

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.

The Town of Caledon appreciates the opportunity to comment on the Ministry’s proposed amendment to the *DC Act* (to change the definition of an affordable residential unit for the purpose of discounting and exempting these units from municipal development-related charges).

The Town thanks the Ministry for acknowledging the concerns raised by municipalities around the current (Bill 23) definition and its impact on municipal finances. In many municipalities, the definition would lead to high end market housing being considered affordable and being subsidized by taxpayers, leading to a huge challenge to sustainable growth and maintenance of service levels.

The Town supports the Ministry’s proposal to base the new definition on the one in the Provincial Policy Statement (PPS), 2020, which considers local income in addition to market prices. Caledon ownership home prices are significantly higher than those in other parts of the Region of Peel and other municipalities in the GTA. In addition, Caledon households generally have higher incomes than other parts of Peel and the GTA. However, increases in income-based affordability thresholds are outpaced by market-based affordability thresholds.

Caledon ownership home prices are out of reach to most moderate-income households.

- Under the PPS income-based definition, 5% of new ownership units in 2022 were affordable. But due to Caledon’s higher resale prices, under the Bill 23 definition, 91% of units would have been considered affordable.
- Under Bill 23, units priced at **\$1,646,390** for a dwelling, would have been considered affordable, which would have correlated with the purchasing capacity of the highest income households (Income Decile 9 and 10).
- The gap between the income-based and market-based definitions of affordability has grown dramatically: from \$202,847 in 2018 to \$996,929 in 2022.

These factors and our analysis indicate that for Caledon (and other municipalities), the proposed definition will be more realistic and reflective of affordability than the current Bill 23 definition.

Town Comments on the proposed definition:

1. Applicable local municipality

The market area will play a decisive factor for municipalities such as Caledon.

- Using the proposed income-based affordable purchase price (for 2022), Caledon’s affordability threshold using Caledon’s local household income data (for low and medium-income households) would have been

\$649,461 (leading to **5%** of housing considered affordable which is very realistic for Caledon). And if using Regional household income data, it would have been **\$524,097** (leading to **31%** of housing considered affordable)

- Using the 90% of average purchase price (for 2022), Caledon's affordability threshold would have been **\$1,852,189** across Caledon's market area (leading to **91%** of housing considered affordable). And it would have been **\$1,054,765** across the Regional market area (leading to **73%** of housing considered affordable).

Recommendation

The Province should provide further clarity on market area to be considered in the definition under "applicable local municipality". The Town recommends that flexibility be allowed in application of local versus regional market area, as all municipalities may not be faced with the same challenges as Caledon.

Moreover, for rental housing, Caledon does not have sufficient inventory of purpose-built rental housing and has to rely on the Region of Peel rental data. In this aspect too, flexibility in the interpretation of market area should be offered to municipalities that are still pursuing rental growth and are relying on regional data rather than the local data.

2. Difference between 80% (Bill 23) and 90% (proposed) of average market values

The market test proposed in the definition is increased from 80% of average market rent/purchase price under the Bill 23 current definition to average market rent and 90% of the average market purchase price. The Town's analysis indicates that for ownership units the results are quite similar. The biggest difference is that more units are considered "affordable" when going from 80% to 90% affordability even though the majority of these units are not affordable to low and medium-income households in reality.

Recommendation

The Town recommends continuing with 80% of average purchase price as opposed to the proposed 90%.

3. Affordability calculation across or within housing typologies

The definition does not clarify if affordability will be calculated against the aggregate average annual housing value across all housing typologies or the average annual value within each typology.

- Using averages disaggregated by/within housing typologies or size for Caledon, in 2022, would have led to **80%** of housing being considered

affordable) as opposed to across housing typologies (87% of new housing considered affordable, and with realistic numbers for affordable % of singles, semis, towns and apartments).

- Moreover, only small residential units may be priced at a point where they would qualify for the affordable residential units exemption. Establishing affordability using averages across all unit types may not help address the problem of “missing middle” housing, which would typically be geared towards families.

Recommendation

The Town recommends that the definition be applied using averages disaggregated by/within housing typologies or sizes.

4. Provincial Affordable Residential Units bulletin

The Town awaits the bulletin to better understand the data sources and applicability of the definition. Data transparency, replicability and predictability are critical for successful implementation of this legislation. The Town recommends that the Province consult with municipalities, housing providers, non-profits prior to finalizing and adopting the bulletin. The following parameters require further analysis:

- Clarity is required as to whether the “average purchase price” includes resales as well as new unit sales. If it includes both, then the scope of the exemptions could be very broad.

Recommendation

The Town requests that the provincial bulletin should provide clarity on average purchase price to help with data analysis.

- In relation to “purchase price resulting in annual accommodation costs equal to 30 per cent of the income of the household”, a definition of accommodation costs is not provided in the legislation and will be informed by the Minister’s bulletin. Housing costs need to reflect representative costs of home ownership, including typical mortgage costs, property taxes, and property insurance, as well as condominium fees, where applicable.

Recommendation

The Town recommends that the bulletin should clarify the basis for calculating accommodation costs and include all the applicable costs as mentioned above.

- Condominium and rental developers must be able to accurately pinpoint the rents and sale values they will be required to provide at the time of building

occupancy, and for rental developers they must be able to understand the rents they might be able to charge over the entire affordability period. The use of the CMHC Average Market Rent to calculate both sale values and rental rates has historically been a useful metric as the annual increase was typically predictable with decades worth of data available to trend future increases. An income-based approach is effective for assessing the affordable rates in the current year, but less so for projecting into the future. Approaches could include using a census base year and indexing the increase each year. A process for annual rental increases must also be developed.

Recommendation

The Town recommends that any methodology chosen should be easy to interpret, predictable, and transparent to the development industry and to municipalities. It should also be replicable, so it can be used for internal purposes by municipalities.

- The proposed definition of the “affordable residential units bulletin” does not imply an annual publication. Rapid fluctuations in market prices would not be reflected in annual bulletins.

Recommendation

The Town requests that the Province publish the bulletin on a semi-annual or quarterly basis, rather than annually, to account for changes in the market.

Additional Comments

5. Implementation

The Town recommends that in parallel to these legislative changes, the Province support municipalities in developing a consistent administrative and implementation process. This would incorporate affordability parameters in the review and approval processes, including legal agreements and different models of administration and maintenance of affordability over years (government managed/developer managed/non-profit managed). Caledon supports the goal of improving support to affordable housing however, such administrative costs will add to municipal operating expenses. The Town reiterates that providing the D.C., C.B.C., and parkland exemptions will continue to place financial burdens on greenfield growth municipalities such as Caledon that have not had the opportunity to build reserves or plan for future parkland.

6. Additional residential units

Recent legislation has established the importance of gentle densification. Bill 23 introduced as of right permissions for additional residential units (eg. second

units, garden suites) and exempted these from development related charges. Although these units would be permitted to be calculated towards municipal housing stock against housing pledge targets, they are captured well in rental inventories as they are not classified as purpose-built rentals. The Province should provide a clear framework to monitor the affordability of additional residential units, which could be very useful towards growth monitoring for housing pledges, affordability and targets.

7. Alignment of new definition with provincial policies and housing targets

The Town takes this opportunity to highlight again that the proposed Provincial Planning Statement (PPS 2023) does not carry forward policies (from the current PPS 2020) which direct planning authorities to accommodate an appropriate affordable and market-based range and mix of housing types, establish and implement minimum targets for the provision of housing that is affordable to low and moderate income households, and to align plans with housing and homelessness plans.

Concurrent to this proposed definition of affordable units, the Province should continue to include previous policies relating to accommodation and targets for affordable housing using an income approach; as well as reference to affordable housing in the new definition of “housing options”. Removal of the direction to establish and implement affordable housing targets will lead to challenges in determining the appropriate amount of affordable housing and uncertainty for service managers and local municipalities as to how to plan and fund affordable housing as well as to project growth revenues.

The Town recommends inclusion of affordable housing policies, direction to establish targets, and an income-based definition of affordable housing in the PPS 2023. Moreover, as the Town has previously commented, the Province should provide stronger policy direction to assist municipalities to leverage private market land use approvals for supply of affordable housing.

The Province has set a goal of building 1.5 million new homes in ten years. The Town requests the Province to further establish clear income-based targets for affordable and purpose-built rental housing within these homes and within individual municipal (pledge) targets; and specify objectives of meeting local housing needs and infrastructure capacities to create complete communities.