

**REPORT TO:** Planning and Strategic Initiatives Committee

**DATE OF MEETING:** April 24, 2023

**SUBMITTED BY:** Garrett Stevenson, Interim Director, Planning Division, 519-741-2200 ext. 7070

**PREPARED BY:** Tim Donegani, Senior Planner, 519-741-2200 ext. 7062

**WARD(S) INVOLVED:** All Wards

**DATE OF REPORT:** April 13, 2023

**REPORT NO.:** DSD-2023-160

**SUBJECT:** Enabling Missing Middle and Affordable Housing

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## RECOMMENDATION:

**That the Enabling Missing Middle and Affordable Housing Feasibility Study be used to inform the Growing Together project for planning in Major Transit Station Areas and future updates to the Official Plan and Zoning By-law; and,**

**That the Enabling Missing Middle and Affordable Housing Feasibility Study be used to inform continuous improvement of development services processes; and further,**

**That Staff be directed to further consider financial incentives for missing middle and affordable housing and report back to Council on next steps once additional information on Bill 23 regarding affordable and attainable housing is made available.**

## REPORT HIGHLIGHTS:

- The purpose of this report is to share the findings of the Enabling Missing Middle and Affordable Housing Feasibility Study, which was funded by Provincial Streamline Development Approval funding, and outline next steps.
- The key finding of this report is that Kitchener is grappling with the challenges and opportunities associated with the delivery of missing middle and affordable housing. Kitchener is already a leader in this regard through its flexible and up to date zoning framework, continuous process improvements and financial incentives for affordable housing. Kitchener is uniquely positioned to further support this type of growth based on current demographic conditions, land availability, development feasibility conditions and a common desire to make it happen among both the public and private sector. The Study provides four key recommendations to advance these objectives in priority order:
  - reduce parking requirements;
  - increase density allowances;
  - provide financial supports; and
  - continue process improvements.

- There are no financial implications of this report.
- Engagement was focused on City and Regional staff, development industry and non-profit housing stakeholders.
- This report supports A Vibrant Economy, A Caring Community and the delivery of core services.

## **EXECUTIVE SUMMARY:**

While the city has experienced a record breaking pace of new housing starts over the last several years, Kitchener, like many other communities, is faced with significant housing supply crisis and housing affordability issues. The Enabling Missing Middle and Affordable Housing study looks at ways to improve housing affordability, provide more diversity in the housing types being built, and increase overall housing supply – especially in missing middle housing typologies.

Single detached dwellings and high-rise condominium apartment towers tend to have the best financial returns and therefore represent a large share of what has been built in recent years. This also helps explain why the missing middle forms are underrepresented. Enabling missing middle housing can broaden housing choice within neighbourhoods, foster complete and vibrant communities, and make efficient use of existing infrastructure.

While many of the market and policy drivers of housing development are outside of the City's control, the City has significant opportunities to enable the development of more missing middle and affordable housing types. The City's existing initiatives such as streamlining the development approvals process, relatively progressive zoning by-law and financial incentives for affordable housing all help, but the study recommends that Kitchener has opportunities to go further. It recommends that Kitchener act quickly, boldly and with clarity to address the drivers of housing crisis that are within Kitchener's sphere of influence.

The study recommends four incentives, financial and non-financial, that are within the city's control, to enable more missing middle and affordable housing. In order of priority, these are:

- reduce parking requirements;
- increase height and density permissions;
- provide financial incentives; and
- process improvements.

Staff are generally supportive of the land use planning directions (i.e., reduced parking and increased height and density) and propose to consider them through the Growing Together project that will update the planning framework in Major Transit Station Areas later this year, and through the next Official Plan review. Process improvements will be implemented through continuous improvement and **recommended financial incentives will be addressed in a future report to Council once additional information on Bill 23 regarding affordable and attainable housing is made available.**

## **BACKGROUND:**

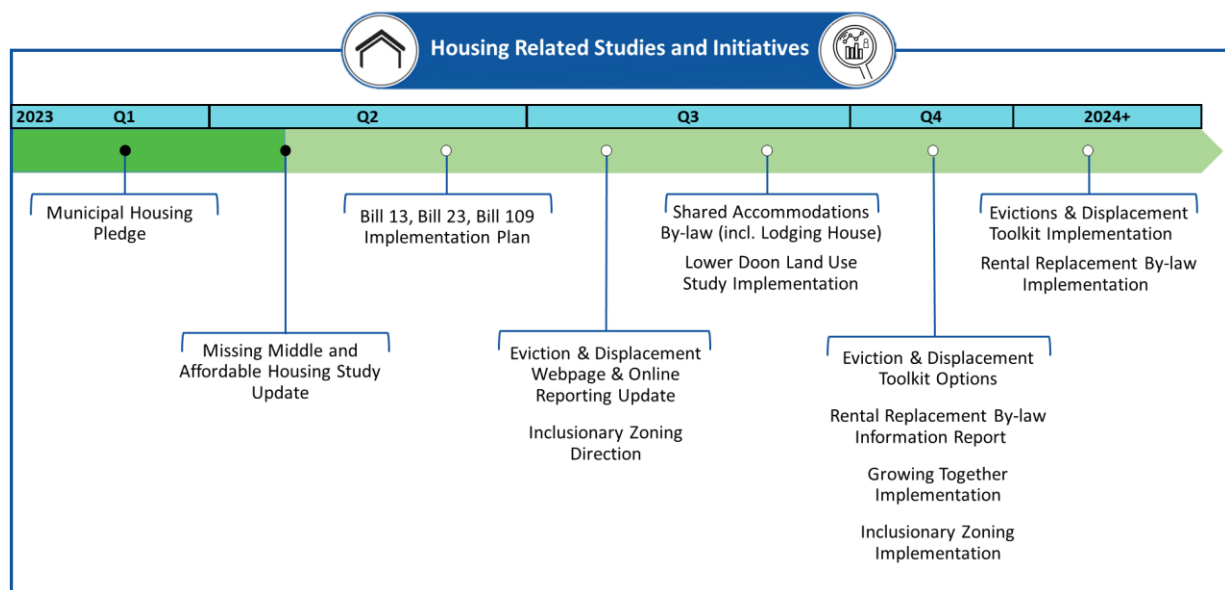
The City's [strategic plan](#), [Official Plan](#), and [Housing for All Strategy](#) recognize the importance of using a broad range of tools to advance critical housing affordability objectives. Through report [DSD-20-2014](#) council approved Housing for All which guides the

city's actions and investments to address local housing challenges. Three of its goals that are most relevant to this work include:

- Help secure community, affordable rental and affordable ownership housing
- Align policies, processes & use of city land to facilitate more affordable housing
- Fill data gaps and establish monitoring and accountability mechanisms.

The Enabling Missing Middle and Affordable Housing Feasibility Study (MM+AH Study) (Attachment A) was prepared not only to advance work on Kitchener's Housing for All Strategy but also to inform Growing Together, Kitchener's project that will update land use, zoning and built form guidelines in the Major Transit Station Areas (MTSAs) west of the expressway; and to inform Kitchener's next Official Plan review. The MM+AH Study was facilitated through and supported by Provincial Streamline Development Approval funding.

This report is one of a series of staff reports to be presented to Council for consideration in 2023-2024+ which focus on housing related studies and initiatives. The graphic below depicts the planned updates for Council in the next 12 months.



On March 20, 2023 through report [DSD-2023-063](#) council supported Kitchener's Municipal Housing Pledge that includes 11 strategies and actions to support the building of 35,000 more homes by 2031. The MM+AH Study advances work on the following strategies and actions from Kitchener's Municipal Housing Pledge:




- Item 1 - Updates to Kitchener's Official Plan and Zoning By-law to further enable an increased supply of missing middle housing.
- Item 5 - Continued advancement of work on updates to land use and zoning within Major Transit Station Areas.
- Item 7 - Continued work to implement the recommendations and action items from Kitchener's Housing for All Strategy, specifically including those that enable an increased housing supply or streamlining development approvals.

The MM+AH Study also aligns and acts on direction from Regional Official Plan amendment number 6 (ROPA 6). This amendment was approved by Regional Council in August 2022

and by the province on April 11, 2023. ROPA 6 includes policies that seek to increase housing choice and support the construction of a range and mix of housing, including affordable and ‘missing middle’ housing. It defines missing middle housing as “Multiple unit housing including, but not limited to multiplexes, stacked townhouses, apartments, and other low-rise housing options.”

## REPORT:


### Problem Statement:

Kitchener has seen strong residential growth (Attachment B: Card 6 Growth ) in the last several years especially in high rise apartments and single detached dwellings (although the latter has been decreasing in recent years). However, development of missing middle forms has been limited (Attachment B, Card 8 Housing ). Missing middle forms can add more affordable market housing and increase housing diversity. The market, alongside existing government funding programs, is not delivering enough affordable housing to meet community needs (Attachment B, Cards 1, 5, 10 Housing ). As part of the Province’s Streamline Development Approval Funding, the City retained a consulting team to explore the key market, policy, regulatory and process barriers to delivering the full range of housing types, including missing middle and affordable housing. The consultants’ MM+AH Study provides recommendations to advance the objectives of improving housing diversity, affordability and overall supply.

### Defining Affordable and Missing Middle

"MISSING MIDDLE"							
A	B	C1	C2	C3	D1	D2	E
Singles+	ADUs*	Traditional Towns	New Format Towns	Plexes*	Low-Rise	Mid-Rise	High-Rise
Single-Detached Semi-Detached	Garage Conversions Garden Suites Laneway Housing Basements / "Duplexes" Rear / Side Additions	Rowhouses Back-to-Back Towns	Stacked Towns Stacked Back-to-Back Towns Infill Towns	Triplexes Fourplexes Other Multi-Plexes (<8 Units)	<4 Storey Apartments	~4-8 Storey Apartments	>8 Storey Apartments
LOW DENSITY ←		* "MISSING LITTLE"				→ HIGH DENSITY	

The MM+AH Study defines missing middle housing as including all vertically and horizontally integrated forms of housing in a medium-density format, for example, traditional townhouses (i.e., street fronting and cluster townhouses), new format townhouses (stacked and infill townhouses) and multiplexes (low-rise and mid-rise apartments). Missing middle housing has the benefits of:

- increasing housing options in existing neighbourhoods that supports suitable housing options throughout a person or family’s life;
- making efficient use of existing infrastructure (Attachment B, Card 3 Development ); and
- providing gentle density for neighbourhoods that are losing population.

Missing middle can support affordability but is not necessarily affordable housing.


The MM+AH Study uses the shared Provincial Policy Statement, Regional and City definition of affordable based on the lesser of average market rents and prices, or the housing that low and moderate income households can afford by spending 30% of their income on housing.

In 2021, ownership housing costing less than \$385,500 and rental housing costing less than \$1,307/month were considered affordable.

Affordable housing can be market or subsidized, rental or ownership and in any kind of building.

### **Housing trends:**

The MM+AH Study considered Kitchener's existing housing trends. Key takeaways include:

- 36% of renters and 23% of owners spend more than 30% of their income on housing
- 8% of total households in Kitchener are in unsuitable (overcrowded) housing
- Housing prices have increased rapidly over the past 10 years and dropped somewhat in the last year (Attachment B, Card 6 Housing ). Ownership housing affordability has declined despite this price drop due to rising interest rates.
- Kitchener's rental housing supply has increased over the past eight years
- Rented condominium units have been responsible for a progressively larger portion of that growth as compared to purpose-built rental. Interest in primary rental development is strong, nevertheless.
- Southwest Kitchener has accommodated half of the city's new housing since 2016, primarily through low density greenfield development.
- Only 6% of growth since 2016 was in central Kitchener
- There has been a significant increase in the number of new Additional Dwelling Units (ADUs) in the last several years, primarily in the form of attached dwelling units (i.e., duplexes). 12% of new units in 2021 were in the form of ADUs. Most of these ADUs are in suburban areas.

### **Missing middle forms and opportunity**

The MM+AH Study included architectural demonstration plans for four missing middle typologies including infill new format townhouses, multi-plexes, low rise apartments and mid-rise housing typologies to better understand their key design attributes, financial and policy barriers and opportunities.

There is significant capacity for missing middle housing. The MM+AH Study identified approximately 24,300 sites across Kitchener that could accommodate these missing middle types. If just 2% of these properties were redeveloped in this way, 20% of the city's forecasted new residents by 2051 could be accommodated in missing middle housing.

**New Format Towns (C2)****Plexes (C3)****Low-Rise (D1)****Mid-Rise (D2)**

### Financial Feasibility

A key element of the MM+AH Study was to help describe the drivers of recent development patterns. Professional Land Economics at Parcel used a discounted cash flow model to test the financial viability of the full range of prototypical housing typologies (single detached to high rise) and the implications of ownership versus rental tenure and suburban versus central locations. There are notable barriers to entry for MM+AH projects, which are inherently less financially feasible when compared to more prevalent housing types.

- A convergence of growth pressures, housing demand, rising property and land values, construction cost escalation, increasing interest rates all challenge the development of MM+AH. The delivery of MM+AH has lagged demand, largely because of poor market performance and financial feasibility.
- Many missing middle forms are challenged by their poor financial attractiveness relative to other housing typologies and other possible lower-risk investment opportunities (i.e. 10-year government bonds);
- Rental tenures consistently underperform ownership. The analysis shows 5 profitable rental typologies (i.e., Suburban Towns, 8-Plex, Low-Rise in both the Central and Suburban neighbourhoods, and ADUs). However, all but the ADUs generated too small a profit to be viable.
- The economics of providing three-bedroom units in high rise buildings is challenging and can be more costly than building in grade related units. Requiring 10% of units in a prototypical high rise building that would otherwise only include 1-2 bedroom units typically reduces both the total number of units and revenue by 6% and reduces developer profit by a quarter.
- Adding affordable units negatively affects the financial viability of all typologies, but high-rise apartments have the greatest financial capacity to absorb affordable housing requirements while maintaining profitability.



- Parking costs are extremely impactful on development viability. Structured parking costs between \$50,000 and \$95,000 per spot, typically 5-11% of total costs of a mid- or high-rise building. The maximum estimated 10-year parking gross revenue per spot when rented separately is just \$18,000.

### **MM+AH Study Recommendations**

There are many factors that directly impact housing development trends, only some of which can be influenced by the City. In consideration of the housing trends, study objectives and opportunities, the MM+AH Study recommends that decision making and prioritization of actions should value:

- Flexibility
- Collaboration
- Sustainability, and
- Outcome-driven approaches

**The recommended short list of incentives, both financial and non-financial are provided in priority order of impact.**

1. **PARKING REDUCTIONS** are an extremely impactful incentive to encourage the development of MM+AH. The MM+AH Study recommends that the City take immediate strides to modernize parking standards to be more in-line with continued shifts in consumer / lifestyle preferences, consistent with the demonstration concepts identified in this study (note the demonstration concepts generally include less parking than would be required by the zoning by-law and instead reflect potential market demand for parking for missing middle or affordable housing). This could be most impactful in areas where existing and/or planned transit infrastructure is available.

Staff intend to use the study findings to inform recommended parking requirements within Major Transit Station Areas to be established through the [Growing Together](#) project which is scheduled for council's consideration by the end of 2023. City-wide changes of parking requirements will be considered as part of the next review of the Official Plan and implementing zoning by-law, currently expected to commence in 2024.

2. **DENSITY/HEIGHT ALLOWANCES** – In many cases, increasing density and/or height can be extremely helpful in enabling projects to achieve other city-building objectives – including affordable housing delivery. The MM+AH Study recommends:

- Allowing more diverse housing typologies in existing low rise neighbourhoods including multiplexes and low-rise apartments
- Amending as-of-right zoning permissions by increasing floor space ratio and height limits for low-rise (e.g. up to six storeys) and mid-rise (e.g. 7-12 storey) built forms
- Additional density permissions in high-rise built forms) to enable affordable housing delivery
- Relaxing or elimination of policies and regulations that inhibit delivery of MM+AH (e.g. requiring on-site truck turnarounds)

Staff intend to use the findings of the study to inform planning policies and regulations within Major Transit Station Areas via the Growing Together project. City-wide considerations will occur as part of the next review of the Official Plan and implementing zoning by-law.

3. **FINANCIAL SUPPORTS** – Providing appropriate financial incentives can support developers in providing MM+AH that is not occurring otherwise. Bill 23 recently introduced mandatory financial incentives for non-profit, affordable, and attainable housing as well as the development of up to two additional dwelling units per lot. These kinds of projects will not pay development charges (DCs), parkland dedication or community benefits charges (CBCs). The MM+AH Study recommends that the City consider going above and beyond these new mandates by introducing additional financial relief to drive more affordable housing and specific missing middle typologies that offer the greatest opportunity for change (i.e., Plexes and Low-Rise typologies). The two financial incentives recommended to optimize delivery of MM+AH units for a given city investment are:

- Exempting applicable development from taxes during development or beyond
- Rebating or waiving DCs and other city fees for applicable MM+AH projects

Financial incentives to for-profit corporations could be provided within a Community Improvement Plan program or Municipal Capital Facility Agreements.

Through the 2022 budget process, as part of the implementation of the Housing for All Strategy, Council established a [program](#) and \$2 million reserve fund contribution to offset the (DCs) for affordable rental housing provided by non-profits. Since the adoption of the Housing For All Strategy, the City has supported the creation of 128 units of supportive housing through a mix of financial support, fee waivers, city land and expedited approvals. Further there is approximately an additional 115 units of supportive housing confirmed in the development queue that staff will also support in collaboration with community partners and the Region of Waterloo (data based on report COR-2022-104 from February 2022). In November 2022, Bill 23 amended the Development Charges Act to exempt non-profit housing from DCs, and the affordable housing reserve is no longer required to offset non-profits' DCs. The reserve currently has a \$1.2m uncommitted balance that could be allocated to other financial supports for affordable housing.

Bill 23 also introduced DC exemptions for affordable and attainable housing provided by the private sector. These provisions are not yet in effect and await provincial regulations to define affordable and attainable housing. Uncertainty remains regarding the scale of DC exemptions that must be provided and the resulting impacts on city finances.

Given the uncertainty around Bill 23 implications for affordable and attainable housing, and the possibility of using Community Benefits Charges to fund affordable housing initiatives, a future report to council will be prepared that considers:

- the recommended financial incentives in this study;
- the future uses for the affordable housing reserve;
- coordination with regional incentives; and
- budget implications and legal mechanisms for incentives (i.e. A Community Improvement Plan or Municipal Capital Facilities Agreements).

The timing of the report back to Council on these matters is dependent on the timing of additional information provided on Bill 23 as outlined above.

4. **PROCESS IMPROVEMENTS** – Although generally least impactful of the four shortlisted incentives to MM+AH development feasibility, reducing delays and improving speed-to-market can be beneficial to all parties. In recent years the City has prioritized continuous improvements as demonstrated with the Development Services Review in 2019.



This resulted in the creation of a customer-informed workplan that included 18 lean improvement projects involving over 111 staff. Since that time, several streamlining projects have been initiated with the support of provincial funding along with a reorganization of the Planning Division to include two Project Managers who support affordable housing and purpose-built rental projects. The MM+AH Study recommends that the City continue to build upon recent streamlining projects by continuing to enable a more expeditious path to building permit issuance. Study recommendations include:

- Simplify and reduce mandatory study requirements for affordable housing projects
- Delegate, where appropriate and legislatively authorized, more approvals to staff including more heritage permits and lifting of holding provisions
- Build upon and formalize the City's' existing affordable housing concierge function, delivered by the Project Managers, to reduce approval time for MM+AH
- Reduce and focus public meeting requirements
- Consider template-based approval systems

As part of Kitchener's Municipal Housing Pledge, Kitchener committed to continuous improvement of development review processes to expedite approvals and reduce costs where appropriate.

In addition to the four recommendations about the study recommend that the City solidify its vision and appetite for change in the realm of missing middle and affordable housing, including alignment of that vision with Regional priorities. This includes

- a) Confirming & Publicizing Growth Targets
- b) Deepening Regional Partnership
- c) Educating and Galvanizing the Public at-Large
- d) Building Capacity of Industry Players
- e) Deepening Industry Relationships

In order to make quick and meaningful progress on enabling MM+AH the study recommends:

1. **Take Action** – Leverage Growing Together and the Official Plan review to move quickly on key recommendations related to height, density, and parking
2. **Make it Happen** – It is time for bold action, as-of-right permissions are important
3. **Provide Clarity** – Clarify operating definitions of missing middle and affordable housing
4. **Educate** – help develop consensus on building more missing middle and affordable housing to improve efficiency in delivery. Help encourage new and established developers to invest in these typologies
5. **Establish Replicability** – establish a templated approval system for desirable housing forms
6. **Identify Funding Sources** – Prioritize MM+AH housing delivery relative to other priorities. A joint effort between developers, housing providers and all levels of government will be required
7. **Monitor and Refresh** - continuously re-evaluate incentives around the delivery of MM+AH considering the rapidly evolving market and policy environment

**STRATEGIC PLAN ALIGNMENT:**

This report supports A Vibrant Economy, A Caring Community and the delivery of core services.

**FINANCIAL IMPLICATIONS:**

Capital Budget – This work was completed with existing resources and approved budgets. Consultant costs were 100% covered by the Provincial Streamline Development Approvals Funding.

Operating Budget – The recommendation has no impact on the Operating Budget.

Future implementation of financial and non-financial incentives as well as process, policy and regulatory revisions and any impacts on capital and operating implications will be detailed in future reports to Council.

**COMMUNITY ENGAGEMENT:**

INFORM – This report has been posted to the City's website with the agenda in advance of the council / committee meeting.

CONSULT – Through the preparation of the study, the consultants interviewed several development industry stakeholders, non-profit housing providers and a broad range of city and regional staff that support city building and affordable housing. Staff discussed initial report findings with the Kitchener Development Liaison Committee on March 17 and April 21, 2023. Broad community engagement will be planned and executed through implementation of the recommendations as appropriate.

**PREVIOUS REPORTS/AUTHORITIES:**

- DSD-20-214 Housing for All – City of Kitchener Housing Strategy
- DSD-2023-063 City of Kitchener Municipal Housing Pledge
- FIN-2022-155 Streamlined Development Approvals Fund (SDAF)

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**APPROVED BY:** Justin Readman, General Manager Development Services Department

**ATTACHMENTS:**

Attachment A – Enabling Missing Middle & Affordable Housing Feasibility Study  
Attachment B – Growing Together Card Deck