Affordable Housing Strategy IZ Impact Assessment

Review & Update

September 27, 2024

Parcel

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Table of Contents

Executive Summary i
Context i
Key Findings ii
Recommendations iii
1.0 Introduction 1
1.1 Background 2
1.2 Purpose 2
1.3 Scope 3
2.0 Methodology & Assumptions 4
2.1 Inclusionary Zoning Background 5
2.2 Assessing the Impact of IZ 5
2.3 Assumptions 6
3.0 Analysis & Results 14
3.1 Baseline Financial Feasibility 15
3.2 Impact of Inclusionary Zoning 18
4.0 Recommendations 19
4.1 Recommendations 20
Appendix A: Detailed Return Metrics & Financial Feasibility Overview 21
Detailed Return Metrics 22
Financial Feasibility Basics 24
Appendix B: Detailed Development Concepts 29

Table of Figures

Figure 2.1 Market-Based "Affordable" Definitions in Different Legislation & Policy 7
Figure 2.2 Geographies for Financial Feasibility Testing 8
Figure 2.3 Development Concepts for Financial Feasibility Testing 9
Figure 2.4 Change in Construction Price Index 10
Figure 2.5 Change in Interest Rates 10
Figure 2.6 Land Values 11
Figure 2.7 Revenues & Unit Characteristics 12
Figure 2.8 Hard Cost Assumptions 12
Figure 3.1 Baseline Financial Feasibility by Typology & Tenure in Richmond Hill Centre MTSA 17
Figure 3.2 IZ Impact on Return Metrics in Richmond Hill Centre by Affordable Definition 18
Figure A.1 Baseline Financial Feasibility by Typology and Tenure 22
Figure A.2 IZ Impact on Return Metrics by Affordable Definition 23
Figure A.3 The "Sweet Spot" for Successful Development Projects 24
Figure A.4 Basic Structure of Financial Feasibility 26
Figure A.5 Pro Forma Use Cases 28
Figure B. 1 Detailed Development Concepts for Financial Feasibility Testing 30

Executive Summary

Context

Background

- Following an extensive research process that culminated in November 2021, the City of Richmond Hill recently adopted its Affordable Housing Strategy.
- Among other things, this strategy included an evaluation of relevant policy tools, including recommendations for the development and implementation of a new inclusionary zoning policy framework[1].

Purpose

- Recognizing the time that has elapsed since the original supporting research program was completed—the City has since retained Parcel Economics Inc. ("Parcel") to prepare **selected updates to two of the critical elements of this original research**:
  - the *Housing Needs Assessment* (Sub-Report 1 of the Affordable Housing Strategy Background Report); and,
  - the *IZ Impact Assessment* (Sub-Report 4 of the Affordable Housing Strategy Background Report).
- This report represents an update to key elements of *Sub-Report 4: IZ Impact Assessment* ("HIA") of the City's broader Affordable Housing Strategy.

[1] As part of this process, and as specifically required by Provincial legislation, the City engaged in the preparation of an assessment report that addressed market impact and financial viability considerations, per Ontario Regulation 232/18. As part of this engagement, Parcel Economics Inc. ("Parcel") has also been tasked with preparing an independent, third-party peer review of this work, which is available under separate cover.

Scope

- We have prepared selected research updates to the contents of Sub-Report #4, with a focus on data obtained from standard industry sources and subscription-based data products.
- Our updated research process has involved running pro forma analyses to assess the impact of an inclusionary zoning policy on financial feasibility of new development, as well as the financial feasibility of development in Richmond Hill more generally based on current market conditions.
- In conjunction with above, we have also reviewed and provided our professional opinions as to any specific **recommendations / strategic directions and/or "key takeaways"** that may need to be updated considering the aforementioned research/analytical updates, where applicable.

Key Findings

1 Challenging Conditions

- Macroeconomic conditions have declined since 2021 such that **development is significantly more challenged** than when the previous IZ analysis was completed.

2 Baseline Infeasibility

- Prototypical purpose-built rental and ownership developments, as modelled, are **not financially feasible at a baseline** (i.e., even exclusively full market-rate units with no IZ requirement considered).

3 Inclusionary Zoning Viability

- Introducing an inclusionary zoning at any level of affordability negatively impacts financial viability of all development typologies.
- Given development is not financially feasible at a baseline, **inclusionary zoning is not viable at current market conditions** and could further discourage housing production.

Recommendations

1 Exercise Patience

- Although current market conditions are such that inclusionary zoning is not currently viable, it may become more viable as market conditions improve longer-term.
- As such, some patience on the part of the City of Richmond Hill may be required to realize the intended benefits of such a policy framework.

2 Establishing the "Groundwork"

- Notwithstanding current market conditions, it is recommended that the City adopt an Inclusionary Zoning by-law such that the key policy "infrastructure" is in place to quickly implement IZ, should market conditions improve in the future.

3 Implementation Considerations

- More specifically, the by-law could initially carry a 0% set aside rate, acknowledging IZ is not current viable. Market conditions would be periodically reviewed and the set aside rate would be amended accordingly.
- Any proposed changes to the set aside rate should be clearly communicated and phased in such that the private sector has time to adjust its financial modelling.

Note: Parallel Incentives

In parallel to the above advancement of the underlying IZ policy framework, it is important that any requirements for affordable housing be supplemented with appropriate incentives, which can come in many forms. Wherever possible, incentives should be made available to affordable units required under inclusionary zoning.

1.0

Introduction

1.1 Background

Following an extensive research process that culminated in November 2021, the City of Richmond Hill adopted its Affordable Housing Strategy.

Among other things, this strategy included an evaluation of relevant policy tools, including recommendations for the development and implementation of a new inclusionary zoning policy framework[2].

1.2 Purpose

Recognizing the time that has elapsed since the original supporting research program was completed—the City has since retained Parcel Economics Inc. ("Parcel") to prepare **selected updates to two of the critical elements of this original research**:

- the *Housing Needs Assessment* (Sub-Report 1 of the Affordable Housing Strategy Background Report); and,
- the *IZ Impact Assessment* (Sub-Report 4 of the Affordable Housing Strategy Background Report).

This report represents an update to *Sub-Report 4: IZ Impact Assessment* ("HIA") of the City's broader Affordable Housing Strategy.

[2] As part of this process, and as specifically required by Provincial legislation, the City engaged in the preparation of an assessment report that addressed market impact and financial viability considerations, per Ontario Regulation 232/18. As part of this engagement, Parcel Economics Inc. ("Parcel") has also been tasked with preparing an independent, third-party peer review of this work, which is available under separate cover.

Original Sub-Report 4 (IZ Impact Assessment)

The original Sub-Report 4 was prepared by SHS Consulting ("SHS") and dated March 2021, which is available under separate cover. It contains a range of analysis related to inclusionary zoning feasibility based on market conditions at the time that original assessment was completed.

1.3 Scope

Peer Review

Notwithstanding our primary focus on preparing the requisite research updates to Sub-Report #4 as part of this engagement, Parcel was also tasked with providing a third-party review of the original IZ work program and resulting deliverables prepared by SHS as it relates to the subject HIA. This peer review, prepared under separate cover, **recommended updating specific assumptions to reflect more recent market data but otherwise found no material gaps nor deficiencies as part of the original work program prepared**.

See **Parcel Peer Review**, available under separate cover.

Research Updates

1. We have prepared research updates to the contents of Sub-Report #4, with a focus on current market inputs (e.g., construction costs, interest rates, etc.) and data from other standard industry sources and subscription-based data products.

2. In collaboration with municipal staff, our updated research process has involved testing **updated building typologies (e.g., mid-rise, high-rise) by geography and tenures (ownership vs. rental)**.

3. In conjunction with above, we have also reviewed and provided our professional opinions as to any specific **recommendations / strategic directions and/or "key takeaways"** that may need to be updated considering the aforementioned research/analytical updates, where applicable.

2.0

Methodology & Assumptions

2.1 Inclusionary Zoning Background

In 2018, the Province of Ontario passed Regulation 232/18, which allow municipalities to implement Inclusionary Zoning ("IZ") policies under predefined conditions and parameters.

IZ seeks to secure non-market housing as a by-product of broader market-based development. This policy tool has been implemented in many jurisdictions across the United States—to vary degrees of success—and the approach has more recently been actively studied and considered in many Canadian cities, including across Ontario.

In response to the above policy direction at the provincial level, the City of Richmond Hill commissioned *Sub-Report 4: Inclusionary Zoning Impact Assessment* of *The City of Richmond Hill Affordable Housing Strategy – Background Report* (herein referred to as the "IZ Impact Assessment"). The purpose of this study was to explore the expected impact on the local housing market of a potential IZ policy.

To complete this study, Richmond Hill retained the services of SHS, a consulting practice focused primarily on affordable and non-profit housing. As outlined in more detail herein, the SHS study was completed in March 2021, including a supporting research program, the preparation of financial pro forma analyses for a number of different submarket areas, consideration for a range of alternative scenarios or potential outcomes by way of corresponding "sensitivity analyses", consultations with local real estate professionals active in the Richmond Hill market (i.e., the development community), and delivery of a complete report inclusive of all related research findings, conclusions and recommendations.

2.2 Assessing the Impact of IZ

Similar to previous IZ analyses, assessing the impact of inclusionary zoning is a two-step process requiring pro forma analysis for both baseline and inclusionary zoning-specific scenarios, as follows:

1. **Calculate Baseline Financial Feasibility**
   Calculate whether the proposed typologies are financially feasible based on current market conditions *without* any inclusionary zoning requirements.

2. **Calculate Financial Feasibility + Inclusionary Zoning Requirements**
   Calculate whether the proposed typologies are financially feasible based on current market conditions *with* inclusionary zoning requirements.

We note that certain typologies and tenures may not be viable at a baseline, that is, development is unlikely to proceed given current market conditions. In these instances, an inclusionary zoning requirement would further worsen project viability given it reduces project revenues without a commensurate decrease in project costs.

See Appendix for additional information on **Financial Feasibility Basics**.

2.3 Assumptions

Inclusionary Zoning Parameters

Posted on October 22, 2022, the Province has proposed amendments to Ontario Regulation 232/18 (Inclusionary Zoning) to "*provide more certainty/clarity and make inclusionary zoning rules in Protected Major Transit Station Areas more consistent across the province*". Key changes proposed include:

- A **maximum requirement of 5% of total units** (or 5% of the total gross floor area of total residential units, excluding common areas) be set aside as affordable.
- A **maximum period of 25 years** over which affordable units would be required to remain affordable.
- The approach to determining the lowest price/rent that can be required for IZ units would be **80% of the average resale purchase price** of ownership units OR **80% of the average market rent** for rental units.

These proposed changes have not come into force at time of reporting, and it remains unclear if there will be further proposed changes.

Note: Reconciling Affordability Definitions

The definition of "affordable" in proposed inclusionary zoning legislation differs from other definitions of affordable at both the provincial, regional, and municipal level. Namely, it focuses on a market-based definition exclusively. Absent direction or indication that the Province intends to change this definition, we have elected to model inclusionary zoning requirements using the **proposed Ontario Regulation 232/18 definition**, which represents the most current understanding of most likely inclusionary zoning requirements at time of reporting.

We have further modelled financial feasibility using 100% AMR and 125% AMR as a *sensitivity* analysis, which generally align with market-based affordability definitions in the provincial Development Charge bulletin (100% AMR) and the recommended definition in Richmond Hill's Affordable Housing Strategy and York Region's Official Plan (125% AMR).

Figure 2.1

Market-Based "Affordable" Definitions in Different Legislation & Policy

Tenure	Proposed O. Reg. 232/18	Provincial Planning Statement (2024)	Bill 134 (Affordable Homes and Good Jobs Act, 2023)	York Region Official Plan	Richmond Hill Official Plan
Ownership	80% or Average Resale Purchase Price or lower	90% Average Resale Purchase Price or lower	90% Average Purchase Price	n/a	90% Average Resale Purchase Price or lower
Rental	80% Average Market Rent	100% Average Market Rent or lower	100% Average Market Rent or lower	125% Average Market Rent or lower	100% Average Market Rent or lower

Source: Parcel

Development Concepts

Eight (8) development concepts across four geographies were provided by the City of Richmond Hill for testing. Except for Richmond Hill Centre, the City of Richmond Hill provided generic geographies for testing representing different development contexts throughout the city. These were further refined in collaboration with Richmond Hill staff as follows:

Figure 2.2

Geographies for Financial Feasibility Testing

Generic Geography / MTSA	**Comparable Geography in 2021 Report**
Richmond Hill Centre MTSA	Richmond Hill Centre Subway Station / Langstaff GO
Key Development Centre MTSA	Bernard BRT
Corridor MTSA	Valleymede BRT Station
Local Centre MTSA	Major Mackenzie BRT Station

Source: Parcel

Other key differences between current and previous IZ analysis include:

- A mid-rise typology has been tested in Richmond Hill Centre, whereas the previous analysis only tested a high-rise typology.
- Slightly different FSIs tested, for consistency with updated Official Plan directions and land use intensification objectives.

Figure 2.3

Development Concepts for Financial Feasibility Testing

	Richmond Hill Centre		Key Development Area MTSA		Corridor MTSA		Local Centre MTSA	
	Mid Rise	*High Rise*	*Mid Rise*	*High Rise*	*Mid Rise*	*High Rise*	*Mid Rise*	*High Rise*
Lot Size (ha)	0.35 ha	0.76 ha	0.44 ha	0.93 ha	0.22 ha	0.62 ha	0.31 ha	0.83 ha
Existing FSI	*2.5 FSI*	*3.5 FSI*	*2.0 FSI*	*3.5 FSI*	*2.5 FSI*	*2.5 FSI*	*2.0 FSI*	*2.5 FSI*
% Density Uplift	40%	86%	50%	43%	40%	60%	40%	40%
FSI Tested	**3.5 FSI**	**6.5 FSI**	**3.0 FSI**	**5.0 FSI**	**3.5 FSI**	**4.0 FSI**	**2.8 FSI**	**3.5 FSI**

Source: Parcel, based on concepts provided by City of Richmond Hill.

Market Input Assumptions

Market input assumptions were based on a review of subscription-only data, other third-party data providers, and industry standards. This methodology is consistent with previous reporting but updated to current market conditions.

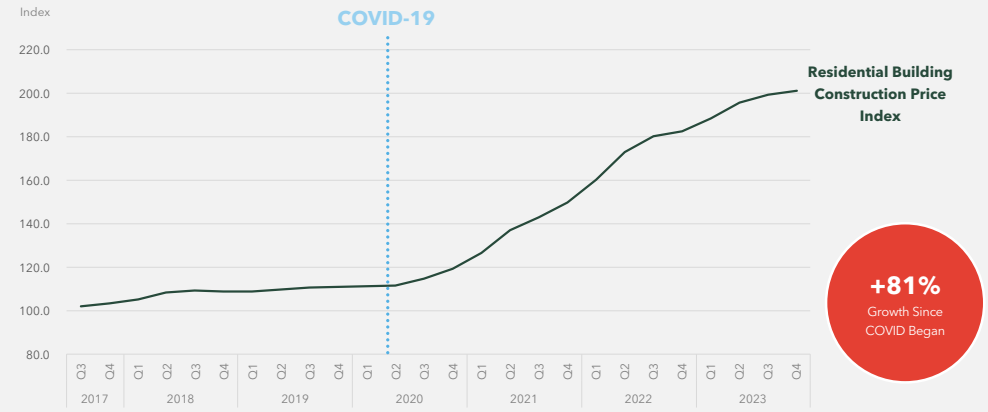
Our review did not find material differences in market inputs across the different MTSAs in Richmond Hill for testing, likely due to multi-unit development sharing similar geographic characteristics and being relatively limited in scale. As such, assumptions related to land values, unit sizes, and revenues are consistent across all geographies, tenures, and typologies. Differences in financial feasibility results are due to specifics in each development concept (e.g., site area, permitted density, total gross floor area, etc.).

Note: Challenging Macroeconomic Conditions

It is important to note that rapid increases in construction costs and high interest rates have created a much more challenging development environment in recent years compared to when the original IZ analysis was completed in 2021. Changes to IZ viability can, in part, be explained by these differences.

Figure 2.4

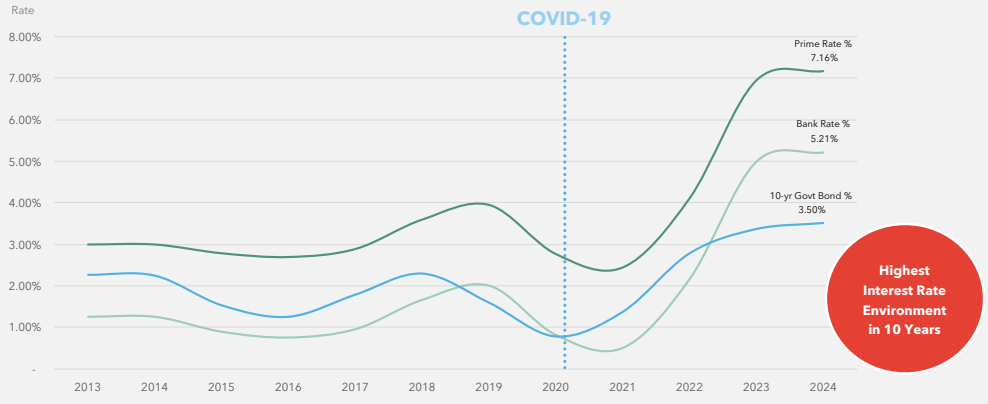
Change in Construction Price Index



Source: Parcel, based on Statistics Canada Table 18-10-0135-01

Figure 2.5

Change in Interest Rates



Source: Parcel, based on Bank of Canada Table 10-10-0145-01

Land Values

Land values are based on recent residential land sales in Richmond Hill and the target FSI for testing per development concepts. Recent land sales were limited, which may be indicative of high land costs and other current macroeconomic development challenges.

Overall, land values were targeted at **$10.81M per acre** for all geographies and typologies. This value is expressed on a per buildable square foot basis (PBSF) in Figure 2.6 below based on the total size of each development concept.

Figure 2.6

Land Values

MTSA	Typology	2024 Update	2021 Report
Richmond Hill Centre	Mid-Rise	$71 PBSF	Between $44 PBSF and $66 PBSF* Depending on Typology and MTSA
	High-Rise	$38 PBSF	
Key Development Area	Mid-Rise	$83 PBSF	
	High-Rise	$50 PBSF	
Corridor	Mid-Rise	$71 PBSF	
	High-Rise	$62 PBSF	
Local Centre	Mid-Rise	$89 PBSF	
	High-Rise	$71 PBSF	

PBSF = Per Buildable Square Foot

*Ownership tenure without affordable units

Source: Parcel, based on Altus Data Studio, CoStar Realty Inc., and SHS Sub-Report 4 Table 17.

Revenues & Unit Characteristics

Revenues and unit characteristics are based on a review of recently completed projects and units currently selling/renting. Both monthly rents and selling prices have increased since the 2021 report.

Figure 2.7

Revenues & Unit Characteristics

		2024 Update			2021 Report		
MTSA	**Unit**	**Unit Size**	**Ownership Price**	**Monthly Rent**	**Unit Size**	**Ownership Price**	**Monthly Rent**
All	1 Bed	600 SF	$1,000 PSF	$4.00 PSF	550 SF	$895 PSF	$3.31 PSF to $3.36 PSF
	2 Bed	800 SF	$1,063 PSF	$3.62 PSF	750 SF	$800 PSF	$3.15 PSF to $3.34 PSF
	3 Bed	950 SF	$1,158 PSF	$3.37 PSF	1,050 SF	$790 PSF	$2.18 PSF to $273 PSF

SF = Square Feet

PSF = Per Square Foot

Source: Parcel, based on Rentals.ca, Altus Data Studio, and SHS Sub-Report 4 Table 12.

Hard Costs

Hard costs are based on the 2024 Altus Construction Cost Guide median value by typology, which is consistent with the 2021 report methodology. However, we note construction costs increased dramatically between 2021 and present, which results in a large discrepancy between hard cost estimates in the updated analysis and 2021 report.

Figure 2.8

Hard Cost Assumptions

Typology	**2024 Update**	**2021 Report**
Apartments Up to 12 Storeys	$340 PSF	$275 PSF
Apartments 13-39 Storeys	$340 PSF	$250 PSF
Apartments 40-60 Storeys	$380 PSF	$250 PSF
Underground Parking	$240 PSF	$100 PSF

PSF = Per Square Foot

Source: Parcel, based on 2024 Altus Construction Cost Guide and SHS Sub-Report 4 Table 14. Note: IZ Peer Review cites 2023 Construction Cost Guide amounts as the 2024 guide was not available at the time of publication.

Soft Costs

Municipal development fees (including planning application fees, building permit fees, development charges, community benefits charges, parkland contributions, and property taxes) are based on current rates sourced directly from the City. Other soft costs (i.e., professional fees, site related studies, legal, administrative expenses, marketing, financing) are estimated as a percentage of hard costs based on typical "rule of thumb" type ratios.

This approach is consistent with the 2021 report, however, soft cost amounts differ due to increases to municipal fees in the interim, as well as significant increases to hard costs, from which other soft cost estimates are derived.

In some cases, soft costs increases have been significant. For example, development charges for apartment units increased 96% and 117% between 2021 and 2024, depending on unit size.

3.0

Analysis & Results

Note: Presentation of Results by Geography

Financial feasibility results did not differ materially between MTSAs. As such, for readability, the following section only presents results for Richmond Hill Centre, which acts as a proxy for all MTSAs tested. More detailed tables with results for all MTSAs can be found in **Appendix A**.

3.1 Baseline Financial Feasibility

First things first: what is the situation in Richmond Hill today?

Conducting a baseline analysis based on current market conditions and policy context has allowed us to establish an important starting point to evaluate the impact of IZ requirements.

Additionally, by leveraging these baseline results as a tool for comparison, we can better predict the likelihood of IZ discouraging investment in a particular typology based on its effect on the financial feasibility compared to the baseline scenario.

Common Return Metrics

Not all developers are alike and there is no single return metric that signifies a financially viable project. Each developer looks at a unique subset of variables and return metrics under different conditions, based on their own requirements and/or expectations. Common measurement tools include:

1. **Net Profit / (Loss)** – The total amount of money made (or lost) over the course of a project.
2. **Internal Rate of Return (IRR)** – The expected compound annual return (%) over the course of the project.
3. **Equity Multiplier (EMx)** – The number of times a project's original equity investment is returned to investors.
4. **Cash-on-Cash Return (CoC)** – The cash flow after financing (%) generated by the equity invested to date. It does not consider the value of the building or any appreciation of value over time. Only applicable to developments with recurring cash flows.
5. **Timing** – Opportunistic investors look for quick returns (e.g., condo apartments) while long-term investors value consistent returns over a longer period (e.g., rental apartments).
6. **Measurements of Risk** – Loan to Value, Debt Service Coverage Ratio, Debt Yield, etc.

It is important to note that return metrics are rarely considered in isolation, and several metrics likely need to be favourable to give a developer confidence to proceed with a project.

Purpose-Built Rental

- Purpose-built rental typologies **show potential to produce profit at current land values** resulting in an EMx above 3.0x. However, it is important to note it will take **approximately 30 years** to achieve these returns.
- IRR and Yield, though positive, are **below typical thresholds required to proceed with development**. An IRR of 9% is the typical minimum for rental development. Yield typically needs to surpass the 10-year bond yield (between approximately 3% and 4% at time of reporting).
- Despite profitability, **return metrics are *likely* insufficient to proceed with development** given timelines, the amount of risk associated with real estate development, investor expectations, and other investment opportunities.

Ownership

- Ownership typologies, as modelled, **are not financially viable given baseline conditions**. Revenues are insufficient to recover development costs, and proceeding with development will result in a financial loss. The Richmond Hill Centre high-rise ownership typology is an exception, achieving a $4M profit. However, its IRR of 1.8% is well below the 15% typical minimum threshold for ownership development, and it is unlikely a developer would consider this investment.
- Considering the above, **we have not modelled the impact of IZ on ownership tenures.**

Figure 3.1

Baseline Financial Feasibility by Typology & Tenure in Richmond Hill Centre MTSA

		Rental		Ownership	
MTSA		Mid-Rise	High-Rise	Mid-Rise	High-Rise
Richmond Hill Centre	Profit	$157M	$738M	-$5M	$4M
	IRR	5.3%	5.3%	-13.4%	1.8%
	EMx	3.59x	4.04x	0.81x	1.04x
	Yield	0.9%	1.0%	-	-
	Timeline	30 years	33 years	6 years	8 years

Profit too small to justify investment

Large total profit, but lengthy timeline to achieve

Development loses money

Source: Parcel. Red cells denote metrics that fall below typical thresholds.

See **Appendix** for Return Metrics for Other MTSAs.

3.2 Impact of Inclusionary Zoning

We have modelled the impact of inclusionary zoning on financial feasibility based on the parameters in the proposed Provincial changes, specifically:

- A **5% set aside rate**;
- **25-year affordability period**; and,
- "Affordable" defined as **80% AMR**.

Additionally, we modelled two other levels of affordability to reflect "affordable" definitions in other policy and legislation:

- **100% AMR**, per Richmond Hill Official Plan, Bill 134, and Proposed Provincial Planning Statement (2024) definition; and,
- **125% AMR**, per York Region definition.

Unsurprisingly, affordable definitions that result in lower rents have a greater negative impact on financial feasibility. Return metrics improve as affordable rents increase, but **an IZ requirement at any affordable definition negatively impacts financial feasibility**. Given development is not feasible under current market conditions, **inclusionary zoning is not feasible under current market conditions**.

Figure 3.2

IZ Impact on Return Metrics in Richmond Hill Centre by Affordable Definition

		Mid-Rise Rental				High-Rise Rental			
MTSA		Baseline	80% AMR	100% AMR	125% AMR	Baseline	80% AMR	100% AMR	125% AMR
Richmond Hill Centre	Profit	$157M	$150M	$151M	$153M	$738M	$705M	$712M	$721M
	IRR	5.3%	5.1%	5.2%	5.2%	5.3%	5.2%	5.2%	5.3%
	EMx	3.59x	3.43x	3.47x	3.52x	4.04x	3.88x	3.92x	3.97x
	Yield	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%
	Timeline	30 years	30 years	30 years	30 years	33 years	33 years	33 years	33 years

Source: Parcel. "Timeline" includes entitlement process, construction, lease-up, and 25-year hold period. Red cells denote values that are lower than the baseline.

See **Appendix** for Return Metrics for Other MTSAs.

4.0

Recommendations

4.1 Recommendations

- **Current market conditions are such that inclusionary zoning is not currently viable**. Development is already challenged and an IZ by-law has the potential to further discourage housing production.
- IZ may become **more viable as market conditions improve** (e.g., lower construction costs and interest rates).
- Notwithstanding current market conditions, it is recommended that the City adopt an Inclusionary Zoning by-law such that the key policy "infrastructure" is in place to quickly implement IZ, should market conditions improve in the future.
- More specifically, the by-law could initially carry a 0% set aside rate, acknowledging IZ is not current viable. Market conditions would be periodically reviewed and the set aside rate would be amended accordingly.
- Any proposed changes to the set aside rate should be clearly communicated and phased in such that the private sector has time to adjust its financial modelling.

Note: Parallel Incentives

In parallel to the above advancement of the underlying IZ policy framework, it is important that any requirements for affordable housing be supplemented with appropriate incentives, which can come in many forms. Wherever possible, incentives should be made available to affordable units required under inclusionary zoning.

Appendix A:

Detailed Return Metrics & Financial Feasibility Overview

Detailed Return Metrics

Figure A.1

Baseline Financial Feasibility by Typology and Tenure

		Rental		Ownership	
MTSA		Mid-Rise	High-Rise	Mid-Rise	High-Rise
Richmond Hill Centre	Profit	$157M	$738M	-$5M	$4M
	IRR	5.3%	5.3%	-13.4%	1.8%
	EMx	3.59x	4.04x	0.81x	1.04x
	Yield	0.9%	1.0%	-	-
	Timeline	30 years	33 years	6 years	8 years
Key Development Area	Profit	$164M	$681M	-$11M	-$14M
	IRR	5.0%	5.1%	-40.0%	-6.6%
	EMx	3.36x	3.81x	0.64x	0.88x
	Yield	0.9%	1.0%	-	-
	Timeline	30 years	33 years	6 years	8 years
Corridor	Profit	$96M	$329M	-$6M	-$11M
	IRR	5.0%	4.7%	-57.7%	-12.9%
	EMx	3.35x	3.37x	0.63x	0.81x
	Yield	0.9%	0.9%	-	-
	Timeline	30 years	32 years	6 years	7 years
Local Centre	Profit	$107M	$386M	-$8M	-$13M
	IRR	4.9%	4.7%	-	-11.5%
	EMx	3.30x	3.38x	0.60x	0.82x
	Yield	0.8%	0.9%	-	-
	Timeline	30 years	32 years	6 years	7 years

Source: Parcel. "Timeline" includes entitlement process, construction, lease-up, and 25-year hold period. Red cells denote metrics that fall below typical thresholds.

Figure A.2

IZ Impact on Return Metrics by Affordable Definition

		Mid-Rise Rental				High-Rise Rental			
MTSA		Baseline	80% AMR	100% AMR	125% AMR	Baseline	80% AMR	100% AMR	125% AMR
Richmond Hill Centre	Profit	$157M	$150M	$151M	$153M	$738M	$705M	$712M	$721M
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	EMx	3.59x	3.43x	3.47x	3.52x	4.04x	3.88x	3.92x	3.97x
	Yield	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%
	Timeline	30 years	30 years	30 years	30 years	33 years	33 years	33 years	33 years
Key Development Area	Profit	$164M	$157M	$158M	$160M	$681M	$653M	$659M	$667M
	IRR	5.0%	4.8%	4.9%	4.9%	5.1%	4.9%	5.0%	5.0%
	EMx	3.36x	3.22x	3.25x	3.29x	3.81x	3.66x	3.69x	3.74x
	Yield	0.9%	0.8%	0.8%	0.9%	1.0%	1.0%	1.0%	1.0%
	Timeline	30 years	30 years	30 years	30 years	33 years	33 years	33 years	33 years
Corridor	Profit	$96M	$90M	$92M	$93M	$329M	$314M	$317M	$321M
	IRR	5.0%	4.8%	4.8%	4.9%	4.7%	4.6%	4.6%	4.7%
	EMx	3.35x	3.19x	3.23x	3.27x	3.37x	3.24x	3.27x	3.31x
	Yield	0.9%	0.8%	0.8%	0.9%	0.9%	0.8%	0.9%	0.9%
	Timeline	30 years	30 years	30 years	30 years	32 years	32 years	32 years	32 years
Local Centre	Profit	$107M	$102M	$103M	$104M	$386M	$369M	$372M	$377M
	IRR	4.9%	4.7%	4.8%	4.8%	4.7%	4.6%	4.6%	4.7%
	EMx	3.30x	3.15x	3.18x	3.22x	3.38x	3.25x	3.28x	3.32x
	Yield	0.8%	0.8%	0.8%	0.8%	0.9%	0.8%	0.9%	0.9%
	Timeline	30 years	30 years	30 years	30 years	32 years	32 years	32 years	32 years

Source: Parcel. "Timeline" includes entitlement process, construction, lease-up, and 25-year hold period. Red cells denote values that are lower than the baseline.

Financial Feasibility Basics

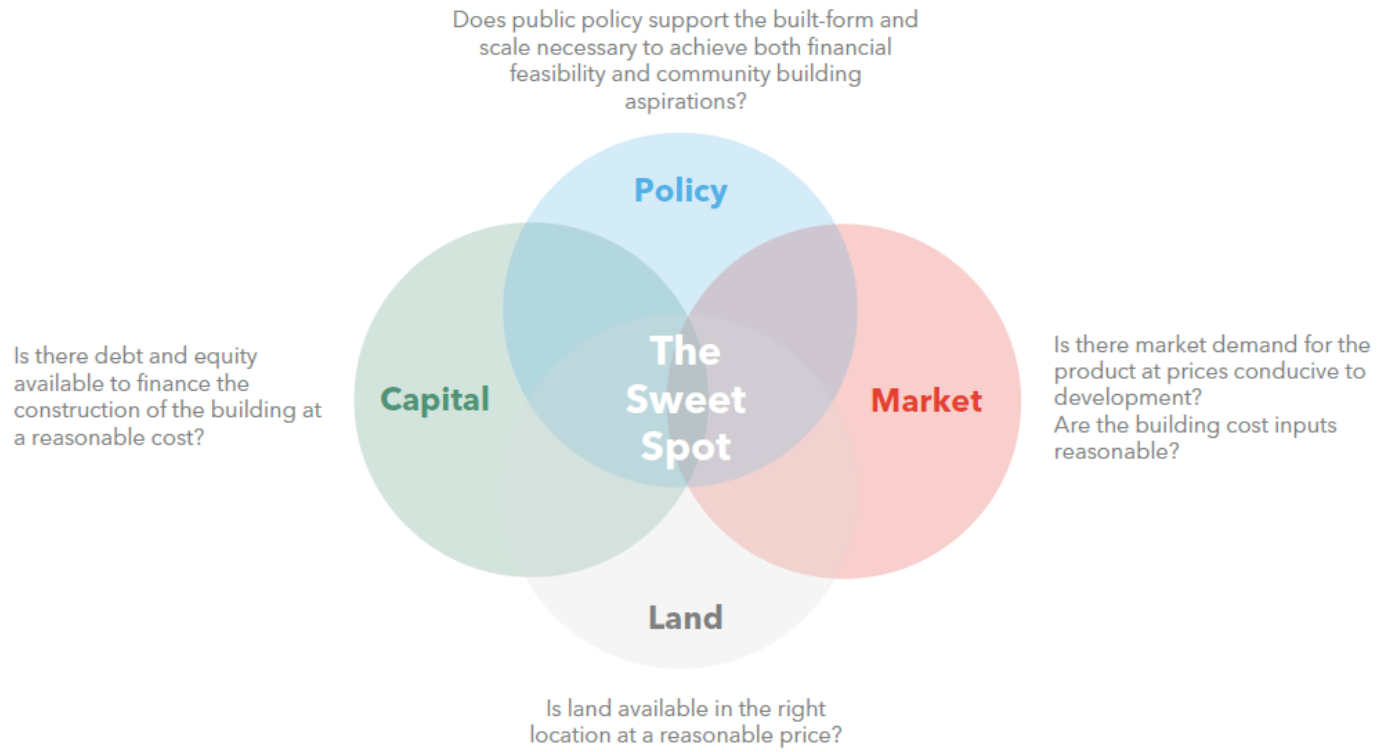
Key Determinants

The development of new real estate—whether market or non-market (affordable)—can be extremely complex given that its success is dependent on a multitude of factors spanning countless industries and professional disciplines. Similarly, development can be heavily influenced by both broader macroeconomic conditions and more site-specific factors, all of which are key determinants in the ultimate viability of a given project.

For simplicity, we often synthesize this to the identification of four key elements that can have some of the most significant impacts on financial feasibility: **Policy**, **Market**, **Land** and **Capital**. The successful integration of all these factors is required to set the groundwork for viability.

Figure A.3

The "Sweet Spot" for Successful Development Projects



Source: Parcel.

General Structure

We have prepared **Discounted Cash Flow (DCF)** analyses for each of the housing prototypes considered in this report. There are several reasons we chose to use DCFs rather than a more simplified and static "back-of-the-envelope" type modelling that only focuses on the Residual Land Value (RLV), including:

- A DCF considers the timing of development cash flows, recognizing that projects typically occur over many years. This approach is necessary when considering the impact that policy changes can have on the financial viability of development;
- It captures the time value of money, given that "a dollar in your hand today is worth more than a dollar tomorrow"; and,
- It offers the opportunity prepare a more detailed evaluation of the potential profitability of purpose-built rental apartments, specifically their cashflow-generating potential during operations (i.e., post-development).

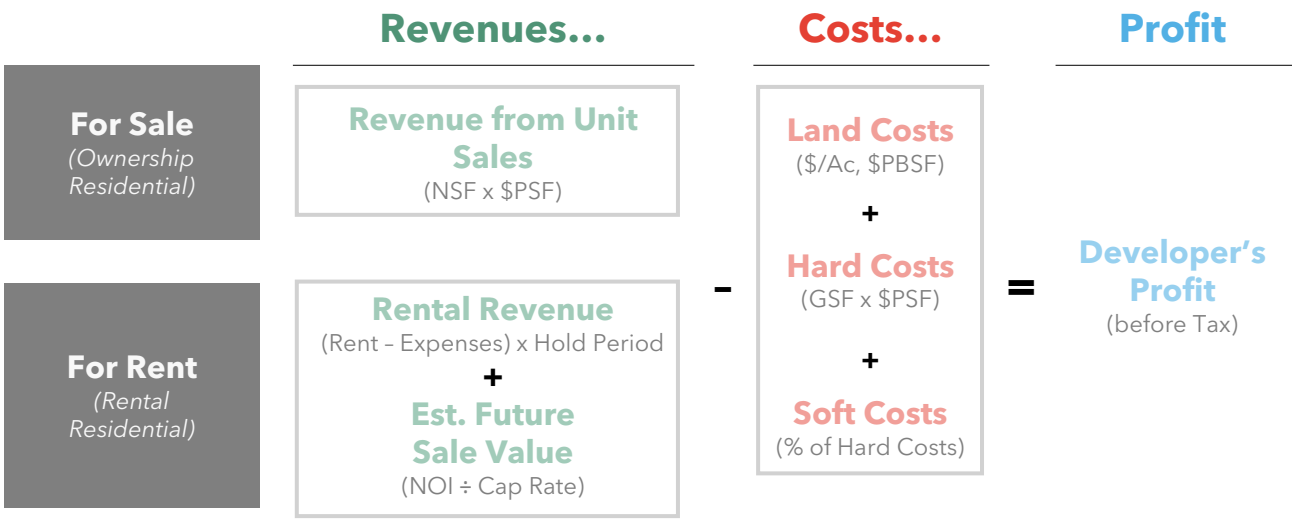
Notwithstanding the foregoing differences, it is helpful to keep in mind that the overall structure of any financial feasibility modelling is effectively the same.

Both simple and very detailed development pro forma analyses can always be simplified to their core elements: revenues, costs, and profits.

Revenue, cost, and profit assumptions can also vary by tenure (i.e., ownership vs. rental housing). The key difference being that most ownership residential developments are focused on relatively **short-term investment horizons** consisting of predominantly one-time cost / revenue streams, whereas purpose-built rental housing and seniors housing requires a much different **investment "lens" that can span many years** (i.e., including operation of the new asset upon its completion and market entry).

Figure A.4

Basic Structure of Financial Feasibility



NSF = "Net Square Feet" is the usable space within a dwelling unit.
GSF = "Gross Square Feet" is the entire area of the building, including common areas such as lobbies and hallways.
$PSF = "Price per Square Foot"
NOI = "Net Operating Income"
$/Ac = "Price per Acre"
Source: Parcel.

Common Return Metrics & Other Considerations

Not all developers are alike and there is no single return metric that signifies a financially viable project.

Each participant in a development project looks at a unique subset of variables and return metrics under different conditions based on their own requirements and/or expectations. Common measurement tools include:

1. **Net Profit / (Loss)**

   The total amount of money made (or lost) over the course of a project.

2. **Internal Rate of Return (IRR)**

   The expected compound annual return (%) over the course of the project.

3. **Equity Multiplier (EMx)**

   The number of times a project's original equity investment is returned to investors.

4. **Yield**

   The cash flow after financing (%) generated by the equity invested to date. It does not consider the value of the building or any appreciation of value over time. Yield is sometimes referred to as cash-on-cash.

5. **Timing** – Opportunistic investors look for quick returns (e.g., condo apartments) while long- term investors value consistent returns over a longer period (e.g., rental apartments).

6. **Measurements of Risk** – Loan to Value, Debt Service Coverage Ratio, Debt Yield, etc.

It is important to note that return metrics are rarely considered in isolation, and several metrics likely need to be favourable to give a developer confidence to proceed with a project.

Use Cases

Pro forma analyses are important to all facets of urban development, with wide-ranging private *and* public sector applications.

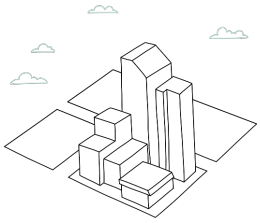
Financial feasibility modelling is—at its core—a tool for evaluating potential future outcomes. Whether motivated purely by profit or driven by other city-building objectives and social purpose, this type of analysis can be applied to any number of different "use cases" to maximize opportunities to achieve preferred outcomes.

Broadly speaking, development pro forma analyses can be relied upon at various stages of the real estate development life cycle, including during the early stages of concept development (**Pre-Development**); throughout the entitlements and government approvals process (**Approvals & Funding**); as well as to inform the creation of sound land use policies that are mindful of the current—and anticipated future—conditions within a given market (**Policy Development**).

Figure A.5

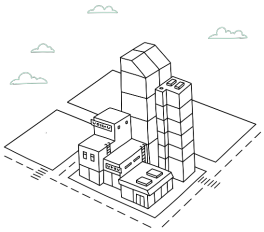
Pro Forma Use Cases

PRE - DEVELOPMENT



- Validate market / financial feasibility (pre- or post-land acquisition)
- Early-stage development scoping and concept testing

APPROVALS & FUNDING



- Optimize development program (project "right-sizing", determine ideal land use mix, etc.)
- Evaluate delivery of social benefits (non-market community facilities+)

POLICY DEVELOPMENT

- Inform land use policy direction / special projects (Official Plan Reviews, Secondary Plans, other municipal strategies, etc.)
- Prioritization of preferred municipal / city-building outcomes (municipal fees, parkland dedication, retail at grade, affordable housing, urban design, etc.)

Source: Parcel.

For this study, pro forma analysis, and financial feasibility in general, is utilized primarily as a tool for comparison rather than profit maximization.

The analysis presented in this study **is intended to help the City determine the viability of introducing an inclusionary zoning policy**. However, we understand the limitations of this type of broad analysis and acknowledge that some typologies and scenarios which may appear unprofitable could very well be profitable under the right circumstances and conditions, which deviate from our broad baseline assumptions.

Appendix B:
Detailed Development Concepts

Figure B. 1

Detailed Development Concepts for Financial Feasibility Testing

	Richmond Hill Centre		Key Development Area MTSA		Corridor MTSA		Local Centre MTSA	
	Mid Rise	*High Rise*	*Mid Rise*	*High Rise*	*Mid Rise*	*High Rise*	*Mid Rise*	*High Rise*
Lot Size (ha)	0.35 ha	0.76 ha	0.44 ha	0.93 ha	0.22 ha	0.62 ha	0.31 ha	0.83 ha
Existing FSI	2.5 FSI	3.5 FSI	2.0 FSI	3.5 FSI	2.5 FSI	2.5 FSI	2.0 FSI	2.5 FSI
% Density Uplift	40%	86%	50%	43%	40%	60%	40%	40%
FSI Tested	**3.5 FSI**	**6.5 FSI**	**3.0 FSI**	**5.0 FSI**	**3.5 FSI**	**4.0 FSI**	**2.8 FSI**	**3.5 FSI**
Building Height (Storeys)	9	44	7	34	8	22	6	16
Number of Units	155 units	630 units	169 units	597 units	99 units	318 units	111 units	373 units
Unit Mix								
Studio	-	-	-	-	-	-	-	-
1 bed	80 units	320 units	87 units	303 units	51 units	161 units	57 units	190 units
2 bed	60 units	250 units	65 units	237 units	38 units	126 units	43 units	148 units
3 bed +	15 units	60 units	17 units	57 units	10 units	31 units	11 units	35 units
% Studio	-	-	-	-	-	-	-	-
% 1 bed	*52%*	*51%*	*51%*	*51%*	*52%*	*51%*	*51%*	*51%*
% 2 bed	*39%*	*40%*	*38%*	*40%*	*38%*	*40%*	*39%*	*40%*
% 3 bed +	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*9%*

Source: Parcel.

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Richmond Hill Affordable Housing Strategy / Inclusionary Zoning:

Research Interview Summary

Introduction

Context

- Parcel Economics Inc. ("**Parcel**") has been retained by the City of Richmond Hill to update selected elements of the background research prepared in support of the City's Affordable Housing Strategy, including the potential implementation of a new Inclusionary Zoning by-law.
- This memorandum presents findings from **research interviews** conducted with the local development community to solicit feedback about the perceived impact of an Inclusionary Zoning by-law. It is intended to act as a companion to the financial feasibility analysis of an IZ policy occurring in parallel.

Overview

- Parcel conducted **four (4) interviews** with local for-profit and non-profit developers. Developers interviewed all had active or completed projects in Richmond Hill, or had considered pursuing development in Richmond Hill.
- Interviews were conducted in **July 2024**.
- Parcel provided each interviewee with a primer document detailing the nature of the project, as well as some preliminary discussion questions (see Appendix for details).

See Appendix for details of **Research Interview "Primer"**

Key Takeaways

Theme #1: Challenging Macroeconomic Conditions

- Current macroeconomic conditions are making it challenging to develop in Richmond Hill and York Region more generally. These include high hard construction costs (both materials and labour) and soft costs.
- High municipal fees and cost of land are specific hurdles stopping some developers from launching projects in Richmond Hill.
- However, cost growth is predicted to slow, and this may help improve project feasibility in the future.

Theme #2: IZ Policy

Affordability

- The current affordability definition of 80% average market rent (AMR) makes it challenging to provide IZ units while remaining financially viable. Allowing IZ units to be offered at 100% AMR or 125% AMR would be better, however, *any* inclusionary zoning policy will make it more challenging for a project to remain financially viable without offsetting incentives.
- The City should have a clear understanding of the types of households an IZ policy is intended to help. For example, households on the affordable housing waitlist (administered and maintained by York Region) are likely unable to afford IZ rents, even at 80% AMR.
- IZ policy should permit a range of affordability levels to ensure the best match between rents/prices that are financially viable and target incomes.

Incentives & Alternative Delivery of Affordable Units

- Incentives are necessary to offset the financial impacts of IZ units.
- Specific incentives mentioned include density bonusing and fee waivers for IZ units.

- Allowing cash-in-lieu (CIL) payments or the option to provide affordable units offsite was seen as favourable as they are predictable and easier to model financially. These options were also seen as favourable for smaller developments where an IZ policy would result in multiple buildings with a smaller number of units. Scattered units are typically more difficult to manage than buildings with a critical mass of affordable units.
- IZ incentives should be consistently available for IZ units. Competitive programs where there is a risk of not receiving incentives are less predictable and therefore less desirable.

Thresholds & Set Aside Rates

- A 10-unit threshold is low and would negatively affect smaller projects; a 50-unit threshold is when IZ units could become economically viable.
- A 5% set aside rate is a vast improvement over the original York Region Official Plan requirement of 25% affordable housing and was seen as potentially achievable with incentives and in certain circumstances.

Geography

- IZ requirements should reflect local conditions of different types PMTSAs. For example, land values are likely to differ between a site near a subway station and a site near a bus depot, and therefore affect the financial viability of IZ units.

Typologies & Tenures

- IZ units should match the tenure of the buildings in which they are located (i.e., rental units in rental buildings and ownership units in condominium units).
- Mixing tenures, particularly rental units in ownership buildings, is challenging operationally and financially.

Implementation

- Several interviewees noted potential challenges associated with monitoring and enforcement of IZ units (i.e., ensuring households in IZ units do not exceed income thresholds), especially when the developer is not the manager.
- It is also important to ensure diverse IZ unit sizes so they are not all studios and 1-bedroom units.

- An ideal IZ policy would be both **predictable** and **flexible** in terms of requirements. That is, requirements should be explicit and consistent while allowing for options to meet requirements. It is important to not over-engineer an IZ policy to allow for nuance.

Theme #3: Competing Priorities

- Though it is intended as a housing affordability tool, an IZ policy risks discouraging market supply such that no new market or affordable housing is created, thereby worsening overall housing affordability.
- The municipality prioritize policies that create more supply, which could naturally help housing affordability, with programs and policies targeted at affordability as a second priority.

Appendix:

Interview Guide

Parcel

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Introduction

Parcel Economics Inc. ("Parcel") has been retained by the City of Richmond Hill to update selected elements of the background research prepared in support of the City's Affordable Housing Strategy, including the potential implementation of a new Inclusionary Zoning by-law.

As part of this research update process, we are conducting research interviews with a selected group of stakeholders with the intention of soliciting more direct, on-the-ground feedback from the local development community regarding factors that may inform our analysis.

Our discussion (30 minutes) will touch on—but not necessarily be limited to—the topics below.

Please feel free to speak candidly. Your responses, unless explicitly requested, will remain strictly confidential and anonymized.

Contacts

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Ryan Taylor
Associate
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Topics

1 Inclusionary Zoning Policy

- Are you familiar with inclusionary zoning as a policy and/or the City's previous inclusionary zoning research?
- Please comment on the impact of the most recent proposed IZ regulations on development feasibility:
  - Applicable to developments of 10 or more units in Protected Major Transit Station Areas (PMTSAs)
  - Set aside rate of 5%, affordability defined as 80% average market rent (AMR), 25-Year affordability period
- Are there specific PMTSAs in Richmond Hill that are best suited for an IZ by-law?
- Would an inclusionary zoning by-law affect your development decisions? If so, how?
- Does IZ support or hinder the intended outcomes of other municipal/regional/provincial housing policies? If so, how?

2 Development Environment in Richmond Hill

- How have feasibility conditions changed since 2021 (when previous research was conducted)?
- Can you provide an indication of hard construction costs per square foot in Richmond Hill for the types of housing you are actively developing? (Examples of hard construction costs per square foot in the GTA from the 2024 Altus Group Construction Cost Guide are provided below for reference).

	Low		High
Concrete Apartment (up to 12 storeys)	$285	to	$390
Concrete Apartment (13-39 storeys)	$295	to	$380
Concrete Apartment (40-60 storeys)	$340	to	$425

- Can you provide an indication of sales price and/or rents per square foot in Richmond Hill for the types of housing you are actively developing?