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Memorandum

April 4th, 2025

Delivered by Email

To: Mayor Meed Ward and Members of Council
Curt Benson, Commissioner of Development and Growth Management
Lisa Palermo, Manager, Committee Services/Deputy Clerk

Subject: **Burlington's Affordable Rental Housing Community Improvement Plan (CIP)**

As an active developer in Burlington who has extensive experience providing affordable rental housing through a CIP in Hamilton (Roxborough), Carriage Gate is excited by the introduction of Burlington's Affordable Rental Housing Community Improvement Plan (CIP). We commend the City for its ambitious and multifaceted initiative designed to encourage the development of affordable rental housing across Burlington's urban area through various financial incentives, grants, and regulatory adjustments. As we know from the City's recent Growth Analysis Review, a critical element of the City's Housing Strategy, swift action is required to achieve the 500 new rental units each year over the next 10 years that are necessary to address housing affordability issues in Burlington.

The Roxborough project is a joint public-private housing development that is a model for the creation and integration of mixed income and mixed tenure housing options. In total, the project has delivered over 650 market and below market homeownership and rental housing units to the community. Carriage Gate is currently building Hamilton's largest affordable rental project (348 units) in the Roxborough Community Improvement Project Area.

As a builder who would utilize the CIP to build high-density affordable rental in downtown Burlington, we are providing a number of very important matters that the city must consider on order to establish and implement an effective CIP. In addition, we have identified a number of serious challenges that we encourage the City to consider and address prior to approving a CIP. We believe the effectiveness and success of this program will be based on its clarity, reliability and flexibility to respond to evolving market conditions, and most importantly, appropriately defining affordability.

Key Features and Strengths

1. Development Charge (DC) Deferral:

The proposed DC deferrals for two years is a positive step in the right direction as payment of DCs is a major obstacle to getting a project off the ground. However, more needs to be done on DCs to make affordable rental construction feasible in Burlington – see below.

2. Tax Equivalent Grant (TEIG) Program:

The CIP proposed up to 100% reimbursement of municipal tax increments for up to 10 years. This initiative will reduce operating costs of a rental building in the longer term, which is impactful as it helps to compensate for the lower rent required to meet affordability requirements. The TEIG Program is similar to Hamilton's ERASE Redevelopment Grant (ERG) Program, which we have found also positively contributes to the feasibility of an affordable rental project.

3. Alignment with existing Provincial & Federal Support of Affordable Rental Housing:

The CIP aligns with the numerous and extensive programs that have been implemented by both governments to support affordable housing, including a few outlined below. The City of Burlington is seizing this opportunity to appropriately align with the initiatives of other levels of government. For example:

- Federal Affordable Housing Initiatives: implementing the Housing Accelerator Fund, investing in increasing funding for CMHC's Apartment Construction Loan Program ("ACLP"), removing the 10% rent reduction from ACLP applications, removing GST on rentals built before 2031, etc.
- Provincial Initiatives: removing HST on rentals built before 2031, DC reductions (15/20/25% reduction in DCs for 1B/2B/3B), etc.

4. Alignment with Burlington's Urban Goals & Transit-Oriented Development:

The inclusion of the entire urban area, including the downtown core, ensures alignment with intensification and transit-oriented development (TOD) strategies. By targeting Major Transit Station Areas (MTSAs), intensification corridors and the downtown, the CIP supports growth in areas well-equipped with infrastructure and amenities. This encourages sustainable growth, optimizes the use of existing services and facilities, and reduces reliance on personal vehicles. Additionally, mixed-use affordable housing development in the downtown will foster economic and social diversity within an area that has not experienced new rental housing in decades.

Key Challenges

While the CIP is comprehensive and addresses various aspects of affordability, its success faces significant challenges that need to be addressed.

1. Definition of Affordability:

This is the threshold issue for the success of the CIP program. The proposed definition (in accordance with income-based thresholds for affordable monthly rents by unit in the "Affordable Residential Units for the purposes of the Development Charges Act, 1997 Bulletin) makes the CIP unusable. Based on our experience, we strongly believe the most effective and efficient way to implement affordability criteria is to align with existing programs through CMHC, specifically tying affordability to a percentage of [median family income](#).

To provide context, the vast majority of rental projects are funded through CMHC, the strictest underwriter in the country. Under CMHC's Apartment Construction Loan Program ("ACLP"), borrowers (builders) must achieve a certain number of points for affordability, sustainability, accessibility, etc. on a

rigorous scorecard, before their application is even considered for financing. It is extremely difficult to qualify for CMHC funding.

The City can take comfort in accepting CMHC's affordability criteria based on the strength of the federal government's underwriting process. The CMHC affordability requirements are tied to median family income. Although projects vary based on their composition of affordability, sustainability and accessibility components, the typical successful application requires 25% of units to be capped at 20% of Median Monthly Income for a 15 year period. Using the Hamilton stats (CMHC does not specify every municipality in the country, however, this is actually more punitive as Burlington's Median Income is higher than Hamilton's), the monthly rent for 25% of units must be below \$1,846. This is already very difficult to achieve given average market rent for a 1 bedroom unit in Burlington is over \$2,400 per month. As you can see in the table below, the proposed DC Act rents are substantially lower than \$1,846 CMHC threshold. Notably, CMHC recently amended its affordability criteria because the old system was so punitive that projects were not viable and could not be constructed. The old CMHC program required rents to be 10% below market rents. As you can see in the table below, the proposed DC Act rents are substantially lower than rents at 10% below market, which has already been proven to be too punitive.

Status	Proposed	Typical CMHC Scorecard	Prior CMHC Scorecard (no longer applicable as found to make projects unviable)
Unit Type	DCA Affordable Residential Unit (June 1/24)	25% of units at 20% of Median Family Monthly Income (Hamilton - 2022)	10% Below Market Rents
Studio	\$1,192	Annual Income: \$110,740 Monthly: \$9,288 20% of Monthly: \$1,846	\$1,520
1 Bedroom	\$1,621		\$1,736
2 Bedroom	\$1,831		\$2,253
3+ Bedroom	\$1,819		\$2,889

Further to this, as urbanMetrics states in their analysis of the feasibility of high-density affordable rental housing, a high-density "rental project would be difficult to be viable even under more favourable market conditions". In addition, the "favourable market conditions" considered in urbanMetric's analysis (1.5% reduction in construction loan interest rate, 1.0% reduction in mortgage rate and 5-8% decrease in construction costs) are massive changes versus current market conditions and are unrealistic assumptions to be making in a project feasibility. Another key issue with the data is the use of MLS to determine market rental rates in Burlington. The data must strictly analyze new construction only as the rates vary greatly depending on the age of the product.

In conclusion, the use of the DC Act to define affordability is so crippling to the feasibility of a rental project that even the layering of the other proposed initiatives under the CIP is not enough to make the creation of affordable rental units feasible. Therefore, the intent of the program is being defeated.

2. Funding Commitment:

The CIP is proposed to be funded by the federal Housing Accelerator Fund (HAF) throughout 2025 and 2026. The future of the CIP, and each initiative proposed is determinant upon council's annual budget commitments. Without long-term funding commitments, the sustainability of the CIP is in question. We strongly encourage the City to pursue the necessary budget approval to support the ongoing strategic housing needs and housing priorities for a minimum of 3 years at a time. Annual changes in budget undermine the success of the CIP as builders will be unable to accurately plan or forecast the financial implications of a rental project. Without clarity and certainty, the CIP will not be utilized and again, the intent of the CIP program is being defeated.

3. DC Deferrals:

While the proposed DC deferral for two years is a step in the right direction, it is not enough. As with the Roxborough CIP, DCs should be eliminated for units under the Burlington CIP. Additionally, the accrual of interest on DC deferrals undermines the purpose of the deferral all together. Further to this, DCs should be eliminated in the City's built-up area, generally, as all of the necessary services and facilities that DCs are intended to establish already exist.

Notably, we believe the changes other municipalities are making to their DC programs in light of current economic conditions will materially support the development of more homes. Specifically, the City of Mississauga is spurring development by:

- Reducing the amount of DCs payable by 50%, effective immediately, for all residential developments with building permits allowing footings and foundations issued prior to November 13, 2026. This is a very impactful step in the right direction.
- Deferring the collection of DCs for all residential developments, effective immediately, until the first occupancy permit is issued, provided a building permit allowing for footings and foundations is issued prior to November 13, 2026. Similarly, this is a very significant and impactful change as one of the biggest challenges impacting the commencement of an affordable rental project is funding DCs. It is a big challenge because bank financing is typically not in place when the permit is pulled.

4. Regional Collaboration:

Given the magnitude of Region of Halton development charges,, it is imperative that affordable rental units be exempted from these additional charges.

The absence of participation from the Region of Halton is a significant limitation. Regional involvement is needed to provide the additional funding, policy alignment, and administrative support to enhance the CIP's effectiveness. Without collaboration and participation by the Region of Halton, the City faces challenges in addressing systemic affordability issues, Regional participation is essential

5. Bulk Financial Incentives Lack Clarity & Create Administrative Burden:

In our experience, certainty, clarity and reliability about the terms of a CIP are critical to its success. The Mid/High-Rise Affordable Rental Unit Program demonstrates the City's commitment to high-density developments, however, the lump sum dollar amounts makes it administratively complex and unclear. In our experience with the Roxborough CIP, waiver of specific fees (Development Charges, Parkland, CBC) provides the certainty and clarity required instead of broad forgivable loans, and will provide a strong

framework for a long-term affordable rental program. We believe waiving specific fees is easier for all parties including the City and developers from both a forecasting/ budgeting perspective as well as an administrative perspective. The wide array of programs proposed, each with distinct eligibility criteria, adds complexity that we expect will challenge the implementation of the program. Builders may face delays navigating application processes, while the City must manage resource allocation (both financial and human resources) across the program area as a whole.

A clear and specific approach ensures the CIP is broad enough to achieve the development of many affordable rental units instead of quickly spending the HAF funds via larger subsidies on fewer units. Expanding the CIP's scope risks spreading resources too thin, diluting its impact in high-priority areas like the downtown core and the MTSAs.

6. Length of Affordability Requirements:

The CIP proposes that units to which DC exemptions apply must be subject to affordability requirements for a minimum of 25 years. This is unnecessarily onerous and does not align with other CIPs in the area. We believe the Burlington CIP should reduce its affordability period to match the Hamilton CIP where the affordability period is 10 years from first occupancy.

7. Missing Elements:

The CIP should also address Parkland Dedication and CBC charges. Both should be waived for affordable rental, as they are for the Roxborough CIP. Providing affordable rental units is a rare community benefit in itself.

Next Steps

Clearly, prior to City Council approving a CIP, further dialogue and collaboration is required to further develop a CIP that will be useful and utilized by the building industry. We look forward to further collaboration with the City to ensure the CIP is as effective as possible. Even once the CIP is in place, we believe continuous evaluation and flexibility to adapt to emerging challenges will be essential for achieving the proposed ambitious housing goals.

Recommendations:

In light of the fact that there are insufficient HAF funds available to activate all programs in 2025 and 2026, we recommend:

- revise the definition of affordability to be consistent with CMHC
- prioritize the implementation of TEIG
- modify the DC Deferrals program as noted above and
- implement the Mid/High-Rise Affordable Rental Unit Program first as they are the most impactful to the building industry.
- Obtain long-term support of the CIP program from the Regional Municipality of Halton

Although the other incentives (fee waivers and design/study grants, sustainable building design features, etc.) are welcome, they don't make a dent in the feasibility of a high-density affordable rental project.

Conclusion

Burlington's Affordable Rental Housing CIP is a bold and commendable effort to address the City's housing crisis. Its comprehensive suite of incentives demonstrates a clear commitment to promoting affordable rental housing, including high-density developments.


We have seen first-hand the benefits that a CIP can bring to a community through our work at Roxborough. While the Burlington CIP has the potential to make a meaningful impact, the proposed incentives are not enough to sufficiently offset financial risks for high-density rental development including higher construction costs, rising inflation, tariffs, labour shortages, etc.. We welcome the opportunity to collaborate in creating a CIP that is clear, implementable and successful in building new affordable rental housing in Burlington.

We look forward to continuing to work with the City of Burlington to finalize the CIP. This is a fantastic opportunity for all of us to work together to create a plan to address an existing housing challenge and if done properly establish the framework for a long-term solution.

Regards,
Carriage Gate Homes



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