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Université de Montréal

The Affordable Housing Market in Montréal :  
A Market Analysis and Applicability Study of Inclusionary Zoning

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Université de Montréal  
Faculté des études supérieures

Ce mémoire intitulé:

The Affordable Housing Market in Montréal :  
A Market Analysis and Applicability Study of Inclusionary Zoning

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## SUMMARY

Housing is an integral and important element within a health society. The lack of affordable housing threatens many aspects of our daily lives such as health, education, job opportunity, community and economic development, immigrant integration and social inclusion.

The City of Montréal is encountering an opportunity to address the affordable housing crisis. Several signs indicate this crisis: the wages can not follow the pace of housing prices; new construction of high-end residential projects which drives many low-income households away from their traditional neighborhoods; and the supply of social rental housing which can not meet the needs of low-income households.

In 2005, the City announced the adoption of the Inclusionary Strategy to address the affordable housing shortage. The strategy aims at meeting a particular goal of Montréal's urban master plan, namely to produce 60,000 to 75,000 new housing units by 2014. Of these new units, 30% would fall into the affordable housing category.

Inclusionary zoning can be a new tool to help the City of Montréal to meet its affordable housing objectives while creating inclusive communities. After 30 years of exposure, Inclusionary zoning has been evidenced as an effective tool in the production of affordable housing units for low-income households. Nevertheless, the same tool can have different effects on different cities under different circumstances. Through an examination of the affordable housing market in Montréal and 4 case studies of Inclusionary zoning practices in the U.S., this study made 6 recommendations to the policy designer.

**KEYWORD:** affordable housing, Inclusionary zoning, low-income households

## RÉSUMÉ

Le logement est un élément essentiel pour le bien-être d'une société. La pénurie en logement abordable menace de nombreux aspects de notre vie quotidienne comme sont la santé, l'éducation, les opportunités d'emploi, le développement communautaire, le développement économique, l'intégration des immigrants et l'inclusion sociale.

La Ville de Montréal doit faire face au défi de taille que représente la crise du logement abordable. Plusieurs signes sont révélateurs de cette crise : les salaires ne suivent pas les prix des logements; la construction de nouveaux projets résidentiels de haute gamme provoque le déplacement de nombreux ménages hors de leurs voisinages traditionnels; et l'offre en logements sociaux ne parvient pas à satisfaire les besoins des ménages à faible revenu.

En 2005, la Ville a annoncé l'adoption d'une stratégie d'inclusion pour faire face à la pénurie en logement abordable. La stratégie vise à atteindre un but précis du Plan d'urbanisme de Montréal, à savoir la construction de 60,000 à 75,000 nouvelles unités de logement d'ici 2014. Parmi ces nouvelles unités, 30% devraient figurer dans la catégorie de logement abordable.

Le zonage d'inclusion pourrait être un outil intéressant pour permettre à la Ville de Montréal de répondre à ses objectifs en matière de logement abordable, en mettant en place des communautés inclusives. Après 30 ans d'expériences, le zonage d'inclusion a fait ses preuves comme outil efficace dans la production d'unités de logement accessibles aux ménages à faible revenu. Néanmoins, le même outil peut entraîner des effets différents dans des villes différentes et dans des circonstances différentes. Par un examen du marché du logement abordable à Montréal et de 4 études de cas portant sur le zonage d'inclusion tel que pratiqué aux États-Unis, cette étude formule six recommandations aux décideurs politiques.

**MOTS CLÉS:** logement abordable, zonage d'inclusion, ménages à faible revenu

## INTRODUCTION

Affordable housing is perceived to be highly correlated to the well-being of our society by housing advocates. As Jackson Andrew concludes, housing is a major element for individual health and well-being, for an inclusive society, and for healthy communities. (Jackson, 2004)<sup>1</sup> If housing costs are perceived to be too high relative to household income, families have fewer funds for other necessities such as food, medications and education to maintain minimum living standard. The housing system is also a critical intervening factor to ensure social stability and long-term development. A well designed housing system contributes to the degree to which an individual can retain and enhance its autonomy and sense of self-worth.

Although Canada is one of the best-housed countries in the world, which is supported by a well developed mortgage system, a sophisticated development sector, access to safe building materials, and many kinds of public housing programs, there are still 1.7 millions households in Canada who live in inadequate, unsuitable or unaffordable housing. Canadians' housing needs have traditionally been met through a combination of private market economy and federal and provincial government support for households whose needs are not served by the private sector. (Potter, 2004)<sup>2</sup> Over the course of the 20th century, governments have made a number of commitments in providing affordable housing. Nevertheless, as Hulchanski states, Canada has an incomplete housing system, which privileges households in the

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<sup>1</sup> Andrew, Jackson. 2004. *Home Truths: Why the Housing System Matters to all Canadians*. CHRA and CCPA, page 3

<sup>2</sup> Potter, Joyce. 2004. *Canadian Housing Policy Update: 2004*

ownership sector and discriminates against low-income households stuck in the declining low end of the rental sector. (Hulchanski, 2005)<sup>3</sup> In the rental market, the majority of rental housing is privately owned; social housing accounts as little as 5% of the total stock. (Jackson, 2004)<sup>4</sup>

A dwelling is defined affordable when its rent or monthly mortgage payments (including heating costs and taxes) do not surpass a given household's 30 % gross income. In other words, affordable housing targets to households with very low-, low- and moderate-incomes households that represent two thirds of Montréal's total households.<sup>5</sup>

Nevertheless, the flurry residential development across the city of Montréal in the past years adds increasing burden on households. Three indications contribute to the City of Montréal's affordable housing crisis: 1) average household income doesn't support the rising housing price; 2) the new construction is priced out of reach for both low-income and moderate households; and 3) there is a significant shortage of new affordable rental housing starts for extreme low- and low-income households.

Traditionally, improving housing affordability in Montréal focuses solely on public subsidies from governments' subvention programs; such as Solidarity 5000 Logement, Logement Abordable Québec, Accès Logis, etc. Yet, in a tight budget environment, financial subsidies from governments are so limited to meet the market demand for affordable housing. Facing affordable housing crisis, the City of Montréal recently adopted an inclusion strategy in favour of affordable housing production. The strategy aims at producing 60,000 to 70,000 new housing units by

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<sup>3</sup> J. David, Hulchanski. 2005. "*Rethinking Canada's Affordable Housing Challenge, A Discussion paper prepared for the Government of Canada's Canadian Housing Framework Initiative*". Page 10 of 14

<sup>4</sup> Andrew, Jackson. 2004. "Home Truths: Why the Housing System Matters to all Canadians". CHRA and CCPA, page 1

<sup>5</sup> Very low-income is commonly defined as income at or below 30 % of the region's average; low-income is commonly defined as income at or below 50 % of the region's average; moderate income is commonly defined as income between 80 % and 120 % of the region's average.

2014, of which, 30 % would fall into the affordable category (15% social and community housing; 15% affordable ownership).

This study encourages the City of Montréal adopting the Inclusionary zoning program to meet its affordability objective. The term Inclusionary Zoning refers to a zoning technique that is designed to require developers to include a specific percentage of affordable housing units within new residential developments.

### **ORGANIZATION:**

This study starts with a literature review of housing and housing system in Canada. The importance of housing to development is introduced in Chapter one. Chapter two describes the housing system in Canada. The literature review is intended to outline the role of affordable housing in human development and identify involved actors and trends in affordable housing production. Those recent adopted affordable housing initiatives are also presented in this part. Chapter three explores the affordable housing need in the City of Montréal. Affordable housing shortage is identified through quantitative analysis of statistic data. Chapter four considers the relevance of Inclusionary zoning for the City of Montréal. It also provides an overview of Inclusionary program and its use in 4 case studies. Chapter five analyzes the experiences of the four jurisdictions in the case studies and presents six recommendations for the City of Montréal to consider as it develops its own Inclusionary housing policy.

## CHAPTER 1

### THE NOTION OF AFFORDABLE HOUSING

#### 1.1 Definition of Affordable Housing

Canada has had an official definition of housing need known as *core housing need* since 1985. Core housing need entails two tests, one is to determine if a housing problem exists, and a second is to test if alternative accommodation is available in the community to address the problem. A housing problem is deemed to exist if a household pays more than 30 percent of pre-tax income for shelter and / or if a household lives in crowded conditions and / or if a household lives in a home in need of major repairs. They refer accordingly to housing affordability problem, housing suitability problem and housing adequacy problem. The vast majority of households in core housing need experience housing affordability problems, either exclusively or in combination with other housing problems (CMHC).<sup>6</sup>

For public policy purposes, housing affordability is commonly defined as a relationship between housing costs and income. According to CMHC,<sup>7</sup> the cost of adequate shelter should not exceed 30% of a given household's gross monthly income. Housing which costs less than this is considered affordable. This is the definition most widely used by public administrations in Canada and the United States.

If housing costs are perceived to be too high relative to household income, then a housing affordability problem is perceived to exist. Families who struggle to find

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<sup>6</sup> Chisholm, Sharon. 2003. Affordable Housing in Canada's Urban Communities: "*A Literature Review*". CMHC Research Report

affordable housing have to use their energy and resources for meeting this basic need, rather than for other necessities like food, medical care, or discretionary spending such as education.

Social housing is a type of affordable housing; it means living accommodation produced or financed in whole or in part through government programs. Social housing complements the private house housing market, responding to needs that it cannot meet alone. Although social housing is traditionally associated with rental housing, different tenure structures can be identified such as: low –rent social housing (known in Québec as habitations a loyer modique, or HLM) and cooperative housing (cooperative housing is a type of service co-operative in which the members are the residents and thereby the consumers of the service, in this case housing, provided by the co-op). For the purpose of this thesis, social and community housing is defined as those dwellings made available under the two government programs currently in operation: AccesLogis and Affordable Housing Québec (social and community component).

## 1.2 The Importance of Affordable Housing: A Literature Review

In its provisions concerning housing, the Québec Charter of Human Rights and Freedom states: *“Every person in need has a right, for himself and his family, to measures of financial assistance and to social measures provided by law, susceptible of ensuring such person an acceptable standard of living”*.<sup>8</sup>

The essence of the Code is to ensure fairness and equality of opportunity. It ensures that all people have equal opportunity to access accommodation, and equal opportunity to enjoy the benefits which come along with that housing.

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<sup>7</sup> CMHC: [http://www.cmhc-schl.gc.ca/en/FAQs/faqs\\_003.cfm](http://www.cmhc-schl.gc.ca/en/FAQs/faqs_003.cfm)

<sup>8</sup> Clause 45



The recognition of affordable housing goes beyond the lens of human rights. It also has impacts on people's ability to access education, employment, and their inclusion in the society. Lacking suitable, adequate and affordable housing also makes harder for people to connect to community and develop a sense of belonging. As *Se loger au Québec*,<sup>9</sup> a Québec government publication states that housing is:

- Essential, long-lasting, a substantial part of the budget and the environment for personal and family life;
- A major component of social life;
- An area of economic activity.

In affordable housing literatures<sup>10</sup>, housing is recognized as a vehicle to achieve human, social and community progress. Housing advocates think housing is the foundation without which we cannot begin to experience good health, adequate education, social and community development, income security, participation in labor force and the integration of immigrants (see graph 1). Among numerous contributions of housing, those most studied and documented fall into three groups:

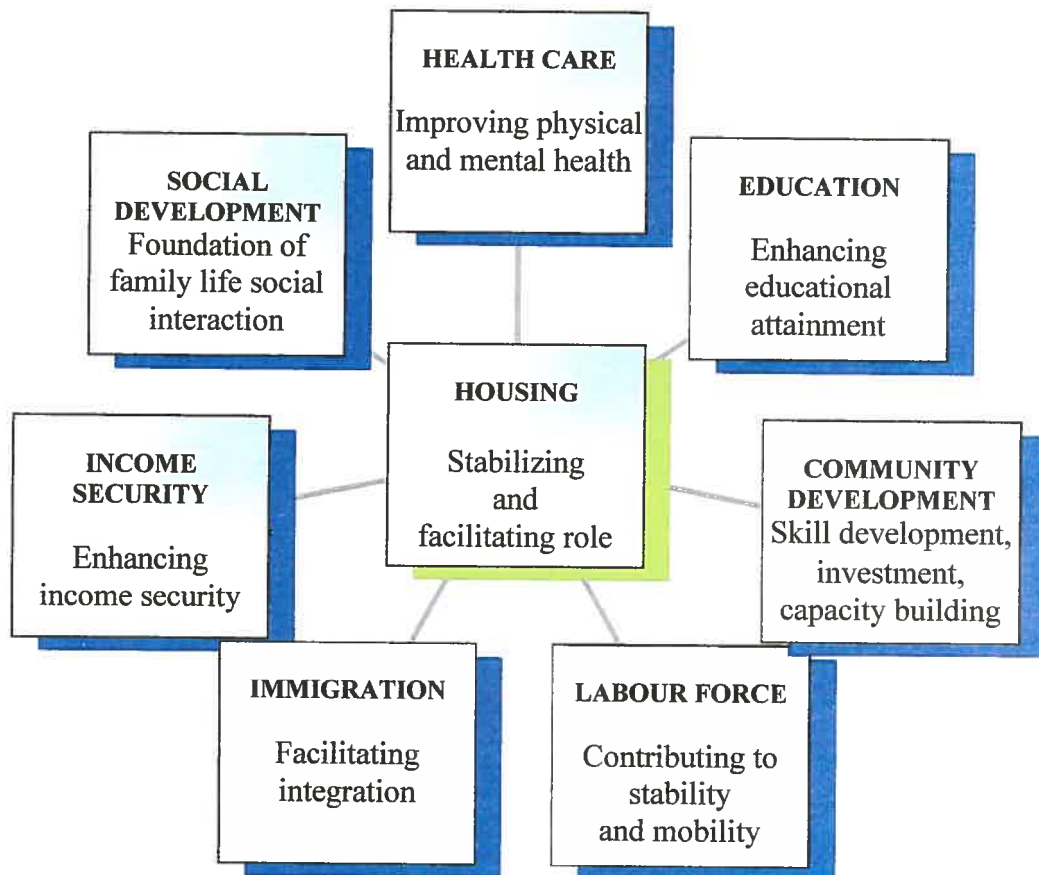
- 1) How affordable housing matters for healthy human development?
- 2) How affordable housing matters for economic development? and
- 3) How affordable housing matters for social and community development?

---

<sup>9</sup> Habiter Montréal. Available at : [www.habiterMontréal.ca](http://www.habiterMontréal.ca)

<sup>10</sup> Introduced in the following section

Graph 1: Economic and Social Links of Housing:



Source: Judith Maxwell. *"Why Housing Affordability Matters and for Whom."* Presentation to the Board of Directors Canada Mortgage and Housing Corporation (CMHC), Canadian Policy Research Networks, October 2004

### 1.2.1 Housing Matters for Healthy Human Development:

Sustainable human development includes many attributes: health condition, early childhood development, employment opportunity, etc.

#### Health condition

The idea of Housing as a fundamental necessity for health and well-being has been widely accepted by housing advocates. (Halchanski, 2005)<sup>11</sup> If housing is not affordable, families have less disposable funds for food, medication, and many other basic needs.

A US study by the Family Housing Fund in 1999<sup>12</sup> found that children on waiting lists for subsidized housing were six times more likely to have stunted growth as those in subsidized housing. According to this study, an estimated 21,000 children have stunted growth as a result of not having affordable housing. The same study found that children living in unaffordable housing were 50 % more likely to be iron deficient than those children living in subsidized housing.

The study of Virginia Rauh on social stressors including chronic social conditions and their affect on health supports the notion that there is a direct correlation between housing and health status. She finds inadequate housing to be a good indicator of people living with health harming stress. She also notes that there is an immense variance of quality of life within families living in deteriorating housing. Rauh relates these differences to factors such as healthy kinship that ties along with housing security, the sharing of resources and the crime level in the neighborhood. (Rauh, 2002)<sup>13</sup>

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<sup>11</sup> J.David Hulchanski, 2005. "Rethinking Canada's Affordable Housing Challenge". University of Toronto

<sup>12</sup> Cited by Chisholm, Sharon. 2003. "Affordable Housing in Canada's Urban Communities: A Literature Review". CMHC Research Report. 58 pages (page 24)

<sup>13</sup> Rauh, Virginia. NEIS News 2002 (page 2).

James Dune also studied the links between health and affordable housing. He suggests that good health is predicated on social and economic characteristics of individuals and populations more than medical care and health behaviors. The differences in health are observed to be associated with stresses in life particularly as experienced by those who have difficulty in providing basic food and shelter for themselves and their families. Dunn concludes that housing is a focal point through which a range of health determinants flow. In this perspective, Dunn links housing policy to health policy. He calls for the examination of housing system not only in the context of affordability gap but also in the context of social inclusion framework. (Dune, 2002)<sup>14</sup> Just as what Sharon Christolm said, affordable housing development in Canada is about building communities. (Christolm, 2002)<sup>15</sup>

### Early childhood development

Numerous researches show that poor housing condition has deteriorating effects on child development, such as his / her performance at school, prospects to graduate, employment prospects after graduation, teen pregnancy, and the crime rate among youth.

A Laidlaw Foundations' research paper on social inclusion and housing sets out a framework which categorizes three ways in which housing influences a child's autonomy: (Shillington, 2002)<sup>16</sup>

- 1) Symbolically, the home and surrounding neighborhood facilitate the participation of children in their communities and depends, to a large extent upon where they live.

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<sup>14</sup> Dunn, James. 2002B. "The Population Health Approach to Housing: A Framework for Research." CMHC

<sup>15</sup> Sharon Christolm. 2002. "Adjusting Housing Practice towards a Social Inclusion Framework", Presentation to the CCSD Conference. "What do we know and where do we go? Building a Social Inclusion Research Agenda".

<sup>16</sup> Andrew Mitchell and Richard Shillington. 2002. "*Poverty, Inequality and Social Inclusion.*". Laidlaw Foundations

- 2) Physically, the condition of the dwelling, whether it is crowded, will be a major health determinant. Inadequate housing condition not only puts children's health at increased risk, but also results in poor performance at school and high family tensions.
- 3) And, socio-economically, the kinds of services and supports that are available in the neighborhood will influence the extent to which the child will have means to integrate with the community.

Neighborhood effects on child development have also been established in numerous studies. For example, Brooks-Gunn finds that controlling for family income and background, children who come from deprived neighborhoods arrive at school less ready to learn, and are more likely to have behavioral problems. (Andrew, 2004)<sup>17</sup> Haveman and Wolfe find that, again with family-level control variables, children from poor neighborhoods are much more likely to drop out of high school, and that teenage girls are much more likely to become pregnant. (Haveman and Wolfe, 1994)<sup>18</sup> Case and Katz find that youth from low-income neighborhoods, again controlling for other factors, are much more likely to experience unemployment and to be involved in the criminal justice system. (Case and Katz, 1991)<sup>19</sup>

The neighborhood effects on outcomes for children have also been widely evidenced by housing researchers. Child development expert Doug Willms argues that there is unequivocal evidence that the average socioeconomic status of a child's class or school has an effect on his or her outcomes, even taking account of individual-level ability and socioeconomic status. (Doug, 2001)<sup>20</sup>

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<sup>17</sup> Jackson, Andrew. 2004. "Home Trusts: Why the Housing System Matters to All Canadians. CHRA and CCPA." Page 49

<sup>18</sup> Haveman, Robert and Barbara Wolfe. 1994. "*Succeeding Generations: On the Effects of Investment in Children*". New York. Russell Sage Foundation.

<sup>19</sup> Case, AC & Katz, LF, 1991. "The Company You Keep: The Effects Of Family And Neighborhood On Disadvantaged Younths," Harvard Institute of Economic Research

<sup>20</sup> Willms, Doug. 2001. "Three Hypotheses about Community Effects in John Helliwell (ed.) *The Contribution of Investment in Human Social Capital to sustained Economic Growth and Well Being*. Ottawa". Policy Research Initiative. 2001

George Galster and Sean Killen of the Urban Institute argue that “... *much statistical evidence supports the influence of neighborhood social networks and economic conditions on youth’s intellectual development, educational attainment, marriage and fertility, labour market participation and earnings, and, to a lesser extent, criminal behaviour and drug use.*”(Galster and Killen, 1995)<sup>21</sup>

In Canada, Clyde Hertzman finds in a research in Vancouver that children of low-income and of lone-parent families who live in low-income neighborhoods do significantly worse than similar children who live in other neighborhoods with respect to key developmental outcomes. (Hertzman, 2002)<sup>22</sup>

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<sup>21</sup> Galster, George and Sean Killen. 1995. “The Geography of Metropolitan Opportunity: A reconnaissance and Conceptual Framework.” Housing Policy Debate Volume 6#1.

<sup>22</sup> Hertzman, Clyde. 2002. “Leave No Child Behind: Social Exclusion and Child Development.” Laidlaw Foundation

### Access to employment

There is an extensive literature on urban housing markets as a major obstacle to labor market participation and employment within large metropolitan regions. Lack of affordable housing can create obstacles to individuals' ability to participate in the labor force. Poor location may not offer convenient transportation to work. Other negative effects include problems created from child day care and family connection. Living in a poor neighborhood means that job opportunities are further away and can even make it difficult to hear about employment and training opportunities.

In the U.S., studies show that moving people to more productive places could boost GDP and employment, but high rents in growing cities are a major barrier. (Case, 2000)<sup>23</sup> In the U.K., studies indicate that unemployed workers have been rapped in many regions because of the lack of a private affordable rental market and very high rents and / or very high housing prices in cities with expanding job opportunities. (Allen and Hamnett, 1991)<sup>24</sup> Housing market effects have been estimated to offset as much as 25 % of the impact of labor markets on overall U.S. residential mobility. In other words, the housing market is a major factor in decision-making by workers to change, move to, or find jobs. (Kingsley and Turner, 1993)<sup>25</sup>

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<sup>23</sup> Case Karl E. 2000. "Real Estate and the Macro-Economy." Brookings Papers on Economic Activity

<sup>24</sup> Allen, John and Chris Hamnett. 1991. "Housing and Labour Markets: Building-the Connection." London. Unwin Hyman

<sup>25</sup> Kingsley, Thomas and Margery Turner (Eds.). 1993. "Housing Markets and Residential Mobility". Washington. Urban Institute Press

### 1.2.2 Housing Matters for Economic Development

Housing expenses represent the most significant household expenditure item for households. According to 2001 census data, housing expenses in Canada represented 19 percent of household expenditures. (The Daily)<sup>26</sup>

Housing industry has a significant impact on both economic output and employment rate. The total residential construction share of the nominal GDP generally fluctuates around 5 % in Canada. <sup>27</sup> It was at a ten year high of 5.7 % in 2003 – consisting of 2.9 % in new residential construction; 1.9 % in residential alterations and improvements; and 0.9 % in transfer costs (i.e., the related activities of real estate agents, lawyers, etc.).<sup>28</sup> In addition the new housing construction and renovation sectors indirectly contribute about another 1 % to GDP through purchases of about one-third of the output of building materials industries, such as lumber, cement, wallboard, heating and air conditioning equipments, etc. (Informetrica, 2000)

Housing activities indirectly fuel household demand for durable goods such as furniture, appliances and a wide range of services. On the basis of macroeconomic model, new spending in the housing sector has a multiplier of up to 1.2 meaning that an extra \$ 1 spent on new housing activities expand the total economy by \$ 1.2. (Jackson, 2004)<sup>29</sup>

As a labor-intensive industry, housing industry is an important source of employment. More than 10 % Canadian men work in this sector. In the 2003 peak, there was 931,000 total construction employment. Moreover, the average hourly wage of

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<sup>26</sup> The Daily, Statistic Canada, 2002

<sup>27</sup> Canadian Economic Observer Historical Statistical Supplement

<sup>28</sup> Data from Canadian Economic Observer Historical Statistical Supplement

<sup>29</sup> Andrew Jackson. 2004. "Home Trusts: Why the Housing System Matters to all Canadians." CHRA and CCPA. Page 58



housing industry workers is well above average hourly wages of the overall market. (CMHC, 2002)<sup>30</sup>

In the financial economy, housing also plays an important role. At the end of 2003, total residential mortgage credit was \$ 540 billion or almost one-third of the total credit extended by the Canadian financial system to households and business combined. (Jackson, 2004)<sup>31</sup>

Maclennan (2001) places housing policy and programs squarely in the economic sphere. According to Maclennan, housing integrates economic and social progress in fundamental ways. Housing, Maclennan argues is “...one of the three great integrating systems in any economy and society.” (Maclennan, 2001)<sup>32</sup>

Maclennan sees housing systems, labor markets and mortgage and credit markets as the integrative market systems of the current age. According to Maclennan, housing markets have been shaped by globalization and can moderate the effects of globalization. These include boom and bust cycles, cyclical instability of housing markets and spatially concentrated inequalities. These factors influence competitiveness of regions. As he said: “...housing shapes a society, how it works, how it responds to global patterns and the degree of social and economic progress.” (Maclennan, 2001)<sup>33</sup>

Well-designed housing that is affordable to families at every income level is associated with competitive cities. The global economic trends further highlight the importance, necessity, and challenge of developing and maintaining affordable housing. Cities seek economical competitiveness must make themselves attractive to

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<sup>30</sup> 2002. “The Housing Construction Industry: Challenges and Opportunities for the Twenty First Century”. Urban Aspects Consulting Group and Langais and Associates. CMHC

<sup>31</sup> Jackson, Andrew. 2004. Home Trusts: Why the Housing System Matters to all Canadians”. CHRA and CCPA, page 5.

<sup>32</sup> Maclennan, Duncan. 2001. “*Changing Neighborhood Regeneration in Britain*”. University of Glasgow, page 4

<sup>33</sup> Maclennan, Duncan. 2001. “*Changing Neighborhood Regeneration in Britain*”. University of Glasgow, page 4

investment. By providing the workforce living conditions that are economically affordable, environmentally sustainable and culturally diversified, cities retain and attract new business investment, and hence increase their competitiveness. Economic geographers Simmons and Bourne argue that the future of the urban system will shift towards places where people want to live, instead of where they have to live. High amenity cities have grown faster because they are more attractive places to live for many knowledge-workers. (Jackson, 2004)<sup>34</sup>

### **1.2.3 Housing Matters for Social and Community Development**

Housing provides the individual becoming connected to the neighborhood and developing sense of belonging. Although with the globalization and the development of internet, the importance of community gained less importance than it used to be. MacLennan finds that globalization has not resulted in the disappearance of distance but has magnified the importance of the community in the construction of new ideas. He argues thus, the globalization leads to a growing role for community groups in the formation of ideas and delivery of programs in a broad array of areas. Therefore, it is crucial to examine how communities work and the role that housing plays in them in a global economy. (MacLennan, 2001)<sup>35</sup>

Affordable housing development does not only mean providing shelter, it is about building communities. We need to think about safety, sustainability, well-being of children, accessibility to social network, etc. Recent work of Laidlaw Foundation and the Canadian Council on Social Development resulted in an emerging understanding of the value of using a social inclusion and exclusion lens within a Canadian context. A community consultation conducted by Laidlaw Foundation in 2002 found that participants defined inclusive communities as having a number of critical characteristics. Chief among them were the sense that people are treated

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<sup>34</sup> Jackson, Andrew. 2004. 'Home Trusts: Why the Housing System Matters to all Canadians'. CHRA and CCPA. Page 5

equitably. This translated into everyone having a decent standard of living including access to good commodities, such as housing. Chisholm Sharon comments that housing has an intimate link to social inclusion.

*“Housing is a gateway through which we connect to our immediate environment and society at large. It reflects social status, belonging to community, a centre to gather with friends and family, and so it has a direct bearing on the extent to which was experience social inclusion or exclusion.”* (Chrisholm, 2002)<sup>36</sup>

Social inclusion reflects a growing international recognition that investments in human and civic assets are core foundations to economic prosperity and social well-being. (Cote, 2001)<sup>37</sup> It recognizes the importance of access to basic needs like housing in order for the individual to be able to fully participate in society. Although it intersects with the notion of social cohesion, social inclusion takes a more in depth view of the well-being of individuals and society. A social inclusion agenda calls for structural change in the social, cultural and economic order to encourage the participation of all citizens in the social, cultural, economic and political realms.

### **Immigrant**

Immigrants contribute a significant percentage of the population in Canada. The future Canadian labor force growth will virtually be driven by immigrants. Immigrants represent an immediate source for housing demand since they need a place to live when they arrive. According to 2001 census results, immigrants account for 18 per cent of the population of Montréal. Housing contributes directly in the well-being of new immigrants' households and in their successful inclusion in the

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<sup>35</sup> MacLennan, Duncan. 2001. *“Changing Neighborhood Regeneration in Britan”*. University of Glasgow.

<sup>36</sup> Chrisholm, Sharon. 2002. *‘Social Inclusion : Making Our Way into the Human Community’*. Canadian Housing. Winter Issue. (page 9)

society. However, it is a well known fact that rates of poverty are extremely high among new immigrants despite their high level of education. This is largely due to their low initial earnings which rise slowly with their integration with the society. The fact that their low income doesn't support high cost of housing means that housing affordability problem is severe, particular in major urban center areas with high living cost.

The housing problems faced by new immigrant families are troubling. Andrew Jackson states that “...*there are already some areas in out big cities where the children of new immigrants, particularly blacks, have lived in low-income neighbourhoods their entire lives, and are trapped near the bottom of the income and employment ladder*”. (Jackson, 2004)<sup>38</sup>

### **Conclusion:**

Housing affordability matters for healthy human development, economic success and social and community development. It is the foundation of good health; access to education; employment and participation in the social; cultural and economic spheres of our communities.

Facing challenges around population growth, migration and immigration and aging population, the degree to which an individual can retain and enhance his autonomy and sense of self-worth by having some control over his housing becomes more important.

As Chisholm said, for social and affordable housing providers, it is crucial to review assumptions about program delivery within a social inclusion framework to ensure

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<sup>37</sup> Sylvain Cote (2001). “*The Well-Being of Nations: The Role of Human and Social Capital*”. Paris: Origination for Economic Co-operation and Development

<sup>38</sup> Jackson, Andrew. 2004. “Home Trusts: Why the Housing System Matters to all Canadians”. CHRA and CCPA. Page 55

that the individual's rights are not diminished, but rather enhanced to the possible extent through program development and practices. (Chisholm, 2003)<sup>39</sup>

Traditionally, what is the role of governments in providing affordable housing in Canada? How does the Canadian housing system work? What programs have been created in providing affordable housing? What are the new challenges for cities in a tight fiscal budget environment?

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<sup>39</sup> Compiled from: Sharon Chisholm. 2003. "Affordable housing in Canada's urban communities: a literature review", CMHC. 58 pages

## CHAPTER 2

### CANADIAN HOUSING SYSTEM

#### 2.1 Canadian Housing System – A system that Favors Homeowners

Dominated by the market system, influenced by extensive interventions from governments, Canada is one of the best-housed countries in the world. We have a well developed mortgage financing system, a sophisticated development sector, access to safe building materials, building codes that protect us and so on. (Chisholm, 2002)<sup>40</sup> The majority of Canadians are comparatively well housed.

According to 2001 census results, 84 % of Canadians are not in core housing need. Two-thirds of Canadians households are home-owners representing a key source of financial security and of asset accumulations. Still, this leaves 1.7 million (16 % of all) households in Canada who live in inadequate, unsuitable or unaffordable housing. The vast majority of these (65 %) are renters. More than 20 % tenants spent more than 40 % of their income on housing in 2001. (Potter, 2004)<sup>41</sup> The inability of the housing system to address all people's needs suggests that there is something structurally wrong in the housing system.

The Canadian housing system has been observed to systematically disadvantage low-end households (particularly those extreme low-income households). Hulchanski argues that Canada has an incomplete housing system, which privileges households in

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<sup>40</sup> Sharon Chisholm. 2002. Presentation to the CCSD Conference: "What do we know and where do we go? Building a Social Inclusion Research Agenda".

<sup>41</sup> Potter, Joyce. 2004. "Canadian Housing Policy Update: 2004". Canadian Housing and Renewal Association

the ownership sector and discriminates against low-income households stuck in the declining low end of the rental sector. (Hulchanski, 2005)

Federal and provincial governments support owners and potential owners with subsidies and favorable financing options (such as lower minimum down payments or the use of RRSP funds to buy a home). (Hulchanski, 2005)<sup>42</sup> Nevertheless, it is not the case with the rental part of the housing system. The extreme low vacancy rates in metropolitan areas indicate serious shortages of rental housing (in particular of affordable rental units). In the rental market, the majority of rental housing is privately owned; social housing accounts as little as 5 % of the total stock. The co-op and non-profit housing is especially of importance for producing the social rental housing.

In the private rental market, from the late 1940s until 1985 several programs promoted the construction of private-sector rental housing. These included the Limited Dividend Program, the Assisted Rental Program, the Multiple Unit Residential Building tax shelter and the Canada Rental Housing Supply Program. These programs generally having long-term subsidies tied to the pay-out of mortgages. The subsidies are provided through operating agreements between governments. Yet, few of these subsidized units remained affordable today. Those are still affordable tend to be in poor condition either in quality or in location.

As to the public rental market, in 2004, there were over 680,000 social housing units in Canada, managed by non-profit, public or cooperative housing providers. Subsidies for these units amount to \$ 3.2 billion annually, of which approximately \$ 1.8 billion is provided by the Federal Government. By 2033, almost all existing social housing agreements will have expired. (Potter, 2004)<sup>43</sup>

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<sup>42</sup> J. David, Hulchanski. 2005. "*Rethinking Canada's Affordable Housing Challenge*", A Discussion paper prepared for the Government of Canada's Canadian Housing Framework Initiative. Page 5 of 14

<sup>43</sup> Potter, Joyce. 2004. "*Canadian Housing Policy Update: 2004*". Canadian Housing and Renewal Association, Page 5.

When homeownership is unachievable, rental sector stays as the only alternative. Rental market is thus extremely important in the housing system. However, after one decade's constant spending constraint with respect to housing programs, the Federal cut nearly all funding to new affordable housing in 1993, resulted in provinces failing to adequately fund social assistance benefits as well as other important social supports relevant to housing stability. (Carter, 1997)<sup>44</sup>

As Hulchanski said: "... *There is no tenure neutrality, nor do public policies relating to housing demonstrate a progressive orientation (that is, they do not focus on those in need first before helping those who are already well-off). To call this an affordability problem among the poor is to conceal an entrenched bias in public policy...*" (Hulchanski, 2005)<sup>45</sup>

## 2.2 The Role of Federal and Provincial Governments

Contrast to the legislative system of the U.S., of which the Federal Government is perceived as having a strong commitment to housing and urban issues, the legislative agenda on housing at the federal level in Canada is much less extensive than that in the United States. Canada is a federation with a division of powers between the federal and provincial governments (Constitution Act of 1982). Under the Canadian constitution, there is not an explicit reference to housing, which leaves a very arguable question: "which level of government takes the responsibility of housing?"

As housing is associated with land development and urban affairs, typically areas of provincial jurisdiction, many have argued that it is properly a provincial responsibility. (Pomeroy, 1995)<sup>46</sup> Indeed, the Federal Government has historically

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<sup>44</sup> Carter. Tom. 1997. "*Current Practices for Procuring Affordable Housing: The Canadian Context*". Housing Policy Debate, Volume 8, Issue 3. Fannie Mae Foundation, page 603

<sup>45</sup> J. David, Hulchanski. 2005. "*Rethinking Canada's Affordable Housing Challenge*", A Discussion paper prepared for the Government of Canada's Canadian Housing Framework Initiative. Page 7 of 14

<sup>46</sup> Stephen P. Pomeroy. 1995. "*A Canadian Perspective on Housing Policy*". Housing Policy Debate, Volume 6, Issue 3, Fannie Mae Foundation



played a dominant role in setting housing policy in Canada, which is mainly derived from the larger fiscal capacity and its spending powers.

However, the role of governments has declined significantly in the last few decades. The Federal and provincial governments still play a role, but this role, at least for the Federal Government and for most of the provinces is that of a facilitator and manager of existing portfolios as opposed to a provider of new units. (Carter, 1997)<sup>47</sup> Today, the affordable housing production in Canada is generally developed on a partnership basis, with community groups or third sector organizations playing the lead role.

Indeed, it was not only until 1938 that public housing policy has been introduced in Canada (but never implemented until 1949). Bacher states that Canada was one of the last major Western nations to introduce a social housing supply program. (Bacher, 1993)<sup>48</sup> Only in 1949 were the National Housing Act (NHA) amended and a public housing supply program officially launched. (Van Dyk, 1995)<sup>49</sup> The federal and provincial governments agreed for the sharing of housing deficits on a 75 / 25 basis. This marked the beginning of providing ongoing subsidies to low-income households. (Chisholm, 2003)<sup>50</sup>

Before 1973, social housing in Canada was provided mainly through the Public Housing Program. Most of the financing was provided directly through the CMHC, with a 10 to 25 per cent contribution from the provincial government. Residents paid rent based on income, and the difference was covered by an operating subsidy whose cost was shared between the federal and provincial governments (and sometimes municipal) (Van Dyk, 1995).<sup>51</sup>

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<sup>47</sup> Carter, Tom. 1997. "Current Practices for Procuring Affordable Housing: The Canadian Context". Housing Policy Debate, Volume 8, Issue 3. Fannie Mae Foundation

<sup>48</sup> Bacher, John C. 1993. "Keeping to the Marketplace: The Evolution of Canadian Housing Policy". Montréal-Queen's University Press

<sup>49</sup> Van Dyk, Nick. 1995. "Financing Social Housing in Canada". Housing Policy Debate 6(4)

<sup>50</sup> Chisholm, Sharon. 2003. "Affordable Housing in Canada's Urban Communities: A Literature Review". CMHC, page 6

<sup>51</sup> Van Dyk, Nick. 1995. "Financing Social Housing in Canada". Housing Policy Debate 6(4)

Additional affordable units were provided through the Limited Dividend Rental Program, which encouraged private investors to develop and operate low- to moderate- rent housing. Rents were based on break-even costs and a rate of return approved by the government. The developers benefited a direct government loan at interest rates approximately 2 per cent below prevailing conventional mortgage rates. (Van Dyk, 1995)<sup>52</sup>

Programs created under the NHA created about 200,000 units over between 1964 and the mid-1970s (Rose, 1980).<sup>53</sup> These include: an assisted home ownership program, a neighborhood improvement program, a housing rehabilitation program, a native housing program and a non-profit and co-op housing program. These programs were based on direct Federal Government relationships with non-profit and co-op housing groups and municipalities in the case of social housing supply, individual owners in the case of the housing rehabilitation program, and individual municipalities in the cases of the Neighborhood Rehabilitation Program and the land assembly program. This funding approach side-stepped the provincial governments and their housing corporations, thereby increased the visibility of the Federal Government in housing and urban affairs. (Hulchanski, 2002)<sup>54</sup>

Inclusionary philosophy firstly appeared in Canadian housing policy when the 1973 amendments to the NHA were announced. Ron Basford, the minister responsible for Urban Affairs, told the House of Commons:

*“When we talk... about the subject of housing, we are talking about an elemental human need – the need for shelter, for physical and emotional comfort in that shelter.”* He described the rationale for the government’s role in supplying low-cost housing as: *“When we talk about people’s basic needs – the requirements for survival – society*

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<sup>52</sup> Van Dyk, Nick. 1995. *“Financing Social Housing in Canada”*. Housing Policy Debate 6(4)

<sup>53</sup> Rose, Albert. 1980. *“Canadian Housing Policies, 1935-1980”*. Toronto : Butterworths

<sup>54</sup> J. David. Hulchanski. 2002. *“Housing Policy for Tomorrow’s Cities”*. Discussion Paper F/27 Family Network

*and government obviously have an obligation to ensure that these basic needs of shelter are met. I have already acknowledged this obligation in stating that good housing at reasonable cost is a social right of every citizen of this country. ... This must be our objective, our obligation, and our goal. The legislation which I am proposing to the House today is an expression of the government's policy, part of a broad plan, to try to make this right and this objective a reality."*  
 (Canada House of Commons)<sup>55</sup>

Post-1973 amendments to the National Housing Act (NHA) made significant changes to the way assisted housing was provided, which fostered the development of a third sector as the principle vehicle through which to continue developing affordable housing stock . The third sector's importance in the housing system is underscored by the fact that it owns or manages approximately 50 percent of Canada's social housing inventory of 661,000 units built under federal-provincial agreements. In addition, where provinces have provided unilateral units, the third sector has played the role of coordinator, owner, or manager. Their strength lies in their abilities to organize volunteers, access private capital to support projects, and link housing with other support services. (Carter, 1997)<sup>56</sup>

As mentioned, the Federal Government's role in direct provision of affordable housing is relatively modest today. Only modest program vehicles remain in place for direct delivery. In 1996, the Federal Government, through CMHC, announced its housing initiatives for the year, which represent the Federal Government's role in the provision of affordable housing:

- The Federal Government no longer provides extensive funding for new social housing since then;

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<sup>55</sup> Canada, House of Commons Debates, March 15, 1973: 2257

<sup>56</sup> Carter, Tom. 1997. "Current Practices for Procuring Affordable Housing: The Canadian Context". Housing Policy Debate. Volume 8, Issue 3. Fannie Mae Foundation

- The Federal Government no longer commits funding to ongoing subsidies, any ongoing costs are the responsibility of other levels of government, groups or individuals;
- The Federal Government has moved away from a mainstream targeting approach of providing assistance to a wide range of low-income groups, to a much targeted approach focusing on some special-needs groups.

The following Federal Budget stated that the government would “...*further clarify jurisdiction in the social housing field...*” by offering its existing administrative responsibilities for existing social housing to the provinces and territories. It also indicates that the issue of third parties in the administration of social housing would be discussed with provinces and territories. (BILL C-66)<sup>57</sup>

As subsidized rental housing continues to diminish in the late 1990s, there has been a modest revival of federal involvement in housing. In December 2001, the Minister of Finance announced that the Government of Canada would spend \$136 million a year for five years to assist in the construction of affordable rental housing, about 5,400 units a year. (Hulchanski, 2002)<sup>58</sup>

### Québec

Throughout the 1970s, provincial housing agencies were created and took on delivery of federally funded programs. In Québec, the interventions of Federal Government in housing were realized through the intermediate of CMHC. CMHC participates, under the negotiation of Federal Government and Québec Government, the construction of 85,200 subsidized housing units. It also directly subsidized 37,000 housing units in form of cooperate and community housing.

<sup>57</sup> Available at: [http://www.parl.gc.ca/common/Bills\\_ls.asp?Parl=36&Ses=1&ls=C66](http://www.parl.gc.ca/common/Bills_ls.asp?Parl=36&Ses=1&ls=C66)

<sup>58</sup> J. David. Hulchanski. 2002. “*Housing Policy for Tomorrow's Cities*”. Discussion Paper F/27 Family Network, page iii

The government of Québec historically considers housing as an exclusive competence sector in its politics. According to Tom Carter, Québec is one of these most active provinces in the provision of assistance for affordable housing (Carter, 1997).<sup>59</sup> With this objective, the government of Québec created La Société d'habitation du Québec (SHQ) as the principal advisor on habitat issues in 1967.

SHQ prepares and implements policies and programs in the housing sector, and is responsible for the largest social housing inventory in Québec. Since 1974, SHQ took over the responsibility for low-rental housing programs and retained ownership of the buildings it built. Beginning in 1986, the SHQ started to take on more responsibility and introduced measures to stimulate the economy and encourage home ownership.

In 1997, SHQ adopted its first five-year housing intervention plan, the Accès-Logis Québec. AccèsLogis is a financial assistance program that promotes the coordination of public, private and community resources to build social and community housing for low- and moderate-income households and clients with special housing needs. In consequence, all other programs were revised to promote joint action with community organizations.

In 2003, the SHQ provided social housing assistance for 230,000 low-income households. Up to date, almost 5,300 affordable units were completed by community organizations<sup>60</sup> under the AccèsLogis Québec and Affordable Housing Québec program (social and community component), in addition to 7,800 scheduled new units.<sup>61</sup>

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<sup>59</sup> Carter, Tom. 1997. "Current Practices for Procuring Affordable Housing: The Canadian Context". Housing Policy Debate. Volume 8, Issue 3. Fannie Mae Foundation. Page 618

<sup>60</sup> A group of individuals living in the same place and having the same common interests

<sup>61</sup> Data from :[www.habitation.gouv.qc.ca](http://www.habitation.gouv.qc.ca)

With the assistance of its partners,<sup>62</sup> SHQ administers almost 65,000 public low-rental housing units and 8,200 privately-owned low-rental units (owned and managed by housing cooperatives and non-profit organizations).

In the last 30 years, the Québec government developed quite a substantial inventory of social housing units. Up to 2001, the stock includes 62,884 units of HLM, over 40,000 units of community housing which belong to non-profit organizations or cooperatives. In addition, there are 7,600 private affordable units receiving subventions from various housing programs. (Gill, 2002)<sup>63</sup> The majority of these units originated from three programs: Achat-Rénovation, AccèsLogis Québec and Logement abordable Québec. (Gariépy, 2002)<sup>64</sup>

Most financial programs for providing social housing in Québec with the assistance of Federal Government originated from three agreements that were signed respectively in 1971, 1978 and 1986. (Gariépy, 2002)<sup>65</sup> In the 1986 agreement, the realization of social housing on the territory of Québec is entirely assumed by the Québec government, except those for the aboriginal people that the Federal Government continues to assume all the responsibilities.

As mentioned previously, the Federal Government made a commitment with provinces in 2001 for the contribution in affordable housing on a cost-share basis. Québec was the first one who signed an agreement with the Federal. The Affordable Housing Québec Program was created under that agreement. This program is funded

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<sup>62</sup> Such as CMHC, local municipalities, housing cooperatives, Régie du logement, community groups, housing non-profit organizations, etc.

<sup>63</sup> Gill, Daniel. 2002. « *Les Besoins en logement social et abordable : Redéfinition de la problématique dans une perspective de développement durable* ». Document de consultation sur le logement social et abordable, déposé dans le cadre d'un mandat d'initiative sur le logement social, Présenté à La Commission de l'aménagement du territoire de l'assemblée nationale. Institut d'urbanisme, université de Montréal. Page 6 of 105.

<sup>64</sup> Gariépy, Jacque. 2002. « Mémoire de la Société d'habitation du Québec », Présenté à la Commission de l'aménagement du territoire. Mandat d'initiative consultations particulières portant sur le document de consernant le logement social et abordable. SHQ, page 22 of 28

<sup>65</sup> Gariépy, Jacque. 2002. « Mémoire de la Société d'habitation du Québec », Présenté à la Commission de l'aménagement du territoire. Mandat d'initiative consultations particulières portant sur le document de consernant le logement social et abordable. SHQ, page 12 of 28

by the CMHC (government of Canada), the SHQ (government of Quebec) and the City of Montréal.

The Affordable Housing Québec – Social and Community Component is designed to allow cooperatives, housing corporations, non-profit organizations and acquiring corporations to complete community and social housing projects with a minimum community contribution.

The Affordable Housing Québec – Private Component is designed to encourage the private sector to increase the pool of affordable rental dwellings in Montréal to counter the shortage of such dwellings in the city; and ensure the quality of life of residents through a series of standards, including the accessibility and minimum floor area of the dwellings.

### **2.3 The Role of Municipalities**

Traditionally, municipalities, because of their powers and responsibilities in many aspects of the regulatory environment, such as zoning, land use regulations, property taxation and land development, always play an important role in the provision of affordable housing. (Carter, 1997)<sup>66</sup>

In Québec, municipalities are the most important partner of the SHQ in providing support for affordable housing construction. In addition to financing the public housing stock, municipalities are also responsible for the revitalization housing programs in their jurisdictions.

The City of Montréal views affordable housing an essential part of sustainable development. The city has made a notable commitment to providing affordable housing in the past. The housing policies in Montréal are resultant of collaborative efforts made by multiple stakeholders: the City of Montréal, Habiter Montréal,

Communauté Métropolitaine de Montréal, Para-Municipal Organizations, the Federal Government, the provincial Government, the CMHC, the SHQ and a number of community organizations as well as private organizations. These partnerships suggest that housing policies reflect a variety of perspectives and voices within Montréal, Quebec, and Canada. From these policies, a large number of programs are created at numerous levels in order to provide affordable housing. Generally, federal and provincial governments are responsible for redistributing wealth in housing, whereas the mandate of the municipality is to manage its territory and housing stock and to provide necessary services. (Habiter Montréal, Policy, 1989)

In 2003, the City of Montréal signed an agreement with the Québec government. The city took over all the responsibilities in the management of all sorts of social housing programs on its territory.

Through Habiter Montréal, the city created a number of programs at different levels for housing production such as the Opération Solidarité 5000 logements, an operation that launched in February 2002 to develop 5,000 affordable residential units for low- to moderate-income households in collaboration with the boroughs and partners (private, social and government organizations). The purpose of Solidarité 5000 logements is to develop 5,000 new social and community housing units adding to the pool of existing social and community housing units on the island of Montréal by the end of 2005. Target groups include people living alone, families, seniors with diminishing abilities and people with special needs. The development of the 5,000 new social and community dwellings is estimated at over 500 million dollars, 300 million of which come from the government of Québec and the government of Canada via the AccèsLogis program and the Affordable Housing program. The city provides direct financial assistance estimated at over 106 million dollars.

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<sup>66</sup> Carter, Tom. 1997. "Current Practices for Procuring Affordable Housing: The Canadian Context". Housing Policy Debate, Volume 8, Issue 3. Fannie Mae Foundation, Page 622



The City also initiated a Homeownership Program which provides financial assistance to help first-time buyers to purchase affordable housing in Montréal. The program particularly targets moderate-income households. The purpose of this program is to facilitate first-time home ownership for buyers of new affordable housing and tenants who wish to purchase the rental building (two to five dwellings) in which they live.<sup>67</sup>

The third sector plays a more and more important role in the production of affordable housing since changes to NHA in 1973.<sup>68</sup> They include municipal non profits, cooperatives, and community based groups representing charitable, religious, and special interest organizations. Since the last decade, housing projects in Montréal are consequently put forward by development organizations—housing co-operatives, non-profit organizations (NPOs) and the Office municipal d’habitation de Montréal—with the help of technical resource groups (GRTs) in the case of co-ops and NPOs.

In spite of a variety of housing programs supported by federal, provincial and municipal government in Canada, the crisis for affordable housing still remains alarming. As Bradford argues that new programs are needed to address the growing gap between the cost of housing and what households can afford. He also suggests that governance structures should allow for the participation of a wider range of players in addressing this issue. (Bradford, 2002)<sup>69</sup>

Given the lack of Federal Government support, new programs which do not depend on long-term commitments have been created to produce affordable housing. Community groups and other third sector organizations are playing a much greater role in initiating projects and forging partnerships. The Regroupement des

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<sup>67</sup> Buyers of a dwelling that was converted into a divided co-ownership and is located on the city’s former territory are also entitled to financial assistance under this program

<sup>68</sup> At that time, the Public Housing Program was replaced by Nonprofit Housing. The government instead of delivering, owning, and managing the social housing stock, decided to place the delivery and management of assisted housing in the hands of the third sector. (Van Dyk, 1995)

<sup>69</sup> Bradford, Neil. 2002. “*Why Cities Matter : Policy Research Perspectives for Canada*”. Canadian Policy Research Networks

Organismes du Montréal-Ethnique pour le Logement (R.O.M.E.L.) is one of the innovative projects created to support families with regard to affordable housing.

R.O.M.E.L. is a community group with a mandate to serve newcomers. The project was accomplished with a number of partners with existing resources and expertise that had already been presented in the neighborhood, the goal was to support for social and professional integration for disadvantaged populations. The housing portion is funded by the Government of Québec through the Accès-Logis program. The province provided a grant representing 45 % of the capital costs, while the City of Montréal contributed an addition 30 %. The city has also contributed to the success of the project through the purchase of a building in the neighborhood which will be used for community services. The balance of the capital cost is financed through a conventional mortgage. With these grants in place, the co-op is able to charge rents that are affordable to low-income families. The R.O.M.E.L. project highlights a coordinated strategy in the context of multi-level government and community involvement and linkage between housing goals and social integration.

Meanwhile, there is also growing recognition by the private sector that it too must play a role and work in partnership with other actors in the market place to take up some of the slack by the government's withdrawal (Tom Carter 1997). This is evidenced by the newly adopted Inclusionary strategy for affordable housing by the City of Montréal. The Inclusionary strategy is one of the initiatives aim at meeting a particular goal of Montréal's master plan, namely to provide 60,000 to 75,000 new housing units by 2014. Of these new units, 30% would fall into the affordable housing category.

According to the Inclusionary Strategy published by the City of Montréal, the city administration is targeting at two specific objectives through application of this inclusive strategy. The first is to make certain that 15% of the new housing units built within Montréal will fall into the public and community-based housing category. The second is to ensure that another 15% of the new housing units will fall into the

category of affordable housing produced by the private sector (affordable homes and rental units).<sup>70</sup>

**Conclusion:**

Given the regulatory power municipalities have, their intervention in housing policies are critically important. Nevertheless, most housing programs today are based on partnership basis, with private sector or / and third sector playing a lead role. How to provide more affordable housing units to low-income households raises the question – how to make the private-public partnership work?

The recently adopted Inclusionary strategy is an innovative step of the City of Montréal in providing affordable housing. The strategy aims at creating affordable shelters through the hand of private sector. Moreover, the strategy highlights the importance of building inclusive community through mixed-income settlement. Before discussing the tools needed to achieve the objective, it is important to identify the affordable housing need of the city. The following chapter provides an understanding of affordable housing shortage of the City of Montréal.

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<sup>70</sup> Source: Ville de Montréal. 2005. “Inclusionary of affordable housing in new residential projects”.

## CHAPTER 3

### THE AFFORDABLE HOUSING CHALLENGE IN MONTRÉAL

#### 3.1 A Brief Look at the Market

Montréal is known as one of the most livable cities in the world. However, when it comes to affordable housing, there are many things to be improved. The Mayor Gerald Tremblay during his recent Campaign said: Montréal--where, 30,000 people await affordable housing--is experiencing a housing crisis. He promised in his speech to build 6,000 units of social housing and another 4,000 "reasonable cost" units annually. Also, Mayor Gerald Tremblay added that 50,000 rental units are in need of major repairs.

Before going further into the analysis of the market, let's take a look at some critical figures of the housing market of Montréal:<sup>71</sup>

- In 2004, the City of Montréal has a population of nearly 1.88 millions spreading in 27 boroughs; (Institut de la statistique Québec, profiles des régions, Montréal)
- 18 % of the residents are immigrants (Statistic Canada, 2001 census);
- 36 % of the residents are homeowners (Statistic Canada, 2001 census);
- Among Montréal's 805,000 households, 380,000 households (47.3 %) have low to very low annual incomes which is less than \$ 36,000 (Ville de

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<sup>71</sup> Unless otherwise mentioned, Montréal and the city of Montréal in this text refer to the island of Montréal

Montréal, Inclusionary of affordable housing in new residential projects. September 30<sup>th</sup>, 2005, page 8 of 48);

- 98,425 households of the rentals (19 %) have modest incomes, 18.6 % of them (96,500 households) spend more than 50 % of their income for rent (Ville de Montréal, Inclusionary of affordable housing in new residential projects. September 30<sup>th</sup>, 2005, page 8 of 48)
- In the resale market, average price of single-family house increased from \$ 142,590 in 1996 to \$ 302,859 in 2004, whereas, the average price of condominium increased from \$ 107,617 to \$ 208,209 in the same period (CMHC, Analysis of the Resale Market, Montréal Metropolitan Area)
- In 2003, only 2.6 % of new single-family homes and 16.9 % of new built condominiums could be considered affordable; there is almost no new affordable rental housing without assistance programs. (Ville de Montréal, Inclusionary of affordable housing in new residential projects. September 30<sup>th</sup>, 2005, page 12 of 48)
- Despite growth in all rental market segments, only subsidized rental dwellings are affordable, in 2003, there are only 51,364 social housing units available (Ville de Montréal, Les logements sociaux et communautaires à Montréal, page 3 of 8);
- 75 % of all tenant households in the Montréal Metropolitan Community (MMC) live on the island of Montréal. (Ville de Montréal, Inclusionary of affordable housing in new residential projects. September 30<sup>th</sup>, 2005, page 28 of 48)

Table 3.1: Characteristics of the Housing Market

	2001	%	1996	%	Variation between 1996-2001, %
Total Number of Households	805,820	100.0%	773,825	100.0%	4.2%
Number of Owners	288,280	35.8%	264,770	34.2%	8.9%
Number of Tenants	517,535	64.2%	508,215	65.7%	1,8%
Number of Housing constructed before 1991	765,385	95.0%			
Number of Housing constructed BTW 1991-2001	40,430	5.0%			

Source: Statistic Canada, 2001 Census,

Compilation: Observatoire économique et urbain, Ville de Montréal

Several indications contribute to the city Montréal's affordable housing crisis:

- Average household income doesn't support the rising housing price;
- The new construction is priced out of reach for both low-income and moderate households;
- There is a significant shortage of new affordable rental housing starts for extreme low- and low-income households.

### 3.2 Wages do not Support Housing Costs

Affordable housing is commonly defined as housing that costs no more than 30 % of a household's gross income. If we take a close look at the market, everyday working families of the city can no longer afford to live in many of its neighbourhoods. To be able to finance a standard condominium apartment (the average price on the resale market is \$ 230,020), a minimum-wage worker who earns \$ 7.45 per hour would have to work 143 hours a week.<sup>72</sup> Even if he / she opts for the rental market, he / she

<sup>72</sup> Calculated as: 143 hrs @ 7.45 \$ @ 4 @ 30 % = the monthly financing charge (assuming 5 % down payment financed with a 25-year mortgage at 5 % fixed rate)

still needs to work 64 hours a week to afford the average rent of \$ 570 using 30 % of his income.

According to the statistic, the average household income in 2000 is \$ 49,429 (see table 3.2). Among the 27 boroughs on the island, there are 12 boroughs where average household income is below the City's average, they account nearly for 46 % of the total households. In boroughs of Villeray / Saint-Michel / Parc-Extension, Montréal-Nord, Sud-Ouest and Rosemont / Petitparrie, the average household incomes do not even reach 80 % of the City's average. Yet, the number of households in these 4 boroughs amounts to 26 % of the City's total.

Homeownership usually aims to households who attain a certain income level and financial stability. The implied income level for homeownership is commonly defined at 80 % of the regional average, a point where income could be considered as moderate. For very low- and low-income households, whose income is below 80 % of the regional average, they commonly choose rental-type of housing. The homeownership rate for the City of Montréal is only 36 % which is significantly below the nation's average 66 %.

Table 3.2: Average Household Income of 27 Boroughs and the City Of Montréal, 2000

Borough	Total Households (2001)	Average Household Income (2000)
Villeray/Saint-Michel/Parc-Extension	62,275	\$34,240
Montréal-Nord	36,380	\$35,233
Sud-Ouest	31,445	\$36,683
Rosemont/Petite-Patrie	68,160	\$38,322
Mercier/Hochelaga-Maisonneuve	61,275	\$39,152
Plateau-Mont-Royal	56,800	\$41,716
CDN/NDG	73,175	\$44,818
Lachine	18,285	\$45,252
Lasalle	32,200	\$46,059
Ville-Marie	41,360	\$46,195
Saint-Léonard	28,330	\$46,454
Ahuntsic/Cartierville	56,505	\$47,579
Anjou	17,115	\$50,214
Verdun	29,635	\$51,538
Rivière-des-Prairies/Pointe-aux-Trembles/Montréal-Est	39,380	\$51,968
Saint-Laurent	30,765	\$52,417
Dorval/Île-Dorval	7,640	\$60,069
Pierrefonds/cSenneville	20,475	\$61,997
L'Île-Bizard/Saint-Geneviève/Sainte-Anne-de-Bellevue	8,070	\$71,049
Pointe-Claire	11,405	\$72,600
DDO/Roxboro	17,500	\$74,993
CSL/Hampsteadc/Montréal-Ouest	17,680	\$77,885
Outremont	9,565	\$90,613
Kirkland	6,330	\$101,266
Beaconsfield/Baie-d'Urfé	7,870	\$113,788
Mont-Royal	7,760	\$116,271
Westmont	8,460	\$142,604
<b>Ville de Montréal</b>	<b>805,840</b>	<b>\$49,429</b>

Source: Statistic Canada, population census, 2001

If we compare the average gross household income of each borough with the average monthly housing expense for a standard condominium apartment, nearly half of the boroughs exist homeownership-type housing affordability gap. As shown in table 3.3, such a problem in Villeray / St-Michel / Parc-Extension, Plateau-Mont-Royal, CDN / NDG and Ville-Marie is more serious. Take the borough of Ville-Marie as an example, the average gross household's income is \$ 46,195, translated into monthly affordable household expense is \$ 1,066. This means the average maximum monthly housing expense (mortgage payment) for residents living in Villa-Marie should be no



more than \$1,066. However, with the current average market price for a condominium apartment of \$ 329,731, the affordability gap is thus \$ 765. Table 3.3 illustrates the affordable gap for each borough on the Island of Montréal.

Table 3.3: Affordability Gap for a Standard Condominium Apartment

Borough	Average Household Income 2000	Affordable Housing Expense <sup>73</sup>	Average Market Price <sup>74</sup>	Required Monthly PMT <sup>75</sup>	Affordability Gap
Villeray/Saint-Michel/Parc-Extension	\$ 34,240	\$ 790	\$ 234,672	\$ 1,303	-\$ 513
Montréal-Nord	\$ 35,233	\$ 813	\$ 174,828	\$ 971	-\$ 158
Sud-Ouest	\$ 36,683	\$ 847	\$ 201,738	\$ 1,120	-\$ 273
Rosemont/Petite-Patrie	\$ 38,322	\$ 884	\$ 180,888	\$ 1,005	-\$ 121
Mercier/Hochelaga-Maisonneuve	\$ 39,152	\$ 904	\$ 180,888	\$ 1,005	-\$ 101
Plateau-Mont-Royal	\$ 41,716	\$ 963	\$ 234,672	\$ 1,303	-\$ 340
CDN/NDG	\$ 44,818	\$ 1,034	\$ 329,731	\$ 1,831	-\$ 797
Lachine	\$ 45,252	\$ 1,044	\$ 217,394	\$ 1,207	-\$ 163
Lasalle	\$ 46,059	\$ 1,063	\$ 201,738	\$ 1,120	-\$ 57
Ville-Marie	\$ 46,195	\$ 1,066	\$ 329,731	\$ 1,831	-\$ 765
Saint-Léonard	\$ 46,454	\$ 1,072	\$ 174,828	\$ 971	\$ 101
Ahuntsic/Cartierville	\$ 47,579	\$ 1,098	\$ 213,539	\$ 1,186	-\$ 88
Anjou	\$ 50,214	\$ 1,159	\$ 174,828	\$ 971	\$ 188
Verdun	\$ 51,538	\$ 1,189	\$ 201,738	\$ 1,120	\$ 69
Rivière-des-Prairies/Pointe-aux-Trembles/Montréal-Est	\$ 51,968	\$ 1,199	\$ 142,803	\$ 793	\$ 406
Saint-Laurent	\$ 52,417	\$ 1,210	\$ 213,539	\$ 1,186	\$ 24
Dorval/Île-Dorval	\$ 60,069	\$ 1,386	\$ 217,394	\$ 1,207	\$ 179
Pierrefonds/cSenneville	\$ 61,997	\$ 1,431	\$ 158,850	\$ 882	\$ 549
L'Île-Bizard/Saint-Geneviève/Sainte-Anne-de-Bellevue	\$ 71,049	\$ 1,640	\$ 217,394	\$ 1,207	\$ 433
Pointe-Claire	\$ 72,600	\$ 1,675	\$ 217,394	\$ 1,207	\$ 468
DDO/Roxboro	\$ 74,993	\$ 1,731	\$ 158,850	\$ 882	\$ 849
CSL/Hampsteadc/Montréal-Ouest	\$ 77,885	\$ 1,797	\$ 329,731	\$ 1,831	-\$ 34
Outremont	\$ 90,613	\$ 2,091	\$ 329,731	\$ 1,831	\$ 260
Kirkland	\$ 101,266	\$ 2,337	\$ 217,394	\$ 1,207	\$ 1,130
Beaconsfield/Baie-d'Urfé	\$ 113,788	\$ 2,626	\$ 217,394	\$ 1,207	\$ 1,419
Mont-Royal	\$ 116,271	\$ 2,683	\$ 329,731	\$ 1,831	\$ 852
Westmont	\$ 142,604	\$ 3,291	\$ 329,731	\$ 1,831	\$ 1,460
<b>Ville de Montréal</b>	<b>\$ 49,429</b>	<b>\$ 1,141</b>	<b>\$ 230,020</b>	<b>\$ 1,245</b>	<b>-\$ 104</b>

Compilation: Statistic Canada, 2001 Census

<sup>73</sup> Calculated as 30 % of the household's gross monthly income

<sup>74</sup> "Analysis of the Resale Market, Montréal Metropolitan Area". 2005 third quarter. CMHC, Greater Montréal Real Estate Board.

<sup>75</sup> Based on 5 % down payment, 5 % fixed rate mortgage for 25-year

### 3.3 New Construction is Forcing Working Families out of the Market

Historically, Montréal has had lower house values than in other major Canadian urban centers, but due to demand and economic growth, Montréal is rapidly catching up to the house values typically seen in other major CMAs (UBC, CanSIM, 2005). Table 3.4 shows that over the past 5 years, the prices of the three tenure types mentioned have almost doubled their value. Single-family home prices have increased over 114 % between 2001 and 2005, while condominium and plex-type dwelling have increased 94 % in their values respectively.

Table 3.4: Housing sale Price Change 2001 – 2005, Resale Market, Island of Montréal

Average SIA / MLS*						
	3Q 2001	3Q 2002	3Q 2003	3Q 2004	3Q 2005	% Change
Single-Family	\$ 146,471	\$ 168,770	\$ 195,058	\$ 219,801	\$ 313,422	114 %
Condominium	\$ 126,524	\$ 153,613	\$ 173,284	\$ 188,529	\$ 230,020	82 %
Plex	\$ 162,105	\$ 185,198	\$ 230,260	\$ 261,874	\$ 313,873	94 %

Source: CMHC, Greater Montréal Real Estate Board: Analysis of the Resale Market, Montréal Metropolitan Area

\*SIA /MLS is a registered trademark of the Canadian Real Estate Association.

Still take a standard condominium from the resale market as an example, assuming 5 % down payment, 25 years mortgage term compounded at 5 % fixed mortgage rate, the monthly payment required to finance such a property is \$ 1,278. Plus any associated taxes and maintenance fees (assuming at 2 % of the property value), monthly payment arrives at \$ 1,661. This means, the minimum income required to afford such an apartment is \$ 66,440 which is pointing at a level that is 134 % of the City's average income.

In the new construction market, the situation is even more severe. The average price for a single family detached house on the island was \$ 434,413 on the island in the third quarter of 2005 (CMHC, Housing Market Outlook). Under the same assumption as above (5 % down payment, 5 % fixed mortgage rate for 25 years and 2 % of property taxes including other maintenance charges), a household needs a gross annual salary of \$ 140,000 to afford such a house.

Table3.5: Level of % Price Change for New Single-Family Home Market, 2004-2005

<b>New-Detached Single-Family Home</b>				
	<b>2004</b>	<b>2005p</b>	<b>Chg.</b>	<b>2006p</b>
Island of Montréal	424,413	484,000	11%	527,000
Laval and North-Shore	239,669	264,000	10%	288,000
South-Shore	221,086	242,000	9%	260,000
Total Montréal Area	251,365	276,000	10%	298,000

Source: CMHC, Housing Market Outlook, Montréal, Fall-Winter 2005

As we mentioned previously, the average household income in the City of Montréal is \$ 49,429; the homeownership rate is 36 %. The common definition of moderate-income is between 80 % and 120 % of the city's average. For moderate income households to be affordable in housing needs, a home should cost \$ 170,000 or less. And for very-low and low income households, to be affordable in housing needs, the rent should be \$ 900 or less. (Ville de Montréal, 2005) <sup>76</sup>

Yet, there are 192,430 households on the island of Montréal spend more than 30 % gross income on rentals, whereas 176,344 households spend more than 30 % of their gross income on payments related to financing an owner type dwelling.<sup>77</sup> This serious affordability issue is further exaggerated by a fact that high housing prices in

<sup>76</sup> Ville de Montréal. 2005. "Inclusionary of affordable housing in new residential projects". page 19 of 48

Montréal has driven households off the island. In three years, Montréal lost 48,000 residents aged 25 to 39 years or below 14 to other municipalities in Québec. (Ville de Montréal, 2005)<sup>78</sup>

### 3.4 Shortage of New Affordable Rental Housing Starts

Montréal is predominantly a city of renters. Rental units make up two-thirds of the total units in the city, with the home ownership rates at just 34 percent. The rental market in Québec can be divided into three groups: (Gill, 2002)<sup>79</sup>

- Private rental housing, regulated by the Régie du logement, which represents the majority of the rental housing stock;
- Subsidized private housing including co-op, non-profit housing and those subsidized under the Supplément au loyer programs; and
- Public housing, which includes essentially HLM managed by the Offices municipaux d'habitation (OMH).

Despite growth in all housing market segments, there is virtually no new affordable rental housing without assistance programs, only subsidized dwellings are affordable (see graph 2).

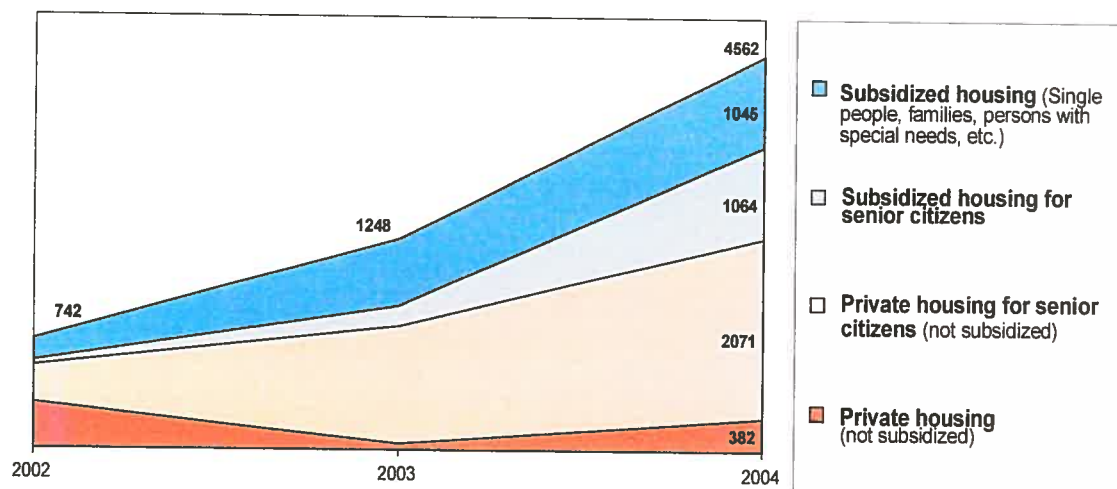
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<sup>77</sup> Ville de Montréal. 2004. « Profil socio-économique »

<sup>78</sup> Ville de Montréal. 2005. « Stratégie d'inclusion de logement abordable dans les nouveaux projets résidentiels », page 4 of 33

<sup>79</sup> Gill, Daniel. 2002. « Les besoins en logement social et abordable : Redéfinition de la problématique dans une perspective de développement durable ». Document de consultation sur le logement social Présenté à La Commission de l'aménagement du territoire de l'assemblée nationale. Institut d'urbanisme, université de Montréal. Page 26 of 105

Graph 2: Segmentation of Rental Housing Starts in Montréal



Recycled projects and residences are not taken into account

Source: Ville de Montréal, Inclusionary of affordable housing in new residential projects. September 30<sup>th</sup>, 2005, page 11 of 48

Graph 2 shows that although there is a slight growth in new rental project starts in relation to previous years, few tradition rental housing were built. Most of the rental units were built for senior citizens or persons with special needs, leaving the rest concentrated on high-end condominium apartments (except those units constructed under the subsidized programs such as AccèsLogis, Affordable Housing Québec).

Table 3.6: New Construction of Rental Housing in 2003

2003	Rental Housing	For retirees	%
Montréal	2,350	1,419	60 %
Region	4,723	2,791	58 %

Source: Habiter Montréal: Investir à Montréal, page 7 of 37

Few rental construction starts contribute to the extremely low rental vacancy rate on the Island of Montréal (which is 2.1 % in October 2005, a slight rise from 1.7 % in

year before).<sup>80</sup> In addition, the percentage of average rent change between 2004 and 2005 for a 2-bedroom private apartment has reached 4.2 %, nearly doubled the inflation rate (\$ 544 in 2004 and \$ 567 in 2005). (CMHC, 2005)<sup>81</sup>

The rise in vacancy rate can be explained by the ease of the upscale segment (units renting for \$ 900 or more). According to a CMHC report, the vacancy rate of high-end, private owned apartment has jumped to 3.7 % in 2005. While in the lower-range market (units renting for \$ 600 or less), the vacancy rate for a two-bedroom apartment has dropped to 1.4 %. There is particularly no vacancy for apartment with three-bedroom or more in the same price range.

Despite the overall growth in vacancy rate compared to the previous years, the demand for rental housing remains steady. This is notably stimulated by the influx of immigrant.

Being the third pole of attraction in the country, immigrants account for 18 % of the population. In 2003-2004, Montréal census area has attracted more than 380,000 new immigrants. As well, immigrants represent an immediate source for housing demand since they need a place to live when they arrive. Upon their arrival, immigrant households are mainly renters and only over time, they tend to privilege homeownership.

According to City of Montréal, there are 47.3 % households in Montréal have low- to very-low annual income, defined as less than \$ 36,000.<sup>82</sup> Nevertheless, there were only 51,364 social housing units were constructed in 2003. Affordable social housing shortage is most prevalent in very low-income households with 30 % of the city's average income (see table 3.7). In total, the social housing stock plus construction under process in 2003 is 56 176 units. Nevertheless, there are 123 835 households on

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<sup>80</sup> CMHC. Rental Market Report, Montréal CMA, October 2005

<sup>81</sup> \$544 in 2004 and \$567 in 2005. CMHC. Rental Market Report, Montréal CMA, October 2005. page 13 of 23

<sup>82</sup> The regional average income used in the Inclusionary Strategy is 56,331 instead of using the city's average household income \$49,429.

the island of Montréal dispose an income inferior 30 % of the city's average and are considered as very-low income households who are in need of assistance in affordable housing.



Table 3.7 Affordable Rental Housing Shortage for Extreme Low-Income Households

Borough	Income < = 30 % of Regional Average		Existing Social Housing Units as of 31st Dec 2003	Total Social Housing Units Under Process in 2003	Shortage
	%	N°			
Ahuntsic/Cartierville	15,5%	8,750	3,483	363	4,904
Anjou	10,0%	1,715	557		1,158
Beaconsfield/Baie-d'Urfe	1,8%	140	44		96
CDN/NDG	19,0%	13,890	4,421	523	8,946
CSL/Hampsteadc/Montréal-Ouest	7,9%	1,395	572	95	728
DDO/Roxboro	4,7%	820	199	131	490
Dorval/Île-Dorval	8,1%	620	155	76	389
Kirkland	1,9%	120	0		120
L'Île-Bizard/Saint-Geneviève/Sainte-Anne-de-Bellevue	6,4%	520	1,247	320	-1,047
Lachine	15,3%	2,790	1,239		1,551
Lasalle	11,8%	3,790	61	6	3,723
Mercier/Hochelaga-Maisonneuve	17,3%	10,620	5,294	575	4,751
Mont-Royal	4,4%	340	82		258
Montréal-Nord	19,2%	6,995	1,983	112	4,900
Outremont	6,2%	595	93		502
Pierrefonds/cSenneville	6,5%	1,340	1,422	79	-161
Plateau-Mont-Royal	19,7%	11,215	3,364	84	7,767
Pointe-Claire	4,1%	470	272		198
Rivière-des-Prairies/Pointe-aux-Trembles/Montréal-Est	9,2%	3,625	2,096	296	1,233
Rosemont/Petite-Patrie	17,6%	12,030	4,478	498	7,054
Saint-Laurent	11,9%	3,660	664	174	2,822
Saint-Léonard	11,8%	3,330	354	47	2,929
Sud-Ouest	21,4%	6,735	7,621	390	-1,276
Verdun	16,0%	4,745	1,115	37	3,593
Ville-Marie	24,9%	10,315	7,272	608	2,435
Villeray/Saint-Michel/Parc-Extension	20,5%	12,785	3,172	404	9,209
Westmont	5,7%	485	104		381
<b>Ville de Montréal</b>	<b>15,4%</b>	<b>123,835</b>	<b>51,364</b>	<b>4,812</b>	<b>67,659</b>

Source : Ville de Montréal, Service de la Mise en valeur du territoire et du patrimoine, Direction de l'habitation, Division de l'expertise et du soutien au développement résidentiel, *statistique des ménages et des logements de la Ville de Montréal, 2003*; Ville de Montréal, Service de la mise en valeur du territoire et du patrimoine, Direction de la planification stratégique, Division de la planification de l'habitation, *Les logements sociaux et communautaires à Montréal, en date du 31 décembre 2003* CMHC; *Programmes en vigueur pour la création de logement sociaux et communautaires à Montréal, 1999-2004*

Regardless of the significant demand, social housing production under subsidized programs is very limited. The estimated number of social and community housing created under AccèsLogis and Affordable Housing Québec (social component) in 2005 is only 5,000 (since 2002). Only 400 private affordable rental dwellings are committed under the Affordable Housing Québec (private component) (600 units on hold awaiting a new budget) (see table 3.8).

Table 3.8: Programs for the Creation of Affordable Dwellings

<b>Family of Programs</b>	<b>Examples of Programs</b>	<b>Subsidies</b>	<b>2005 Estimated Units</b>
Social and Community dwellings	AccèsLogis LAQ –Social	\$ 66,500 (Accès Logis)	5,000 dwellings (since 2002)
Private affordable rental dwellings	LAQ-Privé	\$ 17,500	400 units committed (600 units on hold)
Affordable ownership	Homeownership (PRQ) Creation of new dwellings (PRQ)	\$ 7,500 \$ 5,000	750 applications 550 dwellings

Source: Ville de Montréal, Inclusionary of affordable housing in new residential projects. September 30th, 2005, page 6 of 48

**Conclusion:**

*The affordability of housing market in Montréal raises a critical issue. Wages can not follow the pace of increasing housing price. The emergence of high-end housing products further pushed away low-income households from their neighbourhood. Gentrification is mostly severe in some boroughs with high density. Notwithstanding a comparative low housing price in the country, the homeownership rate in the City of Montréal stays extremely low. But the increasing vacancy rate of the rental market can not meet the need of most low-income households. Current available social housing is deemed not enough to help these households. The recently adopted strategy declares the willingness of the city in providing more affordable housing to low-income households. The recent adopted Inclusionary strategy requires 30 % of the new construction to be affordable. Among which, 15 % of new housing units built in Montréal are subject to be social or community housing; and another 15 % of new housing units are subject to be affordable and built by the private sector (rental or affordable home ownership).*

At the mean time, the city is seeking effective tools to attain its affordable housing objectives. Among various regulatory tools used by municipalities, Inclusionary zoning is a critical tool in achieving a better balance for the City of Montréal. The following part explores the promise of Inclusionary zoning for the provision of affordable housing.

## CHAPTER 4

### THE PERSPECTIVE OF INCLUSIONARY ZONING IN MONTRÉAL

#### 4.1 Municipal Regulatory Initiatives in Providing Affordable Housing

Municipalities in the United States use various regulatory initiatives associated with their development approval powers to provide affordable housing. The most common of these regulatory initiatives fall into five categories: Inclusionary Zoning (IZ), Exaction Programs (including linkage fees) (EP), Comprehensive Development Zoning (CDZ), Density bonusing (DB) and Leasing at Below Market Rates (LBMR).

##### *Inclusionary Zoning (IZ):*

Inclusionary zoning is a local zoning ordinance or land use policy that either requires or encourages housing developers to include a specified percentage of low and/or moderate income housing in new residential developments. IZ programs are widely used by municipalities in the United States since 1970s.

So far, there are no equivalent Inclusionary zoning programs in Canada though Ottawa, Toronto, Vancouver and Burnaby have successfully used a variation of IZ through a comprehensive rezoning process for major private redevelopment sites. These programs differ from conventional Inclusionary zoning in the U.S in the sense that they are directed at securing developable land for non-profit housing to be built with government funding rather than at obtaining below-market units constructed by non-profit developers.<sup>83</sup>

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<sup>83</sup> CMHC. Research Highlights, issue 46. "Municipal Regulatory Initiatives: Providing for Affordable Housing".

### **Exaction Programs (EP)**

Exaction Programs essentially require developers of certain types of development – mainly, but not only, commercial – to contribute fees towards the provision of affordable housing. No cost offsets, such as density bonuses are given in exchange.

The best known form of these exactions is linkage fees. The fees are typically paid into trust funds dedicated to affordable housing. Other types of exaction include: development fee, excise taxes, development levies, and voluntary contributions, they differ from each other in how these fees are justified and what uses are charged.

EP has been widely used in New Jersey in the production of affordable housing. 85 municipalities charge development fees on both new residential and non-residential projects in order to meet their state-mandated affordable housing obligations.

In Canada, the practice of EP is very limited. Only three cities in British Columbia and one city in Alberta have adopted such an ordinance in the production of affordable housing.

### **Comprehensive Development Zoning (CDZ)**

CDZ refers to areas that are specially planned by local governments. They usually include more than one land use. CDZ allows flexibility in allocating densities for developments on specific sites. Because local government involves in setting density and amenity provisions during the rezoning process, it provides an opportunity for them to negotiate for public amenities and housing that will benefit the community.

Generally, CDZ is used on very large comprehensively developed sites, especially when a significant land use change is involved. CDZ involves and requires close cooperation between city officials and developers.

In Canada, CDZ has been used in Vancouver, Burnaby and Richmond for the development of non-market rental housing. However, prior experiences revealed that

to facilitate the development of a significant number of non-market rental housing units, senior government funding is essential.<sup>84</sup>

### **Density Bonusing (DB)**

Density Bonusing enables local governments to allow developers to build up to a higher density in exchange for affordable housing units or amenities that benefit the community such as day care centers, recreational facilities, or community centers. A density bonus system is an incentive-based voluntary contribution rather than a compulsory requirement.

The most successful applications of DB programs are found in important development areas. In order to create a sensible benefit to the developer to mitigate the costs of providing housing or other community amenities, projects must be large enough to absorb the extra density.

In the United States, DB is often part of the zoning by-laws, where the projects can be planned with more certainty and that such certainty might give rise to more non-market housing being designed into projects at an early stage. In Canada, DB is usually a matter for negotiation between city officials and the developer, and is often used in combination with other tools such as IZ.

New York is the first city that adopted DB back in 1961. Since then, the application of DB has spread to other large and growing cities, such as Washington, Delaware, Hartford, and Seattle. In Canada, the cities of Toronto, Vancouver and Burnaby have a long history in using density incentives to secure public benefits.

According to CMHC, conditions conducive to the application of DB include:<sup>85</sup>

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<sup>84</sup> Namely from CDZ practice in Vancouver

<sup>85</sup> CMHC research highlights, issue 63. "Municipal Planning for Affordable Housing"

- From a community acceptance point of view, DB works best in already dense settings and where public services can support additional populations; and
- DB by municipalities requires provincial enabling legislation. Such legislation exists in Ontario, British Columbia, Nova Scotia, and Québec.

### **Leasing at Below Market Rates (LBMR)**

LBMR is possible for local governments that own significant land inventories and are able to use land leasing as a tool for the production of non-market housing. Nevertheless, LBMR is almost always accomplished with senior government funding.

## **4.2 Why Inclusionary Zoning?**

The choice of regulatory tools in the production of affordable housing by a city depends essentially on the prevailing economic circumstances and political circumstances of the city. For most tools to be effective there must be high degree of economic activities and strong housing market to support the cost added and units created. Moreover, these tools are almost always used in very large-scale housing or mixed-use developments.

In many cases, these tools have often been used in combination with others as well as funding from senior government. For example, in the case of Inclusionary zoning, density bonus is often combined to soften the cost burden. The experience in Vancouver demonstrates that the effectiveness of IZ program comes from the use in combination with BC Housing.<sup>86</sup> Without the funding, the productivity of the tool by itself is questionable.

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<sup>86</sup> CHLTF: "Linking Affordable Housing Policies to Usage: Case Studies of Municipalities in BC, Case Studies of Municipalities in BC", A Report Prepared for The Community Housing Land Trust Foundation, November 2001

Broadly speaking, these programs can be categorized into incentive base program and mandatory program. Mandatory programs often receive opposition from building industry as they bring extra cost burden for developers, while incentive-based programs so far have failed to produce as many as affordable units as anticipated.<sup>87</sup>

The economic condition and housing market allow the City of Montréal using of various regulatory tools in the production of affordable housing. As described previously, the Inclusionary zoning program, or a mandatory set-aside law, requires that all developments of a certain size include a percentage of affordable housing to low-and moderate-income households.<sup>88</sup> In most cases, the IZ ordinance comes with the Density Bonus or other cost off-set components to compensate the added financial burden for developers. Exaction programs could also be a component of Inclusionary zoning when the production of affordable housing on site or added density is not realizable. Moreover, Inclusionary zoning aims specifically at housing development which makes the objective of producing affordable housing more straightforward.

For more than three decades, IZ grew in popularity across cities in North America. An estimated 350 to 400 local jurisdictions currently have either voluntary or mandatory programs, mostly concentrated in three states: Massachusetts, California and New Jersey. In the Washington, DC, metropolitan area alone, up until July 2003, IZ programs had produced and over 15,000 units of affordable housing in nearly 30 years. In California, one-third of the more than 107 programs (some passed many years ago and others passed more recently) have produced over 34,000 units of affordable housing in 30 years. In New Jersey, IZ exists in 250 of the state's 566 communities, over 15,000 affordable housing were produced in 20 years. (Brunick)<sup>89</sup> The most celebrated individual program exists in Montgomery County, Maryland,

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<sup>87</sup> Details will be discussed later in chapter 5

<sup>88</sup> "Inclusionary Housing: A policy that works for the city that works", Business and Professional People For the Public Interest

<sup>89</sup> Brunick, Nicholas. "*The Impact of Inclusionary Zoning on Development*". Business and Professional People For the Public Interest



where 11,500 units have been produced since 1973 and \$ 477 million of private investment has been generated in affordable housing. (Brown, 2001)<sup>90</sup>

Large cities such as Boston, San Francisco, San Diego, California, Denver, San Diego, and Sacramento are now adopting Inclusionary housing programs, seeing it as an effective solution to address the affordable housing shortage. Many jurisdictions in the United States are expanding their existing programs and strengthening them from voluntary to mandatory programs. Cambridge, Massachusetts; Irvine, California; Pleasanton, California; and Boulder, Colorado, all recently made the switch and have experienced a significant increase in the production of affordable housing as a result. (BPI)<sup>91</sup>

In Canada, the experience in Burnaby, Ottawa, Toronto and Vancouver demonstrates<sup>92</sup> that IZ programs are effective in providing affordable housing, and can become leverage when used in combination with other measures to produce affordable housing. In Vancouver, for example, more than 1,000 affordable units have been created since 1988.

Besides the number of units created, other benefits that IZ offers a community include:<sup>93</sup>

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<sup>90</sup> Karen Destorel Brown. 2001. *Expanding Affordable Housing Through Inclusionary Zoning: Lessons from the Washington Metropolitan Area*. Washington, D.C. Brooking Institution, Center on Urban and Metropolitan Policy, p14

<sup>91</sup> Business and Professional People for the Public Interest. *Voluntary or Mandatory Inclusionary Housing? Production, Predictability, and Enforcement*. Chicago, IL: Business and Professional People for the Public Interest

<sup>92</sup> In Vancouver, an estimated of more than 1,000 affordable units have been created since the adoption of IZ program, while 216 affordable units have been created in Burnaby

<sup>93</sup> This is not an exhaustive list of benefits, but a resume of benefits identified through the practice of many jurisdictions

### *Inclusionary Zoning supports Smart Growth<sup>94</sup> Principles*

J. Ronald Terwilliger, chairman of the Urban Land Institute said: *In order for smart growth communities to enjoy lasting success, they must include an affordable housing component.* According to Terwilliger, there is a clear need to improve neighborhoods through smart growth development techniques without pricing out existing residents. In addition to being pedestrian-oriented, and providing a mix of uses, open space, and transportation options, successful smart growth communities must include affordable housing.<sup>95</sup>

Inclusionary housing practices relate to efforts to restrain urban sprawl and promote “Smart Growth”. The growing appreciation of smart growth and compact communities can benefit the environment and encourage the provision of high density housing units. CMHC has examined the impact of regulatory reform and its ability to support the provision of affordable housing. A report titled “*Affordable Housing Mandates: Regulatory Measures used by States, Provinces and Metropolitan Areas to Support Affordable Housing*”<sup>96</sup> examines how states and provinces have used their powers to require that municipalities support the provision of affordable housing in their planning acts. With the growing municipal focus on smart growth, Inclusionary ordinance has been widely used in producing affordable housing in North America.

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<sup>94</sup> Smart Growth is a package of new planning policies and practices that provide better housing, transportation, economic expansion, and environmental outcomes through controlling urban sprawls. With the focus on efficient use of infrastructure resources, better jobs-housing balance, convenient access to transportation, smart growth is a critical part of the solution for limiting urban sprawl. Providing affordable housing is thus an integral component in any smart growth strategy.

<sup>95</sup> Urban Land Institute, available at:  
<http://www.uli.org/AM/Template.cfm?Section=Home&CONTENTID=22166&TEMPLATE=/CM/ContentDisplay.cfm>

<sup>96</sup> CMHC Research Highlights, issue 95, 2001

***Inclusionary Zoning Strengthens communities through Mixed-Income pattern***

Sharon Chisholm noted in a presentation to the CCSD Conference that social inclusion means paying attention to smart growth principles and Inclusionary zoning, practices that need to be applied to all of our new housing developments.

As an implicit goal of “Smart Growth” - the mixed-income zoning approach has been proven in many jurisdictions that it is effective to mitigate the symptoms of racial and economic segregation such as crime, failing schools, and social instability, symptoms that would threaten the sustainable development.

People in poor neighborhoods are typically isolated from access to reasonable wage jobs, quality education, adequate health services, and protection from criminal activities. Persistently high unemployment can result in conditions in poor communities that are self-reproducing. When neighbors have no jobs or bad jobs, social networks are less helpful in connecting to available employment.

Inclusionary Zoning can create affordable housing units without isolating poor and working families into economically segregated communities. Linking affordable housing to market-rate, private development, Inclusionary Zoning increases the chance that low- and moderate-income families will live in healthy communities that appeal to people with resources and choice.

By producing low- and moderate-income housing in an attractive, mixed income fashion within market-rate developments, Inclusionary zoning helps build a diverse housing market, ensuring that lower income individuals, whose housing needs are not met through the market, can live in the community where they work. This helps attract and retain businesses who know that holding on to good employees is easier when they can afford to live within a reasonable commuting distance. Communities and regions also benefit from a resulting reduction in commute times, air pollution and congestion.

Inclusionary zoning policies are an effective tool for maintaining diversified neighborhood. In communities facing displacement or experiencing significant new investment, the housing market is often the most acutely impacted. As higher income individuals move into a neighborhood, housing prices rise, displacing low to moderate-income residents. In communities planning for new investment or already experiencing this pattern of displacement, Inclusionary zoning policies promote balanced housing development by ensuring that some portion of new housing development is affordable. When coupled with other mechanisms to preserve and increase the stock of affordable housing, Inclusionary zoning policies are an effective component of an anti-displacement strategy. (PolicyLink, available at [www.policylink.com](http://www.policylink.com))

### **IZ Stimulates Economic Development**

Adequate affordable housing supply as a basic level of economic equality is vital for large cities to be competitive in the global economy. Inclusionary zoning provides large cities with a strategic policy tool to help maintain a strong economic environment by creating affordable housing for low-income households.

### **Inclusionary Zoning Responds to the Affordable Housing Crisis with the Hand of the Private Sector**

As Federal and Provincial governments encountering fiscal budget deficit, revenue generated from tax by large cities remains tight despite the increasing demand of housing and other necessities. Inclusionary zoning can engage the participation of the private market in the development of affordable housing through non-monetary cost-offsets that reduce construction costs and allow developers to realize profits.<sup>97</sup>

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<sup>97</sup> Policy Link: "Expanding Housing Opportunity in Washington, D.C.: The Case for Inclusionary Zoning"

Asking private developers to share responsibility for creating affordable housing is both appropriate and crucial. Market rate housing generates a need for affordable housing for janitors, public school teachers, civil servants, childcare workers, and others whose services are needed to support market rate unit occupants, but who earn too little to afford average priced homes in the community. (PolicyLink)<sup>98</sup>

### **4.3 How Inclusionary Zoning Works**

In a broad sense, Inclusionary zoning can be mandatory, requiring developers to build affordable units in exchange for development rights, or incentive-based, allowing developers to voluntarily “opt-in”. Inclusionary zoning programs have a series of predetermined parameters, they include (but not limit to):<sup>99</sup>

#### **The Set-aside**

Inclusionary zoning programs require a specific percentage of units to be earmarked as affordable. The percentage can vary, but is typically in the range of 10-30 percent. Some jurisdictions have set-asides that vary based on the incomes targeted. In California redevelopment areas, for example, six percent of units must serve very-low-income households, three percent low income, and six percent moderate income. Because the size of the set-aside percentage impacts the affordability costs born by developers, the set-aside percentage should be considered together with other program parameters, such as the income target.

#### **Project Trigger**

The trigger determines what size developments are subject to Inclusionary requirements (e.g., 5, 10, 20 unit buildings). Some jurisdictions apply Inclusionary

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<sup>98</sup> Available at: [www.Policylink.org](http://www.Policylink.org)

zoning policies to all new developments within the community, requiring that larger developments provide units while smaller ones pay a fee in-lieu of construction.

### *Cost-Offsets:*

Effective Inclusionary zoning programs usually offer developers a range of cost offsets to achieve a double bottom line: affordable housing for residents and a reasonable overall return for developers. They can have a substantial impact on reducing the overall cost of construction. Examples of Cost-Offsets are:

#### *Density Bonus*

Density Bonus allows developers building at a greater density than current zoning permits. Developers are allowed to build additional market-rate units without having to acquire more land.

#### *Unit size reduction*

Unit size reduction allows developers to build smaller or differently configured Inclusionary units, relative to market units, thus, reducing construction and land costs.

#### *Relaxed Parking Requirements*

This allows parking space efficiency in higher density developments with underground or structured parking, which reduces the number or size of spaces, or allowing tandem parking.

#### *Design Flexibility*

This option grants flexibility in design guidelines, such as reduced setbacks from the street or property line, or waived minimum lot size requirement-

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<sup>99</sup> Compiled from PolicyLink & The Enterprise foundation, Business and Professional People for the Public Interest

utilizing land more efficiently. For example, Boston grants Inclusionary housing projects greater floor-to-area ratio allowances.

#### *Fee Waivers or Reductions*

By waiving the impact and/or permit fees that support infrastructure development and municipal services, this option reduces overall construction costs.

#### *Fee deferrals*

This option allows delayed payment of impact and/or permit fees. One approach allows developers to pay fees upon receipt of certificate of occupancy, rather than upon application for a building permit reducing carrying costs. San Diego allows deferral of Development Impact Fees and Facility Benefit Assessments.

#### *Fast Track Permitting*

This streamlines the permitting process for development projects, reducing developers' carrying costs (e.g., interest payments on predevelopment loans and other land and property taxes).

#### *Income Targets*

Where the income target is set determines who benefits from the Inclusionary zoning policy. For example, a jurisdiction that wants to provide housing for moderate-income households, such as public sector employees, might set an income target at 80 percent of the AMI. Jurisdictions seeking to create affordable units for lower-income wage earners might choose an income target of 50 percent of AMI. Jurisdictions with affordability challenges across income categories often tier their income target to serve diverse needs (e.g., half the units at 50 percent of AMI, half the units at 80 percent of AMI).

Target income levels should be guided by housing needs and goals in the jurisdiction, but must be balanced with maintaining developer profit. In United States, Inclusionary zoning has demonstrated success when requiring developers to deliver affordable housing units at 50–120 percent of the AMI, and when used in combination with public resources, those units can be made available to households up to 50 percent of AMI.

### **Onsite vs. Offsite Construction**

In order to foster mixed income communities, Inclusionary zoning policies usually require developers to build affordable housing units within the larger development. Usually, affordable housing had been concentrated in certain neighborhoods, contributing to the concentration of poverty. This concentration of poverty often isolates poor families from social and economic opportunities in the region. Building affordable housing units within the larger development leads to greater economic and racial integration and connects low-income communities to regional opportunity.

However, in certain circumstances, some Inclusionary zoning programs allow developers to build affordable units offsite. For example, if construction is proposed in an area with very expensive land cost, it may create a greater economic burden on developers (and greater political resistance) than offsite construction. Assessing the political climate and the costs associated with onsite versus offsite construction is critical to making the case for onsite development of affordable units.

In other cases, developers are required to pay into a fund (namely in-lieu fee) that supports affordable housing instead of construction affordable housing units within the development.



### **Similarity / Compatibility in Outward Appearance**

Many Inclusionary zoning programs require external comparability between affordable and market-rate units so that lower-income families can purchase homes indistinguishable from the rest of the development. This has helped eliminate the harmful stigma that is so often attached to affordable housing. The Similarity / Compatibility in outward appearance option contributes to cohesiveness in the physical appearance of a neighborhood helping to overcome negative perceptions of what constitutes “low income” housing.

Developers generally have a vested interest in adhering to this requirement since units that are disparate in outward appearance can lower the market value of the development.

### **Term of Affordability**

Affordable units constructed under the Inclusionary zoning program must stay affordable for a specified time period, which usually differs for rental and sale units. Many programs have moved to requiring a minimum of 30 years for ownership units, and 45 or more years for rental units. Long affordability terms keeping housing units affordable for future generations. Some programs, including Boulder, Cambridge and Newton, Massachusetts, require affordability in perpetuity. However, if for-sale units were locked into an affordable price for too long, purchasers would not be able to realize a good return on their investments and the program would lose its appeal.

### **Achieving Deeper Affordability**

There are three ways that jurisdictions can utilize public resources to achieve deeper levels of affordability:

- Mandate that some proportion of Inclusionary units go to Housing Choice Voucher Holders;<sup>100</sup>
- Offer home buyer assistance to purchasers of Inclusionary zoning homeownership units; and
- Enable public agencies or nonprofit organizations to purchase and further subsidize Inclusionary units.

#### 4.4 Inclusion zoning is a “Workable” Policy

The proliferation of Inclusionary zoning raises important public policy issues. Many debates are mainly focused on the effectiveness, efficiency and equitable issues in the implementation of Inclusionary zoning program.

##### *The Effectiveness Issue:*

Opponents who question the effectiveness issue of IZ often criticize that: 1) IZ doesn't produce enough affordable units; 2) IZ will slow overall housing development; 3) Inclusionary zoning will lower the value of the "regular" or non-subsidized properties.

##### *Is IZ productive?*

A review of sample Inclusionary communities conducted by BPI indicates the record of affordable production in these communities is impressive. During a 30 year period in California, more than 34,000 affordable units have been produced. In the Washington D.C. metro area, over 15,000 affordable units have been produced in 30

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<sup>100</sup> The Housing Choice Voucher Program (HCVP) is a rental assistance program that increases affordable housing choices for very low and extremely low income households. Typically, the local housing authority pays the gap between what the Housing Choice Voucher-holder can afford (30 percent of household income), and the cost of the private market rent (up to 110 percent of fair market rate).

years practice. In New Jersey, the IZ programs exist in 250 communities; over 15,000 affordable units were produced from 1985 to 2000. Some individual Inclusionary programs are particularly noteworthy such as Montgomery County, where 11,500 affordable units have been produced since 1972; Fairfax County, Virginia, has produced 1,746 units since 1991, Irvine, California, has produced 3,415 units and Longmont, Colorado, has produced 545 units since 1995, Denver, Colorado, has 804 units in the pipeline since passage of IZ program in 2002, San Francisco, California, has produced 90 units since 2002.

Table 4.1: Affordable Housing Production under Inclusionary Programs

Region / State	No of Programs	No of units created	Time Period
California	At least 107	$\geq 34,000$	30 years
Washington, D.C. Metro Area	4 Country-based programs	$\geq 15,000$	30 years
New Jersey	250 "de facto" programs	15,000	15 years

Source: BPI: The Impact of Inclusionary Zoning on Development

More and more municipalities are now adopting IZ programs seeing it as a way to provide affordable housing. BPI research also found that between 1994 and 2003, at least 43 communities in the state of California adopted Inclusionary housing programs.<sup>101</sup> Since 1990, three communities in Colorado, one in New Mexico, two in Florida, one in Vermont, and one community in Illinois have adopted *mandatory* Inclusionary zoning laws.

#### Will IZ slow housing development?

A review of sample Inclusionary communities made by the Business and Professional People for the Public Interest indicates that a significant number of new affordable

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<sup>101</sup> California Coalition for Rural Housing et. Al., "*Inclusionary Housing in California*", p.2

units continue to be produced. No evidence exists to indicate that development has slowed in the 19 communities reviewed.<sup>102</sup>

A number of researches in assessing the impact of Inclusionary zoning on development also arrive at same conclusion.

In California, a study conducted by California Coalition for Rural Housing and the Non-Profit Housing Association of Northern California:<sup>103</sup> “Inclusionary Housing Programs in California” examines 107 Inclusionary zoning programs across the state of California and confirms that developers continue to build and that more newly constructed units are affordable as a result of local Inclusionary programs. Another study conducted by the same institution: “Creating Affordable Communities” also suggests Inclusionary Zoning has produced significant numbers of affordable units without any evidence of decline in overall production.<sup>104</sup>

In Washington D.C, a study on Inclusionary zoning in the metro area entitled “Expanding Affordable Housing Through Inclusionary Zoning: Lessons from the Washington Metropolitan Area” examines the performance of four Inclusionary zoning programs (Montgomery County, Fairfax County, Loudon County and Prince George’s County) in the D.C. area. The study finds the IH programs have successfully produced significant numbers of new affordable housing.

A report from Center for Housing Policy, entitled “Inclusionary Zoning” which examined the advantages and disadvantages also identifies no evidence of decrease in development or in tax base.<sup>105</sup>

The reason the IZ would stifle development would most likely to be lacking of sufficient incentive and cost offsets for developers. If the IZ program restrains

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<sup>102</sup> Business and Professional People for the Public Interest. “*Inclusionary Zoning: A Policy that Works for the City that Works*”

<sup>103</sup> California Coalition for Rural Housing et. Al., “*Inclusionary Housing in California*”

<sup>104</sup> Calavita and Grimes, *Inclusionary Housing in California*, p150-170

<sup>105</sup> Center for Housing Policy. “Inclusionary Zoning”. Cited by: BPI. 2003. “Inclusionary Zoning, a Policy that Works for Cities that Works. page 30 of 56

developers return expectations below certain thresholds so that they choose to abstain from construction. In fact, most Inclusionary housing programs contain cost offsets and incentives to developers that help defray the cost of producing affordable units. In some cities such as Boston, San Diego, and San Francisco, only minimum cost offsets are provided. The strong local housing market allows developers to absorb the cost of producing the affordable units while still making a healthy return on investment. Indeed, many affordable units have been produced in a relatively short period of time (see table 4.2 below).

Table 4.2: Production under Programs with Few or No Cost Offsets

City and Year Passed	% Set Aside	Cost Offsets	# of Units	Effect on Level of Market-Rate Development
Boston, MA (2000)	10%	Height bonus in financial district only	200 units with more in the development pipeline	<u>No effect</u> – can now meet market and affordable production goals
San Francisco, CA (1992, expanded in 2002)	10%	Refunds on environmental review and building permit fees for affordable units only	128 units from 1992-2002; 90 since 2002 with 745 more in the pipeline	Market-rate development <u>has increased</u>
San Diego, CA (1992, expanded in 2003)	20% in FUA; 10% elsewhere	No offsets in either program	1,200 units from 1992-2003 from the FUA. 1,200 more anticipated from new citywide ordinance	<u>No effect</u>
Chapel Hill, NC	15%	No offsets	154 units between 2000 and 2002	<u>No effect</u>

Source: BPI: Inclusionary Housing: A Policy That Works For the City That Works. 2003

A study conducted by Benjamin Powell (the Reason Foundation) claims that IZ programs in California have adversely affected housing development.<sup>106</sup> Powell studied 45 jurisdictions in the Bay Area and found a 31 percent average decrease in new building permits in the year following IZ adoption. Victoria Basolo and Nico Calavita in a critique of his study<sup>107</sup> point out that Powell lacked a comparison to cities without IZ, that he failed to consider the effect of economic or other factors on housing production levels, and that given the multi-year planning process for housing developments, the effects of a new policy are unlikely to be seen in a single year.

*Will IZ lower the value of non-subsidized homes?*

Some people criticize that Inclusionary zoning will slow the pace of development and the insertion of subsidized units will lower the value of the "regular" or non-subsidized homes in its vicinity. In fact, a study conducted by Joyce Siegel with statistical analysis (by The Grier Partnership)<sup>108</sup> with regard to the impact of subsidized housing on property values of private market rate housing in mixed-income environments in Montgomery County, Maryland and Fairfax County, Virginia, found none of the expected price effects have occurred. Instead:

- Overall, there was no significant difference in price trends between non-subsidized homes in the subdivisions with subsidized units and the market as a whole -- whether measured at the zip code or county-wide level.
- Furthermore, there was no difference in price behaviour between non-subsidized houses located within 500 feet of subsidized housing and those farther away in the same or an adjacent subdivision.

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<sup>106</sup> Benjamin, Powell. "*Housing Supply and Affordability: Do Affordable Housing Mandates Work?*". Reason Foundation

<sup>107</sup> Victoria Basolo and Nico Calavita. 2004. "*Policy Claims With Weak Evidence: A Critique of the Reason Foundation Study on Inclusionary Housing Policy in the San Francisco Bay Area*"

<sup>108</sup> <http://www.inhousing.org>

- Even the price trends of those non-subsidized homes located immediately adjacent to a subsidized dwelling (either next door, back-to-back, across the street, or within 25 feet) were unaffected by their proximity.
- In sum, the presence or proximity of subsidized housing made no difference in housing values as measured by relative price behaviour in a dynamic market.

### *The Equity Issue*

#### *Who bears the added burden?*

The issue of cost burden of IZ rises when there is no cost off-set provided in the IZ program. The theoretical incidence suggests that an Inclusionary program without providing cost off-sets or incentives to cover the incremental cost of producing the affordable housing units would mostly be born by owners of land available for development purposes that fall within the threshold of the Inclusionary housing requirement.<sup>109</sup> This doesn't necessarily impose the issue of unfair since the threshold component of IZ program decides that the "extra burden" would be born by landowners of vacant land of significant size who might see a reduced appreciation of the land value. However, the moderate reduction in a rising real estate market is unlikely to deprive the landowner of earning a still, very healthy return on their investment.<sup>110</sup>

Additionally, if land prices adjust downward to reflect a decrease in value resulting from imposition of an IZ mandate, such a mandate is financially feasible provided it enables developers to achieve their expected threshold returns.<sup>111</sup>

In fact, most IZ programs contain cost offsets measures and other developer incentives. In San Diego, Boston and San Francisco, the development under IZ

<sup>109</sup> Brunick, Nicholas: "*The Impact of Inclusionary Zoning on Development*", BPI, page 7 of 18

<sup>110</sup> BPI.2003. "*Inclusionary Housing: A Policy that Works for Cities that Works*". Page 23 of 56

program can even thrive without large cost offsets or developer incentives. These municipalities treat the affordability component as an integral part of the zoning code, no different from other zoning requirements. This decision stems from a belief that a strong housing market and the ability to negotiate land prices negate the need for a municipality to provide significant cost offsets or incentives in order to subsidize affordable housing production.<sup>112</sup>

A BPI research<sup>113</sup> identifies that only two communities have been uncovered where IZ have been repealed among hundreds of IZ programs in the past 30 years. The IZ program in Fairfax County, Virginia was invalidated by the courts in the early 1970s, in part because the program lacked any cost offsets for developers.<sup>114</sup> Though, in 1991, Fairfax passed a mandatory ordinance with cost offsets that has seen strong and successful production. The other community, Prince George's County, Maryland, officials repealed the program in 1996 because they felt the county already has its "fair share" of affordable housing for the D.C, metro area.<sup>115</sup>

Other debate with regard to IZ reflects on how the policy apportions the cost of providing affordable housing. A common cost offset in IZ program is density bonus which is most useful when development is considered attractive both from an economic perspective and from a community acceptance perspective. In the case that added density is not economically feasible for developers nor accepted by the neighborhood, this cost offset measure is useless. Moreover, the calculation of density bonuses is a complex and time-consuming process. A clearly regulated density bonus provision is more straightforward for implementation; but such an "as-of-right" would be more difficult to gain acceptance in a case-to-case basis.

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<sup>111</sup> Reducing the Cost of New Housing Construction in New York City: 2005 Update

<sup>112</sup> Calavita and Grimes. "Inclusionary Housing in California," pp 152

<sup>113</sup> Brunick, Nicholas: "The Impact of Inclusionary Zoning on Development", BPI, page 9 of 18

<sup>114</sup> BPI: Board of Supervisors of Fairfax County v. Degroff Enterprises, Inc. 198 S.E.2d 600 (VA 1973), 2003. Opening the Door to Inclusionary Housing. Chicago, IL: BPI, p. 56

<sup>115</sup> BPI.2003. "Inclusionary Housing: A Policy that Works for Cities that Works". Page 23, 24



Negotiated agreements offer more flexibility in dealing with changing circumstances and marginal situations.<sup>116</sup> But the negotiation can raise questions of equity for individual developer and can be very time consuming. The risk is creating incremental financial burden on the developers. The same principles apply to other incentive and / or cost off-set provisions such as in-lieu fees, construction off-site, etc.

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<sup>116</sup> According to "*Linking Affordable Housing Policies to Usage: Case Studies of Municipalities in BC*" – A Report Prepared for the Community Housing Land Trust Foundation". Community Housing Land Trust Foundation,

**Conclusion:**

In over 30 years, numerous jurisdictions in North America proved that Inclusionary zoning is a workable policy. As concluded by BPI in “Inclusionary Zoning: A Policy that Works for the City that Works”<sup>117</sup>:

*“Based on economic literature, national case studies, analytical reports, feasibility studies, and developer and community reaction – it is unequivocally clear that Inclusionary housing does not step development, drive down property value, or harm the property tax base. Furthermore, it is apparent that many communities around the country have reaped significant and enduring benefits from Inclusionary housing programs – new affordable housing units for families, seniors, and people who work in critical professions; increased insignificantly, a local policy tool that does not rely primarily on public subsidies to produce affordable housing.”*

Though many municipalities in the United States achieved great success in IZ programs through various cost off-set measures, it has to be emphasized that there are many differences in the housing system between the United States and Canada. The most distinguishable difference is the prevailing tax incentive for homebuyers. Financing cost associated is tax deductible for American homebuyers, while it is not the case for a Canadian builder. In addition, funding from senior governments usually appears in many IZ programs in the U.S, which provides solid financial support. And finally, many U.S. municipalities have their own housing trust fund collected from in-lieu fees or other sources to support the affordable housing production.

Hence, particular attentions must be paid while implementing the IZ program. As a political decision, Inclusionary zoning could be different thing to different cities at

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<sup>117</sup> Page 41

different time. The design of the policy is determined by the political feasibility, affordable housing needs, development patter and many other factors. Feasibility studies should be conducted not only under the current market condition but also under likely future market condition.

A research conducted by CMHC<sup>118</sup> highlights some certain conditions seem better suited for expanded use of IZ measures:

- Better in larger developments. Because projects may not bear the cost of meeting Inclusionary requirements;
- Better in high-growth areas. In slow growth areas, developers can “wait it out” if authorities impose IZ requirements that the developers consider too costly. In active markets, developers would be less willing to employ this holdout strategy; and
- Better in higher-density districts: in less dense districts, developers have trouble meeting Inclusionary requirements and density bonuses often can’t serve as an inducement because the project doesn’t need the density increases.

In order to better understand how IZ works, 4 case studies will be presented in the following part. They are Montgomery, Boston, San Francisco and San Diego. Among them, Montgomery IZ is the best-known program in United States which permits denser clusters of housing in return for more affordable units. Boston, San Diego and San Francisco have recently adopted (or amended) IZ programs and have witnessed great success in the production of affordable housing.

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<sup>118</sup> Research Highlight, issue 63. “*Municipal Planning for Affordable Housng*”. CMHC

## 4.5 Case Studies

### 4.5.1 Montgomery County, Maryland, Washington, D.C

#### **Background**

As Montgomery County became more urbanized in the late 1960s and early 1970s, new housing prices were beyond the reach of many low- and moderate-income County residents. In response to concerns that it was becoming increasingly difficult to locate affordable housing, housing advocates pushed for measures to assist those households wanting to live in Montgomery County. In 1974, Montgomery County enacted the Moderately Priced Dwelling Unit (MPDU) ordinance, which is the oldest and considered as the most productive Inclusionary zoning program in the U.S.

#### **The Set-aside & Project Trigger**

The set aside required that in developments of 50 or more residential dwellings, whether for rent or ownership, 12.5 to 15 percent of the units be set aside as affordable housing. The ordinance only applies to residential zones with lots of less than one acre per unit, thereby making large-lot developments exempt.

#### **Cost-Offsets**

In return for providing affordable units, developers are allowed a density bonus of up to 22 percent. A sliding scale system links the percentage of affordable units to the amount of density bonus units a developer can accommodate on the site.

### **Income Targets**

Montgomery County's program is targeted to households earning 65 percent or less of the area average income of \$82,800 in fiscal year 2000, adjusted for family size. The income limits for the program are determined by the County Executive and currently range from \$33,500 for one person to \$52,000 for a family of five. As of 2000, potential owners of affordable units must earn at least \$20,000 a year, thereby ensuring that they will be able to cover mortgage payments and other homeownership costs. Eligible participants cannot have owned a residential property in the past five years, and preference is given to those applicants who live or work in the County. Should the developer be unable to rent or sell an affordable unit to an eligible participant within 90 days, he or she may make the unit available to anyone, regardless of income. However, the unit must be offered at the predetermined affordable price, and all Inclusionary Zoning requirements remain in place.

### **Off-site and In-Lieu Options**

In exceptional cases, a developer may fulfill Inclusionary Zoning requirements by either building more affordable units at other sites in the same or an adjoining planning area; providing land for affordable units in the same or an adjoining planning area; contributing to the county's Housing Initiative Fund (a housing trust fund); or any combination of the three that would result in the production of significantly more units. Since one of the goals of the program is to achieve an equitable distribution of affordable units throughout the area, the County has been reluctant to approve developers' requests to meet their MPDU.

### **Period of Affordability**

Rental units must adhere to Inclusionary Zoning requirements for 20 years, while owner-occupied dwellings are regulated for 10 years. Owners of affordable units can

sell before the 10-year timeframe expires; however, there are limits as to how much they can ask for the dwelling. The resale price cannot exceed the original sales price plus cost of living adjustments based on the Consumer Price Index (CPI), approved improvements, sales commission, and any closing costs not paid by the original seller. Also, units offered for sale prior to the 10-year limit must be offered exclusively for 60 days to eligible participants.

Once the 10-year timeframe expires, owners are free to sell their units with no price limitation. Owners of units built in 1989 or later can keep \$ 10,000 (granted the total amount of profit is greater than this) or half the total profit, whichever is greater. Profit is defined as the sales price, minus the sum of: the original sales price, the cost of approved improvements, CPI adjustments, and sales commission. The remainder of the profit goes into the county's Housing Initiative Fund (HIF). The HIF uses revenue to help for- and non-profit developers purchase, build, and rehabilitate affordable housing, and to leverage other public and private funds. Since 1989, contributions from the MPDU program to the HIF totalled \$ 1,302,500.

### **Comparability**

Affordable units tend to be smaller and have fewer amenities than market-rate units located within the same development. This virtually guarantees that affordable units will have lower rents and resale prices than market-rate units.

### **Administration**

In an effort to maintain a supply of affordable units throughout the County, the County's public housing agency (the Housing Opportunities Commission (HOC)) may purchase up to 33 percent of affordable units and qualified non-profits can purchase what the HOC does not buy, up to 40 percent. Once purchased, these units are set aside as rentals for very low- to low-income households and will always be in the County's affordable housing stock. HOC also provides below-market rate financing

for eligible households or nonprofit organizations wishing to purchase a unit.

The Moderately Priced Housing Office, which is part of the Division of Housing and Code Enforcement, falls under the auspices of DHCA<sup>119</sup>. This office is responsible for program administration, participant eligibility, the lottery system for participant selection, and enforcement of the ordinance requirements. The County Executive sets maximum income limits adjusted for household size, and rent and sale limits. The Director of the DHCA determines, among other things, when a developer may agree to an alternative to providing affordable units on site.

### **The results**

More than 11,500 units have been created as of 2003, with over 1,600 of those purchased by the county housing authority and / or nonprofits agencies for rental to lower-income residents. The ordinance also has benefited employers by expanding housing options for workers. Initial concerns that the ordinance would discourage housing construction were never realized and the county has enjoyed one of the strongest housing markets in the country. However, the policy became less effective as vacant land becoming scarce. Developers rather pay an in-lieu fee instead of construction of affordable units.

## **4.5.2 Boston, Massachusetts**

### **Background**

Boston became one of the nation's most prosperous cities over the past economic boom of the 1990's. While the economic growth brings great benefit to the city and most inhabitants, they failed to keep pace with housing prices, which soared at a double-digit pace. As construction and land costs increased, gentrification spread

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<sup>119</sup> DHCA: The County's Development of Housing and Community Affairs

from the central downtown areas to surrounding neighborhoods, causing the displacement of moderate-income families. In February 2000, the city implemented an Inclusionary development policy to help Boston meet its housing needs.

### **The Set-aside & Project Trigger**

The policy is aimed at two types of developments:

- Any residential project financed by any agency of the City of Boston or the Boston Redevelopment Authority (BRA), or to be developed on a property owned by the city or the BRA that includes 10 or more units;
- Any project that includes 10 or more units of housing and requires zoning relief

### **Income Targets**

Projects that fall into the trigger are required to make no less than 10 percent of the total number of units affordable to moderate-income households (those earning between 80 and 120 percent of the area average income). Furthermore, of the 10 percent affordable units, 50 percent of the units shall be affordable to households with earnings below 80 percent of area average income. No more than 50 percent shall be affordable to households with earnings between 80 percent and 120 percent of AMI.

### **Administration**

The city created a shared-appreciation, revolving-loan fund to extend below market-rate loans to all its Inclusionary homebuyers. Households can qualify for loans up to \$ 150,000. If the homebuyer sells in the future, she shares the profit made on the sale of the house with the city. This generates revenue for the city to continue to loan to new homebuyers. This revolving loan fund allows households with lower than AMI-



linked incomes to qualify for IZ units.

### **Off-site and In-Lieu Options**

Under the discretion of the director of the Boston Redevelopment Authority, a developer has either an off-site option or a cash contribution to the city's affordable housing efforts. The off-site option requires the developer to provide a number of affordable units (15 percent of the total number of market rate units) at the affordable level set in the ordinance.

In addition, the cash contribution option requires the developer to make a payment to the Boston Redevelopment Authority in an amount equal to 15 percent of the total number of market rate units times an affordable housing cost factor (initially established at \$ 52,000 and derived from the average subsidy needed to develop a unit of affordable housing later).

### **Period of Affordability**

The affordability restrictions must be written into the deed and are guaranteed for no less than 30 years with an extension of 20 years, for a total of 50 years. There also must be provisions restricting the price of subsequent sales of the unit to a maximum of approximately five percent increase per year, adjusted for approved improvements and other miscellaneous fees. However, each unit must be sold to household in the same income category as the seller.

### **Results**

To date, this policy, combined with other programs, has enabled the construction and preservation of 1,795 affordable units since 1999 (over 200 units have been constructed). In the initial year of implementation of the Executive Order, eight

privately financed housing developments fell under the requirements of the policy, which were predominantly high-end projects. As of 2002, developers have contracted to contribute over US \$ 4 million for affordable housing construction.

### **4.5.3 San Francisco, California**

#### **Background**

San Francisco adopted the Inclusionary Ordinance in 1992 to address the shortage of affordable housing for very-low and low-income households. The 1992 ordinance only applied to planned unit developments (PUDs) and projects requiring conditional use permits to all residential projects of ten units or more. In 2002, the Inclusionary Zoning ordinance was expanded to all residential projects of ten units or more. The program's expansion came in response to the continuing affordable housing crisis and opposition from community groups to the displacement of low-income households as a consequence of rising property values.

#### **The Set-aside & Project Trigger**

Under the 2002 ordinance, 10 % of the units in a residential development of ten or more units must be set aside as affordable. This requirement jumps to 15 % if the units are provided off-site. PUDs and developments that require a conditional use permit are subject to a 12% set-aside requirement, which increases to 17% if affordable units are built off-site.

#### **Comparability**

The affordable units must be comparable in number of bedrooms, size, exterior appearance, and overall quality to market-rate units.

### **Income Targets**

For rental units, the Inclusionary zoning ordinance targets households earning 80 % of the area average income (AMI). For owner-occupied units, the ordinance applies to households earning up to 120 % of the area average income. San Francisco's area average income calculation includes the wealthy counties of San Mateo and Marin. As a result, the AMI is substantially higher than other US cities. The AMI for a family of four is \$ 91,500, and the AMI for a single-person household is \$ 62,050. Therefore, a household of four at 80 % of the AMI earns a maximum annual salary of \$ 73,200, and a household of four at 120 % of the AMI earns a maximum annual income of \$ 109,800.

### **Off-site and In-Lieu Options**

Developers can elect to construct affordable units off-site but are discouraged from doing so by a requirement that increases the affordable unit set-aside to one and one half more affordable units than are required for on-site construction.

In-lieu fee payments are made to the Citywide Affordable Housing Fund and are appropriated for affordable housing. The amount of the fee is determined by several factors including the projected value of the affordable units had the developer constructed them on-site.

### **Period of Affordability**

San Francisco's Inclusionary zoning ordinance requires that both rental and for-sale units remain affordable for 50 years. All housing projects must record a Notice of Special Restriction with the Recorder of the City and County of San Francisco that incorporates affordability restrictions. If an affordable rental unit is converted to an ownership unit, the ordinance requires that it remains affordable and continue to adhere to the affordability control period. The San Francisco Planning Commission

and Planning Department monitor affordability controls.

### **Administration**

The Mayor's Office of Housing and the Plan Commission administer the Inclusionary zoning program. The ordinance requires that the Mayor's Office of Housing conduct a study every five years to determine the relationship "in nature and amount between the production of market-rate residential housing and the availability and demand for affordable housing in San Francisco."<sup>34</sup> The studies will be used to determine whether to increase affordability levels.

### **The results**

The old ordinance implemented in 1993 produced only 128 affordable housing units and generated \$ 150,000 in fees. The limited outcomes came from the 10 % set-aside which is not applied to live-work developments, which made up the majority of new units constructed between 1992 and 2000. Among the 8,487 new housing produced during this period, only 16 % of new market units were subjected to the Inclusionary requirement. Fortunately, the original ordinance was recently revised in 2002 and has eliminated the exemption for on live-work development. Since the adoption of comprehensive Inclusionary zoning in 2002, the program has generated 713 affordable housing units.

## **4.5.4 San Diego, California**

### **Background**

San Diego implemented a mandatory Inclusionary housing program in 1992 targeted at the Future Urbanizing Area (FUA), a developing section of the city with no rental or affordable housing. Within the San Diego region, ten cities in San Diego County have adopted Inclusionary housing programs, with Carlsbad and Chula Vista among

the most productive.

### **Project Trigger & the Set-aside**

The requirement reserves 20 % of all new rental and for-sale dwelling units for households earning 65% of the AMI. The ordinance requires all residential developments of ten or more units to set aside 10 % of the units as affordable to households at or below 65 % of the AMI for owner-occupied units. The FUA is exempt from the citywide ordinance and will continue to adhere to the 1992 FUA Inclusionary zoning framework, which has a higher developer set-aside requirement of 20 %.

### **Cost-Offsets & In-Lieu fee**

The city opted not to offer cost off-sets, because developers can easily cover the cost of affordable units through the sale of market-rate units.

The large number of on-site affordable unites created under the FUA ordinance is attributable to the absence of any in-lieu fee option

### **Income Targets**

It targets households at or below 100 % of the AMI for owner-occupied units. The new Inclusionary zoning ordinance exempts a residential development or a portion of a residential development that is sold to households earning less than 150 % of the AMI.

### **Off-site and In-Lieu Options**

The FUA's Inclusionary zoning program does not offer developers the option to pay an in-lieu fee. The city-wide ordinance permits the developer making a fee in-lieu

payment which is calculated based on the square footage on an affordable unit compared to the gross square footage of the entire project. The fee is phased in over a three-year period and rises from \$ 1.00 per square foot in the first year to \$ 2.50 per square foot in the third year.

### **Period of Affordability**

Both rental and for-sale units are originally required to stay affordable for 55 years. The new citywide ordinance requires rents to remain affordable for 55 years. For-sale units do not have a required period of affordability, but the ordinance states that equity from the sale of the affordable units should be split between the city and the homeowner. The city devised an incremental system by which equity is shared. A homeowner is entitled to a larger share of the equity for each year of ownership. For example, if a unit is sold after two years, the owner is entitled to 21 % of the equity, whereas a unit sold after ten years entitles an owner to 69 % of the equity. All funds collected by the city from the shared equity agreement are deposited in the Inclusionary Housing Fund to support affordable housing projects. The city also entitles to the first right of refusal on any affordable for-sale unit.

### **Results**

The ordinance has generated 1,200 affordable units in the FUA since its adoption. According to San Diego senior planner Bill Levin, the pace of development in the FUA did not slow after the passage of the Inclusionary zoning requirement.<sup>120</sup> This provided the development community with tangible assurance that Inclusionary zoning does not have a negative impact on their industry. San Diego's Planning Department does not anticipate that the citywide ordinance will produce as many on-site affordable units as the FUA ordinance because the city wide ordinance provides developers with the option to pay an in-lieu fee. However, due to the strong housing

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<sup>120</sup> Nick Brunick, Large Cities and Inclusionary Zoning

market, planners projects that the in-lieu fee will not be able to keep pace with the price of building on-site. As a result, in paying an in-lieu fee being a less expensive option than building units on-site.

Table 4.1: Summary of Case Studies

	Montgomery	San Diego	Boston	San Francisco
<b>Year of Inaction</b>	1974	1992 (expanded in 2003)	2000	1992 (expanded in 2002)
<b>Population</b>	873,341	1,223,341	589,141	776,733
<b>Medium Price</b>	\$ 205,000	\$ 493,000		700,000 for work/live units
<b>Results</b>	11,500 units generated by the end of 2003 (3,373 rentals and 8,109 homeownership units);  Total investment in affordable housing generated: 477.4 million USD.	1,200 units and \$1.2 M collected in fees as of July 2003;  Based on construction permits issued, the city housing commission reports that there are 1,200 units in the pipeline.	339 affordable units generated in 2004;  6.8 million USD secured for off-site development	128 units and \$ 150,000 in fees generated under the old ordinance;  713 units generated since the adoption of new ordinance
<b>Income Target</b>	<= 35 % of AMI (\$ 82,800) potential owners of affordable units must earn at least \$20,000	<= 65 % for the rental units; <= 100 % for the owner occupied units		80% of AMI to rental units; <=120%AMI for owner occupied units
<b>Set-aside</b>	12.5%-30%;  40% HOC allowance	20 % for FUA;  10 % for elsewhere	10% (half of which must be priced <= 80% of AMI)	12% for PUDS,  10% for elsewhere
<b>AMI</b>	\$84,800	\$59,000	\$80,800	\$95,000
<b>Project Trigger</b>	50	10	10	10



	Montgomery	San Diego	Boston	San Francisco
<b>Cost-offset</b>	Density Bonus up to 22 %	None	Tax break for developer ; Height bonus for financial district	Refunds on environment review and building permits for affordable units
<b>Offsite Construction</b>	Yes	Variance from Planning Commission required	Set-aside jumps to 15 %	Set-aside jumps to 15%, set-side jumps to 17% for PUDs
<b>In-lieu fee</b>		\$1/sf for year 1, up to \$2.5 for year 3	Payment made o BRA equals to 15% of the total number of market units multiply by an affordable housing cost factor	Made to Citywide Affordable Housing Funds
<b>Outward Appearance</b>	Affordable units tend to be smaller and have fewer amenities			Must be comparable in number of bedroom, size, exterior appearances and overall quality to market-rate units
<b>Term of Affordability</b>	Rental units must adhere to Inclusionary Zoning requirements for 20 years, while owner-occupied dwellings are regulated for 10 years.	55 years for rental units; the equity from the for-sale affordable units must be split between the city and the homeowner	A total of 50 years extending from a minimum of 30 years	50 years for both rental and owner-occupied units
<b>Deficiencies</b>	Less effective after 1980s as the land becoming scarce. Developers rather pay an in-lieu fee instead of construction of affordable units.	Land value raises fast, resulted the in-lieu fee does not keep in pace with the price of building on-site.	Options to build off-site exacerbate the segregation.	Developers build 9 units.

## CHAPTER 5

### EXPANDING HOUSING OPPORTUNITY THROUGH INCLUSIONARY ZONING IN MONTRÉAL

At present, the city of Montréal intervenes affordable housing construction through subsidy programs that it administers and whose costs are shared by the governments of Canada and Québec. The dependability and continuity of funding determine the effectiveness of these programs. Over the past number of years, Montréal has spearheaded several affordable housing initiatives financed by the Federal and Provincial Government, but the number of units created is only a fraction of affordable units needed each year. The AccèsLogis and Affordable Housing Québec (social and community component) have been created to ensure funding for Opération Solidarité 5,000 logements. Nevertheless, as of July 2005, only 5,000 housing units had been built under these program. Other programs financed by Rénovation Québec program such as Home ownership program, Creation of new housing program and Affordable Housing Québec (private component), created only about 2,400 units so far.

In addition, both the Federal and Provincial Governments have virtually withdrawn from providing funding for social housing recently. The recent introduction of a limited number of Federal and Québec Government initiatives dealing with affordable housing fail to address the significant and growing need for the city of Montréal. If further funding is unavailable, the city has to use its regularly power for affordable housing provision. One of the alternatives is to use the public land as proposed by the strategy of Inclusionary of Affordable Housing.

Since 1980, the city of Montréal successive administrations have bought and sold land as part of major programs, in particular Opération 20,000 logements and Habiter Montréal (resulting in the Faubourg Québec and Paul-Sauvé projects, the city of Montréal was able to sell land – often at a price lower than the market value – to meet its objectives, especially those pertaining to the production of social and community housing.

Unfortunately, today the city's land bank offers a smaller potential for residential redevelopment, due primarily to the use of much of the land for Opération Solidarité 5,000 logements.

Faced with withdrawal of senior government and the shortage of available public land for the construction of affordable housing, the city has to take a much more proactive leadership role in addressing the housing needs of its local community. One of the most effective ways is to shift the cost of providing affordable housing to other groups in the society. Generally, the provision of affordable housing units as part of an Inclusionary program does not require significant expenditure of public funds but relies principally on the activity of the residential construction sector to support the production of affordable housing.

As addressed previously, there are no equivalent Inclusionary zoning programs in Canada currently; though cities like Toronto, Vancouver and Burnaby have successfully used a variation of IZ through a comprehensive rezoning process for major private redevelopment sites. These programs differ from conventional Inclusionary zoning in the U.S in that they are directed at securing developable land for non-profit housing to be built with government funding rather than at obtaining below-market units constructed by for-profit developers.<sup>121</sup>

The design of a policy is determined by the political feasibility, affordable housing needs, development pattern and many other factors. The key to success is to tailor the policy to meet local objectives. Based on experiences from case studies, this thesis makes 6 recommendations to the city of Montréal. For each recommendation, there includes a background analysis to ensure its feasibility. They are:

1. Adopting a mandatory program
2. Creating incentives for developers
3. Establishing specific income target

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<sup>121</sup> Research Highlights, issue 46. "Municipal Regulatory Initiatives: Providing for Affordable Housing" CMHC

4. Using other housing programs to achieve deeper affordability
5. Setting a municipal Housing Trust Fund
6. Setting a dedicated monitoring system

### **5.1 Adopting a mandatory program**

Inclusionary zoning programs can be divided into 2 groups: voluntary program and mandatory program. Voluntary IZ programs have been proved less effective than mandatory programs. They simply give spineless public officials political cover that “they’ve done something” while it’s “business as usual” for builders.<sup>122</sup> Incentive-based policy though facing little risk of legal challenges, the voluntary nature of these programs has predetermined lower participation rate from developers. In California, there are 107 jurisdictions with IZ programs, 101 of them are mandatory according to a 2003 report by the Non-profit Housing Association of Northern California,<sup>123</sup> The six voluntary programs seem to be less effective and have produced fewer affordable units. Two locales, Los Alamitos and Long Beach, “blame the voluntary nature of their programs for stagnant production despite a market rate boom.” Three other voluntary programs reported that no units had been built. The one “voluntary” program that had produced (Morgan Hill – 300 units in 26 years) is functionally mandatory because it uses a tight growth management policy to make it difficult for developers to obtain building permits without including affordable housing. In sharp contrast, the 15 top producing jurisdictions in California, including Santa Barbara County, Monterey County, and Roseville, have produced over 16,000 units of affordable housing—all through mandatory requirements.

As demonstrated in the case study of Montgomery, the Moderately Priced Dwelling Unit ordinance is a good example of mandatory IZ ordinance. The restriction applies to developments of 50 or more units and requires a set-aside of at least 12.5 %. A

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<sup>122</sup> David Rusk. 2005. “*Nine Lessons for Inclusionary Zoning*”, Keynote Remarks of David Rusk to the National Inclusionary Housing Conference, Washington, DC

<sup>123</sup> Available at: <http://www.nonprofithousing.org/index.atomic>

significant number of jurisdictions are expanding the existing programs and converting them from voluntary to mandatory programs. Cambridge, Massachusetts; California; Pleasanton, California; and Boulder, Colorado, all recently made the switch and have experienced a significant increase in the production of affordable housing as a result.<sup>124</sup> The mandatory nature of these programs has been instrumental in its success.

### **Considerations for Montréal:**

In the areas where land is already municipally owned and will be rezoned to residential uses, the land values increase tremendously as a result of change in allowable uses. This can allow an effective mandatory IZ program. Montreal has recently made targeted land and building acquisitions (or expropriations), in partnership with the Government of Québec, for residential redevelopment (such as the Lavo site and the Old Brewery Mission project). Montréal is requesting the renewal of these joint programs with the Government of Québec and intends to allocate a portion of its budget to acquisition / redevelopment activities favoring the production of social and affordable housing. Residential development on such land provides opportunity for mandatory Inclusionary program.

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<sup>124</sup> BPI, 2003. *“Voluntary or Mandatory Inclusionary Housing? Production, and Enforcement”*. Chicago, IL

## 5.2 Creating incentives for developers

To make the Inclusionary ordinance work well, policy designers must provide clear incentives to developers. The cost-offset component of Inclusionary Zoning program gives both the public and private sectors opportunities to craft site-by-site development plans that keep housing production and profits at mutually acceptable levels. This is typically realized through zoning variance (which allowing the constructions to be more dense than original zoning would normally permit) or similar measures such as the PPU( Le program particulier d'urbanisme). Nevertheless, how to price density bonus is a challenging issue leaving for the operator. Factors such as the threshold of profitability for private developer, to which point the density could be increased, as well as the public acceptance of such an increase in density should be taken into consideration.

Increasing density offsets some of the added burden of the developers, but high concentrations of affordable housing can have a negative impact on neighborhoods, particularly those already concentrated with poverty. These neighborhoods rarely provide their residents with a full range of economic opportunities or strong public services. Affordable housing needs to be located strategically to create economically integrated communities that allow households of modest means access to a range of opportunities – from good jobs and schools to transportation and safe streets.

Yet, in a strong real estate market, property value increases so fast that it prevents the developer from committing to lower-income developments, which diminishes their profit. As developable land becomes more and more scarce, developers opt to pay an in-lieu fee or construct off-site instead of on-site construction.

Allowing off-site construction tends to exacerbate social segregation. Constructing off-site limits both the social and economic diversity of neighbourhoods and dumps low-income tenants in new pockets of poverty, which in turn, decreases the effectiveness of the social inclusion objective. Hence, the use of off-site construction must be prudent as to assure the diversity and inclusion. Particular caution must be paid in designing such a component.

In-lieu fee is set as an alternative for developers that are not willing to construct on the site, instead, they are required to contribute an amount to a fund that is used in affordable housing construction by the public sector. However, in many cities the in-lieu fees are insufficient and do not produce the resources to construct affordable housing units as in the case of San Diego. Therefore, it is more productive to require developers to construct the units themselves. If in-lieu fees are deemed to be part of an Inclusionary Zoning policy, they should be set at a level comparable to the costs associated with producing affordable housing units, and this level should be regularly updated according to the market trends. Otherwise, the effectiveness of Inclusionary zoning policy could be seriously weakened.

### **Considerations for Montréal:**

Jurisdictions use IZ practices typically conduct an economic feasibility analysis to determine how to best structure an IZ policy. The analysis looks at various aspects of development – e.g., cost of land, profit margin, construction costs, and fees - and the jurisdiction's housing needs and goals. The analysis can be applied to different scenarios assessing the balance between offsets and IZ requirements with the goal of ensuring a normal overall profit margin for the developer and a reasonable impact on land costs. Jurisdictions that have structured their programs based on such analyses include: Sacramento; Boulder; San Francisco; South San Francisco; Fairfax County, Virginia; Santa Fe; and New Jersey.<sup>125</sup>

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<sup>125</sup> Policy Link, *Increasing Housing Opportunity in New York City*

### 5.3 Establishing Specific Income Target

The Inclusionary ordinance needs to be rigid with regard to the income target. This means that target income levels should be guided by the housing needs and goals in the city. Montgomery County, for example, asks developers to produce units at 65 percent of AMI and then authorizes its housing authority to purchase part of those units to serve even lower-income families.

The income target functions as the ceiling at which affordable units are produced. Developers will rarely – if ever - produce units at a lower income level than that outlined by a jurisdiction. Historically, in the United States, Inclusionary zoning programs have most commonly been adopted in communities where there is an evident need for housing. Affordable owner-type housing is usually designed for moderate income households earning between 80 % and 120 % of the regional average income, while affordable rental-type housing is commonly designed for very-low to low-income households earning below 80 % of the regional average income.

#### **Consideration for Montreal:**

To make housing affordable for moderate income households, the city of Montréal defined that a dwelling should cost \$ 170,000 or less. For example, if a household's annual gross income is \$ 46,000; his property should cost no more than \$ 140,000. According to the census, there are 148, 500 households on the island who have moderate annual incomes. Among all the renters (517,520 households), 19 % (98,425 households) have modest incomes.<sup>126</sup> The Inclusionary zoning should target them to achieve home ownership.

Households on the island of Montréal earning below or at 30 % of the city's average household income are in the greatest housing needs. Even at the upper tail, those earning at 30 % of the city's average, to make housing affordable, their rental expense should not exceed \$ 342 every month, meaning there is a lag of \$ 228 for these people to afford a standard 2-bedroom apartment at the market rate (the average rent for a standard 2-



bedroom apartment on the island is \$ 570). (See table 5.3) However, for households earning at 50 % of the city's average household income, 30 % of their gross income is just enough for the average rental expense. Thus, for the affordable rental sector, target income level in the Inclusionary zoning should be defined at below 50 % of the city's average household income.

If the by-law doesn't specifically state the target income group, no affordable units will be produced on the lowest end. For the sake of profitability, most developers would opt to construct moderate-income units which are slightly below the market price and as a result, very low- and low-income people will simply be price out of the neighbourhood.

Table5.1: Affordability Gap for Very Low-, Low- and Moderate-Income Households

	Household income	Affordable rental	Actual rental	Gap
30 % AI	\$ 14,829	\$ 342	\$ 570	\$ -228
50 % AI	\$ 24,715	\$ 570	\$ 570	
80 % AI	\$ 39,543	\$ 913	\$ 570	

Compilations: Statistic Canada, 2001 population census

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<sup>126</sup> Ville de Montréal. "Inclusion of affordable housing in new residential projects", September 2005, page

#### **5.4 Using other housing programs to achieve deeper affordability**

One of the distinctive features of the Montgomery IZ program is that the County asks developers to produce units at 65 percent of AMI and then authorizes its housing authority to purchase up to a third of those units to serve even lower-income families. Allowing municipality to subsidize those units to reach even deeper affordability needs effectively bridges the gap between the most acute affordable housing need and the affordability levels at which a developer is asked to build. Common practices that link Inclusionary programs to achieve deeper affordability include:

##### **Mandate that some proportion of Inclusionary units go to Housing Choice Voucher Holders**

The Housing Choice Voucher Program (HCVP) is a rental assistance program that increases affordable housing choices for very low and extremely low income households. Typically, the local housing authority pays the gap between what the Housing Choice Voucher-holder can afford (30 percent of household income), and the cost of the private market rent (up to 110 percent of fair market rate). By placing HCV holders in Inclusionary units priced lower than market rents, HCVP saves money that, allows it to serve more families in turn. It also addresses key challenges for the HCVP program—insufficient units available for the number of voucher-holders, and discriminatory screening out of voucher holders by landlords.

Cambridge helps some of their lowest income renters find affordable housing by requiring that half of all rental units generated via Inclusionary Zoning go to Housing Choice Voucher holders. The City does this by managing the tenant selection process. The Community Development Department and Cambridge Housing Authority provide managers of Inclusionary units with their prospective tenants. The onsite manager performs credit checking and landlord history review before selections are finalized. Assuming these are in order the manager must select and accept one of the qualified tenants. As half of all units go to Housing Choice Voucher holders, Cambridge's Inclusionary zoning program regularly reaches families earning between 10 and 30

percent of AMI - their intended goal, due to great need among families at these lower income tiers. The Cambridge Community Development Department fills the other half from a waiting list of income-verified households. The Department gives priority to families that already live in Cambridge, have children, and face an emergency housing need.

**Consideration for Montréal:**

The city of Montréal disposes and administers many programs in the provision of affordable housing. For example, the *private component of the Affordable Housing Québec program* could be integrated with Inclusionary Zoning. The program provides financial assistance for promoters in the private sector housing market to stimulate the creation of affordable housing units. The units must be rented to moderate-income households, in municipalities with low vacancy rates that need a significant number of new housing units to counter the shortage.

**Offer home buyer assistance to purchasers of IZ homeownership units**

Many cities and counties in United States offer homebuyer assistance to families purchasing Inclusionary units. The additional assistance of the programs allows households earning less than the AMI target to be eligible for INCLUSIONARY ZONING units. Some programs offer homebuyer assistance on a first-come, first-serve basis, while others prioritize Inclusionary homebuyers.

For example, San Francisco has created a shared-appreciation, revolving-lean fund to extend below market-rate loans to all its Inclusionary homebuyers. Households can qualify for loans up to \$ 150,000. If the homebuyer sells in the future, she shares the profit made on the sale of the house with the city. For instance, if the city lends 20 percent of the purchase price, the city gets 20 percent of the capital gains. This generates revenue for the city to continue loans to new homebuyers. This revolving loan fund allows households with lower than AMI-linked incomes to qualify for IZ units.<sup>127</sup>

Fairfax County, Virginia, aggressively encourages households on its homebuyer waiting list to utilize First Time Homebuyer mortgage assistance from the state Housing Development Authority. For households that meet minimum credit criteria and make less than 70 percent of AMI, the authority offers 3.5 percent interest rate mortgages covering 100 percent of housing costs (i.e., no down payment is required). Combined with the county's construction cost-based price target, Fairfax County makes homeownership Inclusionary units accessible for very low and even extremely low-income households. Thirty percent of Fairfax County Inclusionary homebuyers earned less than 40 percent AMI, and 5 percent earned less than 30 percent AMI.

**Consideration for Montréal:**

*The Home ownership program* provides financial assistance to help first-time buyers to purchase affordable housing in Montréal. It could be effectively linked to Inclusionary program to achieve further affordability.

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<sup>127</sup> PolicyLink : “*Expanding Housing Opportunity in Washington, DC*”

**Enable public agencies or nonprofit organizations to purchase and further subsidize Inclusionary units**

Montgomery County grants their local public housing authority – the Housing Opportunities Commission (HOC) – first right of refusal for purchasing up to a third of a project’s Inclusionary units, with the understanding that they will be rented or sold to very-low income households. HOC approved nonprofits have second right of refusal on an additional seven percent of Inclusionary units. The policy has enabled HOC to make approximately 1,500 Inclusionary units available to very-low and extremely-low income renters since the program’s inception in 1974. HOC also helps very low-income households buy Inclusionary units that would be unaffordable without addition assistant.

**Considerations for Montréal:**

The Social and community component of Affordable Housing program allows cooperatives, housing corporations, non-profit organizations and acquiring corporations to complete community and social housing projects with a minimum community contribution.

## 5.5 Setting a municipal Housing Trust Fund (HTF)

Our domestic IZ experiences demonstrates one of the important features of Inclusionary zoning – that it often results in the provision of affordable housing that are developed through the use of funding from senior levels of government. In BC, without funding from BC Housing, the production of affordable housing through IZ program itself is questionable.

Where senior government funding is not available, cash-in-lieu could be a sensible alternative. A recent example in Vancouver concerns a project in the Coal Harbour area of Vancouver where the City recommended the acceptance of \$ 2 million in cash in lieu of the 20 % unit requirement because of the unavailability of funding from BC Housing for the non-market component of the project. This is also the case in the other two cities adopted IZ programs in BC: Richmond and Burnaby.

In the United States, over 100 trust funds have been established by states, counties and municipalities. They have emerged mainly in response to the declining federal support for affordable housing since the early 1980s. What has emerged is a multi-level approach to affordable housing funding. The Federal Government in the United States continues to provide most of the subsidy needed, but capital grants, construction loans, mortgage loans and other financial supports are needed from many local sources. HTFs focus entirely, or mainly, on housing as well as related services for lower-income households. Lower-income households in this context can be taken to mean households that are unable to afford suitable housing in the private market.<sup>128</sup>

### Considerations for Montréal:

Historically, the production of social / affordable housing in Montréal is realized through either federal or provincial government funding. The extent to which the city itself could contribute depends solely on the regulatory tools and land in possession. Setting a municipal housing trust fund increases city's own capacity in producing affordable

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<sup>128</sup> CMHC: Research Highlights, Issue 59: *“Two Reports – Housing Trust Funds: Their Nature, Applicability and Potential in Canada and Guide to Creating Housing Trust Funds in Canada”*

housing while senior level government funding is not available.

Most of the city HTF comes from charges on development activities. Linkage fees and in-lieu fee are often related to Inclusionary zoning programs and are the major funding sources. HTF have been successful in generating needed funds, addressing critical housing needs and creating new partnerships to build a long-standing environment supportive of new housing initiatives. In Canada, however, this approach remains largely unused.

## 5.6 Setting a Dedicated Monitoring System

Inclusionary zoning helps produce more affordable housing to the low- to moderate-income people. The ordinance must clearly identify an entity that will be responsible for managing the program and monitoring the condition and turnover of units developed under the program. Setting the affordability term is also a critical issue. It makes no sense of setting short affordability terms while setting the goal is to provide affordable housing units. This is one of shortages revealed in the Montgomery's Inclusionary practice. More than two-thirds of the affordable units built are already eligible to sell at market price today, which greatly defeats the effectiveness of the ordinance.

While the length of time jurisdictions designate for an Inclusionary unit to stay affordable ranges from five years to perpetuity, the trend is toward longer affordability periods that preserve the community benefits generated by Inclusionary zoning. For ownership units, 30 years is becoming the standard, reflecting the length of most conventional mortgages; for rentals the affordability term can be even longer.

Long-term affordability provisions are important because the development of Inclusionary units requires substantial commitment from the private and public sectors. Private developers offer units at rates lower than those available on the open market, and the public sector grants cost offsets – most notably, increased allowable density through zoning changes. Long-term affordability provisions guarantee that these investments will provide maximum community benefit, and do not bestow windfall profits on a buyer at the expense of public and private investment, or future potential low-income occupants.<sup>129</sup>

### Considerations for Montréal:

- While selecting applicants, the operator should pay close attention to the “income qualification”.
- A regular update of residents' income information is important to assure equality.

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<sup>129</sup> Policy Link: Increasing Housing Opportunity in New York City. P 34



- Tightly control the resale of affordable units. Not only the resale price should be monitored, but also the new resident should be assured to qualify for the affordable units.

**Conclusion:**

To enact IZ is a political decision which requires a critical mass of political power. The commitment of the local officials and the support of communities and homebuilders are as critical as the enactment of the law itself.

For example, in San Diego, community development and religious groups successfully mobilized to push Inclusionary housing as a political agenda. California state law requires each region of the state to demonstrate that communities are providing their fair share of affordable housing, giving San Diego an extra incentive to make Inclusionary zoning work. In Minnesota, the voluntary Inclusionary zoning program passed as a result of a campaign spearheaded by the Alliance for Metropolitan Stability. A key strength of the campaign was the diversified coalition of housing advocates, environmentalists, smart growth proponents, and community serving institutions that support the initiative.<sup>130</sup>

Community support gives the city extra incentive to make the Inclusionary zoning work. In addition to organizations and individuals committed to affordable housing, there are other natural allies for mounting an Inclusionary zoning campaign. Environmentalists and smart growth advocates are typically strong advocates of Inclusionary zoning, since higher density developments create less sprawl and help preserve open space. Labour unions whose members would identify benefits from affordable housing could also create significant political clout to an Inclusionary Zoning campaign.

**How Many Affordable Units Would Have Been Created?**

Given all the development occurred in the last decade, had Inclusionary zoning policies been in place throughout Montréal, how many affordable units would have been produced? The following table illustrates the number of affordable housing units would have been produced if the Inclusionary Zoning were adopted for selected residential projects under construction.

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<sup>130</sup> Inclusionary Housing: A Policy that Works for the City that Works, BPI, 2003

**Methodology:**

Using the new residential construction starts data obtained from SCHL<sup>131</sup> for the last 11 years. Table 5.4 illustrates how thousands of families would have benefited from an Inclusionary housing program in the city of Montréal. The analysis excludes city projects coded as recycled projects. The data shows that a modest ordinance (a 10% set-aside) would have produced nearly 12,277 affordable units. An ever stronger ordinance (with a 30% set-aside) would have produced almost 36,830 affordable units.

Table 5.2 How Many Affordable Units Would Have Been Created?

Year	Total Constructed Units in Montréal	30% Set-Aside	20% Set-Aside	10% Set-Aside
1994	14,645	4,394	2,929	1,465
1995	8,274	2,482	1,655	827
1996	7,123	2,137	1,425	712
1997	10,097	3,029	2,019	1,010
1998	9,862	2,959	1,972	986
1999	11,276	3,383	2,255	1,128
2000	11,497	3,449	2,299	1,150
2001	13,626	4,088	2,725	1,363
2002	16,085	4,826	3,217	1,609
2003	20,280	6,084	4,056	2,028
<b>Total</b>	<b>122,765</b>	<b>36,830</b>	<b>24,553</b>	<b>12,277</b>

Source: SCHL, mises en chantier

<sup>131</sup> SCHL: mises en chantier

## CHAPTER 6

### CONCLUSION

The importance of housing as a fundamental element for achieving human, social and community progress has been widely accepted by housing advocates. The lack of affordable housing threatens many aspects of our daily lives such as health, education, job opportunity, community and economic development, immigrant integration and social inclusion.

Canada is one of the best-housed countries in the world. The majority of Canadians are comparatively well housed. This means they have access to adequate, affordable and suitable housing. In addition, Canadians have a well developed mortgage financing system, a sophisticated development sector, access to safe building materials and well developed building codes.

Despite all of the above, there are still 16 % of households in Canada who live in inadequate, unsuitable or unaffordable housing. And, the majority of them are renters. Housing researchers observed that our housing system structurally disadvantages low-end households. Many Canadians, particularly low-income households, single-earner households, and younger families, face serious and growing housing affordability problems.

Since 1930s, the Federal Government has committed itself in affordable housing production for low-income households in Canada. Nevertheless, in a tight budget environment, the Federal Government's role in affordable housing production stays very moderate today, leaving provincial governments and municipalities majority of the responsibilities in housing affairs.

Municipalities, because of their powers and responsibilities in many aspects of the regulatory environment, such as zoning, land use regulations, property taxation and land development, play an important role in the provision of affordable housing. In recent

years, municipalities work more tightly with the third sector and private sector in the provision of affordable housing under direct and / or indirect assistance from federal and / or provincial governments. They gradually built their own strategies in housing provision the unique tools in their disposal. The Inclusionary Strategy is one of the most recent strategies employed by Canadian municipalities in affordable housing production. Vancouver, Toronto and Ottawa had respectively introduced this innovative ideology in their housing policies, and had achieved certain level of success.

The City of Montréal is encountering an opportunity to address the affordable housing crisis. Several signs indicate this crisis: the wages can not follow the pace of the housing prices; new construction of high-end residential projects which drives many low-income households away from their traditional neighborhoods; and the supply of social rental housing which can not meet the needs of low-end households.

In addition, among those extreme low-income families, more than 50 % of them are lacking of affordable and / or social housing. The shortage for adequate and appropriate housing for extreme low- to moderate-income households attracted the attention of the City. In 2005, the City announced the adoption of the Inclusionary Strategy for affordable housing production. The strategy aims at meeting a particular goal of Montréal's Master Urban Plan, namely to produce 60,000 to 75,000 new housing units by 2014. Of these new units, 30% would fall into the affordable housing category.

Inclusionary zoning as a zoning tool can help the City meet its affordable housing objectives and create mixed-income communities that encourage social inclusion and sustainable development. As one of the most useful tools to attain the Inclusionary objectives, the Inclusionary zoning program has been widely used in many North American jurisdictions. After 30 years of exposure, Inclusionary Zoning has been evidenced as an effective tool in the production of affordable housing units for low-income households.

Inclusionary zoning program works, as trade-offs between a local government and a developer. A developer sells or rent a percentage of units in a new development at below market prices, and in return, the developer is usually given a cost-offset, such as "density

bonus”, which gives permission to build more units than current zoning regulations typically allow.

Although the success of Inclusionary zoning in many jurisdiction in the United States and Canada (notably Vancouver) demonstrated the reliability of this zoning tool in the production of affordable housing, Inclusionary zoning in Québec and most areas in Canada still remains unawareness.

The same tool can have different effects on different cities under different circumstances. Through an examination of the affordable housing market demand in Montréal and 4 case studies of Inclusionary zoning practice in 4 U.S. jurisdictions, this study suggests the City of Montréal to use Inclusionary zoning to achieve its affordable housing objectives. 6 recommendations have been made to the manager of Inclusionary zoning program. They are:

- 1) *Adopting a mandatory program:* A review of Inclusionary zoning practices in the U.S. reveals the relative ineffectiveness of a voluntary program when compared to a mandatory program which requires participation of all developers of all eligible projects. In addition, the affordable housing objectives set in the Inclusionary strategy of the City of Montréal is somewhat ambitious in relation to the historical housing production. Therefore, the effectiveness of the regulatory tool must be ensured in order to achieve the objectives.
- 2) *Creating incentives for developers:* The cost-offset component of an Inclusionary zoning program gives both public and private parties opportunities to craft side-by-side development plans. There are many ways to offset the cost associated with the added affordable housing units, while each of them has its own advantages and limitations. Density bonus allows the developer to construct additional market rate units beyond what is allowed under zoning law. However, the property pricing of the added density is a complicated procedure. Moreover, to what level the added density will accepted by the public remains questionable for practitioners.

Other incentive measures include off-site construction, in-lieu fees, etc. Off-site construction allows alternatives to constructing affordable units on-site at the expense of social segregation. In-lieu fee is another alternative to construction on-site, and should be set at a level comparable to the costs associated with producing affordable housing units.

- 3) Establishing specific income Target: The Inclusionary zoning program needs to be rigid with regard to the income target. This means that target income levels should be guided the city goals on housing needs. In the case of Montréal, households earning at or below 30 % of the city's average are encountering the greatest difficulties in housing. These people should be placed in high priority in the agenda.
- 4) Using other housing programs to achieve deeper affordability: The City of Montréal disposes and administers many programs in the provision of affordable housing. For example, the Homeownership Program could be used to assist moderate-income households to purchase IZ homeownership units. The Solidarité 5000 logements program could be combined with IZ to provide social housing for very low-income households. Policy designers should identify the existing programs that could be combined with IZ program to achieve deep affordability and / or make the IZ program more effective.
- 5) Setting a municipal housing trust fund: More than 100 Housing trust funds exist in U.S. today. They have emerged mainly in response to the declining federal support for affordable housing since the early 1980s. In fact, the success of Inclusionary housing program in Vancouver is directly contributed by the Housing trust fund.

Historically, the production of social / affordable housing in Montréal is realized through federal and / or provincial government funding. The extent to which the city itself could contribute depends solely on the regulatory tools and land in possession. Setting a municipal housing trust fund increases city's own capacity in producing affordable housing while Federal or provincial funding is not

available.

- 6) *Setting a dedicated monitoring system:* Among those unsuccessful experiences of Inclusionary zoning programs, the failure of maintaining long-term affordability is a major attribution. An entity must be set up to monitor the program and the turnover of units developed under the program. Setting the affordability term is also a critical issue. It makes no sense of setting short affordability terms while setting the goal as providing affordable housing units.

Facing urgent affordable housing shortage and budget constraint, a new tool is needed to achieve affordable housing objectives. Inclusionary zoning is the tool that is tailored to help the City of Montréal to create more affordable units while ensuring the long-term social and economic well-being.



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