Rental Replacement By-law

Financial Feasibility Study

November 22, 2023

Parcel

PREPARED FOR:

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Table of Contents

Table of Figures

Executive Summary

Background

- Parcel Economics Inc. ("Parcel") has been retained by the City of Kitchener to support their investigation into the merits of a **potential new rental replacement by-law**.

- Our role for this study has been to provide additional research, analysis and strategic insight on the proposed new policy framework from a **market and economic perspective**.

Study Parameters

- A key underlying condition that is important to acknowledge in interpreting the results of this research is that the **rental housing "universe"** effectively comprises two different types of supply: (i) the primary rental market is relatively stable, with units that were built with the intention of being used as rental units (i.e., "purpose-built" rental units); and, (ii) the secondary rental market consists of units that were built for purchase (i.e., ownership housing, including condominiums that are being rented to tenants).

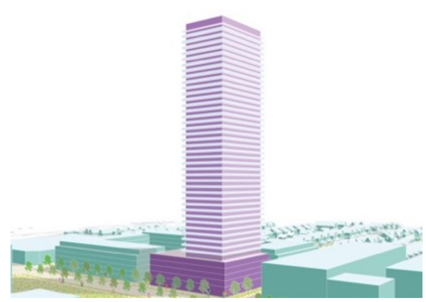
- We have continued to focus on two key areas of the City: the **Central and Suburban Neighbourhoods**, as defined in Kitchener's Development Charge By-law.

- To evaluate impacts to development feasibility under a rental replacement by-law, we have identified **three (3) development typologies** that are most likely to replace existing rental units:

Mid-Rise (6-Storey)

High-Rise (20-Storey)

High-Rise (45-Storey)



Key Findings

Policy Context

- Existing rental replacement by-laws typically apply to demolition and/or conversion of **six (6) or more primary rental units**.
- Other key components of replacement by-laws are that replacement units must be provided at a **similar number, mix, size, quality, and rent** as the original units and be retained as rental units for between **10 and 20 years**.
- In some instances, replacement by-laws permit **cash-in-lieu payments** and **off-site units** as alternative delivery methods for replacement units.
- There are certain **conditions where rental replacement does not apply**.

Market Context

- There are approximately **21,400 primary rental units** in Kitchener, 96% of which would be eligible for replacement based on the six-unit replacement threshold.
- **Condominium units (i.e., secondary rental units)** have been responsible for a progressively larger portion of the rental supply over the years, especially since 2018.
- Overall, trends indicate **strong and sustained demand for rental housing in Kitchener** as a function of increasing rents, low vacancies and increasing number of renter households.

Financial Feasibility Context

- **Mid-Rise buildings** across both tenures are challenged to earn sufficient returns, even in the absence of a rental replacement by-law and regardless of location.
- **20-Storey High-Rise** condo buildings have strong potential in the Central Neighbourhoods, with some ability to replace existing rental units at average market rents. Rental buildings are on the cusp of feasibility, however, a replacement by-law would likely push into infeasible.
- **45-Storey High-Rise** condo buildings have strong potential in the Central Neighbourhoods, with some ability to replace existing rental units at average market rents. Rental buildings are generally more challenged than their shorter and less expensive-to-build counterparts, also rendering them infeasible.

Conclusions

Question #1:

Will a new rental replacement by-law risk <u>materially impacting residential development</u> in Kitchener?

- A rental replacement by-law is likely to deter all types and tenures of intensification of existing rental buildings across the city.
- This will be especially true while alternative, non-rental apartment redevelopment sites remain available and viable.
- It is highly unlikely that existing rental buildings over 50 units will be redeveloped.

Question #2:

If pursuing the implementation of a new rental replacement by-law, what are the <u>optimum parameters</u> to effectively balance the need to accommodate new growth while simultaneously encouraging the maintenance—or expansion—of the local purpose-built rental inventory?

- If the City decides to move forward with a rental replacement by-law—despite its negative effects on financial feasibility—the **key will be to remove as many barriers as possible**.
- This will effectively reduce the risk of sterilizing existing rental sites from new development and/or pushing development to other areas of the community.
- To this end, the following directions should be considered by the municipality:
  - (1) **Keep it simple and straight forward**.
  - (2) **Set similar parameters to existing policy precedents**.
  - (3) **Phase implementation**, to avoid unwanted impacts to active development projects being advanced to market.
  - (4) **Allow for flexibility**, including potential off-site delivery and/or cash-in-lieu options.

See **Section 5.0** for details of key research findings and recommendations.

1.0

Introduction

1.1 Purpose

In parallel to other active policy reviews and housing-based planning initiatives, the City of Kitchener is in the process of investigating the merits of a potential new rental replacement by-law.

To this end, staff from the City's Planning Division have been tasked with conducting a study that considers the overall **appropriateness—and ultimate feasibility—of implementing a rental replacement by-law**. In support of this exercise, Parcel Economics Inc. ("Parcel") has been retained to provide additional research, analysis and strategic insight on the proposed new policy framework from a market and economic perspective.

The primary purpose of our work on this assignment has been to answer the following key questions:

Question #1:

Will a new rental replacement by-law risk materially impacting residential development in Kitchener?

Question #2:

If pursuing the implementation of a new rental replacement by-law, what are the optimum parameters to effectively balance the need to accommodate new growth while simultaneously encouraging the maintenance—or expansion—of the local purpose-built rental inventory?

1.2 Scope

Context: Enabling Missing Middle & Affordable Housing Study

It is important to note at the outset of this report that our team recently completed a related study on behalf of the City of Kitchener that evaluated and developed recommendations relating to the key market, policy and regulatory solutions capable of **maximizing the provision of missing middle and affordable housing** in the community. Titled the *Enabling Missing Middle and Affordable Housing* ("Enabling MM+AH") study and dated April 11, 2023, our previous work was completed alongside subconsultants Smart Density and StrategyCorp.

This latest engagement—now focusing more specifically on the topic of rental replacement—leverages much of the supporting research, analysis and key findings already established through our original work for the City on the Enabling MM+AH study. As such, we recommend that this work be considered as a **companion document** to our original Enabling MM+AH study, where necessary.

The scope of this assignment has involved a combination of:

a) A scan of relevant **policy contexts** and comparisons to the experiences in other Ontario municipal jurisdictions;

b) Establishing a reasonable baseline characterization of **local market conditions** for development;

c) A detailed testing of prototypical development concepts for **financial feasibility** predicated on a potential future policy direction; and,

d) The preparation of **recommendations** focused specifically on the manner in which the proposed new rental replacement policy framework should be integrated, <u>if at all</u>.

1.3 Study Parameters

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 different types of rental housing markets, as well as an introduction to the specific building typologies and subject geographies considered as part of our supporting research program.

Rental Housing "Universe"

Rental housing is generally provided by either the *primary* or *secondary* rental markets.

Primary Rental Housing	Primary rental housing consists of units that were built with the intention of being used as rental units. Rental housing in this market is often referred to as "purpose-built rental". It is seen as desirable because it is typically the most stable form of rental housing. Primary rental units typically remain rental units in perpetuity and tenants have security of tenure.
Secondary Rental Housing	Secondary rental consists of units that were built for purchase (i.e., ownership housing, including condominiums) and are now being rented to tenants by their owners. The secondary market can be a less stable form of rental housing, as owners can move back into or sell their units at any time.

Geographies

Consistent with the main geographies identified in our original Enabling MM+AH study, we have continued to focus on two key areas of the City for this latest rental replacement research: the **Central and Suburban Neighbourhoods**, as defined in Kitchener's Development Charge By-law.

For selected supporting information (e.g., local market conditions, etc.), we have also considered more granular geographies based on pre-defined submarket areas identified by the Canada Mortgage and Housing Corporation (CMHC).

Figure 1.1

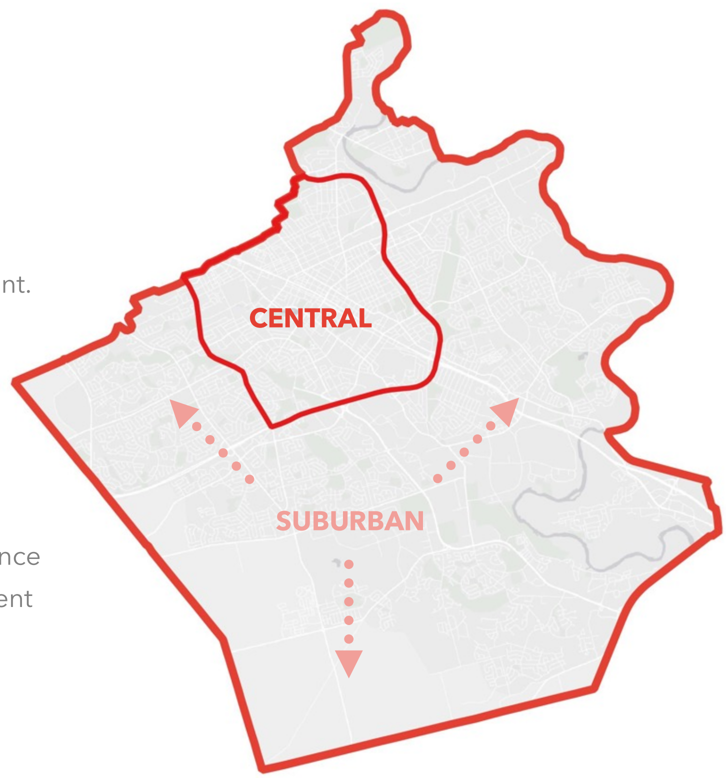
Central vs. Suburban Neighbourhoods

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.

Development Prototypes

To test the financial impact of a rental replacement by-law, we have identified three (3) development typologies that are most likely to replace existing rental units across the Central and Suburban Neighbourhoods of the city:

For consistency with the Enabling MM+AH study, we again considered a **Mid-Rise (6-Storey)** typology across both condo apartment and purpose-built rental building formats in both the Central and Suburban Neighbourhoods, as well as a **High-Rise (45-storey)** condo apartment and purpose-built rental building typology exclusively in the Central Neighbourhood. In recognition of existing and recently completed apartment buildings across the city that fell in between this range, we also tested an alternative **High-Rise (20-storey)** option for condo apartments and purpose-built rental buildings in both the Central and Suburban Neighbourhoods.

Figure 1.2

Overview of Mid-Rise and High-Rise Building Typologies for Testing

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

Mid-Rise (6-Storey)

Lot Size:	0.11 ha (0.27 ac)
Gross Floor Area:	2,750 m^2 (29,500 ft^2)
FSR:	2.51
Storeys:	6
Units:	32
Average Unit Size:	70 m^2 (765 ft^2)
Parking:	25 underground

Central ● (Included)

Suburban ● (Included)

High-Rise (20-Storey)

Lot Size:	0.28 ha (0.69 ac)
Gross Floor Area:	16,955 m^2 (182,500 ft^2)
FSR:	6.1
Storeys:	20
Units:	225
Average Unit Size:	65 m^2 (710 ft^2)
Parking:	95 underground (Central) / 116 underground and surface (Suburban)

Central

Suburban

High-Rise (45-Storey)

Lot Size:	0.28 ha (0.69 ac)
Gross Floor Area:	33,445 m^2 (360,000 ft^2)
FSR:	12
Storeys:	45
Units:	425
Average Unit Size:	65 m^2 (710 ft^2)
Parking:	201 underground

Central

Suburban

Source: Smart Density and Parcel. Gross floor areas and average unit sizes have been rounded.

1.4 Assumptions & Limitations

When considering the type of high-level 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 residential uses in Kitchener, especially in the context of replacing existing purpose-built rental units.

A detailed overview of the key assumptions that must be understood as limitations to the analysis undertaken as part of this assignment—and our previous Enabling MM+AH study—has been provided in Appendix B.

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

See **Appendix B** for overview of key assumptions and limitations.

2.0

Policy Context

Key Findings

- Legal authority for municipalities to enact residential replacement and demolition control by-laws come from the Municipal Act and Planning Act. However, the recently passed Bill 23 and Bill 97 grants the Province the authority to limit and/or apply conditions to these by-laws.

- There are currently three Ontario municipalities with rental replacement by-laws: **Toronto**, **Mississauga**, and **Oakville**.

- Existing rental replacement by-laws typically apply to demolition and/or conversion of **six (6) or more primary rental units**.

- Other key components of replacement by-laws are that replacement units must be provided at a **similar number, mix, size, quality, and rent** as the original units and be retained as rental units for between **10 and 20 years**.

- In some instances, replacement by-laws permit **cash-in-lieu payments** and **off-site units** as alternative delivery methods for replacement units.

- There are certain conditions where rental replacement does not apply, namely when vacancy rates are high and the units that are being replaced have rents above a certain threshold (i.e., more expensive units).

2.1 Legislation (Provincial Context)

Legal authority for municipalities to enact residential rental replacement and demolition control by-laws come from Section 99.1 of the Municipal Act, 2011 and Section 33 of the Planning Act, 1990. However, the recently passed Bill 23, More Homes Built Faster Act, 2022 and Bill 97, the Helping Homebuyers, Protecting Tenants Act, 2023 grants the Minister of Municipal Affairs and Housing the authority to make regulations imposing limits and conditions on the powers of local municipalities to prohibit and regulate the demolition and conversion of residential rental properties.

As such, any rental replacement and/or demolition control by-law passed by the City of Kitchener **may be amended or superseded by the Province**.

2.2 Policy Precedents (Municipal Context)

There are currently three Ontario municipalities with rental replacement by-laws: Toronto, Mississauga, and Oakville.

Of these, the Toronto by-law has been in effect the longest and retained an estimated 5,000 rental units over 17 years. The Mississauga and Oakville by-laws are the newest, having been adopted in 2018 and 2023, respectively. It is unknown at this time how many units have been retained via these more recent by-laws. All three by-laws stipulate conditions of rental replacement units, including when rental replacement requirements apply, how long replacement units must be retained as rental units, the nature of replacement units (mix, size, rents), options for alternative delivery of replacement units, and exemptions. Some by-laws include other components, such as requirements for a tenant relocation plan.

Though there are some nuances, by and large, all three by-laws share similar conditions:

- Rental replacement only applies to **primary rental market units**;
- Rental replacement applies when **six (6) or more units** are proposed to be converted / demolished;
- Replacement units must be provided at a **similar number, mix, size, quality, and rent** as the original units;

- Replacement units must **remain rental for 10 to 20 years**;
- **Cash-in-lieu payments** and **off-site units** are permitted (except in Toronto); and,
- Rental replacement does not apply when vacancy is above 3% and / or rents are above a predefined threshold (except in Oakville).

Figure 2.1

Components of Rental Replacement By-laws

Component	Description
Qualifying Threshold	• The number of demolished/converted units that triggers a rental replacement requirement.
Retention	• How long replacement units must remain rental.
Replacement Mix and Size	• Unit mixes and sizes of replacement units.
Replacement Rents	• Monthly rent for replacement units.
Alternative Delivery Method	• Whether cash in lieu and/or off-site units are permitted as an alternative to replacing units on site.
Tenant Relocation Plan	• Whether a proponent is required to create a relocation plan and/or compensate tenants while their units are being replaced.
Exemptions	• Rental market conditions in which rental replacement policies do not apply. • Housing tenures to which rental replacement policies do not apply.

Source: Parcel

See **Appendix C** for a detailed comparison of the precedent by-laws.

3.0

Market Context

Key Findings

- There are approximately **21,400 primary rental units** in Kitchener, 96% of which would be eligible for replacement based on the six-unit replacement threshold.
- **Average rents, low vacancy, and an increasing number of renter households** are putting strain on the rental market. Average rents have increased by more than double the rate of inflation over the past 10 years.
- Condominium units (i.e., secondary rental units) have been responsible for a progressively larger portion of the rental supply over the years. It is anticipated that this trend will continue as condominiums have made up the majority of apartment starts since 2018.
- The number of renter households is projected to increase by 11,300 to 2041. An **additional 8,000 apartment units would be required** to accommodate this growth based on the existing share of renter households living in apartment units.
- Overall, trends indicate **strong and sustained demand for rental housing in Kitchener**.

3.1 Primary Rental Universe

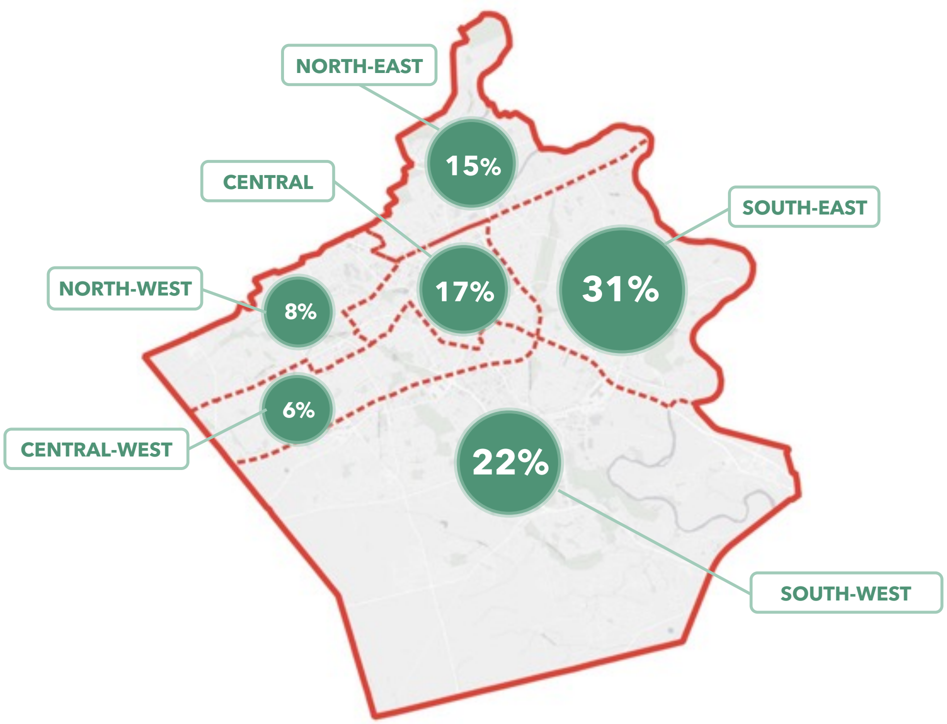
A variety of factors—increasing rent, low vacancy, increasing ownership prices—highlight the need for rental housing in Kitchener, including at affordable prices.

Supply

- There are approximately **21,400 primary rental units** in Kitchener.
- The **South-East neighbourhood** has the single **greatest share** of rental units (31%), whereas the **Central-West neighbourhood** has the **smallest share** of rental units (6%).
- Approximately **96% of purpose-built rental units would be eligible for replacement** based on the six-unit replacement threshold outlined in Provincial legislation.
- The average building size is approximately **50 units**.

Figure 3.1

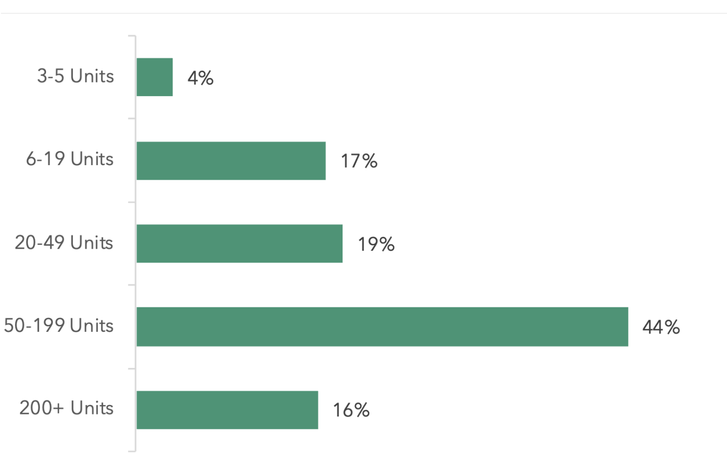
Percentage of Primary Rental Units by Neighbourhood (2022)



Source: Parcel, based on CMHC Rental Market Survey

Figure 3.2

Primary Rental Units by Structure Size (2022)



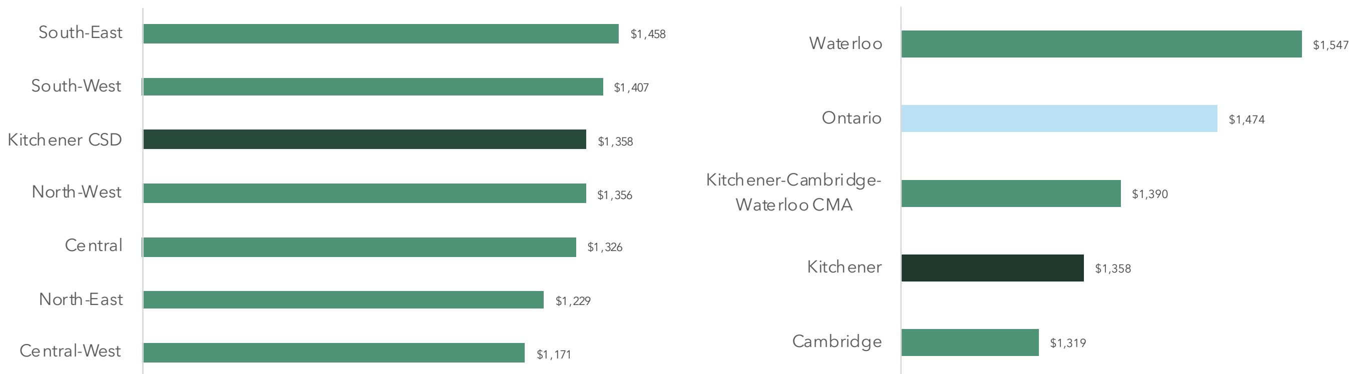
Source: Parcel, based on CMHC Rental Market Survey.

Rents

- Average rents in Kitchener are the **second lowest** in the Kitchener-Cambridge-Waterloo CMA.
- However, they have grown at **more than double the rate of inflation** over the past 10 years.

Figure 3.3

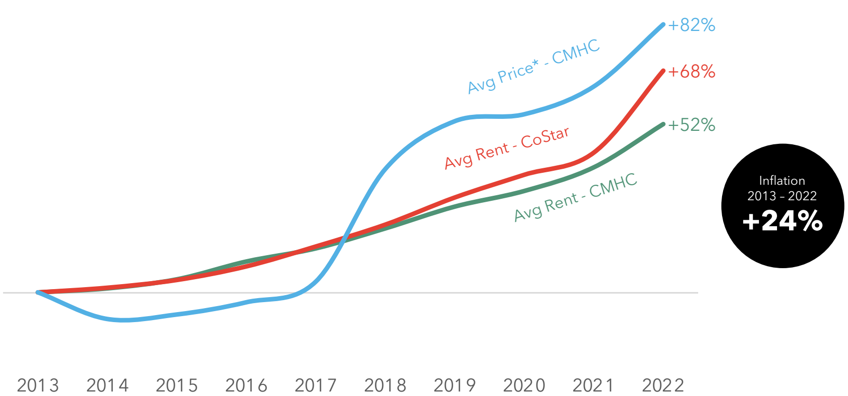
Primary Rental Universe Average Rents (All Bedroom Types) (2022)



Source: Parcel, based on CMHC Rental Market Survey.

Figure 3.4

Growth in Average Ownership Prices and Rents (2013-2022)



*Absorbed units

Source: Parcel, based on CMHC Rental Market Survey, CoStar Realty Inc. data, and Bank of Canada Inflation data.

- It is also important to note that average rents reported by CMHC include rent-controlled units, which command lower rents than units currently for rent on the market. This is true in Kitchener where the average asking rent for a unit on the market is approximately $550 more than the CMHC average rent[1].
- As rental replacement by-laws typically require existing rents to be maintained, this "gap" between current rents and asking rents will negatively impact a developer pro forma. Section 4 discusses these financial implications in greater detail.

Figure 3.5

Asking Rents vs. CMHC Average Rents by Bedroom Type

Bedroom Type	Average Asking Rents	CMHC Average Rent	Delta
Bachelor	$1,345	$1,067	+$278
1 Bed	$1,710	$1,214	+$496
2 Bed	$1,984	$1,427	+$557
3+ Bed	$2,193	$1,562	+$631
All Units	**$1,895**	**$1,358**	**+$537**

Source: Parcel, based on CoStar Realty Inc. 2022 Q4 data and CMHC Rental Market Survey.

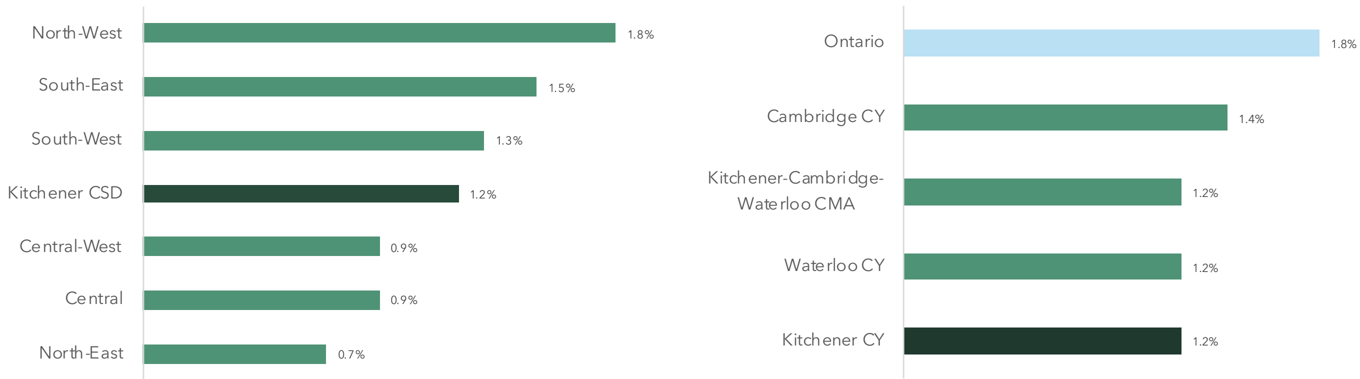
Vacancy

- Rising rents, in part, may be due to a **vacancy being below the 3% threshold** generally considered to be a good match between rental supply and demand. Low vacancy rates typically put upward pressure on rents as more tenants compete for fewer available units.
- Of note, vacancy is under 2% in all Kitchener neighbourhoods, as well as neighbouring municipalities and the province as a whole. The 2022 city-wide **vacancy rate of 1.2%** is the lowest it has been since 2011.
- **Rising home ownership prices** may also contribute to growing rents and low vacancy as households priced out of the ownership market are forced to enter the rental market, further increasing competition.

[1] Average asking rents reported are based on CoStar Realty Inc. data from Q4 2022 to be consistent with CMHC average rents reported as of October 2022.

Figure 3.6

Primary Rental Universe Vacancy Rates (All Bedroom Types) (2022)



Source: Parcel, based on CMHC Rental Market Survey.

3.2 Secondary Rental Universe

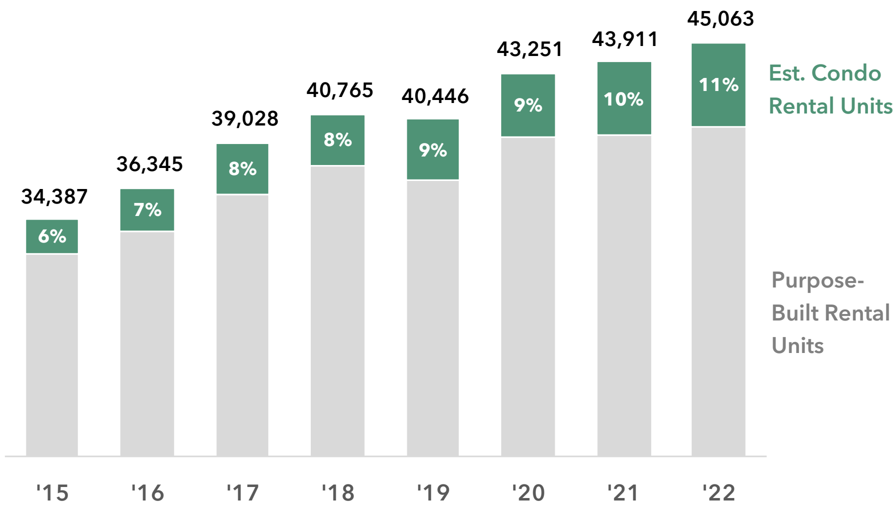
Supply

CMHC secondary rental data for the Kitchener-Cambridge-Waterloo CMA only goes back to 2015 and as such is limited compared to primary rental market. Nevertheless, some important information can be gleaned from the data that does exist. We note that CMHC does not collect secondary rental data at the census subdivision level (i.e., specifically for the City of Kitchener).

- Condominium units (i.e., secondary rental units) have been responsible for a **progressively larger portion of the rental supply** over the years.
- It is anticipated that this trend will continue as **condominiums have made up the majority of apartment starts** since 2018.

Figure 3.7

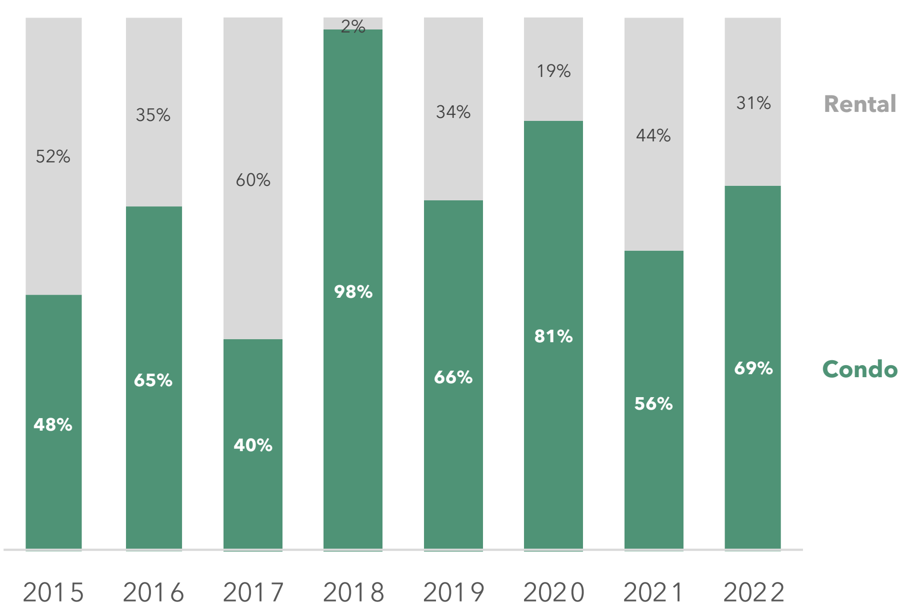
Rental Units in Kitchener-Cambridge-Waterloo CMA



Source: Parcel, based on CMHC Rental Market Survey.

Figure 3.8

Kitchener Apartment Starts by Tenure (2013 to 2022)



Source: Parcel, based on CMHC Rental Market Survey.

Rents

- Recent data shows that **secondary rental rents are higher than average rents in primary rental market, but close to asking rents**.
- This is likely due to secondary rental units being **provided in new buildings that are not subject to rent control** and therefore have greater ability to set rents at current asking rates[2].

Figure 3.9

Comparison of Average Rents in the Primary and Secondary Rental Markets (2022)

Primary Market		Secondary Market
Average Asking Rents	**CMHC Average Rent**	**Average Rent**
$1,895	$1,358	$2,086

Source: Parcel, based on CoStar Realty Inc. 2022 Q4 data and CMHC Rental Market Survey.

Investor-Owned Units

Recently, Statistics Canada began reporting on investor-owned[3] 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).

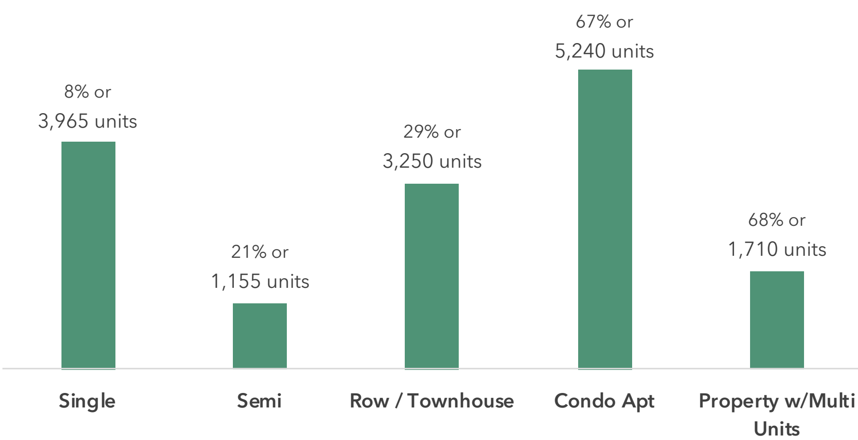
[2] Rent control in Ontario currently only applies to units that were used as rental units prior to November 15, 2018.

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

Based on the CHSP, some one in five units in Kitchener was classified as owned by an investor as of 2020. Figure 3.10 breaks down the more than 15,300 investor-owned units by typology. Unsurprisingly, approximately two thirds of condominium apartments are investor owned.

Figure 3.10

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:

- Approximately two-thirds of investor-owned units in Kitchener are owned by individuals, with the balance owned by business and governments.
- 68% of investor-owned **condominium apartments** are owned by business and government.
- **Investor ownership is more prevalent in recently constructed units (i.e., since 2011)**. Condominium apartments are the exception with 57% of the 1,255 condominium apartments built since 2011 owned by investors, compared to 67% of the total stock of condominium apartments across the City[4].

[4] 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%).

3.3 Renter Household Projections

Renter households make up 40% of all households in Kitchener, a slight increase from 38% per the 2016 Census. **The total number of renter households increased by 15% between census periods**. For comparison, the number of ownership households increased by 4% over the same period. Renter household growth has also outpaced ownership household growth in neighbouring municipalities of Cambridge (+13%) and Waterloo (+45%). Regionally, the number of renter households grew by 20%.

The total number of households in Kitchener is projected to **increase to 128,000 by 2041**. Assuming renters continue to make up 40% of households, this will result in an **additional 11,300 renter households** in the city.

Seventy-one (71%) of renter households live in apartment units, a slight decrease from 74% in 2016. Assuming the current share is consistent to 2041, growth in renter households will result in a need for an **additional 8,000 rental apartment units**. Calculating 2041 projections based on 2021 percentages is an inherently conservative approach. As such, if renter households continue to grow, the number of renter households may be higher. However, overall, trends indicate **strong and sustained demand for rental housing in the Kitchener area**.

Figure 3.11

Change in Renter and Ownership Households (2016-2021)

	Change in Renter Households 2016-2021	Change in Ownership Households 2016-2021
Kitchener CSD	**+15%**	**+4%**
Cambridge CSD	+13%	+4%
Waterloo CSD	+45%	+4%
Kitchener-Cambridge-Waterloo CMA	+20%	+4%

Source: Parcel, based on 2016 and 2021 Census.

Figure 3.12

Renter Households by Housing Typologies

	2021 Renter Household Share	2041 Projected Units
Apartment < five storeys	34%	+3,834
Apartment > five storeys	32%	+3,636
Apartment or flat in a duplex	5%	+520
Sub-Total	*71%*	*+7,990*
Single-detached house	11%	+1,260
Other single-attached house	0%	+13
Row house	15%	+1,655
Semi-detached house	3%	+356
Movable dwelling	0%	+3
Total	**100%**	**+11,277**

Source: Parcel, based on 2021 Census.

See **Appendix C** for additional background information.

4.0

Financial Feasibility

Key Findings

The feasibility of new residential developments has been tested, including their ability to replace rental units at Average Market Rent (AMR). This analysis has been undertaken for both tenures (ownership and rental); across two key subject geographies (Central and Suburban Neighbourhoods), as well as for all three pre-defined building typologies:

Mid-Rise (6-Storey)

- Mid-Rise buildings in both geographies and of **both tenures** are challenged to earn sufficient returns even without a rental replacement by-law.

High-Rise (20-Storey)

- 20-Storey High-Rise **condo** buildings have strong potential in the Central Neighbourhoods, with some ability to replace existing rental units at AMR.
- In large part due to recent tax rebates, 20-storey High-Rise **rental** buildings are on the cusp of feasible in both geographies, however, a rental replacement by-law would likely push feasibility firmly back into infeasible on existing rental apartment sites.

High-Rise (45-Storey)

- 45-storey high-rise **condo** buildings have strong potential in the Central Neighbourhoods, with some ability to replace existing rental units at AMR.
- 45-storey high-rise **rental** buildings are more challenged than their shorter and less expensive-to-build counterparts. A rental replacement by-law would ensure they remain infeasible on existing rental apartment building sites.

4.1 Baseline Financial Feasibility

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**. By testing five (5) baseline analyses, we have gained a more nuanced understanding as to why certain typologies or tenures are—or are not—being built in the Kitchener market today, in addition to identifying several key themes.

Additionally, by leveraging these baseline results as a tool for comparison, we can better predict the likelihood of a rental replacement policy deterring investment in a particular typology, tenure or geography based on its effect on the financial feasibility compared to the corresponding baseline scenario.

See **Appendix B** for details of our supporting analytical assumptions.

See **Appendix B** for details of our Baseline Financial Feasibility analysis.

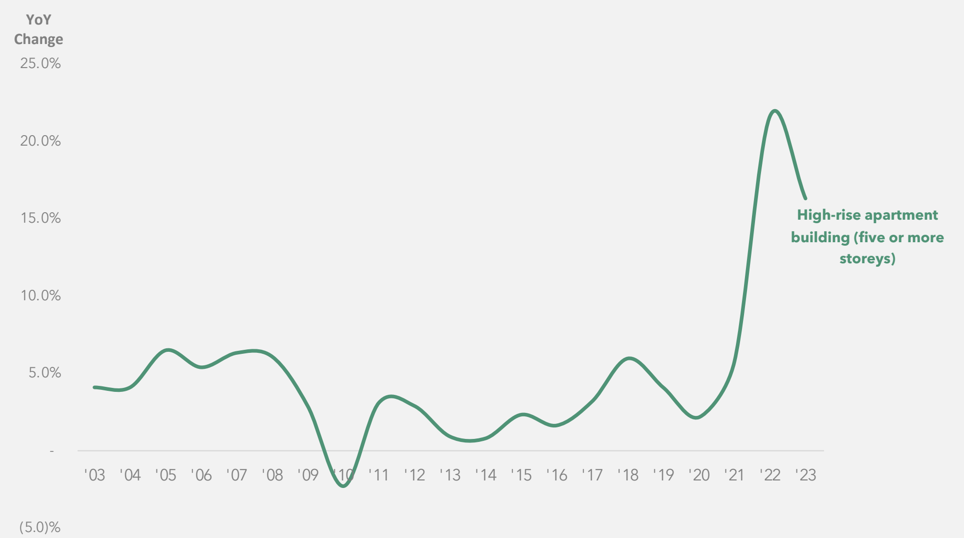
Current State of the Market (Fall 2023)

Development conditions across the country are extremely challenging at the time of this report, with few development opportunities being underwritten as "feasible". This can be attributed to record growth in construction costs and interest rates, as well as an ever-tightening lending environment as banks seek to limit their risks.

Given that policy is largely forward-looking and considers the development of a given community over the medium- to long-term horizon, our approach to this analysis considers a return to historical growth conditions, including with respect to construction cost growth and interest rates. This means moving toward the pre-COVID average year-over-year (YoY) construction cost growth rate of approximately 3.5% and the 20- and 30-year prime rate average of between 3.75% and 5.0%.

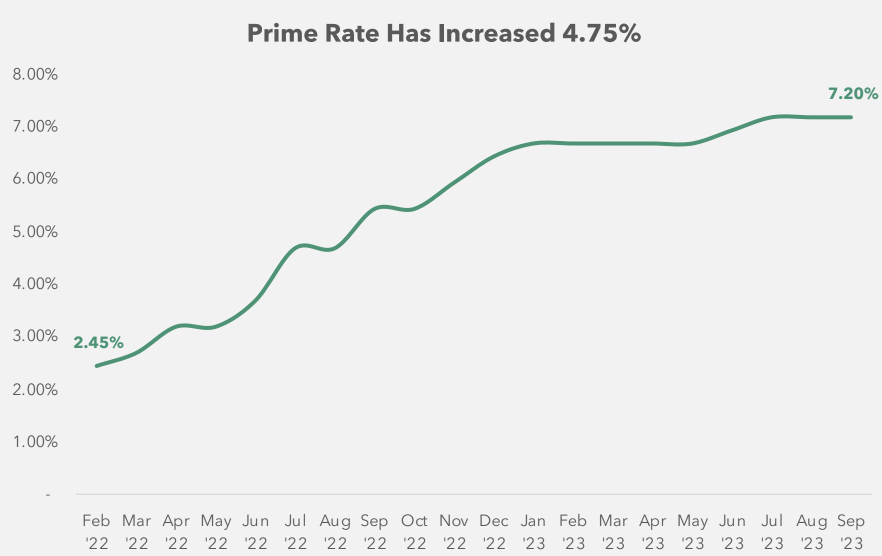
The construction cost index tracking high-rise apartment buildings (five (5) or more storeys) illustrates that YoY changes appear to have peaked and are declining. While interest rates have flattened somewhat in recent months, timing is still unclear as to when they may retreat toward historical averages, or if further increases lie head.

Year-over-Year Construction Cost Growth is Starting to Calm



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

Interest Rate Increases Have Flattened



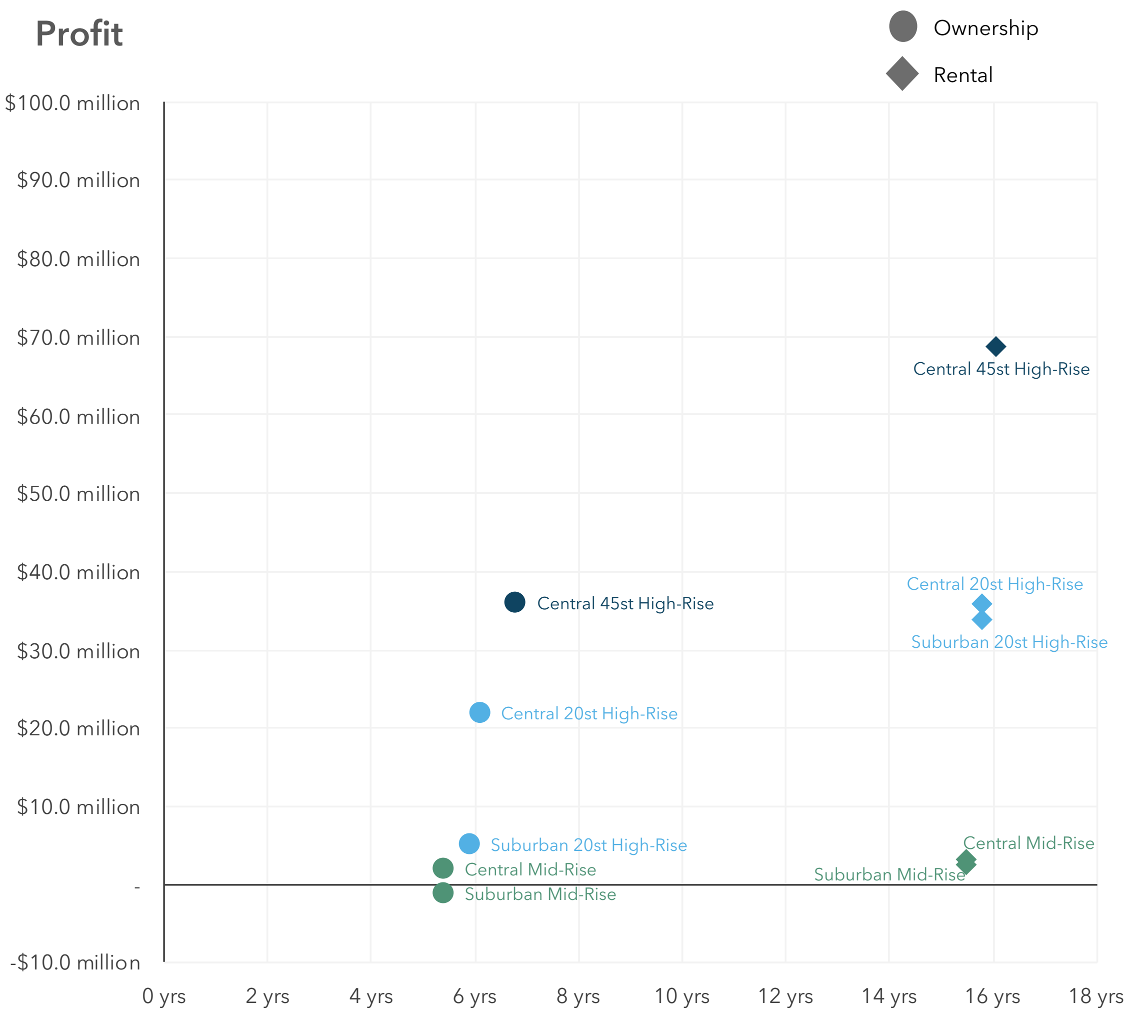
Source: Parcel, based on the Bank of Canada.

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?** Figure 4.1 demonstrates that all but the Suburban Mid-Rise condo baseline scenarios have the potential to make a profit, with a positive revenue-to-cost relationship.

Figure 4.1

Potential Profit / Loss of Baseline Scenarios



Source: Parcel

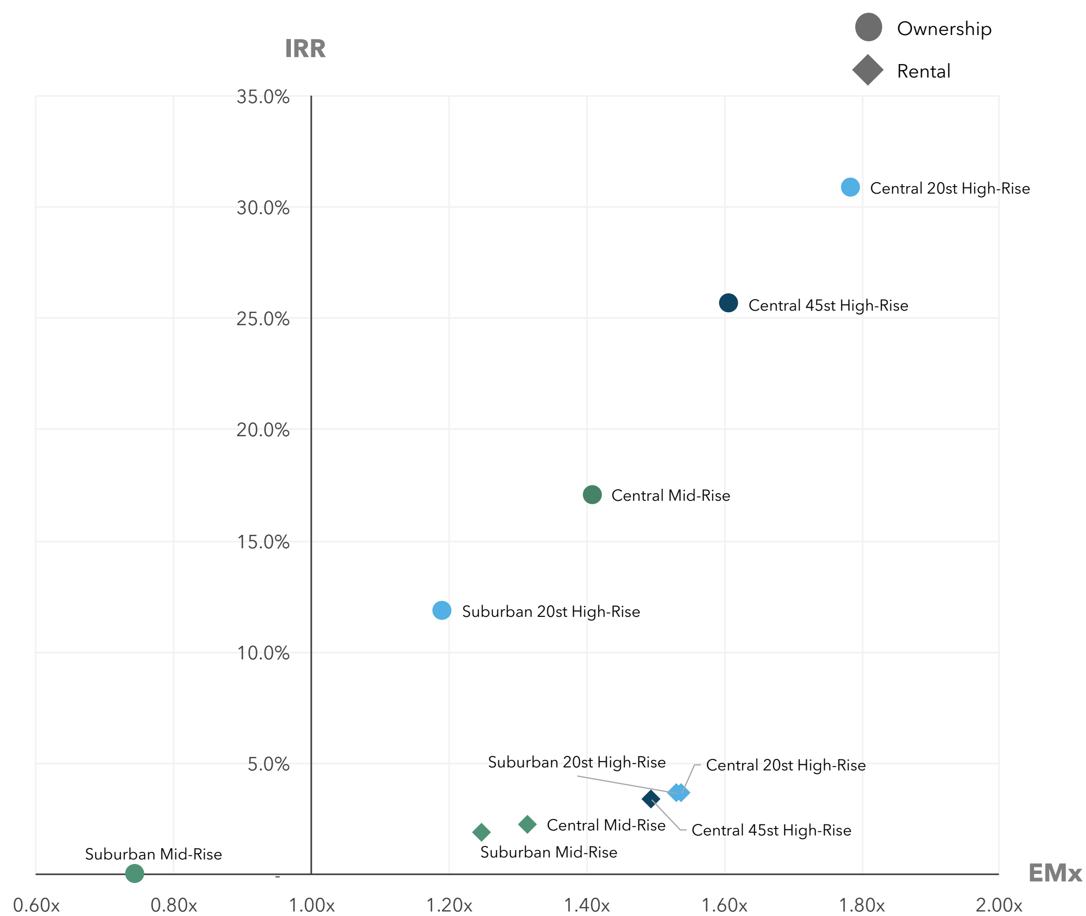
Part 2: Layering Return Metrics

IRR & EMx

Figure 4.2 further confirms that the rental scenarios generate a much lower Internal Rate of Return (**IRR**) and similar, or slightly higher Equity Multiplier (**EMx**), particularly given their longer timeframe. The clear "winners" of housing development in Kitchener begin to emerge here via the typologies capable of generating an IRR of 15% or more *and* achieving a reasonable EMx – in some cases over a much shorter period (i.e., "quick wins"). This exact pattern is evident through recent development activity in Kitchener, which continues to favour high-rise apartments (equivalent to the Central High-Rise typology), among other ground-oriented housing in more suburban contexts.

Figure 4.2

IRR & EMx of Baseline Scenarios



Source: Parcel

Cash-on-Cash

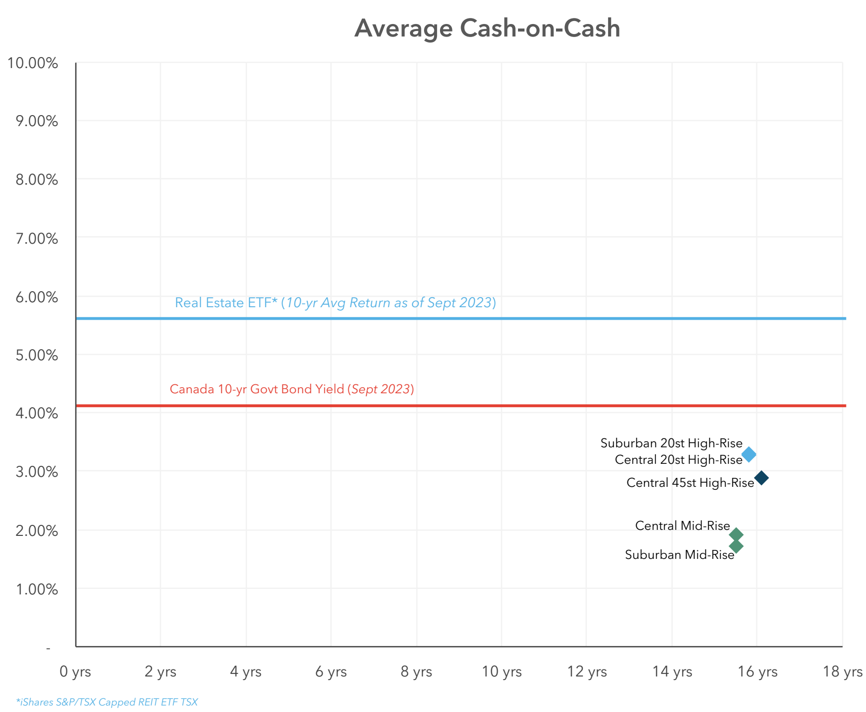
It is also important to recognize that return expectations for rental housing can be different, particularly when adopting a "build-to-hold" strategy. In rental pro formas, both IRR and EMx can be heavily influenced by the reversion value at the end of the hold period (i.e., how much the owner is expecting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

Because it is hard to predict the future—especially decades out—many rental apartment developers will focus on the potential Cash-on-Cash (**CoC**) return of a property 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 building value over time.

Figure 4.3 illustrates that, based on CoC alone, a rental developer is unlikely to be enticed by the IRR and EMx metrics in any of the rental scenarios identified for this study. In all cases, a "safer" investment in 10-year government bonds will generate superior cash flow in this regard, without the risk and effort required to construct and manage a building. Furthermore, a real estate focused ETF can be used as a more risk-adjusted measure which again, none of the rental apartment scenarios match.

Figure 4.3

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 a 10-year government bond

Source: Parcel

Interpretating the Results

Which return metric is the most important?

No single return metric in isolation defines whether a building typology is feasible and will be constructed. Different developers will have **different goals and different risk tolerances**.

For example, a 20-storey rental apartment building which does not quite match the CoC return of a 10-year government bond may still go ahead if the developer has faith that the value of the building will appreciate substantially into the future, providing additional profit when the building is sold at reversion. Total profit would then exceed the cumulative yield of the bond substantially, as would the apartment's potential IRR, which considers the profit from the sale of the building that happens well into the future. Relying on the future sale of the apartment adds more risk, especially if it accounts for the bulk of the returns over the course of the investment and is likely better compared to the real estate focused ETF.

We compute potential profit, IRR, EMx and CoC for each scenario to function as a baseline. Changes to these metrics allow us to measure the effect of a rental replacement policy, as well as predict whether these changes are substantial enough to dissuade development.

What are the typical "goal posts" for feasibility?

Through this analysis, we focused 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);
- At least **1.6 EMx** (depending on development timeline);
- A **CoC return that surpasses the 10-year bond yield of 4.1%**, in the case of rental scenarios.

4.2 The Effect of Rental Replacement

To test the effect of a rental replacement by-law, we have assumed that units would be replaced at the CMHC Average Market Rent (AMR) for the Central and Suburban Neighbourhoods. Although this assumption has been made for simplicity and consistency, proposed replacement units on a site-by-site basis may have a lesser impact if existing rents are above AMR or a greater impact if existing rents are below AMR.

GST (and PST) Rebate on New Rental Construction

The federal government recently announced the **full rebate of GST on all new rental apartment construction projects** started by 2031 and completed by 2035. The Province has indicated they will follow suit and rebate the PST, resulting in the removal of the 13% tax on the fair market value at completion of new rental buildings. This is a significant savings to rental apartment developments and has resulted in several of our baseline rental pro formas improving dramatically to the point of being much closer to feasibility.

The implementation of a rental replacement policy would erase a large portion, if not all of these savings. For example, the 20-storey High-Rise scenario tested will save some $8.6 million in taxes, however, replacing just 15 units at AMR reduces revenues by $5.0 million and profits by $4.9 million over a 10-year hold period. This is essentially a "two steps forward, one step back" dynamic when it comes to improving the feasibility of rental housing development.

Feasibility Indicators: Infeasible Unlikely Possible

Mid-Rise (6-Storey)

A 6-storey mid-rise building is likely to replace an existing 6-unit building - the rental unit threshold typically included in similar by-laws (see Section 2.2). 6-unit buildings represent some 6% of existing apartment buildings in the Central Neighbourhoods and 5% in the Suburban Neighbourhoods[5]. Together they account for just **1.5% of the City's supply of rental units**[6].

Condo Ownership

- In the Central Neighbourhoods, the requirement to replace six (6) rental units at AMR will reduce potential profitability of a Mid-Rise building to the point where losses are likely.

- It is unlikely the burden of rental replacement can be overcome without adding additional market residential units, effectively pushing densities beyond the mid-rise built form.

- In the Suburban Neighbourhoods, a 6-storey Mid-Rise building is challenged to realize a profit, even absent a requirement for rental replacement. As such, rental replacement would further exacerbate these challenges.

Central	
Baseline	Replacement
●	●

Suburban	
Baseline	Replacement
●	●

Purpose-Built Rental

- Although 6-storey Mid-Rise rental buildings have the potential to make a profit in both the Central and Suburban Neighbourhoods, the potential return metrics—particularly CoC—are well below the targeted metrics outlined at the beginning of this section.

- A rental replacement policy will further impede financial feasibility, to the point where losses are possible.

Central	
Baseline	Replacement
●	●

Suburban	
Baseline	Replacement
●	●

[5] Based on CoStar Realty Inc data.
[6] Based on CoStar Realty Inc data.

High-Rise (20-Storey)

Condo Ownership

- In the Central Neighbourhood, **up to 15 rental units at AMR could be replaced** while still achieving the minimum goal return metrics, however, replacement of additional units will require cost savings (e.g., surface parking, development charges rebates) or additional market residential density.

  Example: *Up to 30 units could be replaced if at least 50% of the parking is surface parking. Approximately 23% of existing apartment buildings in the Central Neighbourhoods are between seven (7) and 30 units[7], representing 7% of rental units in the city.*

Central	
Baseline	Replacement
● (green)	● (yellow)

- In the Suburban Neighbourhoods, the baseline analysis suggests that targeted return metrics are unlikely to be achieved, even with the assumption of 50% of total parking being delivered as more cost-effective surface parking. Reducing parking ratios may not be palatable to end users, therefore, this typology likely requires savings elsewhere. Adding a rental replacement policy is likely to result in losses.

Suburban	
Baseline	Replacement
● (yellow)	● (red)

Purpose-Built Rental

- A 20-storey rental apartment in both the Central and Suburban Neighbourhoods has the potential to be profitable and generate a CoC just below that of a 10-year government bond. These building are on the cusp of feasible and could be nudged across the finish line through a variety of cost reductions, most notably a reduction in underground parking and a waiving of municipal fees and charges.
- A rental replacement policy will reduce the CoC to the point where development will not be feasible, even with cost-saving measures.

Central	
Baseline	Replacement
● (yellow)	● (red)

Suburban	
Baseline	Replacement
● (yellow)	● (red)

[7] Based on CoStar Realty Inc data.

High-Rise (45-Storey)

Condo Ownership

- In the Central Neighbourhoods, **up to 30 rental units at AMR** could be replaced while achieving the minimum return metrics, however, replacement of additional units will require cost savings (e.g., surface parking, development charges rebates) or higher revenues.

  Example: *Up to 50 units could be replaced if 50% of the parking is surface parking. Approximately 5% of existing apartment buildings in the Central Neighbourhoods are between 31 and 50 units[8]. Together they account for some 4% of rental units[9] in the city.*

Central	
Baseline	Replacement
●	●

Suburban	
Baseline	Replacement
n/a	n/a

Purpose-Built Rental

- Similar to the 20-storey format, a 45-storey High-Rise rental apartment is profitable, however, the expected return metrics are below the stated "goal posts", casting doubt on whether a project will go ahead.
- As expected, a rental replacement policy only makes this worse, pushing a project firmly onto the sidelines.

Central	
Baseline	Replacement
●	●

Suburban	
Baseline	Replacement
n/a	n/a

See **Appendix B** for details of the effect of rental replacement on feasibility.

[8] Based on CoStar Realty Inc data.
[9] Based on CoStar Realty Inc data.

Figure 4.4

Summary of Baseline and Rental Replacement Redevelopment Feasibility

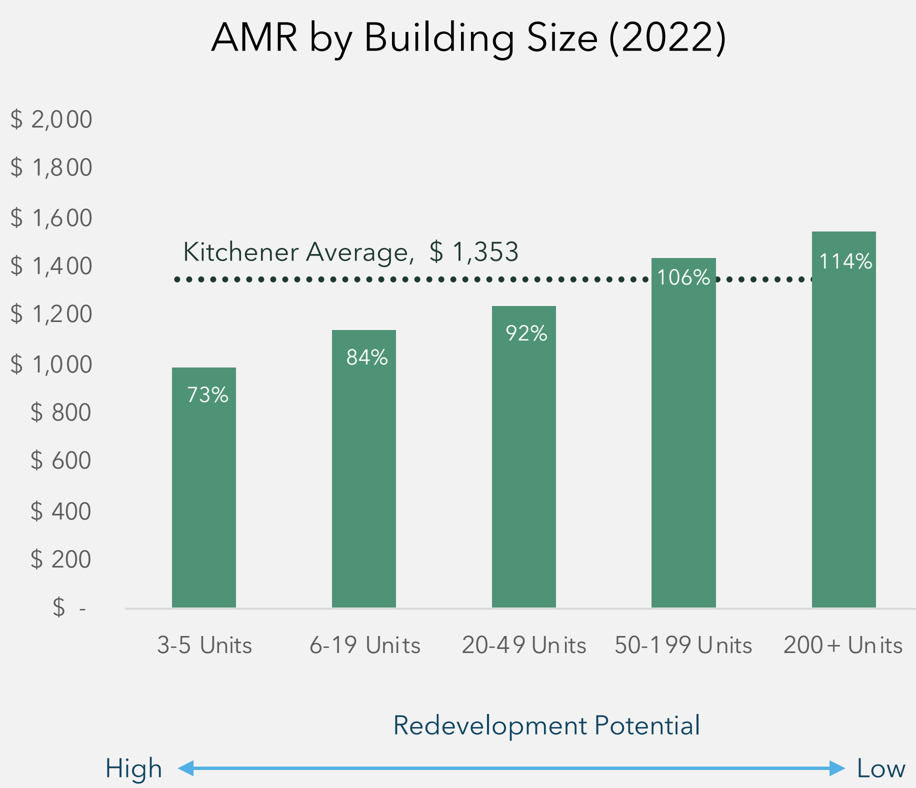
Typology	Tenure	Geography	Baseline	Replacement
Mid-Rise (6-Storey)	Ownership	Central	🔴	🔴
		Suburban	🔴	🔴
	Rental	Central	🔴	🔴
		Suburban	🔴	🔴
High-Rise (20-Storey)	Ownership	Central	🟢	🟡
		Suburban	🟡	🔴
	Rental	Central	🟡	🔴
		Suburban	🟡	🔴
High-Rise (45-Storey)	Ownership	Central	🟢	🟡
		Suburban	n/a	n/a
	Rental	Central	🟡	🔴
		Suburban	n/a	n/a

🔴 = Infeasible 🟡 = Unlikely 🟢 = Possible

Smaller Apartment Buildings Have Lower Than Average Rents

Although our analysis includes a rental rate assumption tied to the weighted average AMR by bedroom type and neighbourhood zone for existing units, we acknowledge that rents in smaller buildings—such as those contemplated for replacement in our analysis—are often below AMR.

Therefore, **financial feasibility is likely to be further impeded** for both ownership and rental tenures because of a rental replacement policy relative to what has been shown in the foregoing analysis, as these buildings are the ones most likely to be replaced.



Source: Canada Mortgage and Housing Corporation information portal.

4.3 How Many Units are Affected?

Approximately **one quarter of the existing rental units** (some 5,300 units) in Kitchener are in buildings with redevelopment potential (i.e., identified as those between 6 and 50 units and affected by a rental replacement by-law)[10]. Buildings larger than this are much less likely to be redeveloped, regardless of whether a rental replacement by-law is in place. Moreover—and per our more detailed findings presented herein for the Central and Suburban Neighbourhood contexts specifically—it is our opinion that a more likely (realistic) replacement range would be for buildings containing between 6 and 30 units (equivalent to some 3,600 units or some 17% of total existing rental supply)[11].

Central Neighbourhoods

- The baseline High-Rise condo developments tested in the Central Neighbourhoods, had strong profit potential. A rental replacement by-law could still allow for condo intensification of sites with up to 30 existing rental units, provided enough density is permitted. This amounts to **some 1,684 units (i.e., 8% of the City's existing rental supply) spread across 105 buildings which would be protected** while still allowing for redevelopment potential[12].

- However, a more likely outcome of a rental replacement by-law will be to discourage the redevelopment of these sites altogether and redirect attention toward non-rental apartment redevelopment sites (e.g., commercial plazas, parking lots, etc.). If the supply of redevelopment sites without existing rental properties wears thin, the City could see a reduction in the number of new condo apartments constructed in the future.

- We estimate that if each one of these sites were to be redeveloped with the prototypical condo apartments considered in this section, they could likely yield more than 30,650 units. **If 2/3rds[13] of these units are ultimately purchased by investors who rent them out in the secondary market, the secondary rental market will grow by more than 20,500 new secondary rental units.** We understand that units in the secondary market will be rented out at higher monthly rents, however, more supply and competition from new units will increase competition and force older units to reduce rents to compete.

[10] Minimum 6-unit building based on policy context for rental replacement. Maximum 50-unit building represents upper limit aligning with our corresponding sensitivity / scenario analyses that includes the provision of incentives to enable development.

[11] Minimum 6-unit building again based on policy context for rental replacement. Maximum 30-unit building represents upper limit aligning more directly with baseline financial feasibility analysis and therefore more reflective of prevailing market conditions (absent incentives).

[12] CoStar Realty Inc.

[13] See Figure 3.10 in Section 3.2.

Suburban Neighbourhoods

- Based on current market conditions, the vast majority of the existing rental units in Suburban Neighbourhoods are likely to remain untouched even without a rental replacement by-law, as indicted by our baseline analyses which did not meet the goal return metrics.

- If conditions improve in the future, the existing 110 buildings with between 6 and 30 existing rental units are likely to see the most redevelopment interest, accounting for **just over 1,950 units (i.e., 9% of the City's existing supply)**[14]. However, given that the baseline analyses for Mid- and High-Rise developments produced such poor potential returns, market conditions would have to improve dramatically for a rental replacement by-law not to impede the redevelopment of these sites. As such, we suspect redevelopment will be on more of a "one-off" basis and a rental replacement by-law may be less impactful.

Alternative Approach: Cash-in-Lieu of Replacing Units

Replacing rental units significantly reduces revenues in the feasibility testing completed in this study. For condo (ownership) tenure, this loss includes not only a discount on the sales value per unit, but also reduced revenues over a much longer period. For rental tenure, this loss includes both a decreased net operating income (NOI) and a decreased reversion value in the future when the building is sold.

The development community will typically choose the most straight forward, easiest-to-execute option when it comes to investment decisions. To this end, cash-in-lieu ("CIL") of replacing units allows the developer to write a cheque to the City instead of physically delivering the units. This transfers much of the responsibility to the City, however, it also provides the City with more control.

We note the following for additional consideration by the City in this regard:

- In assigning a CIL of Replacement rate, the City should **decide on its goals and expected tools for implementation**. For example, will the municipality use the collected funds to develop new units off-site via a municipal development corporation (i.e., development of municipally-owned lands), or will they create a fund to subsidize rents of the tenants to be displaced in existing privately-owned rental units elsewhere in the City?

- The City should **also determine the period of retention** to ensure that the CIL of Replacement is sufficient (e.g., maintain the units at current rents for 25 years).

[14] CoStar Realty Inc.

- The **formula for calculating CIL of Replacement should be transparent** and as straight forward as possible, allowing the developer to build it into their own pro formas early (e.g., pre-acquisition of the site). This provides some element of certainty and clarity to inform decision-making within the private sector.

- The City should be **prepared with systems and procedures** to follow through and retain the units the funds are meant to preserve in the first year the option is made available.

5.0 Conclusions

Question #1:

Will a new rental replacement by-law risk materially impact residential development in Kitchener?

- Overall, a **rental replacement by-law is likely to deter all types and tenures of intensification** of existing rental buildings across the city, particularly while non-rental apartment redevelopment sites remain available (e.g., neighbourhood retail centres).
- Some of the stronger scenarios tested (e.g., condo High-Rise) could accommodate the replacement of some rental units, albeit at significantly lower return metrics than our baseline analysis suggests. Developers are more likely to look elsewhere for "easier wins".
- It is highly unlikely that existing rental buildings over 50 units will be redeveloped, whether there is a rental replacement policy or not.

Question #2:

If pursuing the implementation of a new rental replacement by-law, what are the optimum parameters to effectively balance the need to accommodate new growth while simultaneously encouraging the maintenance—or expansion—of the local purpose-built rental inventory?

If the City decides that it wants to move forward with a rental replacement by-law—despite its negative effects on financial feasibility on all types of rental building redevelopment projects—the **key will be to remove as many barriers as possible**. This will effectively reduce the risk of sterilizing existing rental sites from new development and/or pushing development to other areas of the community (e.g., greenfield development).

To this end, the following key directions and potential unintended consequences should be considered by the municipality.

Keep It Simple and Straight Forward…

A more consistent "blanket" approach to a rental replacement policy is preferred for a variety of reasons. The city could look at requiring rental replacement on a more site-by-site or "case-by-case" basis in response to challenging market conditions, however, this ultimately provides less clarity and certainty for developers and could risk being perceived as a "shakedown" negotiation.

A simplified, citywide by-law will ideally apply the same replacement conditions across all geographies and should be transparent so that developers can build these associated extra costs into their underwriting process as early as possible.

Set Similar Parameters to Policy Precedents

As detailed in Section 2.2, rental replacement policies already exist in other Greater Golden Horseshoe municipalities. Based on our review of those existing by-laws, we recommend consideration of the following parameters:

- rental replacement should apply when six (6) or more units are proposed to be converted / demolished and in-place rents are at or below current AMR, as published by CMHC;
- replacement units should be provided at a similar mix, size, and quality as the original units, and at the AMR at time of completion;
- replacement units must remain rental for at least 10 years or until the tenant moves out;
- cash-in-lieu payments and off-site units should be permitted; and
- rental replacement should not apply when vacancy is above 3% and / or in-place rents are above AMR.

Phase Implementation

Similar to what is often recommended for the implementation of other new housing-based policy frameworks (e.g., Inclusionary Zoning), we recommend that any rental replacement by-law be phased in so that recently acquired redevelopment sites are not unduly interrupted from advancing to market in the short-term. This type of phasing could be achieved by initially limiting the policies by geography (e.g., consider beginning in the Central Neighbourhoods only, as this is only location with sufficient density to absorb some replacement units) or based on other parameters in the by-law (e.g., a softening of some of the requirements until development conditions improve).

During a phase-in period the City should monitor broader macroeconomic conditions and look for signs of the development market improving. The results of this study are a “point-in-time analysis” only, which are inevitably subject to change and potential improvement longer-term. As development conditions improve, for example, the by-law could be gradually updated and expanded to cover the entire City and/or require more demanding replacement parameters.

The City could also consider exempting specific types of *future* development projects based on tenure, typology, or other housing forms that are desirable to the City yet the most challenged from a financial feasibility perspective today (e.g., new purpose-built rental buildings or Mid-Rise housing typologies).

Allow for Flexibility

Replacing rental units on-site can often be challenging for practical reasons, particularly when redevelopment is for a condominium building which will not have the same supporting functions as a rental building (e.g., a leasing office or on-site super intendent). Similarly, in this case the rental replacement units are likely to account for only a small portion of the total housing units in the new development.

Off-site replacement can allow for replacement units to "cluster" in like-tenured buildings where the supporting functions and economies of scale exist. For example, several distinct redevelopment projects could consolidate their delivery of required replacement units into a small-scale rental building.

Cash-in-lieu of replacement units could also be collected as an alternative mechanism, similar to parkland dedication. This would effectively transfer the responsibility of the replacement unit delivery onto the City, however, the City would have more control over how and when they are provided. While this still adds a cost line item to a developer's pro forma, the relative ease of compliance could soften the burden. This would be especially true if the methodology (i.e., supporting calculations to determine the value of replaced units) is simple and transparent, thereby allowing for it to be planned for early in the redevelopment / acquisition process.

Additional Context: Cash-in-Lieu of Replacement Units

Cash-in-Lieu of replacement units could be used to relocate tenants in existing market rental units elsewhere while subsidizing their rents, or through the development of new rental units in a new building(s) through a municipal development corporation.

Whereas collecting cash-in-lieu to fund the development of a new stand-alone development is likely to require significant dedicated resources within the City and a relatively long period of time to collect sufficient funds to reach the scale of constructing a new building, a **rental subsidization program could be implemented much quicker and subsidize more units over a longer time**.

	Rental Subsidy	New Construction (Affordable Rental)
Capital Requirement	Approx. $310,000 / unit[1]	Approx. $560,000 / unit[2], excluding land and ongoing operations upon completion
Implementation	< 1 year	7 – 10 years
Operations	25 years	50 + years
Strengths	• Quick to implement • Lower City overhead • Less capital intensive	• More control • Longer operational timeline • Could increase overall supply
Challenges	• Low vacancy challenges ability to find existing units to subsidize • Shorter operational timeframe • No increase to supply	• More capital intensive • Slower to implement • Requires more City overhead and expertise

[1] Based on the rental rates in Figure 3.5 in Section 3.

[2] Based on the Central Neighbourhoods mid-rise rental building concept in Section 4.2.

Understand Likely Side Effects of a Rental Replacement Policy

In addition to preserving affordable rental units, a rental replacement by-law is likely to result some unintended consequences. These could include:

- **Increased density required** on redevelopment sites where existing units must be replaced;
- **Increased prices or rents to compensate** for the lost revenue on currently viable projects (subject to market strength), further reducing affordability of local housing supply;
- **Disincentive to the intensification of sites** already residentially designated / zoned within the built boundary, particularly the Central Neighbourhood where greenfield lands no longer exist;

- Increased **redevelopment pressure on commercial sites** (e.g., neighbourhood retail centres);
- Increased **development pressures in the Suburban Neighbourhoods** where more unimproved development lands exist and existing transit infrastructure is less robust;
- A reduction in the overall development pipeline, **reducing future housing supply** and indirectly reducing affordability longer-term too; and,
- Potential cannibalization of the growth in the secondary rental market by **rendering some condo projects infeasible** and with purpose-built rental not able to pick up the slack due to already infeasible conditions.

Understand Rental Replacement in Context of Full Housing Spectrum

It is imperative for the City to understand the potential opportunities—and limitations—associated with the implementation of a new rental replacement bylaw:

- First and foremost, this type of bylaw is **not capable of yielding a net increase in the rental supply**, but rather is intended to preserve existing units. Additional measures are required to keep pace with future growth in demand and associated new housing development needs.
- Based on the current—and anticipated future—context for financial feasibility, rental replacement generally **does not represent an effective tool or policy mechanism for addressing supply issues relating to deeply affordable units**. Other parallel programs are necessary to balance needs across the full housing spectrum, such as this.
- Rental replacement bylaws are also **not focused explicitly on the preservation of actual existing physical spaces and/or buildings** (i.e., dissimilar to heritage preservation, or similar). Instead, they are inherently more focused on tenant rights and preserving more macro-level housing supply issues, even if manifesting themselves in ways that are specific to individual sites, developers and/or tenants.
- Units eligible for rental replacement have been estimated at some 20,500 individual units in total (i.e., 96% of the total primary rental units in Kitchener in buildings with a minimum of 6 units). However, in light of other practical limitations to implementation—including conditions for financial feasibility—**less than one fifth of the total supply of rental units in the city are actually likely to be redeveloped and replaced** (i.e., more in the range of 6 to 30-unit buildings, amounting to some 3,600 units / 17% of existing supply).
- Overall, **rental replacement represents just one of many different facets** of housing supply and demand imbalances that must be addressed by municipalities. Furthermore, the actual number of units that will be delivered to market through a replacement bylaw will undoubtedly be more limited under "real world" conditions than via the more theoretical research exercise explored under this study.

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.
AMR	Average Market Rent, as published by the Canada Mortgage and Housing Corporation
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 spread in recent years.

Term	Definition
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%.
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*)

Term	Definition
High-Rise	Standalone apartment buildings typically greater than eight (8) storeys in height.
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-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.
Net Floor Area / Net Square Feet (NSF) / Net Saleable Area (NSA) / Gross Leasable Area (GLA)	The useable area in a building that is delivered to the end-user (i.e., revenue-generating spaces able to be leased or sold). Typically measured between the internal surfaces of the enclosed fixed walls and exclusive of circulation space, mechanical spaces, and washrooms.
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.
Per Square Foot (PSF)	Common expression of value relating to building floor area (gross or net).

Term	Definition
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.
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*)

Appendix B:

Financial Analysis Background

Financial Feasibility Basics

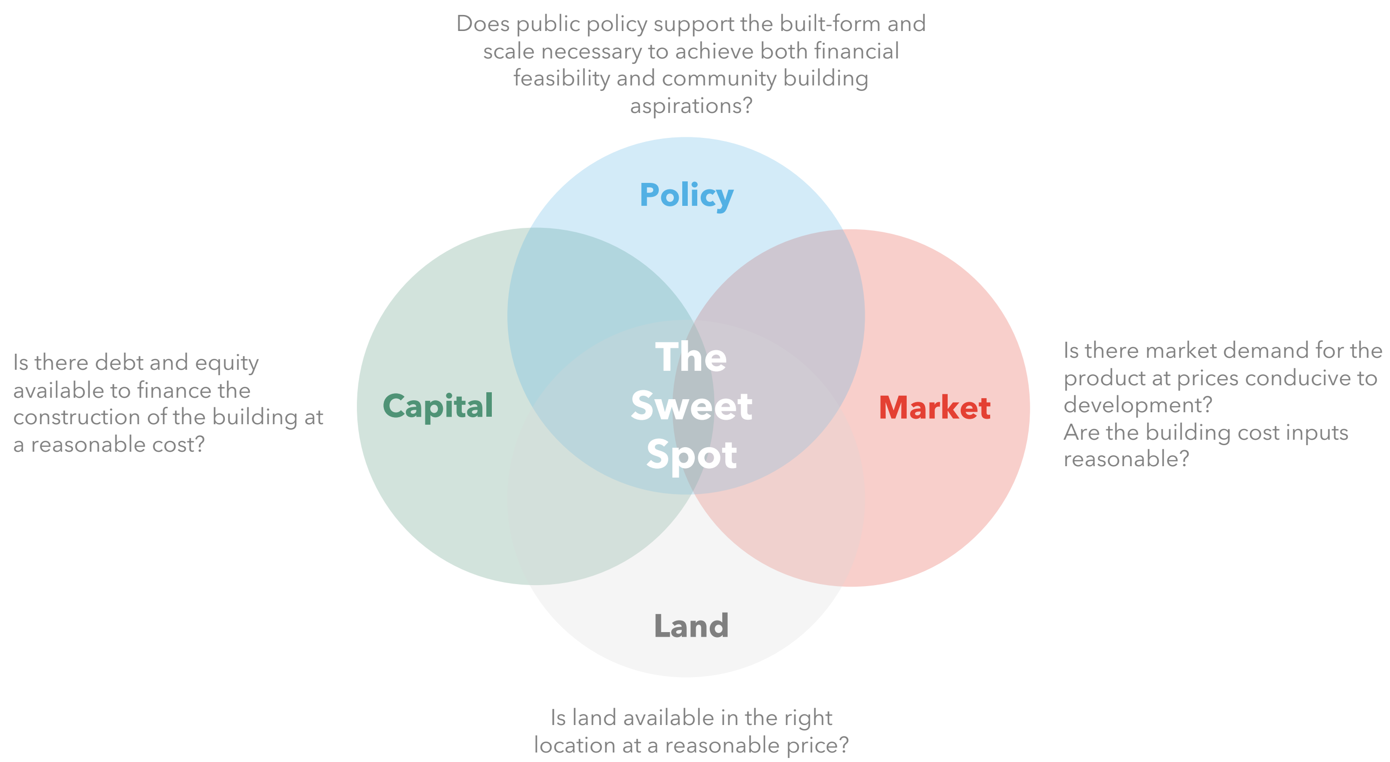
Key Determinants

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 four key factors 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 B.1

The "Sweet Spot" for Successful Development Projects



Source: Parcel

General Structure

There are two common types of pro forma analysis:

- A **Back-of-the-Envelope (BOTE)** is a static analysis that assumes revenues and costs are all paid at once (i.e., "Day 0"). It is not intended to predict the level of profitability for a project, but rather to assess whether a project has potential to be profitable and warrants additional time and resources. This can be a helpful tool when limited information is available (e.g., early-stage development concept, policy-direction, etc.).

- A **Discounted Cash Flow (DCF)** additionally considers the timing of the development cash flows, recognizing that development projects occur over many years. It reflects the Time Value of Money (TVM), which captures the reality that "a dollar in your hand today is worth more than a dollar tomorrow". To be reasonably accurate (or useful), this type of analysis requires a much more detailed development concept to best estimate the associated revenues, costs, and timing of the development.

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).

Figure B.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.

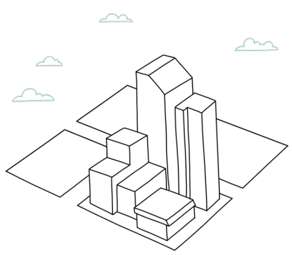
Financial feasibility modelling is—at its core—a tool for evaluating potential future outcomes. Whether motivated purely by profit or driven by other city-building objectives and social purpose, this type of analysis can be applied to any number of different "use cases" to maximize opportunities to achieve 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 B.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 the effect a rental replacement policy could have on future development, in the context of its objective to ensure a stable rental supply across the city. We acknowledge that some typologies and scenarios which may appear unprofitable could very well be profitable under the right circumstances and conditions, which deviate from our broad baseline assumptions.

Assumptions & Limitations

Identification of Development Concepts

- The **prototypical Mid-Rise (6-Storey) and High-Rise (45-Storey) development concepts** established for testing as part of our assessment have been developed by Smart Density in direct collaboration with staff from the City of Kitchener *as part of the previous Enabling MM+AH study*. In addition, the High-Rise (20-Storey) concept represents a new development prototype specific to this new research, which has been based on parameters established through the previous Enabling MM+AH study. 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 took a design-first approach to the 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 development in Kitchener. As previously explained, 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 **BOTE** 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, BOTE 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 **DCF** analysis. As previously described, 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.

Statistical Assumptions

Figure B.4

Summary of Assumptions

	Condominium Ownership					Purpose-Built Rental				
	6-Storey Mid Rise		20-Storey High Rise		45-Storey High Rise	6-Storey Mid Rise		20-Storey High Rise		45-Storey High Rise
	CENTRAL	SUBURBAN	CENTRAL	SUBURBAN	CENTRAL	CENTRAL	SUBURBAN	CENTRAL	SUBURBAN	CENTRAL
Development Timeline										
Entitlement & Design	24 mth(s)		24 mth(s)		24 mth(s)	24 mth(s)		24 mth(s)		24 mth(s)
Sales	12 mth(s)		12 mth(s)		12 mth(s)	12 mth(s)		12 mth(s)		12 mth(s)
Construction	30 mth(s)		36 mth(s)		36 mth(s)	30 mth(s)		36 mth(s)		36 mth(s)
Lease Up	3 mth(s)		3 mth(s)		3 mth(s)	3 mth(s)		9 mth(s)		9 mth(s)
Stabilized Operations	120 mth(s)		120 mth(s)		120 mth(s)	120 mth(s)		120 mth(s)		120 mth(s)
Site Stats										
Site Area										
Square Feet	11,625 sf	11,625 sf	30,057 sf	30,057 sf	30,057 sf	11,625 sf	11,625 sf	30,057 sf	30,057 sf	30,057 sf
Square Metres	1,080 sm	1,080 sm	2,792 sm	2,792 sm	2,792 sm	1,080 sm	1,080 sm	2,792 sm	2,792 sm	2,792 sm
Acres	0.27 ac	0.27 ac	0.69 ac	0.69 ac	0.69 ac	0.27 ac	0.27 ac	0.69 ac	0.69 ac	0.69 ac
Land Acquisition										
$	$ 1,800,000	$ 925,000	$ 6,500,000	$ 4,750,000	$ 14,000,000	$ 1,800,000	$ 925,000	$ 6,500,000	$ 4,750,000	$ 14,000,000
$PBSF	$61 PSF	$31 PSF	$36 PSF	$27 PSF	$39 PSF	$61 PSF	$31 PSF	$36 PSF	$27 PSF	$39 PSF
$/AC	$6.7 M/ac	$3.5 M/ac	$9.4 M/ac	$6.9 M/ac	$20.3 M/ac	$6.7 M/ac	$3.5 M/ac	$9.4 M/ac	$6.9 M/ac	$20.3 M/ac
$/Unit	$56,250	$28,906	$33,333	$24,359	$34,568	$56,250	$28,906	$33,333	$24,359	$34,568
Building Stats										
Residential Floor Area										
Gross Floor Area	**29,549 sf**	**29,549 sf**	**178,500 sf**	**178,500 sf**	**355,000 sf**	**29,549 sf**	**29,549 sf**	**178,500 sf**	**178,500 sf**	**355,000 sf**
Net New Units	*24,009 sf*	*24,009 sf*	*164,769 sf*	*164,769 sf*	*328,704 sf*	*24,009 sf*	*24,009 sf*	*164,769 sf*	*164,769 sf*	*328,704 sf*
Replacement Units	*5,540 sf*	*5,540 sf*	*13,731 sf*	*13,731 sf*	*26,296 sf*	*5,540 sf*	*5,540 sf*	*13,731 sf*	*13,731 sf*	*26,296 sf*
Net Floor Area	24,200 sf	24,200 sf	137,925 sf	137,925 sf	286,975 sf	24,200 sf	24,200 sf	137,925 sf	137,925 sf	286,975 sf
Efficiency	*81.9%*	*81.9%*	*77.3%*	*77.3%*	*80.8%*	*82%*	*82%*	*77%*	*77%*	*80.8%*
Avg Unit Size (Net)	***756 sf***	***756 sf***	***707 sf***	***707 sf***	***709 sf***	***756 sf***	***756 sf***	***707 sf***	***707 sf***	***709 sf***
	70 sm	*70 sm*	*66 sm*	*66 sm*	*66 sm*	*70 sm*	*70 sm*	*66 sm*	*66 sm*	*66 sm*
Non-Residential Floor Area										
Gross Floor Area	**-**	**-**	**-**	**-**	**5,000 sf**	**-**	**-**	**-**	**-**	**5,000 sf**
Net Floor Area	-	-	-	-	4,500 sf	-	-	-	-	4,500 sf
Efficiency	-	-	-	-	*90%*	-	-	-	-	*90%*
Height	6 storeys		25 storeys		45 storeys	6 storeys		25 storeys		45 storeys
FSI	2.5x	2.5x	5.9x	5.9x	12.0x	2.11x	1.99x			2.56x
Building Lot Coverage	42%	42%	24%	24%	27%	53%	50%			51%
Units	**32 units**	**32 units**	**195 units**	**195 units**	**405 units**	**32 units**	**32 units**	**195 units**	**195 units**	**405 units**
Studio	-	-	-	-	-	-	-	-	-	-
1 Bed	19 units	19 units	119 units	119 units	243 units	19 units	19 units	119 units	119 units	243 units
2 Beds	13 units	13 units	65 units	65 units	140 units	13 units	13 units	65 units	65 units	140 units
3 Beds +	-	-	11 units	11 units	22 units	-	-	11 units	11 units	22 units
Parking										
Resident	0.65 / unit	0.65 / unit	0.40 / unit	0.50 / unit	0.40 / unit	0.65 / unit	0.65 / unit	0.40 / unit	0.50 / unit	0.40 / unit
	21 space(s)	21 space(s)	78 space(s)	98 space(s)	162 space(s)	21 space(s)	21 space(s)	78 space(s)	98 space(s)	162 space(s)
Non-Resident	0.10 / unit	0.1 / unit	0.05 / unit	0.05 / unit	0.05 / unit	0.10 / unit	0.1 / unit	0.05 / unit	0.05 / unit	0.05 / unit
	3 space(s)	3 space(s)	10 space(s)	10 space(s)	20 space(s)	3 space(s)	3 space(s)	10 space(s)	10 space(s)	20 space(s)
Commercial	2.0/100 sm	2.0/100 sm	2.0/100 sm	2.0/100 sm	2.0/100 sm	2.0/100 sm	2.0/100 sm	2.0/100 sm	2.0/100 sm	2.0/100 sm
	-	-	-	-	9 space(s)	-	-	-	-	9 space(s)
Surface	-	-	-	50%	4%	-	-	-	50%	4%
Above Grade	-	-	-	-	48%	-	-	-	-	48%
Below Grade	100%	100%	100%	50%	48%	100%	100%	100%	50%	48%

	Condominium Ownership					Purpose-Built Rental				
	6-Storey Mid Rise		20-Storey High Rise		45-Storey High Rise	6-Storey Mid Rise		20-Storey High Rise		45-Storey High Rise
	CENTRAL	SUBURBAN	CENTRAL	SUBURBAN	CENTRAL	CENTRAL	SUBURBAN	CENTRAL	SUBURBAN	CENTRAL
Revenues										
Market $ PSF	$941 PSF	$803 PSF	$1,041 PSF	$894 PSF	$1,040 PSF					
Market $ Unit	$711,520	$607,393	$736,211	$632,583	$737,057					
Market $ Parking Space	$55,000	-	$55,000	-	$55,000					
Market $ Locker	-	-	$5,000	$5,000	$5,000					
Avg Annual Growth	5.0%	5.0%	5.0%	5.0%	5.0%					
Market Rent $ PSF						$3.12 PSF	$2.99 PSF	$3.38 PSF	$3.23 PSF	$3.38 PSF
Market Rent $ Unit						$2,359 / mth	$2,259 / mth	$2,390 / mth	$2,285 / mth	$2,393 / mth
Market Rent $ Parking Space						$100 / mth	$0 / mth	$150 / mth	$0 / mth	$150 / mth
Rent Growth (Pre-Lease Up)						5.0%	5.0%	5.0%	5.0%	5.0%
Rent Growth (Operations)						2.0%	2.0%	2.0%	2.0%	2.0%
Replacement Rent $ PSF	$1.70 PSF	$1.74 PSF	$1.82 PSF	$1.85 PSF	$1.82 PSF	$1.70 PSF	$1.74 PSF	$1.69 PSF	$1.72 PSF	$1.69 PSF
Replacement Rent $ Unit	$1,287 / mth	$1,318 / mth	$1,290 / mth	$1,307 / mth	$1,293 / mth	$1,287 / mth	$1,318 / mth	$1,198 / mth	$1,213 / mth	$1,200 / mth
Replacement Rent $ Parking Space	-	-	-	-	-	-	-	-	-	-
Rent Growth (Pre-Lease Up)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Rent Growth (Operations)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Retail Net Rent $ PSF	-	-	-	-	$25 PSF	-	-	-	-	$25 PSF
Retail Rent Growth	-	-	-	-	1.5%	-	-	-	-	1.5%
Hard Costs										
Above Grade Hard Costs	$285 PSF		$330 PSF		$360 PSF	$285 PSF		$330 PSF		$360 PSF
Parking Costs										
Surface	$6,000/space					$6,000/space				
Above Grade	$61,000/space					$61,000/space				
Below Grade	$93,000/space					$93,000/space				
Avg Annual Growth	7.5%		7.5%		7.5%	7.5%		7.5%		7.5%
Demolition	$8.00 / sf existing					$8.00 / sf existing				
Site Prep	$0.00 / sf existing					$0.00 / sf existing				
Servicing Connection	$1,000/unit					$1,000/unit				
Landscaping	$1,000/unit					$1,000/unit				
Soft Costs										
Planning Applications	ZBA, SPA, Plan of Condo	SPA, Plan of Condo	OPA, ZBA, SPA, Plan of Condo	OPA, ZBA, SPA, Plan of Condo	OPA, ZBA, SPA, Plan of Condo	ZBA, SPA	ZBA, SPA	OPA, ZBA, SPA	OPA, ZBA, SPA	OPA, ZBA, SPA
Building Permit, Development Charges, Property Taxes	Current City Rates as of September 2023					Current City Rates as of September 2023				
Community Benefits Charges	None					None				
CIL Parkland	10.0% of Dev Land					10.0% of Dev Land				
Architecture & Engineering	5.0% of Hard Costs					5.0% of Hard Costs				
Legal	2.0% of Hard Costs					2.0% of Hard Costs				
Sales & Marketing	2.0% of Hard Costs					2.0% of Hard Costs				
Construction Management	2.0% of Hard Costs					2.0% of Hard Costs				
Development Fee	2.0% of Total Costs					2.0% of Total Costs				
All Other Consultants	2.0% of Hard Costs					2.0% of Hard Costs				
Contingency	5.0% of Total Costs					5.0% of Total Costs				
Financing (Land)										
Loan-to-Value	-					-				
Rate	-					-				
Financing (Construction)										
Loan-to-Cost	75.0%					50.0%				
Rate	6.25%					6.25%				
Loan Fees	1.0% of Loan					1.0% of Loan				
Financing (Permanent Debt)										
Loan-to-Value	Up to 55%					Up to 55%				
Rate	4.25%					4.25%				

Figure B.5

Baseline Financial Feasibility Analysis – All Typologies, Tenures & Locations

Mid-Rise Central

32 units @ **756** sq ft on **0.27 acres**
25 parking spaces, 100% underground

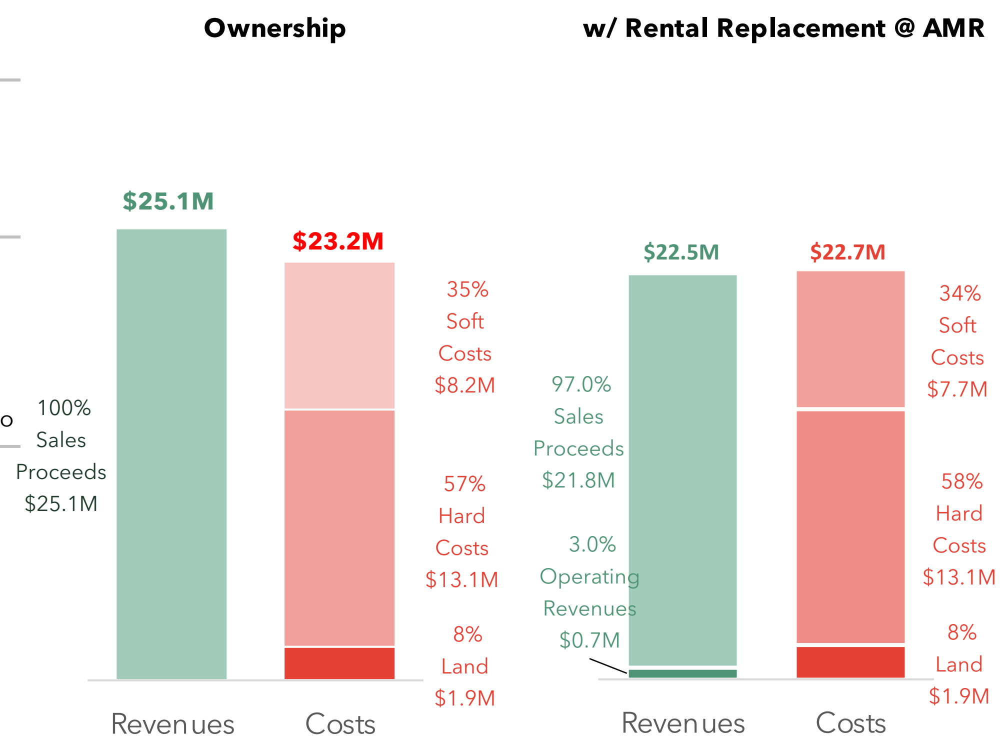
Revenue Assumptions

New Units:	$710,000 + 5.0% annually to construction
Replace Units:	6 units @ $1,285/mth + 2.0% annually

Cost Assumptions

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

Return Metrics	Baseline	w/ Replacement
Profit:	$1.9 M	-$0.2 M
IRR:	17.1%	
Equity Multiple:	1.41x ... over 5.4 years	0.97x ... over 15.5 years
Cash-on-Cash:	-	-



Mid-Rise Central

32 units @ **756** sq ft on **0.27 acres**
25 parking spaces, 100% underground

Revenue Assumptions

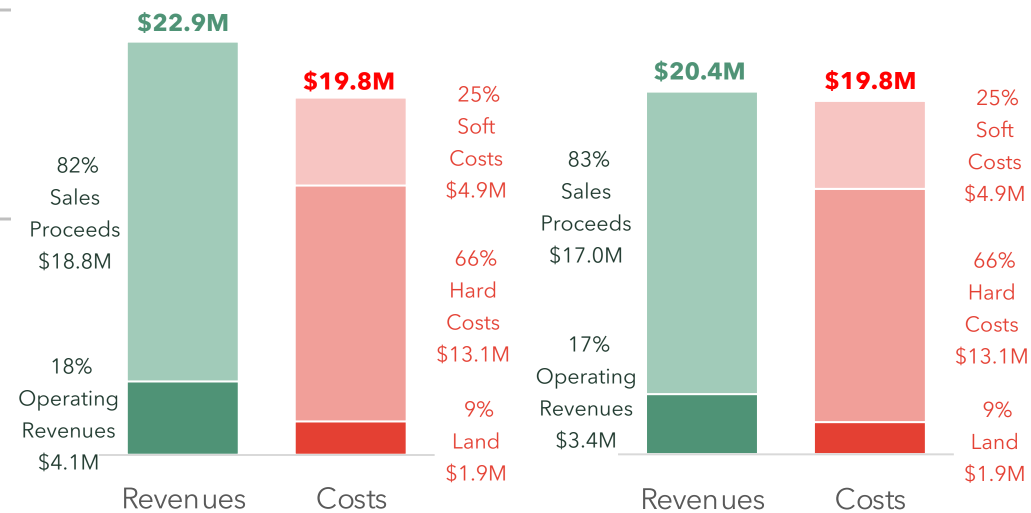
New Units:	$2,360/mth + 5.0% annually to leaseup
Replace Units:	6 units @ $1,285/mth + 2.0% annually

Cost Assumptions

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

Return Metrics	Baseline	w/ Replacement
Profit:	$3.1 M	$0.5 M
IRR:	2.2%	0.4%
Equity Multiple:	1.31x ... over 15.5 years	1.05x ... over 15.5 years
Cash-on-Cash:	1.9%	1.2%

Rental | **w/ Rental Replacement @ AMR**



Mid-Rise Suburban

32 units @ **756** sq ft on **0.27 acres**
25 parking spaces, 100% underground

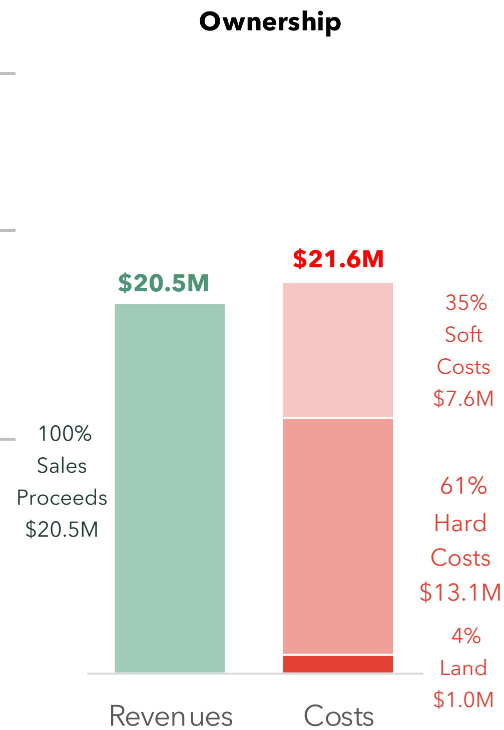
Revenue Assumptions

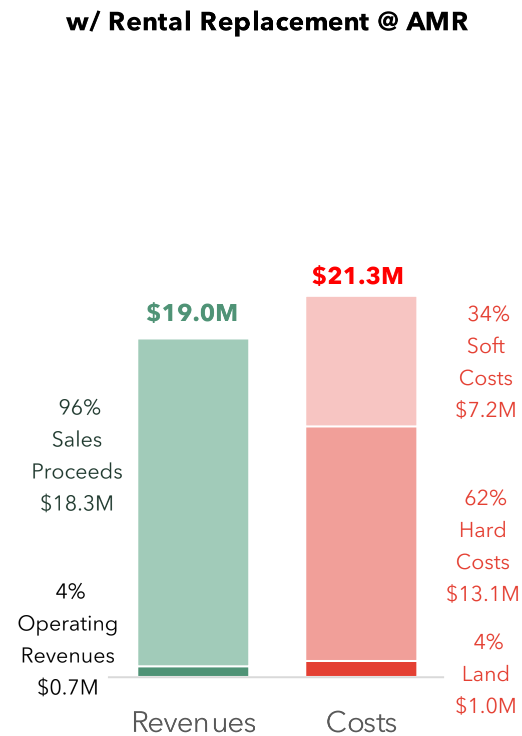
New Units:	$605,000 + 5.0% annually to construction
Replace Units:	6 units @ $1,320/mth + 2.0% annually

Cost Assumptions

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

Return Metrics	Baseline	w/ Replacement
Profit:	-$1.1 M	-$2.3 M
IRR:	-	-
Equity Multiple:	0.74x ... over 5.4 years	0.68x ... over 15.3 years
Cash-on-Cash:	-	-





Mid-Rise Suburban

32 units @ **756** sq ft on **0.27 acres**
25 parking spaces, 100% underground

Revenue Assumptions

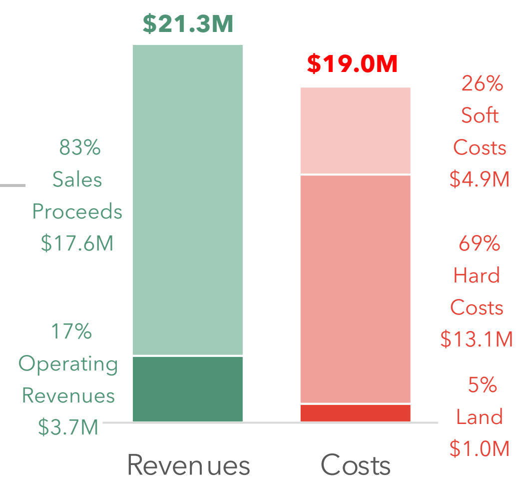
New Units:	$2,260/mth + 5.0% annually to leaseup
Replace Units:	6 units @ $1,320/mth + 2.0% annually

Cost Assumptions

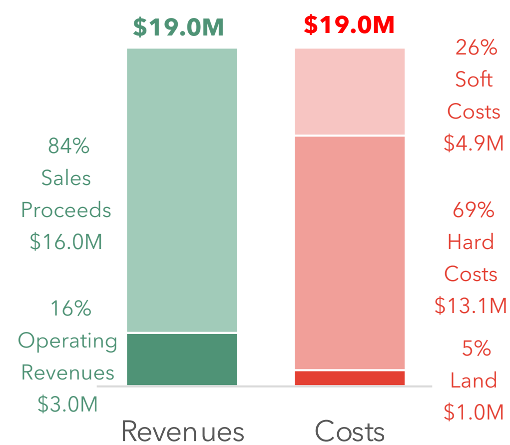
Land:	$1.8M (2 Teardown Houses)
Hard Costs:	$285 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; ZBA + SPA

Return Metrics	**Baseline**	**w/ Replacement**
Profit:	$2.4 M	$0.0 M
IRR:	1.8%	0.0%
Equity Multiple:	1.25x ... over 15.5 years	1.00x ... over 15.5 years
Cash-on-Cash:	1.7%	1.0%

Rental



w/ Rental Replacement @ AMR



20-Storey High-Rise Central

210 units @ **706** sq ft on **0.69 acres**
95 parking spaces, 100% underground

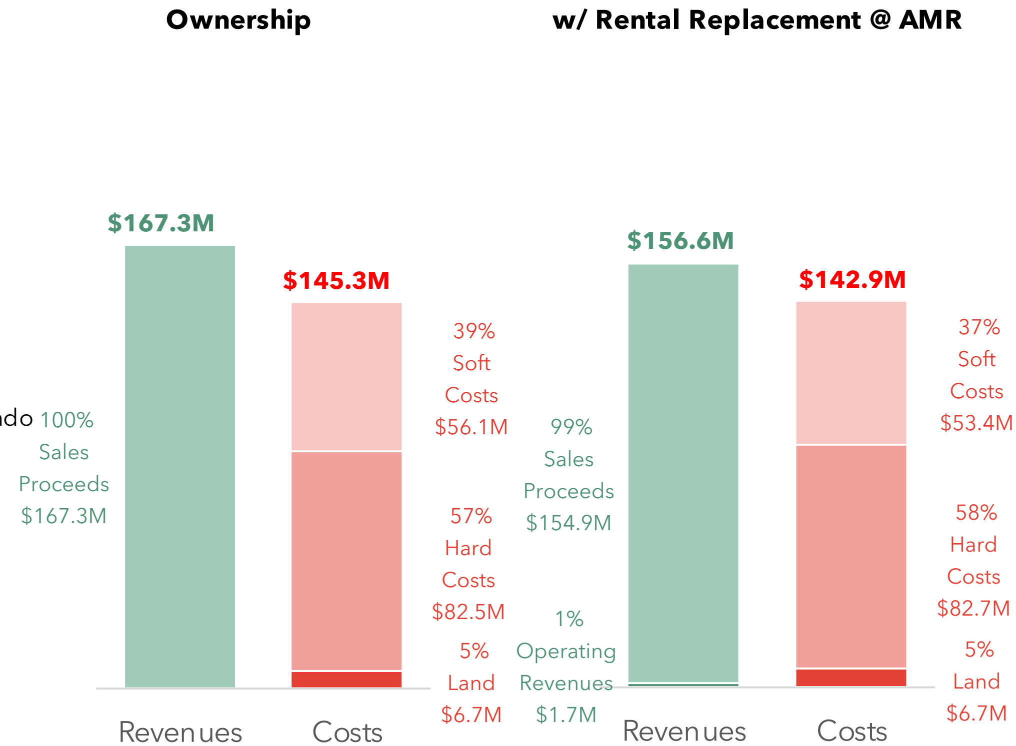
Revenue Assumptions

New Units:	$735,000 + 5.0% annually to construction
Replace Units:	15 units @ $1,290/mth + 2.0% annually

Cost Assumptions

Land:	$6.5M ($9.4M/ac)
Hard Costs:	$330 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; OPA, ZBA, SPA + Condo

Return Metrics	**Baseline**	**w/ Replacement**
Profit:	$21.9 M	$13.7 M
IRR:	30.8%	16.8%
Equity Multiple:	1.78x ... over 6.1 years	1.49x ... over 16.0 years
Cash-on-Cash:	-	-



20-Storey High-Rise Central

210 units @ **706** sq ft on **0.69 acres**
95 parking spaces, 100% underground

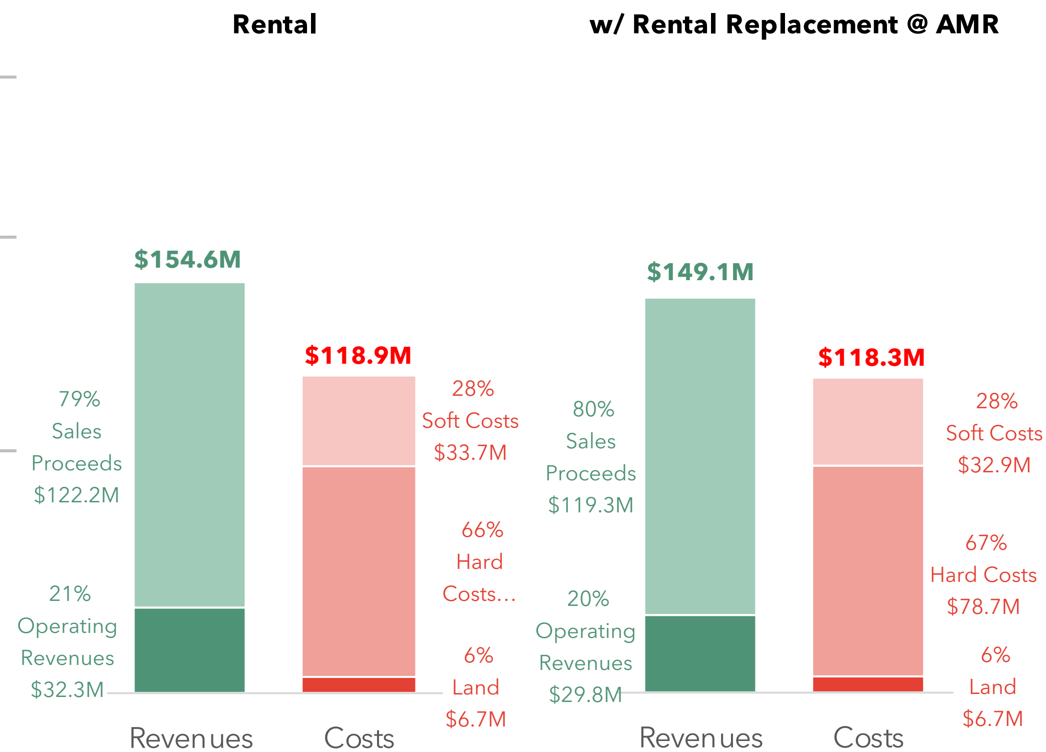
Revenue Assumptions

New Units:	$2,390/mth + 5.0% annually to leaseup
Replace Units:	15 units @ $1,200/mth + 2.0% annually

Cost Assumptions

Land:	$6.5M ($9.4M/ac)
Hard Costs:	$330 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; OPA, ZBA, + SPA

Return Metrics	**Baseline**	**w/ Replacement**
Profit:	$35.7 M	$30.8 M
IRR:	3.6%	3.3%
Equity Multiple:	1.54x ... over 15.8 years	1.49x ... over 15.8 years
Cash-on-Cash:	3.3%	2.8%



20-Storey High-Rise Suburban

210 units @ **706** sq ft on **0.69 acres**
115 parking spaces, 50% underground

Revenue Assumptions

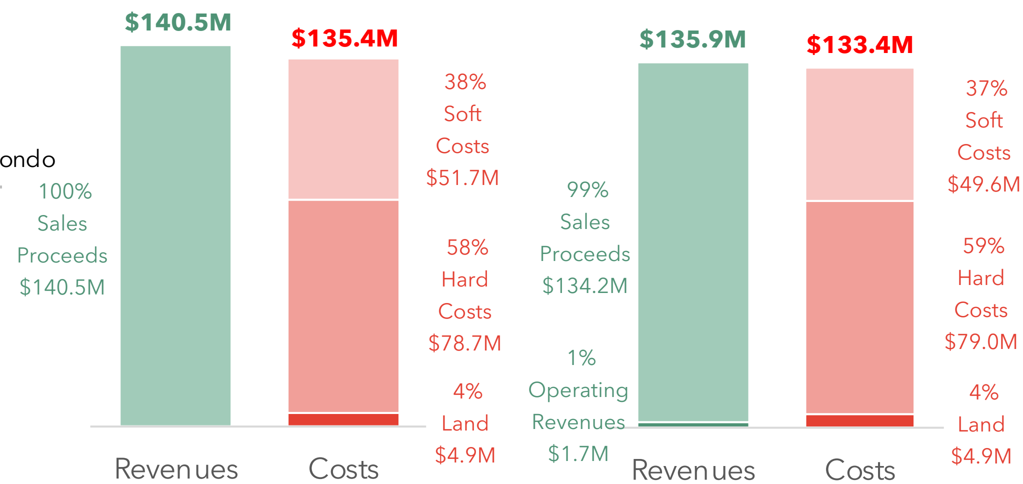
New Units:	$635,000 + 5.0% annually to construction
Replace Units:	15 units @ $1,305/mth + 2.0% annually

Cost Assumptions

Land:	$4.8M ($6.9M/ac)
Hard Costs:	$330 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; OPA, ZBA, SPA + Condo

Return Metrics	**Baseline**	**w/ Replacement**
Profit:	$5.1 M	$2.5 M
IRR:	11.9%	3.1%
Equity Multiple:	1.19x ... over 5.9 years	1.09x ... over 16.0 years
Cash-on-Cash:	-	-

Ownership | **w/ Rental Replacement @ AMR**



20-Storey High-Rise Suburban

210 units @ **706** sq ft on **0.69 acres**
115 parking spaces, 50% underground

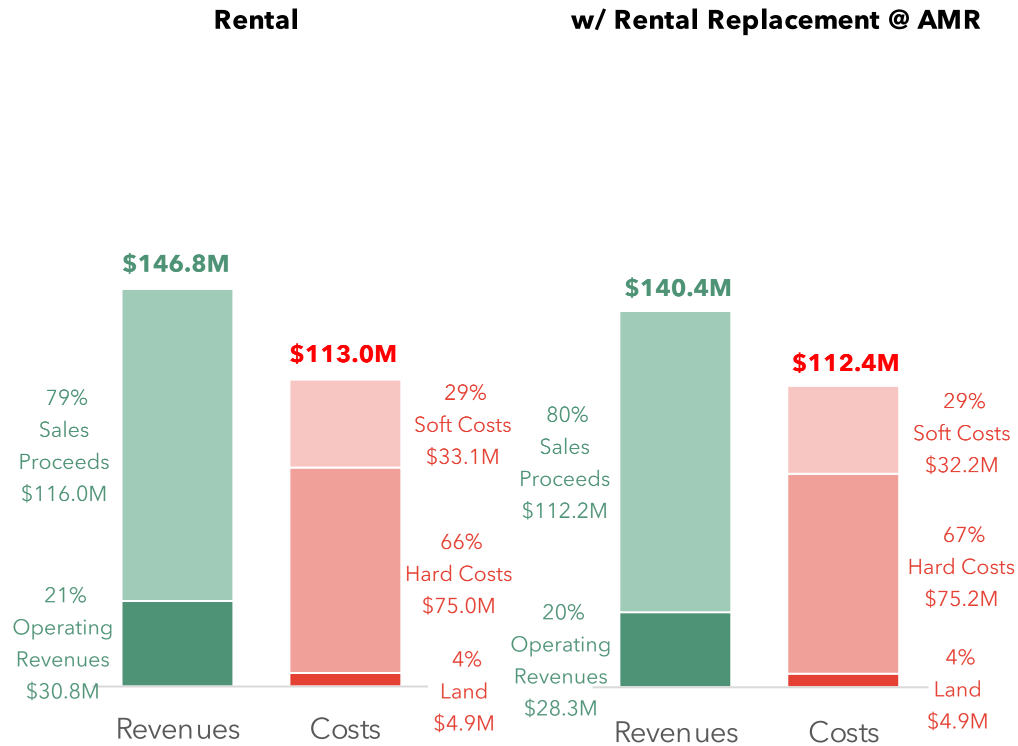
Revenue Assumptions

New Units:	$2,285/mth + 5.0% annually to leaseup
Replace Units:	15 units @ $1,215/mth + 2.0% annually

Cost Assumptions

Land:	$4.8M ($6.9M/ac)
Hard Costs:	$330 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; OPA, ZBA, + SPA

Return Metrics	**Baseline**	**w/ Replacement**
Profit:	$33.7 M	$28.1 M
IRR:	3.6%	3.2%
Equity Multiple:	1.53x ... over 15.8 years	1.46x ... over 15.8 years
Cash-on-Cash:	3.3%	2.8%



45-Storey High-Rise Central

425 units @ **710** sq ft on **0.69 acres**
201 parking spaces, 50% underground

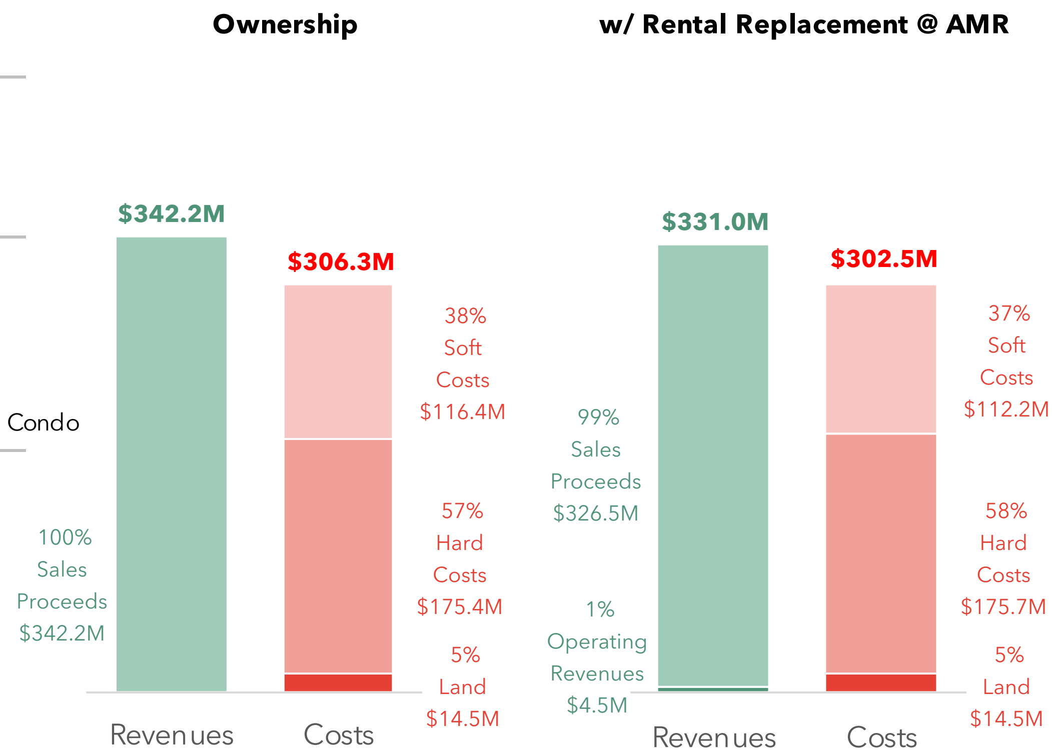
Revenue Assumptions

New Units:	$735,000 + 5.0% annually to construction
Replace Units:	30 units @ $1,295/mth + 2.0% annually

Cost Assumptions

Land:	$14.0M ($20.3M/ac)
Hard Costs:	$360 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; OPA, ZBA, SPA + Condo

Return Metrics	**Baseline**	**w/ Replacement**
Profit:	$35.9 M	$28.5 M
IRR:	26%	15%
Equity Multiple:	1.61x ... over 6.8 years	1.48x ... over 16.8 years
Cash-on-Cash:	-	-



45-Storey High-Rise Central

425 units @ **710** sq ft on **0.69 acres**
201 parking spaces, 50% underground

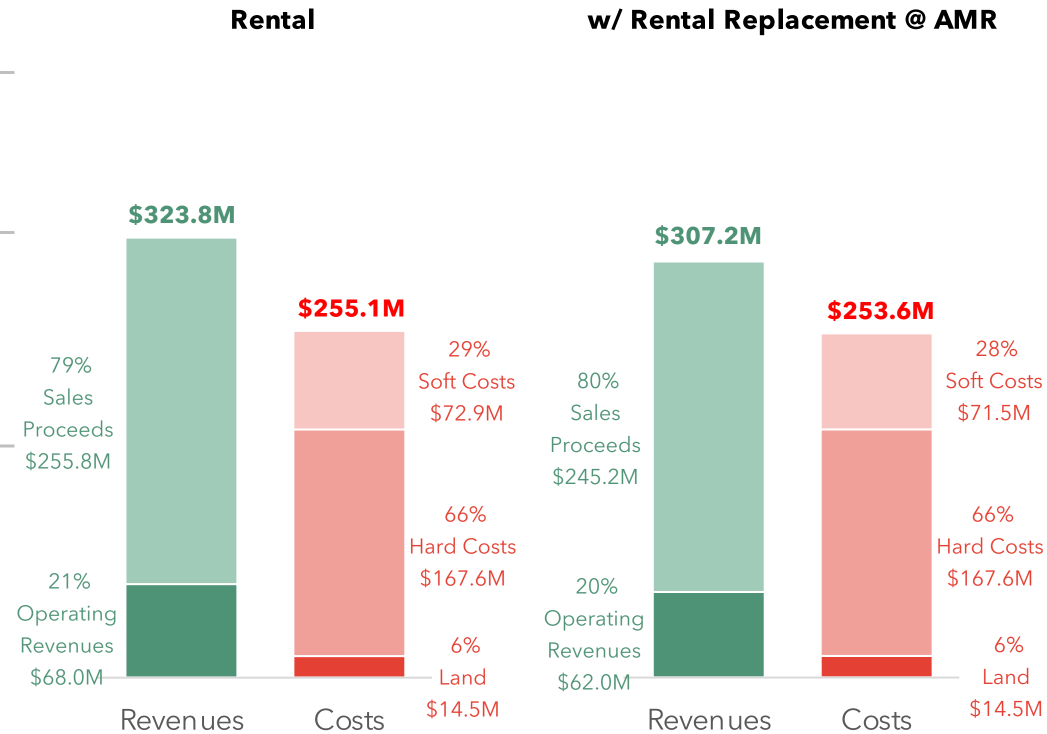
Revenue Assumptions

New Units:	$2,395/mth + 5.0% annually to leaseup
Replace Units:	30 units @ $1,200/mth + 2.0% annually

Cost Assumptions

Land:	$14.0M ($20.3M/ac)
Hard Costs:	$360 PSF + 7.5% annually to construction
Soft Costs:	DCs, CBCs + CIL Parkland; OPA, ZBA, + SPA

Return Metrics	Baseline	w/ Replacement
Profit:	$68.7 M	$53.6 M
IRR:	3.3%	2.7%
Equity Multiple:	1.50x ... over 16.1 years	1.40x ... over 16.1 years
Cash-on-Cash:	2.9%	2.4%



Source: Parcel

Figure B.6

Rental Replacement Feasibility Analysis

Condo Ownership

Return Metrics			Profit	IRR	EMx	CoC
6-Storey Mid-Rise	Central	Base	$ 1,904,051	17.1%	1.41x	-
		w/Replacement 6 @ AMR	$ (185,960)	(0.7)%	0.97x	-
		+/-	**$ (2,090,011)**	**(1,771) bps**	**-0.44x**	-
	Suburban	Base	$ (1,121,874)	N/A	0.74x	-
		w/Replacement 6 @ AMR	$ (2,268,747)	N/A	0.68x	-
		+/-	**$ (1,146,873)**	**N/A**	**-0.06x**	-
20-Storey High-Rise	Central	Base	$ 21,938,534	30.8%	1.78x	-
		w/Replacement 15 @ AMR	$ 13,701,801	16.8%	1.49x	-
		+/-	**$ (8,236,733)**	**(1,407) bps**	**-0.29x**	-
	Suburban	Base	$ 5,121,618	11.9%	1.19x	-
		w/Replacement 15 @ AMR	$ 2,480,807	3.1%	1.09x	-
		+/-	**$ (2,640,811)**	**(878) bps**	**-0.10x**	-
45-Storey High-Rise	Central	Base	$ 35,926,475	25.6%	1.61x	-
		w/Replacement 30 @ AMR	$ 28,514,463	15.5%	1.48x	-
		+/-	**$ (7,412,013)**	**(1,013) bps**	**-0.12x**	-

Purpose-Built Rental

Return Metrics			Profit	IRR	EMx	CoC
6-Storey Mid-Rise	Central	Base	$ 3,115,668	2.2%	1.31x	1.9%
		w/Replacement 6 @ AMR	$ 547,232	0.4%	1.05x	1.2%
		+/-	**$ (2,568,436)**	**(181) bps**	**-0.26x**	**(66) bps**
	Suburban	Base	$ 2,355,022	1.8%	1.25x	1.7%
		w/Replacement 6 @ AMR	$ 37,026	0.0%	1.00x	1.0%
		+/-	**$ (2,317,996)**	**(181) bps**	**-0.24x**	**(71) bps**
20-Storey High-Rise	Central	Base	$ 35,650,581	3.6%	1.54x	3.3%
		w/Replacement 15 @ AMR	$ 30,769,424	3.3%	1.49x	2.8%
		+/-	**$ (4,881,157)**	**(32) bps**	**-0.04x**	**(49) bps**
	Suburban	Base	$ 33,744,639	3.6%	1.53x	3.3%
		w/Replacement 15 @ AMR	$ 28,078,317	3.2%	1.46x	2.8%
		+/-	**$ (5,666,322)**	**(45) bps**	**-0.07x**	**(47) bps**
45-Storey High-Rise	Central	Base	$ 68,701,882	3.3%	1.50x	2.9%
		w/Replacement 30 @ AMR	$ 53,610,855	2.7%	1.40x	2.4%
		+/-	**$ (15,091,027)**	**(60) bps**	**-0.10x**	**(48) bps**

Source: Parcel

Appendix C:

Other Background Material

Figure C.1

Existing Rental Replacement By-laws

	Toronto	Mississauga	Oakville
Year Approved	**2006**	**2018**	**2023**
Number of Rental Units Retained	5,000	n/a	n/a
Rental Unit Threshold	6 or more	6 or more	6 or more
Replacement Unit Mix / Size	Comparable to pre-demolition mix and size	Comparable to pre-demolition mix and size	Comparable to pre-demolition mix and size
Replacement Rents	Comparable to pre-demolition rents	Comparable to pre-demolition rents	Comparable to pre-demolition rents
Retention Timelines	10 years	20 years	Case-by-case basis (20 years suggested)
Off Site Replacement Permitted?	No	Yes, in a comparable location	Yes, in a comparable location
Cash in Lieu Permitted?	No	Yes (some geographic exceptions)	Yes
Tenant Relocation Plan Required?	Yes	Undefined	Undefined
Exemptions	Rental replacement does not apply to: • Condominium units • Life lease projects • Accommodation described in Section 5 of the Residential Tenancies Act, 2006, except non-profit housing cooperatives described in clause 5(c) Rental replacement does not apply if: • Vacancy rate is > 3% • Rents exceed mid-range rents	Rental replacement does not apply to: • Second units • Equity co-operatives • Co-ownership properties • Lodging homes • Life lease projects • Peel Region Housing Rental replacement does not apply if: • Vacancy rate is > 3% • Rents > 1.75 AMR by unit type	Rental replacement does not apply to: • Secondary rental market units • Equity co-operatives • Co-ownership properties • Lodging homes • Halton Region housing

Source: Parcel, based on City of Toronto, City of Mississauga, and City of Oakville Rental Replacement By-laws.

Figure C.2

Primary Rental Units by Neighbourhood and Structure Size (Six-Plus Units) (2022)

	Structure Size					
Neighbourhood	**3-5 Units**	**6-19 Units**	**20-49 Units**	**50-199 Units**	**200+ Units**	**Total**
South-East	65	682	910	2,990	2,000	**6,647**
South-West	97	460	1,048	2,580	628	**4,813**
Central	151	611	505	1,985	420	**3,672**
North-East	199	787	997	1,216	-	**3,199**
Central-West	127	657	403	554	-	**1,741**
North-West	112	470	138	137	472	**1,329**
Total	**751**	**3,667**	**4,001**	**9,462**	**3,520**	**21,401**

Eligible for rental replacement per Provincial regulations

Source: Parcel, based on CMHC Rental Market Survey.

Figure C.3

Recently Completed Rental Projects

Year	Name	Address	Storeys	Number of Units	Average Rent
2023	Civic 66	66 Weber St W	11	173	$2,387
	The Village of Winston Park	1000 Westmount Rd E	11	212	$4,648
2022	The Carmine	528 Lancaster St W	8	127	$2,115
2021	Avalon Urban Towns & Lofts	1430 Highland Rd	8	32	$1,957
	The Market Flats	388 King St	7	73	$2,125
2020	Highland Square	220 Ira Needles Blvd	16	344	$2,346
	The Scott 63	63 Scott St	11	135	n/a

Source: Parcel, based on CoStar Realty Inc. data

Parcel

info@parceleconomics.com

416-869-8264

250 University Avenue, #221, Toronto, Ontario, M5H 3E5