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nblc



# City of London: Inclusionary Zoning Analysis

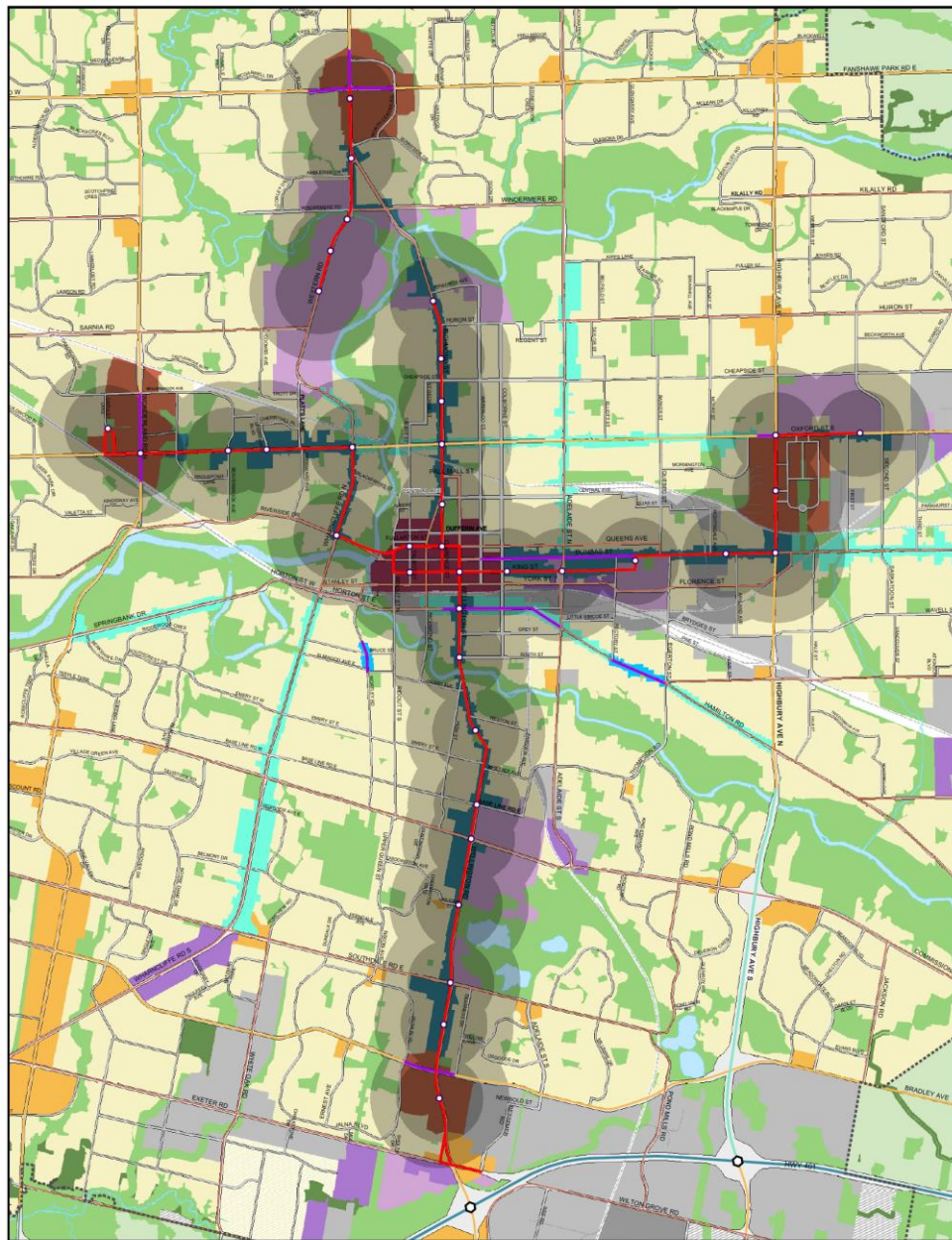
Planning and Environment Committee

# Quick Background

- End of S.37 regime
- IZ (blunt requirement through zoning) and S.37 (site by site negotiation) are different
- IZ Regs (232/18):
  - Needs analysis
  - Financial feasibility analysis and peer review
  - IZ can only be implemented in PMTSA geography
  - Development application can exempt project from IZ
- Administration and implementation equally as important as policy and feasibility analysis.

# Maximum Permissions and Bonus Density

- Downtown:
  - Max Height: 20 storeys
  - Bonus Density: up to 35 storeys
- Transit Village (4):
  - Max Height: 15 storeys
  - Bonus Density: up to 22 storeys
- Rapid Transit Corridor (4):
  - Max Height: 8 – 12 storeys
  - Bonus Density: up to 12 – 16 storeys



# RLV Model

## Market Research & Proforma Analysis

- A) Revenue
- B) Costs
- C) Profit

$$A - B - C = D$$

D= Residual Land Value

# Feasibility Test (example)

## Max Height:

- 20-storey building (100% market)

## Density Bonus:

- 35-storey building (100% market)

## Bonus Density with IZ:

- 35-storey building (IZ applying to floors 21-35, the rest remaining market rate)
- Land Value must be above as of right to be viable
- With negative or marginal results, development will not occur:
  - No affordable housing through IZ
  - Reduced market supply making affordability worse
  - Reduced supply in key transit locations

# Feasibility Test – Illustrated (IZ feasible)

Land Value (\$)



Base Case – 20  
Storey  
Apartment

Bonus Density  
– 35 Storey  
Apartment

**Without IZ**

Bonus Density  
– 35 Storey  
Apartment

**With IZ**

# Feasibility Test – Illustrated (IZ not feasible)



# Feasibility Test – Illustrated (IZ not feasible)

Land Value (\$)



Base Case – 20  
Storey  
Apartment

Bonus Density  
– 35 Storey  
Apartment

**Without IZ**

Bonus Density  
– 35 Storey  
Apartment

**With IZ**



# Assessment Report Guiding Principles

- IZ should not affect the supply of market housing
- The policy is best informed by current market conditions, with conservative assumptions of market movement
  - Developing the policy based on expected market appreciation is not recommended
  - Rather, the policy should be regularly monitored and remain flexible to adapt with changing (positive or negative) market conditions
- The policy should be feasible when considered against a variety of development outcomes and developer expectations
- We cannot account for those who already own land. The analysis is forward looking where developers acquire and develop housing

# High-Level Market Findings

- Apartments (rental and condo) are becoming a larger share of the market, but pricing remains modest (large units, modest \$ per square foot values).
- Construction costs are rapidly increasing.
- Recent and proposed apartment activity is scattered across the municipality.
  - The PMTSA geography does not appear to be attracting new apartment activity in a significant way.
  - It is unclear if the transit investment will significantly alter these trends.
  - Most of the City's success with securing affordable housing through bonusing is not within the PMTSA.
- Pricing, market demand, land values, and other market considerations are relatively consistent across the City, with some exceptions identified.

# High-Level Market Findings

- Parking remains an important component of new apartment projects. Uncertainty regarding BRT impact on this trend.
  - Typically seeing 1.0 – 1.2 spaces per unit, less in the downtown.
- Many apartment projects characterized by large properties and abundance of surface/structure parking (largely outside of PMTSA geography).
  - Within PMTSA, some sites capable of the above built form.
  - However, many will require more urban form of development (tighter site, requirement for costly underground parking).
    - Surface: \$5,000
    - Structure: \$24,000 - \$45,000
    - Underground: \$65,000 - \$100,000

# Takeaways from Financial Testing

- In most situations, the impact of IZ is not sufficiently offset by additional density - other offsets/incentives would be necessary
- Downtown London is the only exception, driven by:
  - Lower parking requirements
  - Stronger \$PSF market pricing
  - Incentives available through the CIP (offsetting TIEG and Development Charges)
- Given the above, if IZ were to be implemented in the PMTSA's, several risks emerge:
  - Developers avoid the PMTSA geography entirely
  - No/reduced investment in strategic growth areas
  - No affordable housing created through IZ
  - Overall reduced supply, potentially exacerbating affordability challenges.

# Direction and Next Steps

- Overall, we believe the introduction of IZ under current legislation is problematic in the London market
- The upcoming loss of Section 37 is likely to result in London securing fewer affordable units
- The application of IZ across the entire City has the potential to eliminate many of the risks identified:
  - Must still be aligned with market realities (i.e. modest set aside rate, grow the policy slowly)
  - Remove disadvantage that PMTSA would face relative to other locations
  - Acknowledge the market realities of London (modest impact of BRT, relatively flat market context, etc.)
  - Continue success the City has had with Section 37 in locations outside of the PMTSA's



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