



Bayview Group
108 Chestnut Street
Toronto, ON M5G 1R3
www.bayviewgroup.com

Reply To:
Sameer Gulamani
T: 416-597-6340

E: sameer.gulamani@bayviewgroup.com

October 3, 2023

Hon. Paul Calandra
Ministry of Municipal Affairs and Housing
17th Floor
777 Bay Street
Toronto, ON M5G 2E5

VIA ONLINE SUBMISSION AT ERO.ONTARIO.CA

RE: 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.

Dear Honourable Minister Calandra,

We are owners and developers of multi-family apartment buildings, with a current development pipeline of over 2500 apartment units in Toronto and Ottawa.

We applaud the Ontario Government’s recent announcement to amend the definition of an “affordable residential unit” for the purpose of exemptions from development charges.

For the amendment to have any effect it must incentivize the development of new affordable supply. It must do this at a time when building any supply, even for full market rent, is increasingly difficult to underwrite economically. Feasibility for new apartment construction is severely constrained by increased construction costs, high interest rates, and municipal, provincial and federal taxes. The total cost to build a new apartment unit in Ottawa, for example, increased from approximately \$250k per unit in 2016, to over \$450k in 2022. We know of several rental and condo projects that have been cancelled this year during the interest rate tightening cycle.

In Ottawa, we estimate that the proposed exemption from development charges will result in approximately 5% total savings on the development cost of additional units. While this is helpful, we must also weigh it against the “eligibility cost” of qualifying for the exemption. A rational housing developer will not go for a 5% development cost savings if it would also have to discount more than 5% of its revenue in order to qualify.

The proposed amendment unduly constrains eligibility because (a) Average Market Rent as measured by CMHC is generally lower than actual market rent and; (b) household income required for 2-bedroom units is higher than for 1-bedrooms. We respectfully submit the following suggestions with respect to the proposed amendment.

- 1) **“Average Market Rent” (AMR) must be measured for new apartments built in the last 1 – 2 years or deleted from the definition.**

CMHC market data does not adequately stratify market rents based on the age of the apartments. As the CMHC surveys are published annually, they are six months out of date on average. As rent-control was lifted in 2018, the 2005+ strata data averages from mostly rent-controlled buildings that are not comparable to the rentals built after 2018. The apartment development industry itself does not rely on CMHC data to forecast rent upon completion. Instead, professional appraisers are engaged to measure the average market rents of new units in today’s competitive marketplace.

In almost every major market in Ontario, average market rent as defined by CMHC statistics will be significantly less than the actual market rent for new units. For example, CMHC indicates that average market rent in Ottawa for buildings completed after 2005 is \$1934 for one bedrooms and \$2,404 for two bedrooms.¹ In reality, market rent for newly built 1-bedroom apartments is between \$2000 - \$2200 per month and new 2-bedroom apartments rent for between \$2750-\$3000 per month.

We recommend that the AMR criteria for eligibility either be eliminated or based on fair market value appraisals that can be provided by the developer for each project seeking

¹ CMHC Rental Market Survey, Ottawa, 2022, Table 1.2.2

the exemption. Rent appraisals may be independently verified by the Ontario government's own qualified expert reviewers. Precedent for this approach has already been successfully established by CMHC's RCFi program.

2) Differentiate between 1 and 2 bedroom affordable units:

It should be recognized that a two or three-person household's income and housing needs will be different than a one-person household's. In Ontario, 59.2% of households have only 1 or 2 people, while 30.9% have 3 or 4 people.² Meanwhile, households with children earn over 44% more than households without children.³

Accordingly, the household income of the users of a 2-bedroom apartment should be expected to be more than the users of a 1-bedroom. Rather than using 30% of 60th percentile of household income for all units, we recommend using an income-based criteria that is 30% of 50th percentile of median household income for one-bedrooms, and 30% of 70th percentile of median household income for two-bedrooms. Doing this ties the rental rate to income affordability, while also having a meaningful impact on the economics of the development.

3) Clarify applicability.

It takes several years to develop new units. The proposed amendment should clarify that the development charge exemptions are available to any development that has not already paid its development charges and allowed the 90-day appeal period to expire pursuant to section 20 of the *Development Charges Act*. This will ensure that rental developments that are currently under construction and nearing completion can still have time to enter into affordability agreements with their municipalities and get the benefit

² Statistics Canada. 2023. (table). Census Profile. 2021 Census of Population. Statistics Canada Catalogue no. 98-316-X2021001. Ottawa. Released March 29, 2023.

³ Ibid.

of the development charge exemption. Clarifying this will ensure that this legislation can quickly create units that are bound by affordability agreements.

Once again, we applaud this government's efforts at helping to increase housing supply. Our group is available to you if you have any follow-up questions on our points and recommendations.

Respectfully yours,



Sameer A. Gulamani

Managing Director, General Counsel
Bayview Group