

**AFFORDABLE
HOUSING
+
INCLUSIONARY
ZONING**

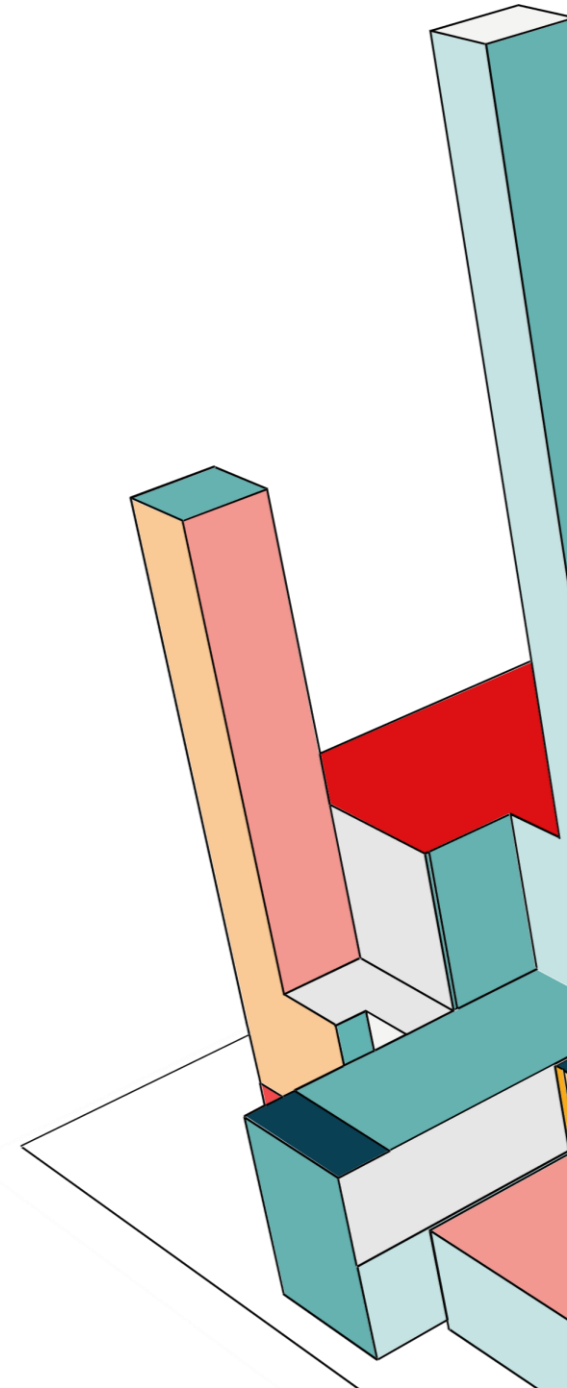
WHAT IS AFFORDABLE HOUSING?

It is housing...

at a lower cost to the occupant

The term “*Affordable Housing*” is **misleading** for 2 reasons:

1. Affordable housing is no less affordable to construct
2. Use of the word ‘*affordable*’ only refers to the benefiting party.
It conveniently neglects to mention the other side of the coin.
If one party is benefiting, another party is losing.

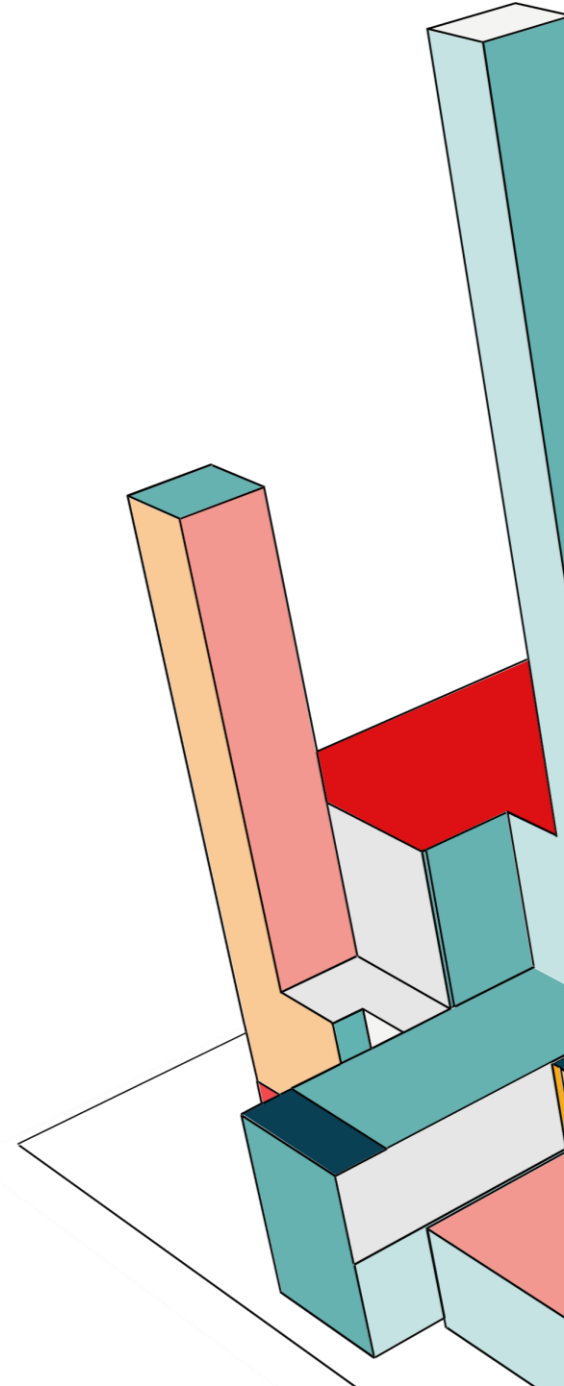


WHAT IS AFFORDABLE HOUSING?

- Affordable housing is nothing more than a financing scheme.
- It is market manipulation of who pays for housing.
- Inclusionary Zoning is therefore simply the tool used to implement market manipulation.

“What differentiates IZ from other affordable housing planning tools is that it gives municipalities the authority to require - as opposed to encourage or incentivize - private developers to build affordable housing as part of their residential developments.”

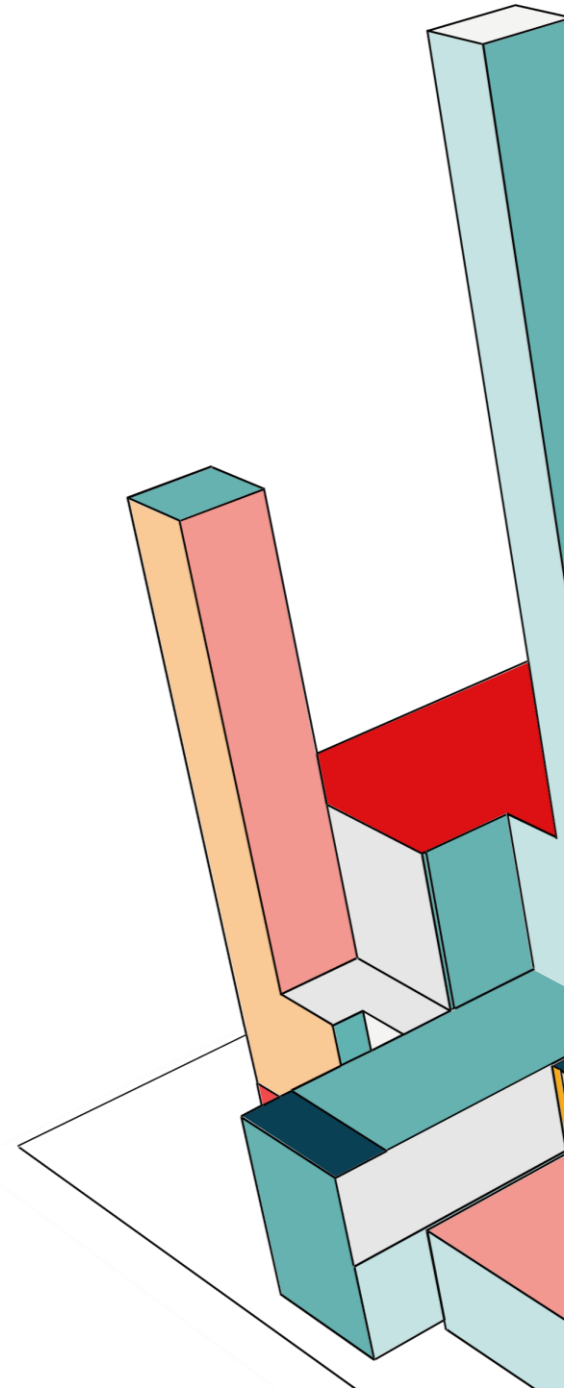
- IZ Policy & Program Directions for Cambridge, Kitchener & Waterloo Discussion Paper June 2023



INCLUSIONARY ZONING OUTCOMES

IZ policies will result in 3 outcomes:

1. Fewer houses
2. Higher housing prices
3. Unfair distribution of social responsibility



1. FEWER HOUSES

Table 4. Set aside Rates

Market Area	Protected Major Transit Station Area	Minimum Percentage of Gross Leasable Residential Floor Area set aside for affordable units by date of building permit issuance			
		2025-2026	2027-2028	2029-2030	2031+
Prime	<ul style="list-style-type: none"> Central Station Victoria Park/Kitchener City Hall Queen/Fredrick 	2%	3%	5%	5%
Established	<ul style="list-style-type: none"> Grand River Hospital Kitchener Market Borden Mill 	1%	2%	4%	5%
Emerging	<ul style="list-style-type: none"> Block Line* Fairway* Sportsworld* 	0%	1%	3%	5%

- Proformas are underwater or breakeven at best right now
- Land coming to market in 2025-2026 was likely purchased prior to knowledge of IZ cost implications
- Will push these projects further back

“The key findings of the update is that development economics are far more challenging now than in early 2020, primarily due to higher construction costs and interest rates. More locations and types of development are now no longer viable even without an IZ requirement”

- IZ Policy & Program Directions for Cambridge, Kitchener & Waterloo Discussion Paper June 2023



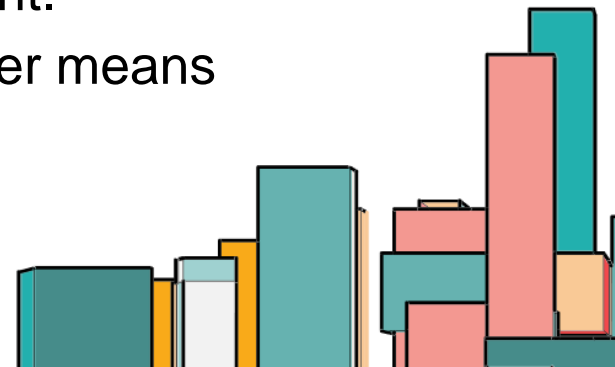
2. HIGHER PRICES

- Staff argument #1: IZ will put downward pressure on land values.
- This is only partially true. Why?
 1. Land owners seek the highest-and-best-use of their land. If too much downward pressure, land owners will move to an alternative highest-and-best-use; likely keep existing use.
 2. Land values represent a small % of overall project proforma.
Therefore, adjustments in additional AH costs to a project proforma disproportionately hit land heavily and will impact highest-and-best-use decision quickly.
- What cannot be made up in land price adjustments must be made up by other means – prices?



2. HIGHER PRICES

- Staff argument #2: IZ allows municipalities to leverage additional land value achieved through higher density zoning.
 - For every 1% in IZ set-aside rate, require approximately 8% increase in density
- Examples:
- 300-unit project (approx. 25 stories) with 2% set-aside rate would require an upsizing of density to 348 units (extra 3-4 floors)
 - 300-unit project with 5% set-aside rate would require an upsizing of density to 420 units (extra ~9 floors)
- Not all municipalities and communities have been eager to adopt such aggressive increases in height & density.
 - Many sites don't support increases to density. Parking is main constraint.
 - What cannot be made up in increased density must be made up by other means – prices?

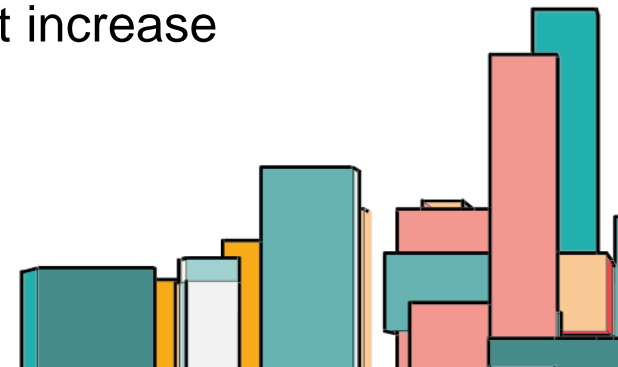


2. HIGHER PRICES

- Condo developers are not Property Managers
- Primary buyer are private investor who rent their units
- Private investor will buy AH units at a price where the ROI of an AH unit equals (or is better) than that of a market unit
- Since monthly rent is lower, so goes that the price they are willing to pay will be lower
- The greater the difference between market rents and AH rents, the greater the price delta
- This loss of revenue must be made up in the market houses

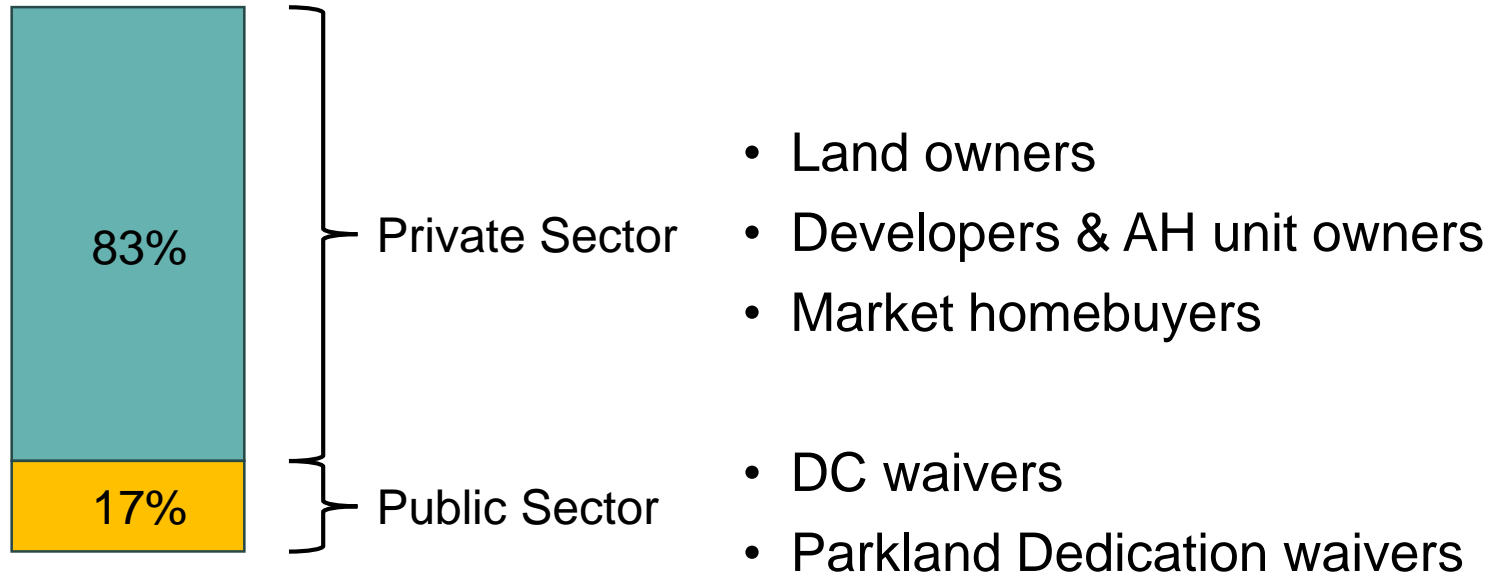
Examples:

- A 200 unit building with a 2% set-aside rate will result in a ~\$3,675/unit increase in market unit prices
- A 200 unit building with a 5% set-aside rate will result in a ~\$9,475/unit increase in market unit prices
- Using a 3rd sector housing provider likely a worse situation



3. UNFAIR DISTRIBUTION OF SOCIAL RESPONSIBILITY

- Cost distribution:

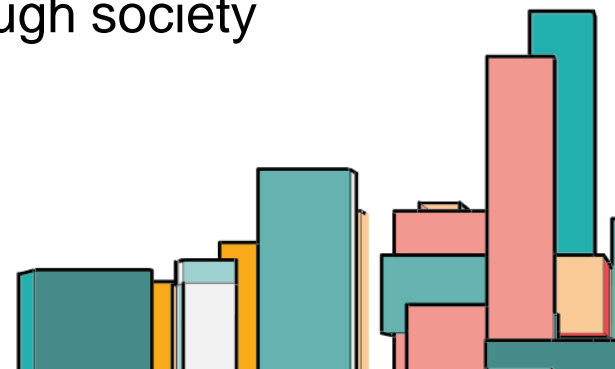


- Windfall winner at the end of Term



POLICY FLAWS

- No runway to implementation – makes problem worse
2025 implementation
- Placing burden on most expensive housing to construct – makes problem worse
“NBLC’s primary research found that rents in new development in MTSAs were \$2.75-\$3.30 per square foot. This is approximately \$700/mo more than AMR”
- Delayed data that drives AH rates – makes problem worse
In January 2024 we are still referring to AMR from January – December 2022
- Not utilizing all tools available to spread the burden more equitably through society



FOOD FOR THOUGHT

- Slow initial implementation so:
 - Time to roll out increased density zoning – more certainty with known IZ policies “on the books”
 - Land sales have time to factor in new project economics
- Utilize more current market data?
- Reduce operating costs of AH unit owner
 - Preferred interest rates – requires government/banking policy changes
 - Reduced condo fees – possible but unfairly burdens a small segment of society
 - Waiver of property taxes – biggest opportunity
- Speed of approvals – not all municipalities are on board



THANK YOU.

