Enabling Missing Middle & Affordable Housing

Feasibility Study

April 11, 2023

Parcel

SMART DENSITY

STRATEGY CORP

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This document is available in alternative formats upon request.

Cover Image: Smart Density

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Acknowledgements

Project Consulting Team

The project consulting team responsible for completing this study included a diverse range of industry-leading professionals offering expertise spanning the full breadth of land economics, land use planning, urban design / architecture, as well as municipal strategy and policy implementation. Parcel Economics Inc. ("Parcel") has served as the project lead for this study, with additional project support provided by senior members of Smart Density and StrategyCorp.

Parcel	SMART DENSITY	STRATEGYCORP
Project Lead & Land Economics	Planning, Urban Design & Architecture	Policy & Implementation

City of Kitchener Project Team

Our study process involved extensive collaboration with staff from both the City of Kitchener and Region of Waterloo. Consisting of a core working group from the City's *Development Services* and *Financial Services* departments, these additional personnel provided input, advice and direction from the following perspectives: Land Use Planning & Policy; Urban Design & Architecture; Customer Experience & Project Management; Realty Services; Financial Planning & Reporting; as well as Business Development.

Other Participants

Our detailed research program and "ground-testing" of study recommendations also involved engaging with a range of stakeholders, including external industry participants active in the development of new market and non-market housing in Kitchener. This involved soliciting feedback form a diverse group of for-profit developers, non-profit housing organizations and other individuals familiar with the delivery / management of new-construction ownership and rental residential uses.

This study was prepared with support from the **Province of Ontario**.
The views expressed in the publication do not necessarily reflect those of the Province.

Executive Summary

Context

The Study

- A multi-disciplinary project consulting team—led by Parcel in cooperation with partner firms Smart Density and StrategyCorp—has been retained by the City of Kitchener to complete a study that evaluates and develops recommendations relating to the **key market, policy and regulatory solutions** capable of maximizing the provision of missing middle and affordable housing in the community.

- To this end, an extensive study program has been undertaken that included both qualitative and quantitative research elements. This has involved a review of current real estate market conditions and the factors affecting the delivery of this type of housing in Kitchener (or lack thereof), engaging with key private and public sector stakeholders active in the local market, consideration of best practices from other jurisdictions, as well as detailed testing of prototypical building designs for financial feasibility.

- A **full spectrum of housing typologies** has been identified, whereby "missing middle" formats include all vertically and horizontally integrated housing in a medium-density format.

"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 ⟷ HIGH DENSITY

* "MISSING LITTLE" * "MISSING LITTLE"

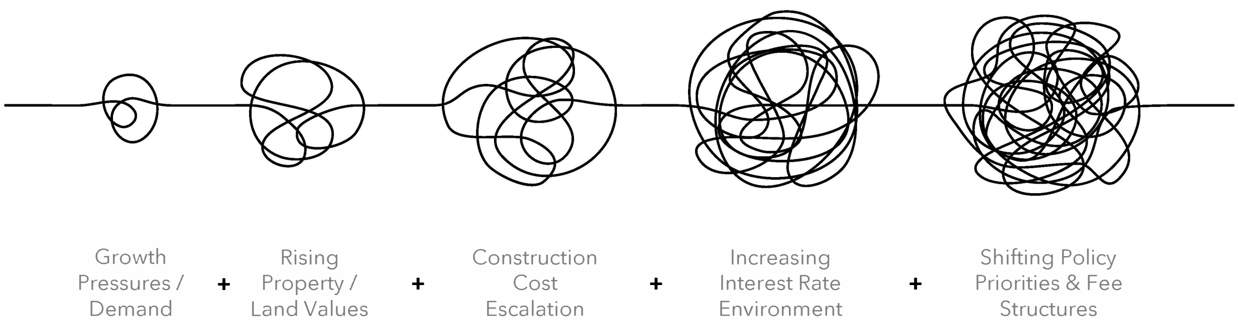
- The key findings from this study are ultimately intended to assist the City of Kitchener in meeting a range of strategic housing objectives, including improving conditions for increased: (i) **housing diversity**; (ii) **housing affordability**; and (iii) **housing supply** across a variety of locational and neighbourhood contexts.

The Challenge

- Housing has rapidly become one of the most pressing issues facing municipalities across Ontario and beyond, as new residential developments continue to **focus on one of two extremes**: high-density apartments and low-density single-detached housing.

- With limited uptake and delivery of "missing middle" housing forms, this dynamic also continues to exacerbate issues relating to purchase and rental pricing, including the ability of many households to reasonably afford housing locally.

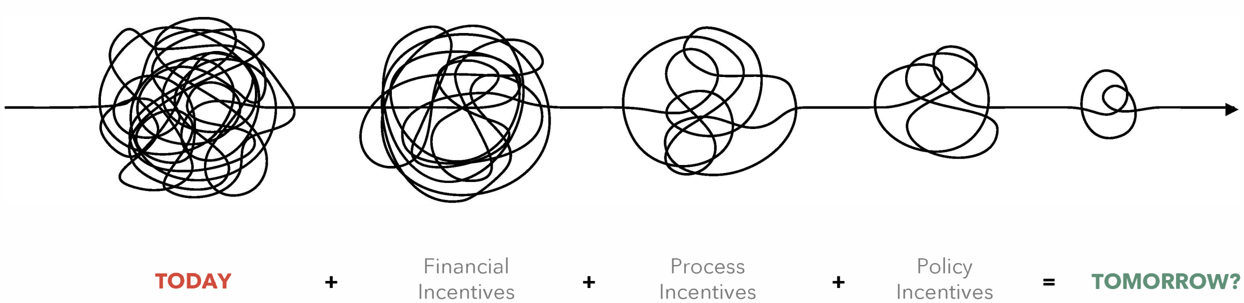
- In response to a "perfect storm" of community-specific and broader macroeconomic challenges, the delivery of missing middle and affordable housing has lagged demand; largely as a **function of poor market performance and financial feasibility**.



The Opportunity

- Recognizing the range of internal and external factors involved, a multi-faceted solution will undoubtedly be required to enable the development of preferred housing types moving forward. This could include a mix of **Financial**, **Process** and **Policy-based incentives** that have been identified through this study.

- By implementing a comprehensive suite of incentives, the City of Kitchener stands to benefit from a range of **economic, social and operational improvements** that would not otherwise be available via a "status quo" or "do nothing" scenario. Furthermore, inaction risks compounding existing housing supply issues.



The Prototypes

- Led by Smart Density, prototypical development concepts have been established for the full range of housing typologies identified to help visualize opportunities for missing middle housing in Kitchener. Extra attention was given to four key missing middle typologies that demonstrated the most potential in the Kitchener context: "New Format Towns", "Plexes", as well as "Low-Rise" and "Mid-Rise" apartments[1].

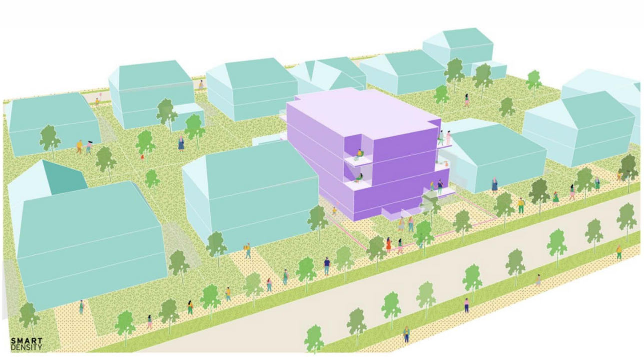
- Based on a review of existing parcel fabric information for Kitchener, approximately **one-third of current properties across the City** (24,300 total sites) could accommodate these missing middle typologies. The majority of these eligible–or "candidate"–sites already have residential permissions and would present relatively straight-forward conditions for development (e.g., acquisition / demolition / remediation, etc.).

- Depending on future levels of market acceptance–or "uptake"–of missing middle development in Kitchener, **up to 1 in every 5 new residents in Kitchener could be accommodated on just 2% of all properties city-wide** to 2051.

New Format Towns (C2)

Plexes (C3)

Low-Rise (D1)



Mid-Rise (D2)

[1] Based on a combination of typical property sizes / dimensions and other precedents in Kitchener, as well as the type of new buildings that are best situated to advance broader city-building and housing-specific objectives, among other factors detailed herein.

Key Findings

Recommendation #1:

Solidify the City's vision and appetite for change in the realm of missing middle and affordable housing, including alignment of that vision with Regional priorities.

- Affordable housing is already a priority for Kitchener Council, City staff and residents, but the development landscape and needs of local residents continues to evolve. Furthermore, the Province of Ontario recently introduced Bill 23 and Bill 39 with the intent of increasing housing supply in the province, including specific consideration for both missing middle typologies and affordable housing.
- These ongoing changes will require the City to consider the impact of evolving market and policy environments as it explores additional options to reinforce the development of this type of housing in a manner that is suitable for the community.
- The municipality can re-confirm and invigorate its vision and strategic approach to enabling missing middle / affordable housing by considering the following key measures:
    - **Confirm & Publicize Growth Targets** for Missing Middle & Affordable Housing;
    - **Deepen Regional Partnerships**;
    - **Educate and Galvanize the Public at-Large**;
    - **Build Capacity of Industry Players**, including Non-Traditional Developers and Not-for-Profit Organizations; and,
    - **Deepen Industry Relationships**.

Recommendation #2:

Further assess and implement a range of incentives that enable the construction of missing middle and affordable housing stock in the City of Kitchener.

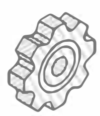
- In the same way that the current housing crisis continues to be a function of many different macro and micro-economic factors, so too will the solution to these problems **require multiple different tools**–or incentives–to "unravel" the current situation and encourage preferred housing forms and/or pricing. To this end, four distinct incentive options have been recommended in this study:

Financial

Incentive #1: Tax & Fee Adjustments

- Exempt tax requirements for applicable rental and ownership development projects for the duration of development or longer.
- Rebate or waive development charges and fees for applicable missing middle and affordable housing typologies.

Process



Incentive #2: Approval Time Reduction

- Introduce further process change and improvements to ultimately produce a meaningful reduction in approval timelines for development applications, particularly those that meet missing middle and affordability criteria.

Policy

Incentive #3: Height & Density Allowance

- Introduce further as-of-right provisions in existing City (and potential Regional) land use policies and by-laws to permit more efficient use of land.

Incentive #4: Parking Reduction

- Introduce further reductions to parking requirements to both reduce costs and enable more efficient use of available land.

- All preferred–or "shortlisted"–incentives have been measured against a range of evaluation criteria, including consideration of factors that are within the immediate control of the City (e.g., relating to process and policy), as well as more outward-facing conditions (e.g., market and financial feasibility).
- Overall, it will **likely be necessary to combine–or "layer"–these incentives** in the Kitchener context for maximum impact and flexibility, with the following prioritization:

- Parking Reductions – The City should take immediate strides to modernize parking standards to be more in-line with continued shifts in consumer / lifestyle preferences, as well as consistent with the prototypical development concepts developed for this study.

- Height & Density Allowances –The City should seek to amend as-of-right development permissions for selected typologies to leverage the benefits associated with "nudging" projects in favour of achieving broader city-building objectives (e.g., increase height thresholds for Low-Rise and Mid-Rise building formats relative to current definitions, as well as consider the provision of additional density in High-Rise contexts to support affordable housing delivery).[2]

- Financial Supports – In light of recent legislative changes via Bill 23, the City should consider going "above and beyond" these new mandates by introducing additional financial relief that specifically targets: (i) affordable / attainable housing delivery; and/or (ii) selected missing middle typologies that offer the greatest opportunity for change locally.

- Process – The City should seek to build upon recent internal-facing efficiencies by enabling a more expeditious path to building permit issuance from the perspective of local developers (e.g., less cumbersome application requirements and other streamlining beyond the immediate purview of the municipality's day-to-day operations).

Implementation

- Two focused areas of opportunity have emerged from this study that reflect the inherent duality of the research program requested by the City:

  - **Improving Housing Diversity ("Choice")** – The greatest opportunities for expanding missing middle housing options lie in the Plexes and Low-Rise typologies, which achieve a "sweet spot" of scale, efficiency and ease of entry to the market. The City should consider implementing a comprehensive suite of incentives targeted specifically at either / both of these typologies, to the full extent possible.

  - **Improving Housing Affordability ("Price")** – The affordable housing landscape can benefit indirectly through any form of increased housing supply and diversification. High-Rise built environments where additional efficiencies exist can provide among the most immediate opportunity to leverage the benefits of new market-rate development to help offset lost revenue opportunities in the delivery of more affordable housing.

[2] Provided a positive revenue / cost relationship already exists for baseline profitability of a given project.

- In addition to confirming the exact scope and scale of incentives to deploy, the City must consider what policy levers are available to enable the implementation of their preferred suite of incentives. **Community Improvement Plans (CIPs)** and **Municipal Capital Facilities Agreements (MCFAs)** are two commonly used mechanisms in Ontario municipalities to provide financial incentives to private developers, and generally well-regarded by municipal leaders and staff for their ability to produce robust results in the realm of affordable housing. Non-profit developers can receive municipal funding through other tools.

Next Steps

- **Take Action (Speed)** – Every bit counts and no single housing typology is capable of solving the housing crisis, so the City should take immediate action to encourage all kinds of new residential development, including via pending updates to Official Plan policies.

- **Make It Happen (Boldness)** – It is time for bold action and the City should be encouraged to adopt a "wartime mentality", to push boundaries and to avoid indecision—or "analysis paralysis"—including decisive change through as-of-right permissions in Zoning.

- **Provide Clarity** – The City should clearly define and communicate what constitutes missing middle and affordable housing to avoid confusion and/or disagreement among stakeholders, including tying into broader definitions wherever possible (e.g., adopting Provincial definitions in pending policy updates).

- **Educate** – Education can serve as another effective tool to establish consensus, improve awareness and dispel myths at the outset of any conversation around missing middle and affordable housing. This includes addressing unwarranted NIMBY-ism, exposing established developers to new investment opportunities, as well as encouraging the entry of new participants to the housing development industry.

- **Establish Replicability** – Rather than a debate-based approvals system, the City should investigate more templated approval systems to foster replicability in preferred housing forms that are compatible with the Kitchener market.

- **Identify Funding Sources** – Wherever shortfalls are identified, a joint effort between the municipality and local housing developers/ providers will be required to capture any and all opportunities for external funding (e.g., via other levels of government, etc.).

- **Monitor & Refresh** – There will be an inherent need to regularly monitor and update the City's rationale for implementing incentives in response to ever-changing market conditions.

1.0

Introduction

Key Findings

- This study has been undertaken to evaluate and develop recommendations relating to the key market, policy and regulatory solutions capable of maximizing the provision of missing middle and affordable housing.
- The study seeks to assist the City of Kitchener in meeting housing objectives to **improve housing diversity, affordability, and overall supply** across a variety of locational / neighbourhood contexts.
- The scope of work has included establishing baseline market conditions, developing and testing prototypical building designs for financial feasibility, identifying incentive options.
- "Missing Middle" includes all vertically and horizontally integrated forms of housing in a medium-density format (e.g., Traditional Towns, New Format Towns, Plexes, Low-Rise / Mid-Rise apartments).
- Based on the City of Kitchener definition of "affordability" as of 2021, ownership housing is considered affordable if it costs **$385,500 or less** and rental housing is considered affordable if it costs **$1,300 per month or less**.

1.1 Background

Context

Housing has rapidly become one of the most pressing issues facing municipalities across Ontario and beyond, as new residential developments continue to focus on one of two extremes: high-density apartments and low-density single-detached housing.

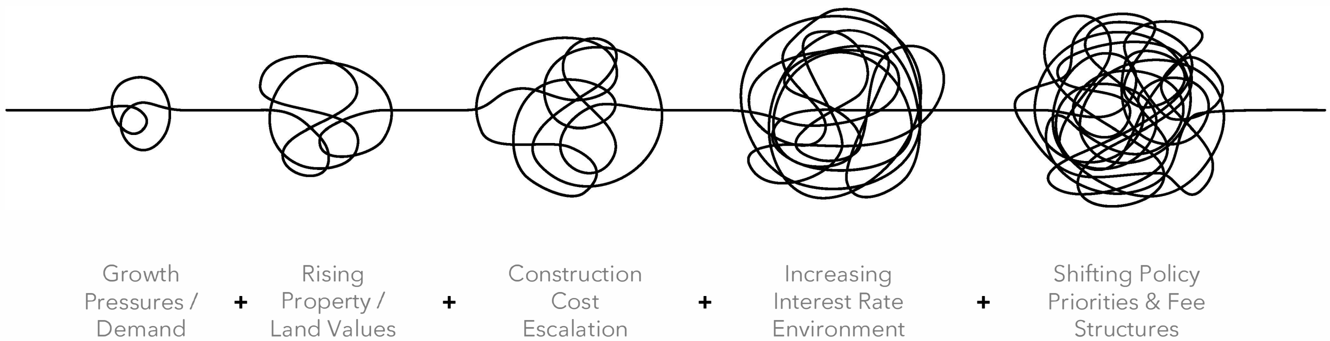
Despite the delivery of record numbers of new residential units across the Province in recent years, purchase and rental price growth—driven at least in part by increased hard and soft building construction costs—continues to outpace the ability of many households to reasonably afford them. Similarly, many communities continue to struggle with limited uptake and development interest in "missing middle" and mid-rise housing forms, largely as a function of poor market acceptance and financial feasibility.

These challenges to housing affordability and diversity have become so acute that business organizations, employers and governments alike have now started to acknowledge this dynamic as materially influencing the liveability and economic competitiveness of their communities. In turn, municipalities are continuing to explore innovative approaches to increase the supply of preferred housing options in a financially sustainable manner. These efforts are not only targeted at new construction (greenfield) areas, but also in attempt to preserve income-diverse communities in well-established, amenity-rich neighbourhoods.

Recognizing the range of internal and external factors involved (e.g., broader macroeconomic conditions and external market trends vs. municipal-facing variables such as process and policy-related improvements that are more within the immediate control of the City of Kitchener), a multi-faceted solution will be required to enable the development of preferred housing types into the future.

Figure 1.1

The "Perfect Storm" of Factors Influencing Housing Development Trends



Source: Parcel. For illustration purposes only – a comprehensive range of variables has been identified as part of our more detailed baseline financial feasibility analysis and related input assumptions.

Purpose

In light of these housing challenges, this study has been undertaken to evaluate and develop recommendations relating to the key market, policy and regulatory solutions capable of maximizing the provision of missing middle and mid-rise housing forms in Kitchener.

To this end, a key element of this study has been to deliver a data-driven and detailed supporting financial analysis capable of "demystifying" recent development patterns. This has served as a critical baseline in answering the initial question of "why are things the way they are?" before developing more creative solutions in response to the current realities of the market and underlying needs of the development community to achieve project viability.

Similarly, in an effort to generate consensus among all parties involved, we have endeavoured to highlight the unique perspectives of both public and private sector interests through this work. This has been done to identify potential areas of commonality—as well as disagreement—as it relates to the delivery of missing middle housing forms and, more broadly, residential uses that are able to satisfy the needs of a growing and increasingly diverse community. In our opinion, this study represents an ideal opportunity to bring together "both sides of the story" and identify the preferred roles and responsibilities of all participants to achieve the identified housing objectives.

Why Missing Middle Housing?

While the benefits of providing affordable housing across all income levels are well recognized, it is also important to appreciate that there are plenty of discernable benefits of missing middle housing, many of which are common across both public and private sector perspectives:

- Increasing the total supply of housing and not limiting growth exclusively to greenfield development;
- Making more efficient use of both existing and recent investments in municipal infrastructure and servicing, including roads, sewers, and transit;
- Improving housing "choice" and diversity, which benefits residences at all stages of life, income levels and unique household needs;
- Allowing for the creation—and/or maintenance—of communities that are accommodating to growing families and/or multi-generational households;
- Fostering opportunities for "aging in place", particularly among the notable seniors—or "baby-boom"—cohort;
- Creating opportunities to reinforce population growth near existing employment / commercial / institutional / civic districts, such as the Downtown and Major Transit Station Areas (MTSAs);
- Allowing for the "gentle" densification of established, built-up neighbourhoods and introducing new populations to potential communities in decline; and,
- Contributing to a more varied built form across the community, thereby creating opportunities to improve the overall quality of architecture and urban design City-wide.

Scope

To arrive at the preferred outcomes identified by the City and its stakeholders, this study has involved a variety of background research and supporting analysis to inform the specific factors–or "pinch points"–that are most significantly influencing the feasibility of new housing development in Kitchener. This includes–but is not necessarily limited to–the following:

	Parcel	SMART DENSITY	STRATEGYCORP
Baseline Market Conditions The market and economic realities of new real estate development, particularly in low-rise neighbourhoods and suburban nodes / corridors.	●		
Concept Development & Testing Other market / economic and financial feasibility-related testing of prototypical building designs / concepts representative of desired missing middle and mid-rise housing forms.	●	●	
Incentives Identification The magnitude and nature of required incentive or subsidy programs to advance municipal strategic objectives relating to the provision of more affordable and/or "missing middle" housing typologies.	●		●
Other Recommendations The identification of possible efficiencies and/or other process-related improvements for the City of Kitchener, based on an "outside looking in" lens combined with inspiration from other jurisdictions.	●		●

1.2 Study Parameters

It is important to clearly articulate at the outset of this reporting the core objectives—and preferred outcomes—of the City of Kitchener in undertaking this work.

The following provides a high-level overview as to some of the basic parameters of our study, including clarity as to some of the nuances among and between "missing middle" vs. "affordable" housing types, as well as an introduction to the complete range of building typologies considered as part of our supporting research program.

Housing Objectives

Diversity ("Choice")

For the purposes of this study, diversity relates to how varied—or not—the supply of local housing is within a given community and generally focuses on the physical features of residential buildings and/or dwelling units. This not only includes capturing diversity across common characteristics such as total floor area, number of bedrooms and/or unit type, but also more categorical differences in building typologies (i.e., spanning the full spectrum of housing typologies: from low-density single-detached dwellings to the highest density apartment towers).

> ***Objective:*** *Improve the diversity of housing across the City of Kitchener, by enabling a more complete mix of low, medium and high-density residential building forms as part of new real estate projects.*

Affordability ("Price")

Although indirectly influencing diversity and "choice", as explored above, affordability has been referred to more explicitly in the context of pricing for the purposes of this study (i.e., the "dollars and cents" of housing, as an important determinant of the ability of households to reasonably pay for housing, from a financial perspective). While this concept is relatively straight-forward in principle, it can often be complicated by inconsistent definitions and unique price thresholds established across different jurisdictions and/or levels of government.

> ***Objective:*** *Increase the delivery of affordable housing across Kitchener through new development, which caters to households of all income levels.*

Supply ("Quantity")

One of the key factors affecting housing affordability is the inherent imbalance between demand and supply within a given community, especially in primary and secondary urban population centres such as Kitchener that are experiencing the highest levels of population growth. While simultaneously leveraging the economic development and city-building benefits available via new growth and development, enabling new housing supply—of any kind—can represent an important element of improving affordability for residents (i.e., relying on the basic economic principles of pricing in response to a "shock" to supply).

> ***Objective:*** *Increase the <u>total</u> supply of housing City-wide, which can have indirect benefits to pricing (i.e., including <u>both</u> market-rate and affordable housing units through new development).*

Geography ("Location")

This study has also considered the extent to which housing and population growth can be reasonably accommodated across various housing typologies within both Central and Suburban neighbourhood contexts. As it relates to missing middle and affordable housing specifically, locational considerations can also play an important role in so far as basic geographic characteristics can materially prohibit—or enable—the growth of preferred housing types. For example:

- Are there currently development sites available in the right size and configurations necessary to support certain preferred typologies?
- Do price levels within low-performing submarkets support development of new-build housing that is financially feasible?
- Is there an opportunity to leverage higher-performing submarkets to deliver additional affordable housing as part of new mixed-income communities?

> ***Objective:*** *Increase the supply of housing across a variety of different locational / neighbourhood contexts, including both Central and Suburban areas.*

Bill 23, More Homes Built Faster Act (2022)

Bill 23, More Homes Built Faster Act, 2022 is new provincial legislation that makes significant changes to the land use planning process, including the provision of affordable and attainable housing, as well as other as-of-right permissions for relatively small-scale, infill type housing commensurate with common definitions of missing middle housing.

The impact of the Bill on specific elements of the analysis are highlighted in the relevant sections throughout the report, including as-of-right financial, policy, and process considerations and new definitions of affordable and attainable housing.

Housing Typologies Defined

The Complete Spectrum

Building upon the foregoing concept of housing diversity—and to appropriately reflect natural market-led variations in residential "product type" across different locational contexts—a complete spectrum of housing typologies has been identified for consideration as part of this study. As summarized below, this includes eight (8) distinct housing typologies, generally ranging in order from lowest to highest density. Additionally, selected sub-categories have also been identified—as denoted by colour—to reflect obvious groupings based on common development formats (e.g., low-rise and mid-rise apartments).

Figure 1.2

The Complete Spectrum of Housing Typologies

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
Grade-related housing / single-detached houses	Accessory or "Additional" Dwelling Units (ADUs), representing the introduction of a "net new" unit to existing single-detached properties.	Street-fronting townhouses or "row" housing, including those with no backyards	Vertically or horizontally integrated townhouse developments with multiple units.	Multi-plex apartment buildings, typically containing 8 or fewer units.	Standalone apartment buildings, typically less than 4 storeys in height.**	Standalone apartment buildings typically between 4 and 8 storeys in height.**	Standalone apartment buildings typically greater than 8 storeys in height.**

LOW DENSITY ⟷ HIGH DENSITY

***Based on current City of Kitchener land use policies and urban design guidelines*

Source: Parcel. General housing sub-types identified as examples for reference purposes only.

Identified Sub-Categories

The Extremes: Low-Density Singles and High-Density Apartments

As denoted with shades of **grey**, the far ends of the typology spectrum are characterized by the extremes of high-density (apartments/ typology E) and low-density (single family housing/ typology A), which account for the majority of the existing housing stock in Kitchener, including newer developments that have either been recently constructed, are under construction, or are proposed to enter the market in the near future.

Although neither of these typologies have represented the core focus of this study, they have nonetheless helped to establish an important baseline in identifying what currently "works" in the Kitchener context, based on prevailing market conditions. In the case of affordable housing, however, it is also worth noting that high density residential development can often play a key role in generating the scale of development necessary whereby there can be opportunities to offset—or "subsidize"—lower-revenue generating uses with the typical "highest and best use": market residential.

The "Missing Middle"

Similar to differing interpretations as to what can—or should—qualify as "affordable" housing, there is equivalent discrepancy and lack of consensus around which of the specific sub-components of the broader housing typology spectrum constitute "missing middle" housing. For the purposes of this study, and recognizing the unique context of the Kitchener market, we have defined missing middle housing as encompassing all typologies from C1 (Towns) through D2 (Mid-Rise), as denoted in shades of **blue** and **green**. This effectively includes all vertically and horizontally integrated forms of housing in a medium-density format.

See **Section 2.2** for additional exploration of "Missing Middle" definitions.

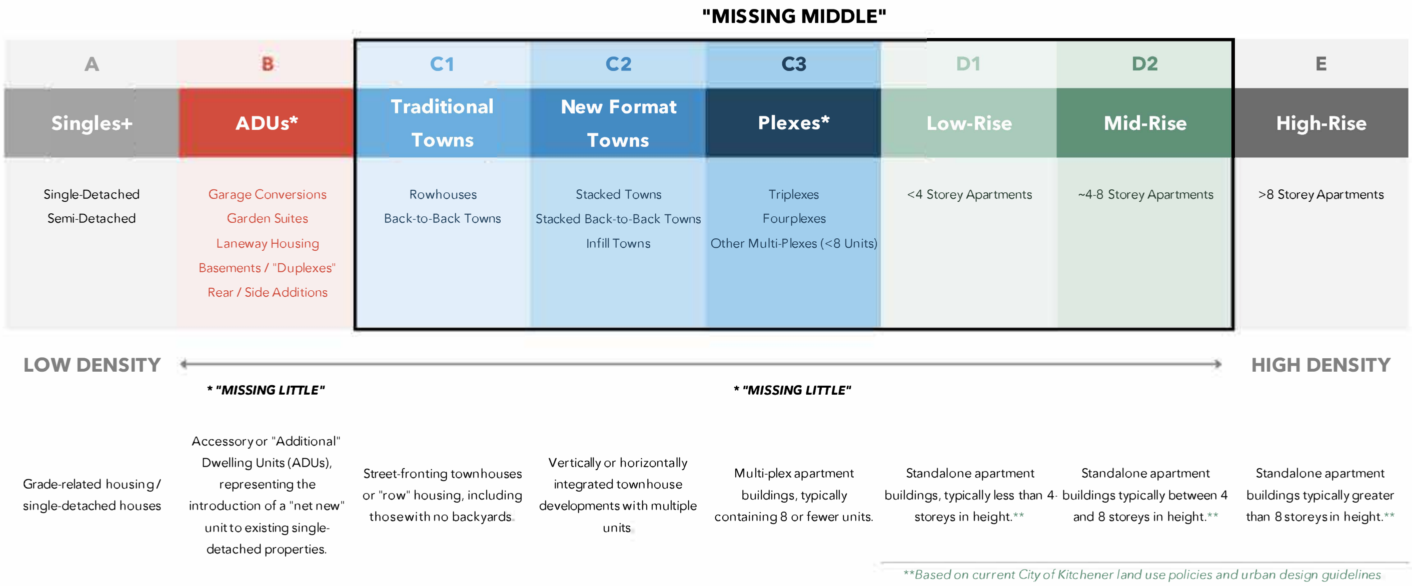
The Missing "Little"

Often identified as either a direct sub-category of—or companion to—missing middle housing, we have also identified two typologies that we believe best capture the essence of the missing "little". Namely, this includes two important forms of relatively small-scale, infill housing that can be effectively integrated in existing neighbourhood contexts comprised predominantly of single-family housing:

- **Plexes (C3)** – a slightly less dense form of apartment development—including triplexes, fourplexes / other multiplexes—capable of matching the overall height, scale and "feel" of neighbouring properties, typically on just one or two contiguous residential lots; and,
- **ADUs (B)** – accessory or "additional" dwelling units, such as standalone laneway / garden suites or integrated units such as basement apartments or rear/side additions, as denoted in **red**.

Figure 1.3

The Complete Spectrum of Housing Typologies + "Missing Middle" Identification



Source: Parcel

Housing Affordability Defined

The City of Kitchener defines housing affordability as the least expensive of housing that does not exceed 30% of gross annual household income or housing that is at or below average prices or rents.

This definition includes both an income-based measure of affordability (i.e., tied to what specific households can afford) and a market-based measure of affordability (i.e., a benchmark against current market conditions and pricing). This is consistent with both the definition of affordability in the Region of Waterloo Official Plan and the Provincial Policy Statement (PPS).

Figure 1.4

City of Kitchener Definitions of Housing Affordability

	Ownership Housing	Rental Housing
	The least expensive of:	*The least expensive of:*
Income-Based	Purchase price results in annual accommodation costs which do not exceed **30% of gross annual household income** for low- and moderate-income households* **Households with incomes in **the lowest 60%** of the income distribution for the Regional market area*	Rent does not exceed **30% of gross annual household income** for low- and moderate-income households* **Households with incomes in the **lowest 60%** of the income distribution for **renter households** in the Regional market area*
	OR	**OR**
Market-Based	The purchase price is at least **10% below the average purchase price of a resale unit** in the regional market area	Rent is **at or below the average market rent (AMR)** of a unit in the regional market area

Source: Parcel, based on City of Kitchener Official Plan (2014)

Based on these definitions, in 2021, ownership housing in Kitchener is considered affordable if it costs $385,500 or less (income-based) and rental housing is considered affordable if it costs $1,300 per month or less (market-based).[3]

[3] For comparison, a house costing $576,350 is considered affordable using the market-based definition of affordability and affordable rent of $1,470 is considered affordable using the income-based definition of affordability.

As of 2021, the market-based affordable housing price of approximately $576,300 is affordable to households in the 90th percentile of income distribution. Rental housing fares slightly better with an average market rent of $1,307 being affordable to households in the 60th percentile of income distribution and higher. In dollar amounts, a household has to earn $199,000 or greater per year for the average ownership price to be considered affordable and $58,900 or greater per year for average rent to be considered affordable.

It is important to note that average rents and prices in the market-based measure of affordability are calculated using *all* housing stock, including older ownership units and rental units under rent control, both of which command lower prices and rents than units currently entering the market. As such, "affordable" often understates current market realities. This is true in Kitchener, where an affordable house price is approximately $576,000, yet the average price of a new construction house is $792,900[4]. Likewise, affordable rent is calculated at $1,307 per month, yet average asking rents are $1,600[5]. Overall, this points to greater affordability challenges than the definition of "affordable" suggests, particularly for residents looking for housing compared to those who are securely housed.

Figure 1.5

Housing Affordability in Kitchener by Income Percentile (2021)

	Ownership				Rental		
Percentile	**Household Income**	**Affordable House Price**	**Average Resale Price**	**90% Average Resale Price**	**Household Income**	**Affordable Rent**	**Average Rent (All Units)**
			$640,386	**$576,347**			**$1,307**
10th Percentile	$26,200	$96,400	✗	✗	$15,700	$390	✗
20th Percentile	$41,900	$154,100	✗	✗	$23,800	$600	✗
30th Percentile	$56,100	$206,200	✗	✗	$32,000	$800	✗
40th Percentile	$71,100	$261,600	✗	✗	$40,400	$1,010	✗
50th Percentile	$87,200	$320,800	✗	✗	$49,200	$1,230	✗
60th Percentile	$104,800	$385,500	✗	✗	$58,900	$1,470	✓
70th Percentile	$125,600	$462,100	✗	✗	$70,700	$1,770	✓
80th Percentile	$153,600	$565,100	✗	✗	$86,200	$2,160	✓
90th Percentile	$199,000	$732,100	✓	✓	$109,900	$2,750	✓

✓ = Affordable
✗ = Unaffordable

Source: Parcel, based on affordability tables sourced from the Province of Ontario's Ministry of Municipal Affairs and Housing (MMAH).

4 CMHC Market Absorption Survey 2021
5 CoStar Average Asking Rent Q4, 2021

Note: Bill 23 Affordable and Attainable Definitions

The recently passed Bill 23 now defines "affordable" as a unit whose rent or price is **no greater than 80% of average market rent or average purchase price**, depending on whether the unit is rental or ownership. While the previous definition of affordable considered both income- and market-based measures of affordability, this new definition is **purely market-based**.

Bill 23 also introduces the concept of **attainable housing** that falls between affordable and full market prices. Initial legislation defines attainable as an ownership unit that is not an affordable unit. In other words, attainable housing is ownership housing that costs more than 80% of the average purchase price. It is expected this definition will be further refined.

Figure 1.6

Comparison of Affordability Definitions to Market-Based Prices/Rents

Ownership			
	City of Kitchener / PPS	Bill 23	
Average Resale Price	90% Average Resale Price	80% Average Resale Price	New Construction Average Price
$640,386	$576,347	$512,309	$792,713

Rental		
City of Kitchener / PPS	Bill 23	
Average Market Rent (All Units)	80% Average Market Rent (All Units)	Average Asking Market Rent (All Units)
$1,307	$1,046	$1,567

Source: Parcel, based on Ministry of Municipal Affairs and Housing tables, Bill 23 legislation, and CMHC data.

1.3 Assumptions & Limitations

When considering the type of financial feasibility modelling that has been undertaken for this study—which is not specific to any one site and/or landowner(s)—it is important to identify the key assumptions and limitations inherent to this more conceptual approach. Furthermore, consistent with other financial analyses focused on policy-level observations, we note that the modelling presented herein **should not be taken as a conclusive nor definitive representation of financial feasibility, or lack thereof, for individual properties**. Rather, it is intended to provide a more general and preliminary understanding as to the relative feasibility of conceptual developments and prototypical building designs, as well as to provide a more general indication as to the key drivers of financial performance when developing new missing middle and affordable housing in Kitchener.

The following provides a detailed summary of the key assumptions that must be understood as limitations to the analysis undertaken as part of this assignment.

Identification of Development Concepts

- The **prototypical development concepts** established for testing as part of our assessment have been developed by members of Smart Density, in direct collaboration with staff from the City of Kitchener. They are not intended to be indicative of any specific property nor landholdings within the City of Kitchener, but rather are characteristic of the types of development that could ultimately prevail on typical properties within the community, across all typologies.

- The preliminary development concepts established for each typology are **hypothetical only**, based on a combination of: (i) the general nature, scale and density of development being contemplated across the City historically; (ii) recent market-based precedents; and, (iii) the type of new buildings that are best situated to advance broader city-building and housing-specific objectives. Although as-of-right permissions have been considered, Smart Density has taken a design-first approach to the missing middle typologies which pushes the boundaries on some elements (e.g., parking and right-of-way requirements), which may require the City to update its Official Plan and/or Zoning by-law, or the future developer to apply for an amendment.

- Recognizing that each property and landowner will have different perspectives and requirements as it relates to financial feasibility in the "real world", we have attempted to capture the full range of possible outcomes within the City of Kitchener through related sensitivity analyses, which adjust selected input assumptions (including to reflect nuances across different pre-defined policy areas and geographies within the City). The development concepts established by Smart Density have served as a **critical baseline** to this portion of our analysis.

Financial Feasibility Approach

- Notwithstanding the preliminary and conceptual nature of the development concepts considered in this study—as well as the relatively limited statistical detail available at this early stage of the planning process—we have adopted a relatively detailed **discounted cash flow approach** to assess the financial feasibility of developing new missing middle and affordable housing in Kitchener. As explored in more detail herein, this is generally a more advanced type of financial feasibility testing than is typically employed for other policy-level exercises and/or equivalent early-stage, conceptual development scoping. Although we felt this more detailed approach was necessary for accurate results, it has its inherent strengths and weaknesses.

- Our analysis is limited to evaluating the feasibility of the development concepts being constructed in isolation, including articulation of distinct policy areas identified within the City (e.g., Central vs. Suburban contexts, etc.). As such, **no site-specific municipal infrastructure costs to be borne by developers have been incorporated** into our analysis. These costs could represent an additional construction cost when advancing actual development on a given site, which we have assumed will be determined based on supplementary technical engineering work, site and block planning, as well as additional discussions with City of Kitchener staff as part of more site-specific applications.

- The financial analyses included in this report have been undertaken as more of **theoretical exercise only** and do not necessarily constitute advice to proceed with the specific development concepts identified. Rather, our financial analyses are intended to help determine whether the concepts—and related incentives and/or policy mechanisms—appear to be promising at first glance and are therefore worthy of further investigation. A more detailed and comprehensive development pro forma analysis will ultimately be required by the owners/operators of individual properties across the City to consider the actual costing, phasing and refinement of any new site-specific development plans before proceeding with such an endeavour (including determination of the optimal building typology and/or affordable housing delivery).

- Similarly, the findings presented as part of our analysis do not account for the **unique financial expectations, strategic positioning and/or development capacities** of current or future owners of real property in the community. As such, although each project may demonstrate a positive or negative preliminary finding as it relates to financial viability, it does not necessarily assert that such a finding—nor the related assumptions incorporated into the analysis—will ultimately be consistent with the perspectives or parallel analyses of each individual landowner across the City. Ultimately, it is those organizations who will establish internal financial thresholds, development parameters and conditions which implicate the scope and scale of any new developments proposed moving forward.

Approach: Discounted Cash Flow Analysis

Historically, most policy-based financial analyses prepared on behalf of public sector organizations like the City of Kitchener are structured around a more simplified **Residual Land Value (RLV)** approach. Although Parcel regularly relies upon this approach in the right context, these financial assessments generally are not equivalent to the more detailed and traditional pro-forma financial analyses that are typical of most individual real estate development projects (i.e., as prepared by private sector participants, such as developers, property managers and other real estate investors). Namely, RLV assessments are often simplified to the identification of a reasonable "break-even" point that could yield a reasonable return on investment to the owners of a given development site while also maintaining (or enhancing) the value of their existing real estate assets.

Based on the more extensive and nuanced scope of this study, however, we felt that it was necessary to complete a more rigorous **Discounted Cash Flow (DCF)** analysis. As described in more detail herein, this type of analysis is capable of more appropriately capturing: (a) the time-value of money; (b) the full timeline of development projects; (c) the nuances of operating rental buildings over many years; as well as, (d) a more comprehensive subset of common risk/return metrics.

Overall, although the analysis presented in this report has continued to be relied upon as more of a comparative tool than an explicit predictor of investment returns (i.e., all the same as a more simplified RLV), the DCF approach has allowed us to prepare a more defensible and flexible analysis that responds to the unique objectives of this study.

Other Assumptions

- The various other statistical inputs relied upon in our analysis are considered sufficiently accurate for the purposes of this conceptual analysis. These statistical sources—including available municipal information, datasets and previous reporting, as well as third-party industry data—have ultimately informed a number of the key underlying assumptions and inputs utilized in our analysis.

- It is assumed that a reasonable degree of economic stability will prevail in the Province of Ontario, and specifically in the context of the City of Kitchener market, over the course of the development planning horizon identified in this study.

- It is important to recognize that the lingering effects of the COVID-19 pandemic will continue to result in a significant amount of uncertainty as it relates to current and potential future market conditions. At the time of reporting, there is not a complete understanding of the potential longer-term implications of the pandemic on economic conditions nor real estate development patterns across the City of Kitchener and beyond.

- References to the Canadian dollar in this report generally reflect its 2023 value, including the range of supporting statistical inputs and research that have informed our baseline financial assumptions. Additional adjustments have also been made to reflect growth in costs/ revenues for future periods, where applicable.

Note: Financial Implications of Bill 23

The financial implications of Bill 23 on missing middle and affordable housing development (e.g., removal or reduction of development charges) are considered in the feasibility analysis based on in force regulations as of January 2023.

In the event that material changes occur that could influence the foregoing assumptions, the analysis, research findings and recommendations contained in this report should be reviewed or updated, accordingly.

2.0

Existing Conditions

Key Findings

- The demographic profile of Kitchener—exhibiting below average incomes and an above average proportion of middle-aged households—will drive demand for missing middle housing.

- The South-West neighbourhood, as defined by CMHC, has accommodated approximately **half of all new housing supply in Kitchener since 2016**, primarily through low-density greenfield development.

- Accordingly, just over 50% of housing stock city-wide continues to comprise relatively low-density residential typologies (singles and semis).

- Public and private sector priorities are more aligned than different in a shared desire to **increase the supply of housing in Kitchener**.

- The City of Kitchener already uses several **Financial, Process and Policy incentives to support missing middle and affordable housing**, but there are additional opportunities that can be explored.

2.1 Market Context

Summary of Key Market Characteristics

Based on our review of historical demographic information, development trends and real estate market statistics for Kitchener, the following provides a summary of some key observations as it relates to the current—and potential future—provision of both missing middle and affordable housing.

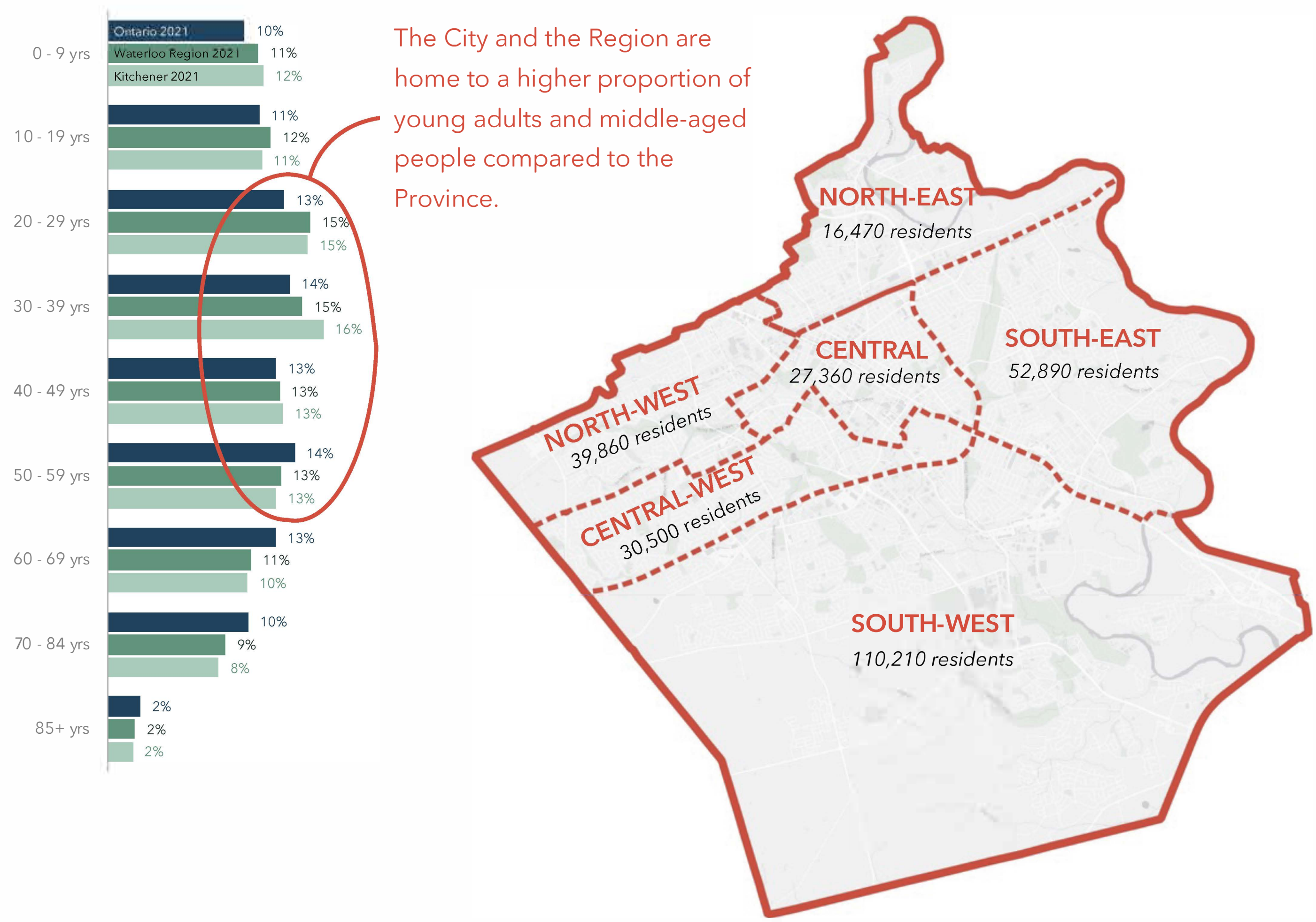
South-West Growth	Kitchener's South-West neighbourhood has grown significantly, accommodating approximately half of new supply since 2016.
Middle-Aged Segment	Below average incomes + above average proportion of middle-aged households = demand for "missing middle" housing.
Prevalence of Singles & Semis	Despite new apartment developments across the City, nearly two thirds of the local housing stock continues to comprise of relatively low density residential formats.
Popularity of ADUs	There has been a sharp increase in Accessory / Additional Dwelling Units ("ADUs") over the last few years, including a correlation with the development of new singles/semis highlighted above. Most of these ADUs have been "duplexes" (see page 69 for detail).
Diversity & Intensification	Diversification of housing through future intensification will be important to both high growth areas, as well as existing areas in population decline.
Land Pricing Convergence	There has been a convergence in pricing for both land (among mid and low-rise sites) + residential floor area (among mid-rise and high-rise product types).

Kitchener Today

We estimate that Kitchener is **currently home to 277,290 residents** (as of 2022). A higher proportion of these residents are "middle-aged" relative to the provincial distribution. Figure 2.1 illustrates the population across six neighbourhoods based on the "Neighbourhood Zones" that comprise the City of Kitchener, as defined by the Canada Mortgage and Housing Corporation (CMHC), albeit renamed to be consistent with Kitchener conventions. These neighbourhood delineations were chosen because they are aligned to the City's Census Tract boundaries as CMHC is a key data source for housing statistics in Ontario.

Figure 2.1

Kitchener CMHC Neighbourhood Zones + Estimated 2022 Population

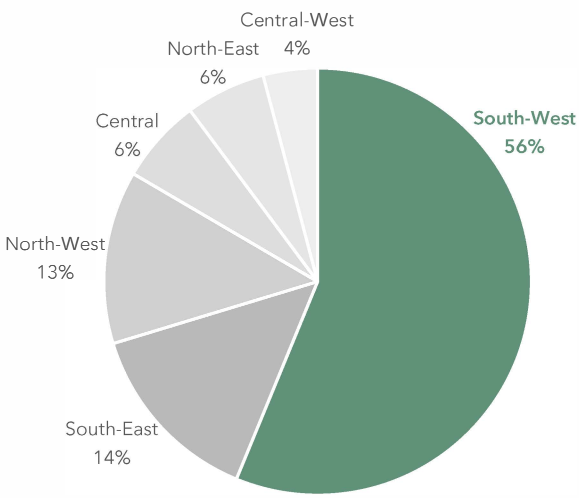


Source: Parcel, based on the Statistics Canada 2021 Census and CMHC completions data.

As illustrated in Figure 2.2, the South-West neighbourhood has accommodated more than half of Kitchener's growth since 2016, while only 6% has been accommodated in the Central neighbourhood.

Figure 2.2

Population Growth by Neighbourhood (2016 – 2021)



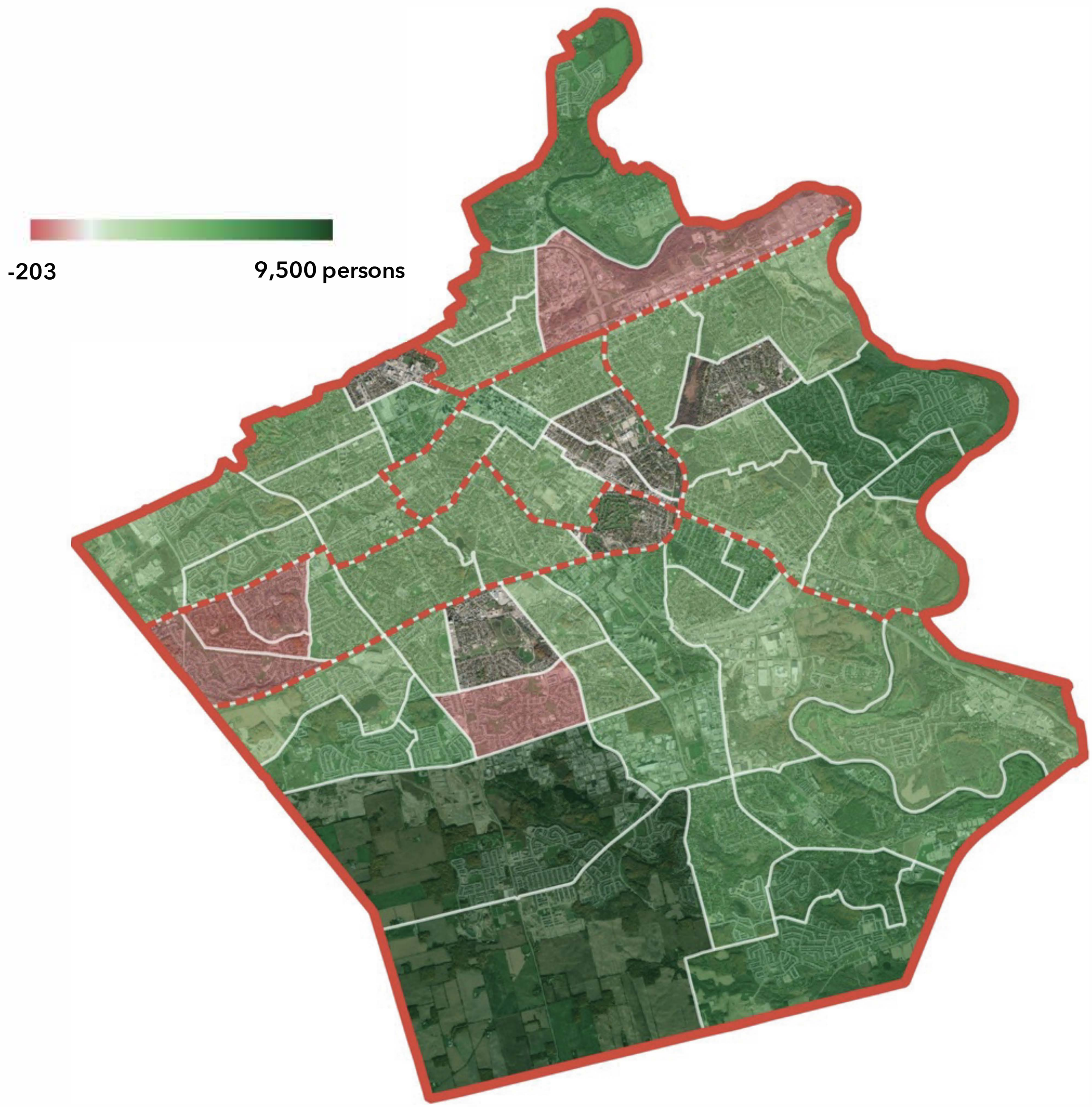
Source: Parcel, based on the Statistics Canada 2016 and 2021 Census.

At an even more granular level, the City's 10-year population growth (or decline) patterns have not been uniform across Census Tracts (CT's), as illustrated in Figure 2.3. CT's with older, more mature housing stock experienced less population growth (or even decline) over this period.

Future intensification in these areas could change this trend and make better use of existing community infrastructure. High growth areas will also need a diverse housing stock as their populations continue to grow and change.

Figure 2.3

10-Year Population Growth / Decline by Census Tract



Source: Parcel, based on Statistics Canada 2011 and 2021 Census data.

See **Appendix B** for complete market characteristics by neighbourhood.

Income Profile

Average household incomes across Kitchener are below the provincial average.

This has been the case over the past two censuses and there has been virtually no change to the household income relationships among the neighbourhoods. Unsurprising, the South-West neighbourhood with the newest housing stock and largest average household sizes is closest to the provincial average.

Figure 2.4

Average Household Income

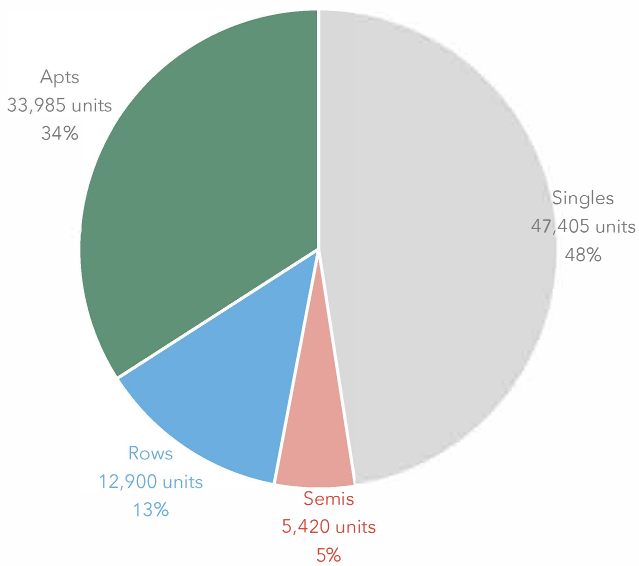
Source: Parcel, based on Statistics Canada 2021 Census and the CMHC Neighbourhoods.

Housing Profile

As reported in the 2021 Census, nearly half (48%) of dwellings across Kitchener were single-detached and approximately two-thirds (66%) were low-densitye/ ground-related housing.

Figure 2.5

Kitchener Housing Stock (2021)



Source: Parcel, based on the 2021 Census. Rounded to the nearest 5 units.

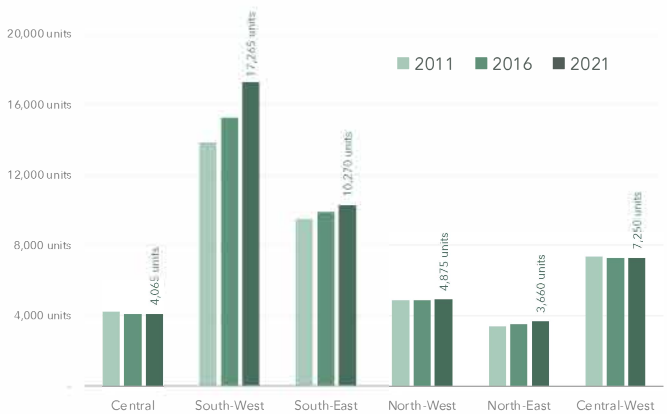
Figure 2.6 illustrates an increase in apartment units in all neighbourhoods but the South-East over the past three Census:

- Interestingly, the suburban South-West neighbourhood was home to 850 more apartment units than the Central neighbourhood as of the 2021 Census.
- At the same time, three suburban neighbourhoods (South-West, South-East and North-East) all added single-detached dwellings over the years while the others experienced a slight decline over the same period.

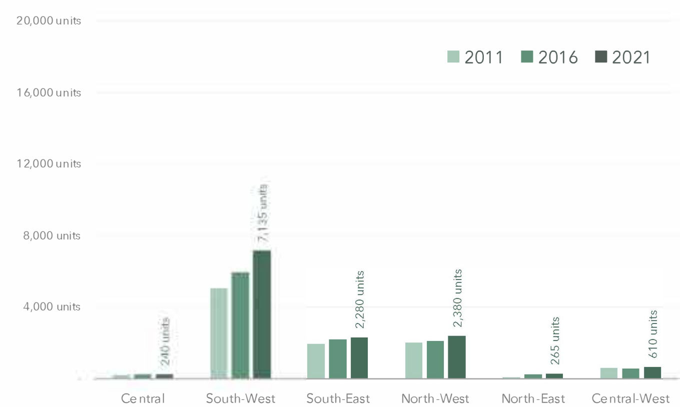
Figure 2.6

Census Dwellings by Neighbourhood (2011 – 2021)

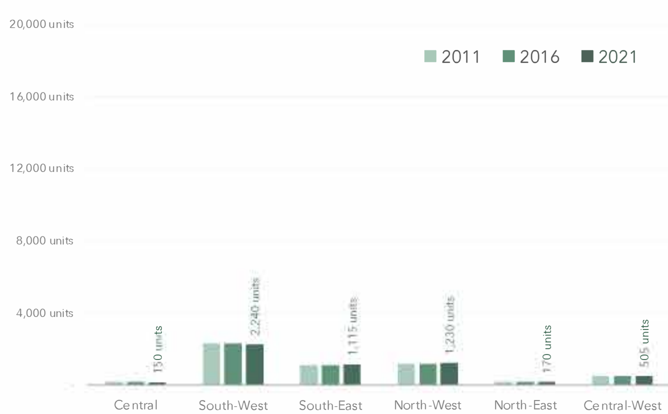
Single-detached



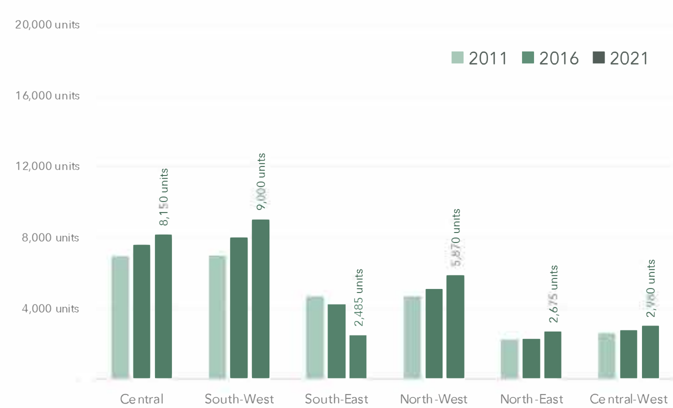
Rows / Townhouses



Semi-detached



Apartments



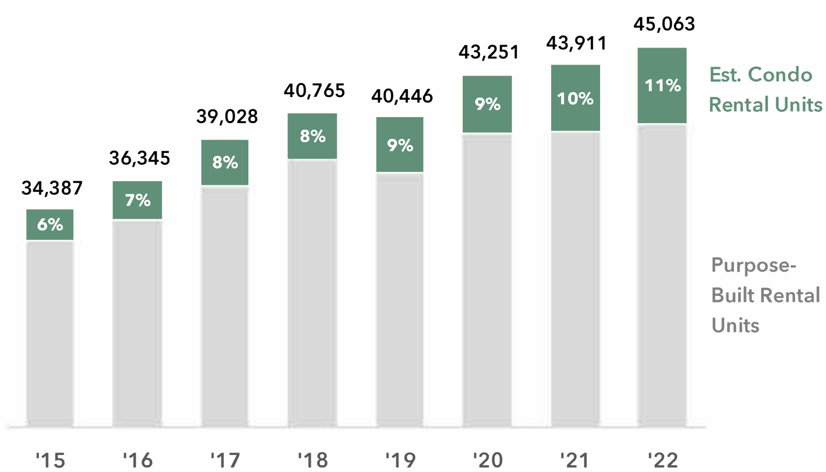
Source: Parcel, based on Statistics Canada 2011, 2016 and 2021 Census. Rounded to the nearest 5 units.

As of 2022 across the Kitchener–Cambridge–Waterloo Census Metropolitan Area (CMA), CMHC estimates that there are more than 45,000 rental units, including both the primary (i.e., purpose-built rental buildings) and secondary (i.e., rental of condominium units) rental markets. **More than half of the units in the primary rental market (57%) are located in Kitchener.**

Figure 2.7 illustrates that–while the rental supply has increased over the past eight years–condominium units have been responsible for a progressively larger portion of the rental supply over the years.

Figure 2.7

Rental Units in Kitchener-Cambridge-Waterloo CMA



Source: Parcel, based on CMHC data.

Recently, Statistics Canada began reporting on investor-owned[6] units as part of the Canadian Housing Statistics Program (CHSP). Based on this information, the investor category can include secondary residence owners, landlords, short-term rental owners, developers, for-profit businesses and speculators. As such, it is important to note that not all investor-owned units make their way to the secondary rental market. For example, CMHC estimates that there were 3,902 condominiums for rent in the secondary rental market across the CMA in 2020, however, the CHSP estimates that 9,375 condominium apartments were investor-owned in the same year. This does not necessarily suggest that those units were sitting empty, but more likely that they were secondary residences for the owners (e.g., students living in a property purchased by their parents).

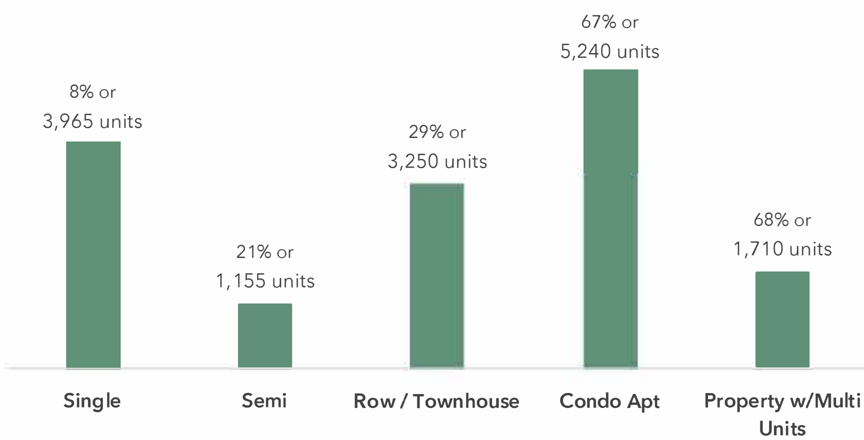
Based on the CHSP, some one-in-five units in Kitchener was classified as owned by an investor as of 2020. Figure 2.8 breaks down the more than 15,300 investor-owned units by typology. Unsurprisingly, approximately two thirds

[6] An investor is defined as an owner who owns at least one residential property that is not used as their primary place of residence.

of condominium apartments are investor-owned, though a surprising amount of single-detached and townhouses are owned by investors (i.e., totalling 7,215 units when combined, significantly more than the condominium apartments).

Figure 2.8

Kitchener Units Owned by Investors (2020)



Source: Parcel, based on Statistics Canada's CHSP. A property with multiple units is a property containing more than one set of living quarters, such as a duplex.

The CHSP data also reveals the following, specific to the City of Kitchener:

- Overall, approximately two thirds of investor-owned units in Kitchener are owned by individuals, with the balance owned by business and governments.
- Between 83% and 85% of ground-oriented units (i.e., singles, semis and rows) are owned by individuals, whereas 68% of investor-owned condominium apartments are owned by business and government.
- Focusing on units constructed since 2016, the trend of investor ownership is more prevalent in recently constructed units. This is especially evident in the ground-oriented typologies where investor ownership is higher in these units than the overall supply. Condominium apartments is the exception with 57% of the 1,255 condominium apartments built since 2016 owned by investors, compared to 67% of the total stock of condominium apartments across the City[7].

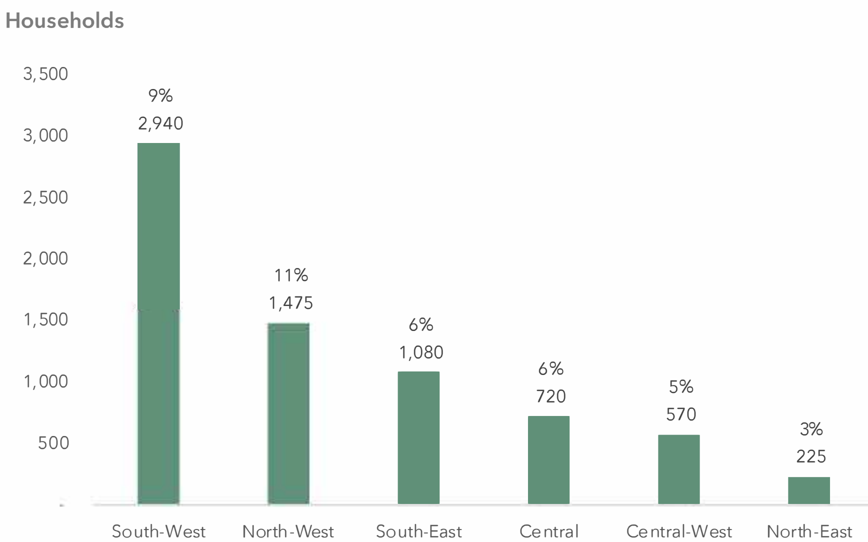
[7] We note that across the Kitchener-Cambridge-Waterloo CMA an even higher proportion of recently constructed condominium apartments constructed since 2016 are owned by investors (i.e., some 77%).

More than 7,000 households—or 8% of total households across the City—live in housing that is overcrowded[8].

Figure 2.9 details this variability across neighbourhoods, which points to a need not only for an expanded supply of housing, but also one with a different composition than is currently available. Interestingly, the South-West neighbourhood—which has the largest supply of ground-oriented houses (e.g., single-detached houses) and many of which have been constructed in recent years—has the second highest percentage of households living in "unsuitable"—specifically overcrowded—housing. This is likely due, in part, to expanding families outgrowing the number of bedrooms in their homes (at both ends of the age cohort extremes, with new children and aging parents / grandparents joining households).

Figure 2.9

Households in Overcrowded Housing



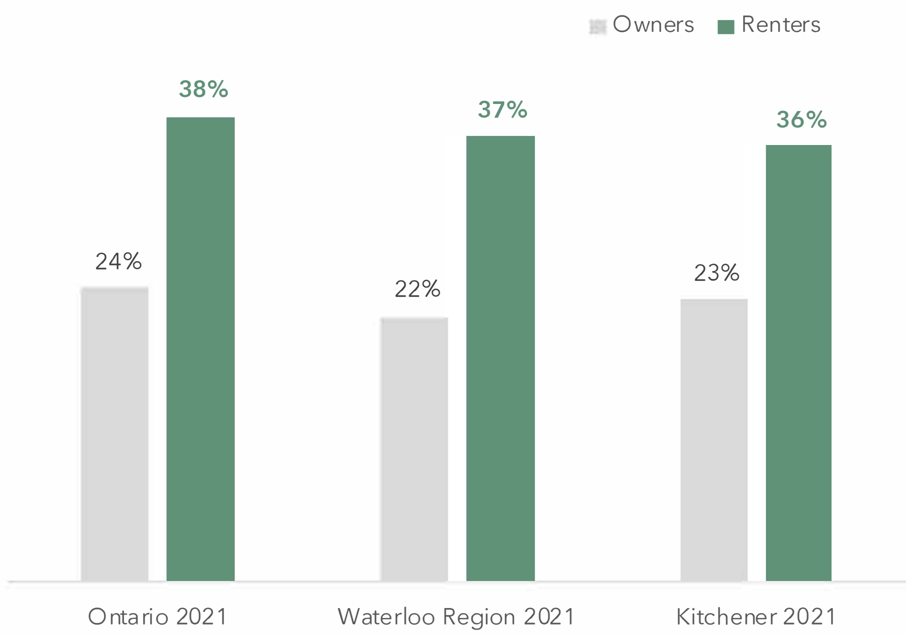
Source: Parcel, based on the 2021 Census.

[8] Statistics Canada uses the term "unsuitable" to describe housing that is overcrowded according to the National Occupancy Standard (NOS); that is, whether the dwelling has enough bedrooms for the size and composition of the household. A household is deemed to be living in suitable accommodations if its dwelling has enough bedrooms, as calculated using the NOS.

Similar to other communities across Ontario, renter households in the Region and the City struggle more with housing affordability than ownership households.

Figure 2.10

Households Spending More Than 30% of Household Income on Housing



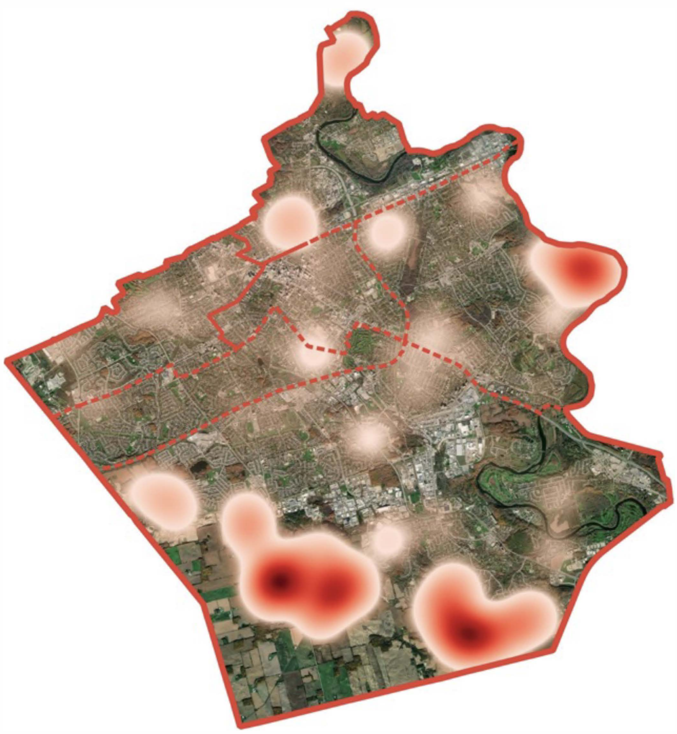
Source: Parcel, based on the 2021 Census.

Development Trends

The building permit heatmap in Figure 2.11 illustrates where notable concentrations of net new units have been created over the past 10 years. The **South-West** and **South-East** neighbourhoods have accommodated the most net new units, consistent with the Census dwelling data.

Figure 2.11

10-year Building Permit Heat Map



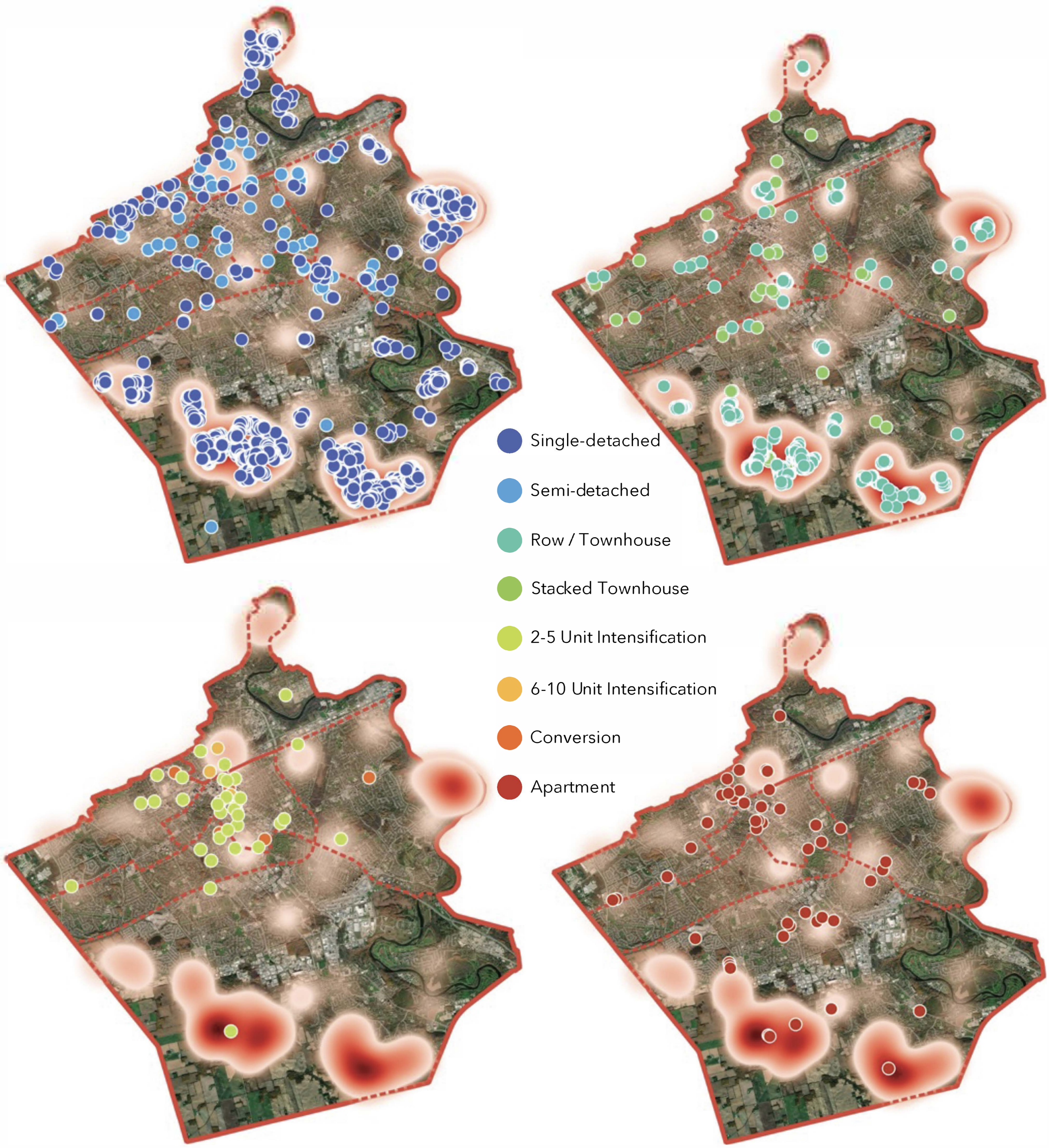
Sources: Parcel, based on City of Kitchener open data (September 2022).

Overlaying the building permits by type onto the heatmap reveals which unit types account for the bulk of the new supply. Figure 2.12 shows:

- New single-detached and semi-detached/ duplex units have contributed to much of the 'heat' over the past 10 years.
- Townhouses and stacked townhouses have also contributed some 'heat', mostly in the South-West.
- Smaller intensification projects (e.g., missing middle) and conversion of non-residential buildings to residential uses have primarily happened in the Central neighbourhood.
- Interestingly, new apartment units have been constructed mostly in areas with less 'heat' overall, including a distribution across all neighbourhoods/ submarket areas.
- Although apartment development has picked up in recent years, building permits reveal just 1,360 new apartment units have been added to the Central neighbourhood over the past 10 years.

Figure 2.12

10-year Building Permits by Type



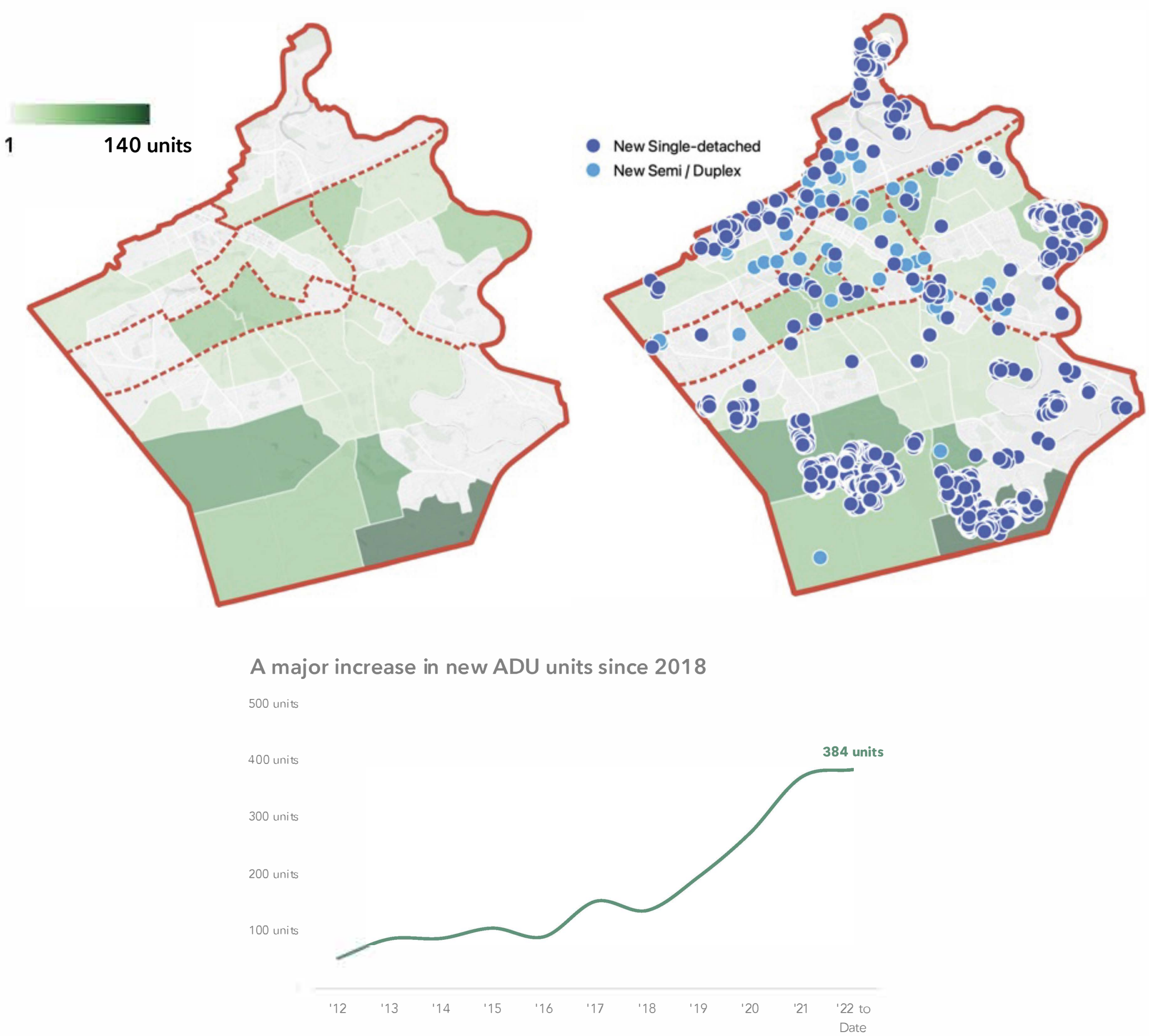
Sources: Parcel, based on City of Kitchener open data (September 2022). Intensification units represent renovations to existing structures to add units. Apartments units represent new construction apartment buildings.

Accessory—or "Additional"—Dwelling Units (ADUs) are not new to Kitchener.

ADUs, most often in the form of basement apartments (known locally as "duplexes"), have risen rapidly in popularity in recent years. Notably, this includes a significant number of ADUs in newly constructed single and semi-detached houses (i.e., as illustrated by the correlation shown in the figure below).

Figure 2.13

10-year ADU Building Permits



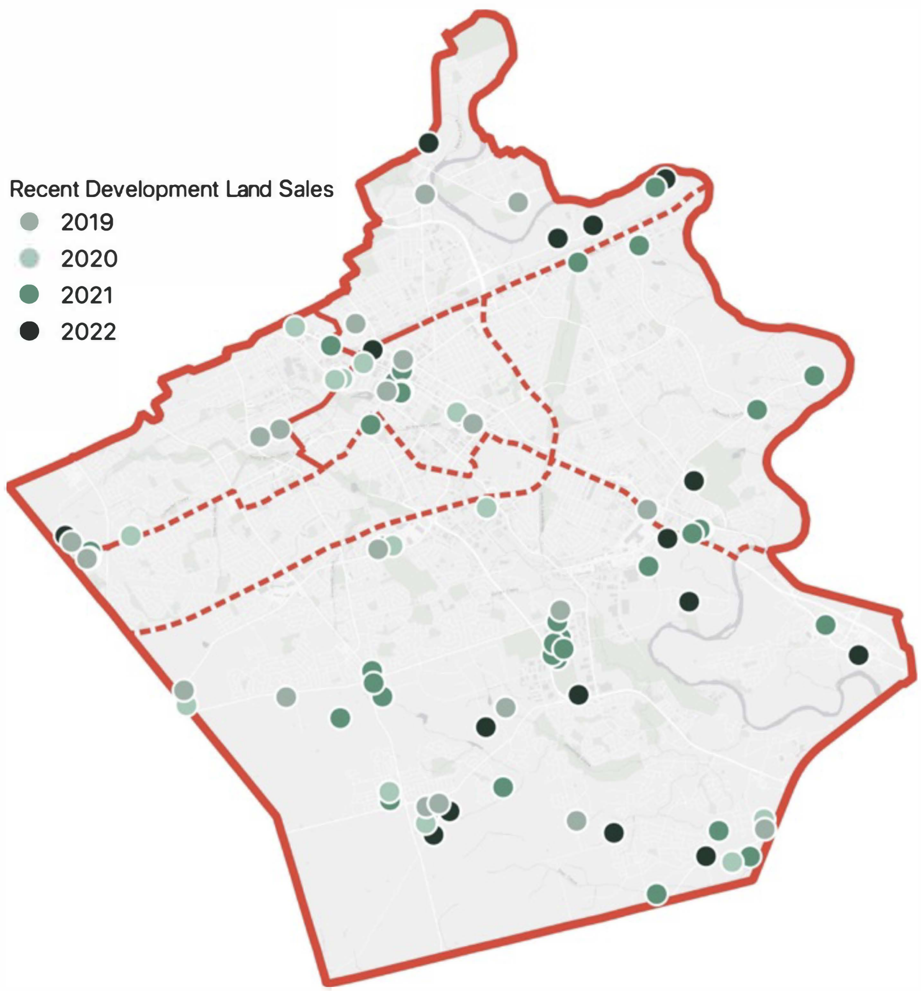
Sources: Parcel, based on City of Kitchener open data (September 2022).

Development land sales can also be an important indicator as to where future development will occur and in what form. In 2019 and 2020, many sales were in the Central and South-West neighbourhoods, whereas sales in 2022 to date have been in the more suburban areas of the city.

Recent land transactions in the Central neighbourhood and in proximity to Highway 8 have garnered the highest prices per acre, likely in large part due to small sites to be developed with high density uses. Additionally, the development community continues to be active in the South-West, South-East and North-East Neighbourhoods, indicating that future growth will continue to be in these areas of the city.

Figure 2.14

Recent Development Land Sales



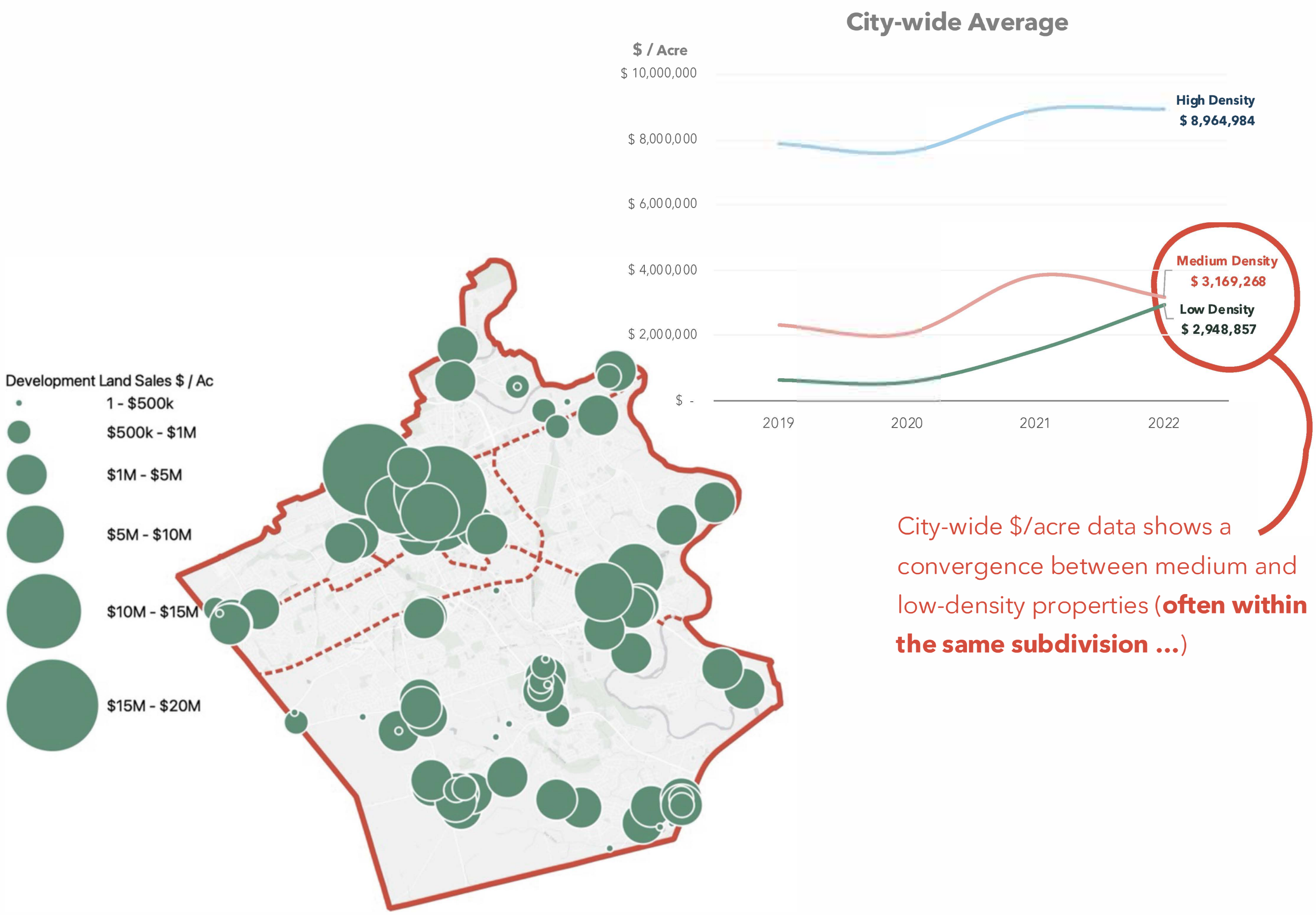
Sources: Parcel, based CoStar Realty Inc. data.

We have also reviewed sales data for projects actively selling across the city as of Summer 2022. On average:

- Single-detached houses were selling for just under $1 million to $2 million;
- One stacked townhouse project was selling units for approximately $650,000; and
- Apartments ranged from about $560,000 to just over $1e1 million.

Figure 2.16

Actively Selling New Construction Projects (Summer 2022)

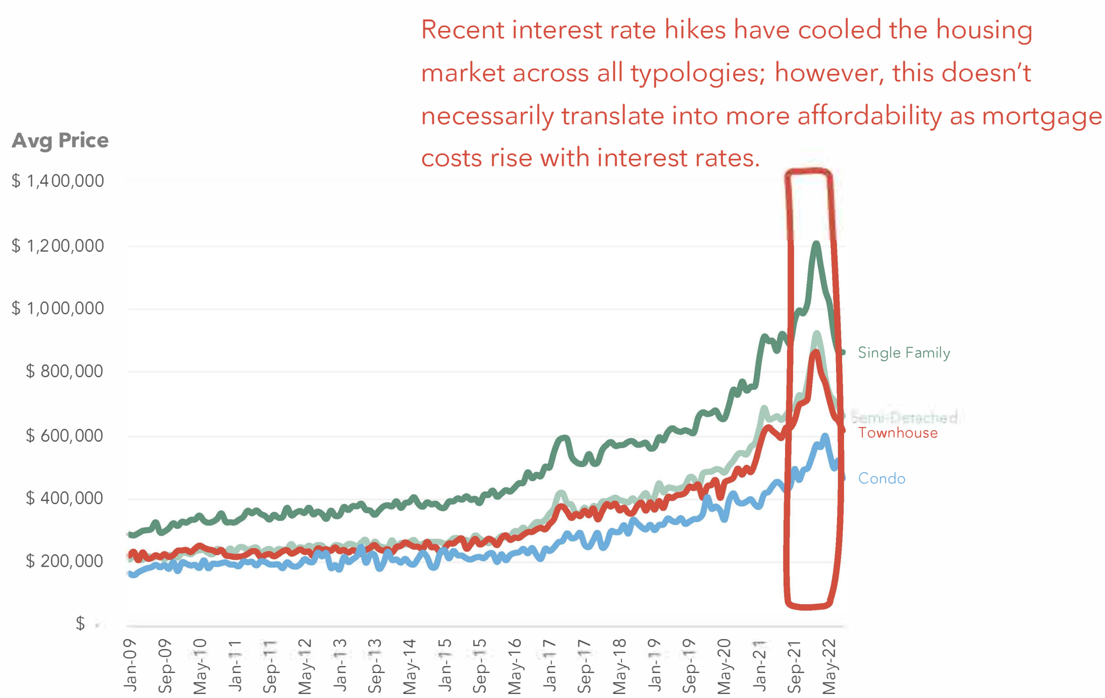


Source: Parcel, based on average sales prices recorded by Altus Data Studio.

It is also important to consider the pricing of "resale" houses relative to new-construction houses. New-construction houses generally command a premium over resale houses and this dynamic is also at play in the Kitchener market, with the exception of a brief period between September 2021 and May 2022 where resale prices were comparable to new-construction pricing. Relative parity between resale and new construction, especially given the subsequent decline in resale prices to May 2022 is a likely indicator that the resale market was overheated during that time.

Figure 2.16

Average Resale House Prices by Type



	Resale (June 2021)	Resale (June 2022)	New Construction (July 2022)
Single	$ 921,000	$ 864,000	$ 1,256,000
Semi	$ 649,000	$ 661,000	$ -
Town	$ 592,000	$ 615,000	$ 718,000
Condo	$ 445,000	$ 468,000	$ 572,000

Sources: Parcel, based on the Kitchener-Waterloo Association of Realtors and Altus Data Studio.

2.2 Stakeholder Perceptions

As part of a joint effort by Parcel and StrategyCorp, our team conducted a series of research interviews[9] with two key stakeholder groups as part of this study. The purpose of this engagement was to solicit more direct, on-the-ground feedback regarding the delivery of missing middle and affordable housing in Kitchener, highlighting the duality of two distinct vantage points:

- The **"Private Sector Perspective"**, as represented via discussions with members of the local development community in Kitchener; and,

- The **"Public Sector Perspective"**, as represented via discussions with municipal staff at the City of Kitchener and Region of Waterloo.

The following details the key themes that emerged from our research, highlighting important differences and areas of commonality across both public and private sector perspectives.

Private Sector Perspective: Development Community

Theme #1: Defining the Missing Middle

- Developers had varying views and definitions of "missing middle" housing related to typology, type of occupants (families vs. couples vs. singles) and price. These varying definitions reflect the importance of developing a common—and consistent—understanding of what missing middle housing denotes.

- Most interviewees defined missing middle housing as a building typology inclusive of garden and laneway suites, plexes, and multi-unit buildings between four (4) and ten (10) storeys.

[9] Research interviews were conducted virtually between October and November 2022 and typically ranged between 30 and 60 minutes in length. Interviewees were provided with a primer document detailing the nature of the project, as well as some preliminary discussion questions in advance of the interviews. Most interviews with local developers included organizations with active or completed projects in the Kitchener market, as well as developers with expertise in missing middle housing outside of the Kitchener-Waterloo Region. In the interest of allowing for candid discussions, the results of these discussions have been kept strictly confidential and anonymized, where necessary.

- Others felt missing middle constituted ground-related housing large enough to house families (2- to 3+-bedrooms), namely townhouses and small multi-unit buildings.
- Some interviewees defined missing middle based on price – specifically, housing that is affordable to middle decile income brackets regardless of typology.
- It was noted that missing middle built forms are not necessarily commensurate with missing middle price point, leading to an inherent disconnect.

Theme #2: Unit Sizes / Mix

- Most developers are providing 1- and 2-bedroom apartment units based on current market conditions (demand) and financial viability characteristics (1e and 2-bedroom units do not apply to singles, semis, and towns)
- Developers were not opposed to providing 3-bedroom units in principle, however, there is currently little demand for them given their resulting cost (price point). Many felt that households looking for a 3-bedroom unit would prefer to live in ground-oriented housing than mid- or high-rise buildings at an equivalent sales price (and/or rental rate).
- The economics of providing 3-bedroom units is also challenging. For example, construction costs for a 3-bedroom unit are similar to two 1-bedroom units, but revenues for two 1-bedroom units are higher.

Theme #3: Staff / Council Perspective on Development

- Several developers mentioned the need to challenge the perception among staff and Council as to the extent of developer profit from residential projects. It was noted that while profit margins may appear large, certain bare minimum margins are required to demonstrate project viability, and ultimately secure financing.
- It was noted that staff often fail to consider the financial implications of their comments on applications. For example, requiring underground parking or commercial uses at grade can add significant costs to a development that directly affects its financial viability.
- Council and staff education on development economics was seen as a key method of addressing challenges relating to supplying missing middle and affordable housing.

Theme #4: Incentives

- Waiving, reducing, or deferring fees was generally seen as one of the best ways to improve affordability while maintaining financial viability. Specific fees cited included development charges and parkland dedication. Interviewees were positive about the City of Kitchener policy of allowing deferred development changes but noted that removing interest payments on these deferrals would also help to increase viability.
- An expedited approvals process would assist with affordability by reducing the carrying costs of financing during the approvals and construction process.
- Introducing a "sliding scale" for incentives that are currently more binary or "black and white" would help with affordability. For example, developments offering 80% average market rents are eligible for grants, whereas developments offering 85% average market rent are ineligible even though they are offering below market rents.
- Interviewees also highlighted that incentives are needed to make these types of projects viable, not to increase developer profit, and the importance of affordability that is incentivized, not punitive.

Note: Timing of Bill 23 Announcements

Based on the timing of our interviews at the outset of our study process, we note that the majority of the research conducted as part of this process was completed in advance of recent announcements by the Province of Ontario relating to Bill 23 (*More Homes Built Faster Act, 2022*). As such, the findings presented in this section should be reviewed in light of these changes and any key takeaways relating to relevant policy/ process improvements have been adjusted accordingly in the remainder of this report.

Theme #5: Challenges & Opportunities

Interviewees were specifically asked about challenges and opportunities associated with providing missing middle and affordable housing in Kitchener.

Challenges

- Rising municipal fees are being passed on to the end consumer, further eroding affordability.

- There is a lack of clarity around the definition of "affordability". Definitions do not align across policy and funding programs, causing confusion about expectations and requirements for funding.

- The planning approvals process is seen as arduous, combative, and restrictive. It is perceived to be slow and exacerbated by municipal comments that are too prescriptive.

- Finding parcels that are zoned for missing middle housing is difficult without a rezoning or Official Plan amendment, both of which add cost and time to the approvals process. It is important to provide permissions for missing middle typologies as-of-right.

Opportunities

- Update the zoning by-law to provide as-of-right permissions for missing middle housing typologies. These changes allow proponents to proceed directly to site plan approval or building permit saving both time and money in the development process.

- Changes to the building code that now allow for combustible construction make missing middle housing more appealing to build. However, it is important that building examiners are educated about specific building materials and processes, namely cross-laminated timber and panelization, such that the approvals process is not unduly delayed. This is particularly important for garden and laneway suites, which are a newer and less understood housing typology.

- Designated Greenfield Areas (DGA) provide a good opportunity for missing middle housing because the zoning by-law is developed along with the community, thereby reducing opportunities for NIMBYism.

- Offer underused or vacant municipal properties/lands suitable for housing suitability to proponents at low or no cost.

Other

- Interviewees felt affordability challenges are due to lack of housing supply in light of a growing population and constrained land supply. Increasing supply was therefore seen as the best way to increase affordability as opposed to limiting demand.

- Many interviewees acknowledged that making changes to support missing middle and more affordable housing will require both political will and courage. They encourage the municipality to be bold.

Public Sector Perspective: Municipal Staff

Theme #1: Affordable Housing Priorities

- Interviewees highlighted that the presence of housing typologies beyond the common "extremes" will be critical to the City's long-term prosperity, as an increasingly diverse group of people seek to live and work in Kitchener.
- Interviewees emphasized that affordable housing is a priority for Council, staff, and community members.
- In keeping with this priority, participants highlighted specific ways in which the City of Kitchener has already begun to support missing middle housing typologies to date, including:
  - As-of-right permissions for ADUs and three units on all serviced residential lots through new Zoning By-law 2019-051;
  - Housing for All (2020) housing strategy;
  - Fee deferrals and exemptions for eligible projects;
  - Process and policy efficiencies;
  - Make it Kitchener 2.0 and its emphasis on affordable and attainable housing; and,
  - Backyard home design competition.

Theme #2: Spectrum of Housing Needs

- Young professionals, seniors looking to downsize, and those experiencing homelessness who need emergency and transitional houses (especially in the downtown area) were seen as some of the groups that require additional housing options.
- Missing middle housing types that gently intensify growing communities (i.e., basement units, second units, duplexes, triplexes, etc.) and provide more diverse ownership and rental stock will help to meet a greater variety of housing needs.
- Interviewees also noted more deeply affordable and/or subsidized housing (i.e., affordable ownership, rent-geared-to-income, supportive housing) across all typologies is required to help those priced out of the current housing market.

Theme #3: Contributing Factors

Interviewees identified a number of factors they believe impact, either positively or negatively, the ability of the City to enable the development of missing middle and affordable housing.

"Making the Pro Forma Work"

- Interviewees acknowledged the negative impact missing middle typologies and affordable units can have on a project profitability and financing such that the project can become unviable.
- Rising land values, construction costs and labour costs favour higher-density developments to make it more likely to achieve a desired and/or necessary return on investment. Interviewees noted that higher-density development has a place in addressing the City's affordable housing needs but does not directly support missing middle or mid-rise typologies. It was also noted that construction and labour costs are outside of the control of the City.
- Development fees such as planning applications, development charges, and permits also contribute to the cost of development, however the City noted it currently has fee exemptions for certain affordable housing projects to improve financial viability. Proposed changes to development fees introduced by Bill 23 are expected to further relax the fee burden on the development industry.
- Interviewees noted that until affordable housing programs (rental and ownership) result in comparable returns to market housing typologies, interest and feasibility to construct these types of projects will continue to be limited.

Evolving Public Policy Environment

- Interviewees acknowledged that the public policy environment in Ontario is rapidly changing, which must be accounted for on the City's journey to develop missing middle and/or affordable housing that meets the needs of Kitchener. While encouraged by the government's commitment to build 1.5 million new units of housing in the next decade, other policy recently introduced policy changes present new opportunities and barriers to enabling missing middle and/or affordable housing:
- *Bill 23, More Homes Built Faster Act*: Participants shared that while Bill 23 and its interest in growing supply is encouraging, including the permitting of traditional missing middle typologies. At the same time, participants note that the City has carefully introduced by-laws and processes that meet the local needs, and Bill 23 introduces new changes and pivots that must be accounted for. Bill 23 has implications that could place the burden of carrying the costs associated with development onto municipalities, especially for areas like affordable housing programming. Interviewees also raised concerns around the City having a

reduced role in land use planning and while reductions in requirements and standards the municipality can introduce for development may have ripple effects on quality.

- Bill 39, Better Municipal Governance: Participants note that Bill 39 has created uncertainty at the municipal level since it has introduced a process to review upper/lower tier municipal roles and responsibilities. While the Region is primarily responsible for the delivery of affordable housing (with lower-tier support for execution, development approvals, etc.), interviewees acknowledge that the City has focused on filling any gaps in programming, commitments, and policies at the Regional level since their focus is Region-wide, and not specifically on the needs of Kitchener.

Process Delays and Inefficiencies

- Interviewees familiar with the development review process noted the recent effort to remove process barriers that would have otherwise caused delays in development approvals, namely:
  - A Development Service Review that resulted in improvements to the development applications and site plan approvals processes[10].
  - The introduction of concierge service to support affordable housing projects through the development approvals process and navigate the municipal system.
- Even with improved internal processes, delays continue to be a barrier as affordable housing projects are not formally fast-tracked or exempted from process requirements or steps. Interviewees also noted that some process delays stem from developers and industry lacking the experience and knowledge of application nuances and differences.

Public Pushback

- Not-in-my-backyard (NIMBY) sentiment is often a barrier to development because of its ability to delay the planning process through legal/procedural appeals, extensive public consultation, and unfavourable news coverage, and, in some cases, prevent Council decisions in favour of missing middle or affordable housing developments.

[10] Improvements include: the introduction of software, a new Development Review Project Manager position to help customers navigate the application process, website redesign for site plan applications, daily status reports for customers, revision to job descriptions and the creation of site plan management meetings, reimagining of the pre- submission consultation process, workflow distribution, new streamlined urban design scorecards, and introduction of consistent staff reviewer.

- While most residents are not vocal against developments, there is a core group of strong voices that advocate to their local representatives/Council to avoid what they believe to be extensive or over-development in the City.

Exclusionary By-Laws and Requirements

- Exclusionary by-laws and requirements have made it difficult to diversify the housing typologies within existing neighborhoods.

- Limited regulations, even if missing middle typologies are a permitted use, include minimum lot sizes, floor space ratios (FSR), transitions to surrounding low-rise residential and requiring truck turnaround area on site for multi-unit buildings.

- Parking requirements are a barrier to infill housing as parcels of land may be able to accommodate housing but not the required number of parking spaces.

- Heritage requirements and the permitting process can discourage the development of social infrastructure, including affordable housing.

- Interviewees noted that by-laws and requirements, including zoning, are under a continuous cycle of improvement, and that staff are always seeking ways to avoid and/or remove unintended exclusions or barriers.

Developer Interest and Delivery Capacity

- There is limited developer interest in missing middle and affordable housing projects, likely due to the risk associated with lower financial returns and the difficulty meeting profit margin expectations.

- There is an opportunity to attract smaller-scale developers, support non-profit providers already in Kitchener, and/or identify socially minded developers who may be interested in partnering with the City for missing middle and affordable housing. However, it was noted that these firms may have capacity-based and/or financial barriers to producing this type of housing. It was suggested that partnerships be structured to address these barriers.

- The City has actively made changes to processes and procedures as a result of industry feedback received from a roundtable working group with City staff and the development community. This precedent and existing relationship will be helpful to understand how the City can develop industry interest in missing middle and affordable housing.

Commonalities & Differences

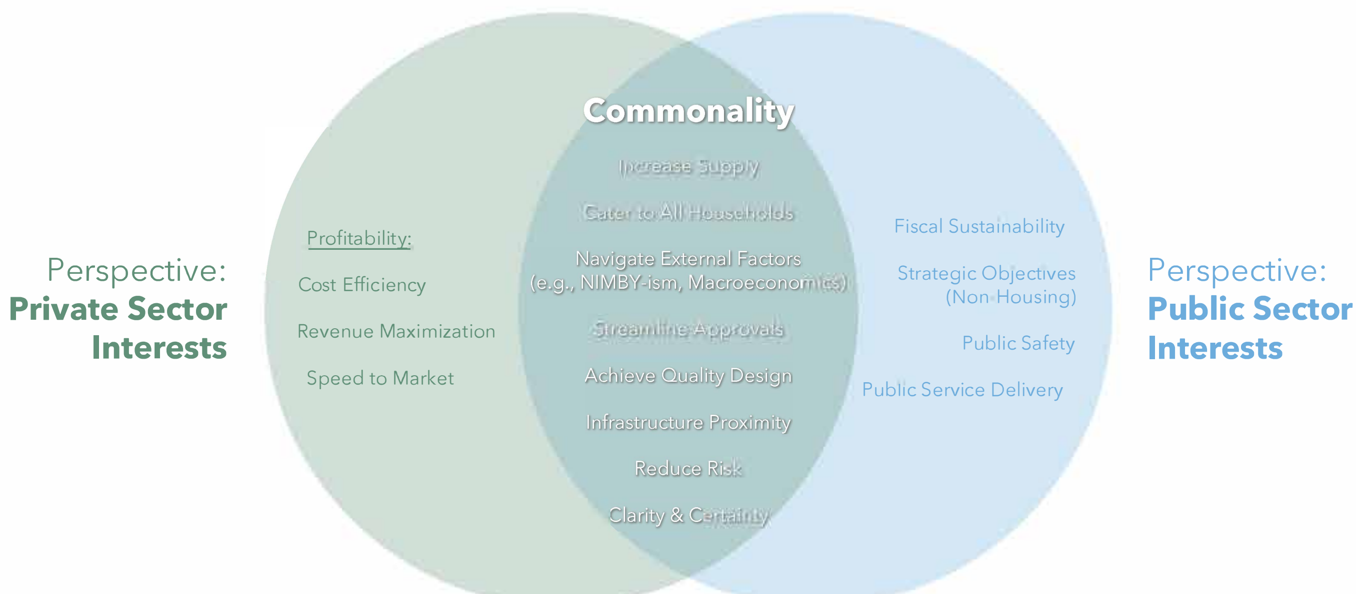
The foregoing research provides important context and clarity as to "how" / "why" certain development patterns have emerged in Kitchener in recent years, with widespread agreement relating to the key challenges associated with the delivery of both missing middle and affordable housing.

With this common understanding established, it is further noted that—despite some obvious differences in prioritization or relative "weight" of importance between public and private sector participants—the areas of mutual interest and overlap potentially outweigh the objectives which are unique to just one stakeholder group.

This presents a unique opportunity for representatives of both the public and private sector to work collaboratively in advancing common interests relating to the delivery of missing middle and affordable housing in Kitchener.

Figure 2.17

Overlap of Preferred Stakeholder Outcomes



Source: Parcel

2.3 Incentives & Best Practices

Led by members of StrategyCorp, our team conducted a scan of common incentives that encourage and enable the development of missing middle typologies, as well as the delivery of affordable housing units, based on the experiences of peer jurisdictions[11].

The incentive programs researched have seen success where their administration is supported with adequate corporate policies and procedures, including clear eligibility criteria, program detail and a substantial administrative process. Notably, the City of Kitchener has also undergone a review of their own processes and procedures related to development to ensure they are as efficient and meaningful as possible. This study is expected to identify further policy and process improvements (as required) for the City to consider in order to enable the missing middle and affordable housing typologies best suited for the Kitchener context.

It is also important to note at the outset of this section that the complex structure of, and application process for, incentive programs can be a challenge as they require specific consideration for successful execution. With recent industry calls for standardization to the development approvals process in Ontario, the process and procedure nuances that traditionally accommodate missing middle and affordable housing incentives may be perceived as additional administrative burden for industry (both private and non-profit). Change management and communications will play an important role in the City's roll-out of any incentive programs (and their related process/administrative changes) so that the benefits are clear, requirements are well-understood, and potential participants feel encouraged to take part where they are made available.

Broadly, incentives have been identified as falling into one of the following three categories: Financial, Process and Policy.

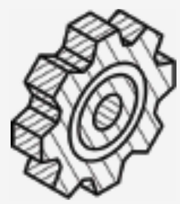
[11] Toronto, Peel Region, York Region, Halton Region, Peterborough, Calgary, Edmonton, Vancouver, among others.

Figure 2.18

Summary of Incentive Types: Financial, Process & Policy

Financial

Incentives creating financial efficiencies for the recipient (e.g., fee exemptions / discounts / deferrals, in-kind contributions such as public land).



Process

Incentives creating process efficiencies for the recipient (e.g., process exemptions, special service level commitments for designated project types, etc.).

Policy

Incentives driven by changes in policy that create more allowances for different typologies, require the construction of certain typologies and/or create more flexibility on a project-by-project basis.

Source: Parcel and StrategyCorp.

Financial Incentives

Given many of the costs to build missing middle and affordable housing are the equivalent to higher-density and/or market-rate housing, the lower returns typically captured by these housing formats can render projects financially infeasible. Financial incentives that reduce capital costs (e.g., construction, planning application fees, etc.) and/or building operations (e.g., property taxes, etc.) can positively affect the financial viability of a development, thereby making it more likely to occur. These incentives typically take the form of exemptions/waivers/grants or deferrals and influence the financial viability of a development *directly*.

Fee Exemptions / Waivers / Grants

Exemptions, waivers, or grants help to reduce capital and/or operating expenses, thereby increasing financial viability. They do not need to be repaid.

Common fee exemptions / waivers / grants include:

- *Development charge exemptions*
- *Property tax exemptions*
- *Other fee exemptions / discounts (e.g., parkland, planning applications, etc.)*
- *Capital grants and municipal capital facilities agreements*

Fee Deferrals

In some cases, payment of certain fees will be deferred to building occupancy or later. Such deferrals may allow the developer to reduce initial costs and procure improved financing terms while still ensuring that the municipality receives payment to fund growth-related expenses. Deferred charges are typically paid in equal installments and subject to an interest rate tied to the Bank of Canada prime rate at the time of building permit issuance, though specific payment conditions depend on the municipality.

Common deferred fees include:

- *Development charges*
- *Property taxes*

Process Incentives

Process incentives can be used to support desired types of development by allowing projects to proceed more quickly through the approvals process, thereby reducing risk and costs. These incentives do not involve any direct financial contributions to enable developments, however they *indirectly* influence financial viability by creating greater certainty regarding development timelines and requirements.

Process incentives that result in shorter development timelines also benefit current and future residents by bringing new supply online as quickly as possible.

Common process incentives include:

- *Formally expediting the development approvals process for eligible projects (including service level agreements)*

Policy Incentives

Like process incentives, policy incentives *indirectly* influence financial viability by creating greater certainty on the part of the developer, in addition to—in some cases—enabling the type and scale of development necessary to achieve project viability. Policy incentives can also be used to establish improved as-of-right permissions to avoid spending time and/or money to go through the lengthy process of amending policies that would permit specific typologies or affordability levels desired by a given municipality.

Common policy incentives include:

- *Waiving parking requirements / minimums (represents time savings to a developer by avoiding the need for a parking by-law amendment as well as the potential to reduce costs/increase revenues by reallocating parking space to additional residential space/units)*
- *Waiving historic preservation / conservation requirements*
- *Adjust (simplify) urban design guidelines*
- *Simplify separation space requirements to avoid wasteful vacant space*
- *Permit as-of-right additional dwelling units with further allowances if the project commits to a percentage of affordable units (e.g. single development fee)*[12]

See **Appendix C** for detailed review of sample incentives.

[12] Above and beyond recent Bill 23 allowances.

Kitchener Context: Summary of Existing Incentives

Figure 2.19

Existing Missing Middle & Affordable Housing Incentives in Kitchener[13]

Financial	• Development charge deferrals and waivers, application fee waivers, and building permit waivers for non-profit organizations. To-date uptake has been low to moderate: one application approved in 2017, two in 2018, two in 2019, four in 2020, six in 2021 and two in 2022 as of August.
Process	• Lean Review of Development Process in 2019, including subsequent improvements to streamline processes. Improvements include the introduction of software, the introduction of a Project Manager – Development Review, website redesign for site plan applications, daily status reports for customers, revision to job descriptions and the creation of site plan management meetings, reimagining of the pre-submission consultation process, workflow distribution, new streamlined urban design scorecards, and introductions of consistent staff reviewer. • Concierge program specifically for affordable housing projects and non-profit organizations to support customer experience, including informal application fast-tracking whenever possible.
Policy	• Secondary dwelling (duplexes) as-of-right since 1994. • Updates to the comprehensive zoning by-law (2019) in 2022 that focus on housing affordability through reduction in parking requirements for several zones and permitting of attached and detached ADUs aligned with the City's Official Plan.

Source: Parcel and StrategyCorp

[13] Prior to Bill 23

Bill 23: Enabling Legislation

One of the most significant changes of Bill 23 legislation is making mandatory what would have previously been incentives offered by municipalities to encourage and enable the provision of missing middle and affordable housing. Key legislative changes include:

Financial

- Affordable housing, inclusionary zoning, and attainable housing units are exempt from development charges, community benefit charges, and parkland dedication. The definition for attainable housing has yet to be defined.
- Rental units have reduced development charges based on the number of bedrooms (25% reduction for 3+-bed+ units, 20% for reduction for 2-bed units; 15% reduction for all other units).
- Municipalities can charge a maximum of prime plus 1% on deferred development charges.
- Parkland dedication is capped at 10% of land or its value for sites under five (5) hectares and 15% for sites over five (5) hectares.
- Parkland dedication is capped at 10% of land or its value for sites under five (5) hectares and 15% for sites over five (5) hectares.
- Community benefits charge is based only on the value of the land used for the new development, not the entire parcel.

Process

- Site Plan Control is no longer required for developments of fewer than 10 units.
- Exterior design is no longer subject to site plan control

Policy

- Three residential units are permitted as-of-right on residential lots and exempt from development charges, community benefits charges, and parkland dedication.

3.0

Design Prototypes

Key Findings

- Prototypical developments have been prepared for all housing typologies to help visualize opportunities for missing middle housing in Kitchener and act as a baseline for the missing middle candidate site and financial analyses.
- Approximately **one-third of properties in Kitchener (24,300 parcels) could accommodate missing middle** housing typologies. Of these, 17,658 parcels could accommodate Plexes and 5,808 parcels could accommodate Low-Rise apartments.
- Some 21% (5,830 parcels) of sites are located within the Central Neighbourhoods, while the remaining 79% (18,500 parcels) are located in the Suburban Neighbourhoods
- Approximately 98% of these missing middle parcels have residential permissions and 88% are occupied by a single-detached house. Conversion to missing middle housing would require minimal amendments to current land use designations and acquisition / demolition / potential site remediation would all be relatively straightforward.
- Depending on market "uptake", missing middle typologies could house between 20,000 and 30,000 new residents of Kitchener.
- Under a scenario where there is increased delivery of selected missing middle typologies, **up to 1 in 5 (20%) new residents in Kitchener could be accommodated on just 2% of all parcels** City-wide or 5% of parcels identified as missing middle supportive.

3.1 Overview

This section visualizes and quantifies opportunities for missing middle housing in Kitchener, based a series of prototypical developments prepared by Smart Density in collaboration with City staff. Prototypes were prepared based on the following parameters:

- The use of existing land use policy, zoning, and urban design guidelines as a baseline;
- The deliberate use of prototypical lot sizes / dimensions in Kitchener that correspond with specific typologies; and,
- The direction to "push the envelope" in design from the status quo and therefore deviate from existing City standards where necessary.

Our analysis identifies opportunities within the current land use and zoning framework to better support missing middle typologies, addressed through policy recommendations presented later in the report.

Finally, our approach conducts a "deeper dive" into selected missing middle typologies, specifically those with characteristics that provide opportunities to investigate the potential of less common typologies in the Kitchener context (i.e., New Format Towns, Plexes, Low-Rises and Mid-Rises). More common typologies (Singles, Traditional Towns, ADUs, High-Rise) are presented herein as "graphic only" demonstrations for additional reference.

Existing Land Use Policies

Official Plan

There are three (3) types of residential land use designations – low rise, medium rise, and high rise – in the City of Kitchener Official Plan, each with their own permitted typologies and maximum densities, floor space ratios (FSR), and heights. Missing middle typologies are generally permitted in low rise and medium rise residential lands, however, they may be limited by the aforementioned built form requirements (density, FSR, height).

Updating these built form requirements would allow for greater flexibility to accommodate missing middle housing *without changes to permitted typologies.*

Figure 3.1

Residential Land Use Designations

Designation	Permitted Typologies	Floor Space Ratio (FSR)	Maximum Height
Low Rise Residential	• Single detached dwellings • Additional dwelling units, attached and detached • Semi-detached dwellings • Street townhouse dwellings • Townhouse dwellings in a cluster development • Low-rise multiple dwellings • Special needs housing • Other forms of low-rise housing	0.6 to 0.75	3 storeys or 11 m
Medium Rise Residential	• Townhouse dwellings in a cluster development • Multiple dwellings • Special needs housing	0.6 to 2.0	8 storeys or 25 m
High Rise Residential	• High density multiple dwellings • Special needs housing	2.0 to 4.0	n/a

Source: Parcel, based on City of Kitchener Official Plan Section 15

Zoning

There are currently seven residential zones in Kitchener with varying degrees of residential permissions based on density. Missing middle typologies are generally permitted in residential zones RES-4 to RES-7, the most permissive of the residential zones. They are not permitted in residential zones RES-1 to RES-3 (i.e., singles, semis, and ADUs only).

There may be an opportunity to streamline these zones into a fewer total number with increased permissions for missing middle housing, particularly in the lower-density zones.

Figure 3.2

Residential Zoning Permissions

		ZONE	RES-1	RES-2	RES-3	RES-4	RES-5	RES-6	RES-7
	A	Singles+	✓ (Single-detached only)	✓ (Single-detached only)	✓	✓	✓	✗	✗
	B	ADUs*	✓	✓	✓	✓	✓	✗	✗
"MISSING MIDDLE"	C1	Traditional Towns	✗	✗	✗	✓ (Max. 4 units)	✓	✗	✗
"MISSING MIDDLE"	C2	New Format Towns	✗	✗	✗	✗	✓	✓	✗
"MISSING MIDDLE"	C3	Plexes*	✗	✗	✗	✓ (Max. 4 units)	✓	✓	✓
"MISSING MIDDLE"	D1	Low-Rise	✗	✗	✗	✗	✓	✓	✓
"MISSING MIDDLE"	D2	Mid-Rise	✗	✗	✗	✗	✓	✓	✓
	E	High-Rise	✗	✗	✗	✗	✓	✓	✓

*Additional restrictions apply

Source: Parcel, based on City of Kitchener Zoning By-law 2019-051

3.2 Development Concept Profiles

Based on the foregoing parameters and direct collaboration with City staff, Smart Density has prepared visual demonstrations for each of the eight housing typologies identified for this study. In addition to the preliminary building massing graphics included in this report, more detailed architecture and design considerations have also been provided under separate cover to the City, including preliminary floor plan / site layouts and other key considerations for selected missing middle typologies.

The results of this work—including brief design rationales, graphics and summaries of key development statistics—have been summarized in the series of one-page profiles included herein.

These preliminary design concepts have served as both a helpful reference for visualizing the opportunities for missing middle typologies in a Kitchener-specific context, as well as a critical baseline for the financial analysis prepared by the study team.

Location Indicators: ● Included in Financial Analysis ● Not Included in Financial Analysis

Singles+ (A)

Single-detached houses can use scales and massing similar to the surrounding dwellings to help maintain the character of the neighbourhood. This can be achieved by using similar property dimensions, setbacks, heights, and footprints.

Figure 3.3

Visual Demonstration of Singles Concept (A)

SOURCE: Smart Density. Graphic represents just one of 16 equivalent single-detached units.

Lot Size / Width:	16 units[14] x 0.025 ha = 0.4 ha (1.0 ac) / not applicable
Gross Floor Area:	16 units x 218 m^2 = 3,495 m^2 (37,600 ft^2)
FSR:	0.9
Storeys:	2
Units:	16
Average Unit Size:	218 m^2 (2,350 ft^2)

Central

Suburban

[14] Singles development concept and corresponding financial feasibility analysis based on a lot containing sixteen (16) single-detached units.

ADUs (B)

Accessory dwelling units are small, independent dwellings that fit on the same lot as a main house. This typology fits seamlessly into a low-density neighbourhood context and has minimal visual impact on the streetscape. It allows property owners to downsize or provide independent living for a family member, among other things.

Figure 3.4

Visual Demonstration of ADU Concept (B)

SOURCE: Smart Density

Lot Size / Width:	0.01 ha (0.02 ac) / not applicable
Gross Floor Area:	79 m^2 (850 ft^2)
FSR:	1.06
Storeys:	1
Units:	1
Average Unit Size:	79 m^2 (850 ft^2)

Central

●

Suburban

●

Traditional Towns (C1)

Traditional row townhouses provide grade-related housing in a denser form than single- detached dwellings while maintaining similar characteristics to the existing neighbourhood, such as private driveways, garages, and backyards.

Figure 3.5

Visual Demonstration of Traditional Towns Concept (C1)

SOURCE: Smart Density

Lot Size / Width:	0.40 ha (1.0 ac) / not applicable
Gross Floor Area:	3,456 m^2 (37,200 ft^2)
FSR:	0.85
Storeys:	2
Units:	24
Average Unit Size:	144 m^2 (1,550 ft^2)

Central

Suburban

“Missing Middle”

New Format Towns (C2)

New format townhouses provide grade-related housing in a more compact form than traditional townhouses while maintaining similar characteristics to the existing neighbourhood, such as private garages and backyards. This typology provides a smooth transition between busier streets and smaller-scale neighbourhoods.

Figure 3.6

Visual Demonstration of New Format Towns Concept (C2)

SOURCE: Smart Density

Lot Size / Width:	0.15 ha (0.36 ac) / 24 m (258 ft)
Gross Floor Area:	1,543 m² (16,614 ft²)
FSR:	1.06
Storeys:	3
Units:	9
Average Unit Size:	171 m² (1,846 ft²)

Central

Suburban

Plexes (C3)

Multiplexes are a type of multi-family housing that is divided into individual units, each accessed from an interior circulation core. This typology is suitable for transit-supported neighbourhoods due to lower parking provisions

Figure 3.7

Visual Demonstration of Plexes Concept (C3)

SOURCE: Smart Density

Lot Size / Width:	0.04 hectares (0.11 acres) / 12 m (129 ft)
Gross Floor Area:	808 m^2 (8,701ft^2)
FSR:	1.87
Storeys:	3 plus basement
Units:	8
Average Unit Size:	88 m^2 (949 ft^2)

Central

●

Suburban

●

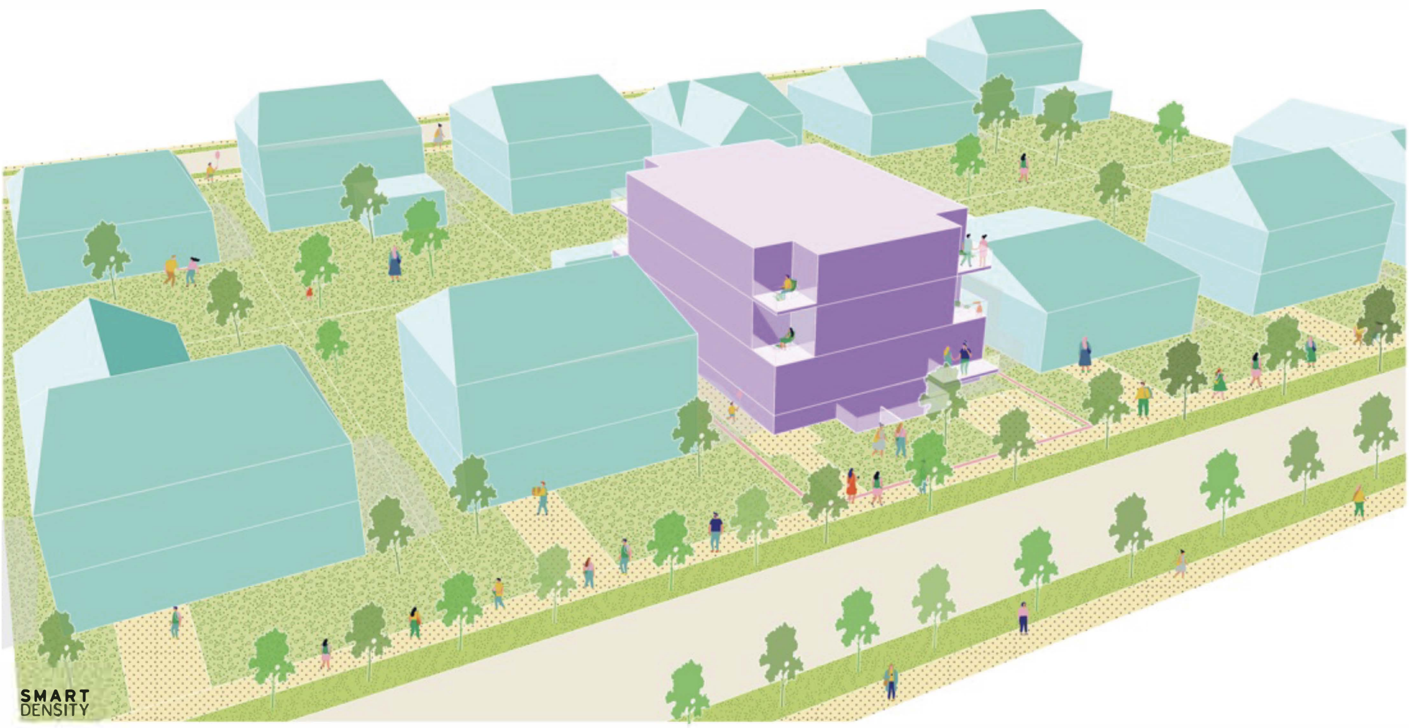
"Missing Middle"

Low-Rise (D1)

Low-rise apartment buildings are divided into individual units, each accessed from an interior circulation core. This typology is suitable for transit-supported neighbourhoods with properties that are wider than typical residential lots in Kitchener due to lower parking provisions.

Figure 3.8

Visual Demonstration of Low-Rise Concept (D1)



SOURCE: Smart Density

Lot Size / Width:	0.06 ha (0.16 ac) / 18 m (194 ft)
Gross Floor Area:	1,210 m^2 (13,024 ft^2)
FSR:	1.92
Storeys:	3 plus basement
Units:	15
Average Unit Size:	66 m^2 (712 ft^2)

Central

●

Suburban

●

“Missing Middle”

Mid-Rise (D2)

Mid-rise buildings are four to eight storeys in height and divided into individual units, each accessed from an interior circulation core. This typology maximizes available space to provide more housing options, helps frame main streets, and provides a suitable transition from denser areas of the city.

Figure 3.9

Visual Demonstration of Mid-Rise Concept (D2)

SOURCE: Smart Density

Lot Size / Width:	0.11 ha (0.27 ac) / 36 m (118 ft)
Gross Floor Area:	2,745 m^2 (29,549 ft^2)
FSR:	2.51
Storeys:	6
Units:	32
Average Unit Size:	70 m^2 (757 ft^2)

Central

●

Suburban

●

"Missing Middle"

High-Rise (E)

The City of Kitchener Urban Design Manual is a set of guiding principles and performance criteria that sets the expectations of how tall building designs can enhance the public realm and pedestrian experience. This can be achieved by using tools such as transition, built form, and scale.

Figure 3.10

Visual Demonstration of High-Rise Concept (E)

SOURCE: Smart Density

Lot Size / Width:	0.28 ha (0.69 ac) / not applicable
Gross Floor Area:	32,981 m^2 (355,000 ft^2)
FSR:	11.81
Storeys:	45
Units:	425
Average Unit Size:	66 m^2 (710 ft^2)

Central

●

Suburban

●

3.3 Scope of Missing Middle Opportunity

To understand the magnitude of the opportunity for missing middle typologies to accommodate future growth in Kitchener, we have conducted a scan of the City's existing parcel fabric to identify "candidate" sites capable of supporting selected prototypical developments identified above.

Note: Understated Opportunity

For this exercise, we have focused our review on the existing supply of individual parcels, however, we recognize that land assemblies (i.e., the combination of two or more parcels to form a single consolidated development site) could further enhance the scope of this opportunity. This is especially true for larger, more land-intensive typologies, such as the Mid-Rise typology.

Land assemblies are complicated and often result in a higher overall land costs as individual property owners negotiate for more than their neighbour received (i.e., knowing that they now have more power in the negotiation, as the developer has already started to invest in their immediate area).

Focusing on individual parcel opportunities ensures that the potential "pool" of available developers are not limited to just the well-established and experienced organizations already operating in the City, but also the future up-and-coming builders just starting out.

Typical Site Contexts

Figure 3.11 provides a summary of the parcel characteristics targeted for each of Smart Density's missing middle designs. These characteristics–specifically **lot area** and **perimeter**–were cross referenced with the City's existing parcel data to identify candidate sites via a two-step process.

- First, all parcels with a lot area at least as large as those considered by Smart Density and less than the lot area of the next typology in the spectrum were identified (e.g., parcels with a lot area of at least 432 square metres and up to 647 square metres were considered suitable for an 8-Plex).

- Secondly, the shortlist of sites deemed appropriate from the perspective of lot area (per above) was filtered further by using perimeter as a proxy for lot dimensions or ideal property shape[15]. In the case of sites with an area slightly larger than considered by Smart Density, we considered a perimeter consistent with a similar aspect ratio (e.g., the prototypical site for Smart Density's 8-Plex design concept is three times as deep as it is wide, so any candidate sites slightly larger than this ratio were filtered to have perimeters consistent with a site three times as deep as they are wide).

Figure 3.11

Missing Middle Parcel Characteristics

Typology	Units / Building	Min Lot Area	Width	Depth	Perimeter
Plexes	8 units	**432 sm**	12.0 m	36.0 m	**96.0 m**
Low-Rise	15 units	**648 sm**	18.0 m	36.0 m	**108.0 m**
Mid-Rise	32 units	**1,080 sm**	36.0 m	30.0 m	**144.0 m**
New Format Towns	9 units	**1,440 sm**	24.0 m	60.0 m	**168.0 m**

Source: Smart Density. See Section 3.2.

How Many Missing Middle Sites Exist in Kitchener?

We estimate that more than 24,200 parcels—or approximately one third of all properties City-wide—could accommodate missing middle housing typologies.[16]

[15] The City's parcel layer, available via the Municipal Property Assessment Corporation (MPAC), did not include lot dimensions (width, depth), only area and perimeter.

[16] Including the Plexes, Low-Rise, Mid-Rise and New Format Town typologies only. More traditional Towns characteristic of suburban neighbourhood contexts have been deliberately excluded from this assessment, as detailed herein. Similarly, ADUs have also been excluded.

Through this process, we have identified that there is tremendous potential to accommodate missing middle housing typologies across the City, especially in areas of Kitchener where supporting infrastructure already exists. This is especially true at the "gentle density" end of the spectrum—including Plexes and Low-Rise typologies, which can be accommodated by more than 96% of the eligible missing middle parcels identified.

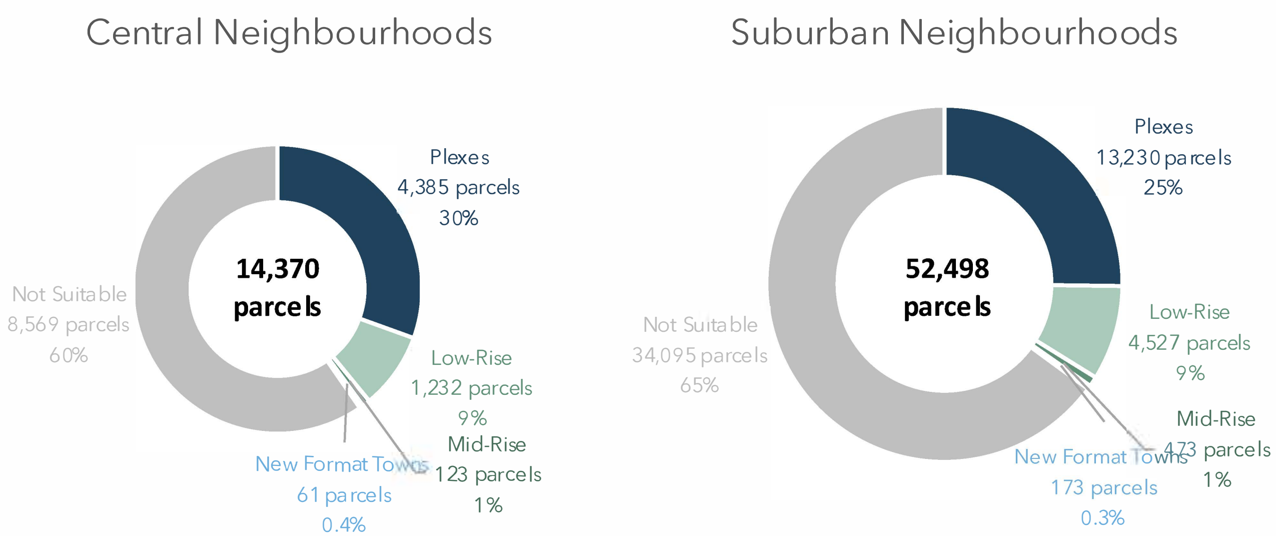
Overall, we estimate that:

- 26% (17,615 parcels) of the City's parcels could accommodate Plexes;
- 9% (5,759 parcels) could accommodate Low-Rise apartments;
- 1% (596 parcels) could accommodate Mid-Rise apartments; and,
- 0.3% (234 parcels) could accommodate New Format Towns.

Approximately 21% (~5,800 parcels) of the missing middle candidate sites are located within the Central Neighbourhoods, as defined by the City's Development Charges By-Law, while the remaining 79% (~18,400 parcels) are located in Suburban Neighbourhoods

Figure 3.12

Kitchener Missing Middle Parcels – Total Supply



Source: Parcel, based on MPAC parcel data and Smart Density design concepts. Number of parcels represent identification of total eligible or "candidate" sites capable of supporting these types of developments. Includes parcels designated for both residential and non-residential uses. Excludes open space / parks, utility, and group homes.

See **Appendix D** for a neighbourhood map, per delineations in the City's Development Charges By-Law.

These candidate sites are the "low hanging fruit" opportunities for missing middle intensification.

Overall, **99% of the supportive parcels identified City-wide are already home to residential uses** and would likely only require changes in zoning to accommodate missing middle typologies. Furthermore, 88% of the potential sites are occupied by single-detached houses, suggesting that they could be acquired with relatively low complexity. Similarly, any existing structures could be demolished quickly and affordably, and the lands would have a low potential for contamination requiring costly remediation. Less than 1% of the missing middle-supportive parcels are currently designated for non-residential uses and would require a re-designation.

We note that this high-level scan of all parcels across the City does have some limitations. For example, at this scale it was not possible to ensure that every parcel identified as having missing middle potential has the appropriate servicing capacity to support intensification. Furthermore, some parcels likely have site specific constraints which would, at minimum, complicate intensification to the point of curtailing redevelopment.

Traditional Townhouses: Street-Front / Back-to-Back Towns

Traditional street-front townhouses—commensurate with the Towns (C1e) typology—are often included as consolidated blocks within large suburban subdivisions that can include a broader mix of building types (e.g., single-detached, semi-detached, townhouses and even low to mid-rise apartment buildings).

The parcel analysis detailed in this section was focused on identifying individual sites with the potential to accommodate intensification without the need for additional land assembly. We acknowledge that these more suburban townhouses will continue to be constructed in the City's greenfield areas, further contributing to the ability of the community to advance missing middle growth, over and above the analysis presented here.

Accessory Dwelling Units: Basement Apartments / Backyard Units

Based on our review of building permits, more than **1,900 ADUs have been added to the housing supply in Kitchener over the past 10 years**. The majority of these units include renovations to existing dwellings to create additional units (e.g., basement apartments, colloquially known as "duplexes" in Kitchener). Building permits for backyard units—commensurate with the ADUs (B) typology introduced earlier—began to emerge in 2021eWe have identified at least 12 such permits since then, however, there is potential for far more in the future.

The recently completed Land Needs Assessment as part of the Region of Waterloo Official Plan Review (2022) forecasts some 1,380 additional "secondary units" in Kitchener to 2051. This represents less than 3% of the parcels City-wide that currently contain single and semi-detached houses (estimated at some 52,800 parcels in total).

Moreover, the 1,900 building permits for ADUs identified over the past 10 years represents less than 4% of these parcels. If ADUs continue to be added at the 5-year building permit pace of approximately 275 per year, **some 8,250 ADUs could be added with the capacity to house more than 15,450 residents** over the next three decades. This is equivalent to one in every five houses adding an ADU.

How Much Growth Could This Support?

Demand

Kitchener's population is expected to grow by some 140,100 residents by 2051e[17]. This will require 54,615 additional units, more than half of which—31,535 (55%)—are planned to be in the form of High Density[18] units.

Additionally, the Ministry of Municipal Affairs and Housing (MMAH) recently posted a bulletin in October 2022 assigning a housing target of 35,000 new units to be built in Kitchener by 2031.

[17] Based on Table 1 of Amendment No. 6 to the Regional Official Plan (ROPA 6), August 18, 2022.

[18] High density includes bachelor, 1-bedroom and 2-bedroom+ apartments and stacked townhouses.

Scenario A: Moderate Market Uptake

As noted earlier in this section, more than 24,300 parcels or more than one third of the City's parcels could accommodate missing middle housing typologies. This presents the opportunity for missing middle typologies on already-serviced land to contribute significantly to the accommodation of future dwellings and residents.

Based on our review of parcels across the City in both the Central and Suburban areas, historical building permits, and the Region's LNA, we believe that it is reasonable to assume that some 780 parcels (i.e., just over 3% of those identified as having missing middle potential) could be redeveloped across the City by 2051eAs illustrated in Figure 3.13, this amounts to approximately 26 missing middle buildings or 333 units annually over the 30-year period. Over the past 10 years Kitchener has averaged 1,145 apartment starts annually[19], with several of the last 5 years will above the 10-year average (e.g., 2,750 apartment unit starts in 2019).

This could be a conservative estimate, particularly if the City opts to advance a robust incentive program to encourage the development of these housing typologies. These missing middle units represent a 28% increase to the 10-year average apartment starts. As noted in Section 2.1, the CHSP estimated that some 3,965 of Kitchener's single-detached units are owned by investors as of 2020. Although not all investors have profit maximization as their primary motivation, **780 parcels converting to missing middle typologies by 2051 represents just 20% of investor-owned single-detached houses being intensified to missing middle typologies**; a reasonable assumption over 30 years.

These new missing middle units could accommodate more than 18,900 new residents (more than 13% of the City's allocated population growth to 2051) on just over 1% of all parcels across the City or just over 3% of those parcels identified as supportive of the missing middle.

Furthermore, nearly **8% of the City's MMAH allocated target of 35,000 new units by 2031 could be met through missing middle typologies** if an average of 333 missing middle units are completed over the next 8 years to 2031e

[19] Based on CMHC Starts data.

Figure 3.13

Summary of Potential Market "Uptake" of Missing Middle Typologies

Typology	Units / Building	# of Missing Middle Sites	Sites Redeveloped		Units	PPU	Residents	Units / Year	Buildings / Year
Plexes	8 units	17,615 sites	2.9%	510 sites	4,080 units	1.87	7,645	136 units	17.0
Low-Rise	15 units	5,759 sites	2.1%	120 sites	1,800 units	1.87	3,373	60 units	4.0
Mid-Rise	32 units	596 sites	20.1%	120 sites	3,840 units	1.87	7,195	128 units	4.0
New Format Towns	9 units	234 sites	12.8%	30 sites	270 units	2.60	702	9 units	1.0
		24,204 sites	3.2%	**780 sites**	**9,990 units**	1.89	**18,914**	**333 units**	**26.0**

Source: Parcel, based on parcel and building permit data provided by the City of Kitchener.

Assuming a conservative assessment value of $150,000[20] for each new apartment unit created–regardless of building typology and location–the City's **property tax base could grow to include an extra $13.4 million annually** upon completion and market entry of these new missing middle units.

Scenario B: Increased Market Uptake

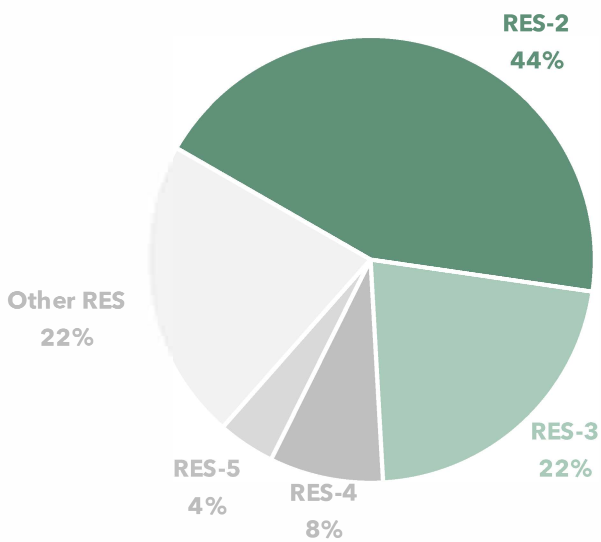
As established above, the parcels capable of accommodating an 8-Plex or Low-Rise apartment building make up the majority of the missing middle potential, or "opportunity". If these two typologies in particular are incentivized to the point where the development community begins to direct more significant attention, increases to the number of future residents housed and potential property tax increases generated could be substantial.

For example, as noted in Figure 3.14, two-thirds of the missing middle potential parcels are zoned RES-2 or RES-3, which **do not permit** the missing middle development concepts prepared by Smarty Density as-of-right. A simple update of the permissions within these zoning categories would eliminate the need for a zoning by-law amendment when proposing a missing middle typology, reducing complexity, time, and both direct and indirect costs to the developer.

[20] 2022 value, no inflation.

Figure 3.14

Current Zoning Designation of Potential Missing Middle Parcels



Source: Parcel, based on the City of Kitchener Zoning By-law 2019-051. See Table Figure 3.2 for more detailed zoning permissions.

For example, if just 5% of the 8-Plex and Low-Rise parcels are converted, nearly 29,400 residents could now be accommodated in missing middle typologies to 2051, increasing the annual tax collected on these sites by more than $20.7 million each year. We note this is **commensurate with one third of investor-owned single-detached houses** (see Section 2.1) intensifying to missing middle typologies.

Simply put, we estimate that 1 in 5 (20%) of new residents could be accommodated in missing middle typologies on just 2% of all parcels across the City or 5% of parcels identified as missing middle supportive under this more advanced delivery scenario.

Furthermore, this advanced delivery scenario could deliver **almost 12% of the City's MMAH allocated target** of 35,000 new units by 2031e

When comparing this format of housing against more traditional typologies at either end of the spectrum, this would be the equivalent of:

- High-Density – **112 typical apartment buildings**; or,
- Low-Densitye **7,900 single- and semi-detached houses**.

Key Consideration: Revenue Capture & Funding Opportunities

In combination with the incentives evaluation detailed later in this report, it is important to acknowledge the potential fiscal impacts of an increased market "capture" for these missing middle typologies. Specifically, the City will need to evaluate the extent to which this could generate additional property tax revenues on already-serviced lots that have—at least to some degree—already been planned to accommodate housing and new growth.

Where possible, this will need to be counterbalanced with two key factors: (i) any revenue shortfall or surplus available to be allocated to the ultimate financial incentives offered (if any); and (ii) any measure of the "substitution effect", which will determine whether these represent "net new" revenue streams or simply a replacement for other new development that would have otherwise continued to occur elsewhere in the City in a different formats. Recent and ongoing research exercises in communities across the country continue to investigate the "pound-for-pound" fiscal impacts of new development in predominantly suburban greenfield contexts vs. opportunities for infill and intensification in more established residentiale/ mixed use environments. These concepts will need to be rationalized in a Kitchener-specific context.

4.0

Financial Feasibility

Key Findings

- Singles, Suburban Towns, Plexes and High-Rise ownership scenarios are discernable "winners", **re-enforcing recent development patterns in Kitchener** (i.e., the extremes of the low- and high-density spectrum)

- There are numerous profitable rental typologies, however, all **rental tenures consistently underperform ownership**, which make them less attractive to "quick win" typologies.

- Many missing middle typologies–including Mid-Rise apartments–tend to yield lower returns due to an **awkward relationship between development scale and (costly) parking needs**.

- Timing–or **"investment horizon"–is an important factor** that influences both built form and tenure considerations.

- Many missing middle forms are **challenged by their attractiveness relative to other preferred typologies; and alternative investment vehicles**

- Affordability requirements negatively affect all typologies, but High-Rise apartments have the greatest potential to absorb affordable housing into a pro forma while maintaining favourable return metrics.

- Any increase in hard costs will negatively impact ownership typology profitability and return metrics such that projects become unviable. Decreasing hard costs positively affect ownership typologies, but does not improve outcomes for any rental typology enough to attract additional interest.

4.1 The Basics

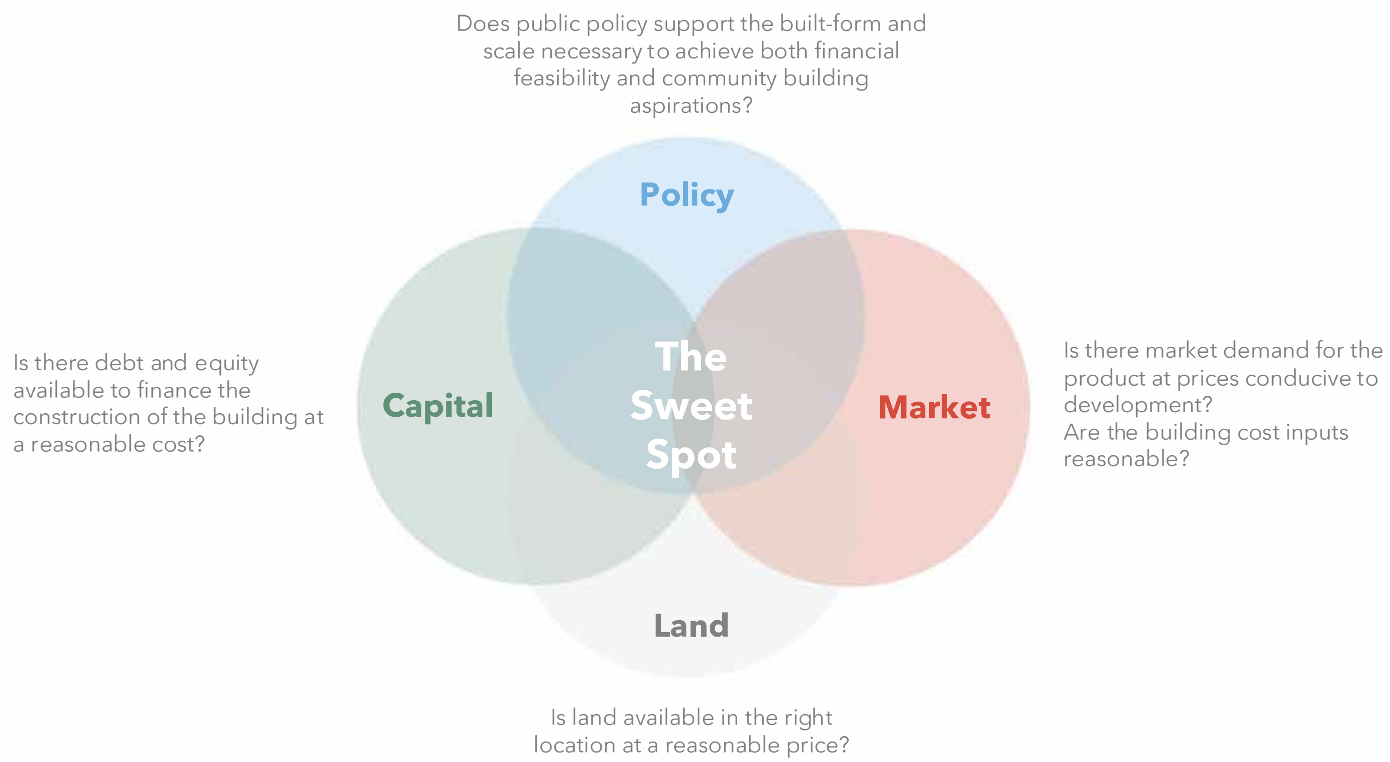
Key Determinants

The development of new real estate—whether market or non-market (affordable)—can be extremely complex given that its success is dependent on a multitude of factors spanning countless industries and professional disciplines. Similarly, development can be heavily influenced by both broader macroeconomic conditions and more site-specific factors; all of which are key determinants in the ultimate viability of a given project.

For simplicity, we often synthesize this to the identification of four key elements that can have some of the most significant impacts on financial feasibility: **Policy**, **Market**, **Land** and **Capital**. The successful integration of all of these factors is required to set the groundwork for viability.

Figure 4.1

The "Sweet Spot" for Successful Development Projects



Source: Parcel

General Structure

As introduced in Section 1.3, we have prepared **Discounted Cash Flow (DCF)** analyses for each housing typology identified through this study[21]. Our team chose to undertake DCFs, as opposed to a more simplified and static Residual Land Value (RLV) analysis, because:

- A DCF takes into account the timing of development cash flows, recognizing that projects typically occur over many years;
- It captures the Time Value of Money (TVM), given that "a dollar in your hand today is worth more than a dollar tomorrow";
- It offers the opportunity prepare a more detailed evaluation of the potential profitability of purpose-built rental apartments, specifically their cashflow-generating potential during operations (i.e., post-development); and,
- The prototypical development concepts prepared by Smart Density for the Missing Middle typologies provided the necessary detail to complete this type of analysis.

Notwithstanding the foregoing differences, it is helpful to keep in mind that the overall structure of any financial feasibility modelling is effectively the same.

Both simplified and very detailed development pro forma analyses can always be simplified to their core elements: Revenues, Costs and Profits.

How certain revenue, cost and profit assumptions are applied can also vary when dealing with different tenures in the case of residential development (i.e., ownership vs. rental housing). The key difference being that most ownership (condo-based) residential developments are focused on relatively short-term investment horizons consisting of predominantly one-time cost / revenue streams, whereas purpose-built rental housing requires a much different investment "lens", that can span many years (i.e., including operation of the new asset, upon its completion and market entry).

[21] The actual number of distinct analyses prepared exceeds the eight total typologies to appropriately capture additional nuances across different tenures (ownership and rental), as well as geographies (namely: Central and Suburban, as defined by the City of Kitchener).

Figure 4.2

Basic Structure of Financial Feasibility

	Revenues...		Costs...		Profit
For Sale *(Ownership Residential)*	**Revenue from Unit Sales** (NSF x $PSF)	-	**Land Costs** ($/Ac, $PBSF) + **Hard Costs** (GSF x $PSF) + **Soft Costs** (% of Hard Costs)	=	**Developer's Profit** (before Tax)
For Rent *(Rental Residential)*	**Rental Revenue** (Rent – Expenses) x Hold Period + **Est. Value @ Completion** (NOI ÷ Cap Rate)				

Source: Parcel

Common Return Metrics

Not all developers are alike and there is no single return metric that signifies a financially viable project.

Each participant in a development project looks at a unique subset of variables and return metrics under different conditions, based on their own requirements and/or expectations. Common measurement tools include:

- **Net Profit / (Loss)**

  The total amount of money made (or lost) over the course of a project.

- **Internal Rate of Return (IRR)**

  The expected compound annual return (%) over the course of the project.

- **Equity Multiplier (EMx)**

  The number of times a project's original equity investment is returned to investors.

- **Cash-on-Cash Return (CoC)**

  The cash flow after financing (%) generated by the equity invested to date. It does not take into account the value of the building or any appreciation of value over time.

- **Timing**

  Opportunistic investors look for quick returns (e.g., condo apartments) while long-term investors value consistent returns over a longer period (e.g., rental apartments).

- **Measurements of Risk (Lenders)**:

  Loan to Value, Debt Service Coverage Ratio, Debt Yield, etc.

Use Cases

Pro forma analyses are important to all facets of urban development, with wide-ranging private *and* public sector applications.

Financial feasibility modelling is—at its core—a tool for evaluating potential future outcomes. Whether motivated purely by profit or driven by other city-building objectives and social purpose, this type of analysis can be applied to any number of different "use cases" to maximize opportunities to achieve preferred outcomes.

Broadly speaking, development pro forma analyses can be relied upon at various stages of the real estate development life cycle, including during the early stages of concept development (**Pre-Development**); throughout the entitlements and government approvals process (**Approvals & Funding**); as well as to inform the creation of sound land use policies that are mindful of the current—and anticipated future—conditions within a given market (**Policy Development**).

Figure 4.3

Pro Forma Use Cases

PRE-DEVELOPMENT

- Validate financial feasibility (pre- and post- land acquisition)
- Early-stage development scoping and concept testing

APPROVALS & FUNDING

- Optimize development program (project "right-sizing", determine ideal land use mix, etc.)
- Optimize delivery of social benefits (affordable housing, community amenities, etc.)

POLICY DEVELOPMENT

- Inform land use policy direction / special projects (OP Reviews, SP's, other municipal strategies, etc.)
- Prioritization of preferred municipal / city-building outcomes (**DC's, parkland dedication, retail @ grade, affordable housing, urban design, etc.**)

Source: Parcel

For this study, pro forma analysis, and financial feasibility in general, has been utilized primarily as a tool for comparison rather than profit maximization.

Furthermore, the analysis presented in this study has not been relied upon as an exact predictor of actual profits, nor profit maximization more broadly. It is more intended to help the City identify meaningful tools and incentives that result in desired outcomes, based on the range of key study objectives identified (i.e., "enabling" the development of missing middle and affordable housing). We acknowledge that some typologies and scenarios which may appear unprofitable in the following section could very well be profitable under the right circumstances and conditions, which deviate from our broad baseline assumptions.

4.2 Baseline Analysis

First things first: what is the situation today in Kitchener?

Conducting a baseline analysis based on today's market conditions and policy context has allowed us to establish an important starting point for this study. It has also helped us to compare the feasibility of a variety of unique development conditions that vary by **Typology**, **Location** and **Tenure**. Through a testing of 18 different resulting baseline analyses, we have been able to gain a more nuanced understanding as to why certain typologies are—or are not—being built in the Kitchener market today, in addition to identifying a number of key themes.

Additionally, by leveraging these baseline results as a tool for comparison, the clear "winners" identified can help to set the goal posts in understanding how much additional support will be required for unprofitable scenarios to compete for development investment interest.

Part 1: Basic Profitability

It is helpful to first focus on the simplest of return metrics: does the scenario offer the potential to make a profit? Aside from the Central High-Rise building concept, all other baseline scenarios show potential for a profit of up to $2 million, or inversely a loss of $2 million. This narrow band is likely due, in part, to the relatively small land areas considered (1 acre or less), as well as the modest densities identified in the baseline concepts (between 0.9 and 2.5 FSR of development).

Figure 4.4 demonstrates that several of the baseline scenarios are unlikely to make a profit. These include:

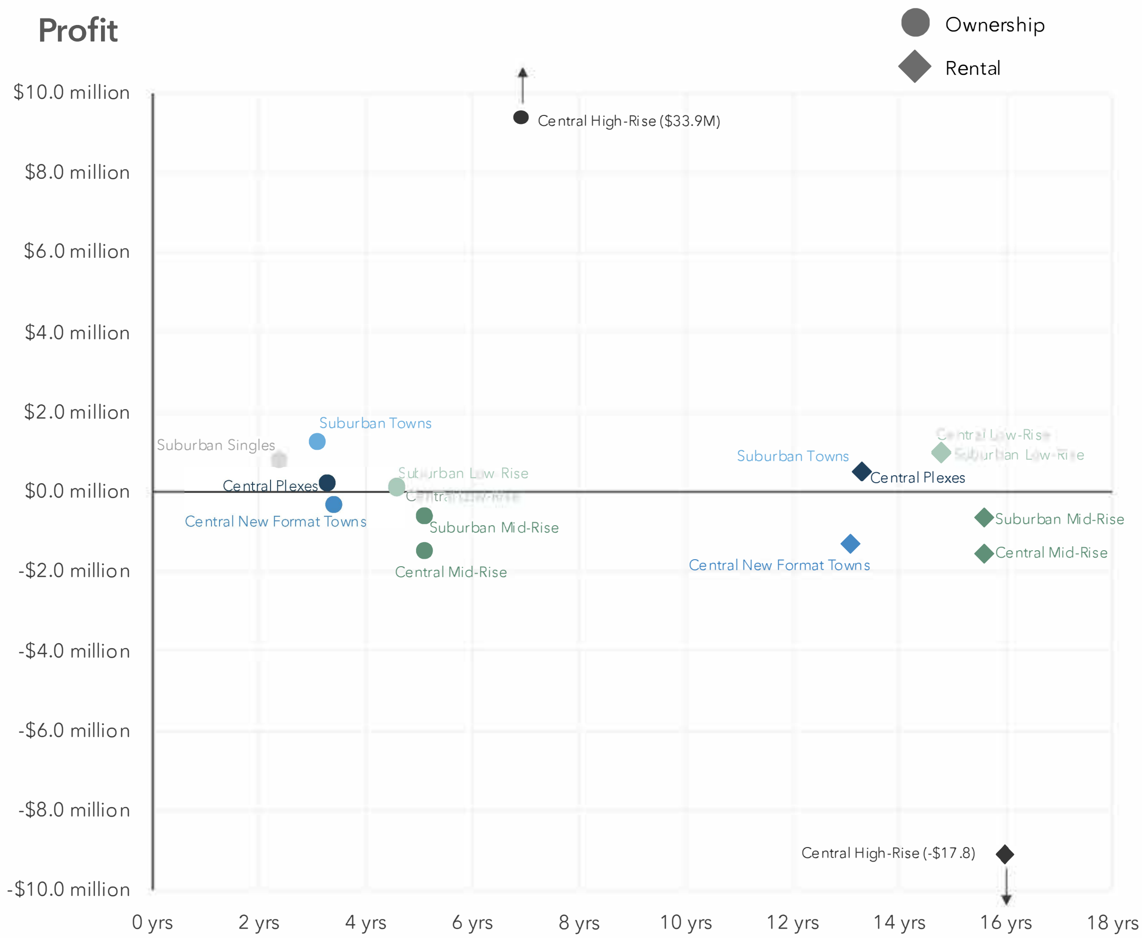
- New Format Towns (Ownership & Rental);
- Central and Suburban Low-Rise (Ownership);
- Central and Suburban Mid-Rise (Ownership & Rental); and,
- Central High-Rise (Rental).

Furthermore, although potentially profitable, the remaining rental scenarios make so little profit over a 13+ year timelines that it is unlikely that the other return metrics will justify the equity-heavy investments they require.

This leaves only the **Suburban Singles**, **Suburban Towns**, **Central 8-Plex**, **Central and Suburban Low-Rise**, and **Central High-Rise** ownership scenarios as the only baseline scenarios with realistic profit potential that garner a deeper review of additional return metrics.

Figure 4.4

Potential Profit / Loss of Baseline Scenarios



Source: Parcel

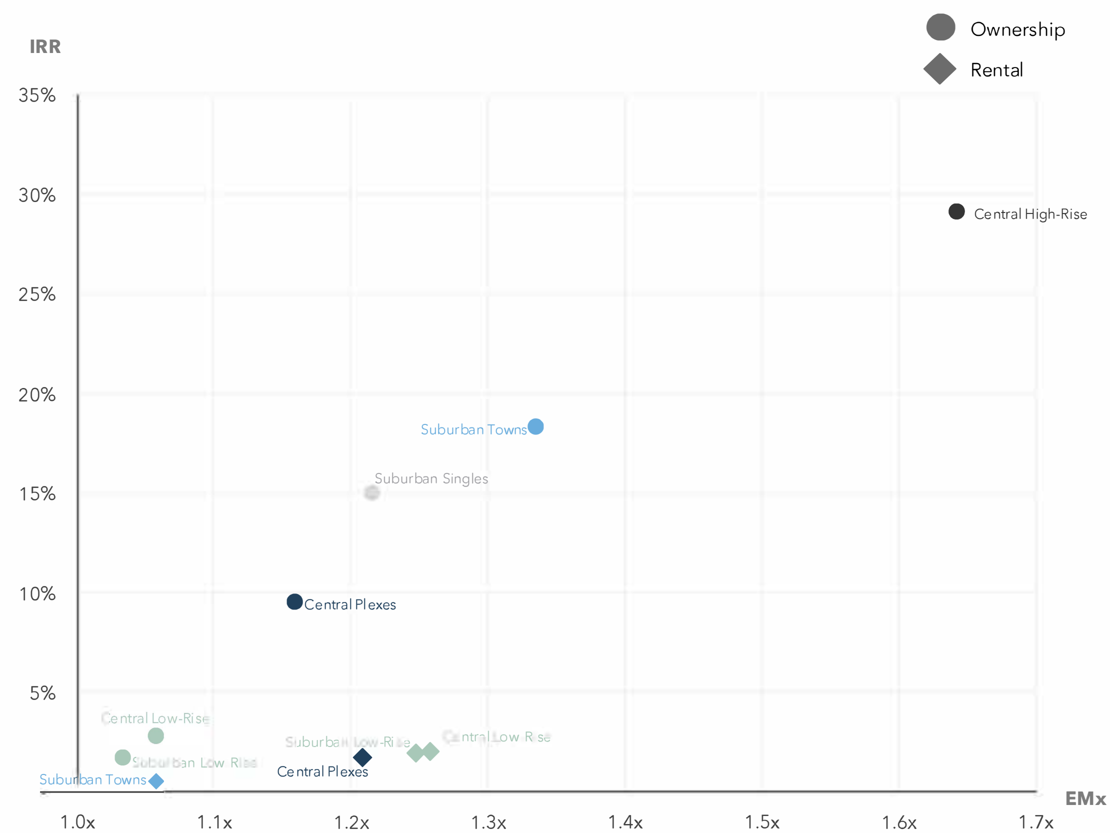
Part 2: Layering Return Metrics

IRR & EMx

Now focusing just on the baseline scenarios with a potential for profit, Figure 4.5 further confirms that rental scenarios generate a lower Internal Rate of Return (**IRR**) and Equity Multiplier (**EMx**), particularly given their longer timeframe. The clear "winners" of housing development in Kitchener begin to emerge here via the typologies generating close to 15% or more in IRR *and* achieving a reasonable EMx – in some cases over a much shorter time period (i.e., "quick wins"). This exact pattern has been evidenced through recent development patterns in Kitchener, which continue to favour high-rise apartments (Central High-Rise) and ground-oriented houses (Suburban Singles/ Suburban Towns).

Figure 4.5

IRR & EMx of Potentially Profitable Baseline Scenarios



Source: Parcel

CoC

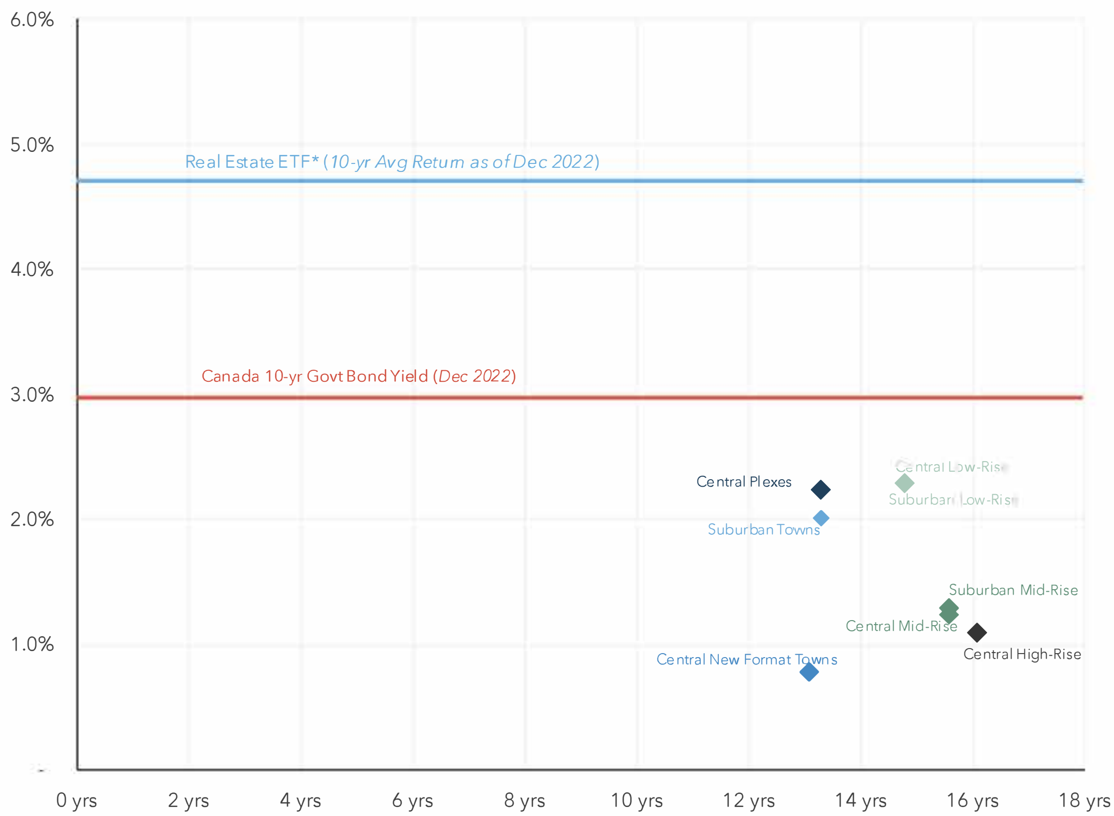
It is also important to recognize that return expectations for rental housing can be different, particularly when adopting a "build-to-hold" strategy. In rental proformas, both IRR and EMx can be heavily influenced by the reversion value at the end of the hold period (i.e., how much the owner is expecting to sell the building for in so many years).

Because it is hard to predict the future—especially one or more decades out—many rental apartment developers will focus on the Cash-on-Cash (**CoC**) return that a property can generate each year in the more immediate future. This effectively isolates for the immediate value of cash flows from the building rather than any appreciation of value over time.

Figure 4.6 illustrates that, based on CoC alone, a rental developer is unlikely to overlook poor IRR or EMx metrics in any of the rental scenarios identified for this study. In all cases, a "safer" and/or "easier" investment in 10-year government bonds or a real estate-focused ETF will generate more cash in this regard, without the risk and effort required to construct—and manage—a building.

Figure 4.6

Potential Cash-on-Cash Returns of Baseline Rental Scenarios



No scenario is expected to yield as much as a real estate focused ETF has returned over the last 10 years

All rental scenarios generated lower CoC returns than possible from a 10-year government bond

Source: Parcel

See **Appendix D** for details of Baseline Financial Feasibility.

Summary: What are the typical "goal posts" for feasibility?

Figure 4.7 provides a summary of the baseline return metrics by typology and tenure, based on the development concepts detailed in Section 3.2. Through this analysis, we have continued to focus on the ability of development projects to reach the following "goal posts"–or "hurdle rates–as determined to be reasonable minimum measures of financial performance that suggest some promise of feasibility:

- At least **15% IRR** (depending on development on timeline);
- Approximately **1.3 to 1.6 EMx** (depending on development timeline);
- A **CoC return that surpasses the 10-year bond yield of 3.0%**, in the case of rental scenarios.

Figure 4.7

Summary of Baseline Return Metrics by Typology

"MISSING MIDDLE" (C1 to D2)

LOW DENSITY ← → HIGH DENSITY

* "MISSING LITTLE"

Return Metrics	A Singles+	B ADUs*	C1 Traditional Towns	C2 New Format Towns	C3 Plexes*	D1 Low-Rise	D2 Mid-Rise	E High-Rise
Ownership								
IRR	**15%**	-	**18%**	**< 0%**	9%	1.7% - 2.8%	**< 0%**	**29%**
EMx	1.22x	-	**1.34x**	**< 1.00x**	1.16x	1.06x	**< 1.00x**	**1.64x**
Rental								
IRR	-	6%	1%	**< 0%**	2%	2%	**< 0%**	**< 0%**
EMx	-	**1.71x**	1.06x	**< 1.00x**	1.21x	1.26x	**< 1.00x**	**< 1.00x**
CoC	-	**7.9%**	2.0%	0.8%	2.2%	2.3%	1.3%	1.1%

Source: Parcel

Relying on these potential baseline returns associated with the full spectrum of typologies, the sensitivity analyses in the following section–and the financial analyses of proposed incentives identified in Section 5.0–also focus on whether the associated impacts of these changes bring each typology closer to the identified goals posts (or in other terms, closer to the baseline return potential of the identified "winners" in today's market)[22].

[22] We caution that this approach merely seeks to improve the missing middle typologies in comparison to the more profitable alternatives, however, each development site will have different investment goals and objectives specific to the developer and its financial partners, which may require much higher returns to justify the amount of risk and effort required to redevelop a given site.

Feasibility Profile: New-Build vs. Renovation

When dealing with relatively small-scale infill and Missing Middle typologies in existing built-up areas, a key consideration faced by developers can be whether to initiate a "from scratch" development vs. contemplate an addition/ renovation to an existing structure. This obviously presents different feasibility profiles and profit opportunities, thereby highlighting the need to consider the unique investment objectives of each developer or landowner (e.g., access to capital, achievable financing terms, non-financial motivations, investment horizon and degree of financial "patience", etc.).

This dynamic is also further complicated by recent escalation in construction costs, which can often result in the "price tag" of a renovation becoming more comparable to a new build situation, especially at certain scales of development.

Feasibility Profile: 3-Bedroom Units

New High-Rise apartment development—and some Missing Middle typologies—are predominantly comprised of 1- and 2-bedroom units. These are often challenged in their ability to comfortably accommodate larger household sizes, including families. While it is important to provide housing options for all household sizes, there are important factors that challenge the feasibility of larger units (3+ bedrooms) as part of new development, particular in the context of higher density projects.

Larger units typically have slightly lower hard costs (on a per square foot basis) as a result of construction efficiencies (e.g., an extra bedroom does not necessitate extensive plumbing and appliance additions, etc.), but also command lower prices/rents per square foot. As such, they are often less profitable than smaller units, which negatively impacts the development proforma.

This dynamic between costs and revenues also results in large units in mid- and high-rise buildings being comparable—or even more expensive—in sale price/ rent to larger, more traditional ground-oriented housing that typically caters to larger households. Local developers interviewed for this study hypothesized that this may be a primary driver of why there is limited demand for larger units in denser development contexts.

It is also important to note that, within a fixed building envelope, the inclusion of larger units necessarily comes with a reduction of smaller units and can result in a lower building efficiency (i.e., the ratio of gross to net floor area), **thereby lowering total unit yield for the building and lower overall contribution to housing supply.**

Parcel conducted a unit sensitivity analysis on the High-Rise (E) typology to model the impact of a policy that includes 3-bedroom units as part of the unit mix for a building of fixed density. When 10% of units were earmarked for 3-bedroom units (versus a unit mix of 1- and 2-bedrooms only):

- The total number of units decreased from 425 to 400 (**-6%**);
- Revenues decreased approximately $20 million (**-6%**); and,
- Gross profit decreased approximately $17.5 million (**-25%**)

For a developer that already owns their land, these numbers are such that they may choose to forego the development altogether, due to the negative impact on the pro forma. In these cases, **higher as-of-right density permissions to offset the loss of smaller, more profitable units may be required to increase the feasibility of including larger unit sizes.** Ultimately, any policy requiring the inclusion of larger units should be phased in to allow land values time to adjust.

4.3 Sensitivity Analysis

It is impossible to know with 100% certainty the outcome(s) of a given development project. Even the most likely outcomes are unlikely to occur.

In light of the uncertainty and risks associated with any real estate project, we need to understand how much better (or worse) things can end up. The specific variables that drive these outcomes can also be extremely important to identify and evaluate.

A "sensitivity" assessment can help in this regard, offering an opportunity to "tweak" or make small adjustments to individual variables of the baseline analyses in isolation while holding all other conditions constant (in theory):

- What if market demand cools?
- What if there is a flood (or lack) of new supply?
- Will lenders provide capital and at what cost?
- What if construction costs rise/ fall in the future?
- What if broader economic conditions improve/ deteriorate?

Sensitivity Analyses: Common Variables

In response to the key questions above, some of the specific variables often tested for sensitivity are:

- **Development Assumptions** (overall density, space mix, unit mix, parking requirements)
- **Revenue Assumptions** (sales per square foot, net rental rates, lease up/ sales period, reversion value, hold period)
- **Cost Assumptions** (above and below grade hard costs per square foot, financing rates)
- **Timing Assumptions** (pre-development phase, construction timeline)

Revenue

Revenue is one of, if not *the* most important assumption in a developer's pro-forma. From the very outset of a development project, revenue potential is front-of-mind for a developer deciding how much to pay for land. Simply put, it determines the total size of the "pie" to be distributed into land costs, hard costs, soft costs and—hopefully and importantly—some profit, without which a project will not occur

It is also important to note that the economic forces that dictate market-based revenues are beyond the City's immediate control.

Sales Revenues

Our ownership baseline scenarios identify sales potentials based on current new construction residential pricing, grown 5% annually until the launch of sales. These sales levels, introduced in Section 4.2 and further detailed in

Appendix D, resulted in **6 potentially profitable ownership typologies** (i.e., Singles, Suburban Towns, Plexes, Low-Rise Apartments, and High-Rise Apartments).

- If sales revenues were to be just **10% below** our assumed future values, all but the high-rise typology would no longer be profitable.
- If sales revenues were to be **10% above** our assumed future values, **3 additional typologies could be profitable** (i.e., New Format Towns and both Mid-Rise Apartments in the Central and Suburban neighbourhood contexts).[23]

Relatively minor changes in sales revenue assumptions can result in significant changes to feasibility.

Rental Revenues

Rental revenues work the same way as sales revenues, albeit at a more diluted scale. Our rental baseline scenarios assume potential rents based on current market rental rates, grown 5% annually until lease up begins. These rents resulted in **5 profitable rental typologies** (i.e., Suburban Towns, 8-Plex, Low-Rise in both the Central and Suburban neighbourhoods, and ADUs). We do note, however, that all but the ADUs generated too small a profit and associated return metrics to be viable.

- If rents were to be **10% below** our baseline assumptions, the Suburban Towns and ADUs would no longer make a profit.
- If rents were to be **10% above**, the Suburban Mid-Rise rental would have the potential to make a profit, however at **20% above** two more typologies could generate a profit (including the Mid-Rise and High-Rise Apartment typologies).[24]
- Higher (or lower) rents can also affect the reversion value of a rental building (e.g., the potential price the seller can expect upon sale of the building). For example, in our baseline analysis, the rental Plex is estimated to be worth some $4.1 million upon sale some 14 years from now, based on rental rates of approximately $3,425 per month (in year 15) and a capitalization rate of 5%. If rental rates were to be **20%**

[23] We caution that profitability alone does not indicate acceptable return metrics in-line with risk adjusted expectations.

[24] Again, we caution that profitability alone does not indicate acceptable return metrics in-line with risk adjusted expectations. For example, at these higher rents, a rental High-Rise would still generate less than 2% IRR, less than 1.2 times the required equity and just over 1% cash-on-cash each year over a 16+ year development and hold timeline, still rendering it unlikely.

below, the reversion value drops to just $3.2 million at the time of sale. Conversely, if rental rates were to be **20% above**, the reversion value will climb to nearly $4.9 million.

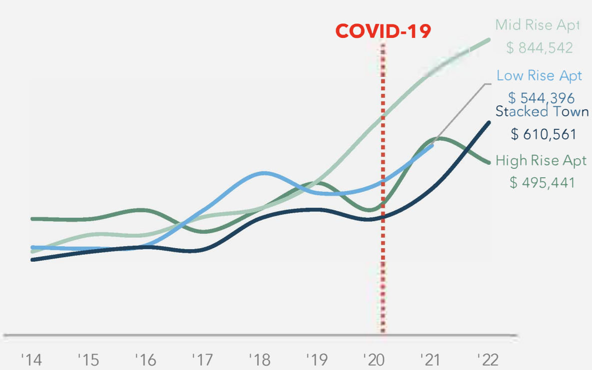
Feasibility Profile: Do Prices Always Go Up?

Many factors contribute to price growth, including cost growth, market demand and the pricing of competitive goods. Historically, new construction apartment and stacked townhouse prices in Kitchener have been growing steadily annually, accelerating through recent years (Figure 4.8). High-rise apartments have been the exception with a recent decrease in the weighted average price per unit occurring in 2022.

However, Figure 4.9 illustrates that when we focus on the new construction prices per square foot, high-rise apartment prices have actually continued to rise significantly. This is because the average size of the high-rise apartment units sold in 2022 was much lower at 570 square feet, compared to some 835 square feet the year prior.

Figure 4.8

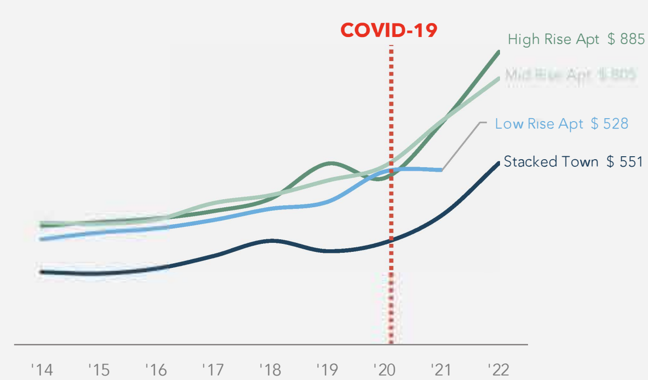
New Construction Apartment and Stacked Townhouse Sales ($)



Source: Parcel, based on Altus Data Studio data.

Figure 4.9

New Construction Apartment and Stacked Townhouse Sales ($PSF)



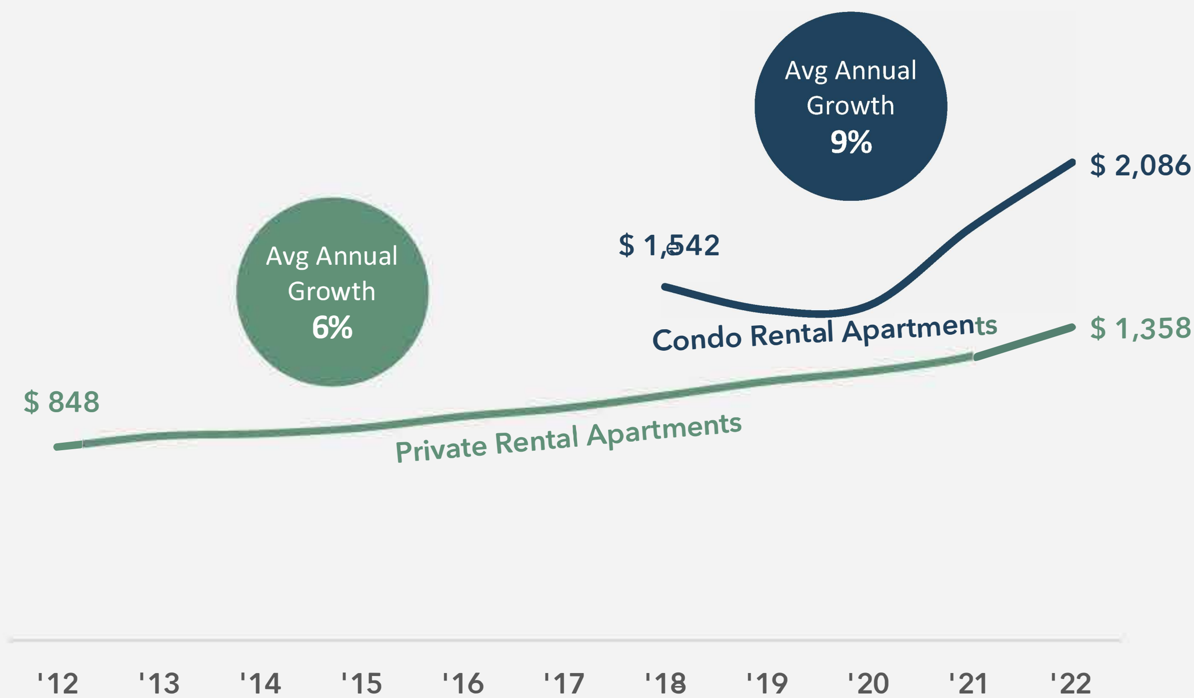
Source: Parcel, based on Altus Data Studio data.

Similarly, Figure 4.10 provides the historical average rents for private (or "purpose-built") apartments in the City and condo apartments across the Kitchener-Cambridge-Waterloo CMA. Since 2012, private rental apartment rents have grown 6% on average annually, while more recent data for condo rentals beginning in 2019 show a 9% average annual increase.

We note that the steadier rise of the private rental apartment rents is influenced by a large proportion of older stock rental buildings and rent controls placed on buildings constructed before 2018.

Figure 4.10

Average Private and Condominium Apartment Rents



Source: Parcel, based on CMHC Rental Market Survey. Private apartment rents are for the City of Kitchener and condo rents are for the Kitchener-Cambridge-Waterloo CMA.

Forecasting future price or rent growth is very challenging, which is why sensitivity analyses are important. In our baseline analyses, we have assumed an average annual price growth of 5% to reflect a return to more gradual, pre-pandemic growth levels. Similarly, our assumed 5% annual increase in rents (up to lease up) is in-line with historical increases.

Location, Location, Location

Revenue-generating potential dovetails with location. As acknowledged in the Region and Tri-Cities' ongoing Inclusionary Zoning study, potential sales prices and rents vary across the City. For example, average rents are highest in the South-East CMHC Neighbourhood[25] and decrease by up to 20% to the most affordable South-Central CMHC Neighbourhood[26]. Additionally, as illustrated earlier in this report, household incomes vary across the CMHC Neighbourhoods too, directly affecting the size and type of housing those households can afford to live in.

When focusing on specific areas of the City, an adjustment to the revenue assumptions in each typology should be made to reflect hyper-local market conditions.

Affordability

Affordability requirements have a direct impact on potential revenues and can be tested in a similar manner to sales prices and rents.

We note that all five rental typologies with a potential for some profit in their baseline analyses do not yield strong enough returns to warrant investment, even at 100% market rents. As such, **any affordability requirement on these buildings would result in losses and deem them unlikely to get built** without heavy subsidization.

Focusing on the four potentially profitable ownership typologies, we can see the following effect as affordable units are added:

- **Single-Detached** – including just 12.5% (two of the 16 units in a single-detached development site) as affordable would result in the baseline development becoming unprofitable and thus unlikely absent subsidization. A return to similar levels of profitability is possible if the land could be purchased significantly cheaper (e.g., $1.2 million or some 40% below market value), however, a private landowner is unlikely to adjust their land value expectations this far below market value. A more likely scenario is that the market units would need to be sold at a higher price ($90,000 more per unit) to maintain similar profitability, thus transferring the cost of the affordable units to the market-rate purchasers. This means that developers—who in theory are already charging the maximum price the market will bear at any given time—will have to wait for prices to increase, effectively sterilizing the land until the market has an opportunity to "catch up".

[25] See Figure 2.1.
[26] Based on the CMHC Rental Market Survey (October 2022).

- **Suburban Towns** – like the Single-Detached typology, including just three of the 24 townhouses (i.e., 12.5%) as affordable units would all but eliminate any profitability. A return to similar levels of profitability is possible if the land was able to be purchased significantly cheaper (e.g., $1.375 million some 31% below market value) or again more likely if market units were sold at a higher price ($50,000 more per unit).

- **8-Plex** – including one of the 8 apartments (i.e., 12.5%) as affordable eliminates profitability of the baseline analysis. If the land was purchased for less (e.g., $675,000 for a "teardown" house) or the market units can be sold for slightly more (e.g., $45,000 more per unit), or a combination of the two, profitability could be maintained.

- **High-Rise Apartments** –including 10% of the units (i.e., 43 units) as affordable would reduce profitability dramatically, however, return metrics are still close to favourable and feasibility could be restored under certain conditions. If the land was purchased for less (e.g., $4.5 million less or a 33% reduction) or the market units can be sold for slightly more (e.g., $35,000 more per unit), or a combination of the two, profitability would still be lower, but return metrics such as IRR may still be favourable enough to move ahead with the project.

Across all typologies, developer's already charge the maximum the market will bear for each unit. The requirement to sell market units at a higher price to offset affordable units will cause significant delays as the developer waits for market demand (e.g., prices) to catch up. Given that delays add costs to projects, the developer will likely need an even higher price in the future.

These results highlight the strength of higher density projects in absorbing lower revenue affordable housing into a pro forma, plus delivering more affordable housing per equivalent unit of land area.

See **Section 1.2** for definitions of affordability.

Hard Construction Costs

Hard costs can amount to as much as 60% of a developer's costs and are highly influential on the profitability of a pro forma.

Our baseline analyses consider the median value by building type published in the Altus Construction Cost Guide (2023) however, the guide provides for both "low" and "high" estimates, which we have considered in our sensitivity analysis. Our finding suggest that:

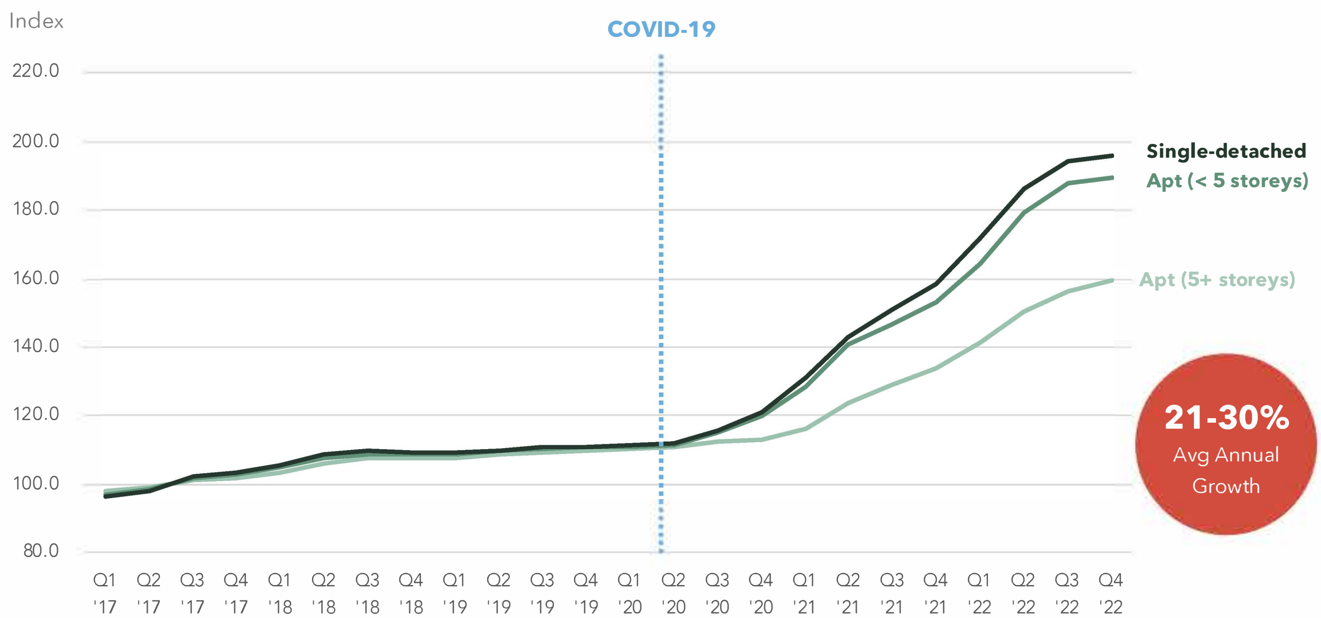
- When the high-end of the cost guide's range is considered, two of the baseline typologies (i.e., Single Detached and Rental Suburban Towns) are no longer profitable, while those which remain profitable experience a drop in profits of between 31% and 57%, leading to return metrics that no longer support investment in many of the typologies.
- Unsurprisingly, lower hard costs improve profitability for each of the baseline analyses to the point where most typologies have the potential to be profitable at the low-end of the cost guide's range. At these reduced hard cost, Low-Rise Condo Apartments in the Central Neighbourhoods and Mid-Rise Condo Apartments in the Suburban Neighbourhoods become financially feasible, or close to it. However, now profitable New Format Towns only make a small profit resulting in meager return metrics overall. Of note, no rental scenarios across all the typologies benefit enough from the reduced costs to attract much additional investment interest.

We note that the bulk of projects across all typologies are likely to experience costs closer to the median values used in the baseline analyses, and not at the extremes (i.e., neither the low-end nor high-end considered in this sensitivity). Regardless, moving forward, growth (or decline) in hard costs will continue to be of prime concern to developers as it can take several years from acquisition of the land to shovels in the ground. Costs can rise significantly over this period.

As illustrated in Figure 4.11, pre COVID- 19 construction costs rose at a steady rate, however, COVID-19 caused a major spike in cost growth that has yet to show significant signs of a return to pre-pandemic levels.

Figure 4.1e1

Construction Cost Index



Source: Parcel, based on the Statistics Canada Construction Cost Index.

Even since the early days of the supporting research undertaken as part of this study process, our team has continued to observe the negative effects of rising hard costs in our baseline analysis as we updated from 2022 Cost Guide estimates to the more recently published 2023 Cost Guide. Although the Cost Guide cautions against direct comparison to previous versions, it has been difficult to ignore the changes to the median values as we updated our baseline feasibility analysis.

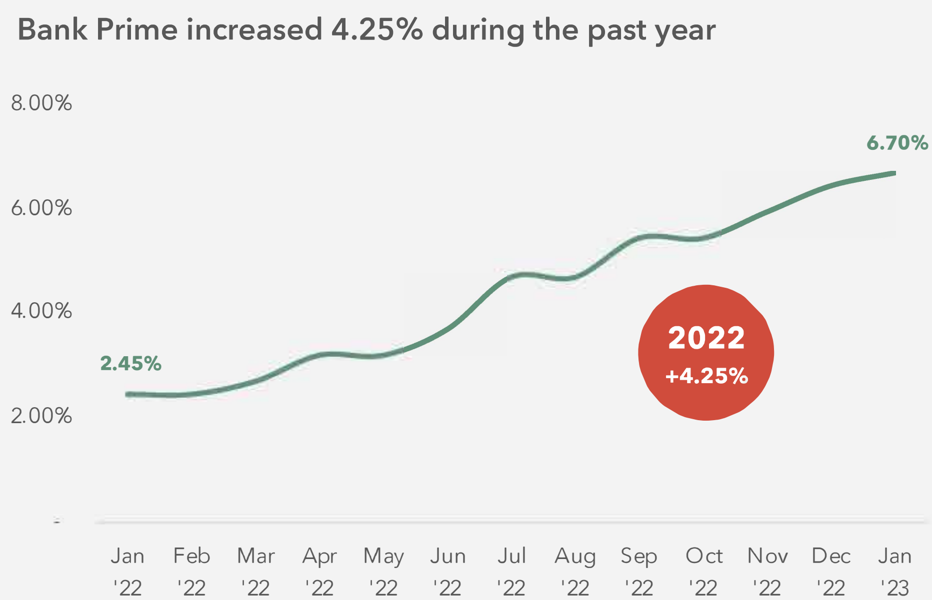
These continued updates were particularly challenging to our pro formas for typologies utilizing wood frame construction where median costs rose between 14% (single-detached) and 20% (townhouses) over this period. As a result, the baseline return metrics for these typologies (see Section 4.2) were significantly reduced.

Feasibility Profile: Other Macroeconomic Conditions

Following an extended period of notably low interest rates leading up to the COVID-19 pandemic, 2022 marked a period of notable adjustment, as recent government announcements continue to plot rates back up to approximately 6.70% (per the stated Bank Prime as of late January 2023). This represents an **increase of some 4.25% over the past 12 months alone**.

Figure 4.12

Recent Interest Rate Increases Since January 2022



Source: Parcel, based on the Bank of Canada.

In conjunction with the significant capital costs associated with developing new real estate, this can have significant impacts on financing (i.e., subject to the amount of equity available for a given project and/or the amount required to be financed via debt/loans). In particular, we note that construction financing is often tied to Bank Prime rates, with lenders typically adding 50 to 200 basis points (bps). As such, **construction financing can be as high as 8.70% today.**

Parking Costs

Another major cost element in a developer's pro forma can be the cost of delivering parking, particularly in higher density typologies.

The Altus Cost Guide estimates underground parking costs at between $70,000 and $95,000 per spot and above grade structured parking costs at between $50,000 and $75,000 per spot. Based on these estimates, parking costs can account for between 5% and 11% of costs in baseline scenarios where **structured or underground parking** may be required (e.g., mid- and high-rise apartment buildings).

For some typologies and locations, developers can charge for parking spots. For example, High-Rise condo apartments in the Central neighbourhoods have recently asked $55,000 per spot. At $150 per month, a rental apartment operator could collect just $18,000 per spot (before expenses) over a 10-year hold period. In both cases, the potential revenue associated with parking spaces is well below the cost to construct it.

There are two types of sensitivities we can apply to this cost segment:

- Like hard costs, the cost guide provides a range of costs for parking spaces, of which we have considered the median value in our baseline analyses. If the low-end of the cost guide range is applied to the Mid-Rise typologies, they still would not be profitable. If the high-end of the cost guide range is applied to the High-Rise Condo Apartment typology, profitability will decrease, however, it is unlikely that it will be to the point of being rendered infeasible on a scenario which is already feasible. This is because parking costs are a larger component of the Mid-Rise typologies due to its smaller relative scale.

- Notwithstanding the foregoing, we acknowledge that the direct cost of parking construction, as well as any potential offsetting revenue developers can charge purchasers, is beyond the City's control. The City can, however, dictate–to a certain degree[27]–the amount of parking required, which has an *indirect* impact on a development project's overall costs. This will be evaluated further when identifying potential incentives to enable missing middle and affordable housing in Kitchener.

[27] Also a function of market demand and the desire (or lack thereof) of end-users / residents to have access to parking.

Other Considerations

In addition to the more macroeconomic and largely external-facing variables highlighted above, there are many other cost-related items for which sensitivity can be tested. This includes the overall timing to approve and build housing (i.e., "speed to market"), as well as the total type and scale of development permitted (i.e., "density"). Similar to parking requirements, these and other variables within the more immediate control of the City of Kitchener have played a key role in our discussion of incentives later in this report.

See **Section 5.2** for additional exploration of incentive-based sensitivity testing.

Feasibility Profile: The Current Rental Apartment Boom

Our baseline and sensitivity analyses predict that, moving forward, purpose-built rental projects will be challenged to generate adequate returns to support investment. So why are there rental apartments that have been recently completed and/or being constructed today across the City, particularly in the Central neighbourhood?

- Planning for rental units recently completed or currently under constructed began many years prior. Consequently, the land accommodating these developments was purchased many years ago, and in some cases, these lands may have been owned for much longer, capitalized over many years under a previous income-producing use.
- As illustrated in Figure 4.11, construction costs have increased dramatically since the start of the pandemic. Recently completed apartment units may costs as much as 60% more to build today.
- As illustrated in Figure 4.12, a recent spike in interest rates is adversely affecting rental apartment operators, which can affect the cost of the permanent debt serviced by from operations-based cash flows post-construction (especially with heightened development costs).
- Every developer has different goals and return expectations, as well as skills and competencies to potentially find cost savings that others may not. Southwestern Ontario, including Kitchener, benefits from the presence of well-capitalized rental developers that are able to operate profitably.

5.0 Solutions & Implementation

Key Findings

- There are many factors that directly impact housing development trends, but not all of them are within the immediate control of the City.

- In the same way that the current housing crisis is a function of multiple factors, so too will solutions need to be multi-faceted and varied in Kitchener. Four different incentive options have been recommended for additional financial testing and evaluation in this study:

  (1) **Tax & Fee Deferrals**;

  (2) **Approval Time Reduction**;

  (3) **Height & Density Allowances**; and,

  (4) **Parking Reductions**.

- The identified "shortlist" of incentives have been evaluated against predetermined criteria relating to their Financial Impact, as well as Process / Policy / Market Feasibility to assist the City in advancing this "toolkit" towards implementation.

- For maximum impact and flexibility in seeking to enable preferred missing middle and affordable housing formats, it will **likely be necessary to combine–or "layer"–these incentives** in the Kitchener context.

- Common principles that the City of Kitchener can rely upon in future-decision making and prioritization of these incentives include: **Flexibility**, **Collaboration**, **Sustainability** and being **Outcomes-Driven**.

5.1 Context

The following provides a detailed description of recommendations for the City of Kitchener to consider in its efforts to enable missing middle and affordable housing. The recommendations and insights presented have been developed based on inputs gathered via extensive research and consultations throughout the duration of this study process (and as detailed in the foregoing sections of this report).[28]

Below is a summary of the key contextual factors that inform the recommendations presented throughout the balance of this section. These contextual factors and considerations have been validated with the City during previous study workshops.

See **Sections 2.2** and **2.3** for summary of stakeholder consultation and best practices research.

Policy and Legislative Change

At the end of 2022, the Province of Ontario introduced Bill 23 and Bill 39 with the intent of increasing housing supply in the province, including missing middle typologies and affordable housing options.

Bill 23, More Homes Built Faster Act (2022)

Receiving Royal Assent in November 2022, this legislation amends various Provincial Acts including the City of Toronto Act, Planning Act, Conservation Authorities Act, Ontario Heritage Act, Ontario Land Tribunal Act, Ontario Underground Infrastructure Notification System Act, the Municipal Act and the New Home Construction Licensing Act. Bill 23 aims to provide attainable housing options for Ontarians with a target of 1.5 million homes built over the next 10 years. It is a significant piece of legislation that is shifting the land use planning approvals environment across the province.

Bill 39, Better Municipal Governance Act (2022)

Receiving Royal Assent shortly after Bill 23, this legislation amends the City of Toronto Act and the Municipal Act to introduce "strong mayor" powers allowing mayors of Toronto and select municipalities to pass by-laws with the support of one-third of Council, provided the by-law advances provincial priorities. The Province will assess select regional governments—including the Region of Waterloo—to determine how to extend the strong mayor powers to additional regions of Ontario.

[28] Including stakeholder consultations (research interviews and workshops with both public and private sector industry representatives), data and document review, best practices research, as well as our parcel fabric analysis.

Policy changes stemming from Bill 23 and Bill 39 will have immediate financial, operational and administrative impacts on Ontario municipalities. The City of Kitchener will need to consider the impact of this evolving policy environment as it explores incentives suitable to the Kitchener context.

For the recommendations in this report, an analysis has been provided for recommendations in which legislative change is expected to have a material impact on the recommendation itself and how it is implemented at the City. Some of the most notable legislated policy incentives include:

Inclusionary Zoning

A maximum 25-year affordability period, a 5% cap on the number of affordable units that can be required and a standardized approach to determining an affordable price/rent for inclusionary zoning units.

Streamlining Development / Reducing Costs

Up to three (3) additional residential units are now permitted on residential lands as-of-right without needing a by-law amendment. These additional units, both attached (basement units, upper floor units) and detached (garden suites, laneway suites), are exempt from development charges and parkland dedication fees, as well as several municipal requirements such as restrictions around minimum unit size and parking requirements.

Development Charges, Community Benefit Charges & Parkland Dedication

Inclusionary zoning units, affordable housing units, and attainable housing units (to be defined in future legislation) are exempt from development charges, community benefit charges, and parkland dedication, while privately-owned-public-spaces are eligible for parkland credits. Specifically, development charges in new by-laws, as of January 1, 2022, will be phased-in over five years and reviewed at least once every 10 years, helping to reduce the administrative burden on municipalities while increasing cost certainty. Parkland requirements for higher density residential developments have been reduced, aiming to reduce the costs of new condominiums and apartment buildings, and the fee has also been frozen at the site plan/zoning application stage. Lastly, for infill developments, the maximum community benefits charges is based on the land value of just the new units.

Increased Density near Transit Hubs

Bill 23 proposes to create as-of-right zoning in respect of height and density near major transit stations. Municipalities would have a one-year window to update their zoning by-laws to specify minimum heights and densities following their Official Plan policies relating to protected major transit station areas coming into effect.

Site Plan Controls

With an aim to reduce the development approvals timeline, developments of ten (10) or fewer residential units are no longer be subject to Site Plan Control. Where a development still requires a site plan, site plan review focuses on health and safety issues rather than architectural or decorative landscaping.

Adjustment in Upper-Tier Planning Responsibilities

Numerous upper-tier municipalities, including the Region of Waterloo, are no longer involved in the Planning Act approval process for lower-tier municipalities' Official Plans, Official Plan Amendments and Plans of Subdivision[29].

Reduced Public Meetings and Third-Party Appeals

Municipalities are no longer required to hold public meetings for each Draft Plan of Subdivision and can establish a public consultation approach that works best for their unique community. Additionally, Planning Act decisions are no longer subject to an appeal by anyone other than the applicant, municipality, the Minister, or various public bodies.

Ontario Land Tribunal (OLT)

The Province has expanded the OLT's powers to dismiss a proceeding without a hearing if the party who brought the proceeding has contributed to undue delay, dismiss a proceeding entirely if the party has failed to comply with the Tribunal order and order an unsuccessful party pay a successful party's cost.

Cultural Heritage Planning

While the framework for the Ontario Heritage Act remains in place, municipalities will have a reduced ability to designate a property under the Ontario Heritage Act.

[29] Note: not yet in effect

Success Factors: Missing Middle & Affordable Housing

There are several factors that can encourage or hinder development of housing typologies in any jurisdiction. Municipalities are often seeking the right balance between: (i) implementing requirements that ensure quality of output and cost-recovery for development; and (ii) creating favourable/incentivized conditions for industry seeking to develop.

Aligned with the incentive types originally identified in Section 2.3, the factors identified typically fall into three categories–Financial, Process and Policy–and, taken together, impact the costs/revenue potential of a project. Many of these factors are inter-related and are not necessarily mutually exclusive.

The factors are summarized below and have been **colour-coded based on the identified impact of each factor in the Kitchener context**. It is important to note that many of these factors are out of the control of the City to change or address, while others present opportunities through the introduction of new targeted incentives.

Figure 5.1

Summary of Factors Impacting Housing Development

Soft Costs (e.g., consultants, engineers)	Construction Costs (supply and labour)	Availability of Financing	"NIMBY" Roadblocks	Rent Control, Rate of Expected Return	Yield Allowances (i.e., density / GFA permitted)
Market Demand	Land Value & Availability	Fees and Permit Costs	Industry Capability / Capacity	Zoning and By-Laws	Time to Approval (process delays / inefficiencies)

Low Impact Factor: minimal impact on the development of missing middle / affordable housing in Kitchener.

Moderate Impact Factor: some impact on the development of missing middle / affordable housing in Kitchener.

High Impact Factor: significant impact on the development of missing middle / affordable housing in Kitchener.

Source: StrategyCorp

These factors and their degree of impact were presented to the City of Kitchener for consideration and validation and have since acted as important guidance for the types of incentives identified and shortlisted for implementation. Shortlisted incentives have been selected based on their ability to potentially address–or improve-upon—moderate- and high-impact development factors. Ultimately, our analysis found that these primary factors hinder the development of missing middle and affordable housing because of their impact on profitability. Each factor and the impact it has on housing development in the Kitchener context is outlined below.

Low Impact Factors

Soft Costs

Projects incur numerous soft costs during the development process including consultant/ engineering fees, development application fees, etc.

Market Demand

The demand for missing middle and affordable housing continues to grow as the city becomes an increasingly popular destination to live and work.

Moderate Impact Factors

Construction and Labour Costs

Construction and labour costs are reaching record levels in the Golden Horseshoe. Though broadly out of the control of the City, this is an important market reality when industry decides where and what type of housing they will build.

Land Value and Availability

Like much of the Golden Horseshoe, land values are increasing rapidly in Kitchener. As the cost of acquiring land grows, industry will attempt to maintain necessary profit margins through higher development yield or density. Higher density developments have a place in addressing the City's affordable housing needs, but do not directly support "missing middle" or mid-rise typologies, necessarily.

Availability of Financing

Typically smaller profit margins on missing middle and affordable housing developments result in challenges securing financing for a project.

Fees, DCs and Permit Costs

Prohibitive fees and charges can deter development of missing middle typologies and affordable housing given their impact on already low profit margins. The City has made notable progress to date to make fee/charge exemptions for affordable housing projects and Bill 23 introduces changes that should further relax the fee burden on industry.

"NIMBY" Roadblocks

Public pushback and "not-in-my-backyard" (NIMBY) attitudes present challenges for development projects in Kitchener and other municipalities. While most residents are not vocal against developments, a core group of strong voices that advocate to their local representatives/City Council to avoid what they believe to be extensive or over-development are a barrier to development because of their ability to create process delays through legal/procedural appeals, extensive public consultation, and unfavourable news coverage.

Industry Capability/Capacity

While the development community recognizes that there is a need for missing middle housing, there is limited interest in relatively low yield projects. Large developers building high-rise buildings are accustomed to generating higher returns (i.e., total dollars) and may not be interested in developing other housing typologies that would impact their profit. This lack of interest means that developers often do not have in-house skills and processes to deliver alternative typologies and models of housing. Financial incentives and risk perceptions of developers along with construction costs and market fluctuations prevent large developers from taking interest in missing middle housing typologies, as well as potentially investing in additional resourcing/funding to develop their capabilities.

High Impact Factors

Expected Return on Sale/Rents

Until affordable housing programs (rent and ownership) result in similar or comparable returns to market housing, there will be an inherent barrier in terms of interest and feasibility to construct these types of projects.

Zoning and By-laws

The City's current zoning by-laws have made it difficult to diversify housing stock within existing neighborhoods as many typologies are prohibited.

Yield Allowance

If industry is entitled to more development yield, they will be inclined to maximize the number of units in pursuit of maximum profit. Interviewees highlighted that higher density projects have a place in addressing the City's affordable housing needs, but do not directly support missing middle or mid-rise typologies.

Time to Approval

Delays in the approvals process can increase costs such that projects become unviable. It is important to note that some process delays stem from developers and industry lacking the experience and knowledge of application nuances and differences. Fast-tracking or exempting desired housing from process requirements or steps can help to increase project viability.

Our analysis found that the City has already undertaken efforts to better understand its broad affordability needs and priorities, and has made progress by implementing unique solutions to address the housing factors above. This creates the right conditions for City staff and stakeholders to **introduce further enhancements and changes to enable the development of the specific housing typologies that meet the needs of those who live and work in Kitchener**.

While missing middle housing typologies may be part of the solution, the City must also consider how to encourage and incentivize the development and retention of affordable housing units. Enhancements must consider the industry pro forma and how the City could help create conditions that encourage profitability and/or an understanding of the value of the long-term investment in missing middle and affordable housing.

Guiding Principles

With an understanding of the critical success factors, four principles have been identified to guide recommendations to introduce and improve the incentive environment for missing middle and affordable housing.

The incentives presented in this report cut across several different categories and are expected to have varying degrees of impact on the development of missing middle and affordable housing.

In addition, each incentive will require its own approach to successful implementation, relying on different tools and levers to execute. Despite this variability, there are common principles that the City can adopt as it decides upon and ultimately implements the incentives described in this report. The principles are designed to provide City staff and Council with a clear sense of the "mindset" that staff and leaders must adopt to effectively enable missing middle and affordable housing, generally take bold action to address the housing and affordability crisis, and ultimately meet provincial targets for housing by the 2031 deadlines.

Principle #1: Outcomes-Driven

In the face of a multi-faceted housing "crisis" in the province, it will be critical for the City to focus on incentives that are expected to have tangible impact on the development of missing middle and affordable housing typologies. Each incentive—like any policy or process change—comes with trade-offs, and the City must account for whether it is in the form of additional administrative/resource costs and/or foregone or deferred collection of municipal revenues.

Principle #2: Flexibility

The City should introduce incentives and/or make change that creates a supportive environment that is welcoming to unique housing typologies and projects, and that broadly allow projects that would not traditionally succeed—due to one or a combination of policy, process or financial reasons—to be approved and ultimately be constructed. Needs will vary widely from project to project and developer to developer depending on a wide range of variables.

There is no single "silver bullet" solution to address housing needs and gaps and the most successful jurisdictions have a wide-ranging toolkit that is focused on achieving outcomes, rather than rule-making and rule-keeping. As such, flexibility can be built into the criteria projects need to meet to qualify for incentives and in the administration of incentive programs.

Principle #3: Collaboration

Increasing the supply of housing is a priority for municipalities across Ontario and upper- and lower-tier municipalities are interested in and responsible for enabling missing middle and affordable housing. The incentives or changes pursued by the City can only be successful if done through collaboration with Regional partners. In the case of the Region of Waterloo, important commitments and progress has been made towards enabling missing middle and affordable housing typologies, and additional efforts by the City must be complementary and supported by Regional partners. The City should also continue to foster collaboration with the development community. The City of Kitchener staff have a positive working relationship with the local development community allowing for the exchange of ideas that supports the City in their pursuit of continuous improvement of processes to be efficient and eliminate wasted time.

Principle #4: Sustainability

Incentives for missing middle and affordable housing must consider the long-term sustainability of the investment. Incentives—particularly those that are financial—must balance the potential for additional housing with the impact on municipal revenues, the tax base, and ultimately municipal service areas. Incentives should also support projects that are expected to be affordable long term, for example, those undertaken by non-profit affordable housing organizations.

From Guiding Principles to Implementation

Following these principles, the remainder of this section presents two key recommendations and four incentive options that are designed to enable the creation of more missing middle and affordable in Kitchener.

5.2 Recommendations

Two multi-pronged recommendations have been identified for the City to further enable missing middle and affordable housing development.

Recommendation #1:

Solidify the City's vision and appetite for change in the realm of missing middle and affordable housing, including alignment of that vision with Regional priorities.

Affordable housing is a priority for Kitchener Council, City staff, and residents, and the City has completed substantial work to understand and address affordability needs as well as enable the creation of missing middle typologies including:

- As-of-right permissions for ADUs and three units on all serviced residential lots through new Zoning By-law 2019-051;
- Housing for All (2020) housing strategy;
- Fee deferrals and exemptions for eligible projects;
- Process and policy efficiencies;
- Make it Kitchener 2.0 and its emphasis on affordable and attainable housing; and,
- Backyard home design competition.

However, the development landscape and housing needs of residents continue to evolve. Below are some of the ways the City can **re-confirm and invigorate its vision and strategic approach to enabling missing middle/affordable housing**.

Confirm & Publicize Growth Targets:
Missing Middle & Affordable Housing

Bill 23 has set specific development targets for cities across the Province to reach by 2031, collectively contributing to a province-wide goal for the construction of 1.5 million homes over this period. The City of Kitchener has been given a target of 35,000 homes to be built by 2031, ranking among the top ten targets in terms of number of units. These targets, along with all the other transformational changes proposed in recent legislation (including Bill 23 and Bill 39) present a significant shift in the role and positioning of municipalities in development and growth. Previously acting primarily as approvers of market plans for development and growth, municipalities must now proactively encourage the volume and type of development that will enable the City to achieve its housing targets.

It is recommended that the City revisit and refresh its Housing for All strategy to reflect new targets – while the strategy remains relevant in terms of its priorities and content, it is now operating in a transformed policy environment that should be accounted for. This could include establishing an affordable/ missing middle housing target within the 35,000 due for construction by 2031. Committing a portion of this target to missing middle/ affordable housing must be done with careful planning to ensure the commitment is meaningful for Kitchener's needs, but also allows the City to maintain its momentum towards meeting its target by 2031.

Deepen Regional Partnerships

Even in the face of impending change vis-à-vis Bill 39, regions and lower-tier municipalities continue to have complementary and at times overlapping responsibilities when it comes to planning, growth, development and affordable housing. The analysis completed for this project revealed strong pillars and foundations between City and Region of Waterloo staff and teams, but also room for improvement in how the two tiers collaborate day-to-day and strategically when it comes to enabling missing middle/affordable housing development. From a day-to-day/operational perspective, there are misalignments in process steps and policy directions that can create added churn and administrative burden upon applications/applicants (e.g., significantly different policy direction for truck turnarounds/the planning specifications for city vs. regional roads). At a strategic level, the City and Region should find opportunities to continuously collaborate to ensure targets, processes and policies established remain complementary to each other's vision for affordable housing. In addition to relationships with the Region, the City should continue to foster relationships with counterparts in other regions to ensure continuous learning and sharing of opportunities.

Educate and Galvanize the Public at-Large

Public support—or disagreement—about the value and importance of constructing missing middle/affordable housing can "make or break" a municipality's ability to approve and support these types of projects. As described above, poor public sentiment towards missing middle/affordable housing is a factor that has a tangible impact on the speed and completion of missing middle/affordable housing typologies. As the policy environment lends itself to change, the City should develop a plan for education and information campaigns to Councillors and the Public that signal the importance of this type of housing city-wide. In addition, the City should plan for project-specific communications that informs the public of the benefits of these typologies, and dismiss outdated stigmas or assumptions about higher-density housing typologies.

Build Capacity of Industry Players:
Non-Traditional Developers and Not-for-Profit Organizations

It is important to acknowledge that there are individuals, as well as small and large businesses of all kinds currently involved in—or looking to get involved in—development in Kitchener. While larger-scale and tenured players can quickly pivot to accommodate changes to application requirements, fee and tax structures, and process steps, non-traditional developers - social enterprises, "mom and pop shops" that are small-scale in resourcing and volume constructed, and/or not-for-profit housing providers/developers who are working with relatively thin margins - can often get "lost in the shuffle". Currently, the City does notable work to build the capacity and capability of these non-traditional developers through an affordable housing concierge program. Our analysis reveals that this program achieves dual outcomes: (i) supporting applications to navigate the process and reach approval without significant issue or roadblock; and (ii) educating the applicant along the way about the process, City policies and the nature of planning decisions and why they are made. The City should consider ways to complement this program with educational sessions, tools and templates, process incentives (i.e., "queue jumping" for affordable projects), and continuing with technology improvements that simplify the user-end experience and optimizes quality at the same time.

Deepen Industry Relationships

The City already has infrastructure in place to enable collaboration with industry stakeholders. This includes operational items like application meetings, terms of reference and other tools that enable the applicant to navigate the process simply, and strategic infrastructure like an ongoing staff-developer committee where opportunities for improvement are addressed and actioned by City staff (i.e., when feasible and possible). It is recommended that—as these recommendations are implemented and Ontario's affordability crisis persists—the City find ways to co-design and collaborate now and in the long-term with a broad cross-section of industry players. Specifically, it is recommended that City planning staff and their counterparts in private industry (consultants, engineers, planners, market advisors and growth strategists) build parallel relationships to those between senior City staff and heads of key development organizations. These relationships ensure industry and staff have a common and consistent understanding of their working realities and can work through policy/process roadblocks that are persistent for both staff and applicant experts.

Align with the Broader Policy and Program Environment

As described throughout this report, affordable housing has emerged as a top-of-mind policy and program issue for all levels of government in Ontario and Canada. With this onset of financial investment and program change to support the supply of more affordable housing, interested applicants and municipal staff are faced with a patchwork of funding and incentive programs. In the best-case scenario, these funds and programs complement each other. In the worst-case, they breed confusion / more administrative requirements, resulting in underutilization by industry in the delivery of projects.

In the selection of incentives and the appropriate legal mechanism for implementation, the City must consider how the scope and implementation of this infrastructure can be complemented by programs and funding at other levels of government. For many municipalities offering development incentives for affordable housing, applicants are encouraged to seek funding support from other government programs to make projects more viable. Depending on how Kitchener defines "affordable" or "missing middle" housing in the context of the planned incentives, it will be important for the City to align incentive eligibility and scope with existing federal and provincial programs, such as the Rapid Housing Benefit, National Housing Co-Investment Fund and the Rental Construction Financing Initiative. Recommendation #2 highlights potential incentives, describes potential legal mechanisms for implementation and identifies regional considerations where relevant / appropriate.

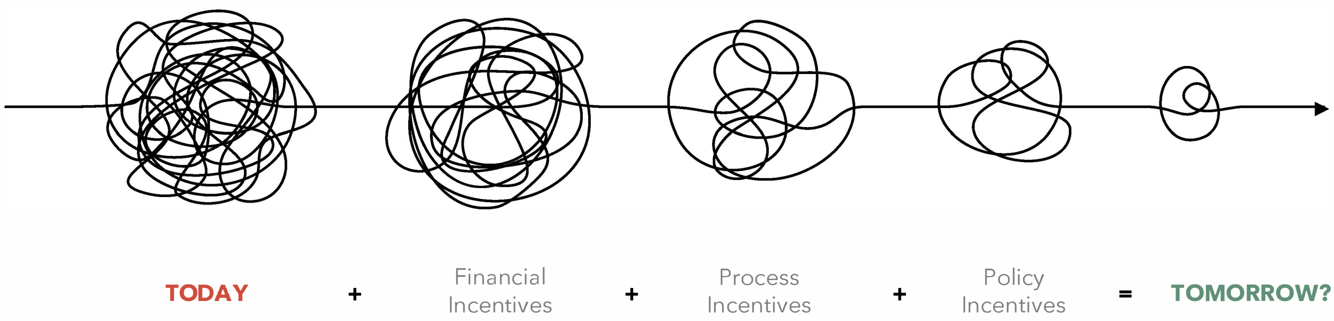
Recommendation #2:

Further assess and implement a range of incentives that enable the construction of missing middle and affordable housing stock in the City of Kitchener.

Just as the current housing crisis is a function of multiple factors, so too will solutions need to be multi-faceted and varied. To this end, an appropriate "toolkit" of incentive options will be necessary to provide flexibility to the City of Kitchener in targeting different housing typologies and/or levels of affordability, as well as providing the ability to adapt with evolving market conditions and development patterns.

Figure 5.2

Unravelling Complex Housing Supply Issues with Multiple Incentive Tools



Source: Parcel. For illustration purposes only – a more detailed overview of specific incentive options and related "next steps" for consideration by the City of Kitchener have been itemized herein.

For the purposes of this report, four (4) distinct incentive options have been identified for further testing in the Kitchener context, as summarized in Figure 5.3.

Evaluation Criteria

Each of the incentives has undergone a detailed analysis to determine their relative impact (i.e., degree of change expected) and overall feasibility to help the City prioritize options for implementation. The methodology for this analysis—as detailed throughout the balance of this section—includes multiple distinct elements, which have been validated with the City over the course of the study, including:

Incentive Identification & Description

A broad description of the identified incentive has been included (i.e., "what is it?"), in addition to a more specific approach to implementation of the incentive for the Kitchener context (i.e., "how would this be implemented in the Kitchener context?"). Incentives have also been categorized into three types: Financial, Policy and Process.

Feasibility Analysis

A detailed evaluation and prioritization of identified incentive options has been undertaken, based on the following criteria:

- **Financial Impact** – Building on the results of our baseline financial feasibility, supplementary sensitivity analyses have been prepared with the goal of determining whether the identified incentives have material impact on the development of missing middle and affordable housing. In other words, could implementation of the incentive result in: (i) measured changes in the developer pro forma to improve the viability of missing middle typologies; and/or (ii) the construction of additional affordable housing units or projects?

- **Policy Feasibility** – To confirm the degree of policy change that could be required if the incentive were to be implemented (i.e., "Is the policy environment at the City conducive to the incentive?" / "What must change?").
- **Process Feasibility** – To confirm the degree of process change that could be required if the incentive were to be implemented (i.e., "What type and degree of process change is required?").
- **Market Feasibility** – To establish the market appetite for the incentive / change (i.e., "Has the market expressed interest in this incentive"?).

What Does it Mean for Kitchener?

Based on the foregoing evaluation, additional commentary and considerations have been identified for the City with respect to: (i) contextualizing the effectiveness of the incentive in a Kitchener-specific context; and, (ii) the relative merits of the incentive relative to other options identified, all things considered.

See also **Section 5.3** for separate evaluation of incentives' alignment with Guiding Principles.

Figure 5.3

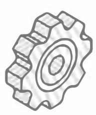
Identified "Shortlist" of Incentive Options for Testing

Financial

Incentive #1: Tax & Fee Adjustments

- Exempt tax requirements for applicable rental and ownership development projects for the duration of development or longer.
- Rebate or waive DCs and fees for applicable missing middle and affordable housing typologies.

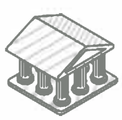
Process



Incentive #2: Approval Time Reduction

- Introduce further process change and improvement to ultimately produce a meaningful reduction in approval timelines for development applications, particularly those that meet missing middle and affordability criteria.

Policy



Incentive #3: Height & Density Allowance

- Introduce further as-of-right provisions in existing City (and potential Regional) policies and by-laws to permit more efficient use of land.

Incentive #4: Parking Reduction

- Introduce further reductions to parking requirements to both reduce costs and enable more efficient use of available land.

Source: Parcel and StrategyCorp

Incentive #1: Tax & Fee Adjustments

Tax and fee adjustments are a financial tool to encourage growth and development of all types in municipalities. More specifically, these adjustments typically result in: (i) permanent or temporary deferrals or exemptions from municipal taxes such as property tax; or (ii) permanent or temporary deferrals or exemptions from charges and fees associated with a development application and/or permitting. The typical rationale for tax and fee adjustments in the context of affordable housing is that these changes will have a direct, positive impact on the project's financial feasibility and will therefore attract increased levels of development of eligible housing types. Tax and fee adjustments have been introduced in several different ways in cities across Canada and the globe. Below are a small number of selected Canadian examples:

- The City of Peterborough's Municipal Housing Facilities property tax exemption provides full or partial property tax exemptions for up to 10 years for affordable housing projects.
- In British Columbia, Victoria and Langford offer a 100% permissive tax exemption to not-for-profit affordable housing projects.
- The City of Toronto exempts various developments including residential component of a building with no more than four (4) dwelling units, and the creation of one (1) ADU in an existing residential building, or a laneway suite or garden suite on a lot from parkland dedication requirements

Impact Analysis: Incentive Scenario Tested

For the purposes of this report, three (3) types of tax and/or fee adjustments were tested for their effectiveness, potential limitations and feasibility in the Kitchener context:

- For Ownership projects: **property tax exemption** over the course of development (i.e., 100% exemption during the period of entitlements and construction, which vary by typology/ scale of development).
- For Rental projects: Ten-year **Tax Increment Grant (TIG)**[30].

[30] In general, tax increment financing uses future incremental property tax revenues generated by the redevelopment of a property to offset the upfront costs of redevelopment. In other words, as a property or area is redeveloped, the increase in the assessed value of the property raises the amount of taxes payable by that property. The difference between the taxes paid by the property prior to redevelopment and the taxes paid following redevelopment is referred to as the "tax increment."

- For Ownership and Rental Missing Middle / Affordable Housing Projects: **Full Development Charge and Application Fee exemption**[31].

Feasibility Analysis

Financial Impact – Moderate

Key Question: *Does it help the viability of missing middle typologies?*

- Property tax exemption during development does not improve any of the missing middle ownership typologies to the point of financial feasibility, even at 100% market rates. This is largely a function of: (a) short period of development; and (b) relatively low-value single detached properties.
- A 10-year TIG improves the CoC returns of the rental 8-Plex and Low-Rise rental typologies to approximately 3%, in-line with a Government of Canada 10-year bond yield. Some long-term hold developers may consider this financially feasible.
- A full exemption of City DCs and Planning Fees helps the ownership 8-Plex enter into the low end of financially feasible, however, only at 100% market prices. The improvements to financial feasibility across the other typologies, both ownership and rental tenures, is not significant enough to make a meaningful difference.

Key Question: *Does it enable the delivery of affordable units?*

- Given that the exemption of property taxes on missing middle ownership typologies does not result in financial feasibility even at 100% market rates, it is not surprising that it also does not enable any affordable units either.
- Looking beyond missing middle to the High-Rise condo apartment, a combination of stronger financial feasibility at baseline and property tax exemptions during development (as well as recent changes included in Bill 23 with respect to affordable units) could enable **up to 15% of units as affordable**.

[31] Bill 23 exempts development charges for affordable residential units, attainable units, non-profit housing development and affordable housing units and reduces development charges for the development of rental housing.

- Although a 10-year TIG improves all of the rental scenarios, the improvements are not enough to enable any affordable units, even in the High-Rise apartment typology.
- No missing middle typology across both tenures can support affordable housing as a result of a DC and Planning Fee exemption alone.
- Similar to the property tax exemption during development, the High-Rise condo apartment could support up to 15% of units as affordable, in part due to an already strong baseline feasibility, if it is exempt from City DCs and Planning Fees.

Key Consideration: Municipal Revenues & Finances

As it relates to these types of Financial incentives only, a demonstrative analysis testing the potential impact on municipal revenues and finances has also been included in addition the baseline evaluations against core criteria identified. This analysis is demonstrative in nature and designed to signal to the City the degree of impact of the incentive on the municipality's "bottom line". It is recommended that a more in-depth Fiscal Impact Analysis (FIA) be undertaken that takes into account the various municipal costs funded through property tax revenues and user fees, once the City identifies its strategic priorities moving forward.

For illustrative purposes, we have estimated the foregone revenues to the City from property tax exemptions, TIGs, planning fees exemptions and DC exemptions associated with the intensification of 780 potential missing middle parcels by 2031 (per Section 3.3).

The **full suite of financial incentives is estimated to cost the City between $2.7 million and $2.9 million annually**, depending on the proportion of projects delivered as ownership or rental in tenure. Interestingly, we note that it is less expensive for the City to provide the full suite of financial incentives to a rental 8-plex—of which there is an abundance of suitable parcels across the city, as noted in Section 3.3—than an 8-plex condominium building.

We note that a collaborative effort in providing financial incentives between the City and the Region (e.g., including both City and Regional portions of the property tax in the TIG or DCs) would share the costs to implement more equally, while unlocking significant property tax uplift.

Policy Feasibility – Low

The municipal policy environment—primarily the introduction of Bill 23—has begun to create the conditions for municipalities to adopt tax and fee adjustment incentives. As described above, Bill 23 has mandated DC exemptions for eligible missing middle/affordable housing units, including defining the eligible typologies within the legislation.

There is an opportunity for the City to consider ways to push beyond the legislative change. One example includes implementing a "sliding scale" of exemptions that progressively decrease in value/amount as prices and rents move towards market rates. For example, a development with rents at 90% AMR would receive smaller exemptions than a development with rents at 80% AMR per the Bill 23 definition of affordable.

Process Feasibility – Low

It is likely that the introduction of tax and fee incentives will introduce additional administrative burden upon the City to execute both from a technical perspective (during the application/development process itself) and an administrative perspective (to oversee and manage the deferral over the relevant period).

Market Feasibility – High

There is strong interest and preference for tax and fee adjustment incentives amongst industry players consulted as part of this work. While the industry likely prefers grants or permanent exemptions, there is still a perception amongst industry that deferrals result in immediate, material improvements to feasibility.

What Does This Mean for Kitchener?

In pursuing financial incentives, the City must consider the careful balance between adopting financial incentives that can incite change but avoid significant negative impacts on municipal revenues/tax base. The analysis completed reveals that there are notable barriers to entry for both missing middle and affordable housing projects, which are inherently less feasible when compared to other identified "winners" and comparable investment opportunities. This impact analysis reveals that, though traditionally cited by industry as a highly impactful incentive, financial incentives alone do not necessarily produce material impacts on project feasibility and/or the construction of missing middle typologies and/or affordable housing specifically. While tax and fee adjustments can be "seen and felt" immediately by industry, it may not create the conditions for enough missing middle/affordable housing development to justify the notable impact on municipal revenues in the short- and long-term.

The tax and fee adjustments mandated as part of Bill 23, and any other existing tax and fee exemptions in place by the City, may not—in and of themselves—be sufficient in terms of enabling missing middle/affordable housing development, unless combined with other incentives. Therefore, the City's focus may be best directed at combing financial incentives with other types of policy and process incentives to enable development.

Incentive #2: Approval Time Reduction

There is continued interest among Kitchener staff and the development industry to continue to find process efficiencies that reduce overall development timelines. To date, the City of Kitchener has done notable work to apply Lean principles to their existing development review process, having undergone a detailed process review in recent years. This review resulted in several important process improvements that are aligned with industry best practices, with a particular focus on simplifying, adjusting or removing process steps, requirements and/or tools to allow projects to proceed more efficiently through the development process.

Going forward, further efficiencies should focus instead on identifying ways to help the applicant reduce potential overhead, soft costs or costs associated with time delays for a project. Below are some ways the City could further reduce development approval timelines, which can be further explored for implementation in the City context:

- Continued **simplification and reduction of mandatory application requirements** for projects that meet affordability criteria. The City already has in place or is launching tools and methods to help ensure applicants are only asked to meet critical requirements that mitigate municipal risk associated with development. This includes preliminary meetings prior to application filing and an ongoing effort by the City to further specify their Terms of Reference for common application types;

- Further **delegation of authority to staff**, including revisiting previously discussed opportunities like heritage permits;

- **Formalize the existing concierge service** available to affordable housing project so that all projects that meet affordability criteria are offered this service by the City. In other jurisdictions, programs like this are often accompanied by formal service level commitments that are notably shorter than the experience of a "typical" application. This will require a detailed resourcing analysis by the City to confirm if existing resources have capacity to meet potential demand, and what adjustments would be required to build out the team;

- More focused / streamlined **public meeting requirements**, both through opportunities introduced via new provincial legislation, increasing as-of-right zoning and Official Plan permissions such that rezonings and Official Plan Amendments are not required, as well as the introduction of additional policy frameworks to guide and permit staff decision-making in areas like heritage conservation. Policy frameworks that dictate the City's position should focus on balancing the rights of infrastructure seeking to be protected with the need for flexibility to introduce change through "gentle density"; and,

- Rather than default to what can commonly be characterized as a "debate-based" or "negotiation-based" approvals system, the City should **consider more templated approval systems** to foster replicability in preferred housing forms.

Impact Analysis: Incentive Scenario Tested

For the purposes of this report, the impact analysis will assume that the cumulative implementation of process improvements by the City will result in the following approval time adjustments:

- Reduce development entitlement period from 12 to six (6) months for Plexes; and
- Reduce development entitlement period for Low-Rise, Mid-Rise and High-Rise typologies from 24 to 12 months.

Feasibility Analysis

Financial Impact – Low

Key Question: *Does it help the viability of missing middle typologies?*

- A six-month reduction in the entitlement and planning timeline of the 8-Plex helps the ownership tenure become financially feasible, however, the rental tenure remains challenged.
- In all other missing middle typologies across both tenures, even a 12-month reduction was not enough to make them financially feasible.

Key Question: *Does it enable the delivery of affordable units?*

- A six to 12-month reduction in the entitlement and planning timelines across the missing middle typologies does not enable any affordable units.
- A six-month reduction, combined with strong baseline feasibility, could unlock up to 15% of High-Rise condo apartment units as affordable. High-Rise rental apartments remain financially unfeasible despite the shortened timeline.

Policy Feasibility – Moderate

The provincial policy environment has begun to create the conditions for municipalities to introduce further process efficiencies and improvements in several areas including development approvals and heritage conservation. Recent provincial legislation establishes several "starting points" for process efficiency that the City can either implement as-is or look for ways to go beyond the baselines or benchmarks set in the legislation. Within the City itself, the Housing for All Strategy sets the tone for continuous change to meet targets and the City's goals.

Process Feasibility – Moderate

The City has established a culture of continuous improvement as a result of work done to date to improve the development approvals process, which creates the conditions for further conversations and adjustments to all process elements.

Market Feasibility – Moderate

In a broad sense, industry players consistently cite process improvements as impactful to the project "bottom-line". In some cases, the efficiency of the development approvals process can be a make-or-break factor when organizations are deciding what typology or scale of housing they construct. In other words, the more efficient the development process is, the more flexibility the industry has to consider including traditionally less profitable elements as part of projects (i.e., the difference between building a project with all market-rate housing vs. housing with a mix of rental or ownership structures that could include affordable). To encourage missing middle typologies, further process improvement must be implemented with smaller scale, less sophisticated developers in mind as they often require the most support to successfully navigate the process. The City should consider education and/or capacity-building opportunities for these types of industry participants. This could include information/awareness sessions about the process and allocating a project manager/concierge to all projects that meet stated criteria.

What Does This Mean for Kitchener?

Although generally less impactful to development feasibility relative to other variables and incentive options evaluated, reducing delays and improving speed-to-market can certainly be beneficial to the "bottom line" of developers. While improved timelines are unlikely to "make" a pro forma, in and of themselves, a lack of speed can effectively "break" a pro forma (i.e., in the face of undue or unnecessary delays). More broadly, both public and private sector participants tend to agree that more housing is needed in Kitchener, and quickly.

Continued work by the City to find process improvements and efficiencies is an important part of the "full picture" of solutions and tools available to enable missing middle/affordable housing development. Process change may or may not result in further reductions in process steps or requirements, but instead involves introducing more clarity and more procedural tools (i.e., templates, etc.) that ensure depth of understanding between applicant and City staff. This means that resourcing levels should be consistently reviewed in the context of process change to ensure the right skillsets and headcount are in place to achieve the desired outcome of process efficiency.

Incentive #3: Height & Density Allowance

Height and density permissions can significantly affect the creation of missing middle and affordable housing by either limiting or allowing both where and how it can be built. For example, permissions may prohibit missing middle typologies in certain areas of the city and/or the height and density required to make it financially viable to include affordable units as part of a development. Increasing height and density permissions as-of-right across both land use and zoning regulations will result in a more supportive regulatory environment for missing middle and affordable housing.

Impact Analysis: Incentive Scenario Tested

Three demonstrative policy changes were tested for impact:

- Increasing the low-rise typology to six (6) storeys;
- Increasing the mid-rise typology to twelve (12) storeys; and,
- Adding up to 3.0 FSR to the high-rise typology (with an aim of enabling more affordable units).

Feasibility Analysis

Financial Impact – High

Key Question: Does it help the viability of missing middle typologies?

- The addition of two storeys (provided that significant setbacks are not required) to the 4-storey Smart Density Low-Rise concept enables the ownership tenure to become financially feasible at 100% market rates in both the Central and Suburban areas. Although the financial feasibility is improved in the rental tenure, it is likely not enough to warrant significant investment interest.

- The addition of six storeys (provided that significant setbacks are not required) to the 6-storey Smart Density Mid-Rise concept enables the ownership tenure to become financially feasible at 100% market rates in both the Central and Suburban areas. Although the financial viability is improved in the rental tenure, it is likely not enough to warrant significant investment interest.

Key Question: Does it enable the delivery of affordable units?

- Although additional density helps the financial feasibility of both the Low-Rise and Mid-Rise typologies, it alone is not enough to unlock any affordable units in the scenarios. Furthermore, the Official Plan currently limits the floor space ratio (FSR) to between 0.6 and 0.75 for Low-Rise and 2.0 for Mid-Rise, limiting how additional storeys can be accommodated, particularly on smaller sites. FSR limits should be evaluated in tandem with any additional height allowances so as to not adversely affect smaller sites.

- In order to unlock up to 20% of units in the High-Rise condo apartment as affordable, at least an additional 3.0 FSR is required. Additional density alone does not help the High-Rise rental tenure scenario, as the baseline analysis resulted in overall revenue-per-square-foot measurements that were lower than the corresponding costs per square foot. As such, there any additional density without some form of cost per square foot reduction would only result in additional losses.

Policy Feasibility – Moderate

The municipal policy environment (primarily the introduction of Bill 23) has begun to create the conditions for municipalities to adopt height and density changes described earlier in this document. This not only sets baseline conditions for the City, but creates an opportunity for the City to consider opportunities to go beyond what benchmarks legislation has set.

Process Feasibility – Moderate

Changes to height and density allowances will require staff resources to amend relevant policy documents (Official Plan, Zoning By-law 2019-051) as well as conduct public consultation required of Official Plan and/or Zoning By-law amendments.

Market Feasibility – High

More permissive as-of-right zoning and land use rules create the conditions for industry to pursue missing middle typologies and also enable larger-scale projects to maximize zoning opportunities.

What Does This Mean for Kitchener?

Updating zoning and land use for greater height and density permissions as-of-right positively affects the provision of missing middle housing and, to a lesser extent, affordable housing.

Incentive #4: Parking Reduction

Parking requirements are consistently identified in best practices as a "go-to" incentive to encourage the development of missing middle and affordable housing. The typical rationale is that parking requirements are largely unnecessary for urban environments that are highly walkable and served by higher-order transit, and that these requirements are now misaligned with the progressive actions of most cities to reduce greenhouse gas emissions. Parking requirement changes have been analyzed and implemented in municipalities across Canada and the globe:

- Portland, Oregon's Residential Infill Project introduced code changes which removed off-street parking requirement in single-dwelling zones providing developers and property owners with the opportunity to include as many parking spaces as they see fit for their project.

- In 2012, Minneapolis, Minnesota's Council adopted a comprehensive reframing of the city's parking, loading and mobility regulations. This overhaul included a citywide elimination of minimum off-street parking requirements and reduction of maximum parking allowances. Minneapolis also removed minimum parking requirements for all new construction.

- In 2021, the City of Toronto adopted zoning bylaw amendments to remove the minimum parking requirements for most new developments while limiting the number of parking spaces that can be built if a development chooses to do so.

Currently, the City of Kitchener's zoning by-law focuses on a "fewer cars, more people" approach which includes parking maximum as opposed to minimum requirements in its Urban Growth Centre (UGC) zones, reduced and shared parking, and lower minimum parking requirements for most uses. Reducing minimum parking requirements to zero has the benefit of no longer requiring parking-related site elements such as driveways and parking lots which can "unlock" site area for additional housing units.

Impact Analysis: Incentive Scenario Tested

For the purposes of this report, the impact analysis will focus on testing a reduction in parking minimums to the point of no required resident parking spaces.

Feasibility Analysis

Financial Impact – High

Key Question: *Does it help the viability of missing middle typologies?*

- While existing zoning for missing middle typologies require roughly one space per unit, the Smart Density concepts for 8-Plex and Low-Rise apartments already include just one and two spaces, respectively. As such, there is almost no room to further reduce parking and the incentive has little effect on these typologies. In fact, requiring any more parking than considered by Smart Density will severely hamper viability of these typologies, requiring several smaller sites to be assembled and reducing the number of candidate sites identified in Section 3.3.

- In the baseline analysis, the Mid-Rise concept is severely hampered by the requirement for expensive underground parking. Allowing for no resident parking spaces and only a few visitor/ service spaces would allow a Central area Mid-Rise condo apartment to become financially feasible at 100% market rents. The same is true for a Mid-Rise condo apartment in the Suburban area, however, this is likely to face a mixed reception from potential purchasers on sites that are not well connected to transit. No resident parking for Mid-Rise rentals does not improve financial feasibility enough to incent development.

Key Question: *Does it enable the delivery of affordable units?*

- Although the removal of resident parking for Mid-Rise ownership typologies is beneficial, it does not allow for affordable units to be integrated into the buildings.
- Reduction—up to and including full removal—of resident parking in the High-Rise condo apartment typology could unlock up to 20% of units as affordable, again in conjunction with a strong baseline feasibility and recent Bill 23 changes.

Policy Feasibility – High

There is significant momentum in the public policy environment to holistic revisit parking requirements with other municipalities and levels of government encouraging and launching detailed analyses. It will be important that the City considers the varying needs of Central and Suburban geographies within Kitchener as part of any changes to parking requirements and target parking policy changes towards those typologies and locations that make the most sense.

Process Feasibility – Moderate

Policy changes result in inevitable ripple-effects on the processes and procedures that implement the policies and guidelines. It will important that parking requirement changes are mapped against existing development approval process steps so that necessary adjustments are made.

Market Feasibility – High

Developers interviewed as part of this study are prepared to construct projects without parking and are confident that potential renters and buyers will "self-select" housing that best meets their needs, especially given the depth and degree of demand for housing of any kind.

What Does This Mean for Kitchener?

The analysis above signals that reduced or more flexible requirements related to resident parking can produce material, positive impacts on the feasibility of missing middle and affordable housing.

Figure 5.4

Summary of Incentives Evaluation – Impact on Financial and Feasibility Criteria

	Financial Impact	Policy Feasibility	Process Feasibility	Market Feasibility
Incentive #1: Tax & Fee Adjustments	Moderate	Low	Low	High
Incentive #2: Approval Time Reduction	Low	Moderate	Moderate	Moderate
Incentive #3: Height & Density Allowance	High	Moderate	Moderate	High
Incentive #4: Parking Reduction	High	High	Moderate	High

- **Low** Financial Impact & Policy / Process / Market Feasibility
- **Moderate** Financial Impact & Policy / Process / Market Feasibility
- **High** Financial Impact & Policy / Process / Market Feasibility

Source: Parcel and StrategyCorp

Cumulative Impact: The Combined Effect of All Incentives at Once

Whereas the financial sensitivity-based testing throughout this section generally focused on the relative impacts of each incentive on improving development feasibility in isolation, it is also important to consider the potential "layering" of multiple incentives at once.

To this end, the following provides a high-level summary as to our observations relating to the potential combined impacts of all four incentives on the financial feasibility of selected typologies/ development scenarios:

Plexes

- 8-Plex condo apartment requires all of the incentives to approach 15% IRR, the "goal post" introduced in Section 4.2.
- 8-Plex rental apartment is likely to remain unattractive with all the incentives, as it does not surpass 10-year bond yields of 3%.

Low-Rise

- Low-Rise condo apartments with all the incentives could support up to 25% affordable in the Central area. Suburban areas could prove more challenging due to market desire for parking among residents. We caution that real world outcomes will likely yield lower affordable housing due to site specific conditions.
- Low-Rise rental apartments with all the incentives approach bond yields, but are still "not quite there".

Mid-Rise

- Mid-Rise condo apartments with all the incentives could support up to 30% affordable units in the Central area. Suburban areas again could prove more challenging due to market desire for parking. Again, we caution that real world outcomes will likely yield lower affordable housing due to site specific conditions.
- Mid-Rise rental apartments with all the incentives do not match bond yields and remain unlikely.

5.3 Guiding Principles Evaluation

Separate and apart from the feasibility analysis above, we have also confirmed the extent to which the incentives as presented align with the guiding principles introduced earlier in this section.

Principle #1: Outcome-Driven

Incentive #1: Tax & Fee Adjustments	While only capable of "moving the needle" so far with respect to overall project feasibility—especially in light of recent fee relief mandated via Bill 23—financial incentives are universally well-received by the development community and can help inform more specific decisions relating to building programming (e.g., which building typologies are selected and what proportion of affordable housing—if any—is ultimately delivered). Generally speaking, these incentives can be especially impactful to "help along" affordable housing projects during the precarious early days of development towards becoming a reality.
Incentive #2: Approval Time Reduction	Although reducing timelines to approvals is unlikely to—in and of itself—tip a project in favour of feasibility, it is nonetheless important to be mindful of not causing undue strain as a function of municipal delays, onerous approval requirements and/or extended negotiations throughout this process. Simply put, even though increased speed to approvals yields just marginal benefits, a *lack* of speed can most certainly render a project infeasible.
Incentive #3: Height & Density Allowance	The provision of density is among the more effective tools available to enable preferred development of any sort, especially affordable housing. In the context of "missing middle" typologies, modernizing height and density permissions to be more in-line with other growing communities across Ontario could have immediate impact on enabling both low-rise and mid-rise housing forms in Kitchener. For other "missing little" typologies, additional

height and density is inherently less helpful as it risks fundamentally altering the type of development contemplated on a given site (i.e., there is only so much room to "maneuver" in this regard for multiplexes, accessory units, etc. before shifting a project into an entirely new building typology category).

Incentive #4:
Parking Reduction

Parking reductions can have an immediate positive impact on development feasibility and the realization of preferred housing outcomes, such that they can be reasonably absorbed from a market perspective. This becomes more a function of the underlying preferences of households than requirements set out by a given municipality. As changes to parking requirements often fail to keep pace with broader consumer preferences, this type of incentive represents a "low hanging fruit" opportunity to implement change alongside broader cultural and societal shifts relating to automobile use, including broader changes in lifestyle preferences.

Principle #2: Flexibility

Incentive #1:
Tax & Fee Adjustments

Whether they achieve material impact on feasibility or not, tax and fee incentives are ones that are highly attractive to all industry players, including those that are smaller-scale and possibly more open to constructing unique missing middle typologies and/or affordable housing.

Incentive #2:
Approval Time Reduction

Process enhancement presents an opportunity for the City and applicant to work together on continuous improvement. In pursuit ofefurther process change, the City should work with all types of industry players to ensure changes balance benefits to the applicant with the needs of the City to manage quality and risk associated with development approvals.

Incentive #3:
Height & Density Allowance

Policy changes presents an exciting opportunity to think boldly about how "far" the City is willing to go to incentivize change. In the spirit of being flexible and enabling unique housing typologies and specifications, more (rather than less) policy change should be considered and implemented wherever possible.

Incentive #4:
Parking Reduction

Progressive and more open-ended parking requirements helps create the conditions for non-traditional housing typologies/projects.

Principle #3: Sustainability

Incentive #1:
Tax & Fee Adjustments

The impact analysis revealed that, from a financial perspective, tax and fee incentives are not a "perfect solution" to make projects financially feasible. At the same time, the phase-in of government-mandated DC exemptions alone are expected to cost the City $40 Million over the next ten years. Further DC exemptions for affordable and attainable housing, Inclusionary Zoning units and rental housing have not yet been priced. The City must carefully consider the ripple-effects of the incentive on the longer-term financial status of the municipality, and whether the expected results will justify putting further financial pressure on municipal coffers.

Incentive #2:
Approval Time Reduction

From a fiscal impact perspective, process incentives range in their cost to a municipality from "free" process change, through to process change that increases/changes to resourcing levels or technology needs. As has been done with review work to-date, additional process improvement in Kitchener should be analyzed for their longer-term financial impact on the City.

Incentive #3:
Height & Density Allowance

Incentivization through height and density not only improves conditions for financial feasibility, but also allows for a more efficient use of land more broadly. This includes making better use of existing municipal infrastructure in existing built-up areas, for which Kitchener has surplus capacity available to absorb future growth (i.e., without necessarily incurring additional costs to expand/ upgrade infrastructure and relying on previous investments to date).

Incentive #4:
Parking Reduction

Similar to above, parking reductions can have two-fold benefit: (i) improvements to financial feasibility through decreased project costs; and (ii) enabling more efficient use of land and/or site programming on portions of properties that would have otherwise been earmarked for surface parking/ related access. Furthermore, it goes without saying that reduced parking allocations—such that they are palatable to the end "user" of new residential units—would inevitably correspond with reduced automobile use, which offers discernable environmental sustainability benefits.

Principle #4: Collaboration

Incentive #1:
Tax & Fee Adjustments

For all potential incentives, the City must consider and align implementation with incentives/programs at the Regional level. In the case of tax and fee incentives, collaboration will be an important tool for mitigating the financial implications to the City. In other words, the City and Region should work together to determine how both tiers can introduce financial incentives and therefore distribute the financial risk and further align the work done by the City and Region to enable affordable housing.

Incentive #2: Approval Time Reduction	While the City will continue to lead its own in-house efforts to continuously improve process, there is an opportunity to collaborate with the Region on areas of process overlap to ensure maximum efficiency.
Incentive #3: Height & Density Allowance	Similar to above, while the City will continue to lead its own efforts to change policies and guidelines, there is a need to collaborate with the Region on areas of policy overlap so that there is consistency and cohesion (e.g., regional vs. city road truck turnaround requirements).
Incentive #4: Parking Reduction	Positive relationship with developer, collaboration between public and private sectors to establish the appropriate mix or "service" level…

5.4 Mechanisms for Implementation

In addition to determining the exact scope and scale of the incentives identified above, the City must consider what policy levers are available to enable the implementation of their preferred suite of incentives.

Below is a description of two implementation mechanisms available to municipalities in Ontario when considering incentives to enable development: **Community Improvement Plans (CIPs)** and **Municipal Capital Facilities Agreements (MCFAs)**. These mechanisms allow a municipality to provide financial incentives to support development, per Section 106(3) of the Municipal Act, which prevents municipalities from assisting development through the granting of bonuses.

This section includes a high-level description of each of these mechanisms and an evaluation that defines some of the key considerations and requirements the City will need to navigate if they choose to implement them. Insights have been organized into three operational categories relevant to the City in their role as a lower-tier municipality:

- **Governance & Policy:** considerations related to the oversight and management of the implementation mechanism, as well as how existing City policies interact with the implementation mechanism (if applicable/relevant);

- **Process:** considerations related to the processes and procedures required to support the implementation mechanism (if applicable/relevant); and,

- **People & Skills:** considerations related to the skills and resourcing requirements to support the implementation mechanism (if applicable/relevant).

Community Improvement Plans (CIPs)

Part IV of the Planning Act (the "Act") outlines municipal authority for the implementation of a "community improvement plan". The Act allows the designation of a community improvement project area for any "environmental, social or community economic development reason", including building age or structural condition, overcrowding, poor planning, unsuitability of buildings or intent to encourage affordable housing.

Designation of a CIP by Council under s. 28(2) of the Act requires enabling policy in the municipality's Official Plan. Based on the definitions provided in Section 28(1) and (1.1), a community improvement project area can be a single, specific property; a larger area that is deemed to be a desirable candidate for redevelopment; or even the entirety of the municipality. CIPs are subject to Ministerial approval, and the preparation of a community improvement plan is treated in the same manner as the preparation of an Official Plan. Subsection 28(5) incorporates the provisions of Section 17 respecting consultation and public meetings, submissions and comments, adoption of the community improvement plan, as well as prescribed notice.

CIPs are increasingly common tools used in Ontario municipalities to structure and manage the delivery of multiple incentives. Below are some of the CIPs in place in Ontario municipalities, including a short description of incentives implemented via the CIP. Relevant details about each CIP have been evaluated for the Kitchener context later in this section.

- Sudbury[32]: Tax Increment Equivalent Grant (TIG); Planning & Building fee rebate; Feasibility Grant program; Residential Incentive Program; Second Unit Incentive Program;

[32] https://www.greatersudbury.ca/do-business/planning-and-development/affordable-housing-strategy/housing-strategy-pdfs/affordable-housing-community-improvement-plan/

- Peterborough[33]: Tax Increment Equivalent Grant (TIG); Development Charges Grant;
- Cambridge[34]: Fee exemption; Development Charge Deferral; Tax Increment Equivalent Grant;
- Barrie[35]: Fee and charges grant; Tax Increment Equivalent Grant (TIG)
- Other example municipalities: Cobourg, Hamilton, York Region, Carleton Place, Blue Mountains

Existing CIPs in Kitchener

Kitchener has two existing CIPs: the **Downtown CIP** and the **Brownfield Incentive Program** (offered jointly with the Region of Waterloo). Both CIPs offer financial incentives to support redevelopment, though not explicitly for missing middle and/or affordable housing. There may be opportunities to build on these existing programs as an additional way of encouraging these typologies and affordability.

Municipal Capital Facilities Agreements (MCFAs)

Enabled by Section 110 of the Planning Act, MCFAs can be used by municipalities to create relationships with other parties such as public bodies, municipal services corporations, the private sector, not-for-profit organizations and aboriginal communities to deliver municipal facilities. Types of municipal capital facilities include, among others, municipal housing projects and recreational or parking facilities. As an example of this tool, a municipality may consider an agreement with, and provide financial assistance to, a not-for-profit organization for affordable housing facilities.

Assistance for municipal capital facilities from a municipality can include:

- Giving or lending money;
- Giving, leasing, or lending property;

[33] https://www.peterborough.ca/en/doing-business/resources/Documents/Affordable-Housing-Community-Improvement-Plan.pdf
[34] https://www.cambridge.ca/en/learn-about/resources/Community-Improvement-Plan-Final.pdf
[35] https://www.barrie.ca/sites/default/files/2022-07/Community%20Improvement%20Plan.pdf

- Guaranteeing borrowing;
- Property tax exemptions or reductions; and,
- Development charges exemptions for land used for municipal capital facilities.

MCFAs for Affordable Housing

Prior to entering into an MCFA to provide affordable housing, a municipality must pass a municipal housing facility by-law. Such a by-law must include a definition of "affordable housing", policies regarding public eligibility for the housing units to be provided as part of the municipal capital facilities, plus a summary of the provisions that an agreement respecting municipal housing project facilities is required to contain. Numerous Ontario municipalities have these types of by-laws in place, including: Toronto, North Bay, Muskoka, Ottawa, Peel Region and Prince Edward County. Below are some examples of MCFAs in these other jurisdictions.

City of Toronto

Since 2002, the City of Toronto has leveraged its Municipal Housing Facilities Bylaw to deliver affordable housing incentives. The *Open Door Affordable Housing Program* was approved by the Toronto City Council in 2016 and uses MCFAs to increase affordable housing within the City. The program provides financial contributions in the form of capital funding, fees and property tax relief, expedited approvals processes and activation of public land for both non-profit and private sector developers looking to create new affordable rental housing options.

District of Muskoka

Muskoka Affordable Housing Initiatives Program (MAHIP) is a multi-year program that offers funding to eligible developers, builders, buyers and landlords for the purpose of developing and increasing the affordable housing options in Muskoka. The MAHIP includes Capital Incentive Funding and Landlord Rent Supplement.

City of Ottawa

Ottawa enacted its municipal housing facilities by-lay in 2006, allowing the City to enter into municipal capital facilities agreements to enable affordable housing. Through the MCFA, affordable housing projects can be exempt from municipal and education taxes.

Region of Peel

The Region of Peel enacted their municipal housing facilities by-law permitting the Region to enter into municipal housing project facilities agreements. The *Affordable Housing Pilot Program* received $7.5 million in one-time funding for the period between 2019 and 2021, made available as capital grants to the development industry and non-profit housing providers. The region has since entered into municipal housing project facilities agreements with three organizations. The projects received $7.4 million in funding for 130 affordable rental housing units.

Prince Edward County

In 2022, Prince Edward County passed its Municipal Capital Facilities By-Law allowing the County to enter into MCFAs to incentivize affordable housing development. The County provides financial incentives through MCFAs in the form of conditional grants or partial to full exemption from the County's development charges and property taxes. The financial incentives are available for the development of affordable housing if each housing unit meets the definition of affordability (30% of gross annual household income and 20% below the average market rent) and remains affordable for at least fifteen (15) years

Implementation Considerations

Below is a summary of several of the key considerations for implementation of CIPs and MCFAs in the context of missing middle and affordable housing.

The considerations for both incentives have been presented together to provide a clear sense of the similarities and variations between the two mechanisms. Emphasis has been added to contents with an <u>underline</u> to highlight some of the key differences. Considerations have also been organized to correspond with the three operational categories identified earlier (i.e., **Governance & Policy**; **Process**; and **People & Skills**).

Figure 5.5

Key Considerations for CIPs and MCFAs

MCFAs (Bylaws / Agreements)

Governance & Policy

- MCF by-law must be municipality-wide (cannot be geographically limited).[36]
- Requires a Council-approved by-law that enables future agreements to be established with applicants (i.e., defining affordable housing, eligibility requirements and key agreement provisions). Ongoing interactions/ Council approvals not required for each MCFA unless by-law amendment is required.
- Requires the development of eligibility criteria (to establish which project types are eligible for incentives) and evaluation criteria (to help prioritize projects with highest degree of impact. Evaluation criteria allow municipalities to have scaled incentives that can increase/ decrease based on the expected impact of the project on evaluation criteria. Criteria must be accompanied by information/ submission guidelines to enable applicant to respond to qualitative and quantitative criteria.
- MCF infrastructure allows for financial exemptions from fees and charges.
- Can occur in alignment with and independent of Regional/upper-tier incentives but requires intentional coordination by both tiers.

CIPs

- CIPs can be designated as municipal-wide, to encourage investment in a particular area of a municipality and/or targeted at achieving a particular goal (e.g., affordable housing)
- Requires Council direction to develop the CIP, adjustment to the Official Plan to include enabling provisions and a by-law designating the project area. The established CIP must then be circulated to the Ministry of Municipal Affairs and Housing for review and undergo a public meeting no earlier than 20 days after public notice. Council must approve the final CIP.
- Requires the development of eligibility criteria (to establish which project types are eligible for incentives) and evaluation criteria (to help prioritize projects with the highest degree of impact). Evaluation criteria allow municipalities to have scaled incentives that can increase/ decrease based on the expected impact of the project on evaluation criteria.
- CIPs can be leveraged only to provide offsetting grants vs. charge/fee exemptions.[37]
- Can occur in alignment with and independent of Regional/upper-tier incentives but requires intentional coordination by both tiers.

[36] If implemented at the upper-tier level, local criteria can be established to cater eligibility.
[37] More detail about what is permissible is included in S.28 of the Planning Act.

Process

- MCF terms and requirements are simple to adjust. They do not require significant approvals or amendments to execute year-over-year requirements changes if changes align with general terms of the by-law.
- Process for project identification/ approval can be executed either through a program-style, annual call for applications or on a "rolling basis", as eligible projects are submitted. Annual, pre-established calls for applications create predictability both for the municipality (in terms of dedicating resources and managing capacity needs) and the developer (enabling preparation for known application timelines).
- Municipalities are entitled to impose ongoing requirements on organizations signed on to MCF agreements. Requirements and restrictions typically include time restrictions (to begin and/or complete the project by identified dates) and/or ongoing reporting requirements about the project during construction and throughout the duration of the agreement.

- A CIP can be appealed by any individual who submits a written or oral submission.
- Process for project identification/ approval can be executed either through a program-style, annual call for applications or on a "rolling basis", as eligible projects are submitted. Annual, pre-established calls for application create predictability both for the municipality (in terms of dedicating resources and managing capacity needs) and the developer (enabling preparation for known application timelines).
- Municipalities are entitled to impose ongoing requirements on organizations/projects approved through the CIP. Requirements and restrictions typically include time restrictions (to begin and/or complete the project by identified dates) and/or ongoing reporting requirements about the project during construction and throughout the duration of the project

People & Skills

- In addition to existing responsibilities of municipal staff, MCF by-laws and agreements introduce new staff responsibilities that must be accounted for:
  - Time required to develop and gain approval for the by-law;
  - Time required to execute call for proposals and/or evaluate applications with

- In addition to existing responsibilities of municipal staff, CIPs introduce new staff responsibilities that must be accounted for:
  - Time required to conduct consultations and develop the CIP;
  - Time required to execute call for proposals and/or evaluate applications with

new/additional qualitative and quantitative criteria;	new/additional qualitative and quantitative criteria;
– Time required to receive/review/manage ongoing requirements; and,	– Time required to receive/review/manage ongoing requirements; and,
– Time required for reporting, annual program administration/review and continuous improvement.	– Time required for reporting, managing appeals, annual program administration/review and continuous improvement.

Source: Parcel and StrategyCorp.

What Does This Mean for Kitchener?

The preceding evaluation provides a broad sense of the implementation requirements for CIPs and MCFAs as they pertain to encouraging missing middle and affordable housing. There are several key questions the City must answer as it seeks to determine which mechanism is best suited for implementation in the Kitchener context and to begin to establish the key infrastructure that enables the mechanism to be implemented effectively.

Key Question:

How does the City envision scoping its incentive program as a whole?

- Each municipality—regardless of the legal mechanism chosen—has an opportunity to define specifically what "affordable" housing means in the context of the incentives to be implemented. Municipalities have defined affordable in different ways depending on the core intent and vision for their CIP/MCFA, ranging from 70% to 170% of CMHC's average market rent for the geographic area. The introduction of a CIP/MCFA provides an opportunity for the City of Kitchener staff and Council to set an affordability definition that enables the housing typologies validated in this report.

- For both legal mechanisms, the municipality must also determine the type of projects (i.e., rental, ownership, mixed income, etc.) that are subject to incentives, as well as what types of organizations may apply (e.g., non-profit, private sector developers). In most Ontario municipalities, incentive programs have primarily focused on affordable rental to target market gaps.

Key Question:

What eligibility and evaluation criteria matter to the City?

- Both mechanisms require the municipality to establish eligibility and evaluation criteria to support staff review of potential applications. Below are examples of both types of criteria drawn from other municipalities:

  Example Eligibility Criteria (defining types of projects eligible for incentives)

  - Tenure (rental vs. ownership)
  - Affordability term
  - Affordability threshold
  - Target tenant mix/demographic
  - Suite type/mix
  - Project size
  - Incentives requested

  Example Evaluation Criteria (defining criteria to determine impact and prioritize projects)[38]

  - Depth of Affordability
  - Length of Affordability
  - Location Criteria
  - Features and Services

Key Question:

What controls–or "checks-and-balances"–does the City need to manage participating projects / organizations?

- Municipalities have some discretion in terms of what application documentation/requirements exist for applying organizations, which will be derived directly from the eligibility and evaluation criteria established. The City of Toronto Open Door program (CIP), for example, requests comparatively detailed financial and project information (beyond abstract qualitative project information and an estimated proforma for the project) relative to other municipalities with MCFAs. The goal for application requirements should be to strike the balance between adequate transparency and insight into the project specifics for the City to validate the application, while avoiding documentation that creates undue administrative burden for both the applicant and City staff.

[38] The City must also establish a "points" scale for scoring so that applications received can be graded relative to one another.

- For both mechanisms, it is recommended that the municipality contemplate an annual reporting structure to confirm the continued alignment of the project with the conditions of the incentive and an associated non-compliance approach to manage divergence. For example, reports should seek to confirm: (i) the project remains rental in tenure for the agreed upon term; (ii) units remain below the agreed upon rental rates for the agreed upon term; and, (iii) the unit, rents and tenant incomes of all units that became occupied that year for income verification purposes (i.e., if applicable, per eligibility criteria).

- As described above, municipalities must contemplate the approach to application intake and evaluation they prefer. Many municipalities in Ontario—for both CIPs and MCFAs—favour a one-time annual intake through a call for proposals, whereas others assess and manage applications as part of the typical project pipeline. Both approaches will require a redeployment of resources. For a centralized process, staff time and resources must be dedicated to managing the call for proposal process. For an ongoing process, staff must be provided the flexibility to dedicate additional time required to otherwise unexpected eligible applications.

Key Question:

How can the City and the Region collaborate and coordinate their efforts?

- Regulation allows for upper and lower-tier municipalities to work together to offer incentives through both CIPs and MCFAs. In the case of an MCFA, Section 110(9) of the Act enables municipalities to offer incentives through Regional programs. Section 28(7.2) permits local/regional collaboration for CIPs. Without coordination, interested applicants face higher administrative burdens as a result of two processes that will have inevitable redundancies.

6.0

Summary & Next Steps

6.1 Key Takeaways

1 Supportive Conditions

Many communities are grappling with the challenges and opportunities associated with the delivery of missing middle and affordable housing, but Kitchener is uniquely positioned to accommodate this type of growth based on current demographic conditions, land availability, development feasibility conditions and desire among both public and private sector stakeholders.

2 Validation of Patterns

Notwithstanding the foregoing, there are notable barriers to entry for both missing middle and affordable housing projects, which are inherently less feasible when compared to other identified "winners" and comparable investment opportunities. Our baseline financial analysis largely validates recent development patterns in favour of ground-oriented houses and high-rise apartments.

3 Risk vs. Return

Based on the recent successes of other developer-preferred housing typologies, there is no escaping "first-of-its-kind" risk with respect to missing middle typologies. Private sector participants will naturally seek to repeat successful formulas, even where opportunities for comparable returns may ultimately be available (i.e., as a function of uncertainty/unknowns that represent a material risk to investors).

4 No "Silver Bullet" Solution

Similar to the way in which the current housing crisis continues to be a function of many different macro and micro-economic factors, so too will the solution to these problems require multiple different approaches–or tools–to "unravel" the current situation and encourage preferred housing forms.

5 Hierarchy of Incentives

In response to above, a suite of Financial, Process and Policy-based incentives have been identified, which have been prioritized as follows (in order of highest impact to lowest impact). The most significant impact of these tools will be achieved when layering multiple options at once.

- **Parking Reduction** – One of the most frequently cited, "go-to" incentives to encourage the development of missing middle and affordable housing typologies. The City should 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. This could be most impactful in areas where existing and/or planned transit infrastructure is available.

- **Density Allowances** – Increasing density where a positive revenue / cost relationships already exists (baseline profitability) can be extremely helpful in "nudging" projects in favour to achieve other identified city-building objectives – especially affordable housing delivery.

The City should seek to amend as-of-right permissions for selected typologies to leverage these benefits (e.g., increase height thresholds for Low-Rise and Mid-Rise building formats relative to current definitions, as well as consider the provision of additional density in High-Rise contexts to support affordable housing delivery).

- **Financial Supports** – in conjunction with the policy-based incentives above, the layering of appropriate financial incentives, as applicable, can provide additional relief to developers that encourages development that could deviate from typical patterns in the Kitchener context. In light of recent legislative changes via Bill 23, the City should consider going "above and beyond" these new mandates by introducing additional financial relief for specific missing middle typologies that offer the greatest opportunity for change (i.e., Plexes and Low-Rise typologies).
- **Process** – Although generally least impactful to development feasibility, reducing delays and improving speed-to-market can be beneficial to all parties involved and represents a key point of consensus. Most will agree that more housing is needed in Kitchener, and quickly. The City should seek to build upon recent internal-facing efficiencies by enabling a more expeditious path to building permit issuance from the

perspective of local developers (e.g., less cumbersome application requirements and other streamlining beyond the immediate purview of the municipality's day-to-day operations).

6 **Focused Opportunities**

Missing Middle

The greatest opportunities for expanding missing middle housing options lie in the Plexes and Low-Rise typologies, which achieve a "sweet spot" of scale, efficiency and ease of entry to the market.

Affordable Housing

The affordable housing landscape can benefit indirectly through any form of increased housing supply and the continued diversification of the local housing stock. High-Rise built environments where additional efficiencies exist can provide among the most immediate opportunity to leverage the benefits of new market-rate development to help offset lost revenue opportunities in the delivery of more affordable housing.

6.2 Next Steps

1 **Take Action** (Speed)	Every bit counts and no single housing typology is capable of solving the housing crisis, so the City should take immediate action to encourage all kinds of new residential development. Conditions for financial feasibility continue to deteriorate over time (based on recent trends), so speed will be an important factor in enabling both missing middle and affordable housing. There are immediate opportunities to set the stage for this type of change through pending updates to OP and Zoning in MTSAs.
2 **Make It Happen** (Boldness)	In the face of what most continue to deem a housing crisis, it is time for bold action. The City should be encouraged to adopt a "wartime mentality", to push boundaries and to avoid indecision—or "analysis paralysis"—in an attempt to satisfy all stakeholders. As-of-right permissions in zoning is one way to be decisive, with additional benefits to the development community.
3 **Provide Clarity**	The City should clearly define and communicate what constitutes missing middle and affordable housing to avoid confusion and/or disagreement among stakeholders, including tying in to broader definitions, wherever possible (e.g., adopting Provincial definitions of affordability). This study has sought to advance these discussions, but the City will need to confirm and advance their own definitions, in due course. There are opportunities for the City

		to provide this clarity through planned OP updates over the next several years.
4	**Educate**	Similar to above, education can serve as an effective tool to establish consensus, improve awareness and dispel myths at the outset of any conversation around missing middle and affordable housing in an effort to improve efficiency. This includes addressing often unwarranted NIMBY-ism, potentially exposing established developers to new investment opportunities, as well as encouraging the entry of new participants to the housing development industry (e.g., helping along new small-scale developers that may have an interest in delivering missing middle typologies). The City's educational planning videos could be expanded to provide a base level of understanding of land economics and how decisions about where to grow are made.
5	**Establish Replicability**	Rather than a debate-based approvals system, the City should investigate more templated approval systems to foster replicability in preferred housing forms that are compatible with the Kitchener market. This has been a "tried-and-true" approach by the private sector throughout all eras of housing construction to achieve scale, which could be appropriately aligned or "right-sized" to match up with the specific types of housing desired by the City.

6 Identify Funding Sources

Notwithstanding the variety of both financial and non-financial incentives identified through this study and their relative prioritization, the City will undoubtedly need to take a "hard look" at their own finances to establish a clearer prioritization of missing middle and/or affordable housing delivery relative to other–often competing–strategic objectives. Where shortfalls are identified, a joint effort between the municipality and local housing developers/providers will be required to capture any and all opportunities for external funding (e.g., via other levels of government, etc.).

7 Monitor & Refresh

Similar to other policy-based financial and market analyses prepared by–or on behalf of–municipalities, there will be an inherent need to regularly monitor and update the City's rationale for implementing incentives in response to ever-changing market conditions.

Cities are complex, dynamic environments that cause development feasibility to be driven by a multitude of inter-related factors. This presents unique challenges to establishing policy direction based on a "snapshot" in time. As macroeconomic factors change, the City should continuously re-evaluate their incentives structure and/or preferences around the delivery of missing middle and affordable housing, similar to the way in which developers maintain "evergreen" proformas that are in a constant state of flux.

Appendix A:

Glossary of Terms

Term	Definition
Accessory Dwelling Unit (ADU)	Accessory or "additional" dwelling units representing the introduction of a net new unit to existing single-detached properties either within the existing structure (e.g., basement unit) or as an ancillary building.
Affordable	In the case of ownership housing, the least expensive of: housing for which the purchase price results in annual accommodation costs which to not exceed 30 percent of gross annual household income low and moderate income households; or, housing for which the purchase price is at least 10 percent below the average purchase price of a resale unit in the Regional market area. In the case of rental housing, the least expensive of: a unit for which the rent does not exceed 30 percent of the gross annual household income for low and moderate income households; or, a unit for which the rent is at or below the average market rent of a unit in the Regional market area.
Attainable	An ownership unit that is above 80% of average purchase price.
Bank Prime	The interest rate commercial banks use as a benchmark to set interest rates for other types of products, including mortgages. Bank prime is set based on the *Overnight Rate;* typically based on a 225 bps in recent years.
Basis Points (BPS)	A unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

Term	Definition
Capitalization Rate (Cap Rate)	A measure of rate of return to compare real estate investments calculated by dividing net operating income by the value of the property.
CMHC	Canada Mortgage and Housing Corporation
Equity Multiple (EMx)	Common investment return metric, representing the cash distributions received from an investment, divided by the total equity invested.
Cash-on-Cash (CoC)	Common investment return metric, representing the cash flow after financing (%) generated by the equity invested to date. It does not take into account the value of the building or any appreciation of value over time.
Gross Floor Area (GFA)	The total floor area of a building measured from the outside of the exterior walls.
Hard Costs	Costs directly related to the physical construction of a building, typically construction materials, labour, appliances, etc. (see *Soft Costs*)
High-Rise	Standalone apartment buildings typically greater than eight (8) storeys in height.

Term	Definition
Inclusionary Zoning	A policy tool that allows municipalities to require the inclusion of affordable housing units as part of market-rate developments.
Internal Rate of Return (IRR)	Common investment return metric, representing the discount rate at which the net present value of a project equals 0. IRR takes into account both the magnitude and timing of cash flows (negative and positive) throughout the project timeline.
Low- and Moderate- Income	In the case of ownership housing, households with income in the lowest 60 percent of the income distribution for the Regional market area; or in the case of rental housing, households with incomes in the lowest 60 percent of the income distribution for renter households for the Regional market area.
Low-Rise	Standalone apartment buildings typically less than four (4) storeys in height.
Mid-Rise	Standalone apartment buildings typically between four (4) and eight (8) storeys in height.
Missing Middle	Housing typologies between single-detached houses and high-rise apartments in density and scale; includes traditional townhouses, new format townhouses, plexes, low-rise apartments, and mid-rise apartments.

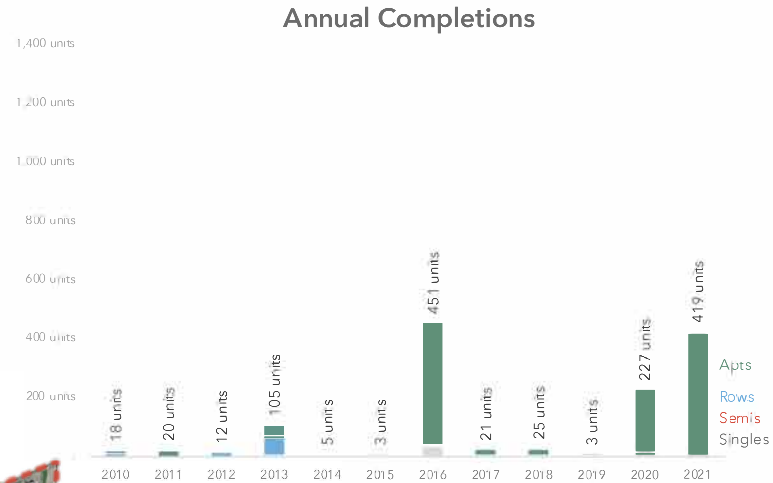
Term	Definition
Net Floor Area / Net Square Feet (NSF) / Net Saleable Area (NSA) / Gross Leasable Area (GLA)	The useable area in a building typically measured between the internal surfaces of the enclosed fixed walls and exclusive of circulation space, mechanical spaces, and washrooms.
New Format Towns	Vertically or horizontally integrated townhouse developments with multiple units; includes stacked townhouse, back-to-back townhouses, and infill townhouses.
Overnight Rate	The interest rate set by the Bank of Canada at which financial institutions can borrow and lend short-term funds to each other. *Bank Prime* is based on the overnight rate.
Plexes	Multi-plex apartment buildings, typically containing eight (8) or fewer units; includes triplexes, fourplexes, and other multi-plexes.
Per Square Foot (PSF)	Common expression of value relating to building floor area (gross or net).
Regional Market Area	An area that has a high degree of social and economic interaction. An upper or single tier municipality will normally serve as the Regional market area. The Region of Waterloo serves as the Regional market area for Kitchener.
Reversion Value	The anticipated value of property in the future at time of sale.

Term	Definition
Singles	Grade-related housing/ single-detached houses.
Soft Costs	Costs not directly related to the physical construction of a building, typically municipal and regional charges, consultant fees (planning, design), financing, etc. (see *Hard Costs*)
Tax Increment Grant (TIG)	In general, tax increment financing uses future incremental property tax revenues generated by the redevelopment of a property to offset the upfront costs of redevelopment. In other words, as a property or area is redeveloped, the increase in the assessed value of the property raises the amount of taxes payable by that property. The difference between the taxes paid by the property prior to redevelopment and the taxes paid following redevelopment is referred to as the "tax increment."
Traditional Towns	Street-fronting townhouses or "row" housing, including those with no backyards; includes rowhouses and back-to-back townhouses.

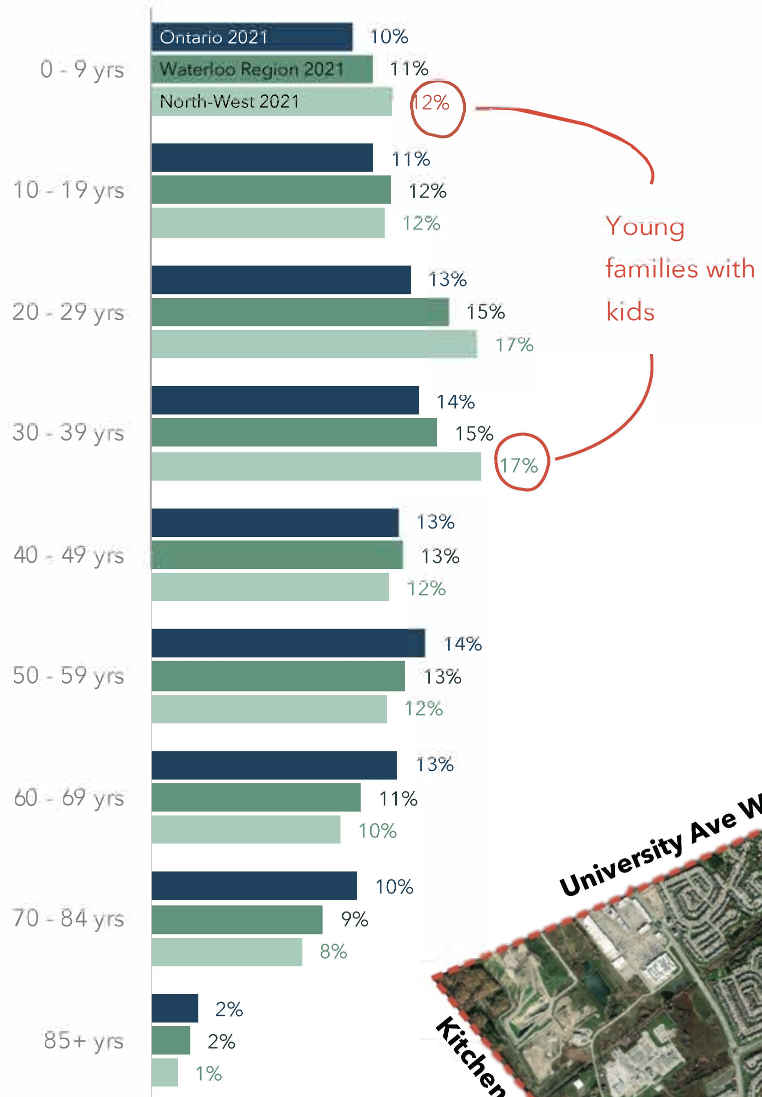
Appendix B:

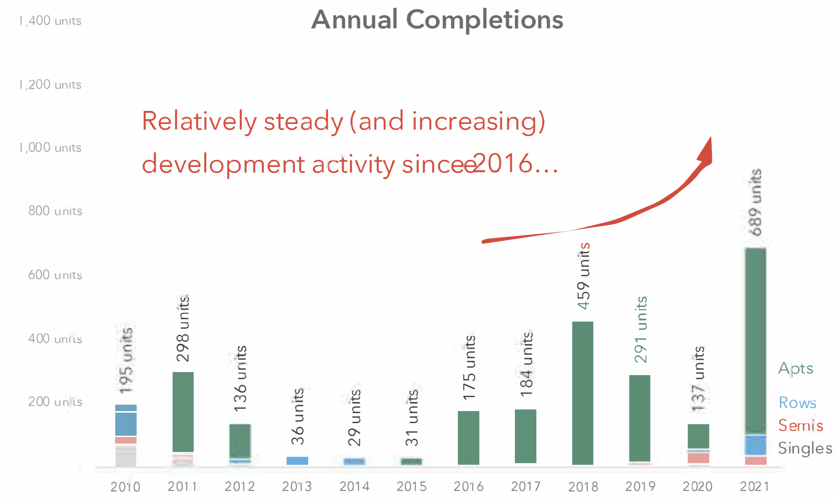
CMHC Neighbourhood Profiles

KITCHENER CENTRAL

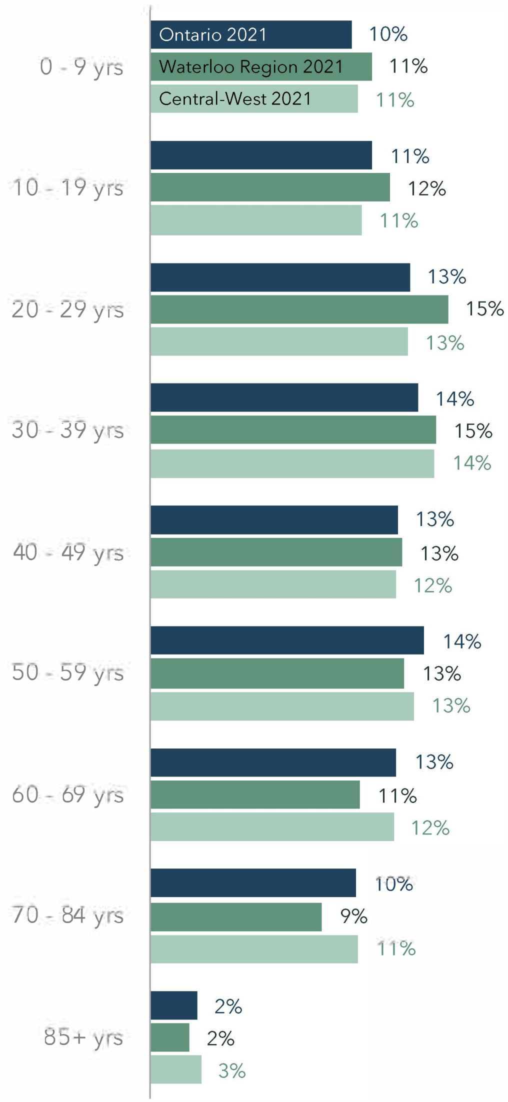


KITCHENER NORTH-WEST

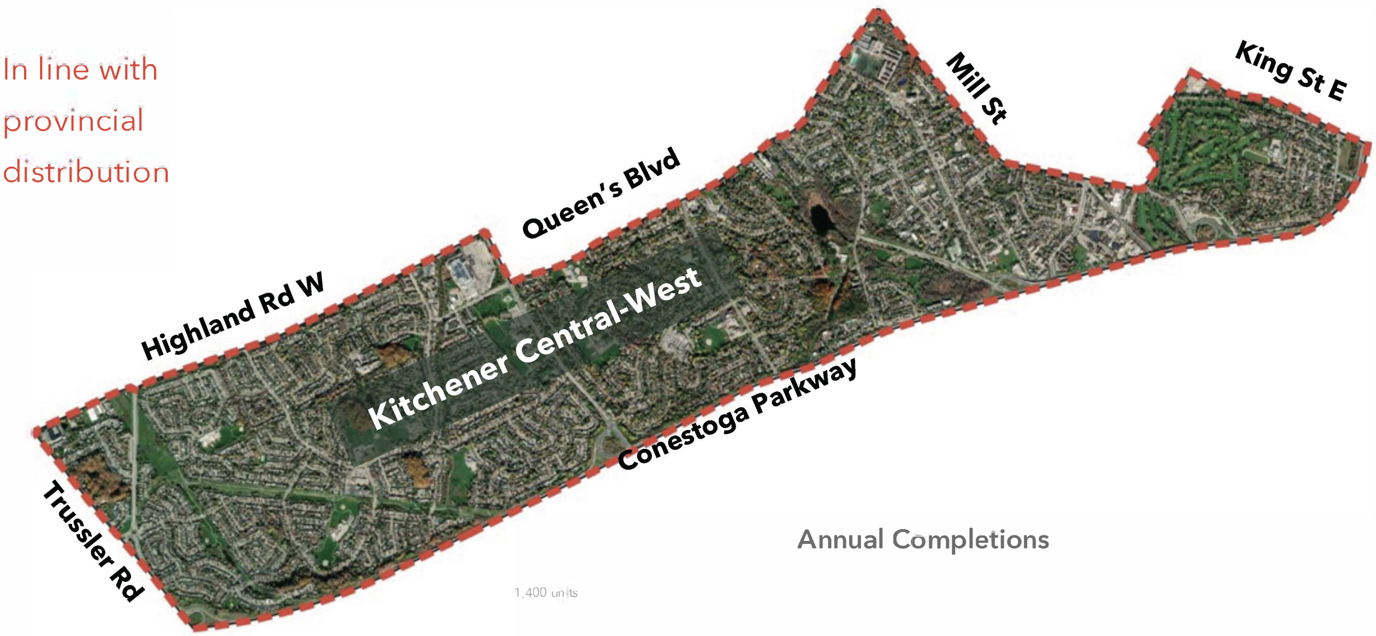


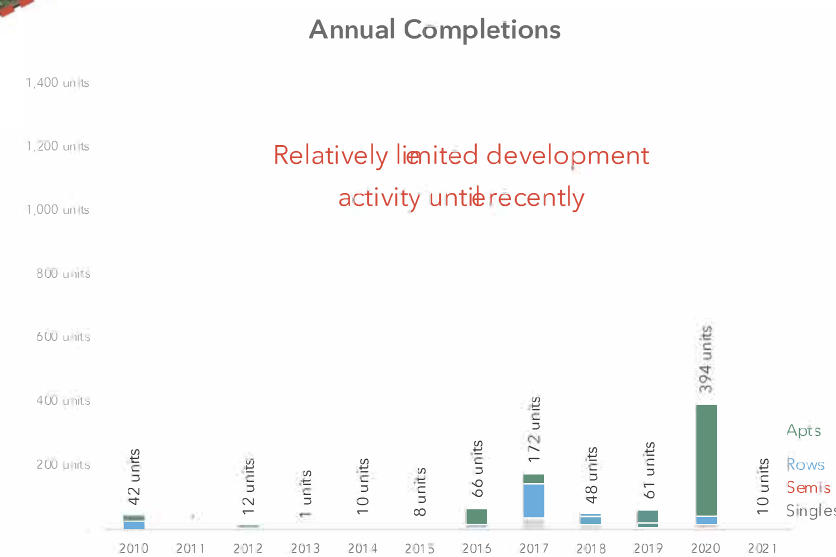


KITCHENER CENTRAL-WEST

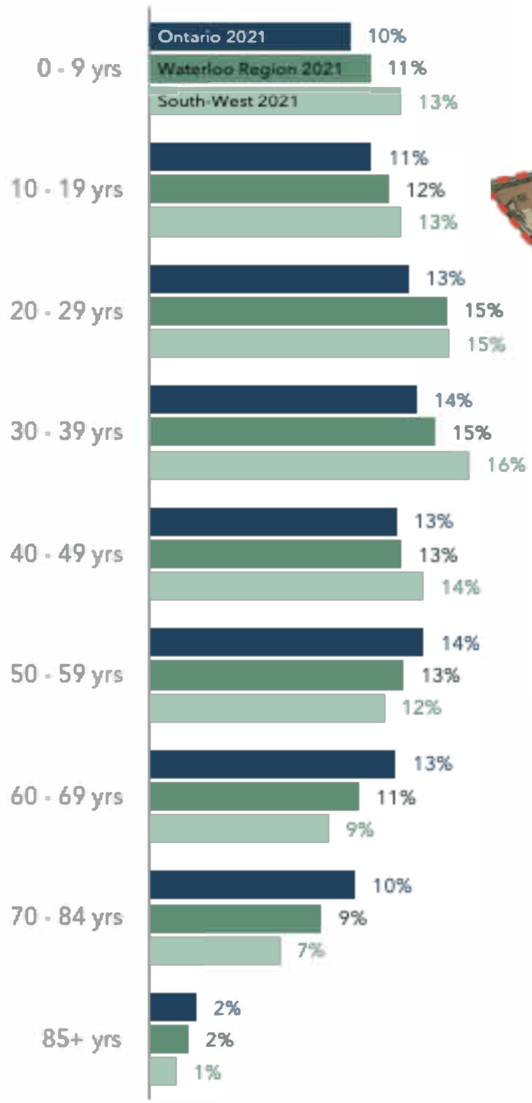


In line with provincial distribution



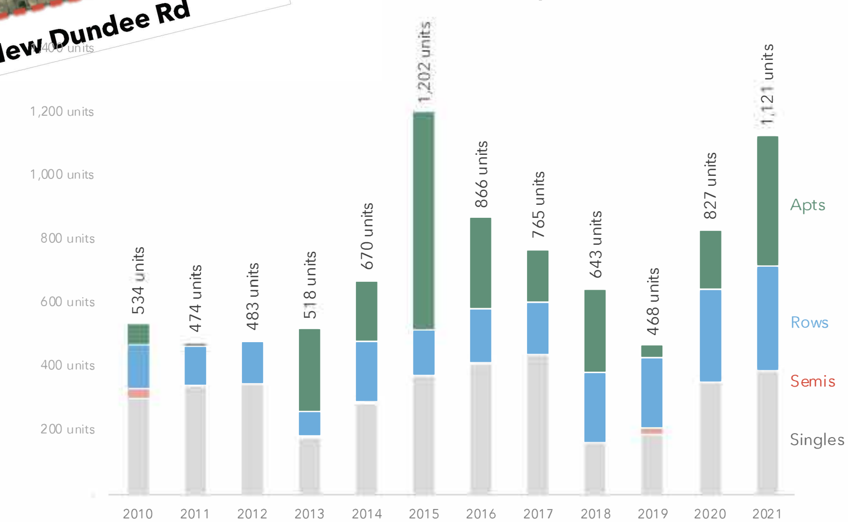


KITCHENER SOUTH-WEST

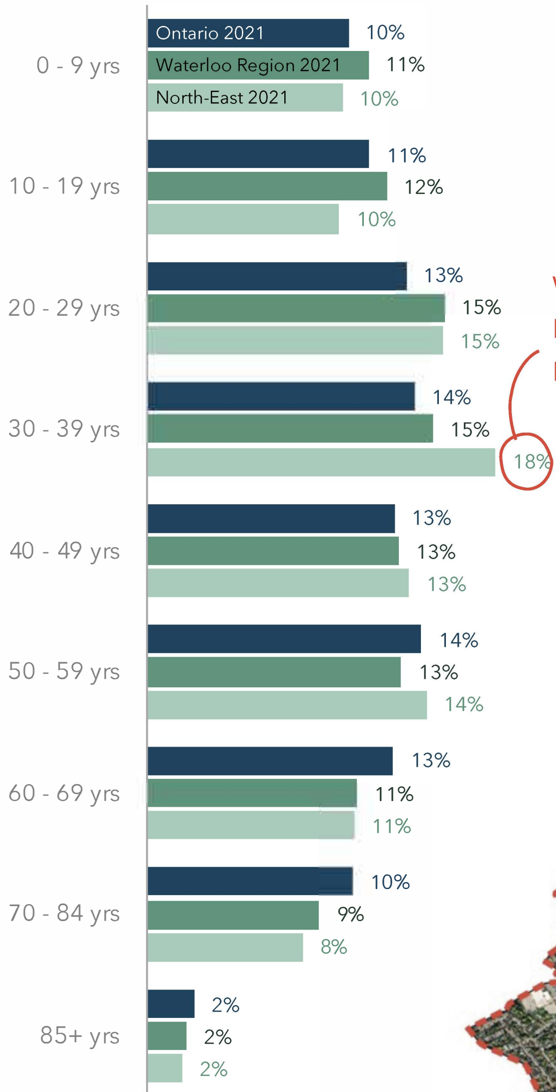


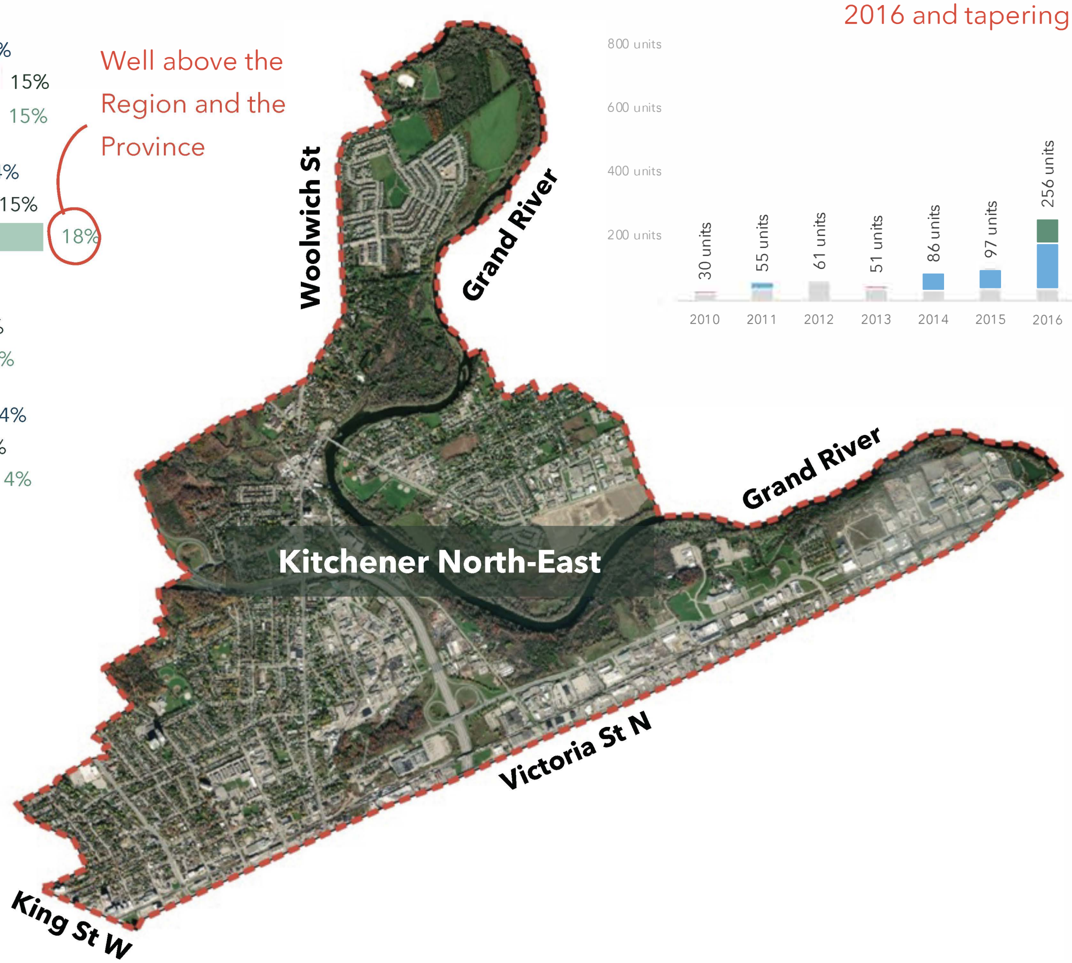
Consistent and significant development activity for 10+ yrs.

Annual Completions

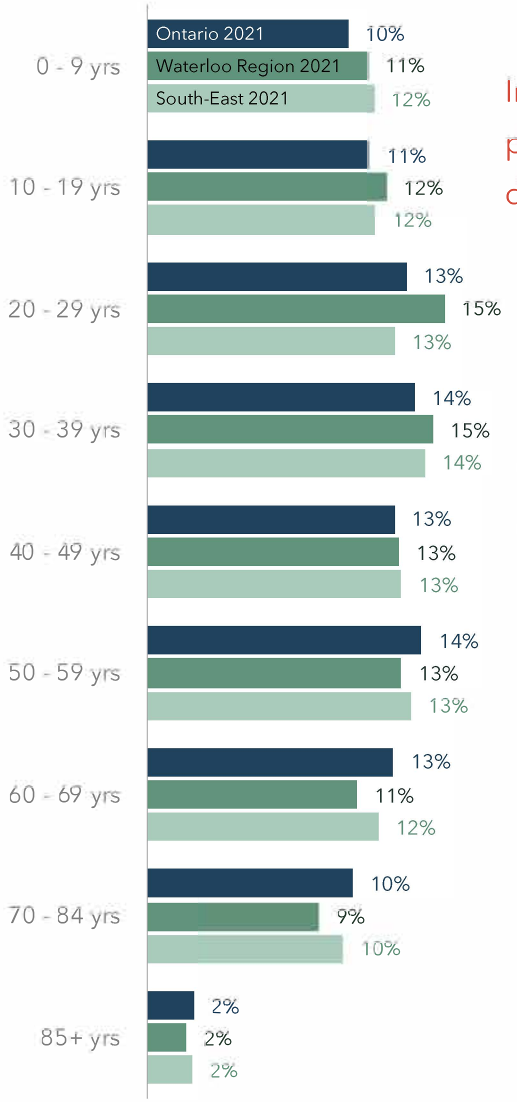


KITCHENER NORTH-EAST

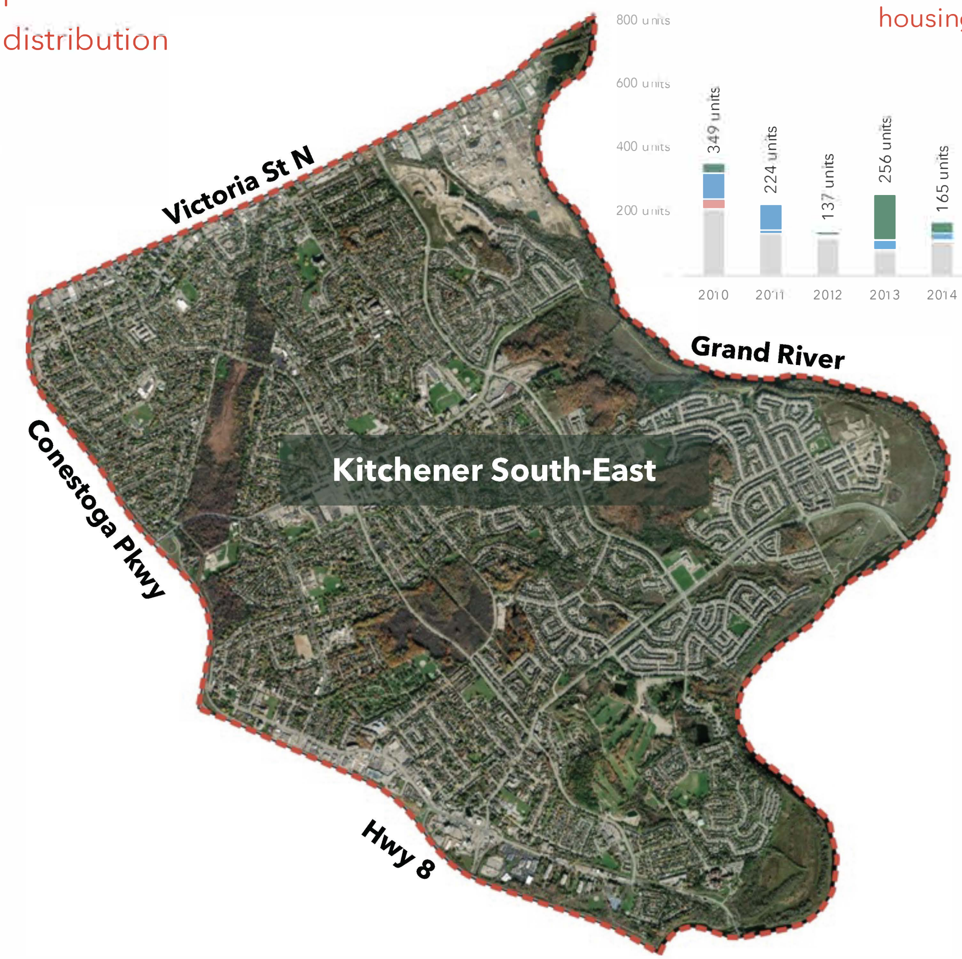




KITCHENER SOUTH-EAST

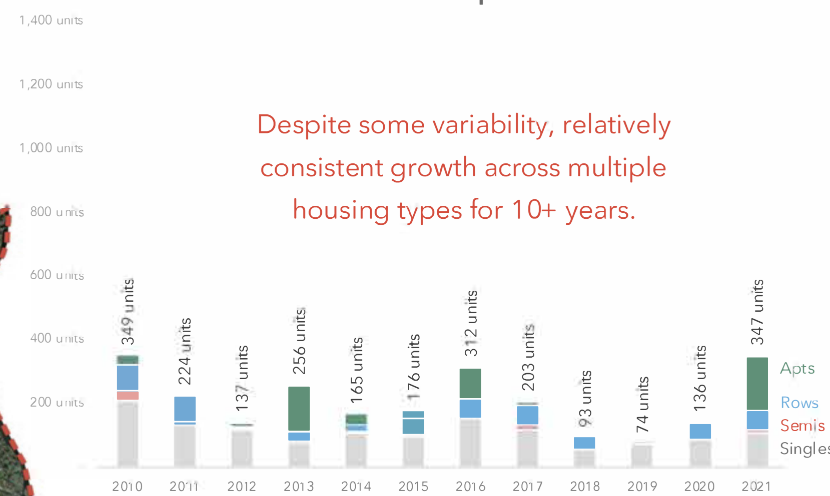


In line with provincial distribution



Annual Completions

Despite some variability, relatively consistent growth across multiple housing types for 10+ years.



Appendix C:

Incentives Best Practices Review

Type	Description	Example from Jurisdiction	Shortlist Result
Financial	Capital grants	Financial relief for affordable rental developers The City of Mississauga adopted development charges grant for affordable rental housing projects developed by a non-profit corporation, or a private developer working in partnership with a non-profit corporation. This grant effectively rebates the City's portion of development charges paid on eligible affordable rental developments.	**Not included in shortlist.** More immediate development charge and fee relief considered separately as part of alternative incentive options. (Incentive #1)
Financial	Capital grants	Capital grants for eligible "missing middle" / affordable housing The annual Peel Affordable Rental Incentives Program in the Region of Peel provides capital grants to private and non-profit developers building affordable rental housing with a particular focus on larger, family-sized units. In 2021, the Region funded three (3) housing development projects which constructed 130 affordable units in the region.	**Not included in shortlist.** More immediate development charge and fee relief / property tax exemptions considered separately as part of alternate incentive solution(s). (Incentive #1)
Financial	Capital grants	Housing Reserve Funds The City of Vancouver, Kelowna, Burnaby, Richmond, and North Vancouver in British Columbia have created direct capital grant contributions to affordable housing projects through Housing Reserve Funds.	**Not included in shortlist.** More immediate development charge and fee relief / property tax exemptions considered separately as part of alternate incentive solution(s). (Incentive #1)

Type	Description	Example from Jurisdiction	Shortlist Result
Financial	Capital grants	_Tax increment grant_ The City of Peterborough's Affordable Housing Tax Increment Based Grant Program provides a grant to affordable housing projects within the City's Community Improvement Area that will rehabilitate a building and result in a reassessment of the property. The grant amount would align with the incremental increase in the municipal taxes that would result from the rehabilitation.	**Included in shortlist.** (Incentive #1)
Financial	Capital grants	_Conversion of vacant office space into residential housing units_ The Downtown Calgary Development Incentive Program offers a grant to convert office space into residential space. Five (5) projects have been approved and will create 705 homes.	**Not included in shortlist.** Conversion of office space to residential does not represent a significant opportunity in the Kitchener context.
Financial	Capital grants	_Forgivable loan_ The City of Toronto's Laneway Suites Initiatives provides a forgivable loan to property owners developing a laneway suite.	**Not included in shortlist.** Other forms of financial relief considered separately as part of alternate incentive solution(s). (Incentive #1)

Type	Description	Example from Jurisdiction	Shortlist Result
Financial	Capital grants	*Innovation development* The City of Brampton's Housing Catalyst Capital Project will deliver capital funding and support to non-profits to incentivise ideas around new and innovative housing options. The City completed Phase 1 in 2023 and will be accepting application for Phase 2 in early 2023.	**Not included in shortlist.** Other forms of financial relief considered separately as part of alternate incentive solution(s). (Incentive #1e)
Financial	Property tax exemption	*Tax exemptions for affordable housing projects* The City of Peterborough's Municipal Housing Facilities property tax exemption provides full or partial property tax exemptions for up to 10 years for affordable housing projects. In British Columbia, Victoria and Langford offer a 100% permissive tax exemption to not-for-profit affordable housing projects.	**Included in shortlist.** (Incentive #1e)
Financial	Development charge (DC) deferral/ exemptions	*DC deferral for purpose-built affordable rental developments* In 2019, York Region introduced a development charge deferral policy to incentivize the development of affordable, purpose-built rental buildings that are a minimum of four (4) storeys.	**Not included in shortlist.** Development charge exemptions–rather than deferrals–considered separately. (Incentive #1e)

Type	Description	Example from Jurisdiction	Shortlist Result
Financial	Development charge (DC) deferral / exemptions	*DC exemptions for additional unit development on a single lot* The City of Toronto's By-law 1137-2022 exempts second, third or fourth residential dwelling units constructed on a single parcel of land or within a single residential building from development charges.	**Not included in shortlist.** Already captured in existing Kitchener policy and financial incentive context. (Incentive #1)
Financial	Development charge (DC) deferral / exemptions	*DC deferral* In 2018, the City of Toronto introduced the Laneway Suites Initiatives to encourage eligible property owners to develop secondary / laneway suites. One of the two incentives in this program is a DC deferral on the development of secondary dwelling unit in the rear yard of a property.	**Not included in shortlist.** Development charge exemptions–rather than deferrals–considered separately. (Incentive #1)
Financial	Provision / allocation of City-owned land	*Activation of City-owned land* The City of Toronto's Housing Now Initiative activates City-owned sites for the development of affordable housing within mixed-income, mixed-use, transit-oriented communities.	**Not included in shortlist.** The Region and the City continues to explore City-owned land that can be activated for housing purposes.

Type	Description	Example from Jurisdiction	Shortlist Result
Process 	Development approvals, property tax exemption and deferral process improvements.	*Reduce development approvals timeline* The City of Vancouver implemented the Vancouver Social Housing or Rental Tenure (SHORT) program which reduces development approval time for high impact multi-family housing by nearly 50%.	**Included in shortlist.** (Incentive #2)
Policy 	Density Transition Zones (DTZs)	*Introduce transition zone* The City of Bellevue, Washington adopted a Transition Area Design Districts to incentivize improvement that would serve to provide a transition with established uses. Similarly, Chula Vista, California adopted a Neighborhood Transition Combining District (NTCD) that regulates the character of intermediate zones to be compatible with surrounding residential areas.	**Not included in shortlist.** The concept of a transition zone is like that of major transit station areas (MTSAs) which have already been introduced in Kitchener.
Policy 	Density allowance changes	*Increase density in exchange for affordable / other objectives* In 2020, Portland Oregon's City Council adopted the Residential Infill Project (RIP) which allows up to six (6) homes on any lot if at least half are available to low-income residents at regulated and affordable prices. Similarly, in Minneapolis the City adopted Minneapolis 2040 which allows property owners to build duplexes or triplexes on residential lots previously zoned for single-family homes.	**Included in shortlist.** (Incentive #3)

Type	Description	Example from Jurisdiction	Shortlist Result
Policy	Density allowance changes	*Permit Additional Dwelling Units (ADUs)* The City of Portland's Zoning Code allows ADUs to be added on a site accessory to a house, attached house, manufactured home, or duplex. Up to two (2) ADUs are allowed on sites with a house, attached home, or manufactured home if the site meets a minimum threshold. Only one (1) ADU is allowed on sites with a duplex.	**Not included in shortlist.** Already permitted in Kitchener.
Policy	Density allowance changes	*Permit two-family dwellings (duplexes) with a secondary suite or lock-off unit* In the City of Vancouver, duplexes are permitted 'outright' in select residential zones with a secondary suite or lock-off units to increase housing choices in low-density neighbourhoods.	**Not included in shortlist.** Already permitted in Kitchener.
Policy	Density allowance changes	*Density Bonus Program* Austin, Texas implemented the Affordability Unlocked Development Bonus Program to provide developments waivers or easements on height, density, parking, compatibility, and minimum lot size in exchange for providing a high percentage of affordable units.	**Not included in shortlist.** Increased height and density allowances evaluated separately. (Incentive #3)

Type	Description	Example from Jurisdiction	Shortlist Result
Policy	Density allowance changes	*Inclusionary Zoning* The City of Edmonton amended its Zoning Bylaw in 2019 following a review of the City's middle density residential zones and associated overlays to introduce regulation changes that reduce barriers for development of 'missing middle' housing typologies. Changes include simplifying stacked row house and apartment uses into a single catch-all use called multi-unit housing; increasing the scale of housing allowed between each zone; allowing both a secondary suite and garden suite to be developed with a single detached house; simplify separation space requirements to avoid wasteful vacant space; and incorporating key design regulations from the existing overlay into the underlying zones and retiring the overlays.	**Not included in shortlist.** Inclusionary Zoning (IZ) framework already implemented by the City of Kitchener.
Policy	Parking requirement changes	*Parking allowances* The State of Oregon introduced new parking allowances to meet Oregon's climate pollution reduction targets while providing more housing and transportation choices and improving equity. As of January 1, 2023 the following are exempt from providing on site parking: facilities and homes designed to serve people with various disabilities; child care facilities single-room occupancy housing; residential units smaller than 750 square feet; affordable housing; public supported housing; emergency and transitional shelters; and domestic violence shelters.	**Include in shortlist.** (Incentive #4)

Appendix D:

Financial Analysis Background

Figure D.1

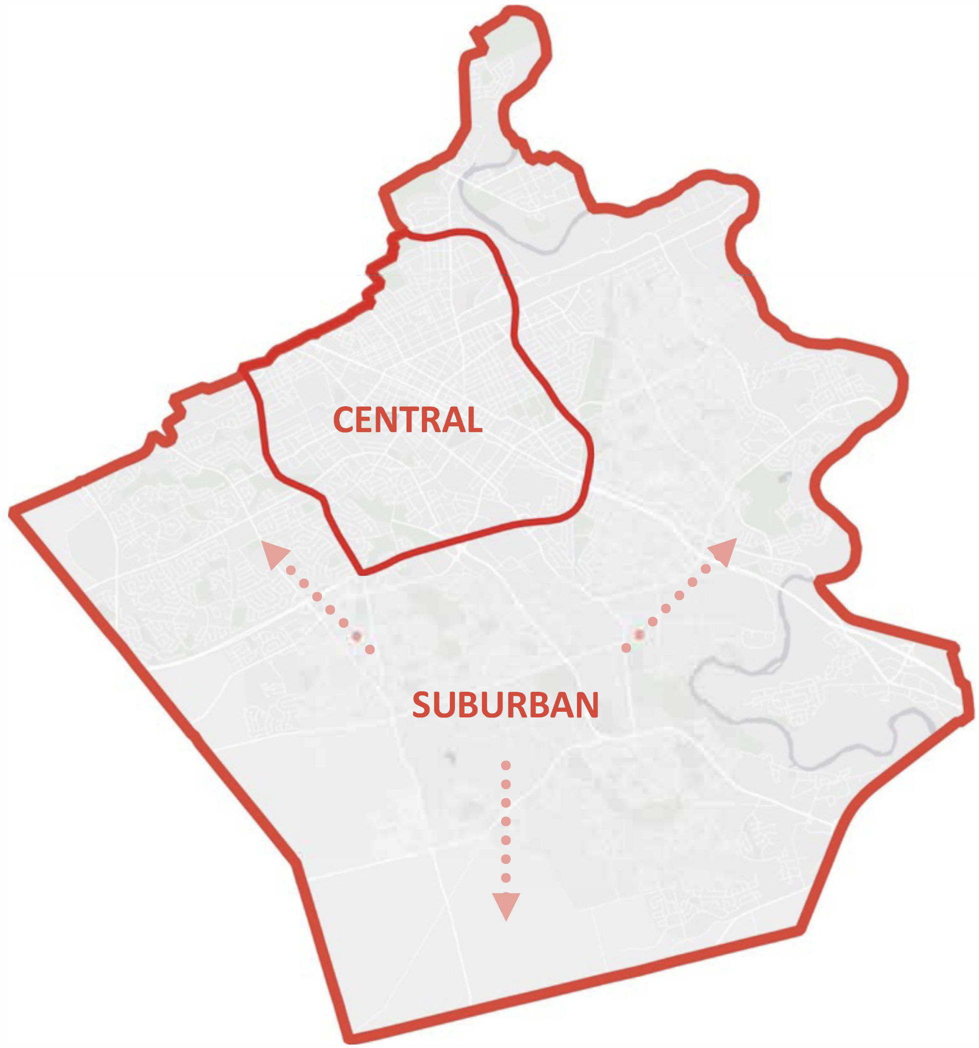
Central vs. Suburban Neighbourhoods

CENTRAL

Consistent with Schedule 'C1' of the Development Charges By-Law 2022-071 to align with applicable rates. Central Neighbourhoods contain most of Kitchener's recent high-rise + other infill development.

SUBURBAN

Consistent with Schedule 'C2' of the Development Charges By-Law 2022-071 to align with applicable rates. Suburban Neighbourhoods make up the balance of the City and contain most of the community's recent greenfield development.



Source: Parcel, based on Schedules 'C1' and 'C2' of the Development Charges By-Law 2022-0071.

Figure D.2

Scenarios Tested for Baseline Financial Feasibility

TYPOLOGY			LOCATION		TENURE	
			Central	Suburban	Ownership	Rental
●	A	Singles+		•	•	
◆	B	ADU's	•			•
●	C1	Towns		•	•	
◆	C1	Towns		•		•
●	C2	Cluster Towns	•		•	
◆	C2	Cluster Towns	•			•
●	C3	Plexes	•		•	
◆	C3	Plexes	•			•
●	D1	Low-Rise	•		•	
◆	D1	Low-Rise	•			•
●	D1	Low-Rise		•	•	
◆	D1	Low-Rise		•		•
●	D2	Mid-Rise	•		•	
◆	D2	Mid-Rise	•			•
●	D2	Mid-Rise		•	•	
◆	D2	Mid-Rise		•		•
●	E	High-Rise	•		•	
◆	E	High-Rise	•			•

● Ownership
◆ Rental

Source: Parcel

Figure D.3

Baseline Financial Feasibility Assumptions

Baseline revenue assumptions are based on our review of …

- Altus Data Studio data for projects actively selling in 2022 and recent MLS data for the resale market.
- Rentals.ca and CMHC historical rental data.
- Future revenue growth is based on historical data and is assumed to average 5.0% annually for both ownership and rental (up to first occupancy) over the next 5 years.
- Recent development land transactions published by Altus and CoStar, as well as resale house sales for 'teardown' houses in the Central Neighbourhoods to establish land costs.
- The median value by typology published in the Altus Construction Cost Guide (2023) to estimate Hard Costs (i.e., construction costs).
- Current regional and city charges and fees (grown based on the 10-year trend of the non-residential construction price index), 20-year trend interest rates, and typical industry benchmarks to estimate Soft Costs.
- Future cost growth is based on historical data by category and assumes hard costs will grow at an average annual rate of 10.0% for projects expected to begin construction within the next 3 years and 7.5% for projects which are expected to take longer to begin construction and as the industry slowly comes down from historic highs.
- Recent changes included in the Province's Bill 23 have been incorporated into our baseline analyses.

Figure D.4

Baseline Financial Feasibility Analysis – All Typologies, Tenures & Locations

Singles+ (A) — Suburban

16 units @ **2,350** sq ft on **1.00 acres** in the **Suburban Neighbourhoods**

Revenue Assumptions

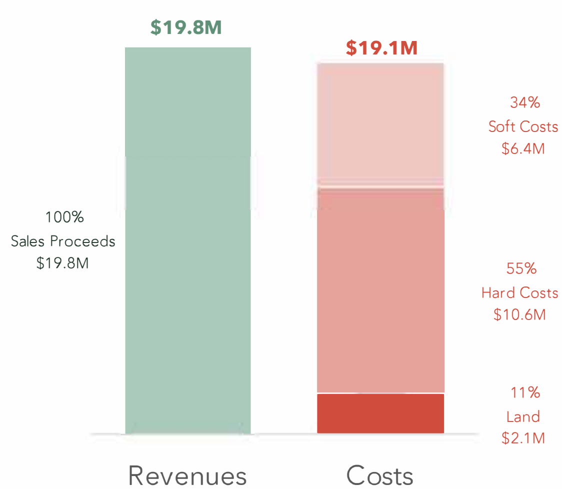
$ per Unit:	$1.235M + 5% annually to construction
Avg Rent:	No Scenario

Cost Assumptions

Land:	$2.0M ($2.0M / ac)
Hard Costs:	$245 PSF + 10.0% annually to construction
Soft Costs:	DCs + CIL Parkland; SPA + Subdivision

Return Metrics	**Ownership**	**Rental**
Profit:	$787,000	–
IRR:	15%	–
Equity Multiple:	1.22x in 2.4 yrs	–
Cash-on-Cash:	–	–

Ownership



Rental

N/A

ADUs (B) — Central

1 unit @ **850** sq ft in the backyard of a single-detached house

Revenue Assumptions	
$ per Unit:	No Scenario
Avg Rent:	$2,400/mth (2023) + 5% annually to construction

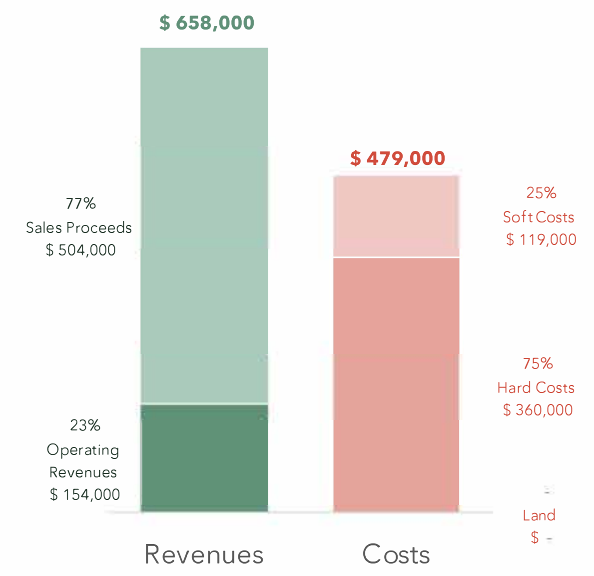
Cost Assumptions	
Land:	$0
Hard Costs:	$350 PSF + 10% annually
Soft Costs:	NO DCs, CBCs + CIL Parkland; NO OPA, ZBA, SPA

Return Metrics	**Ownership**	**Rental**
Profit:	–	$179,000
Upfront Equity:	–	$120,000
Cash-on-Cash:	–	8%

Ownership

N/A

Rental



Traditional Towns (C1) Suburban

24 units @ **1,550** sq ft on **1.0 acres** in the **Suburban Neighbourhoods**

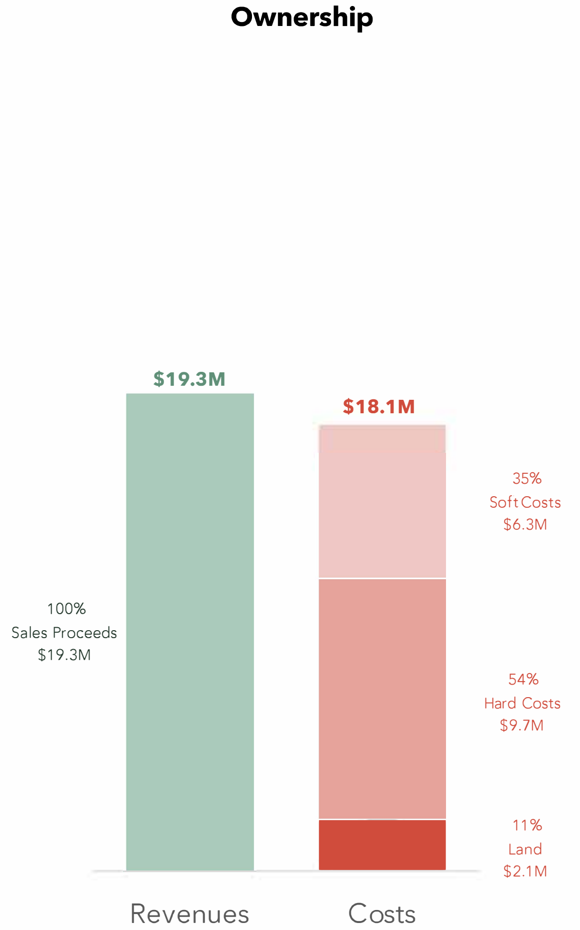
Revenue Assumptions

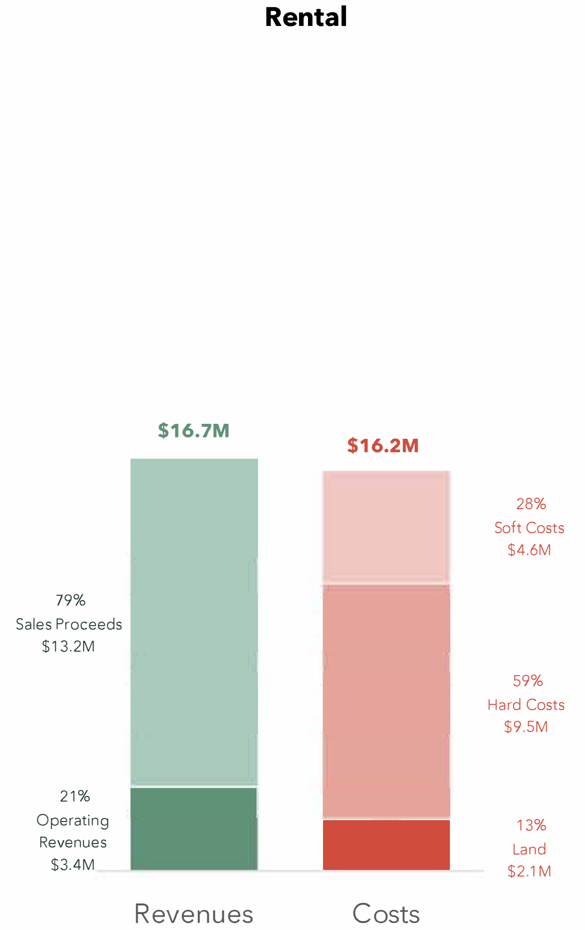
$ per Unit:	$800,000 + 5% annually to construction
Avg Rent:	$2,870/mth (2023) + 5% annually to construction

Cost Assumptions

Land:	$2.0M ($2.0M / ac)
Hard Costs:	$225 PSF + 10% annually to construction
Soft Costs:	DCs + CIL Parkland; SPA + Subdivision

Return Metrics	**Ownership**	**Rental**
Profit:	$1.2M	$485,000
IRR:	18%	1%
Equity Multiple:	1.34x in 2.4 yrs	1.06x in 13.3 yrs
Cash-on-Cash:	–	2%





New Format Towns (C2) — Central

9 units @ **1,846** sq ft on **0.36 acres** in the **Central Neighbourhoods**

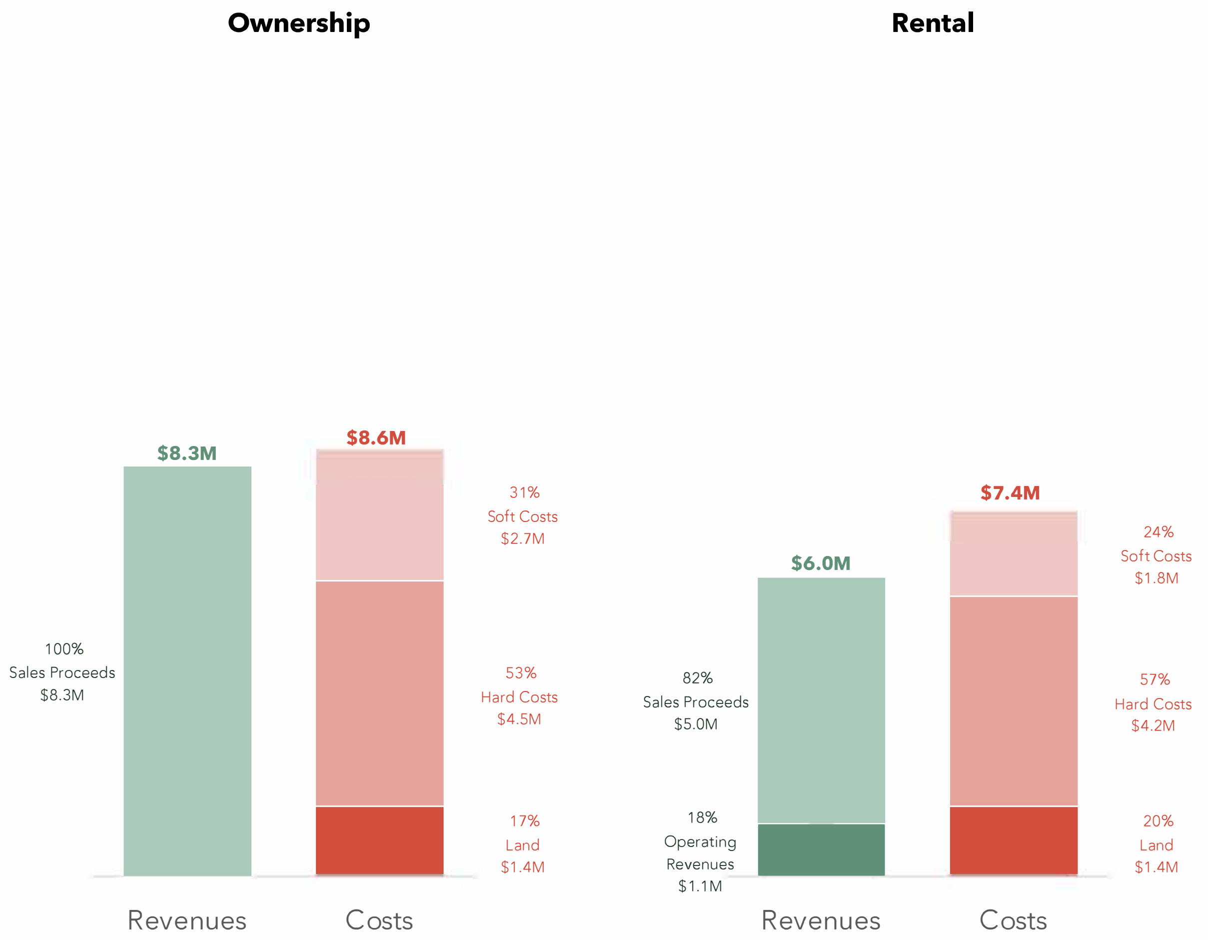
Revenue Assumptions

$ per Unit:	$925,000 + 5% annually to construction
Avg Rent:	$2,955/mth (2023) + 5% annually to construction

Cost Assumptions

Land:	$1.4M (2 Teardown Houses)
Hard Costs:	$225 PSF + 10% annually to construction
Soft Costs:	DCs + CIL Parkland; OPA, ZBA, & Condo

Return Metrics	Ownership	Rental
Profit:	-$342,000	-$1.35M
IRR:	-14%	-4%
Equity Multiple:	0.82x in 3.4 yrs	0.66x in 13.1 yrs
Cash-on-Cash:	–	–



Plexes (C3) — Central

8 units @ **949** sq ft on **0.11 acres** in the **Central Neighbourhoods**

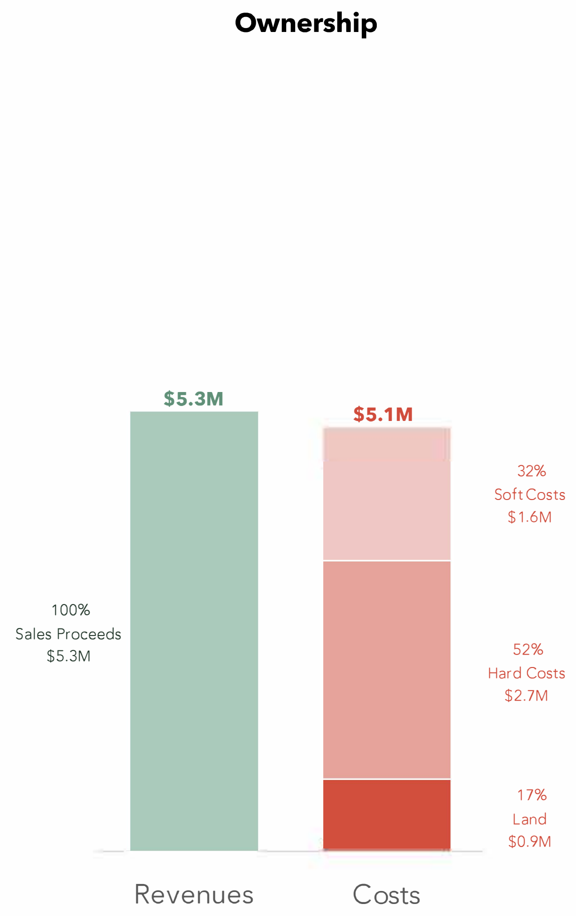
Revenue Assumptions

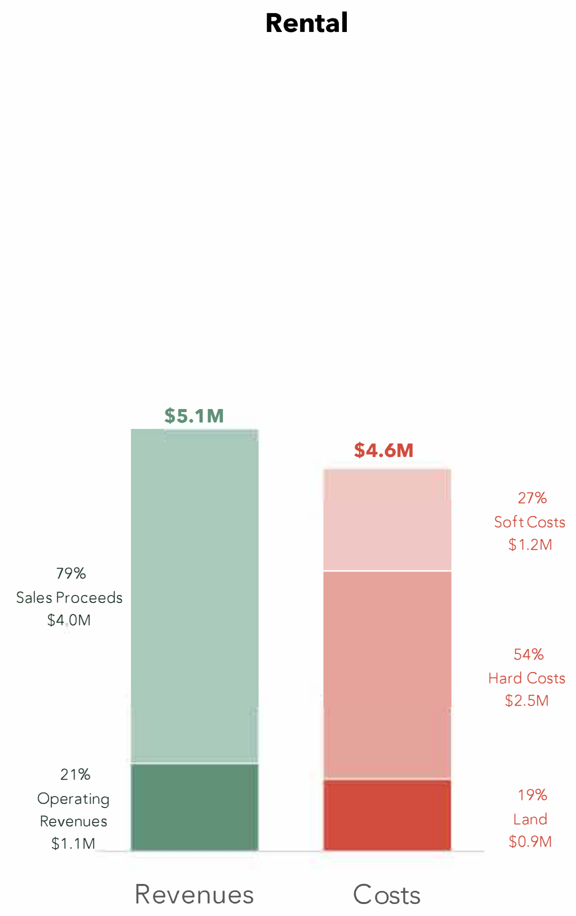
$ per Unit:	$665,000 + 5% annually to construction
Avg Rent:	$2,705/mth (2023) + 5% annually to construction

Cost Assumptions

Land:	$850,000 (1 Teardown House)
Hard Costs:	$255 PSF + 10% annually
Soft Costs:	DCs + CIL Parkland; OPA, ZBA, + Condo

Return Metrics	**Ownership**	**Rental**
Profit:	$184,000	$484,000
IRR:	9%	2%
Equity Multiple:	1.16x in 3.3 yrs	1.21x in 13.3 yrs
Cash-on-Cash:	–	2%





Low-Rise (D1)

Central

15 units @ **712** sq ft on **0.16 acres** in the **Central Neighbourhoods**

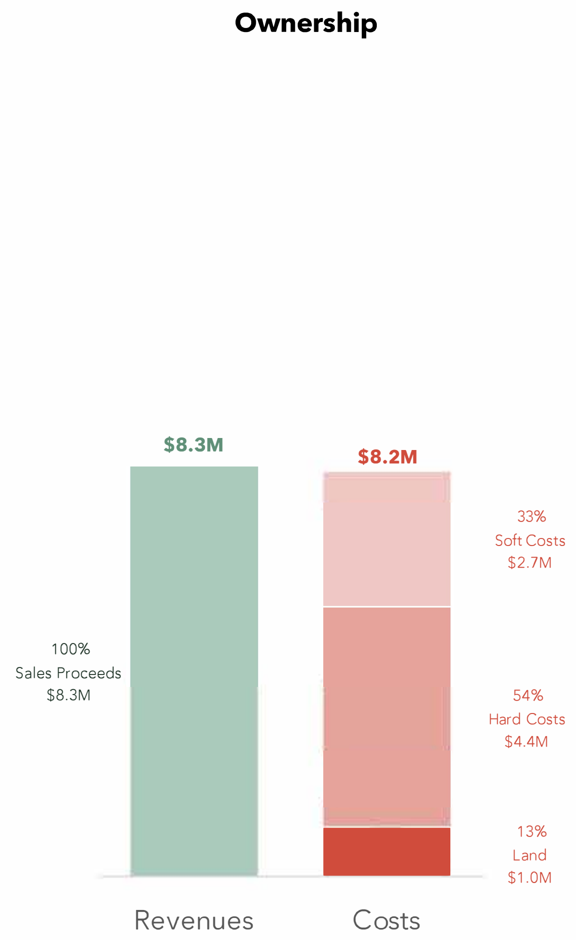
Revenue Assumptions

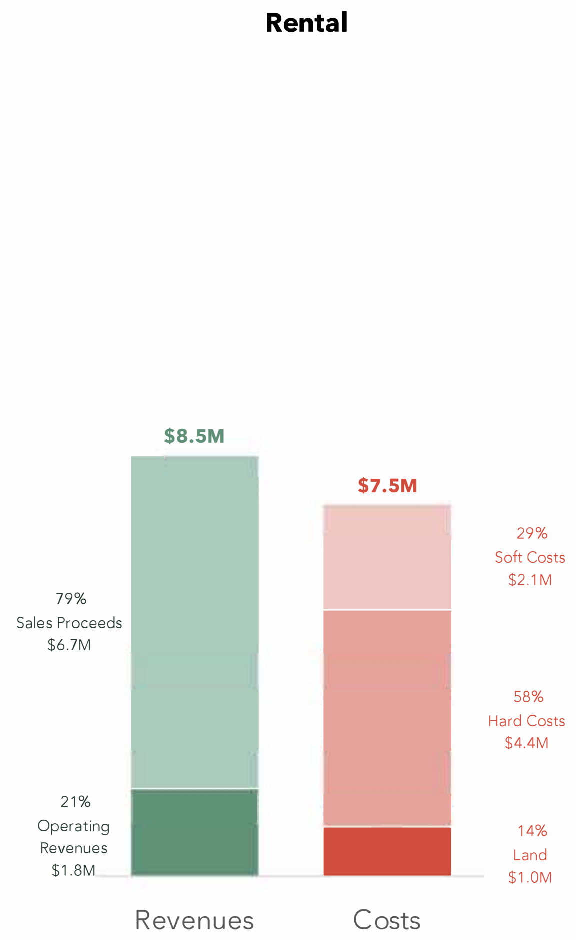
$ per Unit:	$535,000 + 5% annually to construction
Avg Rent:	$2,260/mth (2023) + 5% annually to construction

Cost Assumptions

Land:	$1M (1 Teardown House)
Hard Costs:	$285 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; OPA, ZBA, SPA + Condo

Return Metrics	**Ownership**	**Rental**
Profit:	$96,000	$971,000
IRR:	3%	2%
Equity Multiple:	1.06 in 4.6 yrs	1.26x in 14.8 yrs
Cash-on-Cash:	–	2%





Low-Rise (D1) Suburban

15 units @ **712** sq ft on **0.16 acres** in the **Suburban Neighbourhoods**

Revenue Assumptions

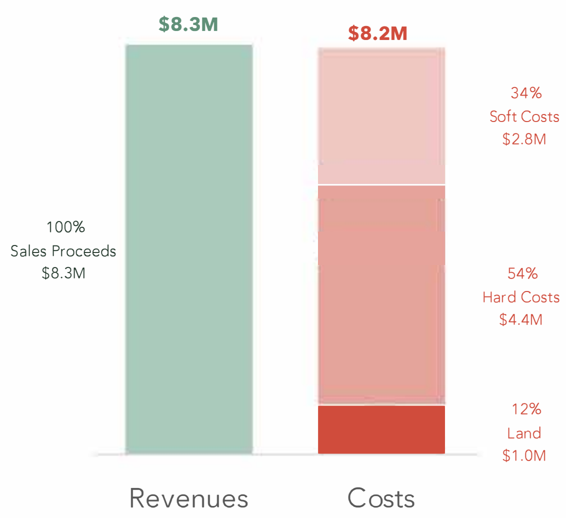
$ per Unit:	$535,000 + 5% annually to construction
Avg Rent:	$2,257/mth (2023) + 5% annually to construction

Cost Assumptions

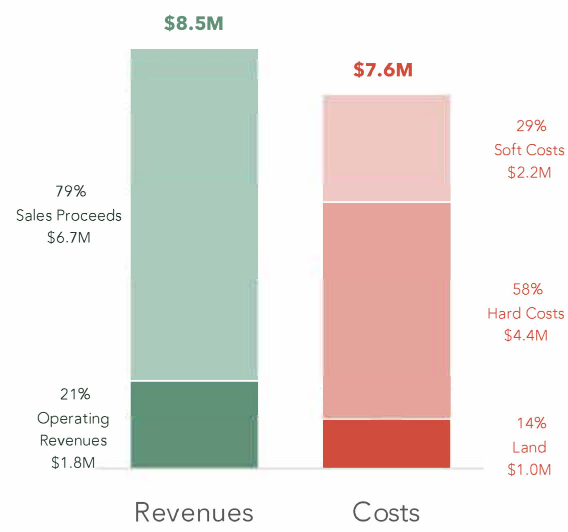
Land:	$1M (1 Teardown House)
Hard Costs:	$285 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; SPA + Condo

Return Metrics	**Ownership**	**Rental**
Profit:	$57,000	$938,000
IRR:	2%	2%
Equity Multiple:	1.03x in 4.6 yrs	1.25x in 14.8 yrs
Cash-on-Cash:	–	2%

Ownership



Rental



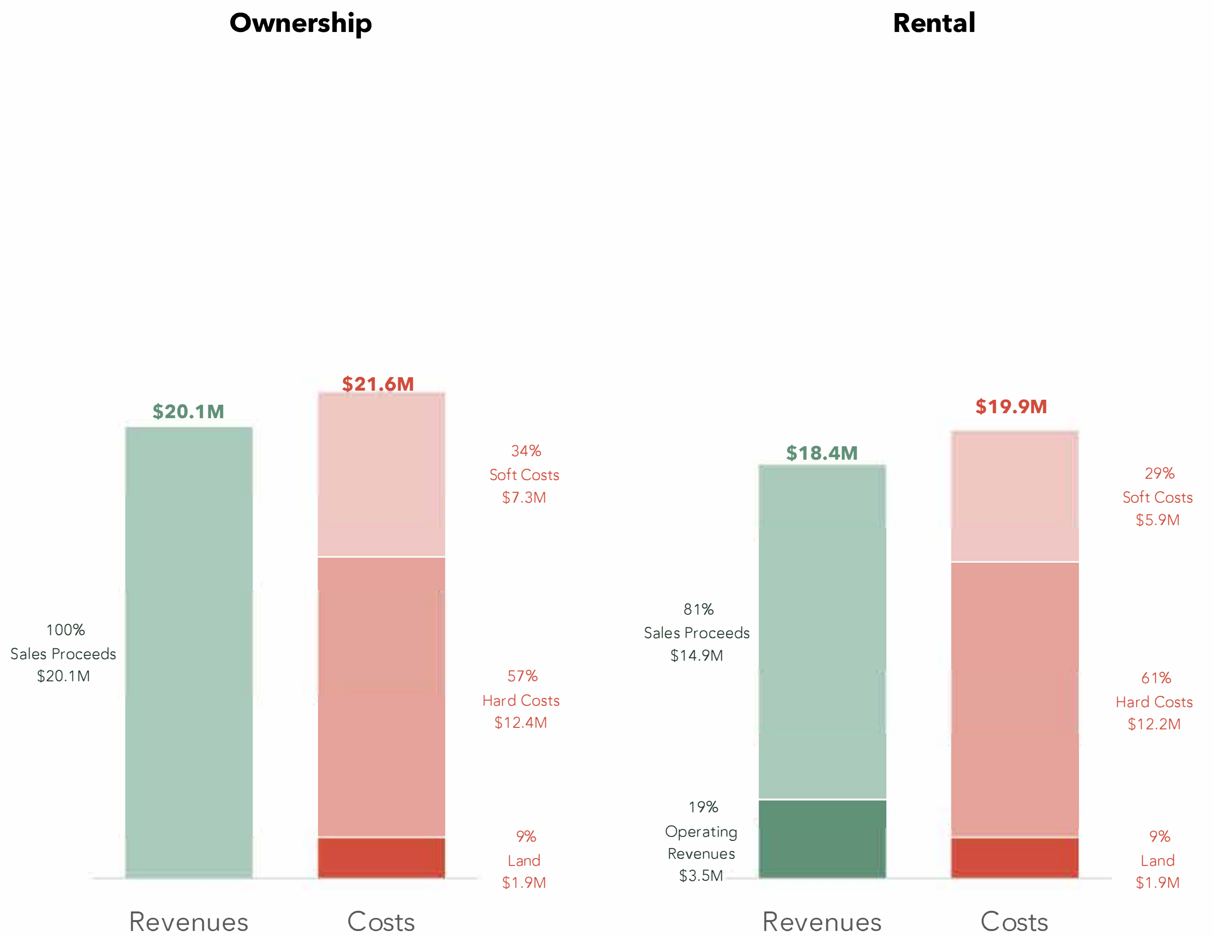
Mid-Rise (D2) — Central

32 units @ **757** sq ft on **0.27 acres** in the **Central Neighbourhoods**

Revenue Assumptions	
$ per Unit:	$606,000 + 5% annually to construction
Avg Rent:	$2,235/mth (2023) + 5% annually to construction

Cost Assumptions	
Land:	$1.8M (2 Teardown Houses)
Hard Costs:	$285 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; OPA, ZBA, SPA + Condo

Return Metrics	**Ownership**	**Rental**
Profit:	-$1.49M	-$1.58M
IRR:	–	-1%
Equity Multiple:	0.68x in 5.1 yrs	0.84 in 15.6 yrs
Cash-on-Cash:	–	1%



Mid-Rise (D2) — Suburban

32 units @ **757** sq ft on **0.27 acres** in the **Suburban Neighbourhoods**

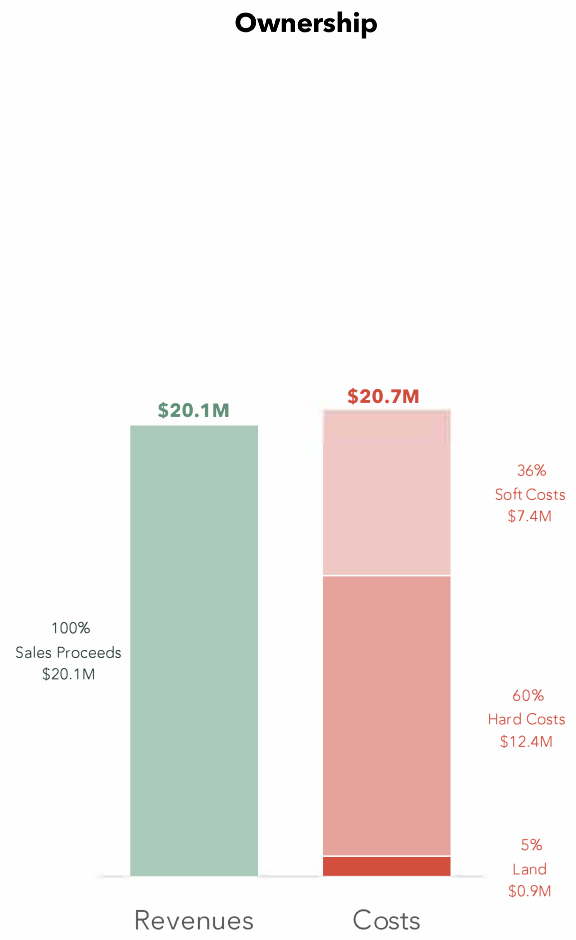
Revenue Assumptions

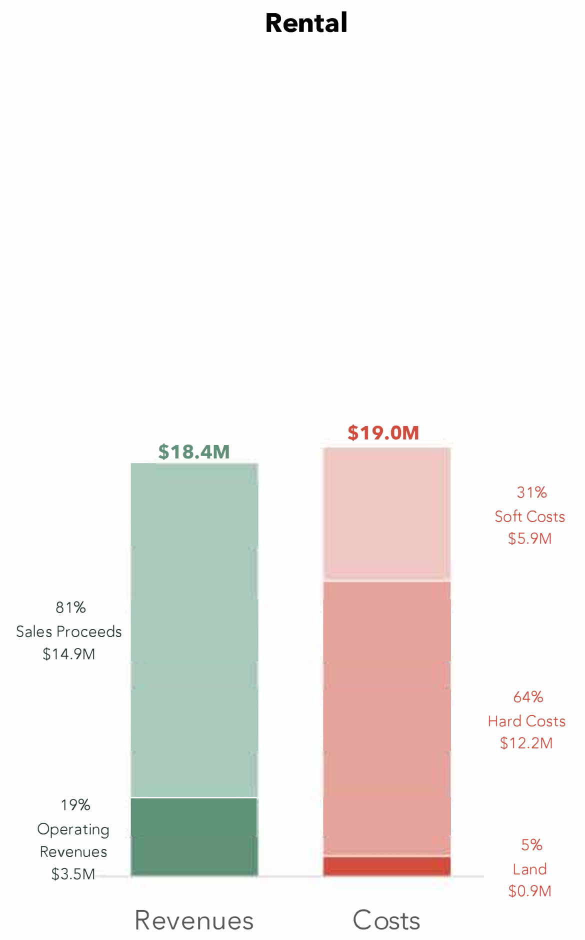
$ per Unit:	$606,000 + 5% annually to construction
Avg Rent:	$2,235/mth (2023) + 5% annually to construction

Cost Assumptions

Land:	$925,000 ($3.4M / ac)
Hard Costs:	$285 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; SPA + Condo

Return Metrics	**Ownership**	**Rental**
Profit:	-$621,000	-$681,000
IRR:	-18%	-1%
Equity Multiple:	0.85x in 5.1 yrs	0.93x in 15.6 yrs
Cash-on-Cash:	–	1%





High-Rise (E) — Central

425 units @ **710** sq ft on **0.69 acres** in the **Central Neighbourhoods**

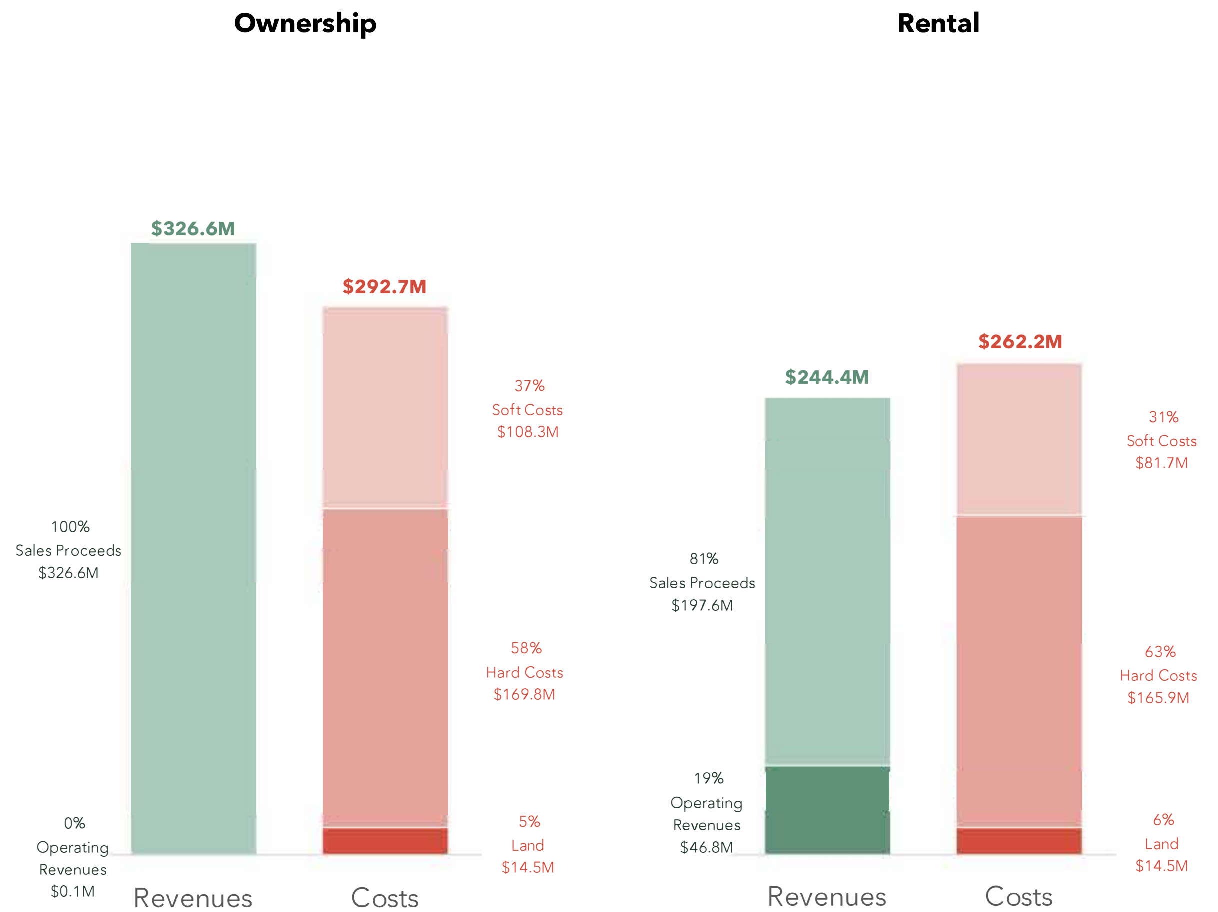
Revenue Assumptions

$ per Unit:	$710,000 + 5% annually to construction
Avg Rent:	$2,130/mth (2023) + 5% annually to construction

Cost Assumptions

Land:	$14M ($20.3M / ac)
Hard Costs:	$360 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; OPA, ZBA, SPA + Condo

Return Metrics	**Ownership**	**Rental**
Profit:	$33.9M	-$17.7M
IRR:	29%	-1%
Equity Multiple:	1.64x in 6.5 yrs	0.86x in 16.1 yrs
Cash-on-Cash:	–	1%



Source: Parcel

Appendix E:

Fiscal Impact of Financial Incentives

Figure E.1

Municipal Cost of Financial Incentives

Incentive	Tax Exemption	Tax Increment Grant	Fee Exemptions		DC Exemptions		Combined	
	Ownership	Rental	Ownership	Rental	Ownership	Rental	Ownership	Rental
Cost to Implement per Project								
Plexes	$2,853	$13,689	$46,896	$35,154	$21,140	$12,174	**$70,889**	**$61,017**
Low-Rise	$3,805	$42,312	$56,974	$43,848	$54,173	$41,668	**$114,952**	**$127,828**
Mid-Rise	$4,756	$111,826	$60,314	$45,606	$117,784	$92,066	**$182,854**	**$249,498**
New Format Towns	$2,853	$40,179	$46,996	$35,154	$71,779	$45,526	**$121,628**	**$120,859**
High-Rise	$51,794	$250,342	$101,951	$87,242	$1,754,775	$1,419,018	**$1,908,520**	**$1,756,602**

Source: Parcel, based on municipal property assessment data, 2022 property tax rates, our analysis of potential missing middle parcels, current City planning fees and development charges. Incorporates Bill 23's discounts to DCs for rental housing.

Parcel

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