



The Corporation of the Town of Milton

Report To: Council

From: Jill Hogan, Commissioner, Development Services

Date: February 24, 2025

Report No: DS-013-25

Subject: Inclusionary Zoning Assessment Report

Recommendation: THAT Council receive the Inclusionary Zoning Assessment Report, attached as Appendix A, for information;

THAT Council direct Staff to obtain an independent written opinion on the financial impact analysis in the Inclusionary Zoning Assessment Report, as required by the provincial regulation;

THAT a budget increase in the amount of \$20,000 be made to capital project C90010323 Res/Non-Res Take Up/Land Needs Study, funded from the Housing Accelerator Fund; and

THAT Council direct Staff to report back on the findings of the independent written opinion together with recommended next steps.

EXECUTIVE SUMMARY

Inclusionary Zoning (IZ) is a planning tool that municipalities may use to help increase the supply of affordable housing. Inclusionary Zoning, when implemented, requires new residential developments over a certain size to provide a specified percentage of affordable housing units.

Inclusionary Zoning can apply only within Protected Major Transit Station Areas (PMTSAs) or in areas established with a Community Planning Permit System (CPPS). The Town has two PMTSAs that may be able to implement IZ: the Milton GO PMTSA and the Milton Trafalgar PMTSA. The Town has not implemented a CPPS.

Before a municipality can pass IZ policies, the Planning Act requires that an assessment report be completed. Provincial regulation (O. Reg. 232/18) sets out the analyses that need to be completed for the IZ assessment report, which includes analysis of the potential impacts of IZ on the housing market and on the financial viability of development. The IZ

EXECUTIVE SUMMARY

Assessment Report has been completed by a consulting team led by Watson & Associates Economics Ltd. (Watson), and is attached as Appendix A.

Watson's Assessment Report finds that IZ may be viable and has recommended a preliminary policy framework. However, under current market conditions, the financial viability of residential development is precarious. Development viability is sensitive to sudden shifts in interest rates, construction costs, market demand and other economic circumstances. The imposition of IZ could tip the balance and stymie the market delivery of apartments, which are by their nature relatively attainable in the Milton housing spectrum. It is also important to provide time for the market to adjust to potential IZ policy and minimize market disruption. Therefore, the Watson report recommends a measured and gradual introduction of IZ over time as and when market conditions improve and adjust.

The provincial regulation requires that the analysis of the potential impacts of IZ on the housing market and on the financial viability of development (the financial impact analysis) completed by Watson be reviewed by an independent third-party before IZ Official Plan policies can be adopted. The purpose of the third-party review is to ensure the methodology and assumptions used in the financial impact analysis are appropriate and reasonable.

As a next step, Staff is recommending that the Town proceed with obtaining an independent written opinion on the financial impact analysis in Watson's Report, as required by the provincial regulation, such that Staff can proceed to move forward with evaluating the potential use of IZ. Should Council approve the recommendations in this report, Staff will report back on the findings of the independent written opinion together with recommended next steps, following completion of the third party review.

REPORT

Background

The Ontario Planning Act permits municipalities to pass Official Plan policies and Zoning By-law regulations to implement Inclusionary Zoning. Inclusionary Zoning is a municipal planning tool that, when implemented, requires new residential developments over a certain size to provide a specified percentage of affordable housing units.

The Planning Act only permits Inclusionary Zoning (IZ) in Protected Major Transit Station Areas (PMTSAs) or in areas established with a Community Planning Permit System (CPPS). The Planning Act requires that an assessment report must be completed by a municipality

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before it could adopt IZ policies. Provincial regulation, O. Reg. 232/18, sets out the analyses that need to be completed for the IZ assessment report.

As part of the 2023 budget, Council approved the Residential and Non-Residential Take Up/Land Needs Study (project ID: C900103), which included the assessment report for Inclusionary Zoning as part of its scope. A Request for Proposal was issued in March 2023 to obtain consulting services for the Study. The proposal was awarded to a consulting team, consisting of Watson & Associates Economists Ltd., Tim Welch Consulting Inc., and Malone Given Parsons, in May 2023 through report [CORS-028-23](#).

The Residential and Non-Residential Take Up/Land Needs Study is one of the initiatives the Town committed to completing as part of Milton's Housing Accelerator Fund Action Plan. The IZ Assessment Report is Phase 2 of the Residential and Non-Residential Take Up/Land Needs Study. The IZ Assessment Report, attached as Appendix A, is the final milestone needed to complete this Housing Accelerator Fund initiative.

Discussion

The Inclusionary Zoning Assessment Report has been completed and is attached as Appendix A.

Provincial Regulation Requirements

A chart summarizing the IZ assessment report requirements as set out in provincial regulation, O. Reg. 232/18, and the status of completion is attached as Appendix B. All analyses required by the provincial regulation have been completed, except for the independent written opinion on the IZ financial impact analysis.

The demographics, population, household incomes, housing supply, affordable housing needs, and market price and rent background analyses required by the provincial regulation have been comprehensively analyzed in the IZ Assessment Report attached as Appendix A, the Housing Needs Assessment (also on the February 24, 2025 Council agenda), and Phase 1 of the Residential and Non-Residential Take Up/Land Needs Study ([DS-049-24](#)).

The required financial impact analysis of IZ on the housing market and on the financial viability of development has been undertaken in the IZ Assessment Report. The provincial regulation requires that the municipality also obtain an independent third-party written

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opinion on the financial impact analysis that has been undertaken, which has yet to be completed.

IZ Assessment Report

The IZ Assessment Report by Watson & Associates Economists Ltd. (Watson) includes:

- A review of housing and planning policy context, IZ best practices, and factors influencing Milton's population and housing market trends;
- Analysis of Milton's housing market;
- An assessment of Milton's future housing and housing affordability needs;
- An assessment of financial impact of IZ on development feasibility in Milton's Protected Major Transit Station Areas; and
- Policy and IZ framework recommendations.

Case Studies

The introduction and use of IZ in Canada is relatively new, as compared to the U.S.A. Ontario passed legislation enabling municipalities to establish IZ policies in 2016 and passed the regulations that enabled it to come into force in 2018. The IZ Assessment Report reviewed the approved or proposed IZ policy frameworks of the City of Toronto, Region of Waterloo, City of Mississauga, City of Ottawa, and City of Victoria in British Columbia.

For IZ policies to come into effect in Ontario, a municipality would need to have Council approved IZ policies and by-law, as well as Ministry of Municipal Affairs and Housing approved Protected Major Transit Station Areas (PMTSAs) and policies. The City of Mississauga is a municipality that has IZ policies and a by-law that is in-force. The City of Kitchener has approved IZ policies and by-laws as well as approved PMTSAs. However, due to concerns regarding market conditions, Kitchener decided to delay implementation of IZ until the start of 2026. Some other municipalities have undertaken the required studies, but have yet to bring forward the implementing policies and by-law.

Housing and Affordability Needs

Watson's Report reviewed Milton's demographics and population trends, future housing market trends and affordability needs. Milton's population is currently on average younger than the provincial average, but will be aging over the planning horizon to 2051. The Town's current housing stock is predominantly grade-related housing types. The housing sector is

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gradually shifting towards a greater share of higher-density housing and rental units in response to an aging population, new household formation and affordability considerations.

There are currently few affordable housing and rental housing options in Milton relative to the broader regional market area. There has been strong appreciation in housing prices and market rents over the past five years. Housing price increases have been significantly higher than the rate of income growth or inflation, which has eroded housing affordability in the community.

Building on the population and household forecasts from Phase 1 of the Residential and Non-Residential Take Up/Land Needs Study, the IZ Assessment Report forecasts Milton's 2024 to 2051 housing and affordability needs. Of the total household growth forecast for the Town from 2024 to 2051, it is estimated that about 75% will be owner households and 25% will be renter households. It is further estimated that 24% of the owner households will require units at affordable housing prices, and 28% of renter households will require units at affordable rental prices.

The Assessment Report also provides an estimate of the housing types and sizes of units that may be needed to meet anticipated demand for affordable housing. It is estimated that most of the demand for affordable ownership and rental housing may be met through high density apartments.

More in-depth analysis of the Town's housing and affordability needs have been undertaken in the Housing Needs Assessment.

Milton's PMTSAs

The Planning Act only permits IZ policies in Protected Major Transit Station Areas (PMTSAs) or in areas established with a Community Planning Permit System (CPPS). The Town has not implemented a CPPS. Through Halton's Regional Official Plan, PMTSAs were delineated and approved by the Minister. Milton has two identified PMTSAs: the Milton GO PMTSA and the Milton Trafalgar PMTSA. Maps showing Milton's PMTSAs are attached as Appendix C. With the transition of Halton Region to an upper-tier municipality without planning responsibilities, the Halton Region Official Plan now forms a part of the Town's Official Plan.

The Official Plan policies and zoning required by the Planning Act for PMTSAs have been established for the Milton GO PMTSA. Through the Mobility Hub Study work and report [DS-010-22](#), Council passed land use policies including minimum densities, as well as the implementing zoning, for the Milton GO PMTSA in 2022. The Milton Trafalgar PMTSA is

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located within the Agerton Secondary Plan area. Land use policies including minimum densities of buildings and structures will need to be established for the Trafalgar PMTSA through the Agerton Secondary Plan to give effect to the identified PMTSA.

The potential to obtain affordable housing units through IZ will be dependent on the amount of residential units that are proposed and advanced in new development applications in these PMTSAs.

Financial Impact Analysis

The provincial regulation requires analysis of potential impacts on the housing market and on the financial viability of development or redevelopment in the municipality from IZ. Watson analyzed the financial impact of IZ on two development scenarios using pro-forma models. One scenario is based on a high-rise condominium building and the other is based on a mid-rise condominium building. The pro-forma models considered all costs and revenues of development including components such as the value of land, construction costs, soft costs, financing costs, market price, market rent, and housing demand and supply.

To analyze the financial impact of IZ, Watson tested various percentages of affordable unit requirements (also termed the 'set-aside rate'). The affordable housing unit prices used in the analysis is from the Province's Affordable Residential Units for the Purposes of the Development Charges Act Bulletin (Affordable Housing Bulletin).

For the high-rise condominium scenario, the pro-forma model indicates that development is still financially viable with an IZ requirement of 2.5%, 5% or 10% affordable units. Although, as expected, higher IZ set-aside rates decrease project viability. The mid-rise condominium scenario is only marginally feasible with only market units and no affordable units. The mid-rise scenario is found to be not financially viable with a 10% set-aside rate, and marginally feasible with 2.5% and 5% set-aside rates.

Watson also conducted sensitivity analysis to test the impact of different interest rates and market revenues on the financial feasibility of the two development scenarios. The baseline scenario used a 5.5% interest rate that developers would be charged for financing. The sensitivity analysis tested a 4.5% interest rate and a 3.5% interest rate. For the high-rise condominium scenario, development viability improves with lower interest rates and continues to be financially viable with 2.5%, 5% or 10% set-aside rates. For the mid-rise condominium scenario, a lower interest rate of 4.5% results in a development with 2.5%

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affordable units becoming viable, and 5% or 10% affordable units being marginally viable. All set-aside rate scenarios for the mid-rise building become viable at 3.5% interest rate.

For the sensitivity analysis assuming changes in market revenue, development viability increases with increases in revenue, as expected. The high-rise condominium scenario becomes more profitable and remains viable with 5% and 10% more market revenue. An increase of 5% and 10% more market revenue improves project feasibility for the mid-rise condominium scenario to enable financial viability for 2.5%, 5% or 10% affordable units.

Although financial modelling was only done for condominium scenarios, Watson notes that similar observations would likely be observed with comparable purpose-built rental development scenarios in both the Milton GO PMTSA and the Milton Trafalgar PMTSA.

Report Recommendations

Based on the findings from the IZ Assessment Report, the consulting team provided recommendations for an IZ framework and approach.

The Report recommends that Milton's IZ policy exclusively target affordable rental units in the primary and secondary market. Affordable units could be obtained from both purpose-built rental buildings and condominium buildings, but the IZ units would be provided as affordable rental. This recommendation takes into consideration the findings of the demographic analysis as well as implementation considerations.

Under current market conditions, the financial viability of residential development is precarious. Development viability is sensitive to shifts in interest rates, construction costs, market demand and other economic circumstances. A sudden and overly aggressive imposition of IZ could tip the balance and stymie the market delivery of apartments, which are by their nature relatively attainable in the Milton housing spectrum.

A phased approach to IZ is recommended as and when prevailing market conditions allow and to avoid market shock. The first phase would require 2.5% of units be set aside for affordable housing within new residential developments greater than 100 units or 8,000 square metres in size. The set-aside rate may then increase to 3.5% after the first two years and to 5% after four years of the by-law coming into effect. In year five and beyond, the municipality would review and assess the program's effectiveness, with a possibility of increasing set-aside rates based on the housing market and needs assessment.

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IZ requirements would not apply to non-profit and co-operative housing organizations. It is recommended that affordability should be maintained for 99 years.

The Report notes that IZ is one of many tools that Milton can implement to address its housing needs. Although IZ serves a critical function in generating affordable housing within new residential developments, it works most effectively when integrated into a comprehensive housing strategy that includes a variety of complementary approaches.

Next Steps

As a next step, Staff is recommending that an independent written opinion on the financial impact analysis in Watson's IZ Assessment Report be obtained, as required by the provincial regulation, such that Staff can proceed to move forward with evaluating the potential use of IZ.

The independent written opinion will include a review of whether the requirements of the provincial regulation have been met by Watson's Report; the appropriateness of the methodological structure of the analysis and the validity of the key assumptions and inputs relied upon by Watson; the appropriateness of the recommendations and conclusions; and any other commentary about the market and financial impact analysis.

Based on the experience of another municipality that has retained a consultant to undertake the third-party review, an independent written opinion from a professional firm qualified to review the financial impact analysis will require a budget of \$20,000.

Depending on the findings of the independent review, further work may be recommended to address any gaps or strengthen Watson's analysis. Should further work be recommended, additional costs might be required. The findings and recommendations of Watson's Report may be revisited subject to the outcome of the independent review.

Should Council approve the recommendations in this report, Staff will report back on the findings of the independent written opinion together with recommended next steps, following completion of the third-party review.



Financial Impact

An approved capital budget in the total amount of \$327,644 is in place for capital project C90010323 Res-Non Res Take Up/Land Needs Study. To provide sufficient funding for the remaining works in the project, including the independent written opinion as referenced within this report, a budget increase of \$20,000 is recommended. This amount will be funded from the Housing Accelerator Fund.

Respectfully submitted,

Jill Hogan
Commissioner, Development Services

For questions, please contact: Wendy Chen, Policy Planner Phone: Ext. 2296

Attachments

- Appendix A - Inclusionary Zoning Assessment Report
- Appendix B - Provincial Regulation Requirements for the IZ Assessment Report
- Appendix C - Protected Major Transit Station Area Maps

Approved by CAO
Andrew M. Siltala
Chief Administrative Officer

Recognition of Traditional Lands

The Town of Milton resides on the Treaty Lands and Territory of the Mississaugas of the Credit First Nation. We also recognize the traditional territory of the Huron-Wendat and Haudenosaunee people. The Town of Milton shares this land and the responsibility for the water, food and resources. We stand as allies with the First Nations as stewards of these lands.