Report to Planning and Environment Committee

To: **Chair and Members**
Planning and Environment Committee
From: **George Kotsifas, P. Eng.**
Deputy City Manager, Planning & Economic Development
Subject: **Inclusionary Zoning Project Update**
Date: **February 7, 2022**

Recommendation

That, on the recommendation of the Director, Planning and Development, the following actions be taken with respect to the Inclusionary Zoning review:

a) That the preliminary findings of the Inclusionary Zoning Review attached hereto as Appendix "C" **BE RECEIVED**; and

b) That the Ministry of Municipal Affairs and Housing **BE REQUESTED** to consider the City of London Assessment Report evaluating the potential for, and feasibility of, Inclusionary Zoning on a city-wide basis, incorporating lands outside of the Protected Major Transit Station Areas (PMTSAs) as Inclusionary Zoning eligibility areas.

IT BEING NOTED that the Minister may prescribe the City of London through *Planning Act* section 16(4) so that the area where Inclusionary Zoning may potentially be applied incorporates lands outside of the designated PMTSAs.

IT BEING FURTHER NOTED that the request is clause b) above is to broaden the review of the potential new tool of Inclusionary Zoning.

Executive Summary

Inclusionary Zoning (IZ) is a potential new tool the City of London is considering that would require affordable units to be included in certain new market-rate housing developments. Provincial legislation states that IZ may only be permitted within areas of a city designated as "Protected Major Transit Station Areas" (PMTSAs) unless the Minister prescribes an alternative application of the IZ regulations.

Prior to introducing IZ regulations, the City must undertake an Assessment Report following Provincial requirements. The Assessment Report identifies the need for affordable housing and evaluates the impact of IZ regulations on the housing market, costs and land. The City approved Terms of Reference for this IZ Review in January, 2021 and has retained a consultant to complete the Assessment Report.

In parallel to Inclusionary Zoning Review, the City has also recently approved the "Roadmap to 3,000 Affordable Units" Action Plan for the development of 3,000 new affordable housing units within the next five years. This Action Plan calls for at least 60 affordable housing units per year to be provided through Bonus Zoning or Inclusionary Zoning regulations.

Preliminary findings for a forthcoming Inclusionary Zoning Assessment Report, including financial feasibility analysis, have been prepared in order to initiate stakeholder and public engagement regarding IZ. The preliminary findings demonstrate some significant limitations in the Provincial legislation that restrict the potential effectiveness of Inclusionary Zoning under the current regulations, including the ability for IZ to meaningfully contribute towards the 3,000 units of the "Roadmap" and achieve the goal of 60 units per year.

It is recommended that Council submit a request to the Ministry to allow IZ to be evaluated on a city-wide basis, which would include lands outside of the PMTSAs.

Linkage to the Corporate Strategic Plan

The Inclusionary Zoning review is consistent with Council's Strategic Plan 2019-2023. It is identified as a key action in the "Strengthening Our Community" Strategic Area of Focus, which includes the expected result to "increase affordable and quality housing options" by utilizing innovative regulations and investments to facilitate affordable housing development.

Analysis

1.1 Background Information

Access to stable and affordable housing for all individuals and families is an important issue for the London community. Rising housing costs relative to incomes and the ability for the community to find adequate housing is the reason the City of London is looking to various legislation and tools to support the creation of new affordable housing units. This is in support of the Housing Stability Action Plan to create more supply of affordable units, and London Plan policies with targets for affordable housing. The City has also recently approved a "Roadmap to 3,000 Affordable Units". The Roadmap action plan sets out strategies and expectations about the timing of delivery of new affordable units. One of the current practices of the City, which is identified in the Roadmap, is to enter into Bonus Zoning agreements for creation of affordable units in some new developments; however, changes in Provincial legislation will require the use of a new tool. Bonus Zoning agreements can no longer be entered into after September 2022. Bonus Zoning has been a successful tool for creating affordable units. Inclusionary Zoning is an approach being considered as an alternative tool to replicate the results that have been achieved through Bonus Zoning.

1.2 What is Inclusionary Zoning?

Inclusionary Zoning (IZ) is a regulatory tool the City of London may consider as a means of supporting the provision of affordable housing within new development.

Inclusionary Zoning refers to zoning regulations that would require certain types of new residential development to include affordable housing units as part of the proposal.

Inclusionary Zoning is not meant to replace publicly provided housing, nor is it a municipal incentive program with financial support. It may, however, be complementary to those programs.

1.3 Provincial Legislation

Through the *More Homes, More Choice Act, 2019* and previous legislation, the Province identifies a number of requirements and criteria for municipalities to satisfy in order to introduce Inclusionary Zoning policies and regulations.

Provincial rules require that an Inclusionary Zoning By-law must include:

- The type of development to which IZ applies (minimum 10 units);
- The locations where IZ applies;
- The level of affordability of IZ units (relative to average market rents, prices, or incomes);
- The types of units to be provided through IZ; and
- The "affordability period" (length of time the units must be maintained as affordable).

The Planning Act and Regulations (O. Reg. 232/18) apply specific requirements to passing an Inclusionary Zoning By-law. These include:

- Geographic limits: a municipality may implement IZ only on lands that are designated as Protected Major Transit Station Areas (PMTSAs).

    - The Province may also permit Inclusionary Zoning in areas where a Community Planning Permit System (CPPS) has been ordered by the Province, or the Province can require IZ in areas where it has been prescribed by the Minister. To date no CPPS by-laws have been ordered by the Province nor have any areas been prescribed for IZ.
- Inclusionary Zoning policies and Zoning regulations can only be considered after an Assessment Report is completed.
    - The Assessment Report considers demographics and housing trends and includes an analysis of potential impacts of the IZ policy on the housing market and the financial viability of residential development.
    - The Assessment Report must also be peer reviewed to confirm the financial viability analysis.
    - Inclusionary Zoning cannot specify the tenure of the affordable units, which means the units can be developed as rental or sale units. The municipality cannot specify tenure to align with its municipal housing plans or other specific needs.
    - IZ policies must be monitored and reports on numbers of IZ units created must be prepared every two years.

On December 8, 2020 Municipal Council adopted a *London Plan* amendment to designate PMTSAs in the *London Plan*. The Ministry approved the City's PMTSA policies and mapping on May 28, 2021 and it is in force. The PMTSAs (where Inclusionary Zoning may be considered) align with the Downtown Place Type, Rapid Transit Corridor Place Type and Transit Village Place Type of the London Plan. The PMTSAs are shown on Map 10 of the London Plan.

Now that the PMTSA policies are in force in the *London Plan*, the Inclusionary Zoning review is being undertaken. This includes conducting the assessment report analysis and financial viability analysis prior to any potential amendments to the London Plan or Zoning By-law for addition of new IZ policies or regulations.

2.0 Inclusionary Zoning Review

2.1 Objectives of Inclusionary Zoning Review

Inclusionary Zoning is a regulatory tool that is consistent with *London Plan* policies and several City Action Plans. The objectives of the IZ Review are consistent with the *Housing Stability Action Plan* and its strategic area of focus to create more affordable housing stock, as well as the Homelessness Prevention and Housing policies of the *London Plan*, which include targets for creation of new affordable housing units and the encouragement of new building designs, policies, and programs to achieve a mix of forms, tenures, and incomes.

On December 7, 2021, Council directed the implementation of the "Roadmap to 3,000 Affordable Units" Action Plan. One of the immediate next steps of the "Roadmap" Action Plan is creation of 300 affordable units through Inclusionary Zoning or Bonus Zoning by year 2026. This equals 60 affordable units created per year through either Inclusionary Zoning or Bonus Zoning.

In addition to consistency with the Roadmap and the goal of creating affordable units, the Inclusionary Zoning review must also satisfy the Provincial requirements of an Assessment Report, be consistent with all policy directions of the *London Plan*.

Assessment reports are required to evaluate housing costs, incomes, housing supply, the demand for housing, and the potential for impacts on land costs and housing costs arising from introduction of IZ.

All decisions of Council must conform with the *London Plan* (per *Planning Act* s. 24(1)), therefore the Inclusionary Zoning Review must consider the policies of the London Plan, including the Key Directions and City Structure Plan as well as the affordable housing policies. The *London Plan* directs and permits the highest intensity of growth, infill, and

intensification to appropriate locations within higher-order transit nodes and corridors, noting these areas are the Protected Major Transit Station Areas where Inclusionary Zoning may be considered. The IZ Review is to evaluate whether Inclusionary Zoning can help achieve London Plan key directions for growth and intensification, as well as directions for provision of new affordable housing.

The approach taken in the IZ Review is to seek a similar outcome to the current practice of Bonus Zoning, which allows developers to apply for additional height or density in exchange for the provision of public benefits. In recent years the provision of affordable housing units has been the most common benefit sought through the Bonus Zoning process. The Province changed the Planning Act through Bill 108 (the *More Homes More Choice Act*, 2019) so that bonusing agreements can no longer be approved after September, 2022. The objective then is to achieve the same target of 60 units per year while using the new tool of IZ.

2.2 Inclusionary Zoning Review Process and Preliminary Findings

To satisfy the objectives above, the Inclusionary Zoning Review is underway. The major steps of the IZ review include: data collection and analysis, market analysis, preparation of preliminary findings for stakeholder and public feedback, finalization of the assessment report, a peer review of the assessment report's financial viability analysis, and then the public *Planning Act* application processes associated with *London Plan* and Zoning By-law Amendments, if required.

A Request for Proposals was prepared and qualified consultants, N. Barry Lyon Consultants, have been retained for the preparation of the Assessment Report, including the financial viability analysis.

Various data has been collected to assess the housing need and potential impact of IZ on the housing market. Based upon development permissions of the *London Plan* Place Types (Downtown, Transit Village and Rapid Transit Corridor), preliminary "hypothetical" developments were also prepared to evaluate the financial feasibility of the new developments with and without IZ requirements. Financial assumptions have been built into a development feasibility model in order to test whether private market development would proceed with Inclusionary Zoning regulations. A market analysis was also undertaken in fall 2021 to inform the preliminary financial pro forma work.

The preliminary IZ analysis has applied the *London Plan's* framework of heights, but applies IZ where Bonus Zoning would otherwise have been required, in anticipation of Bonus Zoning no longer being available. As such, new developments in the Protected Major Transit Station Areas (PMTSA) up to the "Standard Maximum Height" would not require affordable units, whereas buildings above the "Standard Maximum Height" and up to the "Maximum Height with Type 2 Bonus" would require a certain portion of the additional storeys be set aside as affordable through the IZ regulations. Certain *London Plan* heights policies are under appeal at the Ontario Lands Tribunal; however, this approach and the preparation of preliminary development assumptions and IZ test parameters are to solicit stakeholder and public feedback.

Some key findings and considerations from the preliminary analysis memo include:

- The value of additional density over the "Standard Maximum Height" of the London Plan permissions is limited.

- Additional density increases the demand for parking which typically must be structured or underground. The cost of the additional parking erodes the value of the additional density.

  Construction cost escalation and rising interest rates present potential headwinds to new high-density development and the City's ability to levy new fees or policies without significant risk of making development unviable.

- The downtown presents viable IZ potential based on the preliminary policy parameters. Downtown viability is supported by incentives offered through the Downtown Community Improvement Plan.

- In most cases the analysis indicates the additional density is not sufficient on its own to offset impact of IZ for a wide range of outcomes (e.g. some projects may be feasible, but others may not). Additional offsets, such as incentives, may be necessary to support a viable IZ policy as well as encouragement of transit-oriented development.

- Unlike other municipalities considering the implementation of IZ, which often have established rapid transit, the PMTSAs in London planned system do not appear to reflect higher land values relative to areas without higher-order transit.

- An IZ policy that only applies to the PMTSA will likely limit the development interest of these strategic growth nodes. Development interest is fairly scattered across the City and the majority of the City's success with securing affordable housing through Section 37 (Bonus Zoning) has been in areas outside the PMTSA.

- A city-wide IZ policy should be explored as it could be better suited to the London context.

2.3 Initial Stakeholder Comments regarding Preliminary Findings

Initial discussions were held with stakeholders in January 2022 regarding the preliminary findings. Through the discussion it was agreed that further discussions were required to confirm the assumptions in the consultant's pro forma and determine the appropriate rates to achieve the Council's target of 60 units per year.

Some themes that emerged in the discussion included the following:

- Further consultation with the industry must take place to explore ways to improve the financial viability of a program like Inclusionary Zoning, including potential cost offsets that would improve land economics to make IZ more feasible.
- Bonus Zoning has been successful in part because it is flexible and can take into account site specific issues. For IZ to be successful the City should maintain as much flexibility as possible.
- The current provincial requirements that limits IZ to Protected Major Transit Station Areas only is not feasible in London, and that the Assessment Report's financial feasibility analysis for development should be explored on a city-wide basis.

3.0 Key Considerations: Bonus Zoning and Inclusionary Zoning

As noted above, the "Roadmap" Action Plan identifies that 60 affordable units are to be created per year through Bonus Zoning agreements or Inclusionary Zoning; however, Provincial legislation has repealed Municipal Council's ability to approve Bonus Zones after September 18, 2022. Inclusionary Zoning may be considered the tool most similar to Bonus Zoning that will be available to Ontario cities after September 2022, although these affordable housing tools demonstrates some significant differences.

Until September 2022, Provincial legislation allows municipalities to permit the increase in building height and density where provisions are included within a municipal official plan. In return, "facilities, services, and matters" of public benefit are provided in exchange. These public benefits are to be commensurate with the additional height and

density that is permitted through Zoning. This is known as “Bonus Zoning”. The landowner must enter into an agreement with the City that is registered on title to the land. These Bonus Zoning agreements “lock in” the public benefits described in the Zoning By-law which merit the additional density. Affordable Housing is one of several potentially “bonusable” features described in the official plan, therefore affordable housing is not a requirement in order for Council to approve a Bonus Zone.

3.1 Site-specific vs. Standardized Tools for Affordable Housing

Creating affordable housing units through Bonus Zoning agreements has been a practice of the City and Housing Development Corporation for several years. Since 2018, a total of 214 affordable units have been approved through Bonus Zoning agreements. (See Appendix “A” for list of properties).

Bonus Zoning applications are evaluated site-by-site when a development application is received by the City. Bonus Zoning agreements can take into consideration the specific development being proposed or the specific property and site characteristics. For example, Bonus Zoning agreements may consider: site location and size, topography, lot configuration, financing, parking rate, parking location (underground, structured, surface), public transportation options, environmental features and natural heritage, engineering and infrastructure, or hydrogeology. Whereas Inclusionary Zoning is a broader set of policies and zoning regulations which would apply to many sites across a PMTSA area of the city. Inclusionary Zoning standardizes the feasibility and affordability requirements without site-specific context.

Unlike Bonus Zoning, which can recognize a specific site context, Inclusionary Zoning is unable to create regulations that would distinguish between a historical land purchase (where land prices were lower and lands may have been capitalized already) versus a current land acquisition. Inclusionary Zoning must set a standard regulation where viability is based on current land acquisitions at today’s land prices.

3.2 Geographic Limitation of Inclusionary Zoning

Under the current *Planning Act* permissions, Inclusionary Zoning is a tool that may only be considered within the Downtown, Rapid Transit Corridor, and Transit Village Place Types (the PMTSAs), unless the Minister prescribes the City of London and applies an alternate area of eligibility. Bonus Zoning has been a tool permitted across the municipality. Only 3 of the 19 Bonus Zoning agreements that have secured affordable housing since 2018 have been located within the PMTSA area. The 3 agreements within the PMTSA have resulted in agreements for 42 affordable units or about 19% of the 214 affordable units approved through Bonus Zoning applications since 2018. (See Appendix “B” for location map).

The PMTSAs represent 1.3% of London’s urban growth boundary, which includes existing urban areas and lands designated for future growth. While the PMTSAs do offer the most potential for high density residential development, by excluding more than 98% of the urban area it will be impossible to achieve the target of 60 units per year that is included in the “Roadmap to 3,000 Affordable Units” Action Plan. The recent experience with Bonus Zoning shows that in order to reach that target a broader geographic area must be considered in the analysis.

Also noted in the attached memo is that land values are fairly consistent across the city. To date, this results in proximity to the planned rapid transit system not being a significant driver of demand or an appreciable price premium seen for housing units in areas in proximity to the planned rapid transit system. The result is that historically there has been a dispersed pattern of high-intensity growth with only 15 of 89 apartment buildings built since 2011 having located within the Protected Major Transit Station Areas.

This demonstrates how the change from the city-wide Bonus Zoning policy to an Inclusionary Zoning policy will significantly limit the ability to create new affordable

housing if the Inclusionary Zoning is limited to only the PMTSA geography. This is an area that has seen less than one-fifth of affordable units approved through Bonus Zoning agreements to date.

3.3 Parking Demand

Private automobiles are the predominant travel mode in London and, as noted in the memo, this results in similar land values across the city. The financial viability analysis of the IZ Assessment Report also includes cost assumptions for construction of parking (underground, surface, or within the structure of the building). Underground parking can cost over $50,000 per parking stall. This cost is included in the financial viability analysis because it is assumed that the market will demand parking spaces with most residential units. This cost is included in the analysis regardless of whether a site is required by City regulation to have parking or whether the parking is because of the developer's assumptions about market expectations. For example, for lands zoned Downtown Area (DA) in Zoning By-law Z.-1, there is no parking required for existing or new residential development.

Bonus Zoning agreements are site-by-site based on the specific application. Council can consider the City's parking requirements when approving Bonus Zoning agreements. With the Assessment Report necessitating the evaluation of parking costs and an Inclusionary Zoning by-law standardizing the affordability requirement across a broader area, there is less flexibility within the IZ tool to recognize the difference between a City requirement and a market choice for parking.

Another finding of the Consultant's review is that much of the recent high-intensity development has occurred on large greenfield properties across the city, which can accommodate both surface parking and structured parking. Infill development adjacent to rapid transit is generally located on smaller properties that may require structured or underground parking, increasing development costs and further impacting feasibility. While the City has recently recommended reductions in parking requirements for projects adjacent to transit, these costs must be considered in the project costs described in the Assessment Report.

3.4 Directions for Growth and Housing Supply and Affordability

The Protected Major Transit Station Areas in London are the Downtown, Transit Village, and Rapid Transit Corridor Place Types. These Place Types are the areas designated and planned for the highest intensity of growth, infill, and development in the city. In order to meet the Key Directions and planned growth of the London Plan, an IZ policy must not discourage development in these planned high-intensity areas.

The preliminary findings suggest that either:

- new development in the PMTSA may not occur to the same level of intensity and may only develop below the threshold where Inclusionary Zoning is required (i.e. below the "Standard Maximum" height of the London Plan); or,
- new development in the PMTSA may only occur if offsetting measures such as incentives are introduced by the City; or,
- Developers may choose to make applications for high-intensity development in areas outside the Downton, Transit Villages and Rapid Transit Corridors (PMTSAs); or,
- Development may not occur at all and be delayed until land values increase to the satisfaction of the developer.

If developments are built to a reduced height and density, then there may be an overall reduction in new housing supply. This could impact housing affordability and vacancy rates across the entire housing market, in addition to no new affordable units being directly created in the planned high-intensity areas.

If Inclusionary Zoning is only permitted in limited locations of the city, there may also be increased development pressure on lands outside the PMTSA, such as in Neighbourhoods. Areas outside of the PMTSA are not planned for the same level of growth and intensity, nor is a dispersed development pattern of high-intensity consistent with the Provincial Policy Statement (PPS). The PPS directs planned growth to nodes and corridors, as well as identifies compact forms of development and nodes and corridors patterns of growth as mitigating measures to help address changing climate (PPS s. 1.2.4 and 1.8.1). Moreover, a dispersed pattern of high-intensity development is not consistent with the City Structure Plan, Key Directions, and Place Type policies of the London Plan, which directs the highest intensity development to strategic locations in coordination with the planned bus rapid transit system. All Council decisions must conform with the London Plan.

If a wider geographic area is considered for the potential application of Inclusionary Zoning, the tool of Inclusionary Zoning may more meaningfully contribute to the strategic target of creating new affordable housing units that is identified in the "Roadmap to 3,000 Affordable Units".

The current Provincial IZ legislation, with geographic limits, may have the potential to reduce new housing supply, and impact housing affordability across the housing spectrum.

Conclusion: Request to Ministry for City-wide Consideration

The Planning Act and Regulations identify that Inclusionary Zoning may only be considered within the Protected Major Transit Station Area and after the preparation of an Assessment Report that evaluates local demand and the impact on housing costs. The Act also state that if the Provincial Minister orders the use of a Community Planning Permit System or prescribes a municipality, then an alternative area of IZ eligibility can be applied.

The City of London's Inclusionary Zoning review has been undertaken based upon this legislation and the assumption that Inclusionary Zoning may only apply in the PMTSA geography. However, the preliminary Assessment Report findings related to financial viability and recent experience with Bonus Zoning demonstrate significant limitations in applying Inclusionary Zoning only to the PMTSAs, including relatively consistent land costs across the municipality, with no appreciable increase in demand or unit price in proximity to planned rapid transit and the potential for less demand for development in planned high-intensity areas. The preliminary Assessment Report also notes the previous success across the entire municipality to obtain affordable units in new developments using the site-by-site approach of Bonus Zoning.

The result of the limited geography of IZ eligibility is that the "Roadmap" target for new affordable units created through Inclusionary Zoning cannot be achieved unless the IZ eligible area is expanded. Similarly, an IZ approach that is restricted to PMTSAs only may lead to reduced levels of intensification within the planned high-intensity and Rapid Transit areas, and increased development pressure in Neighbourhoods outside of the PMTSA. This is not consistent with the PPS directions for nodes-and corridors growth nor consistent with the London Plan's City Structure Plan and hierarchy of planned height and intensity, which are intended to help mitigate the impacts of climate change.

It is recommended that the City's Inclusionary Zoning Review be broadened to include a city-wide analysis, including a city-wide financial viability analysis that considers the entire municipality as the IZ eligible area. As this would not conform to the current *Planning Act* restrictions, a request to the Ministry of Municipal Affairs and Housing should be made to endorse the Assessment Report analysis with a city-wide IZ eligibility area. Consultations with industry stakeholders will also continue. A request to "prescribe" the City may be sent to the Ministry; however, such a request would be dependent upon the results of the broadened review and viability analysis, and would be the subject of a future report to the Planning and Environment Report

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Reviewed by:	**Justin Adema, MCIP, RPP, Manager, Long Range Planning and Research**
Recommended by:	**Gregg Barrett, AICP, Director, Planning and Development**
Submitted by:	**George Kotsifas, P. Eng., Deputy City Manager, Planning and Economic Development**

Note: The opinions contained herein are offered by a person or persons qualified to provide expert opinion. Further detail with respect to qualifications can be obtained from Planning and Economic Development.

January 28, 2022

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Appendices

Appendix A: List of Properties Where Affordable Housing Units Secured through Bonus Zoning Agreements (2018 through 2021)

Appendix B: Affordable Housing Units Secured through Bonus Zoning Agreements (2018 through 2021) (Map)

Appendix C: Memorandum – *London Inclusionary Zoning Assessment Report: Preliminary Findings and Direction* (N. Barry Lyon Consultants Ltd.)

Appendix A: List of Affordable Housing Units Secured through Bonus Zoning Agreements (2018 through 2021)

Properties where Bonus Zoning Agreements have been approved by Municipal Council and number of associated affordable units (Note the star symbols denote properties “inside PMTSA” and dots denote properties “outside PMTSA”):

1. 809 Dundas Street: 25

★ 147 Wellington Street: 10

- 1018 Gainsborough Road: 18

★ 356 Oxford Street West and 676-700 Beaverbrook Avenue: 20

- 462-472 Springbank Drive: 8
- 475-480 Edgevalley Road: 4
- 1339-1347 Commissioners Road West: 3
- 754-756 Base Line Road East: 1
- 1150 Fanshawe Park Road East: 6
- 1761 Wonderland Road North: 12
- 725-737 Dundas Street, 389-393 Hewitt St and various other addresses: 13
- 611-615 Third Street: 4
- 1634-1656 Hyde Park Road: 5

★ 451 Ridout Street North: 12 (or 5% of total residential units, whichever is greater)

- 400 Southdale Road East: 4
- 1047-1055 Dearness Drive: 4
- 250-252 Springbank Drive: 28
- 3080 Bostwick Road (Site 6): 30
- 1 Commissioners Road East: 7

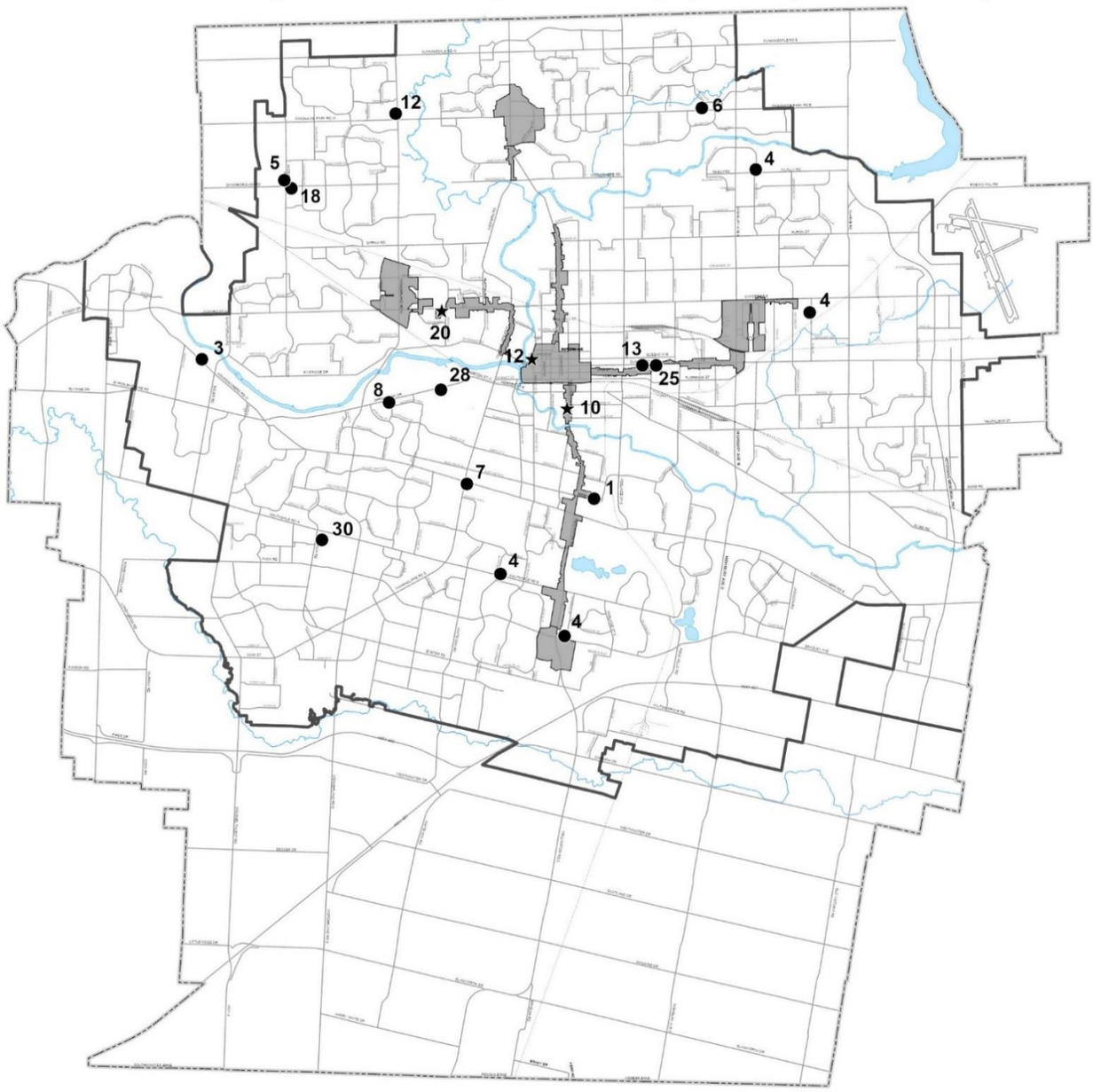
214 total affordable units secured through Bonus Zoning Agreements.

★ 42 total within the PMTSA.

- 172 total outside the PMTSA

Appendix B: Map of Affordable Housing Units Secured through Bonus Zoning Agreements (2018 through 2021)

Appendix "B":
Affordable Housing Units Secured through Bonus Zoning Agreement (2018 through 2021)



LEGEND

- ★ Bonus Zoning Agreements Inside PMTSA (42 total affordable units)
- ● Bonus Zoning Agreements Outside PMTSA (172 total affordable units)
- 12 Number of Affordable Units
- PMTSA Lands
- Urban Growth Boundary

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Appendix C: Memorandum – London Inclusionary Zoning Assessment Report: preliminary Findings and Direction

N. Barry Lyon Consultants Ltd.

Memorandum

To:	City of London
From:	N. Barry Lyon Consultants Limited (NBLC)
Date:	January 2022
RE:	London Inclusionary Zoning Assessment Report: Preliminary Findings and Direction

1.0 Summary and Key Findings

NBLC has been retained by the City of London to prepare an Assessment Report evaluating the impacts of an Inclusionary Zoning ("IZ") policy on the housing market and development feasibility. This work, in addition to a third-party peer review of the analysis, is required under Ontario Regulation 232/18, prior to a municipality implementing IZ.

NBLC has completed planning, market, and financial feasibility (proforma) analyses of the London market between June and November of 2021. This memo presents an overview of the methodology, analysis, and preliminary findings of the work as well as identifying the key implications of implementing IZ in the London market.

1.1 Planning and Market Context

The planning and policy regime in London is well suited to an inclusionary zoning by-law. Specifically, the recently updated London Plan has established a clear direction prioritizing the development of transit-oriented communities around the Bus Rapid Transit ("BRT") corridor and transit nodes. The London Plan also has a prescriptive density bonusing regime that articulates the standard maximum height and how much additional density is permitted in exchange for community benefits (i.e. maximum height with bonusing). Historically, City Council's priority for Section 37 agreements has been to deliver affordable housing. Through these agreements, City staff and local developers have developed much of the skill set necessary to administer and monitor new affordable housing delivery.

Momentum in the high-density residential market continues to build, however proximity to transit does not appear to be a significant driver of demand at the current time. London continues to see positive population growth and eroding affordability for low-density housing, two key drivers of demand for high-density housing. However, the historic and projected pattern of high-density development remains dispersed with similar market pricing and product offerings found across the City's submarkets. There does not appear to be any appreciable price/market premium associated with proximity to the BRT at the current time, indicative of nascent transit-oriented communities where private automobiles remain the predominant choice for travel. Given that IZ can only be implemented in the City's Protected Major Transit Station Areas ("PMTSA"), these market characteristics will influence the considerations of IZ implementation.

1.2 Key Findings of Feasibility Analysis

The financial feasibility analysis evaluated the financial impact of a potential inclusionary zoning policy on high-density condominium and rental apartments projects across nine submarkets. The testing evaluated whether the value of the bonus density was sufficient to offset the loss of revenue required to deliver below-market units. The analysis evaluated both condominium tenure projects with IZ units delivered as affordable ownership or rental, and purpose-built rental projects with IZ units delivered as affordable rental.

Key findings from the feasibility analysis include:

- The value of additional density over and above the Standard Maximum Height is limited in the London market. As density is added, several costs are also accumulated (e.g. development timelines and risk, expensive underground parking requirements, construction costs and materials, etc.). In many situations, the value created by the additional density is modest.
- In most cases, the analysis indicates that the bonus density is **not** sufficient, on its own, to offset the impact of IZ for a wide range of outcomes (e.g. some projects may be feasible, but others may not). Additional offsets (i.e. additional density, financial incentives) would be necessary to support a viable policy that does not negatively impact market supply.
- The BRT does not appear to be significantly altering market conditions at the current time (e.g. higher land values, market strength, reduced parking requirements, etc.). Unlike other municipalities considering the implementation of IZ, which often have established rapid transit, the PMTSAs in London's planned system do not appear to reflect higher land values relative to areas without higher order transit.
- The analysis also indicates that developing within the PMTSA geography is likely more complicated and costly than some of the sites that have advanced in more suburban locations that typically include large properties and a significant supply of cost-effective surface parking lots.

- Only the downtown is likely to present viable conditions for IZ under the current London Plan permissions, however these results are also supported by the incentives offered through the existing Downtown Community Improvement Plan ("CIP"). Eliminating the CIP would likely result in unviable conditions for an IZ policy in the downtown as well. Incentives are not available in any of the other PMTSA's.
- An IZ policy that only applies to the PMTSA geography will likely limit the market appeal and development interest of these strategic growth nodes. Development interest is fairly scattered across the City and the majority of the City's success with securing affordable housing through Section 37 has been in areas outside of the PMTSAs.

1.3 Key Considerations

- **The limited geographic application of IZ to only PMTSA's, coupled with the historically decentralized pattern of development in London, suggests that developers could avoid building in PMTSA's if an IZ policy is introduced without a sufficient amount of offsetting measures.** This could have a significant impact on the City's planning objectives (i.e. encouraging growth and development along the BRT network) as well as the City's ability to secure affordable housing. The loss of s.37 will also limit the City's ability to secure affordable housing through private development in locations outside of PMTSAs without more significant government intervention.
- **If IZ affects the supply of housing, affordability will worsen.** If an IZ policy results in development not occurring within a PMTSA, affordable housing will not be created through IZ. Further, if an IZ policy negatively impacts the supply of housing more broadly, affordability conditions will worsen in the market as supply falls short of demand.
- **Construction cost escalation and rising interest rates present potential headwinds to new high-density development and similarly limit the City's ability to levy new fees or policies without significant risk of making development unviable**. There is a cohort of experienced development companies in London who have been able to deliver high-density housing at market prices that would be otherwise financially unviable in stronger market areas such as the GTA. Much of this development is occurring on large properties that can accommodate a significant amount of surface parking as well as structured parking. Infill development in transit adjacent locations will increasingly need to deliver parking below grade, further eroding the value of additional density.
- **There is a need to offset the cost of an IZ policy *and* encourage transit-oriented development ("TOD")**. The financial analysis has illustrated that additional density is likely not sufficient to offset a modest IZ requirement while the market research has shown that proximity to transit is not a significant driver of residential demand at the current time. Alternative policies to offset the IZ requirement should be explored in tandem with policies that encourage TOD. These could include capital subsidies, tax abatements, and eliminating minimum parking

requirements, among others. These can be introduced as an initial policy measure and re-evaluated/removed as market conditions improve and infrastructure investments continue.

- **A city-wide IZ policy should be explored as it could be better suited to the London context.** The City has been able to secure affordable housing through s.37 agreements across the City without negatively impacting development viability. As such, the City should consider discussions with the province to revisit the regulations to study the viability of a City-wide IZ policy. A City-wide policy is more appropriate to the London market given the following:
  - Unlike other markets with higher order transit, London's PMTSAs do not yet represent a strong value/market premium over non-transit locations. Rather, land values and market strength are relatively consistent across the City.
  - Most of London's high-density development activity, and the City's success with Section 37 agreements, has been outside of the City's PMTSAs
  - The PMTSAs will require a more urban form of development, which will likely require higher costs (e.g. smaller property, requirement for underground parking, etc.) without a strong offsetting market premium.
  - There is risk that development avoids the PMTSAs to avoid the IZ policy if a city-wide approach is not implemented.
  - As the BRT system is not yet in place, it is not possible to determine if the BRT will significantly alter/improve the market findings and analysis completed in this report in the near-term.

2.0 Ontario. Regulation 232/18 and the London Context

Ontario Regulation 232/18 under the Planning Act was enacted in April 2018 by the Province of Ontario. The legislation allows municipalities to secure affordable housing in new residential developments with more than 10 units that are located within a Protected Major Transit Station Area ("PMTSA"). IZ therefore allows a municipality to mandate a certain number of units that must be set aside as affordable housing. It also allows municipalities to prescribe the affordable rates these units are to be provided at, the housing types and sizes, and other relevant considerations.

To implement IZ, the regulations require that an Assessment Report be prepared that assesses the following:

> "2. (1) An assessment report required by subsection 16 (9) of the Act shall include information to be considered in the development of official plan policies described in subsection 16 (4) of the Act, including the following:
>
> 1. An analysis of demographics and population in the municipality.
>
> 2. An analysis of household incomes in the municipality.
>
> 3. An analysis of housing supply by housing type currently in the municipality and planned for in the official plan.
>
> 4. An analysis of housing types and sizes of units that may be needed to meet anticipated demand for affordable housing.
>
> 5. An analysis of the current average market price and the current average market rent for each housing type, taking into account location in the municipality.
>
> 6. An analysis of potential impacts on the housing market and on the financial viability of development or redevelopment in the municipality from inclusionary zoning by-laws, including requirements in the by-laws related to the matters mentioned in clauses 35.2 (2) (a), (b), (e) and (g) of the Act, taking into account:
>
> i. value of land,
>
> ii. cost of construction,
>
> iii. market price,
>
> iv. market rent, and
>
> v. housing demand and supply.

7. A written opinion on the analysis described in paragraph 6 from a person independent of the municipality and who, in the opinion of the council of the municipality, is qualified to review the analysis."

NBLC's analysis is primarily concentrated on regulation 6 above, which must also be peer reviewed by a third party. The work must demonstrate how an IZ policy might affect the viability of development, which is assessed in our work through the preparation of financial models of prototypical developments in the City. The following sections of this memo provide a detailed discussion of the economics of IZ and NBLC's methodology for assessing impacts and market viability.

2.1 Inclusionary Zoning vs Section 37 Agreements

Like many municipalities in Ontario, the City of London utilizes Section 37 of the Planning Act to secure community benefits, including affordable housing, through a rezoning application. However, Section 37 will no longer be available to municipalities after September 18th, 2022. Municipalities may instead use a new tool referred to as a Community Benefit Charge ("CBC") and/or Inclusionary Zoning.

In the current (Section 37) context:

- A developer purchases a development site and pursues a zoning by-law amendment to increase the density currently permitted.
- As part of the rezoning approval process, the City negotiates a Section 37 Agreement with the developer. This agreement will state the community benefit that must be provided in exchange for the increase in density. This can include a cash payment or the provision of affordable housing, improvements to existing park space, streetscape improvements, community space within the project, or similar contributions. In this context, the developer does not know what contribution the City may ask for ahead of time and instead negotiates with the City on a site by site basis.
- At the building permit stage, the developer will pay all fees owed to the municipality, including development charges.

Under the emerging Inclusionary Zoning context:

- A developer purchases a development site and pursues all required Planning Act applications. The application proceeds through municipal approvals as is the case in the current context.
- Instead of negotiating on community benefits with the municipality, the developer is aware in advance what the requirements/charges will be, which are then paid at the time of building permit:

- Development Charge: A developer will pay the development charge in-force at the time of building permit (confirmed at the time of the receipt of a complete Planning Act application), which is charged on a per-unit basis.
- Community Benefit Charge: A municipality can implement a CBC regime that operates similarly to a Development Charge. The developer will pay the fee, which is capped at a maximum of 4% of the property value of the project. This charge is meant to contribute to the benefits a municipality would have previously secured through a Section 37 agreement.
- Inclusionary Zoning: If subject to IZ, a developer will provide the required number of affordable units as directed in the IZ policy and by-law.

As noted above, the current context under Section 37 requires that the city and developer negotiate on a site-by-site basis. The developer does not know what the city might ask for when acquiring land or putting together a business plan for a project. This framework adds inherent risk and complexity to the approval process, and possibly to the viability of the project. However, the current framework allows the municipality to assess the developer, the land acquisition price, the specifics of the proposed project, the density and value uplift, project complexity (urban design, heritage, remediation), how parking is being provided, and other factors when negotiating on community benefits. The process is flexible and can account for site-specific considerations. For example, the municipality might request a more aggressive community benefit contribution for a site that is receiving a significant density uplift, parking is primarily being provided at surface, etc. Conversely, the City may request a smaller contribution from a project where the land was recently acquired, the density uplift secured is modest, the property is complicated (e.g. heritage property, small site), and is fulfilling several planning objectives (e.g. underground parking, transit-oriented site, strategic growth area, etc.).

IZ and CBC are a complete departure from the above process (i.e. negotiation well after land purchase). Clear requirements are established so that a developer knows with certainty what is required in terms of the fee (CBC/DC) and built affordable housing (IZ) ahead of acquiring a development site. As the developer knows exactly what is required, they can account for the impact when acquiring land. However, this new regime does not allow a municipality to negotiate or to account for site specific considerations as is the case with Section 37. IZ is therefore a much blunter tool relative to the more flexible Section 37.

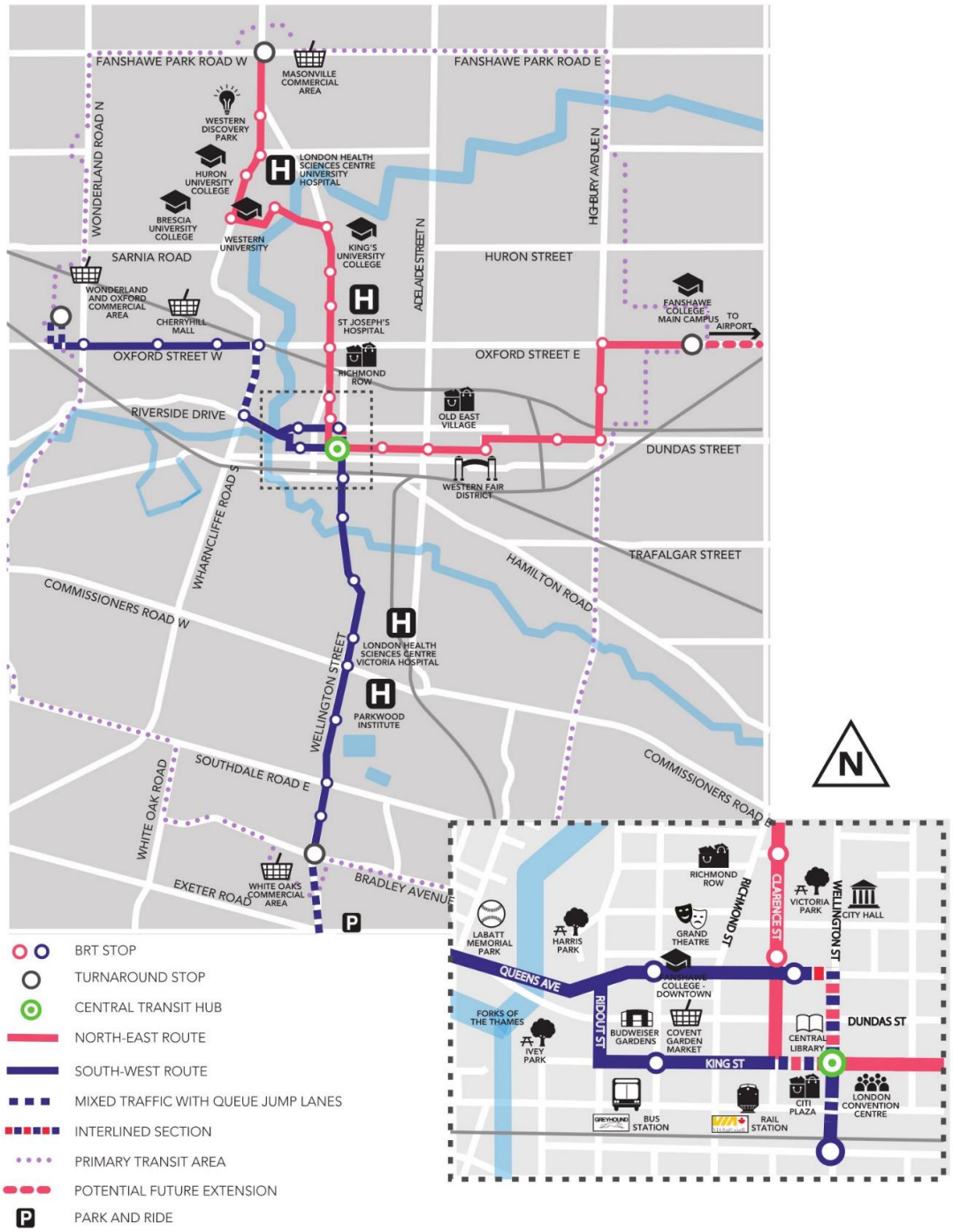
Another key differentiation that is important to note is that Section 37 can be used broadly across a municipality, whereas IZ can only be applied to PMTSA's.

2.2 City of London Context

The City of London is proposing a Bus Rapid Transit ("BRT") line that will include a "loop" in the downtown that will extend north and south along the Richmond/Wellington corridors and east and west along the Oxford/Dundas Corridors (**Figure 1**). The BRT is therefore proposed to extend from the Downtown to major destinations in the north (Western University, terminating at Masonville

Mall), west (terminating at the Wonderland and Oxford Commercial Area), south (Victoria Hospital, terminating at White Oaks Mall), and east (major development proposal at the former London Psychiatric Hospital, terminating east of Fanshawe College). At this time, only the Downtown Loop, Wellington Corridor and East (Dundas) Corridor are funded.

Figure 1: Proposed BRT Route



The ultimate BRT route will be phased, with the Downtown Loop expected to be completed by 2023. The eastern segment is expected to be completed by 2024, and the southern segment is expected to begin construction in 2023 and finish by 2026. Timing/approval for the northern and western segments are still to be determined/approved. Overall, the BRT is expected to provide key benefits such as:

- The BRT will increase transit capacity. The result will be the ability to meet the expected growth in demand for transit services while maintaining the current vehicle capacity of the majority of roadways;
- Transit riders will have more choices and freedom because of improved frequency. They will have more reliable service because of dedicated lanes. They will have shorter waits at more comfortable rapid transit stations;
- The increases in ridership due to the implementation of rapid transit will reduce congestion on streets, linking goods to market and addressing the economic costs of traffic congestion;
- Support improved transit connections to London's highest growth industrial and commercial areas, and to neighbouring communities alongside planned service frequency increases and enhancements to transit services;
- Upgrading intersection signals to improve traffic flow;
- Widening roads for lanes that can be flexible for future transportation needs;
- Coordinating construction with necessary upgrades to sewers, watermains, utilities infrastructure;
- Adding sidewalks and facilities for active transportation; and,
- Improving overall safety for transit users and vehicle commuters alike.

The City of London's new Official Plan "London Plan" is also preparing for the BRT transit infrastructure. The London Plan establishes a framework of policies and guidelines that provide an overall vision for how the City should grow and how/where new development, intensification, infrastructure, green space, and other similar features should be accommodated.

In preparing for the BRT, the City has established several "Place Types" in the London Plan as illustrated by **Figure 2**. These Place Types include the Downtown, Rapid Transit Corridors ("RTC"), and Transit Villages ("TV"). These Place Types follow the BRT alignment, with the Downtown covering the BRT Downtown Loop, the Transit Villages covering the major terminuses/destinations of each segment, and the Rapid Transit Corridors covering the BRT corridor that connects each Transit Village with the Downtown. The Downtown, Transit Villages, and Transit Rapid Corridors have also been designated as a PMTSA, which enables the use of IZ in each geography.

The London Plan envisions that the above noted geographies will be the areas where the most height, density, and level of intensification is envisioned to occur through the creation of transit-oriented communities. **Table 1** illustrates the minimum and maximum heights that are permitted in each of the PMTSA geographies. **Table 1** also illustrates the density available through bonusing, which is the current mechanism used to secure community benefits through Section 37 (i.e. in the downtown, if a developer pursued a 35-storey tower, they must provide community benefits). IZ will work similarly, where a IZ will apply to the increase in density (i.e. in the downtown, if a developer pursued a 35-storey tower, they must provide affordable housing through IZ). However, if the developer pursued only a 20-storey tower, they would not be subject to Section 37 (outside of design considerations) or IZ.

As **Figure 2** illustrates, the PMTSA geography in London is modest. This significantly restricts the area of the City where community benefits can be secured, relative to the current Section 37 regime that applies City-wide.

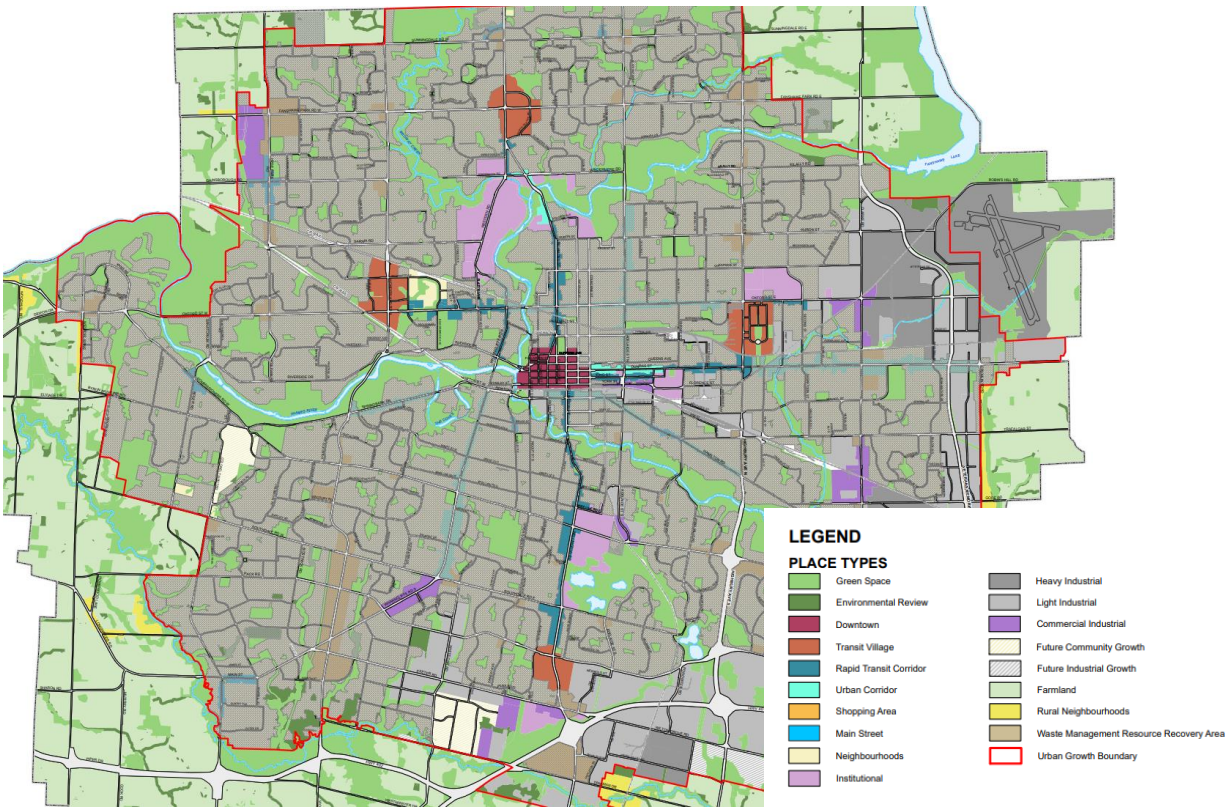
Table 1

Minimum and Maximum Heights by Place Type

Place Type	Minimum Height (Storeys)	Standard Maximum Height (Storeys)	Maximum Height w. Type 2 Bonus (Storeys)	Conditions
Downtown	3	20	35	-
Transit Village	2	15	22	-
Rapid Transit Corridor	2	8	12	Properties located on a RTC
	2	12	16	Properties located on a Rapid Transit Corridor within 100m of rapid transit stations or properties at the intersection of the Rapid Transit Corridor and a Civic Boulevard or Urban Thoroughfare.

Source: The London Plan

Figure 2: London Plan Place Types



3.0 Land Economics and NBLC Methodology

The following section assesses the core principals of development and land economics within the context of an emerging IZ policy environment.

The highest and best use of a site is established by determining the most marketable housing types, pricing, product positioning (e.g. mid-market, luxury), sales absorption rates or lease-up rates, target purchasers and marketable suite mix, required project amenities, and other similar items. Often, these inputs feed into a financial analysis to evaluate project viability, land value, and profit. When deciding how to price housing, it is important to consider both demand and supply conditions in the local market area. This generally involves an analysis of the following:

Figure 3

Demand	Supply
○ Population growth and projections	○ Sale values & absorptions of other marketing projects "the competition"
○ Demographics and incomes	○ Project positioning, interior features & finishes, amenities at competitive projects
○ Target purchaser groups	
○ Purchaser preferences	○ Review of development applications to understand future supply/ competition
○ Local employment opportunities	
○ Site/ market strengths & weaknesses	○ Sale values & market performance of the resale market "secondary competition"
○ Location & neighbourhood amenities	○ Parking requirements and achievable revenue (e.g. free parking or added charge)
○ Lending rates & regulations	○ Growth and land use policies affecting future development patterns
○ Future/ planned transit investments	

- The process of establishing pricing typically begins by characterizing the demand-side of the market, which includes population growth and that of key market segments, defining the market strengths and weaknesses of the site, preferences of target purchasers, impact of lending rates and regulations (e.g. mortgage stress tests, foreign buyer taxes), among other considerations.
- Once the demand-side has been adequately characterized, the supply of housing in the local market is assessed. This is completed by surveying comparable housing developments that are actively marketing to understand how competitive supply is priced, the rate at which product is absorbed by the market, the positioning and amenities included, and other design/market features that warrant review.

- Understanding the resale market is also an important consideration, as purchasers will often consider both a new-build and an existing home when making a purchase. Pricing must therefore remain competitive with both comparable existing housing and new housing developments.

Ultimately, developers are seeking to determine the maximum they can charge purchasers or renters while selling or leasing their project within a predetermined time frame. If a developer sells or leases very few homes, this is generally a sign that they have set the price too high and/or that there is insufficient demand for the product type. Conversely, if the entire project sells out immediately, the developer may have been able to charge more for the product.

Developers carefully examine the characteristics of supply and demand to ensure that either situation does not occur. The industry seeks to ensure that projects charge the maximum price that the market will bear while maintaining a healthy absorption pace. Developers will also monitor supply and demand conditions throughout a sales campaign, often increasing pricing or adding incentives throughout the process at specific thresholds (e.g. at the beginning of construction). Some developers may not release all units to the market at the same time, later adjusting pricing or other elements based on the market's response to an initial release. This is an important consideration, as developers can – and often do – increase pricing if the market supports such an increase. A similar process occurs for rental development, where developers reassess the rental rate they can charge as turnover occurs. This adjustment to pricing is independent of any shift in development costs.

3.1.1 Factors that Influence the Cost of Delivering Housing

The delivery cost of housing sets the minimum price a home can be sold for. If purchasers are not willing to pay this price, the project is not constructed.

The costs of building housing generally fall into one of four discrete categories:

1. Hard Construction Costs
2. Soft Development Costs
3. Developer Profit
4. Land Costs

The following provides a brief description of each cost category, including commentary related to how these costs are determined.

Hard Construction Costs

Hard construction costs encompass all the materials and labour required to physically construct a building. These costs include construction contracts, building materials, appliances, site servicing, landscaping, site preparation (e.g. demolition, excavation, grading), parking, and other related costs. Hard construction costs will vary from project to project as factors such as topography and grading, geotechnical issues, site contamination, building materials (e.g. concrete vs wood), the height of a

building, surface vs. underground parking, site-specific impacts (e.g. heritage preservation), and other similar considerations can all impact construction costs. Hard construction costs are dictated by the market, albeit a different market than house prices:

- Developers will purchase building materials in the market like any other commodity, which are subject to fluctuations in price. Macro-economic trade impacts (e.g. tariffs) can also impact the price of materials and other commodities.
- Like building materials and commodities, developers must pay the market price for labour, which can fluctuate based on availability, unions, and other factors.
- Competition amongst builders can also increase the cost of building materials and put specialized labour under constrained supply and demand conditions.

Overall, once the specifics of a development project are well defined, hard construction costs become relatively fixed.

Soft Development Costs

Soft development costs include all the other costs that a developer will encounter when developing real estate. These items include government-imposed development fees and charges (e.g. development charges, HST, application fees, etc.), as well as:

- The consultant team – typically consisting of urban planners, architects, urban designers, landscape architects, engineers, lawyers, public consultation experts, and others.
- Project marketing costs and sales / leasing commission fees.
- Construction financing costs.
- Development and construction project management.
- Overhead and cost contingencies.
- Legal fees and insurance costs.

Like hard costs, soft development costs can also shift depending on the specifics of a development project. Factors such as project scale and absorption rates can impact development timing, which can affect financing and other carrying costs. These costs can also shift depending on the approvals required, size of the property, value of the land (e.g. cash in lieu of parkland), the Section 37 agreement negotiated, changes to development charges, the CBC charge, and others. Increases to development related charges therefore directly increase the soft development costs of delivering new homes.

Developer Profit

Developers require a certain profit threshold to undertake a development project. They are investing their skill and equity, as well as taking on significant risk to make a profit that is more than the rate of return that might be achievable through another investment vehicle.

If a sufficient profit margin cannot be achieved, developers will seek development opportunities in other markets, invest in other real estate asset classes, or choose another investment vehicle altogether. Lenders will also require a certain profit threshold to provide financing.

Land Acquisition Cost

Developers must also acquire land in the market to build a new housing project, as assessed in the discussion to follow.

3.2 Understanding Land Values for High-Density Residential Projects

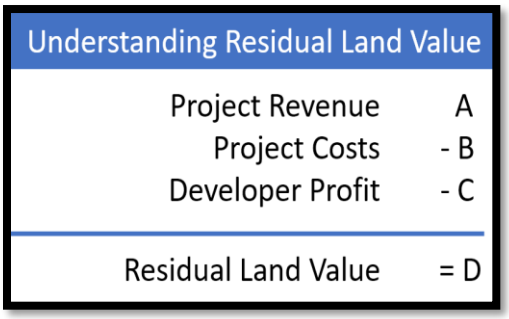
Accurately assessing the land value for high-density development is based on two fundamental inputs: forecasted project revenues and expenses.

Project revenues are driven by the sale value of units as well as upgrades to finishes, floor premiums, parking spaces, and storage lockers. Once project revenues have been estimated, developers will then begin to calculate all anticipated hard and soft project costs. As illustrated by **Figure 4**, developers will then subtract these costs, as well as their required profit from the estimated revenue of the project. The remaining amount, or residual, is referred to as the Residual Land Value (RLV). The RLV represents the maximum price a developer could pay for the land to construct the housing project.

The RLV will result in one of two scenarios:

- **RLV is equal to or higher than the asking price of land in the market:** If the RLV of a proposed development is greater than the asking price of land in the market, a developer can, in theory, purchase the land and build the project while meeting their profit expectation.
- **RLV is below the asking price of land in the market:** In this situation, the housing development would be considered unviable because a developer could not pay the asking price of land and still maintain their minimum profit margin.

Figure 4



3.2.1 How Would IZ Impact this Dynamic?

The introduction of IZ influences the variables noted in **Figure 4** in the following ways:

- **Project Revenue:** Will **decrease** as developers will be required to charge below-market rates for some of the units in their development.
- **Project Costs:** The cost of building and delivering affordable and market rate homes are similar. IZ would therefore not impact development costs in a significant way.
- **Developer Profit:** IZ does not impact the minimum profit threshold necessary to motivate a developer to advance a housing project. If a project can not achieve the minimum profit margin, developers will choose to invest their capital elsewhere and housing will not get built.

3.2.2 IZ Will Primarily Impact Land Value

Understanding that an IZ policy reduces revenues while costs and profit expectation remain relatively fixed, the developer must reduce their budget to acquire land if the project is to remain financially feasible following the introduction of an IZ policy.

Developers cannot simply increase the price of homes beyond what the market will support. If the market does support an increase in the price of new homes, developers are likely to increase pricing regardless of any change in costs. This change in pricing is regularly observed in the market as supported by supply/demand conditions.

A cap on revenue, as the result of an IZ policy, would be treated no differently than a developer discovering soil contamination issues at a property they are considering for purchase. A developer would not pay full market value for a site with soil contamination issues and then later attempt to recapture the increased cost of remediating the site by increasing the sale value of homes at pricing beyond what is supported in the market. Rather, if soil remediation works were to require $1.0M in added project costs, the developer should seek to pay $1.0M less for the property.

3.3 IZ in the London Context

As identified in the previous section of this memo, the London Plan has established density permissions and provisions for bonus density in exchange for community benefits secured through Section 37, which will soon be replaced by IZ.

In theory, the addition of bonus density will increase the land value of the property, which will then be offset by IZ. However, several outcomes are possible as assessed below:

Feasible IZ Conditions

Figure 5 illustrates the conditions that would support an IZ policy in the London context. These hypothetical illustrations use the standard maximum height (referred to as the base case) and the bonus density that is available in the Downtown PMTSA. As illustrated, the land value increases as a developer is granted an additional 15 floors of bonus density. In this situation, the revenue associated with the increase in density is well above the associated development costs (hard/soft costs and profit) of building the additional density, which therefore results in a higher land value.

When IZ is applied to the bonus density, there is now a requirement to charge below-market rates for a proportion of those units. As discussed, this reduction in revenue will directly flow to the land value. In this situation, the land value of the project with bonus density and IZ remains well above the base case permissions (i.e. the standard maximum height without bonusing). It can therefore be concluded that a developer would still be attracted to pursue the additional density, despite the requirement to provide affordable housing through IZ.

Figure 5: Feasible IZ Conditions – Density Increases Land Value Above Base Density Permissions. Land Value Remains Above Base Density Permissions with IZ Applied

Infeasible IZ Conditions

It is also possible to have several instances where IZ might not result in a viable outcome. As illustrated by **Figure 6**, the land value increases as a developer is allowed to build an additional 15 storeys for their project, exactly as shown in **Figure 5**. However, with IZ applied, the land value decreases below the standard maximum height permissions. In this scenario, a developer would not pursue the bonus density, instead choosing to build the 20-storey building, or not build at all.

In this situation, the IZ policy is too aggressive, resulting in a large depression in land value that results in an unviable outcome.

Figure 6: Infeasible IZ Conditions – Density Increases Value Above Base Density Permissions. Land Value Drops Below Base Density Permissions with IZ Applied

It could also be the case that density does not add value because the revenue associated with the increased floor area does not offset the associated development costs. This can be the case in weak/modest market areas where achievable market pricing is low, or in areas where an increase in density requires significant additional costs such as a requirement to provide underground parking. This is illustrated by **Figure 7**, where value is not created through the density increase, which is then negatively influenced by the IZ policy. In this situation, a developer would not pursue the bonus density, instead choosing to build the 20-storey building, or not build at all.

Figure 7: Infeasible IZ Conditions – Density Does Not Add Value

These are important considerations. If IZ makes development in a municipality infeasible, several negative consequences will result:

- Developers will not pursue the bonus density and no affordable housing will be created through IZ.
- Developers will not build new housing. This would negatively affect supply in the municipality. If the supply of housing does not meet market demand, purchasers will compete for the limited stock of existing housing, bidding up the price of homes and worsening affordability broadly.
- Developers will avoid the PMTSA geography, choosing instead to build in locations where IZ does not apply. This will result in no affordable housing but will also result in growth occurring away from the City's strategic growth areas and planned transit infrastructure.

In situations where IZ does not result in viable outcomes, additional offsetting measures will be necessary to avoid the above circumstances. This could include a reduced IZ requirement or the offering of financial incentives to offset the impact of IZ and/or to increase the value of the bonus density. London currently offers a significant package of incentives in the downtown, but not in the other PMTSA geographies.

Given that IZ is a firm requirement, there is no ability to negotiate with a developer and assess the specific project as is the case with Section 37. IZ could therefore work for some projects and not others, or could affect the viability of development more broadly. This must be carefully considered when implementing IZ.

3.4 NBLC Methodology

NBLC's methodology for assessing potential impacts of an IZ policy in London is as follows:

- The City of London has provided the preliminary IZ policy parameters for NBLC to test in the analysis. The parameters include:
  - Affordable rental and ownership prices, which are presented in **Table 2**. Affordable ownership rates are tied to income deciles, whereas affordable rental prices are tied to 80% and 100% of the CMHC Average Market Rent ("AMR").
  - Affordable rental units are tested at 30 years and in perpetuity, whereas affordable ownership units are assumed to be affordable to the first purchaser only.
  - The City of London may investigate strategies to ensure longer-term affordable ownership, however this is not included in the proforma testing and is not expected to influence the outcome of the results.
  - Further, other administrative aspects of the program, including involvement by the City and the Local Housing Corporation, have not yet been thoroughly considered but remain important elements. The implementation, administration, and programming aspects of IZ will also influence the ultimate viability and success of the policy.
  - The set aside rate (% of units that must be affordable) is informed by NBLC's financial analysis. Of note, the City of Toronto is the first municipality in Ontario to advance IZ, and are currently pursuing a set aside rate of 5%-10% depending on the market location in the City, and IZ does not apply to purpose-built rental housing. However, the above rates apply to the entire building, rather than to the uplift in density as evaluated in London.
  - The IZ units will also be consistent with the general suite mix and unit sizes provided in the market component of the building, which follows what other municipalities investigating IZ are considering.

Table 2: Affordability Thresholds Provided by the City of London

Rental Housing Affordable Thresholds for IZ Testing - London Census Subdivision		
Bedroom Type	**100% AMR**	**80% AMR**
Bachelor	$785	$628
One-Bedroom	$1,012	$810
Two-Bedroom	$1,223	$978
Three+ Bedroom	$1,371	$1,097

Ownership Housing Affordable Thresholds for IZ Testing			
Bedroom Type	**Corresponding Income Decile**	**2021 Income Estimate**	**Affordable Purchase Price**
Bachelor	3rd	$65,734	$233,650
One-Bedroom	4th	$80,179	$301,511
Two-Bedroom	5th	$94,938	$370,847
Three+ Bedroom	6th	$110,638	$444,610

- Working with the City, development case studies were prepared in each of the nine PMTSAs. The case studies included assumptions related to site size, building height and gross floor area

for both the standard maximum height and bonus density scenarios, among other building assumptions. These are presented in **Table 3** to follow.

- NBLC then completed a market analysis of the City as required by the IZ regulations. This analysis identified key inputs for the financial proforma analysis, such as unit sizes and suite mix, typical project positioning, parking provision, market pricing and absorption by market area, demand characteristics, and others. The analysis also considers where development has been occurring and where it is proposed relative to the objectives of the London Plan. It also considers how the market has been shifting, changes in socioeconomic and demand characteristics, and where the market is likely heading.
- **Table 4** illustrates the parking provided at each test site, which is for the market units only. A core assumption of this analysis is that parking is not provided for the affordable units to reduce costs and thereby maximize the amount of affordable housing that can be created. The parking ratio was determined through our market analysis and discussions with City staff. The required parking was then translated to the gross floor area ("GFA" - square feet) that was required to accommodate the parking. In the downtown, two levels of underground parking are provided, with the remaining amount provided in an above-grade structure. The remaining test sites accommodate as much parking as possible at the surface, with any residual parking requirement provided underground.
- The above is then used to develop a residual land value proforma analysis that is structured as presented in **Figure 4**. Assumptions are developed regarding revenue (from NBLC market analysis), hard construction costs (from Altus Cost Construction Guide), soft development costs (based on government fees and charges as well as other fees based on NBLC experience), and a profit expectation (12% of costs). The remaining amount is the residual land value, which is then utilized to determine viability.
- We have carried the TIEG and DC grant available through the downtown Community Improvement Plan, however no other incentives are considered.
- Based on the results of the analysis, recommendations and direction are provided, including the identification of risks and opportunities for the development of the policy.

Table 3: Test Site Assumptions

PMTSA	Property Size	Standard Max Height			Bonus Density with IZ			% Uplift GFA	Uplift in Units
		Storeys	GFA	Units	Storeys	GFA	Units		
Downtown	0.75	20	196,980	192	35	344,445	336	**75%**	144
North RTC	1	7	75,347	74	10	107,639	105	**43%**	32
South RTC	1	12	133,472	121	14	156,077	141	**17%**	20
West RTC	1	7	67,813	61	10	96,875	88	**43%**	26
East RTC	0.75	8	86,111	82	12	129,167	123	**50%**	41
West TV	2	14	165,764	150	20	236,806	215	**43%**	64
North TV	2	14	165,764	150	20	236,806	215	**43%**	64
South TV	2	15	161,459	146	20	215,278	195	**33%**	49
East TV	2	14	150,695	144	17	182,986	174	**21%**	31

Table 4: Parking Assumptions for Test Sites – Gross Floor Area ("GFA")

PMTSA	Property Size	Parking Ratio market	Parking Ratio affordabl	Parking Provision GFA AOR			Parking Provision GFA Bonus		
				Surface	Structure	UG	Surface	Structure	UG
Downtown	0.75	0.7		0	13,178	52,272	0	62,053	52,272
North RTC	1	1		19,678	0	11,772	19,678	0	25,372
South RTC	1	1		19,462	0	31,963	19,462	0	40,888
West RTC	1	1		20,323	0	6,027	20,323	0	17,077
East RTC	0.75	1	0	13,144	0	22,131	13,144	0	39,556
West TV	2	1		45,168	0	19,007	45,168	0	46,207
North TV	2	1		45,168	0	19,007	45,168	0	46,207
South TV	2	1		45,814	0	16,661	45,814	0	37,486
East TV	2	1		45,814	0	15,386	45,814	0	28,561

4.0 Findings of the Market Analysis

The following are key findings from NBLC's market analysis.

4.1 Population Growth

- As illustrated by **Figure 8**, the rate of population growth in London has increased significantly since 2015. While Ontario's rate of growth has also increased since this time, London has exceeded the Provincial average by a measurable margin in each of these years.
- This surge has been driven by increased levels of international migration, including both immigrants and non-permanent residents (i.e. international students), as well as internal migration, primarily persons moving to London from elsewhere in Ontario (**Table 5**).
- The London Plan (and other growth documents) also forecasts significant growth, including high-density apartments.

Figure 8: Annual Population Growth Rate, 2011 to 2020 (Statistics Canada Data)

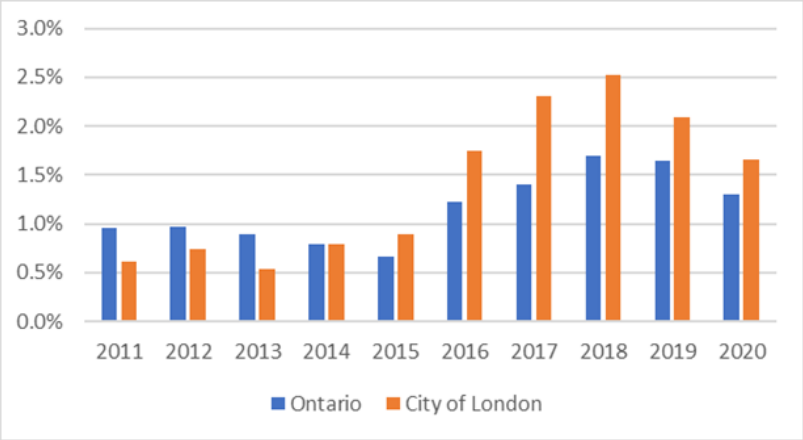


Table 5

Component of Population Growth (Net Change) London CMA[1], 2011 to 2020				
Year	**Natural**	**Immigration**	**Internal Migration**	**Non-Permanent Residents**
2011	1,541	2,005	251	39
2012	1,285	1,476	696	440
2013	1,413	1,068	528	371
2014	1,264	1,331	975	394
2015	1,211	957	1,715	745
2016	1,142	2,545	3,349	2,228
2017	1,050	1,798	4,161	4,128
2018	771	2,467	4,703	4,334
2019	698	2,744	2,711	3,775
2020	603	2,806	2,419	2,889

1= Population change data not collected below CMA level; Source: Statistics Canada

4.2 Housing Market Overview

- Until recently, pricing levels for detached homes in London have historically made low-rise ownership housing accessible to a broad portion of London's population. Apartment housing has largely catered to traditional apartment users that have lower housing needs or financial resources. This includes students, singles, seniors, and lower-income households.
- However, like many communities in Southern Ontario, pricing levels in the London low-rise housing market has seen considerable growth in recent years (**Figure 9)**, which largely corresponds to the increase in population growth beginning in 2015. This indicates that housing supply is not adequately meeting demand, resulting in a dramatic increase in pricing since 2015.
- As low-density housing prices increase, a greater proportion of the London market will look to more affordable housing options, such as apartments. This allows developers to target a deeper pool of potential purchasers and renters, improving the demand outlook for new apartment development. Competition from a greater number of prospective tenants and purchasers creates upward pressure on prices, allowing developers to charge more for apartment units, which improves the financial viability of developing new apartment housing.
- As a result, apartments are beginning to account for a larger share of London's housing starts. While historically a modest share of the housing market, apartments have accounted for nearly half of the City's housing starts since 2016 (**Figure 10**).
- **Figure 11** identifies the location of each apartment project constructed in London since 2011. The map clearly illustrates that development has decentralized, rather than concentrating in the City's delineated PMTSA's:
    - Only 15 apartments were built within the PMTSA's over this period, whereas 74 were built outside of the PMTSA's.
    - While only 17% of total projects were within a PMTSA, a slightly higher percentage of total units (31%) were within this geography, indicating that projects within the PMTSA's were larger than projects outside.
- **Figure 12** illustrates a similar trend, with only eight (22%) of the 28 proposed apartment projects in the City being within a PMTSA. However, roughly 40% of the total proposed apartment units are within a PMTSA, which is due to the large scale of some development applications (e.g. single applications proposing over 1,000 units through multiple buildings). While large applications are a good market signal, they should also be viewed as a long-term development opportunity that will likely take many years (or even decades) to fully build-out.
- The City of London has also been securing Section 37 contributions within recently completed projects. Data provided by the City indicates that affordable housing through a Section 37 agreement has been secured for 19 apartment buildings since 2018, which has resulted in 214 units across varying affordability depths and lengths. All affordable units have been rental in tenure. However, only three of the 19 projects were within a PMTSA.

- This indicates that both development activity and the City's recent success with Section 37 has been in locations where IZ will not apply.

Figure 9 – Average Absorbed Price for New Single/Semi, City of London (source CMHC)

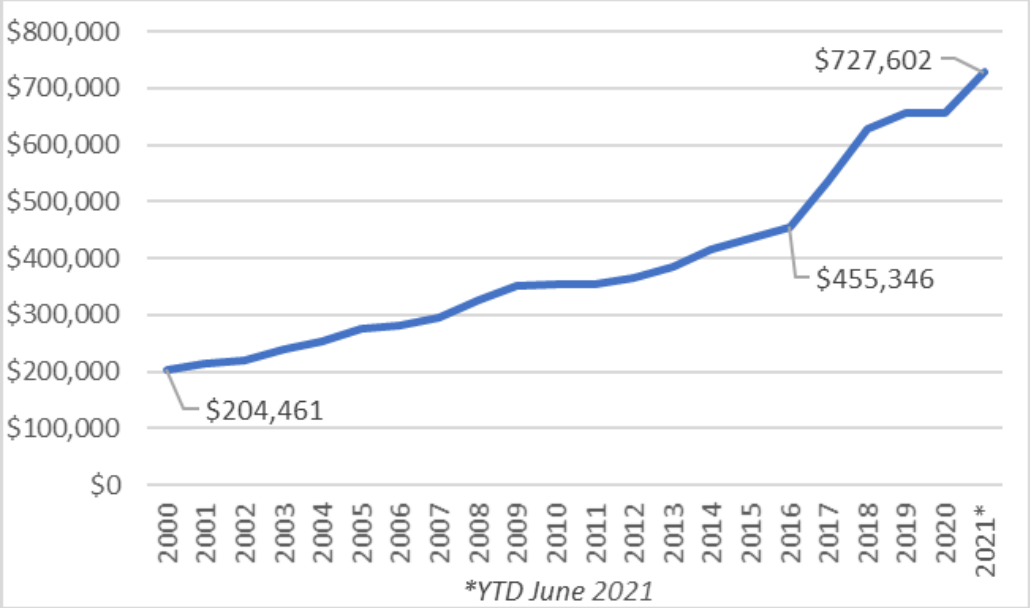


Figure 10 – Housing Starts by Type, City of London, 2000 to 2021 (source CMHC)

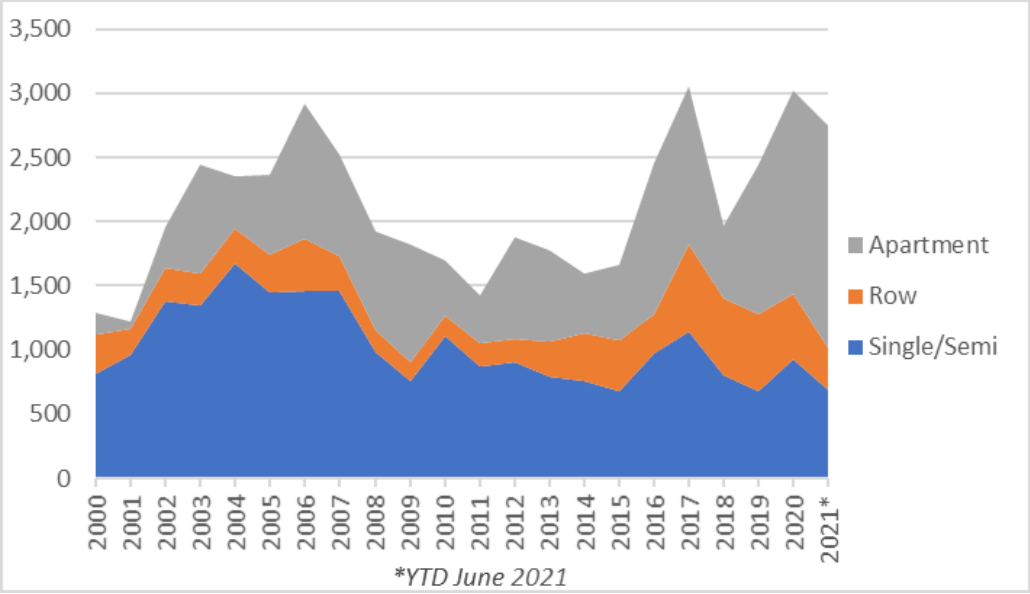


Figure 11 – Issued High-Density Residential Building Permits, 2010 to 2020

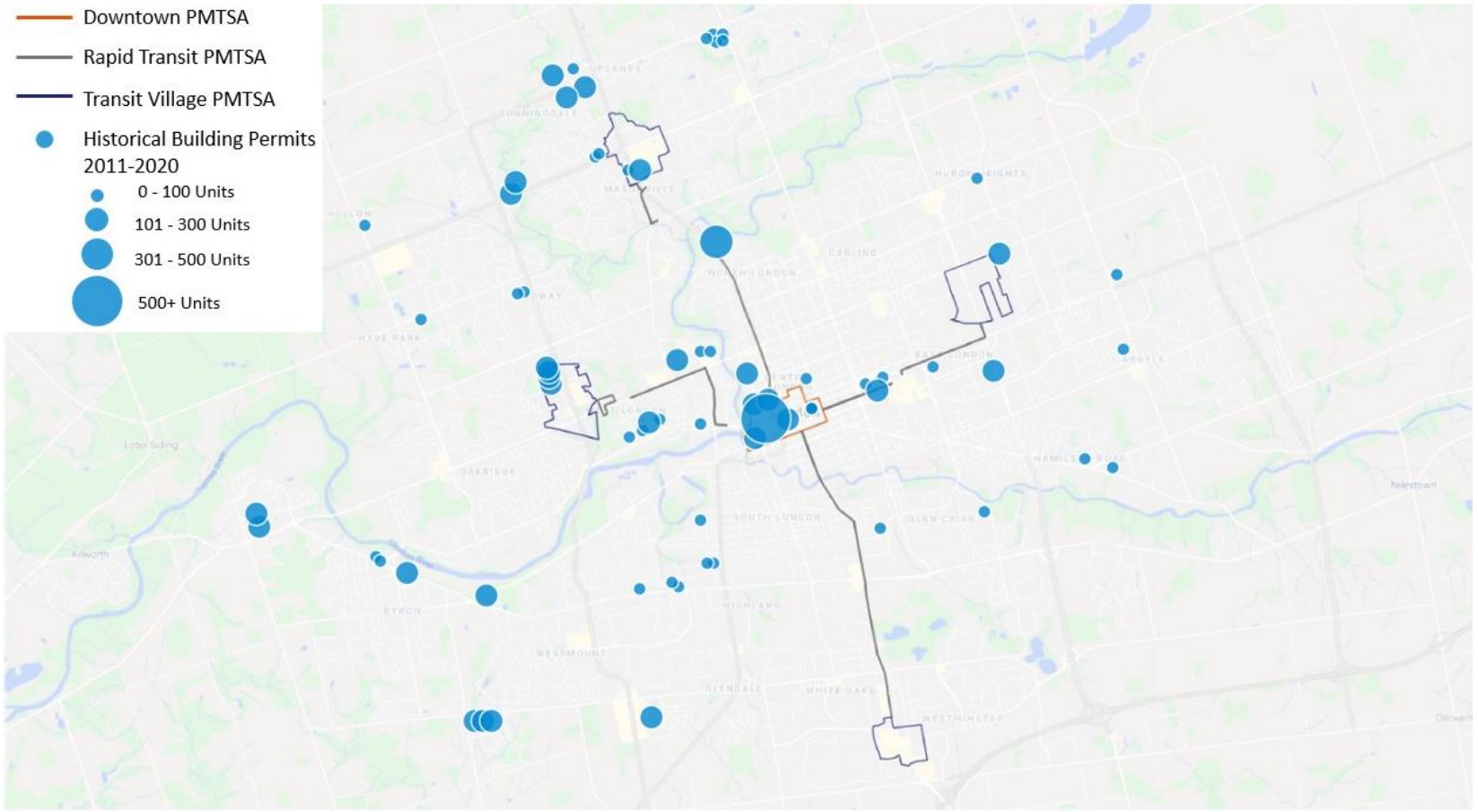
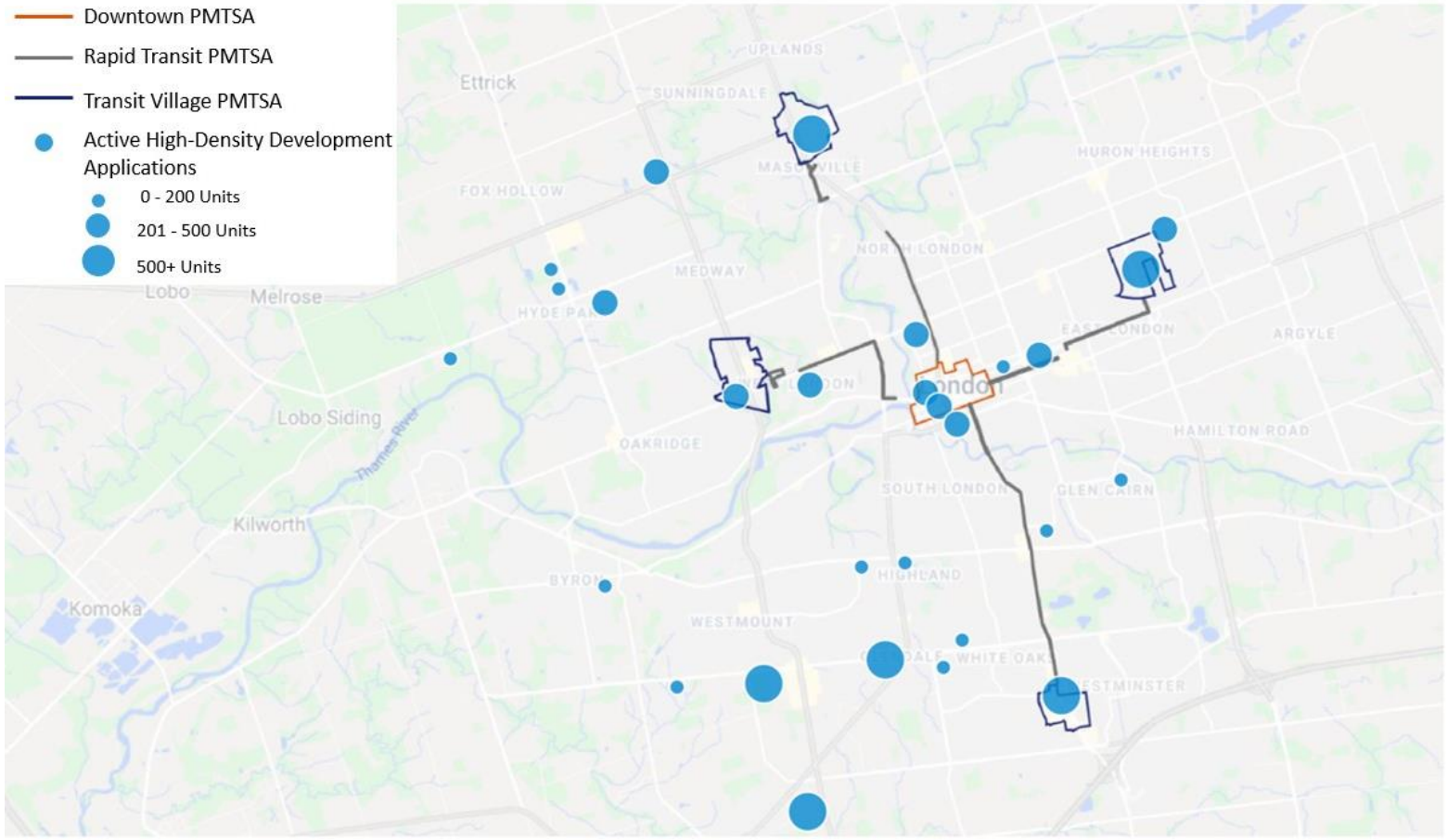


Figure 12 – Active High-Density Residential Development Applications



4.3 Condominium Apartment Market Survey

The following section provides an overview of findings from our condominium apartment market survey:

- The apartment market in London has historically been dominated by rental apartments, with rental apartments representing nearly 80% of all apartment units built since 2000. However, condominium projects are beginning to account for a larger share of total activity, with condominiums accounting for over 40% of total apartment starts in five of the last eight years.
- This data indicates that the condominium market remains modest but is improving. As discussed earlier, eroding affordability in the low-density market will improve the market for higher density forms of housing such as stacked townhomes and condominium apartments as purchasers that are priced out of the low-rise market seek a more affordable option. A constrained low-density land supply will have similar effects.
- To understand the condominium apartment market in London, NBLC has conducted a survey of actively marketing (new) condominium apartment projects from across London. However, given that there is a very limited number of active projects, we have also surveyed resale transactions from the past twelve months in new condominium apartment projects to supplement our findings.
- Our survey indicates that the performance of condominium projects are modest, in both the resale and new sale markets:
    - New Projects: Projects surveyed by NBLC indicate that most buildings tend to achieve an absorption rate of around three to eight sales per month. This absorption is considered modest and will negatively impact the construction of larger projects given the long pre-sale period that will be required.
    - Resale Buildings: Similar to new projects, resale buildings experience modest levels of demand, with most apartment units taking between 20 and 30 days to sell on average.
- The survey also indicates that unit sizes are large relative to major urban centres, typically over 900 square feet on average. Pricing is also relatively low as these projects seek to compete with older apartments as well as the low-density housing. On a per square foot basis, pricing tends to range between $400 and $600 per square foot. Some projects include parking in the purchase price, especially where parking is provided at surface level. Where underground parking is provided, projects are observed to sell these spaces for between $10,000 and $30,000 per stall.
- The number of common amenities offered at each of the surveyed projects was generally correlated with the size of the building. Smaller projects, such as the 36-unit Villas of Wortley, offered limited or no amenities for residents. The amenities being offered at the larger projects varied, but broadly, the following were the most common amenities: balconies with every unit, fitness facilities, social/lounge/party rooms, and guest suites.

- Until recently, most condominium apartment purchasers were doing so for lifestyle preferences as opposed to affordability reasons. As such, the larger share of two-bedroom units, as well as the spacious unit sizing, likely reflects this purchaser base, who preferred the convenience of apartment living, but still desired space.
- With the rising pricing barriers discussed in this memo, it is highly possible that this market preference starts to shift, with one-bedroom units becoming more in demand and more compact unit types becoming more sought-after. This will allow for higher pricing on a per square foot basis, which should improve the economics of delivering new condominium apartments in the London market.

4.4 Rental Apartment Market Survey

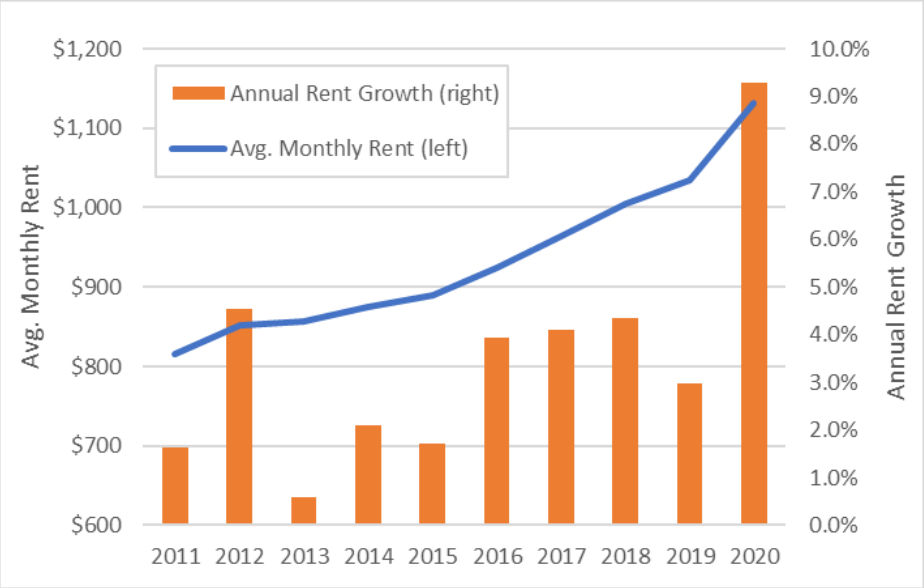
The following section provides an overview of findings from our rental apartment market survey:

- Growing pricing barriers to the low-rise ownership market have also had the effect of shifting residential demand towards rental housing, specifically rental apartments. Coupled with increasing rates of immigration, London has seen a surge in rental demand. Between the 2011 and 2016 Census, renter households accounted for 86% of London's net household formation. This demand is reflected in the significant share of rental apartments being delivered to the market and the City's vacancy rate being below 3% between 2014 and 2019.
- Of note, the vacancy rate did increase to 3.5% in 2020, however most municipalities did experience a higher vacancy due to the COVID-19 pandemic. Like the condo market, NBLC completed a survey of rental apartments in the City to better understand market inputs. This survey found very tight conditions, with limited vacancies, indicating that the market has rebounded.
- Like low-density housing prices, rental rates have been increasing at a rapid pace since 2016, with 2020 representing a significant increase (**Figure 13**). It is our understanding that strengthening rental demand has been driven by the return of post-secondary students in the fall of 2021, but also by young adults, including many moving to London from elsewhere in Ontario, and some downsizers.
- Like the condominium market, available rental apartments were large, averaging over 1,000 square feet on average. These large unit sizes require relatively modest per square foot rental rates, which ranged from $1.60 to $2.15 per square per month. We also found that parking spaces were typically leased for $30 per month to over $100 per month for an uncovered and covered space, respectively.
- New rental buildings tend to offer a social room / rooftop lounge, including some with attached outdoor terraces; Fitness facilities with cardio, resistance machines, and aerobics/yoga rooms; Guest suites; Bicycle storage rooms; and balconies for nearly all units. In addition, some

projects also offered amenities such as automated parcel management systems and electric vehicle parking spaces, both of which have are becoming increasingly popular.

- It should be noted that the range of amenities being offered does not appear to be tied to geographic location, as many of the projects have taken very similar positioning strategies. The one exception to this is with smaller projects (<150 units) which tend to offer slightly fewer amenities as a cost savings measure.

Figure 13 – Average Monthly Rent and Annual Rent Growth, City of London (Source CMHC)



4.5 Key Findings

- Overall, the results of our condo and rental apartment survey indicate that pricing remains modest relative to other markets in Ontario. We also found that the Downtown and North Richmond PMTSA geographies experience a slight pricing premium, with pricing and project positioning being fairly similar across the rest of the City.
- **Table 6** illustrates the market inputs utilized in the proforma analysis as informed by our market survey.
- **Table 7** illustrates the rental and condo pricing levels observed in London relative to other GTHA municipalities that are investigating IZ. London is well below these other market areas. As assessed in the following section of this memo, these pricing levels do not result in strong

viability metrics given the rising construction costs experienced in Ontario over the past five years[1].

- This explains the scattered investment patterns observed across the City of London. Developers appear to be capitalizing on land acquired historically (e.g. well below current market rates) and also sites that can be developed in a cost-efficient manner (e.g. large sites capable of accommodating surface parking and an efficient building footprint).
- Of note, development within the PMTSA geography can be a more complicated form to deliver given the urban context, smaller sites, and need to accommodate parking below grade, which can cost over $50,000 per parking stall. The Downtown is currently supported by an incentive package to offset some of the additional costs and complexity associated with building in this area.
- We have also found that parking remains important in the London market, even in the Downtown. While the BRT may encourage lower parking requirements over time, there is no evidence to currently support this notion.
- Unlike other municipalities in the central Greater Toronto Area and Kitchener-Waterloo where high-density development tends to be concentrated near transit and employment, **Figures 11** and **12** illustrate that high-density development in London is fairly scattered across the City. As noted above, there also does not appear to be much market differentiation across the City, with most new buildings being positioned similarly. This was further confirmed by the City's cash in lieu of parkland land value study, which found that high-density residential land values were fairly consistent across the City, whereas in other municipalities we tend to see higher land values within stronger market areas where development is concentrated and investments in transit are occurring[2].
- Despite these modest market conditions, London's market is quickly transitioning. As affordability in the low-density market continues to erode, we expect that a greater share of residents will look to rental and condominium apartments. Like other markets (e.g. Kitchener-Waterloo, Mississauga, Brampton, Markham, Vaughan, etc.), we expect that this will lead to smaller unit sizes and higher per square foot pricing levels.
- Ironically, eroding affordability and higher apartment pricing will create a stronger market context for IZ to be viable without significant financial incentives.
- Overall, we expect that the high-density residential market will continue to improve due to population growth, demographic and lifestyle changes occurring in the City. The BRT could also lead to market improvements within the PMTSAs and lessen the market demand for costly underground parking. However, the market has not yet demonstrated that these improvements

[1] Many sources identify double digit annual cost increases for multi-family construction over past five years.
[2] Metrix Realty Group. Summary Consulting Report of a Residential Development Land Value Study Cash In Lieu, December 2019 Prepared for the City of London.

are occurring. Developing an IZ policy based on projected market performance is a risk that is assessed later in this memo.

Table 6

Key Market Inputs by Location - Condominium Apartment						
Location	**Suite Mix[1]**	**Unit Size**	**Price**	**$PSF**	**Absorptions[2]**	**Parking Cost[3]**
Downtown	45% / 45% / 10%	840	$472,000	$562	10	$30,000
Rapid Transit Corridors						
North Richmond	45% / 45% / 10%	840	$495,250	$590	10	$30,000
South Wellington	35% / 55% / 10%	905	$491,250	$543	5	$25,000
Oxford West	35% / 55% / 10%	905	$506,750	$560	8	$30,000
East King-Dundas	35% / 55% / 10%	860	$467,000	$543	5	$25,000
Transit Villages						
Masonville (North)	35% / 55% / 10%	905	$506,750	$560	8	$30,000
White Oaks (South)	35% / 55% / 10%	905	$491,250	$543	5	$25,000
Oxford/Wonderland (West)	35% / 55% / 10%	905	$506,750	$560	5	$30,000
Oxford/Highbury (East)	35% / 55% / 10%	860	$477,500	$555	5	$25,000

1= One-Bedroom / Two-Bedroom / Three-Bedroom; 2= Sales per month; 3=Assumes underground parking

Source: N.Barry Lyon Consultants

Table 7

Key Market Inputs by Location - Rental Apartment						
Location	**Suite Mix[1]**	**Unit Size**	**Price**	**$PSF**	**Lease-Up Rate[2]**	**Parking Cost[3]**
Downtown	45% / 45% / 10%	840	$1,883	$2.24	25	$125
Rapid Transit Corridor						
North Richmond	45% / 45% / 10%	840	$1,883	$2.24	25	$125
South Wellington	35% / 55% / 10%	905	$1,845	$2.04	15	$80
West Oxford	35% / 55% / 10%	905	$1,928	$2.13	20	$80
East King-Dundas	35% / 55% / 10%	860	$1,690	$1.97	15	$80
Transit Village						
Masonville (North)	35% / 55% / 10%	905	$1,928	$2.13	20	$80
White Oaks (South)	35% / 55% / 10%	905	$1,845	$2.04	15	$80
Oxford/Wonderland (West)	35% / 55% / 10%	905	$1,928	$2.13	20	$80
Oxford/Highbury (East)	35% / 55% / 10%	860	$1,690	$1.97	15	$80

1= One-Bedroom / Two-Bedroom / Three-Bedroom; 2= Sales per month; 3=Assumes underground parking

Source: N. Barry Lyon Consultants

Table 8

Condominium and Rental Rates ($ per sq. ft.) in Municipalities with IZ				
Municipality	**Condominium Price Range**		**Rental Price Range**	
	Low	**High**	**Low**	**High**
City of Toronto	$850	$1,450	$3.00	$4.25
City of Mississauga	$800	$1,100	$2.90	$3.40
City of Markham	$800	$950	$2.90	$3.20
City of Brampton	$750	$900	$2.60	$2.90
Kitchener / Waterloo	$600	$800	$2.10	$2.50
City of London	$543	$560	$1.95	$2.25

5.0 Findings of Feasibility Analysis

Figures 14-16 provide an illustration of the results of our financial proforma modelling, which illustrate a wide range of findings that generally correspond to the discussion in Section 2 of this memo and the hypothetical illustrations presented in **Figures 5-7**. Since the Planning Act does not permit municipalities to zone for tenure, we have evaluated three different combinations of tenure for the market and affordable components of projects subject to IZ:

- Condominium Project (**Figure 14** and **15**): The developer can choose whether to provide IZ units in rental or condominium (ownership) tenure. Both IZ tenures have been modelled to illustrate the difference in performance. Different set aside rates or other policy measures can be adjusted to encourage one tenure over another (e.g. Toronto's approved IZ policy has a higher set aside rate for a condominium project providing affordable ownership than affordable rental).
- Rental Project (**Figure 16**): It is assumed a rental project would satisfy IZ by providing affordable rental units to maintain tenure consistency across the building and reduce complexity.

Overall, the results of the analysis indicate the following preliminary key findings:

- Viable results are observed in the Downtown for both condominium project scenarios. The value added through the density bonus is significant due to the higher pricing levels achieved in this area. The value creation is also aided by the incentive package, which waives development charges and property taxes for a period of years after completion. Similar results are also observed in the North Rapid Transit Corridor, which is also due to the high pricing level observed. However, the bonus density adds less value relative to the downtown due to the absence of incentives and because less density is provided through bonusing.
- In both of the above scenarios, we see the land value increase as density is added to the project, and then decrease as IZ is applied (with the value decreasing further as the policy becomes more onerous, going from a 5% set aside rate to 15%).
- In all the other test locations, the added density either does not add any value, or the land value remains similar or less than the base density (i.e. standard maximum height) once IZ is applied. This is due to several factors:
    - Pricing is modest relative to construction costs (hard and soft development costs, profit), leaving little residual value to be attributed to land. Unlike strong markets in the GTA, density as a sole offset is not as significant in the current London market.
    - Absorption is also slow, which requires a significant pre-sales period to reach the 70% sales threshold to receive construction financing. This introduces significant risk for a condo project, which also requires discounting over a longer period to account for the time value of money.

- Given parking requirements, increasing density also requires additional parking, which in all cases requires the addition of costly underground parking that significantly offsets the value added through density. This impact is lowest in the Downtown, where parking requirements are the lowest relative to the other PMTSAs.

- Outside of the Downtown, purpose-built rental projects do not illustrate viability for IZ at the current time, which is consistent with our findings across the Province, including the City of Toronto where IZ was recommended to not apply to rental housing. Most municipalities across Ontario are trying to encourage increased rental supply through incentives and other measures. However, we also note that the London market is unique and much of the apartment activity occurring is purpose-built rental. We expect to engage in discussions with developers to investigate other methodologies to assess viability that may be more appropriate, such as evaluating longer-term profit implications rather than evaluating feasibility based solely on land value.

- **Table 9** illustrates the findings with a specific focus on the uplift in GFA and land value for each test location. As shown, the increase in density is not unform across the test sites, rather it fluctuates widely based on the planning permissions within the London Plan. The highest amount of bonusing is provided in the Downtown.

  - The other test locations accommodate a modest increase in density, with the Rapid Transit Corridors and Transit Villages permitting a bonus density of between 2,100 - 4,000 m^2 and 3,000 – 6,600 m^2, respectively.

  - Where the land value uplift is positive (Downtown, North RTC, West RTC, North TV, West TV), additional density would improve the results. In all other locations, the results of the analysis could worsen with additional density, requiring other offsets (i.e. financial).

Figure 14: Preliminary Results of a Condominium Project Providing IZ Ownership Units

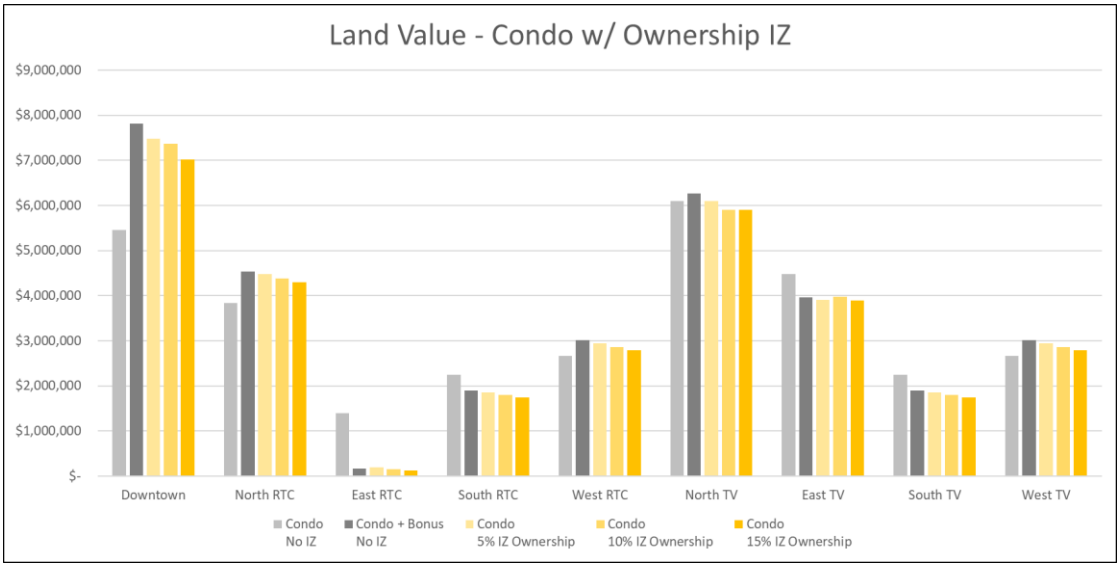


Figure 15: Preliminary Results of a Condominium Project Providing IZ Rental Units

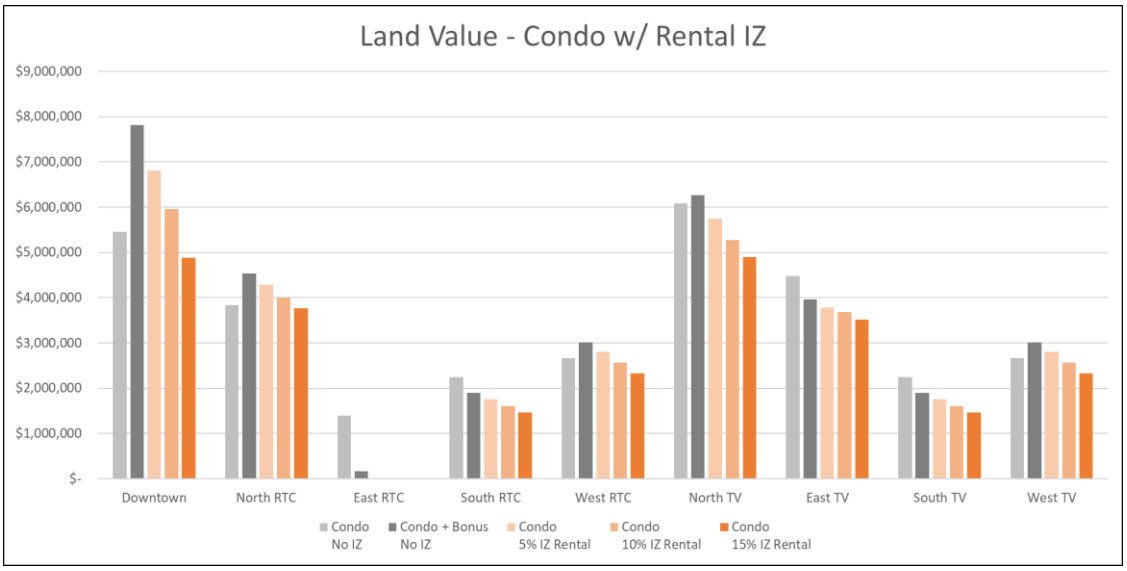
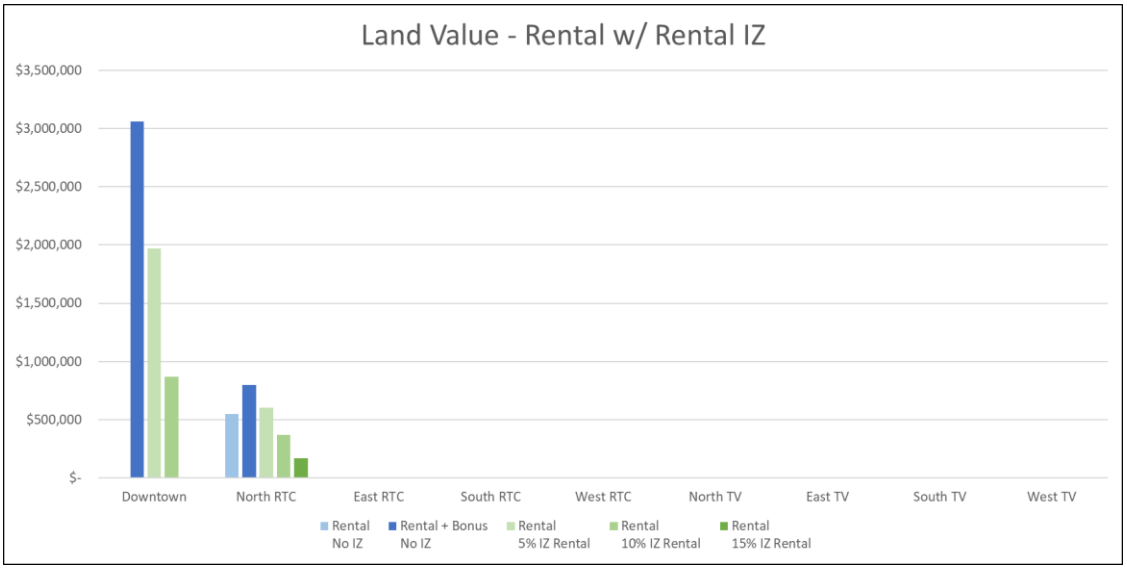


Figure 16: Preliminary Results of a Rental Project Providing IZ Rental Units



- These results indicate that only the downtown is likely to present viable conditions for IZ under the current London Plan permissions, however these results are also supported by the incentives offered through the existing CIP. Eliminating the CIP would likely result in unviable conditions for an IZ policy in the downtown as well.
- In the other PMTSAs, where there is a positive correlation between density bonus and land value, the results could improve if the density available through bonusing were increased. However, a sensitivity analysis regarding how much additional density might be required has not been completed.

- It should also be noted that every development project is unique. The analysis undertaken assesses a single "prototypical" development site and attempts to extrapolate the findings to a larger area. However, every site, project, and developer will be different. It is therefore possible that development activity could be negatively impacted, despite the results of this analysis illustrating viable results.
- It is acknowledged that some of the projects that have been recently developed and proposed have been on properties with historical land acquisition (e.g. commercial sites where the historical land value has been capitalized, land purchased many years ago, etc.). The analysis in this report assesses the situation where a developer will acquire a property and advance a high-density development. While the former situation (i.e. historical land purchase) would yield more positive results regarding IZ feasibility, implementing an IZ policy under this context would preclude the ability for a developer to purchase a site and advance a project within the PMTSA's. Similarly, it is also noted that some developers in the London market proceed without financing and/or with other cost saving strategies. An IZ policy implemented with very aggressive and developer-specific assumptions would preclude any other developer not utilizing the same development model from advancing a housing project.

Table 9: Value Created Through Bonus Density

Prototype Location	As-Of-Right GFA (sq. m.)	Bonus GFA (sq. m.)	Total GFA	As-Of-Right Land Value	Total Density Land Value	Land Value Uplift (Total)	Land Value Uplift (per sq. m.)
Downtown	18,300	13,700	32,000	$ 5,450,000	$ 7,810,000	$ 2,360,000	$ 172
North RTC	7,000	3,000	10,000	$ 3,840,000	$ 4,540,000	$ 700,000	$ 233
East RTC	8,000	4,000	12,000	$ 1,400,000	$ 170,000	$ (1,230,000)	$ (308)
South RTC	12,400	2,100	14,500	$ 2,240,000	$ 1,900,000	$ (340,000)	$ (162)
West RTC	6,300	2,700	9,000	$ 2,670,000	$ 3,020,000	$ 350,000	$ 130
North TV	15,400	6,600	22,000	$ 6,090,000	$ 6,260,000	$ 170,000	$ 26
East TV	14,000	3,000	17,000	$ 4,480,000	$ 3,960,000	$ (520,000)	$ (173)
South TV	15,000	5,000	20,000	$ 2,240,000	$ 1,900,000	$ (340,000)	$ (68)
West TV	15,400	6,600	22,000	$ 2,670,000	$ 3,020,000	$ 350,000	$ 53

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