



Greater Ottawa Home Builders' Association
Association des constructeurs d'habitations d'Ottawa

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October 27, 2023

Ministry of Municipal Affairs & Housing
Provincial Land Use Plans Branch
777 Bay Street, 13th Floor
Toronto, ON M7A 2J3

Re: Changes to the definition of an “Affordable Residential Unit”

Dear Minister Calandra,

Please accept the below from the Greater Ottawa Home Builders' Association (GOHBA) and its members as a submission to the government's request for feedback on Changes to the definition of an “Affordable Residential Unit” in the Development Charges Act, 1997 for the purpose of municipal development-related charge discounts and exemptions (ERO #019-7669 & 23-MMAH017).

In addition to our comments, we support those submitted by the Ontario Home Builders' Association and our fellow municipal HBAs across the province.

Feedback on Proposed Changes

We appreciate the Ministry of Municipal Affairs and Housing's (the “MMAH”) effort to bring forward a proposed amendment to the *Development Charges Act* and further refine the definition of an Affordable Residential Unit to determine eligibility for corresponding discounts and exemptions from municipal development-related charges. We understand that the intention of this amendment is to facilitate for-profit home builders to contribute to the development and supply of affordable housing” in Ontario.

Based on our members' experience and expertise across Ottawa's housing market, **GOHBA does not anticipate that the definition of an Affordable Residential Unit as proposed provides sufficient incentive for new home builders to move forward with housing projects at the deep level of affordability as envisioned by the ministry.**

This is due to numerous factors affecting the overall condition of the market, including: the significant cost of land (which varies dramatically across the province); challenges in securing project financing in the current interest rate environment; the high cost of materials and labour; and, the impact of other taxes and charges.

The dynamic nature of the housing market and local conditions make it terribly challenging to have a “province-wide” approach sought through this ERO posting.

We caution the Ontario Government to set realistic expectations for what this exemption can achieve for generating market-driven, deeply affordable housing supply.

We have completed a preliminary assessment and modeling of the Ottawa market using up-to-date data to demonstrate the impact of the proposed definition (attached as appendix).

Recommendations

We do believe that the proposed definition can be improved to potentially open the door to partnerships between private sector builders – working alongside non-profit organizations and municipalities – to cost-effectively deliver affordable housing within larger private sector housing projects and developments.

We note however that in Ontario’s most expensive markets, the gap between the original proposed definition and sufficient incentives for private sector home builders is likely needed to be even *more substantial*.

Based on our preliminary assessment and review of the proposed definition, informed by up-to-date data, we are providing the proposed insights and recommendations below to improve upon the proposed definition.

- **Update the Affordable Housing Bulletin semi-annually using current and regularly updated data.**

Utilizing CMHC published data renders the data obsolete almost essentially from the start. Over the past several years, we have witnessed unprecedented cost and price increases across the entirety of the housing market in Ontario.

These changes have immediate and profound implications on the cost of housing – whether rental or ownership – and the viability of new projects. The proposed definition envisions the Affordable Housing Bulletin as foundational for interpreting the definition of an Affordable Residential Unit in each market.

Using the latest available data on local housing market conditions, population, and income, relying on a diverse group of credible datasets that can be generated more frequently than census data.

- **Modify the parameters of the Affordable Residential Unit definition for rental.**

It is our understanding that the proposed amendments to the definition of “Affordable Residential Unit” under the *Development Charges Act*, and the corresponding calculations used to determine an eligible unit, is intended to incentivize private sector developers to build affordable housing.

For the purposes of the rental portion of the “Affordable Residential Unit” definition, the values used to define an eligible rental unit are not aligned with either the current or anticipated financing realities of the homebuilding sector.

As per the preliminary assessment enclosed for the Ottawa market, it is estimated that under the proposed definition, home builders will still incur a significant monthly loss despite the development-related charge exemptions. It is unreasonable to anticipate that private-sector developers will undertake such projects unless there are also other significant offsets to the overall cost, such as land being provided at no cost by a municipality or non-profit partner.

If the Ministry is committed to providing a sufficient incentive for private sector developers, we would propose, in identifying the income-based affordable rent applicable to a residential unit:

- Change the threshold used for gross annual incomes for renter households from the 60th percentile to the 75th percentile; or,
- Use median income for the identified municipality, rather than gross annual income for renter households. Incomes vary dramatically across the province. A “one-size fits all” regulation will not yield the results intended by the province.

- **Focus development-related charge exemptions for ownership on the appropriate housing types.**

Under the proposed definition for “Affordable Housing Unit” applicable to tenure, there is no distinction made for housing type. As a result, applying the formula as outlined in the definition leads to outcomes that *“fail to create the necessary incentives for home builders”*.

Moreover, when the formulas are used for some types of home ownership choices (such as detached and semi-detached houses and condominiums with 3+ bedrooms), the carrying costs are far above what could realistically be managed by households looking to access affordable home ownership options.

We believe that this definition and its application should focus more directly on the types of housing best suited for affordable ownership, while addressing exemptions

for a broader type of ownership choices for the as-yet to be defined “Attainable Housing Unit” definition.

If the Ministry is committed to providing a sufficient incentive for private sector developers, we would propose:

- Increase the annual accommodation costs threshold to a minimum of 40%, up from 30% as proposed; and
- Limit the development-related charge exemptions for Affordable Housing Units in the ownership stream to a maximum of 2 bedrooms, while offering a broad-based exemption through the forthcoming Attainable Housing Unit definition.

Further Comments - Attainable Residential Units

It is our understanding that the legislative framework introduced through the *More Homes Built Faster Act, 2022*, envisions a separate definition governing municipal development-related charge exemptions for “Attainable Residential Units”. A formal definition is still forthcoming, and we await such consultations.

GOHBA has consistently supported the principle of municipal development charge related exemptions for attainable housing. We remain confident that a carefully constructed definition for “Attainable Residential Units” can have a much greater impact for incentivizing private sector home builders to deliver a greater and broader range of housing choices that Ontarians can afford to rent or buy.

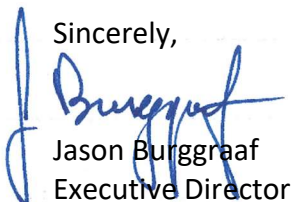
As the Ontario Government moves forward with the implementation of the measures introduced through the *More Homes Built Faster Act*, we encourage the MMAH to also consider the recommendations offered in this submission to inform their efforts regarding exemptions pertaining to “Attainable Residential Units”.

We strongly advise continued and direct engagement with GOHBA, OHBA, and our fellow municipal HBAs across the province to ensure that our sector is empowered to deliver badly needed, attainable housing supply at a price point that many more families can afford.

Thank you for the opportunity to provide comments on the government’s proposals.

We are pleased to answer questions or provide further information as requested.

Sincerely,



Jason Burggraaf
Executive Director

October 16, 2023

Memorandum to: Jason Burggraaf, Executive Director
Greater Ottawa Homebuilder's Association (GOHBA)

From: Alex Beheshti, Consultant
Diana Petramala, Director
Altus Group Economic Consulting

Subject: GOHBA Affordable Housing ERO 019-7669

Our File: P-7119

Altus Group Economic Consulting was retained by the Greater Ottawa Homebuilder's Association ("GOHBA") to provide policy context and statistical information related to the province's affordable housing ERO (019-7669) posting. GOHBA would like to understand what the definition of affordability would be in the City of Ottawa once this regulation comes into effect.

BACKGROUND

Bill 23, *More Homes Built Faster Act*, which received Royal Assent in October 2022. Bill 23 created section 4.1 in the *Development Charges Act* ("DCA"), which would exempt affordable housing units from municipal development-related charges ("MDRCs"). However, despite receiving Royal Assent, section 4.1 was reserved (held back) under proclamation, which it has not received to date. DCA section 4.1 currently has no force or effect at the time of this memo.

Key to implementation and actualization of section 4.1 was a 'market bulletin' that the Ministry of Municipal Affairs and Housing ("MMAH") was supposed to release defining the 'average market rent' or 'average purchase price' that would be deemed affordable for the purposes of the MDRCs exemptions. However, a draft of this was never released, nor any indication as to its composition or components were ever provided publicly.

In ERO (019-7669), the province is proposing to amend section 4.1 of the *Development Charges Act* ("DCA") to change the definition of an affordable residential unit for the purpose of discounting and exempting these units from MDRCs.

The current definition states:

- 4.1 (2) A residential unit intended for use as a rented residential premises shall be considered to be an affordable residential unit if it meets the following criteria
1. The rent of the residential unit is no greater than 80 per cent of the average market rent, as determined in accordance with subsection (5)...
- 4.1 (3) A residential unit not intended for use as a rented residential premises shall be considered to be an affordable residential unit if it meets the following criteria

1. *The price of the residential unit is no greater than 80 per cent of the average purchase price, as determined in accordance with subsection (6)... (emphasis added)*

On September 28th, 2023, the province released ERO 019-7669 - *Changes to the definition of an "Affordable Residential Unit" in the Development Charges Act, 1997 for the purpose of municipal development-related charge discounts and exemptions*. In the posting, the province stated:

The proposed new definition would be based on the existing definition of affordable housing in the Provincial Policy Statement (PPS), 2020, which considers local income in addition to market prices. The proposed new definition would consider the housing costs that are affordable for households that, in the Minister of Municipal Affairs and Housing's opinion, are in the 60th percentile of gross annual income in the applicable local municipality.

, In effect, this new ERO is aligning the requirements for affordable housing in the DCA with that found in the PPS.

The new DCA definition requires an application of a lesser of approach between a market-price based and income-based analysis of housing costs to households for ownership and rents.

For rental housing, where the rent is no greater than the lesser of,

- i. *the income-based affordable rent for the residential unit set out in the Affordable Residential Units bulletin, as identified by the Minister of Municipal Affairs and Housing, and **(income approach)***
- ii. *the average market rent identified for the residential unit set out in the Affordable Residential Units bulletin. **(market approach)***

*In identifying the income-based affordable rent applicable to a residential unit, the Minister of Municipal Affairs and Housing shall, **(income approach specifics)***

- a. *determine the income of a household that, in the Minister's opinion, is at the 60th percentile of gross annual incomes for renter households in the applicable local municipality; and*
- b. *identify the rent that, in the Minister's opinion, is equal to 30 per cent of the income of the household referred to in clause (a).*

For ownership housing, where the price of the residential unit is no greater than the lesser of,

- i. *the income-based affordable purchase price for the residential unit set out in the Affordable Residential Units bulletin, as identified by the Minister of Municipal Affairs and Housing, and **(income approach)***
- ii. *90 per cent of the average purchase price identified for the residential unit set out in the Affordable Residential Units bulletin. **(market approach)***

In identifying the income-based affordable rent applicable to a residential unit, the Minister of Municipal Affairs and Housing shall, (income approach specifics)

- a. *determine the income of a household that, in the Minister's opinion, is at the 60th percentile of gross annual incomes for households in the applicable local municipality; and*
- b. *identify the purchase price that, in the Minister's opinion, is equal to 30 per cent of the income of the household referred to in clause (a).*

MARKET PRICE AND INCOME ANALYSIS

While the province has not provided a draft copy of its 'Affordable Residential Units bulletin' referenced in the new definition of affordable housing it has, in the past, published PPS Affordable Housing Tables that provide the rents and ownership costs that would meet the criteria outlined in the new ERO. These estimates are available by Regional Market Areas.

All statistical information that is provided in this section of the memo is taken from the province's PPS Affordable Housing Tables 2018 to 2022 for the City of Ottawa.

Affordable Ownership

Figure 1 provides an analysis of affordable house prices between the Income Approach and Market Price Approach for the City of Ottawa (as defined in the ERO and presented in the specified in the PPS Affordable Housing Tables) and proposed new definition for affordable ownership in the ERO, with the lesser of result being highlighted in each column for each year.

In 2018 and 2019, the lesser value was Market Price, which was approximately \$30,000 below that of the Income approach. The average home for sale in Ottawa was affordable to a household making the 60th percentile of income during that time. Beginning in 2020, the lesser value was determined by the Income Approach, with the wedge between market price and what a household at the 60th percentile could afford reaching about \$140,000 in 2022, the latest available year of data.

Figure 1

Affordable Housing Price Comparison, Ownership, City of Ottawa 2018-2022

Year	Income Approach		Market Price Approach		Income vs Market Difference
	Income 60th Percentile Household (a)	Affordable House Price (b)	Average Market Price (c)	90% Purchase Price (d)	(b) - (d)
2018	109,800	389,000	395,347	356,000	33,000
2019	111,800	396,600	408,909	368,000	28,600
2020	112,600	409,100	476,197	429,000	(19,900)
2021	116,500	428,600	586,614	527,953	(99,353)
2022	134,800	463,700	670,900	603,800	(140,100)

Source: Altus Group Economic Consulting based on Ministry of Municipal Affairs and Housing Provincial Policy Statement Housing Table 1 & 2, 2018-2022

It is important to note that the large jump in income for households between 2021 to 2022 is due to the new census being completed and that data being released. Income leaps following census years are normal and expected. In interval years, income is adjusted by the consumer price index ("CPI"), which does not account for changing economic conditions or composition of households within a city that may affect the income of households at a particular percentile. There are no potential major fixes for this given the limitation in data availability.

Affordable Rent

Figure 2 provides an analysis of rent prices between the Income Approach and Market Price Approach for the City of Ottawa specified in the PPS and proposed new definition for affordable ownership in the ERO, with the lesser of result being highlighted in each column for each year. Note, average market prices by bedroom are available in the Appendix in Figure 3.

Unlike in the GTA, the Market Price Approach has consistently been the lesser-of the two approaches over the past five years in the City of Ottawa. Although the gap between approaches narrowed between 2018-2021, with the 2022 census reset, the gap has again widened where the Income Approach for households at the 60th percentile continues to be larger than the Market Price Approach.

It is important to note that in the analysis for household income, the specific methodology required by the province looks at 'renter households' and not 'all households' as the previous ownership modelling required. This explains the differences in household income between the tenure type analysis.

Figure 2

Affordable Housing Price Comparison, Rental, City of Ottawa 2018-2022

Year	Income Approach		Market Price Approach	Income vs Market Difference
	Income 60th Percentile Household (a)	Affordable Rental Price (b)	Average Market Rent (c)	(b) - (c)
2018	60,400	1,510	1,176	334
2019	61,500	1,540	1,282	258
2020	61,900	1,550	1,359	191
2021	64,000	1,600	1,404	196
2022	85,100	2,130	1,462	668

Source: Altus Group Economic Consulting based on Ministry of Municipal Affairs and Housing Provincial Policy Statement Housing Table 3 & 4, 2018-2022

Finally, it's also important to note that average market rent ("AMR") is calculated by aggregating both vacant and occupied units. Occupied units do not reflect actual rents a new renter would face in today's market if they were searching for a home. Rather, occupied unit prices reflect the amount of rent paid by existing tenants, which can skew significantly below that of a vacant home that is available to rent. Oftentimes, affordable housing that is rated at 100% AMR this is significantly cheaper than "real" or "vacant unit" market rent as a result of AMR being a blended mix of aforementioned rents.

CONCLUSION

Given the high level of incomes for households in Ottawa, the Income Approach has consistently been larger than the Market Price Approach. Moving the floor on the Market Price affordable definition from 80% average market price to (100%) average market price provides a higher affordable rent.

However, on the ownership side, moving from 80% market price to the Income Approach, which has been lower than the 90% Market Price Approach for the last 3 years, means there is a steeper requirement for this form of housing to qualify for MDRCs.

APPENDIX

Figure 3

Affordable Housing Price, Rental, by Bedroom, City of Ottawa, 2018-2022

Year	Bachelor <i>Dollars</i>	1 Bdr	2 Bdr	3 Bdr	4+ Bdr	Avg Market
2018	881	1,088	1,307	1,548	2,528	1,176
2019	933	1,178	1,416	1,667	3,452	1,282
2020	1,000	1,244	1,524	1,752	**	1,359
2021	1,059	1,280	1,557	1,811	2,822	1,404
2022	1,122	1,348	1,633	1,756	**	1,462

Note: ** Data suppressed to protect confidentiality, not statistically reliable or not available

Source: Altus Economic Consulting based on Ministry of Municipal Affairs and Housing Provincial Policy Statement Housing Table 4, 2018-2022 & CMHC Rental Market Survey