

Expanding Affordable Housing through Inclusionary Zoning in the City of Toronto

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Abstract—Reasonably priced and well-constructed housing must be an integral and element supporting a healthy society. The absence of housing everyone in society can afford negatively affects the people's health, education, ability to get jobs, develop their community. Without access to decent housing, economic development, integration of immigrants and inclusiveness, the society is negatively impacted. Canada has a sterling record in creating housing compared to many other nations around the globe. Canadian housing gets support from a mature and responsive mortgage network and a top-quality construction industry as well as safe and excellent quality building materials that are readily available. Yet 1.7 million Canadian households occupy substandard abodes. During the past hundred years, Canada's government has made a wide variety of attempts to provide decent residential facilities every Canadian can afford. Despite these laudable efforts, today Canada is left with housing that is inadequate for many Canadians. People who own their housing are given all kinds of privileges and perks, while people with relatively low incomes who rent their apartments or houses are discriminated against.

To help solve these problems, zoning that is based on an "inclusionary" philosophy is tool developed to help provide people the affordable residences that they need. No, thirty years after its introduction, this type of zoning has been shown effective in helping build and provide Canadians with a houses or apartments they can afford to pay for. Using this form of zoning can have different results +depending on where and how it is used. After examining Canadian affordable housing and four American cases where this type of zoning was enforced in the USA, this makes various recommendations for expanding Canadians' access to housing they can afford.

Keywords—Affordable Housing, Inclusionary Zoning Low-Income Housing, Toronto Housing.

I. INTRODUCTION

VARIOUS fair housing advocates assert housing people can afford is closely correlated with how successfully our society provides for its human members. Researcher Jackson Andrew states housing is a necessary component of a person's well-being and overall health [1]. A well designed housing system contributes to the degree to which as individual can retain and enhance its autonomy and sense of self-worth.

Canada is one of the "best-housed" countries in the world, which is supported by a well designed housing infrastructure, a sophisticated development sector, effective access to safe building materials, and lots of different types of public-subsidized programs designed to provide fair housing. Despite these advantages, 1.7 million Canadian households occupy

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inadequate or too-costly residences. Housing in Canada has traditionally been financed through private market investment and public sector support to enable people to live in decent housing they might not otherwise be able to 100 per cent afford [2]. For the past one hundred ten years Canada's federal and provincial governments have committed to providing people with housing that they can afford. However, Hulchanski asserts that the Canadian housing system favors people who own their homes. Meanwhile, people who have limited incomes and rent are discriminated [3]. Most residences that are rented have private landlords; publicly-subsidized residences amount to only five percent of the total available [4].

II. METHODOLOGY OF RESEARCH

Inclusionary housing is complicated research area which employs great deal of multi-disciplinary issues in it; plenty of journals, articles, books, government documents are written on it. Case study is the most common method dealing with inclusionary researches, engaged in this research. The structure of this research is first to present the general overview of Canadian housing system through literature. Second it tackles the case of Toronto in particular through statistics and literature. Most statistics will be extracted from CMHC (Canadian Housing Mortgage and Corporation) and other related municipal, provincial research sources. After assessing the literature and statistics, related case studies will be revealed. The aim is to generate suitable inclusionary guidelines for adaptable housing for City of Toronto, based on case studies presented.

III. CANADIAN HOUSING SYSTEM

A. A System that Favors Homeowners

About eighty-seven percent of all Canadians, as stated by the 2006 census, do not live in inadequate residences. Sixty-six percent of households in Canada own their own homes. They enjoy the peace of mind that having security in terms of their finances and are able to grow their assets. However, the remaining thirteen percent (4.6 million) of Canadians do not live in adequate residences that they can afford. Eighty percent of these people are renters. And thirty percent of these tenants spent upwards of forty percent of their household income on rent back in 2006.

House owners and people who show potential ability to own their residence get help from governments (provincial and federal) in the form of subsidies and other financial perks (they get arrangements like paying lower minimum down payments and using RRSP to purchase their house or house-

to-be) [5]. Many metropolitan areas are characterized by very low numbers of affordable residences available for rent.

B. The Role of Federal, Provincial and Municipal Governments

In the Canadian context, what the national government's duties are in terms of providing residences to its citizens is found to be by this researcher to occur on a much smaller scale than what the U.S. federal government does. In fact, there are critics who say the Canadian national government should scale back its efforts in terms of housing even more than what it does at present and shift its responsibilities to provincial governments [6].

Governmental responsibilities have shrunk over the past generation. Now, in Canada, the National and provincial governments manage housing instead of building more. [7] Now affordable residences get built by partners such as private, community-based organizations. So-called "third sector" groups also have a role to play in this scenario.

Public residential policy-making only came into existence as late as 1938 and never was significantly implemented until eleven years had passed. In 1949 Canada's national and province governments decided they were going to share responsibilities for residential shortfalls in a ratio of 75 / 25. Thus, did public housing for people with low incomes and subsidies to help them come into existence. [8].

NHA built between 1964 and 1975 200,000 houses and apartments [8]. The building programs that accomplished this feat were: "assisted home ownership", "neighborhood improvement", "housing rehabilitation," "Native American residential construction," "non-profit" and "cooperatives." The national government liaised directly with people involved in the non-profit and co-operative building projects. Individual owners were responsible for rehabilitating private houses and apartment buildings. Local towns and cities provided housing through the "Neighborhood Rehabilitation Program" and the "Land Assembly Program."

Local city and town governments play big roles in building or rehabbing affordable residences due to their tradition responsibilities and powers as well as their abilities to effect and affect pertinent regulations pertaining to land use and zoning as well as taxing properties and raw land developing, [9].

C. Conclusion

In spite of a variety of housing programs supported by federal, provincial government in Canada, the crisis for affordable housing still remain alarming. As Bradford argues that new programs are needed to address the growing gap between the cost of housing and what households can afford. He also suggests that governance structures should allow for the participation of a wider range of players in addressing this issue [10].

IV. THE AFFORDABLE HOUSING CHALLENGE IN TORONTO

A. A Brief Look at the Market

The Greater Toronto Area (GTA) comprises the biggest and

most populous Canadian metropolitan/suburban entity; this urban center is the hub of business in Canada.

The largest percentage of people who need affordable housing is also in Toronto. That would be about 19% or, approximately 475,000 people. 70% of these folks rent.

During the thirty years that ended in 2001 renters and owner evenly split tenure in Toronto [11]. Then, suddenly, in 2001, 51% were owners. By 2006, 54 percent of Toronto households were owned [12]. The income disparity between renters and owners continues to grow, which is alarming in Toronto, where so many people rent. Renters' average income was half or less what homeowners earned in 2005. The difference was \$32,700 - \$68,300 (Toronto Community Foundation, 2008). Since average incomes were down 11.7 percent over the past 15 years while median rents were twice or more as high, that meant 100,000 Toronto households that paid rent had to use half or more of their income to do so in 2005 [12].

B. Historical Background to the Affordable Housing Problem

Private and public rentable residence construction was cut way back in the Eighties and Nineties due to financial problems experienced by national and provincial governments. Just about all rentable residences constructed in Canada were paid for by subsidies governments contributed; lowered government outlays put a crimp in the rate at which new rentable residences and socially-subsidized residences got built [12]. Then in 1993, the national government completely cut these funds. Responsibility for so-called "social housing" was put upon provincial governments. Unfortunately, with the new responsibility came no concomitant subsidy (Hackworth, 2008). The province of Ontario subsequently shifted its responsibilities for providing residences to towns and cities, but not funding to finance these new responsibilities. Thus, amazingly enough, there was hardly no new non-profit residential construction anywhere in the province of Ontario in the period 1996 - 2000. But in 2000 the Supporting Community Partnerships Initiative (SCPI) created under the National Homelessness Initiative began to be paid for by the national government. SCPI was the predecessor of the Homelessness Partnership Initiative (HPI) that now funds transitional residential construction. The national government, then, in 2001, entered the residential game again in a full capacity; it said it was going to fund the Affordable Housing Program [13]. The national government signed an agreement, in 2002, with the province of Ontario; the province was to equally provide funds for affordable housing within its borders.

C. Section 37, Ontario Planning Act

In Toronto practices that are inclusionary are based on incentives that are mandated by section 37 in Ontario's Planning Act (see Section 37 sidebar). The idea is about facilitating the construction of residences people can afford. Toronto's Official Plan (section 3.2.1), offers nothing comparable, except for large facilities [14].

Section 37 allows cities and towns that have the proper

Official Plans to mandate zoning bylaws that authorize building taller or more dense developments if they include such community improvements as "facilities, services or matters." section 37 agreements bind later landlords of the property. The improvements have to be detailed by the bylaw. Some of these additional improvements might be parks, outdoor art, childcare centers or street beautification [14]. Or the existing site could be deemed to be improved by building more apartments or residences everyone could afford. (City of Toronto, 2007a: section 5.1.1; City of Toronto, 2007b). The money to pay for these improvements must be explicitly specified. Should city government and developers agree, the money could be used through specified funding vehicles? This could be done by following the example of "The Capital Revolving Fund for Affordable Housing." Community improvements could be built on sites or elsewhere near the locality [14].

D. The Issue

Section 37 seems to be beneficial for large developments, where in more than 5 hectares lands 20% of the project will be allocated to affordable housing, or developer would give portion of land to City for affordable housing purposes [15]. The section 37 is not as successful for smaller, since most of the smaller lands are within the inner-city and urban areas, the developments within these areas will be exempted from affordable housing policies (section 37). In result the demographic of city, in terms of mix-used with affordable housing erected, becomes face and segregated; affordable housing projects mostly taken place in suburbs where the development land are bigger than 5 hectares.

In addition section 37 does not specify the direct guidelines on each project, usually it becomes subjective based on the local municipality, and developer involved in the project. Thereby, this lack of specifically brings the issue of section 37 is overall beneficial to both parties involved in the project [15].

V. CASE STUDIES

Since the U.S is pioneering compare to Canada in Zoning Inclusionary policies, three case studies are chosen from successful U.S. examples.

A. Montgomery County, Maryland, Washington, D.C

Montgomery County was built up in the period 1965-1975. Costs of residences got too expensive for many inhabitants of this county. There was a push to find ways to help them afford decent housing. In 1974, the Moderately Priced Dwelling Unit (MPDU) ordinance was passed by the County. This became the first "Inclusionary Zoning" program in the United States. It also happens to be the most productive. It mandated that 12.5 to 15% of built residence had to be affordable if the development in question had more than fifty 50 residences. The MPDU applied to zones that provided less than an acre per residence, larger developments got an exemption from having to build residences everyone could afford. Developers who did build residences everyone could afford received a

reward of a "density bonus" of up to 22 percent. The percentage of residences affordable by everyone is associated with how many "density bonus units" developers can accumulate on their building sites [16].

The Montgomery County incentive project targets people or families which earned 65 percent or less of an income of \$82,800 in the year 2000 fiscal year. This figure depends on the number of people in a family. The executive of the county sets the income allowed. This now ranges from \$33,500 for an individual [17, 18]. A family of five can have an income of \$52,000. People applying for this program are not allowed to have been owners of any property for the five years previous to the application. Priority is given to current residents of Montgomery County. Should a particular developer not be able to sell or rent an affordable unit in 90 days, she or he can rent or sell it to anybody.

Inclusionary Zoning requirements for rentals remain in force for twenty years. Housing in which owners live are subject to regulating for ten years. Affordable housing owners may sell their dwelling before ten years are up. But there are limitations as to the price they can set. Their resale asking price must not be higher than what the original price plus Consumer Price Index (CPI) cost-of-living outlays were [19].

It is a given that units that are affordable generally are endowed with fewer amenities than other residences in the same development [20].

In Montgomery County some 11,500 residences were built by 2003. Over 1,600 of these got bought by the County and /or nonprofits. This was done to rent them to lower-income people. This, despite initial doubts, did prevent residential construction; in fact, the County has one of the most robust residential markets in the United States [21].

B. San Diego, California

An inclusionary housing requirement was passed in the City of San Diego in 1992; these requirements contained the application of IZ in North of Future Urbanizing Area (FUA), a developing section of the city with no rental or affordable housing. Furthermore, requirement reserves 20 % of all new rental and for-sale dwelling units for households earning 65% of the AMI (Area Median Income) [22]. The ordinance requires all residential developments of ten or more units to set aside 10 % of the units as affordable to households at or below 65 % of the AMI for owner-occupied units.

The program decided not to offer off-sets to developers, since they can easily collect the cost by pre-selling the units in market [22]. The large number of on-site affordable units created under the FUA ordinance is attributable to the absence of any in-lieu fee option. It targets households at or below 100 % of the AMI for owner-occupied units. The new Inclusionary zoning ordinance exempts a residential development or a portion of a residential development that is sold to households earning less than 150 % of the AMI [22].

Both rental and for-sale units are originally required to stay affordable for 55 years. The new citywide ordinance requires rents to remain affordable for 55 years. For sale units do not have a required period of affordability, but the ordinance

states that equity from the sale of the affordable units should be split between the city and the homeowner. The city devised an incremental system by which equity is shared. A homeowner is entitled to a larger share of the equity for each year of ownership. For example, if a unit is sold after two years, the owner is entitled to 21 % of the equity, whereas a unit sold after ten years entitles an owner to 69 % of the equity [22]. All funds collected by the city from the shared equity agreement are deposited in the Inclusionary Housing Fund to support affordable housing projects. The city also entitles to the first right of refusal on any affordable for-sale unit.

The ordinance has generated 1,200 affordable units in the FUA since its adoption. According to San Diego senior planner Bill Levin, the pace of development in the FUA did not slow after the passage of the Inclusionary zoning requirement. This provided the development community with tangible assurance that Inclusionary zoning does not have a negative impact on their industry. San Diego's Planning Department does not anticipate that the citywide ordinance will produce many on-site affordable units as the FUA ordinance because the city wide ordinance provides developers with the option to pay an in-lieu fee [22]. However, due to the strong housing market, planners projects that the in-lieu fee will not be able to keep pace with the price of building on-site. As a result, in paying an in-lieu fee being a less expensive option than building units on-site.

C. San Francisco, California

Great number of communities in San Francisco Bay is known for their advanced inclusionary zoning programs for affordable housing. Around 45% of IZ ordinances in San Francisco area need to designate 10% of units affordable; another one third of developments need to allocate 11% to 15% for affordable housing. It is common that jurisdictions change the set-aside based on the scale of project [23].

Although only one jurisdiction (Cupertino) demands set-aside for median income households, majority of IZ programs requiring set-aside for very-low income households. Furthermore, most ordinances indicate a breakdown of the share which must be reserved for each income group listed. For example, Dublin requires 12.5% affordable units being distributed 50% to moderate income units, 20% to low and 20% to very low income units [24]. In addition, rental units overall to be designated for low and very low income households.

Ordinances mostly apply to most of developments, except very small ones. Almost 45% requires to build 2 to 5 units (in some cases very small developments need to pay instead of set-aside) [24].

More than two-thirds of IZ programs offer a density bonus. There are also other bonuses, such as fast-tracking of permits, fee waivers.

All the jurisdictions revealed that some affordable units have been developed in result of IZ policies, and some mentioned that some developers paid cash or land donations in return. In total about 9153 affordable units by year 2002 has been produced from IZ policies, which are about 2.3% of total

housing units in the area [24].

VI. OPPORTUNITY THROUGH INCLUSIONARY ZONING IN TORONTO

The Greater Toronto Area intervenes affordable housing construction through subsidy programs that it administers and whose costs are shared by the government of Canada and Ontario. The dependability and continuity of funding determine the effectiveness of these programs. Over the past number of years, Toronto has spearheaded several affordable housing initiatives financed by the Federal and Provincial Government, but the number of units created is only a fraction of affordable units needed each year [25].

As addressed previously, there are no equivalent Inclusionary Zoning programs in Canada currently; though cities like Montreal, Vancouver and Burnaby have successfully used a variation of IZ through a comprehensive rezoning process for major private redevelopment sites. These programs differ from conventional Inclusionary zoning in the U.S in that they are directed at securing developable land for non-profit housing to be built with government funding rather than at obtaining below-market units constructed by for-profit developers [26].

The design of a policy is determined by the political feasibility, affordable housing needs, development pattern and many other factors. The key to success is to tailor the policy to meet local objectives. Based on experiences from case studies, this thesis makes 6 recommendations to the city of Montreal. For each recommendation, there includes a background analysis to ensure its feasibility. They are:

- 1- Adopting a mandatory program
- 2- Creating incentives for developers
- 3- Establishing specific income target
- 4- Using other housing programs to achieve deeper affordability

A. Adopting a Mandatory Program

There are two kinds of Inclusionary Zoning: voluntary and mandatory. Voluntary IZs have been less effective. Public officials who involved with them get political cover by being able to declare "We've done something!" Meanwhile developers proceed with business as usual. [27] Since these IZ projects are voluntary, the resultant reluctance of developers to participate is predictable. There are 107 jurisdictions in California that have IZ programs. Of these 101 are mandatory. These are the findings published in a Non-profit Housing Association of Northern California in 2003 [28]. The rest of the IZ programs were voluntary and fewer affordable residences got constructed under their auspices. Los Alamitos and Long Beach governments "...blame the voluntary nature of their programs for stagnant production despite a market rate boom." Under three other voluntary programs no affordable residences were constructed at all. Morgan Hill, California constructed 300 affordable residences during a twenty six year period is in reality a mandatory IZ program; Morgan Hill manages growth tightly. Developers have difficulty getting building permits unless their projects include affordable

residences.. The fifteen California jurisdictions that produce the most affordable residences--among them Santa Barbara County, Monterey County, and the City of Roseville with more than 16,000 affordable residences—all achieve affordable success stories through enforcing mandatory inclusionary requirements [29].

As with the Montgomery County case study, the "Moderately Priced Dwelling Unit" is an example of a successful IZ ordinance because it is mandatory. More and more jurisdictions are expanding their IZ building programs; they are making voluntary programs mandatory. Cambridge, Massachusetts; Pleasanton, California; and Boulder, Colorado, all did this recently. More affordable residences are getting built in those cities than previously [29]. This is indisputably because they made their IZ programs mandatory.

Toronto: In the area where land is already owned by municipal and is to be rezoned residential, the land values increase exponentially due to the change in its usage, mandatory IZ programs could work. The City of Toronto recently acquired, or expropriated a lot of land (in partnership with Government of Ontario) for residential redevelopment [30]. Toronto is requesting the renewal of these programs with the Government of Ontario. It will allocate money for acquisition / redevelopment that favors affordable residences. Residential development on such lands provides opportunity for mandatory Inclusionary program.

B. Creating Incentives for Developers

To make the Inclusionary ordinance work well, policy designers must provide clear incentives to developers. The cost-offset component of Inclusionary Zoning program gives both the public and private sectors opportunities to craft site-by-site development plans that keep housing production and profits at mutually acceptable levels [31]. This is typically realized through zoning variance (which allowing the constructions to be denser than original zoning would normally permit) Nevertheless, how to price density bonus is a challenging issue leaving for the operator. Factors such as the threshold of profitability for private developer, to which point the density could be increased, as well as the public acceptance of such an increase in density should be taken into consideration.

Increasing density offsets some of the added burden of the developers, but high concentrations of affordable housing can have a negative impact on neighborhoods, particularly those already concentrated with poverty. These neighborhoods rarely provide their residents with a full range of economic opportunities or strong public services. Affordable housing needs to be located strategically to create economically integrated communities that allow households of modest means access to a range of opportunities — from good jobs and schools to transportation and safe streets.

Yet, in a strong real estate market, property value increases so fast that it prevents the developer from committing to lower-income developments, which diminishes their profit. As developable land becomes more and more scarce, developers opt to pay an in-lieu fee or construct off-site instead of on-site

construction.

Allowing off-site construction tends to exacerbate social segregation. Constructing offsite limits both the social and economic diversity of neighborhoods and dumps low-income tenants in new pockets of poverty, which in turn, decreases the effectiveness of the social inclusion objective. Hence, the use of off-site construction must be prudent as to assure the diversity and inclusion. Particular caution must be paid in designing such a component.

In-lieu fee is set as an alternative for developers that are not willing to construct on the site, instead, they are required to contribute an amount to a fund that is used in affordable housing construction by the public sector. However, in many cities the in-lieu fees are insufficient and do not produce the resources to construct affordable housing units as in the case of San Diego. Therefore, it is more productive to require developers to construct the units themselves [32]. If in-lieu fees are deemed to be part of an Inclusionary Zoning policy, they should be set at a level comparable to the costs associated with producing affordable housing units, and this level should be regularly updated according to the market trends. Otherwise, the effectiveness of Inclusionary zoning policy could be seriously weakened.

Considerations for Toronto: Jurisdictions use IZ practices typically conduct an economic feasibility analysis to determine how to best structure an IZ policy. The analysis looks at various aspects of development — e.g., cost of land, profit margin, construction costs, and fees - and the jurisdiction's housing needs and goals. The analysis can be applied to different scenarios assessing the balance between offsets and IZ requirements with the goal of ensuring a normal overall profit margin for the developer and a reasonable impact on land costs. Jurisdictions that have structured their programs based on such analyses include: Sacramento; Boulder; San Francisco; South San Francisco; Fairfax County, Virginia; Santa Fe; and New Jersey [33].

C. Establishing Specific Income Targets

Inclusionary Zoning laws must rigidly frame income targets guided by residential goals and needs within jurisdictions. For instance, Montgomery County demands developers provide residences at 65 percent of AMI [34]. Then its housing authority buys some of those residences for families with lower incomes than that.

The income target determines how much affordable residences are going to cost to build. Developers hardly ever build residences for people with lower incomes than the amount a jurisdiction might require. Inclusionary zoning programs have historically been adopted in American communities where people needed housing they could afford. Households that earn 80 to 120percent of regional average income are eligible to own an affordable residence. Affordable rental residences are geared toward individuals and families who earn below percent of the average income in the region [35].

Considerations for Toronto: the city of Toronto that a dwelling should cost \$ 170,000 or less. For example, if an

individual or family annual gross income is \$ 46,000; their property should cost no more than \$140,000. Toronto's Inclusionary Zoning needs to help those who cannot fit to that equation, to own a home.

Individuals and families in Toronto who earn thirty percent or lower income than the average in the city really need residences that they can afford. Their rental expense should not exceed \$ 342 every month. This means, for a two bedroom apartment there is a lag of \$672--the average rent for such apartments in GTA (Great Toronto Area) is \$ 1014 [35].

D. Using Other Housing Programs to Achieve Deeper Affordability

One of the distinctive features of the Montgomery IZ program is that the County asks developers to produce units at 65 percent of AMI and then authorizes its housing authority to purchase up to a third of those units to serve even lower-income families. Allowing municipality to subsidize those units to reach even deeper affordability needs effectively bridges the gap between the most acute affordable housing need and the affordability levels at which a developer is asked to build. One of these practices is HCVP:

The Housing Choice Voucher Program (HCVP) is a rental assistance program that increases affordable housing choices for very low and extremely low income households. Typically, the local housing authority pays the gap between what the Housing Choice Voucher-holder can afford (30 percent of household income), and the cost of the private market rent (up to 110 percent of fair market rate) [35]. By placing HCV holders in Inclusionary units priced lower than market rents, HCVP saves money that, allows it to serve more families in turn. It also addresses key challenges for the HCVP program— insufficient units available for the number of voucher-holders, and discriminatory screening out of voucher holders by landlords.

California helps some of their lowest income renters find affordable housing by requiring that half of all rental units generated via Inclusionary Zoning go to Housing Choice Voucher holders. The City does this by managing the tenant selection process. The Community Development Department and Cambridge Housing Authority provide managers of Inclusionary units with their prospective tenants. The onsite manager performs credit checking and landlord history review before selections are finalized. Assuming these are in order the manager must select and accept one of the qualified tenants. As half of all units go to Housing Choice Voucher holders, California's Inclusionary zoning program regularly reaches families earning between 10 and 30 percent of AMI - their intended goal, due to great need great need among families at these lower income tiers [36].

The City of Toronto disposes and administrators many programs in the provision of affordable housing. For example the Ontario Affordable Housing Program could be integrated with IZ. The program provides financial assistance for promoters in the private sector housing market to stimulate the creation of affordable housing units. The units must be rented to moderate-income households, in municipalities with low

vacancy rates that need a significant number of new housing units to counter the shortage.

VII. CONCLUSIONS

Facing urgent affordable housing shortage and budget constraint, a new tool is needed to achieve affordable housing objectives in City of Toronto. Inclusionary zoning is the tool that is tailored to help the City of Toronto to create more affordable units while ensuring the long term social and economic well-being.

Through an examination of affordable housing market demand in City of Toronto, and three successful case studies in U.S jurisdictions this study suggests City of Toronto to use IZ, 4 recommendations have been made in accordance to case studies, literature and statistics.

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