

Staff Report



Development Services Department

www.kitchener.ca

REPORT TO: Planning and Strategic Initiatives Committee

DATE OF MEETING: December 2, 2024

SUBMITTED BY: Rosa Bustamante, Director of Planning and Housing Policy, 519-783-8929

PREPARED BY: Elyssa Pompa, Policy Planner, 519-783-8943

WARD(S) INVOLVED: 3, 9, 10

DATE OF REPORT: November 21, 2024

REPORT NO.: DSD-2024-498

SUBJECT: Official Plan Amendment OPA24/013/COK/EP and Zoning Bylaw Amendment ZBA24/028/COK/EP – Inclusionary Zoning

RECOMMENDATION:

That the City-initiated Official Plan Amendment OPA24/013/COK/EP for the purposes of updating Inclusionary Zoning policies within Protected Major Transit Station Areas be adopted, in the form shown in the Official Plan Amendment attached to Development Services report DSD-2024-498 as Attachment 'A' and accordingly forwarded to the Region of Waterloo for approval; and further,

That the City-initiated Zoning By-law Amendment ZBA24/028/COK/EP to amend Zoning By-law 2019-051 and Zoning By-law 85-1, be approved in the form shown in the Proposed By-law Amendment attached to Report DSD-2024-498 as Attachment 'B' and Attachment 'C' respectively.

REPORT HIGHLIGHTS:

- The purpose of this report is to share findings of a report prepared by retained consultants ("NBLC") on local market conditions, including engagement with the development industry, as directed by Council.
- The key finding of this report is that refinements to the Official Plan and Zoning By-law are recommended by staff in consideration of the NBLC report, conversations with the development industry, and the City's commitment to doing its part to enable and deliver affordable housing.
- There are no financial implications arising from this report.
- Community engagement included presenting report findings with members of the development industry and Kitchener Development Liaison Committee.
- This report supports Building a Connected City Together: Focuses on neighbourhoods; housing and ensuring secure, affordable homes; getting around easily, sustainably and safely to the places and spaces that matter.

EXECUTIVE SUMMARY:

As part of its approval of Inclusionary Zoning in March 2024, Council directed staff to provide an updated report on current market conditions, carry out further consultation with industry, and make a recommendation as to whether the policy should commence in 2025, or be delayed or adjusted. In response, Staff retained N. Barry Lyons Consultants (NBLC) to prepare a report that provided an updated analysis of local market activity. The findings of this report indicated the economic landscape for high-density residential development in Protected Major Transit Station Areas (PMTSAs) has become significantly more challenging compared to five years ago. Key indicators of this shift in market conditions include:

- Strong population growth in the region. However, recent federal policy changes may slow this growth;
- Rising interest rates and high construction costs have reduced the feasibility of new housing projects across Ontario;
- New condominium sales are sluggish due to compressed demand, with resale market offering more attractive options to homebuyers; and
- Despite low vacancy rates, rental prices have stagnated due to a record number of completions last year and the recent decrease in international student visas.

The report concluded that implementing Inclusionary Zoning policy now, as planned for January 2025, could further delay the recovery of the residential construction market at transit-oriented sites and exacerbate current challenges in delivering housing in these areas.

During discussions with the development industry, members expressed concerns regarding the timing of Inclusionary Zoning implementation, given current market conditions. In response to the results of the NBLC report, validated by the discussions with the development industry, and recognizing the ability to enable affordable housing units in the short-term as part the City's Housing Accelerator Fund initiatives (i.e., providing city-owned land for affordable housing; affordable housing grant pilot; strategic land acquisition), staff recommends Official Plan and Zoning By-law amendments that will see the implementation of affordable units through inclusionary zoning commence on January 1, 2026, rather than January 2025 as originally proposed.

BACKGROUND:

On March 18, 2024, Council adopted [Official Plan Amendment 48](#), [Amendment 2024-068 to Zoning By-law by law 2019-051](#) and [Amendment 2024-069 to Zoning By-law 85-1](#) that introduced Inclusionary Zoning policies and provisions. In addition, Council directed that:

“The City will prepare a report to Council before the end of 2024, 2026, 2028 and 2030, on local market conditions, including engagement with the development industry, and provide a recommendation on whether the Minimum Percentage of Gross Leasable Residential Floor Area to be provided as *affordable dwelling units* should be imposed or increased in January the following year; and if any of the Protected Major Transit Station Areas should be reclassified with as a different Market Area in Table 3. This report will analyse factors such as market rents, condominium sale prices, presales and market unit absorption, financing costs, construction costs, building permits, construction starts and lands sales.”

REPORT:

Staff retained N. Barry Lyons Consulting (NBLC) to conduct a Supplementary Market Assessment (“report”) analysing recent local market activity and conditions, and to engage further with the development community. The report highlighted changes to several factors that have reduced the financial feasibility of development in Protected Major Transit Station Area (PMTSA) including interest rates, market rents, condominium sales prices, number of presales, construction costs, building permits and construction starts.

The report findings demonstrate the market and economic context for investing in new high density residential development is markedly more challenging than it was five years prior, as measured by multiple key indicators:

- **Population Growth:** Kitchener-Waterloo-Cambridge has continued to see strong population growth, largely driven by non-permanent residents. Signals indicate that this growth could slow as a result of recent Federal policy announcements related to cuts and caps to permanent and non-permanent resident targets;
- **Development Feasibility:** Rising interest rates and a 92% increase in construction costs since 2017 have significantly reduced the feasibility of new housing projects, leading to limited new launches and building permits in 2024;
- **Condominium Market Trends:** New condominium sales are sluggish, with only 10% of units released in 2024 having been sold – largely attributed to compressed demand. Relative affordability and choice in the resale market has eroded the attractiveness of purchasing in a pre-construction project.
- **Rental Market Outlook:** Although vacancy rates remain low, rental price growth has been dampened by record-high completions in 2023 and a decrease in international student visas.

The report concluded that implementing Inclusionary Zoning policy now, as planned for January 2025 could further delay the recovery of the residential construction market at transit-oriented sites and exacerbate current challenges in delivering housing in these areas.

Currently, there is no compelling justification for reclassifying the submarkets from their current “prime”, “established”, or “emerging” classifications within PMTSAs due to the significant lack of active projects and land transactions in all submarkets. Although the timeline for market recovery remains uncertain, broader market fundamentals indicate there will likely be a return to a strengthened housing market over time.

What We Heard

NBLC, along with staff from the cities of Kitchener, Waterloo, Cambridge, and the Region of Waterloo, met with representatives from the Waterloo Region Homebuilders Association and Build Urban on October 17th to share the results of the report. The discussions were productive and centered on policy development and implementation strategies. While some disagreed with the Inclusionary Zoning framework in principle, many members shared their concerns with implementation at this time given continued market challenges. A letter outlining their position is included as Attachment E.

Staff heard that current economic conditions pose significant challenges in the construction of new housing, with uncertainty into 2025. Many expressed concerns in the lack of ability to adjust margins on mid-to-high density condominium projects due to increased costs as the market has tapered off.

The development industry in attendance strongly recommended that Inclusionary Zoning policy be delayed a year or until the market improves. Staff also heard concerns that implementing Inclusionary Zoning policy in a challenging market could hinder the supply of new housing. It was also suggested that staff work with the development industry to establish numerical benchmarks that can be used to trigger when the policy would be implemented, paused or ramped up.

Planning Rationale

The following section provides an analysis of applicable Provincial, Regional and local policies.

Planning Act, R.S.O. 1990, c. P.13 25:

Section 2 of the Planning Act establishes matters of provincial interest and states that the Minister, the council of a municipality, a local board, a planning board and the Tribunal, in carrying out their responsibilities under this Act, shall have regard to, among other matters, matters of provincial interest such as,

- (j) the adequate provision of a full range of housing, including affordable housing;
- (l) the protection of the financial and economic well-being of the Province and its municipalities;
- (n) the resolution of planning conflicts involving public and private interests;
- (p) the appropriate location of growth and development

The legislative authority for IZ is included within Planning Act sections 16(4-13); 16(24.1.2-24.1.3); 16(36.1.2); 34(11.0.6); 34(19.3-19.3.1); 35.2(1-9) and Ontario Regulation 232/18. In particular, the above-referenced sections:

- Prescribe that IZ policies must be preceded by an assessment report that includes specified content and analysis and must be updated every 5 years;
- Set out the prescribed content and details of IZ Official Plan policies and Zoning By-laws; and
- Require municipalities to report on IZ biennially.

These matters of provincial interest are addressed and are implemented through the Provincial Planning Statement, Regional Official Plan, and the City's Official Plan. The NBLC report that supports the proposed policy direction is based on current market conditions. Updates to the Inclusionary Zoning policy may be warranted in response to market and regulatory changes.

Provincial Planning Statement, 2024

On August 19, 2024, the Ministry of Municipal Affairs and Housing released the Provincial Planning Statement, 2024 (PPS, 2024) which is the new integrated province-wide land use planning policy document. The PPS, 2024 replaces the Provincial Policy Statement, 2020

and A Place to Grow: Growth Plan for the Greater Golden Horseshoe, with a singular Provincial Planning Statement which came into effect on October 20, 2024.

The PPS, 2024 provides policy direction on matters of provincial interest related to land use planning and development. Section 2.2.1b) of the 2024 PPS promotes all types of residential intensification, and sets out a policy framework for sustainable, healthy, livable, and safe communities.

The PPS, 2024 promotes efficient development and land use patterns, as well as accommodating an appropriate mix of affordable and market-based residential dwelling types with other land uses, while supporting public health, and safety. Provincial policies promote the integration of land use planning, growth management, transit-supportive development, intensification, and infrastructure planning to achieve cost-effective development patterns, optimization of transit investments, and standards to minimize land consumption and servicing costs.

The staff recommendation of delaying the commencement of the Inclusionary Zoning policy, supports the PPS by maintaining opportunities for residential development, as well as accommodating an appropriate mix of affordable and market-based residential dwelling types.

Region of Waterloo Official Plan, 2010

The Region of Waterloo Official Plan stipulates that growth be directed to the Built Up Area to make better use of infrastructure that can assist in transitioning the Region into an energy efficient, low carbon community. Section 2 of the Regional Official Plan directs by requiring Area Municipalities to plan for a range of housing forms, tenures and affordability to satisfy the various physical, social and economic needs of existing and future residents.

- 2.3 Promote Transit Oriented Development with a diverse mix of land uses, housing types and open spaces in close proximity to each other.

Delaying the commencement of the Inclusionary Zoning policy encourages an appropriate mix of market-based residential dwelling types. The staff recommendation is consistent with the Region of Waterloo Official Plan by continuing to encourage an appropriate mix of housing types.

Kitchener Official Plan, 2014

The City of Kitchener provides the vision for long-term land use for Kitchener. This is further articulated and implemented through the guiding principles, goals, objectives, and policies set out in the Plan. The vision strives to build a safe, complete, and healthy community. Official Plan policies 4.C.1.55-57 set out an approach to monitoring and adjusting the IZ policies.

- 4.C.1.55 The *City* shall prepare an assessment report a minimum of every 5 years, in accordance with the Provincial requirements, for the purpose of determining whether any Inclusionary Zoning policies in this Plan should be amended.

- 4.C.1.56 The *City*, together with the *Region*, shall monitor the impact of Inclusionary Zoning on the *affordable* housing supply and will prepare and make publicly available a report every two years in accordance with Provincial requirements. The report will contain information including:
- a) the number of *affordable dwelling units*;
 - b) the types of *affordable dwelling units*;
 - c) the location of the *affordable dwelling units*;
 - d) the range of household incomes for which the *affordable dwelling units* were provided;
 - e) the number of *affordable dwelling units* that were converted to units at market value; and
 - f) the proceeds (if any) that were received by the municipality from the sale of *affordable dwelling units*.

The *City* may initiate amendments to these policies in response to the findings of this report in advance of the 5-year assessment report update.

- 4.C.1.57 The *City* will prepare a report to Council before the end of 2024, 2026, 2028 and 2030, on local market conditions, including engagement with the development industry, and provide a recommendation on whether the Minimum Percentage of Gross Leasable Residential Floor Area to be provided as *affordable dwelling units* should be imposed or increased in January the following year; and if any of the Protected Major Transit Station Areas should be reclassified with as a different Market Area in Table 3. This report will analyse factors such as market rents, condominium sale prices, presales and market unit absorption, financing costs, construction costs, building permits, construction starts and lands sales.

Policy 4.C.1.57 sets out the process for Inclusionary Zoning biennial reports on local market housing conditions and recommendations and potential policy adjustments in response to these findings. This report to Council fulfills this requirement for 2024.

Staff continue to place critical importance on externally communicating the long-term intent of the policy so that the development community and landowners can consider Inclusionary Zoning as part of their purchase decisions and minimize impacts on market housing. Staff's recommendation includes a change to the date of implementation from January 2025 to January 1, 2026 in the Official Plan (shown in Table 1 in this report).

Table 1. Revised date of Inclusionary Zoning Set-Aside Requirements proposed in the Official Plan

Market Area	Protected Major Transit Station Area	Minimum Percentage of Gross Leasable Residential Floor Area to be provided as affordable dwelling units by date of building permit issuance			
		2025-2026	2027-2028	2029-2030	2031+

Prime	<ul style="list-style-type: none"> • Central • Victoria Park and Kitchener City Hall • Queen and Frederick 	2%	2-3%	2-4%	5%
Established	<ul style="list-style-type: none"> • Grand River Hospital • Kitchener Market • Borden • Mill 	1%	1-2%	1-3%	5%
Emerging	<ul style="list-style-type: none"> • Block Line • Fairway • Sportsworld 	0%	0-1%	0-2%	5%

Directing growth towards Protected Major Transit Station Areas to enhance vibrancy and leverage investment in the ION LRT are key objectives of the Official Plan. The Inclusionary Zoning policy seeks to balance the objective of increasing the supply of affordable housing with market feasibility to ensure continued viability of residential development. The program is designed to function in response to market changes and grounded in maintaining market viability. Where market conditions improve or decline, the City shall adapt the IZ program accordingly, at the biennial monitoring reports or at the time of the five-year municipal Inclusionary Zoning Assessment Report.

Planning Conclusion

The staff recommendation has regard for matters of Provincial interest, is consistent with the Provincial Planning Statement (2024) and the Region of Waterloo Official Plan, implements the objectives and policies of the Kitchener Official Plan and represents good planning.

Shifting the commencement of the Inclusionary Zoning policy to January 1, 2026 provides an opportunity for staff and municipal team to adequately assess market viability of Inclusionary Zoning and provide a more fulsome analysis and engagement with the broader community and development industry.

Inclusionary Zoning policy is one of nine Housing Accelerator Fund (HAF) initiatives the City of Kitchener is committed to implementing as part of its contribution agreement with the Canadian Mortgage and Housing Corporation (CMHC). Through other HAF initiatives, City Staff are now administering a grant program for non-profits that will support the development of at least 260 units of affordable housing and is working with non-profits to develop affordable housing on three City-owned sites, resulting in the creation of at least 105 new units of affordable housing. The HAF agreement also commits the City to acquiring new land for affordable housing. The current contribution agreement requires that the City demonstrate that implementing IZ policies has resulted in the creation of 21 new affordable dwelling units over the course of the program period. There may be an opportunity to request that these units be reallocated to another HAF initiative and still achieve the overall number of HAF incentivized units that are required by September 2026.

2024 saw a continued slowdown in housing development in Kitchener. As of September 2024, the City has achieved 59% of the identified Housing Pledge target. Although designed to function in response to market changes and grounded in maintaining market viability, it is important to reiterate the critical importance on the long-term intent of the Inclusionary Zoning policy. The Staff recommended IZ policy, together with addressing Council's direction to frequently monitor and adjust the requirements as market conditions evolve, in consultation with the development industry, will allow not only the City of Kitchener, but the Region of Waterloo as a whole, display a commitment to using the policy tools within our jurisdiction to deliver on affordable housing objectives.

STRATEGIC PLAN ALIGNMENT:

This report supports **Building a Connected City Together: Focuses on neighbourhoods; housing and ensuring secure, affordable homes; getting around easily, sustainably and safely to the places and spaces that matter.**

FINANCIAL IMPLICATIONS:

None.

COMMUNITY ENGAGEMENT:

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

The statutory public meeting was advertised in the Waterloo Record on November 8, 2024, EngageWR and an email notice of the meeting was sent to all parties who had previously expressed interest in the project.

CONSULT – Staff from cities of Kitchener, Waterloo, Cambridge, and the Region of Waterloo met with representatives from the Waterloo Region Homebuilders Association and Build Urban on October 17. Kitchener staff also met with members of the Kitchener Development Liaison Committee on October 18.

PREVIOUS REPORTS/AUTHORITIES:

- [DSD -20- 006](#) Affordable Housing Strategy Phase 2: Housing Needs Assessment
- [DSD -20- 150](#) Inclusionary Zoning for Affordable Housing: Background and Fiscal Impact Analysis
- [DSD -2022- 281](#) Growth Related Funding Tools — Cumulative Impact Assessment
- [DSD -2022- 501](#) Bill 23 More Homes Built Faster Act — Kitchener Comments
- [DSD -2023- 071](#) Inclusionary Zoning for Affordable Housing: Status Update
- [DSD -2023- 258](#) Inclusionary Zoning — Policy and Implementation Directions
- [DSD -2024-029](#) Official Plan Amendment OPA23/015/ K/TD and Zoning Bylaw Amendment ZBA23/ 027/ K/ TD — Inclusionary Zoning
- [DSD-2024-111](#) Official Plan Amendment and Zoning By-law Amendment, DSD-2024-029 and Follow-up Report
- [Provincial Planning Statement, 2024](#)
- [Planning Act, R.S.O. 1990](#)
- [Residential Tenancies Act, 2006](#)

- [Housing Services Act, 2011](#)
- [Regional Official Plan, 2010](#)

COAUTHORS: Tim Donegani, Senior Planner, City of Kitchener
Michelle Lee, Executive Officer to the CAO, City of Waterloo
Douglas Stewart, Senior Planner – Affordable Housing, City of Waterloo
Judy Maan Miedema, Principal Planner, Region of Waterloo
Matt Blevins, Senior Planner – Reurbanization, City of Cambridge

REVIEWED BY: Natalie Goss, Manager, Policy and Research

APPROVED BY: Justin Readman, General Manager of Development Services

ATTACHMENTS:

- Attachment A – By-law to amend the Official Plan
- Attachment B – Proposed Bylaw to amend Zoning By-law 2019-51
- Attachment C – Proposed By-law to amend Zoning By-law 85-1
- Attachment D – 2024 Supplementary Market Assessment by NBLC
- Attachment E – Build Urban and WRHBA Joint Letter