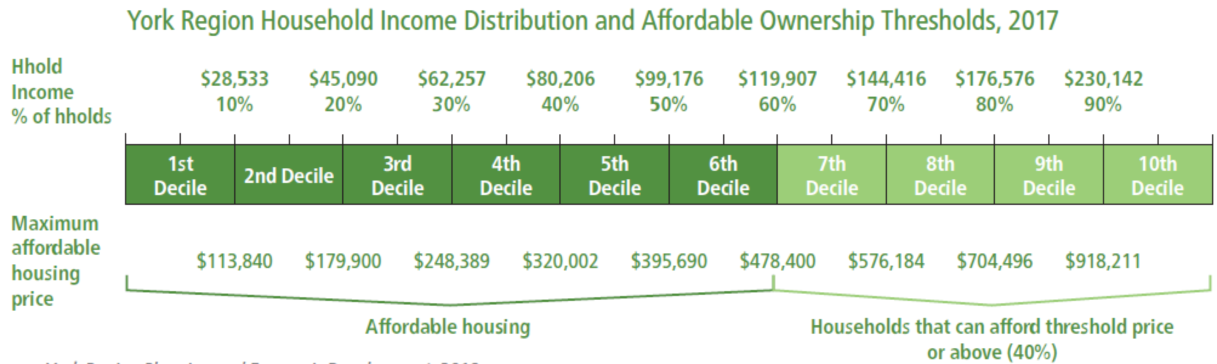
Affordable housing

The York Region Official Plan (YROP) requires that 35% of new dwelling units in Regional Centres such as the Yonge Street and Davis Drive Provincial Growth Centre, and 25% of new dwelling units in the rest of the region, be affordable to low and moderate-income households. The Urban Centres Secondary Plan (UCSP), which is required to conform to the YROP, implements the same policy in Newmarket. This section of the report will discuss (1) affordable housing and how it is defined, (2) how affordable housing units can be secured, (3) a brief synopsis of why affordable housing is necessary, and (4) the difference between affordable housing and social housing.

Affordability threshold

Units are deemed to be affordable if they are rented or sold at a price that meets the Region's annual thresholds. Different thresholds are applicable to ownership-tenure and rental-tenure dwelling units. The affordable threshold for ownership is the maximum price that households in the sixth decile of income distribution of households can afford to pay (see the figure below). In Newmarket, the affordable ownership threshold is $471,539. For comparative purposes, the average price of a home sold in July of 2018 was $775,436.

[5] Ryerson City-Building Institute: Getting to 8,000



Source: York Region Planning and Economic Development, 2018.
Based on Statistics Canada, Bank of Canada and Canada Mortgage and Housing Corporation data.

Regional Council recently endorsed changes that would redefine rental affordability from 125% of the Average Market Rent (AMR), to 125% AMR based on the number of bedrooms. The current thresholds are indicated in the right hand column below.

	Average Market Rent	125% of AMR
Studio	$892	$1115
1 Bedroom	$1170	$1463
2 Bedroom	$1346	$1683
3+ Bedroom	$1526	$1908

How affordable units can be achieved

As is noted above, the Town currently has few tools to control the price of dwelling units. In order for affordable housing policies to be achieved, the Town must employ its tools under the *Municipal Act* and *Planning Act* to either persuade or mandate developers to provide affordable housing units. The tools that the Town can employ to secure affordable housing units fall into three categories: (1) height and density bonusing under Section 37 of the *Planning Act*, (2) inclusionary zoning, and (3) incentives.

Section 37 of the *Planning Act* authorizes municipalities to permit increases in height and density in exchange for certain community benefits or cash-in-lieu of the same. Height and density bonusing is a planning tool and thus must be exercised in a manner that conforms to the UCSP, YROP, and applicable provincial policies. Council has adopted the Height and Density Bonusing Implementation Guidelines to guide this process in Newmarket.

As was discussed in Report 2018-52 in August, height and density bonusing is generally regarded as a means for municipalities to extract benefits that capture the lift in land values that occur when increased height and density is permitted. However, in the case where a municipality is seeking qualitative benefits (such as changing tenure) or benefits that exceed the value of the increase in property value (such as may be the case with securing affordable housing units) it may be that height and density bonusing is only one of several necessary incentives. In some cases, as is advanced by the applicant in this proposal, a combination of height and density bonusing, and financial incentives, may be required to achieve both the community benefit sought by the municipality and to ensure that a desirable development project is viable.

Inclusionary Zoning (IZ) is a land-use planning tool that has recently been permitted in Ontario that a municipality may use to require affordable housing units to be included in residential developments of 10 units or more. In order to implement inclusionary zoning, a municipality must undertake a series of steps, including an assessment report to understand local housing supply and demand, as well as potential impacts which might arise from IZ, and then implement official plan policies and pass a zoning by-law guiding where and how inclusionary zoning will be implemented.

Inclusionary zoning, if implemented, would oblige a developer to provide a certain percentage of dwelling units at a rent or purchase price set by the municipality. Developers would then consider the cost of providing such units among all of the costs of development and determine whether the project was financially viable. To date, Newmarket has not adopted IZ policies or by-laws and thus is unable to employ this tool.

Incentives remain the third and most commonly-employed tool to achieve policy aims. These can take a range of forms – financial incentives through Community Improvement Plans, process incentives to ‘fast-track’ applications toward a faster approval, deferrals or waivers of Development Charges (DCs), reducing parking requirements due to the high cost of providing parking, and waiving or reducing application fees or parkland dedication requirements.

Each of these incentives can reduce costs for the developer. With sufficient incentives the cost of providing dwelling units at a reduced price point can be balanced or overcome. In this way, a municipality may use its regulatory and financial tools to encourage voluntary provision of matters such as affordable housing units.

The need for affordable housing

The challenges of housing affordability have been widely reported upon in recent years, and do not bear significant additional discussion in this report. In short, housing prices have risen significantly and continue to rise. Construction price increases have contributed to increased prices for newly-built dwelling units. Constrained supply of land for intensification contributes to price increases for new development. Finally, wages have not risen nearly as quickly as housing prices.

The average after-tax income of families in Newmarket is $105,300. A mortgage payment on a home in Newmarket sold for the average selling price, with a 10% down payment at the prevailing mortgage rate, would cost $3,921 per month or $47,052 per year, or 44% of the income of the average Newmarket family. For those who do not already own a home, the average Newmarket home is out of reach of the average Newmarket family.

The YROP and UCSP direct that the Town achieve its affordable housing targets. As is discussed above, lacking inclusionary zoning the only tools that the Town can employ to achieve these objectives is through the use of incentives including height and density bonusing.

Affordable housing and social housing

It is also worth noting the distinction between affordable housing and social housing. Affordable units are dwelling units that are leased or purchased at a price that meets the affordability threshold. Social housing units are dwelling units that are managed for eligibility and occupancy by an agency such as a government or not-for-profit, typically for persons based on qualifying criteria such as income, age, or disability.

For example, the dwelling units that were achieved in 212 Davis Drive are managed by the Region, who pays market rent for the units, which typically exceeds 175% of Average Market Rent (AMR), and then sublets the units at a lower price to their tenants (ranging from 20% to 80% AMR) through a subsidy. In order for units to be considered affordable, they must be counted based on rent or price charged at the initial point of occupancy and not based on programs – that is to say, units that are leased to the Region at a price point above the threshold are not affordable units.

In short, while social housing plays a critical role in an equitable housing supply, an arrangement such as was made at 212 Davis Drive to provide units to the Region does not provide units that qualify as affordable.

The dwelling units that are proposed as part of the 175 Deerfield Road application are proposed to be affordable units, and not social housing units. The applicant has indicated that they would entertain the possibility of entering into an agreement to lease a number of units to the Region, but the Region has indicated that the market rent units would be beyond their reach due to their prices exceeding 125% AMR, and the affordable units that may be achieved would not suit their purposes due to each unit being lost from affordability to market rents at the turnover of the first tenant. This process of the proposed affordable rental units being guaranteed only for the duration of the first tenant is discussed further in the "Eligibility and maintenance" section of this report.

Why affordable housing may require incentives

Developing affordable housing units by private, for-profit developers, will only occur if the overall development is able to be financially viable. If this is not possible, not only would a prudent developer decline to build the project, but they would also likely be unable to raise the necessary financing to undertake the project. In order for a developer to independently (that is, without subsidy) build a project with affordable units, they would need to charge a sufficiently higher rent on market-rent units in order to subsidize affordable units and render the entire development profitable – in effect, market-rate renters of new units in a building would pay for the affordable units themselves.

Given the best data available to staff, this option is unlikely to occur without a requirement for all developments to provide affordable units such that it is a standard expectation for a level playing field. This would take place through the use of Inclusionary Zoning, a power under the *Planning Act* that is discussed earlier in this report.

If it is not possible for a developer to independently build a project with a number of lower-price affordable units, then it may require the intervention of levels of government to make such a project feasible. This is the argument being advanced by the proponent of 175 Deerfield Road. They have noted, as is discussed above, that they are willing to provide affordable housing units if they are provided with sufficient financial incentives that the project is financially feasible.

Affordable housing and tenure

Achieving affordability for rental-tenure and ownership-tenure housing are both important - a healthy, equitable housing system would provide housing choices that offered ownership and rental options for residents from a range of income levels. However, achieving affordability for different tenures requires different considerations. This section of the report will present (1) affordability thresholds, and the effects of the thresholds on achieving (2) affordable ownership and (3) affordable rental units.

Affordability **thresholds** are determined differently for rental and ownership units. As is discussed above, rental affordability thresholds are based on the average market rent (AMR) of existing units by number of bedrooms (see the table under the “Affordable Housing” section earlier in this report). Ownership affordability thresholds are determined based on average household incomes and the costs of accommodation – an ownership-tenure dwelling unit is affordable if a household in the lowest 60% of income distribution can afford the home without spending more than 30% of its gross annual household income on accommodations.

The effects of these different thresholds are evident in the ability to achieve affordability in units of different size and tenure. Achieving **affordable ownership** units can be a challenge, but this becomes significantly more difficult when seeking to achieve affordable family-sized (two and three-bedroom units), as the threshold does not vary with size. As such, developers may seek to achieve affordability targets by providing all studio or one-bedroom units as affordable units. However, the prices of such units are likely to already be in the affordable range due to the small size of units and thus no increase in affordability is achieved through any government intervention if these units are simply left to be sold, as is discussed further in the “Eligibility and maintenance” section below.

Achieving **affordable rental** units is challenging, as the rent charged for newly-built rental units typically exceeds the threshold as a factor of the property management company seeking rents that will allow them to recover the cost of development and an acceptable return rate over a given period of time. Units in the recently-completed 212 Davis Drive have been observed listed online at the rates indicated below. For comparison, the affordability threshold and average market rent are also indicated:

	212 Davis Drive	Average Market Rent	125% of AMR
Studio		$892	$1115
1 Bedroom	$1695	$1170	$1463
1 Bedroom plus den	$1795		
2 Bedroom	$2160	$1346	$1683
3+ Bedroom		$1526	$1908

The result of these factors is that beyond achieving affordable housing units, achieving affordable housing units that meet the needs of different families (dwelling sizes) and stage of life (tenure and size) is challenging. Success in this effort will require further work by Town and Regional staff with the support of senior levels of government.

Eligibility and maintenance of affordable housing

A consideration of affordable housing is how it can be ensured that when affordable units are created through government incentives that the units are occupied by residents who merit assistance and that the units are maintained as affordable.

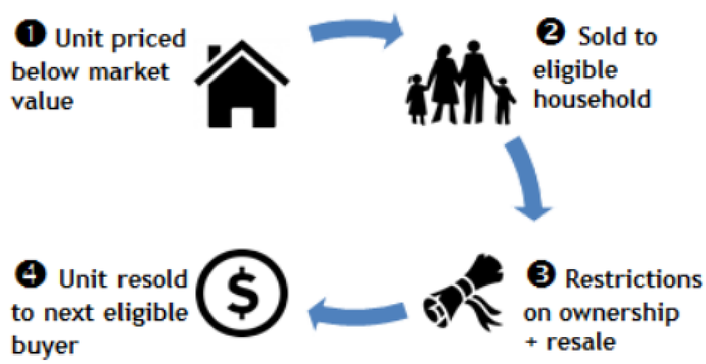
As incentive-created affordable units such as those proposed in the 175 Deerfield Road development are created it is important that the policy objectives of creating and maintaining affordable housing for low- and moderate-income families is achieved and the units are not allowed to become windfalls for speculators or those who are already able to afford a home. To that end, this section discusses affordable housing programs generally, how eligibility can be ensured, and how long-term affordability maintenance can be achieved. An important distinction is made between units that are intrinsically affordable, which are not anticipated to require eligibility and long-term maintenance, and units which are made affordable through government intervention whose eligibility and maintenance should be ensured to achieve the intended policy aims.

Larger urban municipalities that have experienced more dramatic intensification, demographic changes, and housing market shifts, have long sought to address affordable housing. As ever, it suits Newmarket to seek to profit from the lessons that these municipalities have learned in their experience, while seeking to achieve the Town's goals without expanding administrative processes.

Affordable Home Ownership

The City of Vancouver produced a report that succinctly summarizes some of the key considerations in managing affordable ownership-tenure housing. The excerpt below illustrates some of these considerations that are applicable to Newmarket.

> Affordable Home Ownership (AHO) programs in cities around the world aim to create opportunities for low, moderate and middle income households to transition from market rental to homeownership. The specific structure of the programs such as eligibility criteria, re-sale restrictions, etc. are diverse to address the different priorities and objectives in each city.
>
> In a typical affordable home ownership program, housing units are created and sold at below market value by a social purpose organization, non-profit, government created housing authority, or by market developers as a community contribution required through inclusionary zoning. Different mechanisms are used to create affordability, including city or donated land, bulk building of modest housing forms, reinvestment of the value of additional density created, innovative financing and/or forgoing market-based profits. Eligible households are then able to purchase a unit at a below market price.
>
> There are two general categories of programs:
>
> - *Shared Appreciation Models*: create affordability and entry to the market for initial buyers and an opportunity to build equity via market appreciation over time
> - *Limited Appreciation Models*: prioritize maintaining affordability for subsequent purchasers and limiting the appreciation gain for the buyer.



Affordable Home Ownership - How it Works

> Buyers in most AHO programs are subject to restrictions on occupancy and re-sale. The legal and administrative structure of the pricing, occupancy restrictions, and sale and re-sale terms in the ownership agreements are structured to achieve these different outcomes. Typically the larger the public investment in the

creation of the initial affordability, the more restrictive the terms for the ownership and future re-sale are to ensure preservation of the public investment. [6]

Shared appreciation models are seen in action in Ontario through developers such as Options for Homes, in which Options reduces the purchase price of a unit for a new homeowner by providing a portion of the downpayment through a second mortgage. When the homeowner eventually sells the unit, the homeowner shares a portion of the increased value of the home with Options in an amount commensurate with the initial investment. Options then reinvests this return into future units.

Limited appreciation models exist in Whistler, Boston, San Francisco, and New York, among others. In these cases an initial investment or incentive creates a unit at a price that is lower than the market would bear, and the long-term affordability of the unit is ensured through resale and occupancy restrictions. That is to say, the units can only be resold to eligible buyers at an affordable price. This means that the unit does not appreciate in price in the same way as a market unit – while the unit may stay affordable, neither the occupant nor the government receive a significant financial return from the resale of the unit.

If the Town and the Region invest in affordable housing by providing incentives, the investment should assist those who are the target population (low and medium-income families) by ensuring that the units are only sold to those who meet eligibility requirements such as income and asset limits. Similarly, such an investment should reap returns (maintaining the supply of affordable units), rather than being a one-time subsidy to individual property owners, which is accomplished by ensuring that the re-sale or lease of such units only takes place to other eligible residents at an affordable price.

Finally, it should be noted that the 175 Deerfield Road application includes studio and one-bedroom condominium units that are expected to be sold at prices that inherently meet the ownership affordability threshold. This is anticipated to occur independently of any offered incentives. Given this, no eligibility and maintenance requirements are anticipated for affordable ownership-tenure units as there is no investment to protect for long-term affordability.

Affordable rental

The process of achieving affordable rental units differs from affordable ownership units. While an incentive or subsidy to achieve an ownership unit reduces its price at the point of sale and then transfers all future obligations to the owner, an incentive or subsidy for rental must be considered over a period of time and thus a duration of affordability must be determined. That is to say, if a rental unit would be leased at a market price that is $100 per month greater than the affordable threshold and a developer is offered an

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[6] Dunnet, A. City of Vancouver. Affordable Home Ownership Pilot Program Policy Report. 08-2000-20. April 20, 2016.

incentive worth $1200, a 12-month affordability period may be achieved. In addition, tenants will often remain in place for periods that will extend beyond the guaranteed affordability period and be entitled to rent controls that will maintain their unit at a lower price with increases at a limited percentage per year, provided that the price remain below the affordable threshold during the first tenancy.

The duration of time that units will be leased below market rent is a key consideration in projecting the overall cost of offering affordable rental units to the developer. This duration can be set through an agreement for an absolute period of time in which any new tenant leases a unit they receive it at the affordable rate, or by declining to implement such a requirement and being content that providing affordable units to the first lessee is sufficient.

In the latter case, each time an affordable-rate tenant leaves the property owner has the opportunity to set a new market rent for the unit. Given that affordable units are in scarce supply, it can be assumed that these units will see lower turnover rates than market rent units, which are cited in Toronto to be near 16%. A projected annual turnover for affordable units might more appropriately be 10% or lower, although data on this figure is limited.

Considered more broadly, this means that if the Town (and Region) offers incentives for affordable rental units at the affordable threshold that the duration of time secured is a primary determinant of the cost of providing the affordable units. Thus, a limited incentive may secure the initial tenancy but without significantly greater incentives the units must be removed from affordability and transferred to market rent after a tenant leaves. Any unit leased initially would meet the affordability threshold, and any tenant leasing a unit during this period would then be entitled to inhabit the unit at that price (plus whatever limited increase is permitted by rent control provided it does not exceed the threshold during the period) for as long as the tenant wishes.

The proposed TIEG would secure 19 affordable rental units in Building 1 and 13 in Building 3.

Initially the property owner would see significant lost revenue as each unit would pay well below market rent each month, as the projected difference between market rent and affordable rent is projected to be approximately $540 per month in 2021 when the first building at 175 Deerfield Road rental building could be expected to be occupied. Over time, the amount of reduced revenue would diminish as tenants in these units vacated them and they returned to market rents. At these assumptions for future rent and turnover rates, the property owner would forgo approximately $2.4 million in rent to affordable units over a 20-year period for the two buildings.

Determining eligibility and ensuring maintenance of rental dwelling units will be a new process for the Town to be established with the developer and established through a contractual relationship with the owner of the rental building. As such the Town could oblige the owner determine that any tenant who would lease an affordable unit would pass the given criteria and to report this to the Town upon request, or establish an internal eligibility system.

Requested incentives

This section of the report provides (1) the specific incentives sought by the applicant and how the Town is able to offer incentives, (2) possible effects of declining to provide incentives, and (3) recommendations on incentives for this project.

It should be noted that much of the discussion of incentives and affordable housing is in comparison to other areas where they have been employed (Toronto, Vancouver, New York, Boston), but that these municipalities are much larger and the incentives that they provide are much more significant. As such, the gains in terms of depth and duration of affordability tend to be larger and longer. For example, projects in Toronto's Open Doors Affordable Housing Program may receive exemptions from:

- Planning Application Fees
- Development Charges
- Building Permit Fees
- Education Development Charges from the Toronto District School Board
- Parkland Dedication
- Residential Property Taxes for the duration of the affordability period

As the requested incentives for 175 Deerfield Road are principally deferrals of fees plus a limited TIEG, the matters to be secured will be more limited in scale and duration. These are presented later in the report. Staff also note that the analysis undertaken of the costs and outcomes of the development application draw on figures provided by the applicant, research from Regional staff and Town staff, and data from agencies such as Housing York Inc and the Canada Mortgage and Housing Corporation. The financial analysis relies on a range of assumptions related to the developer and the Town's ability to access capital, future construction costs and market rental and sale prices, potential tenant turnover rates, and projected average market rents. Given the range of assumptions in such an analysis, staff cannot guarantee the figures but have made best efforts to validate them.

Incentives

The applicant is seeking height and density bonusing in addition to a range of incentives that are outside of the ambit of the *Planning Act*, which are discussed in detail below. These include:

- Deferrals of development charges (DCs) and 'grandfathering' of certain DCs
- Tax Increment Equivalent Grant (TIEG)
- Deferring municipal fees (*Planning Act* application fees, Building Permit fees, peer review fees, legal and engineering review fees)
- Certainty of servicing allocation

Given the value of incentives recommended and the cost of matters to be secured, this report recommends that the Town can employ these incentives to gain the following:

- One building of not fewer than 180 dwelling units and one of not fewer than 120 dwelling units, to be guaranteed of rental tenure for a period of not less than 20 years.
- One building of not fewer than 170 dwelling units to be guaranteed as a condominium
- At least 19 of the dwelling units in Building 1, and at least 13 units in Building 2, being each at least one bedroom and five hundred square feet in size, to be provided at a price not to exceed the affordability threshold as determined by York Region at the time of lease
- A community benefit contribution in the amount of $339,000 cash or capital beyond the requirements of the parkland dedication by-law to be allocated to park development and public art
- Public access over new private roads to help mitigate traffic in the area

Development charges

Section 27 of the *Development Charges Act* provides municipalities the ability to enter into agreements for applicants to pay development charges early or late – in effect, to allow for development charge deferral agreements.

The value of development charges to the Town are projected to be $7,162,130.

Council has adopted the "Policy for the Deferral of Payment of Development Charges & Planning Application Fees within the Urban Centres", as discussed earlier in this report, which provides for the deferral of DCs for up to 36 months for developments in the UCSP area under the 'standard approach' and up to 48 months under the 'enhanced approach'. The applicant for 175 Deerfield has requested a deferral period of 48 months (four years) as well as flexibility from the Town on the criteria laid out in the Policy for being eligible for such a deferral.

The criteria to access the 'enhanced approach' and its 48-month deferral of Town DCs are as follows, along with a note on how the criteria applies to the 175 Deerfield Road application:

Criteria	Applicability
i) The proposed development complies with all applicable provisions of the Provincial Policy Statement, Regional Official Plan, Town Official Plan, and the Urban Centres Secondary Plan, including but not limited to: urban design, housing affordability and sustainability.	Application complies with applicable policies and plans. Housing affordability is subject to provision of requested incentives and approval of zoning by-law amendment.

ii) The mandatory and applicable optional provisions of the Site Plan Approval Process Manual and Development Standards Checklist (March 25, 2008, as amended).	The Site Plan Approval Process Manual has been overhauled and the development standards replaced with applicable UCSP policies. This can be addressed through the site plan approval process.
iii) The proposed development participates in the Region's Sustainable Development through LEED® Incentive Program (LEED).	The applicant is reviewing with York Region whether to participate in this program, and whether LEED-equivalent metrics are permitted.
iv) The proposed development implements a three stream waste collection system.	The development will provide a three-stream waste collection system through three chutes or a chute-and-sorter system.
v) For developments within the Provincial Urban Growth Centre, it is demonstrated to the satisfaction of the Town that a minimum of 35% of new housing units within the development are affordable to low and moderate income households.	Not applicable, as the site is not located in the PUGC.
vi) For developments outside of the Provincial Urban Growth Centre, it is demonstrated to the satisfaction of the Town that a minimum of 25% of new housing units within the development are affordable to low and moderate income households.	Housing affordability is subject to provision of requested incentives and approval of zoning by-law amendment

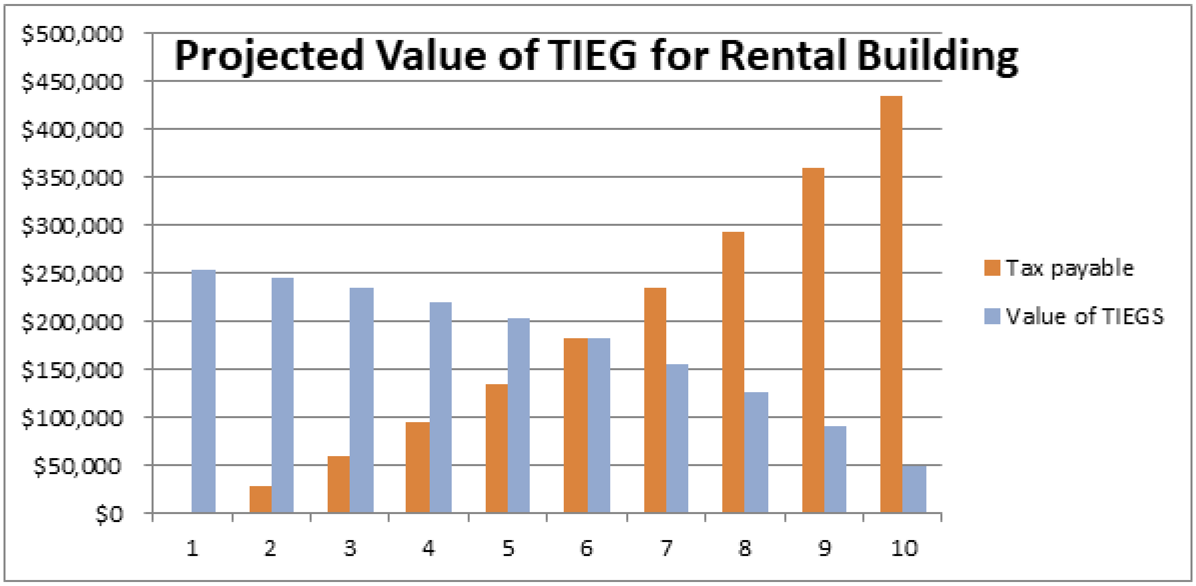
The applicant has also requested certainty in the amount of DCs by receiving Council approval to "lock in" or "grandfather" the DC rate at the time of submission of the site plan approval application. If Council permits the applicant to pay the current rate of Town DCs for the rental building and the Town DCs increase in 2019 by 15% based on the applicant's projection relying on the trends of previous years, this would have a value of $767,112.

The recommendations of this report would permit the applicant to access the "enhanced" deferral program, with the requirement for affordable housing being contingent on the Town providing the proposed TIEG. If the Town does not provide this TIEG, the requirement for affordable housing as required by the deferral policy would be waived.

Tax Increment Equivalent Grant

The applicant has requested an incentive known as a Tax Increment Equivalent Grant (TIEG) for a span of ten years. This would allow the property owner to pay only the original pre-development property tax in the first year (i.e. a 100% discount on the increased value), and successively 10% less of a discount every year until the full property tax value is paid in the tenth year following the completion of the project.

A TIEG has been noted by the applicant as being particularly valuable to rental projects due to the assistance they provide in the long-term financial forecasts that are more important to rental development than condominium development. The chart below shows a projection of a TIEG for the purpose-built rental building of the proposed development over ten years, as discussed above.



While TIEGS are a cost to municipalities they are argued to be of reduced financial impact as they encourage development that would either not occur, or would not occur for a significant period of time. By offering a TIEG that causes development to occur earlier, a municipality may still achieve more property tax assessment growth than would otherwise be the case if the development did not occur or occurred at a later date. The recommendations of this report propose a 10-year TIEG for only the property tax assessment growth associated with the purpose-built rental building, in accordance with the Region's proposed CIP. This duration is longer than the Region's program, in keeping with the Town's efforts to stimulate investment and development.

The cost of the TIEG to the Town is projected to be $2.7 million over 10 years. The projected increased Town property tax revenue from the 175 Deerfield property over the same period post-development is projected to be $9.8 million.

The implementation of a TIEG requires the Region to implement a CIP, the Town to amend its Official Plan, and a future Council to approve the TIEG. As this requires a number of future steps whose accomplishment cannot be guaranteed, the recommendations of this report would direct staff to begin the work to implement the TIEG, and to only require the affordable rental housing units if the TIEG is implemented. If the Region fails to implement the CIP, or the Town declines to enact the TIEG, the development would be able to proceed without receiving the TIEG and without providing the affordable rental housing units.

Parkland dedication

The total value of parkland dedication is estimated to be $3,850,000

The *Planning Act* provides for the ability for municipalities to require the conveyance of land and/or cash-in-lieu of land for parkland. Council has adopted By-law Number 2017-56, which sets out parkland dedication requirements for the entire town and specific requirements for the UCSP area. These requirements are clear and direct, and cannot be waived or varied without Council's approval. Staff will ensure that lands and/or funds are received to satisfy the requirements of the by-law.

Parkland dedication for the site is discussed in Report 2018-52 presented to the August 27th Committee of the Whole. This report does not recommend changes to the parkland dedication requirement, but rather the deferral of the payment of the required cash-in-lieu, along with a timeline that physical land dedication requirements take place roughly commensurately with the move-in date of the first residents. The total value of parkland dedication is estimated to be $3,850,000, with portions of this being POPS, part cash-in-lieu, and part physical land dedication.

Parkland dedication under Section 42 of the *Planning Act* takes place only when development occurs. The Town typically receives parkland dedication or cash-in-lieu at the time of site plan approval. No parkland dedication is required as a condition of zoning approval.

Beyond the existing requirements of the parkland dedication by-law, the recommended conditions to be tied to the incentives would require that the applicant convey lands to the Town. These would be lands in close proximity to the site, to the satisfaction of the Director of Planning to ensure that adequate public park space is provided. Any deviation from this condition would require further Council approval.

Height and Density Bonusing

The application as proposed requires height and density bonusing under Section 37 of the *Planning Act*. The UCSP has a maximum Floor Space Index (FSI) of 2.5 for Parcel A and 2.0 for Parcel B as shown on Schedule 4 of the UCSP. The application is seeking an increase of 0.5 FSI for each parcel, to 3.0 and 2.5 FSI, respectively, which comprises an increase of three stories on Parcel A and two storeys on Parcel B.

The total value increased land value due to height and density bonusing is estimated to be $1.35 million.

Section 37 of the *Planning Act* authorizes municipalities to permit increases in height and density in exchange for certain community benefits or cash-in-lieu of the same. The benefits that are eligible for such bonusing are set out in Section 14.2.9 of the UCSP.

The applicant has provided a rationale in their Planning Justification Report (PJR) that explains how the application meets these requirements. As particular community benefits to justify the increase in height and density the applicant has proposed that one of the three buildings will be guaranteed to be rental in tenure for a period of not less than 20 years.

It should be noted that height and density bonusing is generally regarded as a means for municipalities to extract benefits that capture the lift in land values that occur when increased height and density is permitted. However, in the case where a municipality is seeking a benefit that exceeds the value of the additional height and density offered, such as may be the case with securing affordable housing units, it may be that height and density bonusing is only one of several necessary incentives. In some cases, as is advanced by the applicant in this proposal, a combination of height and density bonusing, and other incentives, may be required to achieve both the community benefit sought by the municipality and to ensure that a desirable development project is viable. Thus, in order to secure the affordable housing units discussed in this report the financial incentives such as TIEGs are required.

The estimated lift in value of the land through the use of height and density bonusing is $1.35 million. The Height and Density Bonusing Guidelines adopted by Council recognize that many of the benefits that the Town seeks to secure cannot be accurately quantified in terms of value. These include the benefits that are to be secured as a part of this application:

a. the provision of publically accessible private roads
b. the provision of affordable housing
c. the provision of rental housing

The guidelines state that in these cases Council will consider these benefits outside of the method of the lift in land value, as it is challenging to quantify the benefits that these provide. Putting a dollar figure to providing rental housing and having a housing supply in Newmarket that better meets the needs of the Town's residents is difficult to achieve. The benefits of this are discussed briefly earlier in this report. The provision of affordable housing can be somewhat quantified in the cost of provision, as is discussed earlier in this report, but the value of a housing system that assists low-income families to have the means to improve their living situation has benefits that go beyond the cost of housing subsidies.

The Town will receive $339,000 in cash or capital works toward parkland and public art.

However, for full context the 25% target to be captured in the case where benefits can be quantitatively valued would be approximately $340,000. The applicant has also committed to providing $339,000 in community benefits in the form of cash or capital infrastructure to be dedicated to parks and public art in the immediate vicinity of the site. In addition, the Town gains financial benefits such as having the applicant reconstruct and maintain Deerfield Road in perpetuity. All benefits in exchange for height and density include:

- One building of not fewer than 180 dwelling units and one of not fewer than 120 dwelling units, to be guaranteed of rental tenure for a period of not less than 20 years.
- One building of not fewer than 170 dwelling units to be guaranteed as a condominium
- A community benefit contribution in the amount of $339,000 cash or capital beyond the requirements of the parkland dedication by-law to be allocated to park development and public art
- Public access over new private roads to help mitigate traffic in the area

A Section 37 agreement may be the appropriate tool to secure a range of matters for the development such as the conveyances of roads and easements, the provision of sustainable development features, the supply of any affordable housing units, securing tenure of units, and other matters for legal convenience.

Fee deferrals

The value of estimated planning application and building permit fees is $1.7 million. These will be deferred but paid.

The applicant has paid fees for the current application for zoning by-law amendment, and will be faced with other municipal fees as their application proceeds. These include site plan approval fees, fees for removing any holding provisions in the amending zoning by-law, potential applications to the Committee of Adjustment, building permit fees, and any additional contributions to public art or trails. The applicant has requested deferral of all fees. The appendix to this report which includes the list of recommended incentives, provides a list of which fees are recommended to be deferred and under which conditions. Generally, it is recommended to extend the Policy for the Deferral of Payment of Development Charges & Planning Application Fees within the Urban Centres to permit the deferral of 50% of all required fees for 48 months.

Support from other levels of government

The Town regularly seeks financial support from other levels of government. If Council adopts the recommendations of this report the provided incentives will be in pursuit of, among other matters, securing affordable housing.

The applicant has also indicated they are pursuing discussions on other incentives such as through the Canada Mortgage and Housing Corporation direct lending program, which permits a long-term low-interest loan to reduce risk associated with interest rates for development. Town staff will assist as necessary to secure any senior government investments in affordable or rental housing in Newmarket.

Incentives conclusion

The applicant has requested a suite of financial incentives to make their project feasible and meet the Town's objectives of providing rental housing and affordable housing. Staff concur that developing rental housing and affordable housing is more challenging to deliver a financially feasible project and that assistance for such projects may be necessary if Town objectives are to be met. Certain incentives should be offered, subject to conditions and necessary agreements to secure community benefits.

Effect of incentives

If the incentives are provided as recommended by this report, Committee is recommended to adopt the recommendations of companion Report 2018-62 as well. If this occurs, the Zoning By-law will be amended for 175 Deerfield Road as recommended, with the additional height and density under Section 37 of the *Planning Act* being subject to the community benefits laid out in the By-law (i.e. rental and condominium tenure and contribution toward parkland and public art). In effect, the matters laid out in Report 2018-62 will proceed and be enacted through a future site plan approval application.

Effect of declining to provide incentives

In this section this report will provide a discussion of the potential effects if the requested incentives are not provided.

Reduced scale of development

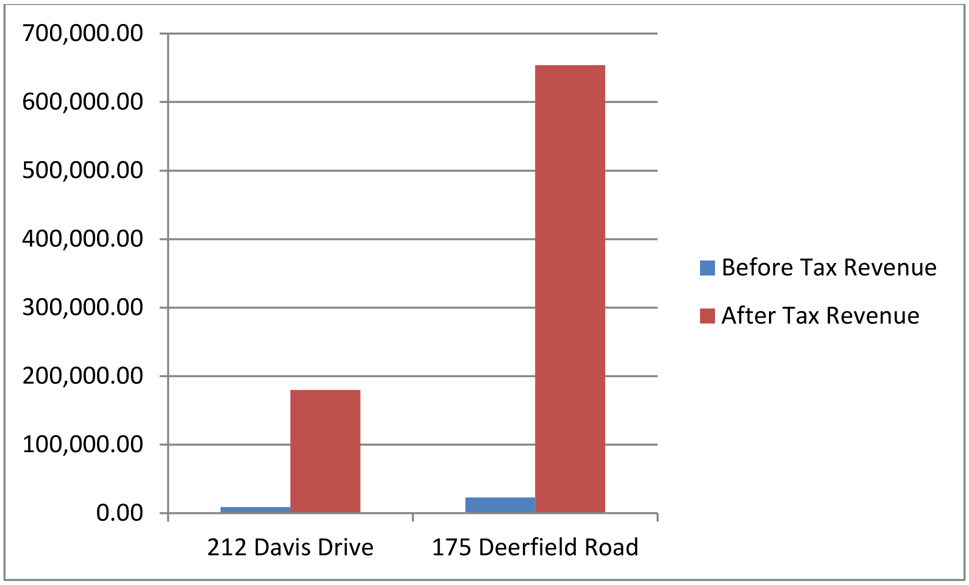
Lacking these incentives, the applicant has indicated they will substantially reduce the size of the development and instead proceed with a townhouse or stacked townhouse development application on the site to meet the minimum required densities. Staff are unable to fully verify the viability of the project or the probability of the design changing in the manner indicated by the applicant. The effect of the potential changes expressed by the applicant would be reduced density and number of units, as a townhouse development on the site would not achieve the same height and built form as is currently proposed.

Reduced property tax revenue

Such a change in the proposal would cause commensurately reduced resulting value of the property and reduced growth in property tax income for the Town. The current site has a value of $4.5 million according to its 2018 assessed value. This results in annual property tax revenue to the Town of $23,000.

For comparison purposes, 212 Davis Drive had a property value of $2,625,500 as a vacant land assessed as multi-unit residential use with annual property tax revenue to the Town of $8,961. The property has been re-assessed as a developed multi-unit residential building and has a new property value of $52,594,227, which provides property tax revenue in the first year to the Town of $180,000.

It is assumed that when completed the two phases (three buildings) of the proposed development at Deerfield Road would have a value of $191 million and property tax revenue in the first year to the Town of $654,000. The figure below illustrates these changes in property tax revenue.



Town property tax revenue change for 175 Deerfield Road (estimated)

Reduced growth in rental supply

If the development is revised to a lower-density format this will result in an inability to achieve an increase in rental housing supply. As is discussed above, Newmarket continues to experience rental apartment vacancy rates well below those that would indicate a healthy rental market.

Reduced ability to achieve affordable housing

Finally, if the development changes format this will likely preclude the achievement of any affordable housing units on the site. The UCSP indicates that a minimum of 25% of new housing units outside of the Yonge & Davis Provincial Urban Growth Centre shall be affordable to low and moderate income households. While this 25% is not intended to be achieved on each individual application, but rather within the UCSP area as a whole, it becomes increasingly difficult to achieve these targets if development applications proceed without supplying any affordable units.

Staff recognize that achieving affordable housing targets will generally require partnerships between developers, the Town, and the Region. Financial modeling by staff from the Region has demonstrated that affordable housing at even the threshold of affordability will require significant incentives to reach the levels of feasibility of market-price developments. It should not be thought that requests for incentives to reach affordable housing targets are a windfall for developers – while a careful review of incentive tools is important for financial responsibility, it is well understood that affordable housing cannot be achieved without some level of subsidization or the imposition of requirements through inclusionary zoning.

Servicing allocation

The applicant has noted that they are engaged in conversations with York Region regarding participating in the “Sustainable Development Through LEED” program, which reduces the required number of servicing allocation units for developments that meet sustainability metrics. In effect, such developments can allow the Town to recoup allocation units.

Participation in this program would be among the first developments in York Region to adopt the program, and would assist slightly with the Town’s limited allocation capacity. The proposed development will require servicing allocation in the amounts of:

- Building 1 – 186 units – 362 people
- Building 2 – 172 units – 335 people
- Building 3 – 129 units – 251 people

The applicant is continuing in discussions with the Region as to whether the development may participate in this program, although this is not yet determined. The recommendations of this report would provide allocation for the first two phases, and the conditions attached to the provided incentives would require the applicant to participate in the Region’s LEED program. This would return 30% of the allocation required for the first two phases, being 201 units – in effect, almost all of the allocation required for the third building would then be new allocation returned to the Town. The recommendations of this report would then allow this newly-created allocation to be used for the third building. As the Servicing Allocation Policy provides, if any allocation provided to the developer is not used within one year the Town rescinds the allocation for other use.

As Council directed as part of the most recent review of the Servicing Allocation Policy, 300 units of servicing allocation capacity has been set aside for the first condominium development in the urban centres. The applicant has indicated that they wish to access this allocation and construct two of the three buildings simultaneously with one as a rental and one as a condominium, subject to the requested incentives and availability of servicing allocation. In addition to meeting Council’s aim of achieving a new condominium development, this would reduce construction costs by consolidating the work period and reduce the construction disruption timeline by reducing the phasing of the development from three phases to two.

The applicant has expressed that they are willing to commit to building one of the buildings as a condominium and requested a commitment from the Town that servicing for the condominium building will be granted from the condominium reserve. This certainty will facilitate their ability to begin pre-sales and raise the necessary financing for the building and advance its construction.

Road network

As was discussed in Report 2018-52 in August of 2018, the Deerfield Road application includes the conveyance of the Calgain Road lands from the applicant to the Town for part of the future UCSP street network. The UCSP also calls for Deerfield Road to be conveyed to become a private road, as laid out in Report 2018-52. While the road lands have a value, this value is reduced by necessary burdens on the road lands. These include that the Town will retain its benefit of the road in perpetuity due to public right-of-way easements over the land, and that the Town will reduce its future liabilities and costs by obliging the applicant to reconstruct and maintain the road. Given this, it is recommended that the Town not require an additional payment for the road lands and any additional value be considered a further incentive to achieve the development as laid out in this report and Report 2018-62.

Recommendations

Newmarket is poised for growth and development focused on the Yonge Street and Davis Drive corridors. The Town has implemented a number of efforts to permit and encourage intensification. Certain Town objectives such as overall growth and intensification on the corridors will be achieved through development driven by the market. Other objectives such as increasing rental housing stock and creating new affordable housing units will likely not occur without either imposing requirements through by-laws or encouraging through financial incentives.

General recommendations

The Town evaluates on an ongoing basis what incentives it is prepared to offer to achieve its objectives of bringing new development, diversifying housing stock, and creating affordable housing. These incentives should, to the greatest possible degree, be aligned with those offered by the Region and further supported by investments from senior levels of government.

It should be acknowledged that certain Town objectives such as growing rental supply and achieving affordable housing may not be met without the use of financial incentives such as those discussed in this report or mandates such as inclusionary zoning.

The Town should explore tools such as TIEGS and deferrals to continue to encourage development. Furthermore, the recently-released municipal authority to implement inclusionary zoning should be considered as a predictable and consistent tool to achieve the Town’s affordable housing objectives.

Deerfield recommendations

Based on the above discussion, staff recommend the incentives listed in Attachment 1 be provided for 175 Deerfield Road. If Committee adopts the recommendations of this report, these incentives, combined with height and density bonusing under Section 37 of the *Planning Act*, will serve to secure the following matters through the various planning and financial tools:

- One building of not fewer than 180 dwelling units and one of not fewer than 120 dwelling units, to be guaranteed of rental tenure for a period of not less than 20 years.
- One building of not fewer than 170 dwelling units to be guaranteed as a condominium
- A community benefit contribution in the amount of $339,000 cash or capital beyond the requirements of the parkland dedication by-law to be allocated to park development and public art
- Public access over new private roads to help mitigate traffic in the area
- Subject to providing a TIEG, at least 19 of the dwelling units in Building 1, and at least 13 units in Building 2, being each at least one bedroom and five hundred square feet in size, to be provided at a price not to exceed the affordability threshold as determined by York Region at the time of lease

To secure these benefits, it is recommended that Committee adopt the recommendations of companion Report 2018-62, which will serve to enact the amending Zoning By-law for the property and secure the benefits through Section 37 of the *Planning Act*.

This report, if its recommendations are adopted, would not bind the Town to providing the recommended incentives. Council is prohibited from making such a decision at this time by Section 275 of the *Municipal Act*, often referred to as the “lame duck” provisions. Rather, this report would indicate support in principle for a final decision to be rendered by the new Council and to authorize staff to begin the necessary groundwork.

Conclusion

Council has approved the zoning by-law amendment for 175 Deerfield Road, and if Council approves in principle the financial incentives discussed in this report then the Town will secure the matters laid out in the amending Zoning By-law attached to Report 62, subject to the final approval of financial incentives by the newly-elected Council in 2019. If Council denies the requested financial incentives, then the benefits will not be secured and the development may proceed without providing these benefits.

Business Plan and Strategic Plan Linkages

Describe the Strategic Plan Linkages, such as the Community vision, Corporate mission and/or Core Values.

Consultation

The Strategic Leadership Team was consulted in the drafting of this report. The report was provided for comment to staff from Financial Services and Legal Services.

Human Resource Considerations

None.

Budget Impact

Subject to final Council approval in 2019, Development charges and fees will be deferred as laid out in Attachment 1. It is not anticipated that deferring DCs will impact the Town's capital works program. Locking in DCs to be paid at the 2018 rate has a projected cost of $767,112. Subject to final Council approval in 2019, a 10-year TIEG will be provided for the rental buildings at a cost of approximately $2.7 million.

Increased property tax revenues of $9.8 million are projected over 10 years post-completion. Less the value of the TIEG, an increased property tax revenue over 10 years of $7.1 million is projected.

Attachments

Attachment 1: Incentives, Terms & Conditions

Approval

Ted Horton, Planner

Richard Nethery, Director, Planning & Building Services

Peter Noehammer, Commissioner, Development & Infrastructure Services

Contact

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