Toronto Housing Primer

Overview & Analysis

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STORMONT PARTNERS

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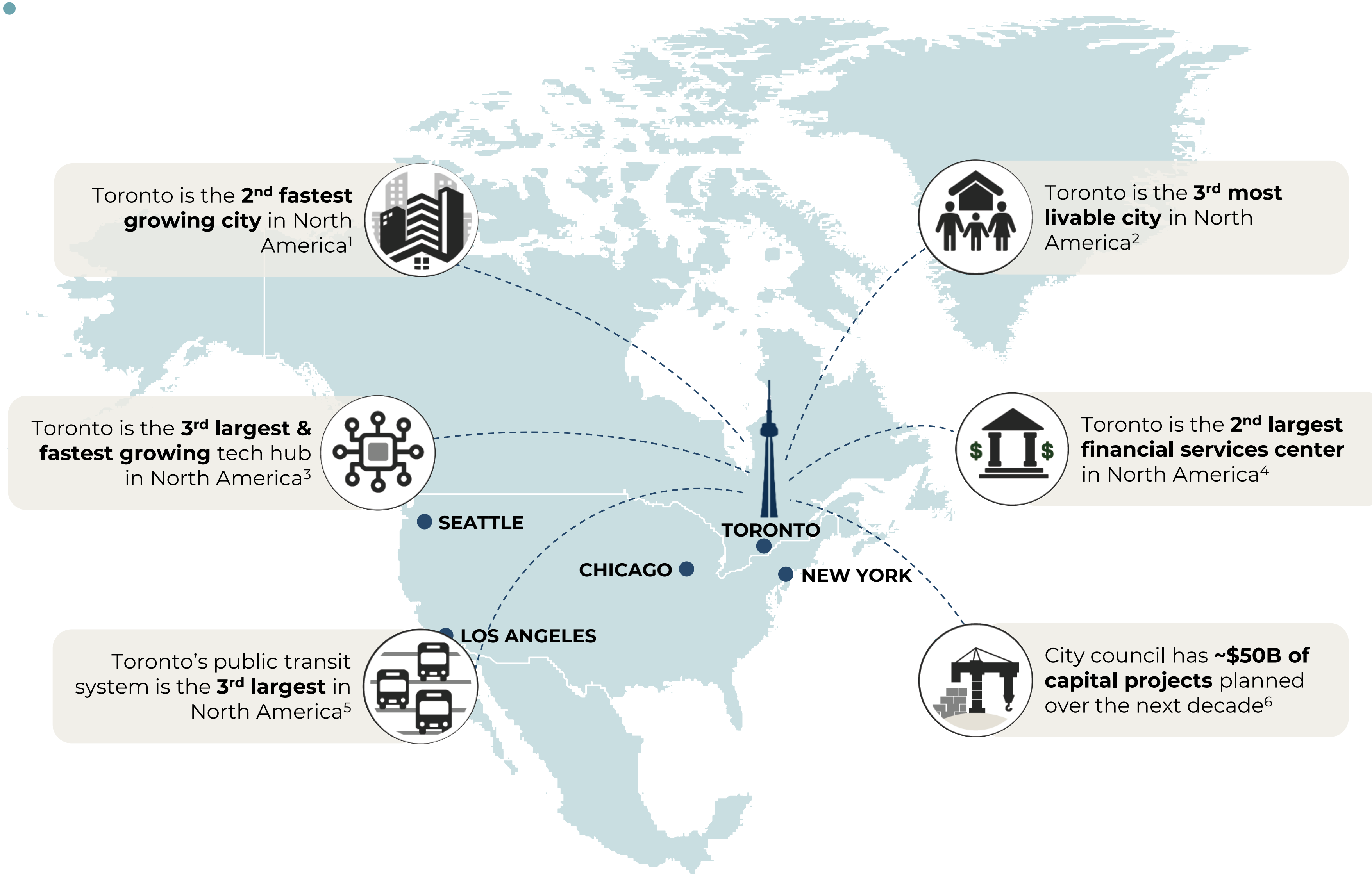
1. The Toronto Housing Story

The Toronto Housing Story

- Toronto is one of North America's fastest growing CMAs, driven by:
  - A federal immigration plan supporting significant Greater Toronto Area ("GTA") population growth
  - A booming economy offering high-paying jobs across many key sectors
- Growth has enabled the Toronto housing market to thrive for decades, and in the face of unstoppable demographic and macroeconomic influences, the market will continue to do so
  - The market is rich with investment opportunities, and billions of dollars will be made over the coming decades as the GTA population grows to ~11M people by 2046[1]
- But, with massive opportunity comes big challenges:
  - A chronically undersupplied level of housing has resulted in an affordability crisis
  - Quality of life in Toronto is declining for many
  - Rapidly accelerating project costs impair the economics of new supply
  - Labor shortages slow delivery times and further worsen project viability
  - Housing itself is becoming an infrastructure issue, as large portions of the workforce cannot afford to live anywhere close to where they work
- This presentation explores the roots of Toronto's housing market and explains the dynamics of the land development process, the regulatory framework that affects housing, and how capital markets around housing work, or sometimes don't work
- While governments have recently begun to address some of the problems in the regulatory process around housing, and are somewhat regularly announcing various types of incentive programs, there are still impediments to the creation of large amounts of new supply, all of which need to be addressed, all at once, to effectively solve this problem

1. Source: Ontario Ministry of Finance

Toronto Investment Case



Toronto is the **2nd fastest growing city** in North America[1]

Toronto is the **3rd most livable city** in North America[2]

Toronto is the **3rd largest & fastest growing** tech hub in North America[3]

Toronto is the **2nd largest financial services center** in North America[4]

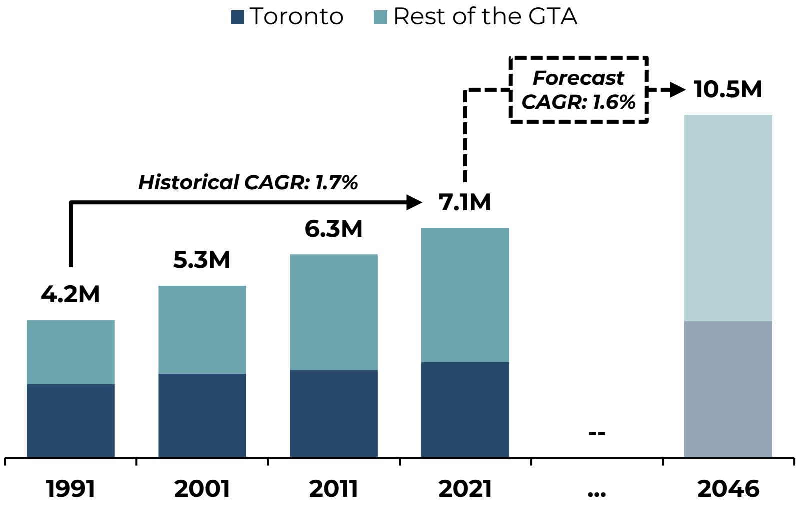
Toronto's public transit system is the **3rd largest** in North America[5]

City council has **~$50B of capital projects** planned over the next decade[6]

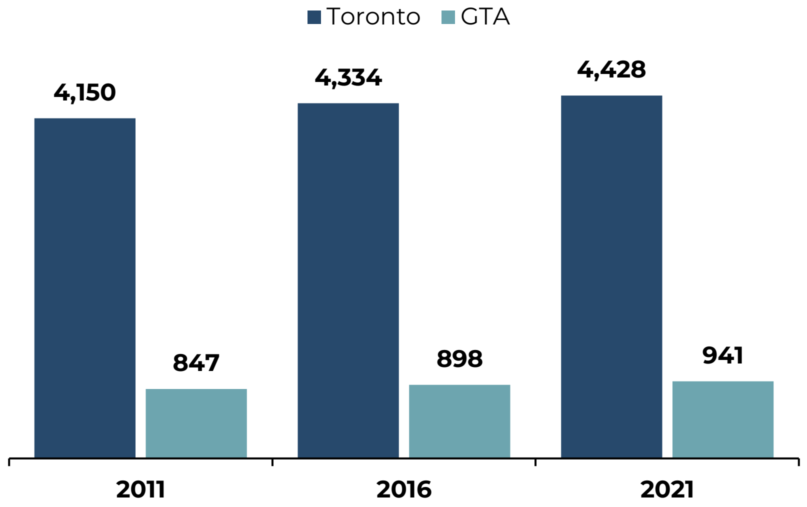
1. Statistics Canada, U.S Census Bureau
2. Economist Intelligence Unit
3. CBRE, New York Times
4. The Conference Board of Canada
5. City of Toronto
6. Refers to the City of Toronto's 10-Year Tax and Rate Supported Capital Budget (2024 - 2033).

Massive Population Growth

GTA Population Growth



Population Density Per Km² Over Time



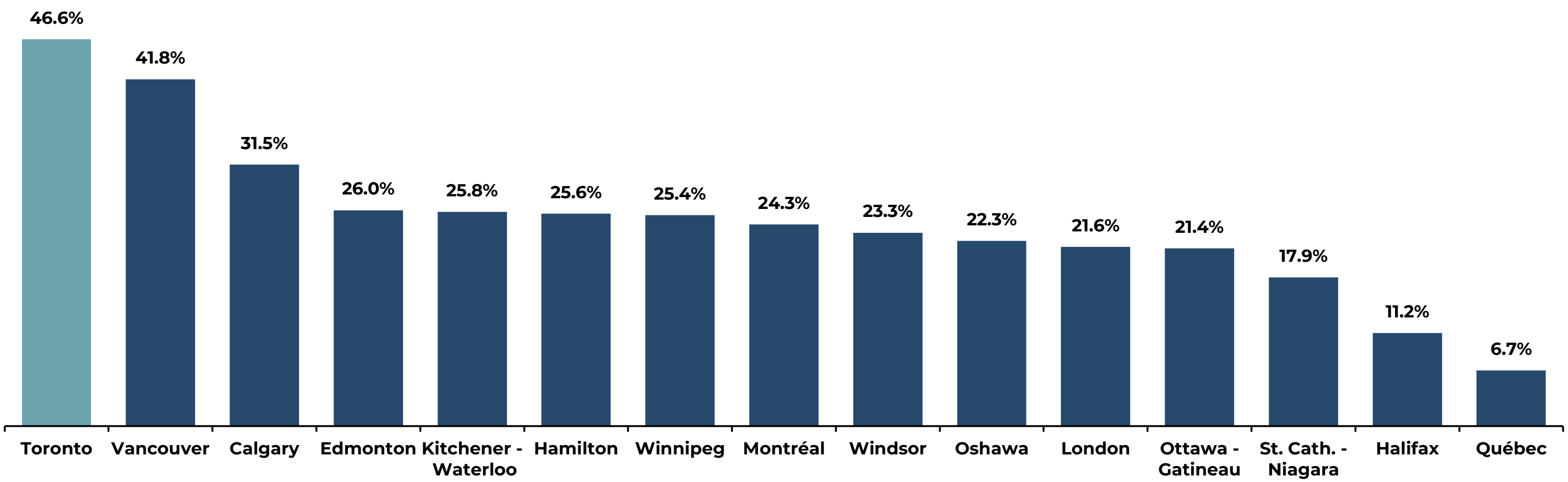
- The GTA is expected to reach a population of ~11M people by 2046, implying growth of 49% over 2021
- The City of Toronto population is also expected to realize rapid growth with the addition of ~1M people over the next 25 years (equating to 42% growth over 2021)
- As Toronto's population has grown, so has population density; Toronto and the GTA's density has grown ~7% and ~11% over the past decade to 4,428 and 941 people per km^2, respectively

The GTA is expected to have the fastest growing population in Ontario over the next 25 years

Source: Canadian Centre for Economic Analysis, Canadian Urban Institute, Statistics Canada, Ontario Ministry of Finance

Canada's Major Immigration Gateway

Share of Foreign-Born Population for Canada's Largest CMAs[1]



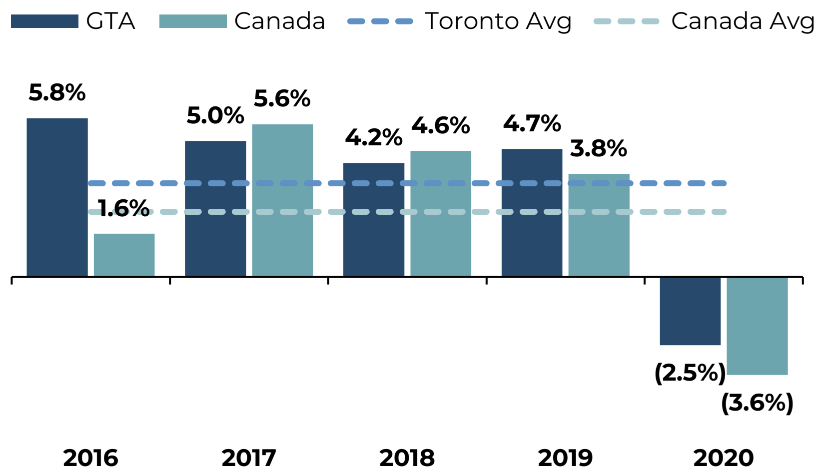
- The GTA is Canada's major immigration gateway with ~30% of Canada's newcomers arriving in the GTA annually
- Not only does the GTA have a significant foreign-born population of more than 2.8M people, but it also has Canada's largest immigrant population, relative to its total population, at 46.6%
- Furthermore, the GTA's immigrant population has grown substantially at a CAGR of ~4%, which is double the GTA's annual population growth of ~2% and quadruple Canada's annual population growth of ~1%

The GTA is Canada's undisputed major immigration gateway

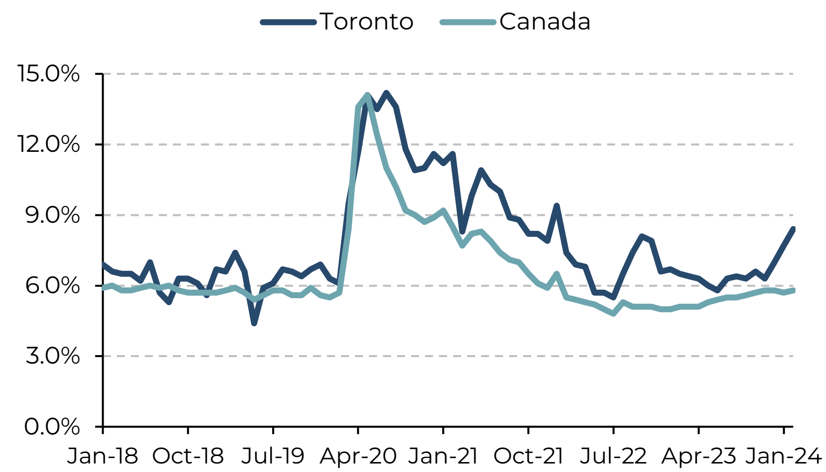
Source: Statistics Canada
1. Includes both established immigrants who moved before 2016, and recent immigrants who moved between 2016 and 2021. Data is based on a report released in October 2022.

Canada's Business and Financial Hub

5-Year GDP Growth



Unemployment Rate[1]



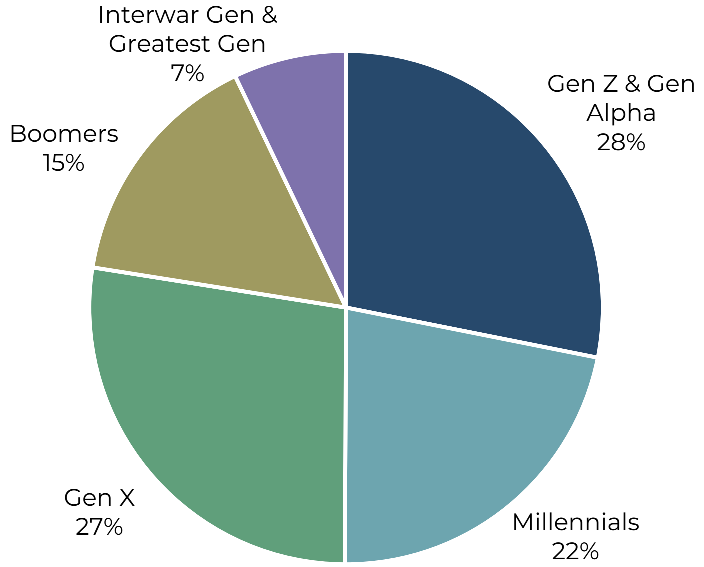
- Toronto's diverse economy as well as strength in a variety of key sectors have contributed to historical GDP growth well above the national average
- Since Toronto is also known as the "place to go" for those looking for work, many new immigrants and young people are drawn to the city - the higher unemployment profile of these groups has resulted in an unemployment rate for the city that is higher than the national rate

Toronto is an economic powerhouse and a key global financial centre

Sources: Global Financial Centers Index (Z/Yen Group), Statistics Canada
1. Based on seasonally adjusted values.

Changing Age Demographics

2021 GTA Population Breakdown by Generation[1]



Gen Z & Gen Alpha	1997 or later
Millennials	1981 to 1996
Gen X	1965 to 1980
Boomers	1946 to 1964
Interwar Gen & Greatest Gen	1945 or earlier

- Individuals who are currently looking or will soon be looking for family-sized housing generally are part of the Millennial generation; they make up 22% of the GTA population
  - Many Millennials have not yet had children, but will increasingly require more family-sized housing
  - On the contrary, Boomers are looking or will be looking to downsize from a single-family home to an apartment in the medium-term; they make up 15% of the GTA population

Changing age demographics highlight the need for more density in the GTA

Source: Statistics Canada
1. Includes Statistics Canada's economic region for Toronto and the city of Burlington.

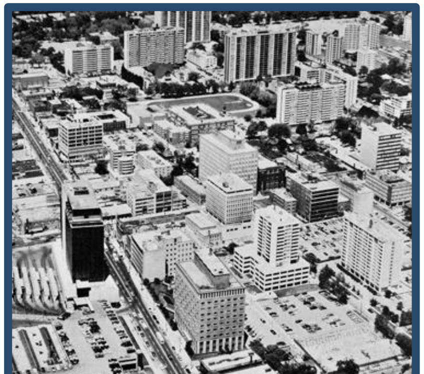
Evolution of Toronto Housing

1950s

CMHC[1] is created in 1946 to house returning veterans after the end of World War II

CMHC introduces its loan insurance program (1954), making single-family homes more attainable

Single-family home construction accounts for most building permits from 1957 to 1959



1960s

Development shifts toward multi-family creation, driven by large population growth

Population growth is being driven by the baby boomer generation and immigration

Large scale concrete apartments begin to appear en masse to house Toronto's population

1970s

Development equalizes between single-family & multi-family housing construction

Rent control is introduced, shifting high-rise development from rentals to condo

As the separatist threat grows in Quebec, Canada's economic center shifts to Ontario

1980s

Mortgage rates peak in 1981, dropping housing starts and leading many builders into bankruptcy

Mortgage rates drop beginning in 1982, making single-family housing more affordable

Tax programs favouring rental construction are phased out, hurting the multi-family sector

Source: Statistics Canada, RHB Magazine
1. "CMHC" stands for the "Canada Mortgage and Housing Corporation".

Evolution of Toronto Housing

1990s

Residential construction falls after the recession of 1990 / 1991 and does not recover for 15 years

Home builders struggle as consumer confidence sags and fewer people are seeking to buy homes

Of the sparse construction during this period, developers were focused on single-family homes

Post-2000

Construction falls with GFC[1] (less severe than the US); single-family housing struggling to recover

Toronto prices rise with a lack of intensification; affordability concerns grow

High-rise condos become the dominant form of housing as developable land becomes scarce

Present Day

Dramatic price increases during the pandemic; competition between buyers is intense

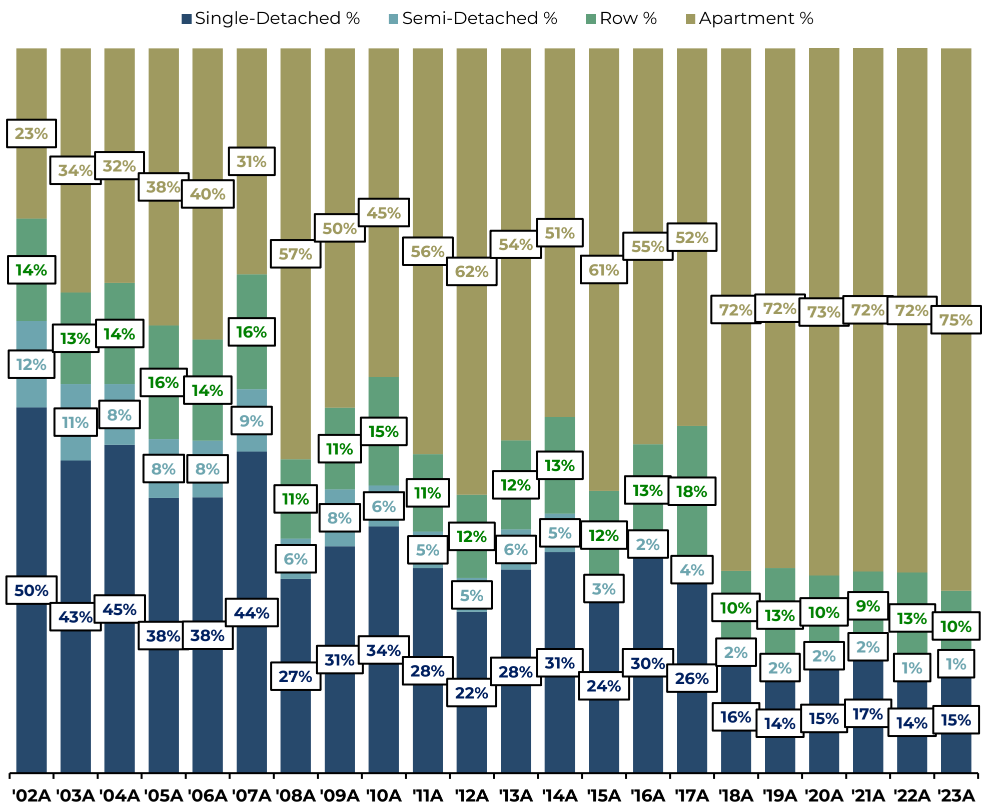
Supply-demand imbalance becomes acute driven by high immigration levels

Re-emergence of build-to-rent sector in order to meet demand amid an affordability crisis

Source: Statistics Canada, RHB Magazine
1. “GFC” stands for “global financial crisis”.

Shift to High Density Typologies

GTA Housing Start Mix

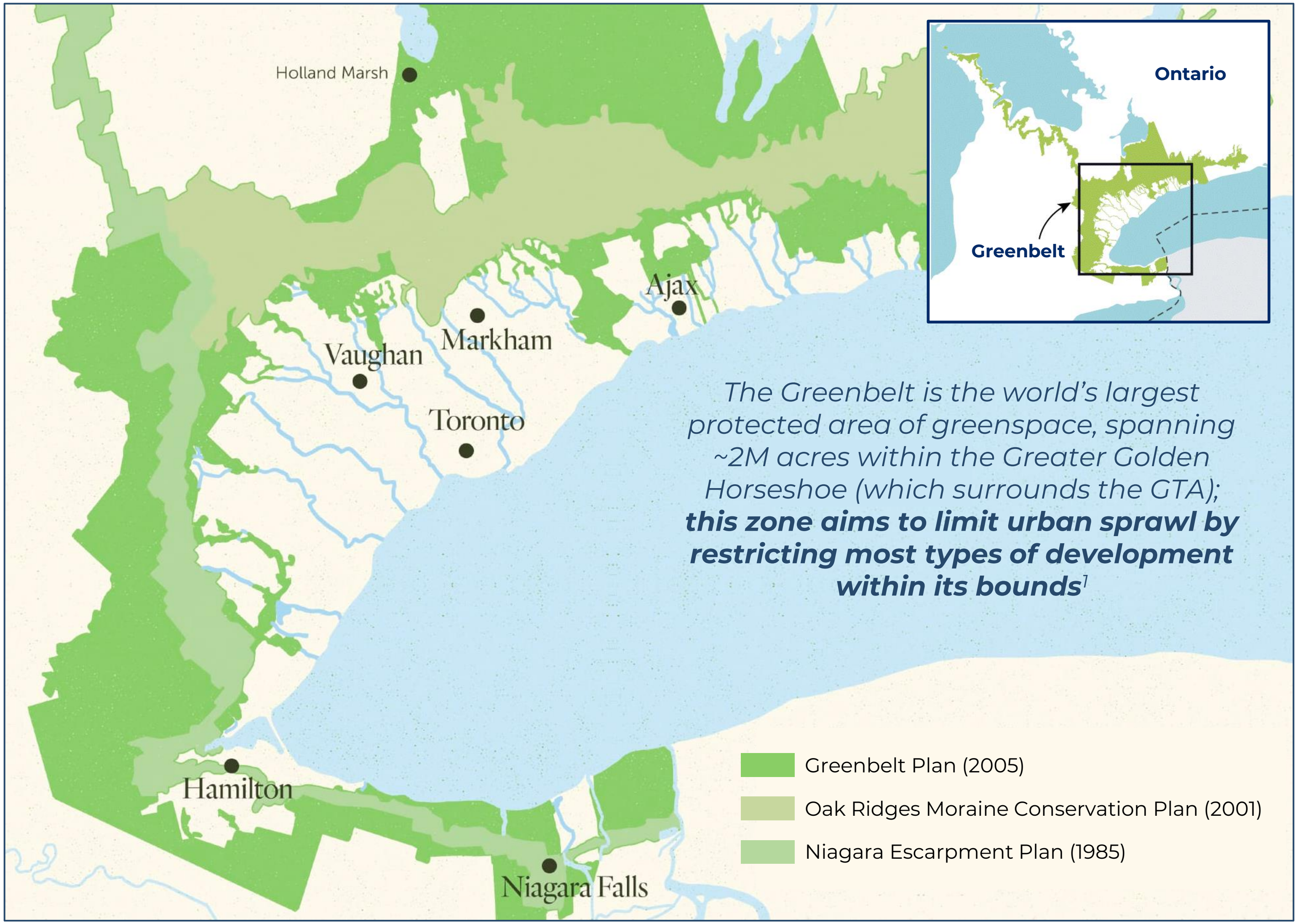


- Toronto has and will continue to shift away from low-density building typologies as it seeks to address affordability problems
- Specifically, 50% of new housing starts ~20 years ago were for single-detached structures vs. 15% in 2023
  - The percentage of single-family starts is expected to fall further, to ~12.5% by 2025
- However, there are drawbacks associated high-density construction, including:
  1) Lagging infrastructure investment making for less livable neighbourhoods
  2) A mismatch between the type of housing being built vs. the housing that will be needed as millennials age into their family formation years

As construction shifts towards higher density typologies, new problems arise

Source: CMHC

Greenbelt Overview



The Greenbelt is the world's largest protected area of greenspace, spanning ~2M acres within the Greater Golden Horseshoe (which surrounds the GTA); ***this zone aims to limit urban sprawl by restricting most types of development within its bounds***[1]

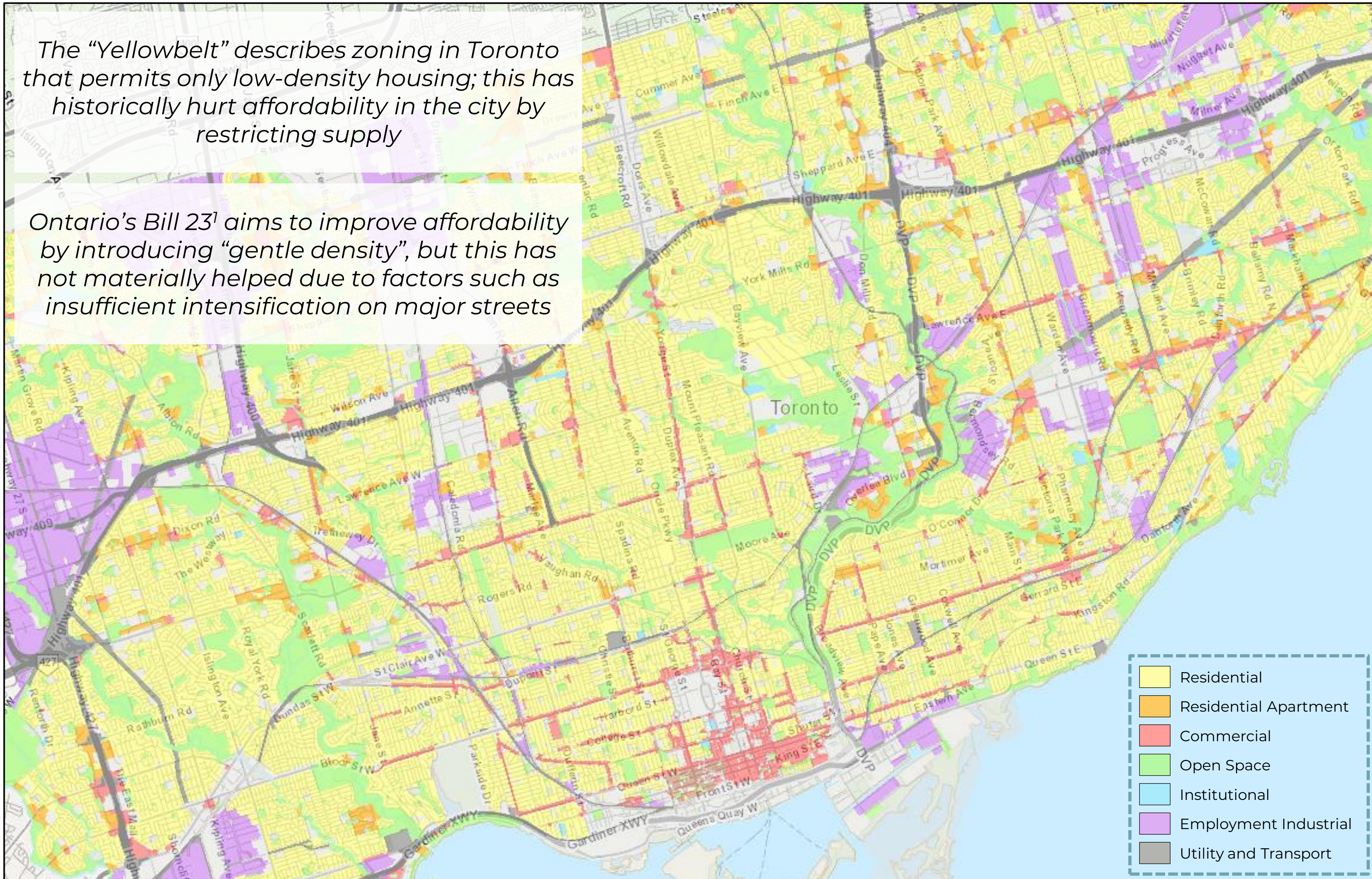
Source: The Narwhal, Globe & Mail

1. While almost all development is prohibited within the Greenbelt, the construction of certain infrastructure is allowed (i.e. Highway 413).

Yellowbelt Zoning Overview

The "Yellowbelt" describes zoning in Toronto that permits only low-density housing; this has historically hurt affordability in the city by restricting supply

Ontario's Bill 23[1] aims to improve affordability by introducing "gentle density", but this has not materially helped due to factors such as insufficient intensification on major streets

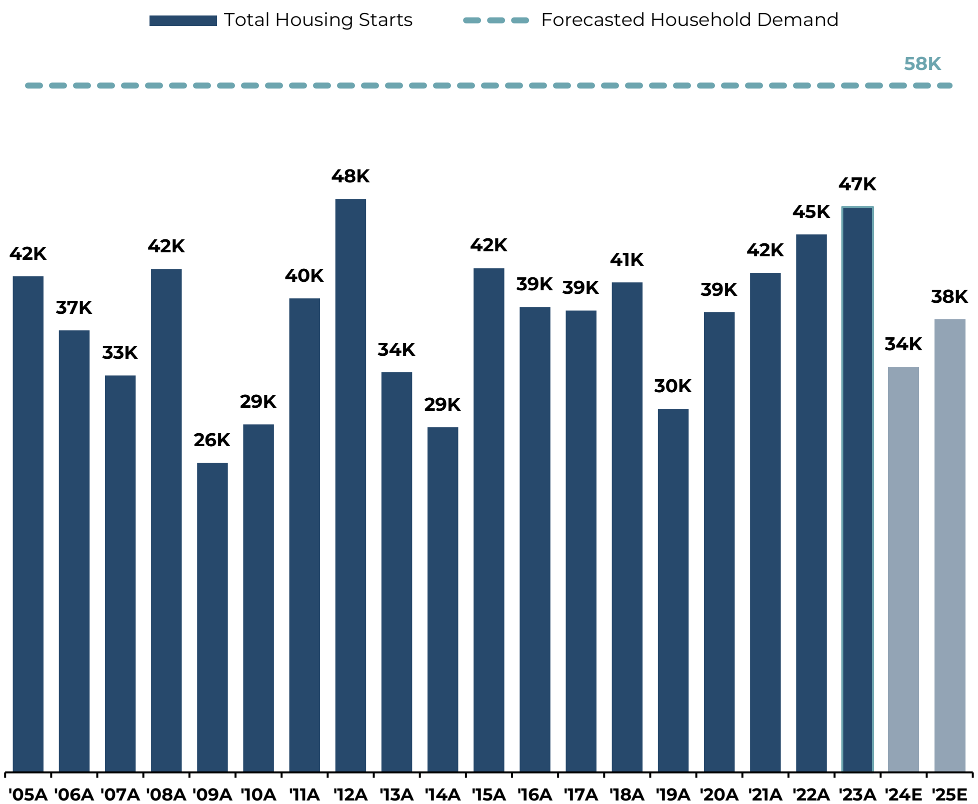


Source: City of Toronto Zoning Map, Smart Density

1. Bill 23 (also known as the More Homes Built Faster Act) received royal assent and became law in Ontario on November 28th, 2022.

Chronic Housing Shortage

GTA Annual Housing Starts vs. New Household Demand



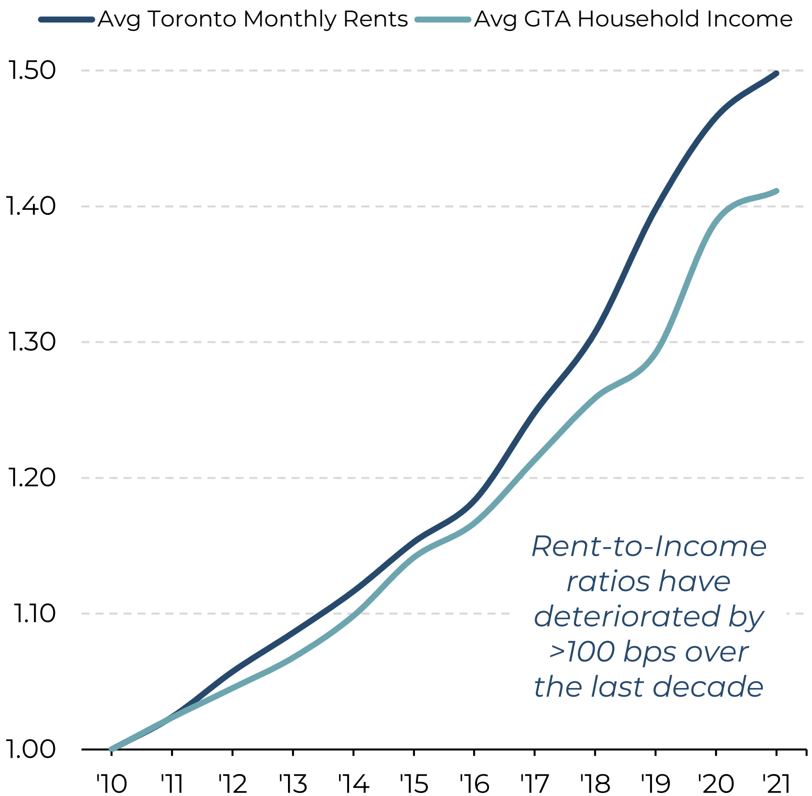
- Canada's immigration targets have been set to ~500K for the next 3 years
  - ~30% of newcomers typically come to the GTA (~150K immigrants p.a.)
  - This does not include the influx of non-permanent residents that also enter the country annually
- Driven by high immigration / population growth levels, the GTA will require ~58K new houses per year in the long-run to satisfy forecasted demand
- The Toronto government anticipates new housing starts of ~36K annually from 2024 to 2025, <u>implying a housing shortage of ~22K households each year</u>
  - Furthermore, the Ontario government will need ~900K homes built in the GTA over the next decade to reach its goal of keeping up with the G7 average

GTA housing deliveries have historically fallen short of demand

Source: CMHC, Statistics Canada, Government of Ontario, Government of Canada, Smart Prosperity Institute

The Affordability Crisis

GTA Income vs. Rent Benchmarking[1,2]



- Since the end of the GFC, the relative increases in GTA rental rates have exceeded relative growth in monthly incomes by ~10 percentage points
- Though the outperformance of the rental market has been driven by several different factors, two particularly important drivers have been:
  - The relatively high cost of buying or building a home, which has been exacerbated by the rise in interest rates over the past two years
  - A deteriorating supply-demand imbalance, due to lack of new supply and high immigration levels
- The ensuing affordability crisis has made renting for low-income earners especially difficult, as increases in wages have not kept up
- Affordability is defined as households being required to spend only 30% of their income on shelter-related servicing (rents, mortgage payments); even with inclusionary zoning, the concept of affordable housing is becoming an increasingly outdated idea

Housing affordability in the GTA is a critical and worsening problem

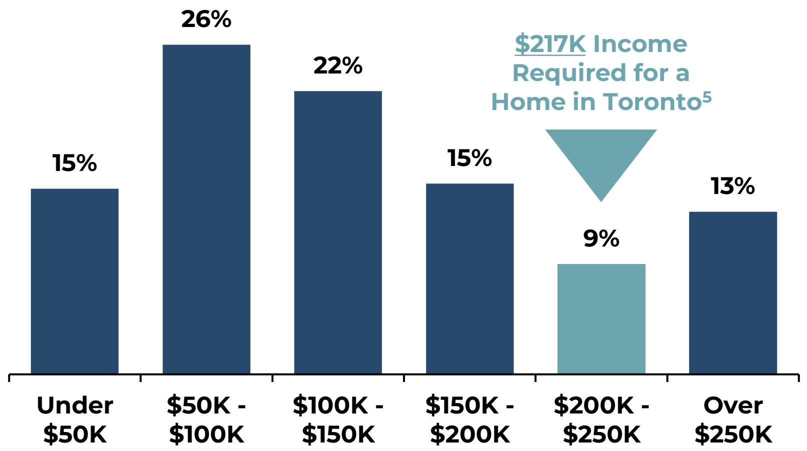
Source: Statistics Canada, CHMC
1. Average rents include both apartments and rowhouses, per CMHC.
2. Average income figures reflect couple families only, per StatsCan.

City Building Slowdown

Wages of Essential Sectors in Ontario

Sector	Annual Wage
Utilities	$99K
Finance[1]	$82K
Health Care[2]	$82K
Transportation[3]	$64K
Government[4]	$60K
Manufacturing	$57K
Weighted Avg Essential Worker	**$68K**
Weighted Avg Essential Couple	**$136K**

GTA Distribution of Couple Family Income

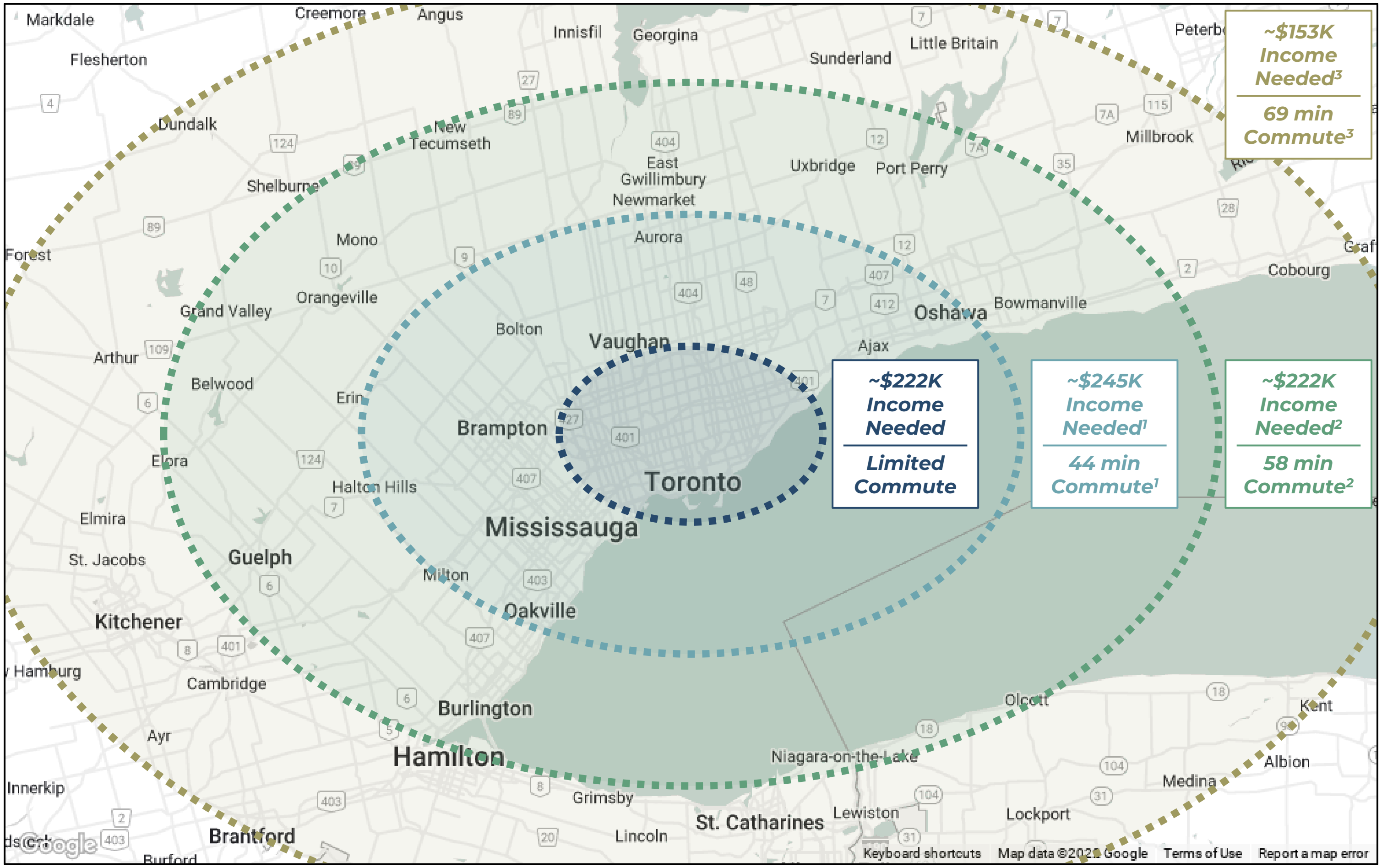


- There are certain sectors which are critical for city building – sectors that the government deem critical to a well-functioning city include utilities, government, finance, manufacturing, transportation and health care
- Furthermore, for essential workers to live in a city, shelter is a key “cost of admission” – therefore as the cost of housing increases, the prospects of implementing a successful city building strategy become more difficult
- It is clear to see that proper city building is going to continue to be difficult in the GTA as the required household income of ~$217K to afford a Toronto home, is ~1.6x higher than the average “essential” couples’ salary

City building in the GTA is becoming increasingly difficult as affordability worsens

Source: Statistics Canada
1. Includes finance, insurance, and real estate-related jobs.
2. Includes health care and social assistance-related jobs..
3. Includes transportation and warehousing-related jobs.
4. Includes public administration-related jobs.
5. Source: Ratehub.ca (March 2023)

GTA Household Income Requirement Map

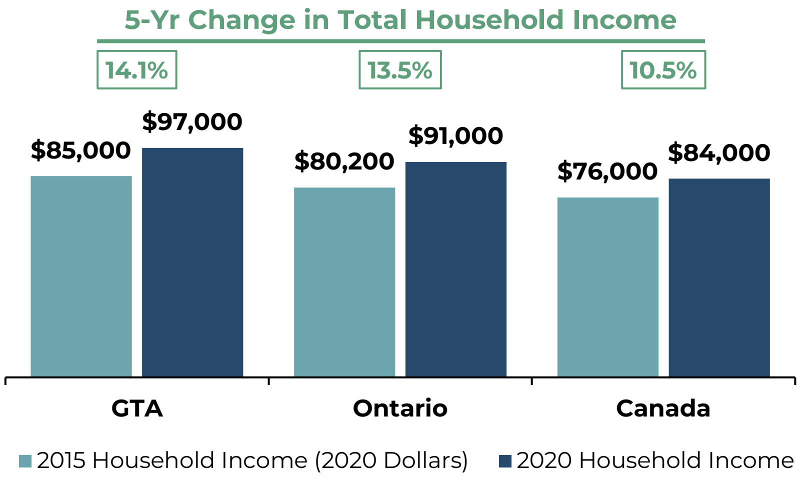


Households working in Toronto with income of <$200,000 would most likely face a commute >1 hour

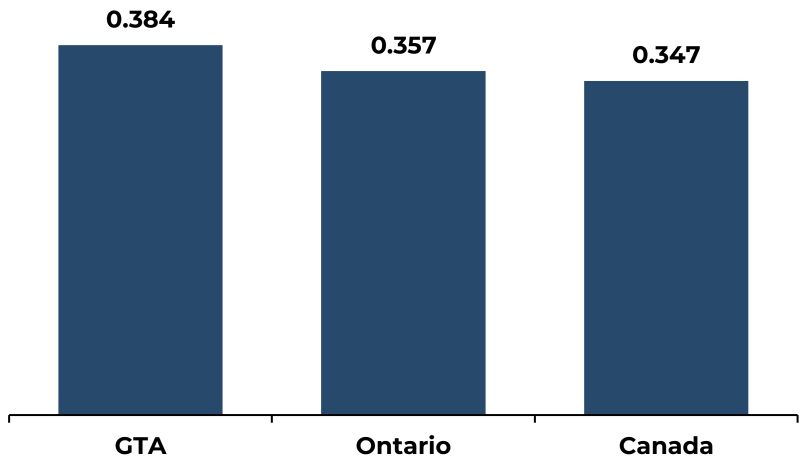
Source: MoneySense
1. Cities included are Ajax, Aurora, Brampton, Halton Hills, King, Markham, Mississauga, Oakville, Oshawa, Pickering, Richmond Hill, Stouffville, Vaughan and Whitby.
2. Cities included are Burlington, Caledon, Clarington, East Gwillimbury, Milton, Newmarket, Scugog, and Uxbridge.
3. Cities included are Brock and Georgina.

High & Unequal GTA Incomes

2020 Median Household Income Benchmarking[1]



2020 Gini Index Benchmarking[2]



- The GTA's median household income level is not only higher than both Ontario's and Canada's, but it has also grown faster with a 5-year increase of 14.1% vs. the provincial increase of 13.5% and the national increase of 10.5%
- Though GTA's income level is relatively high, the city's level of income inequality is also relatively greater than both the province and country with a Gini coefficient[2] of 0.384 on a pre-tax basis
  - Additionally, the GTA's Gini coefficient is the highest of any CMA in Canada and has contributed to segmented socio-economic neighbourhoods within the city

Though Toronto has high income levels, high levels of income inequality has hindered affordability

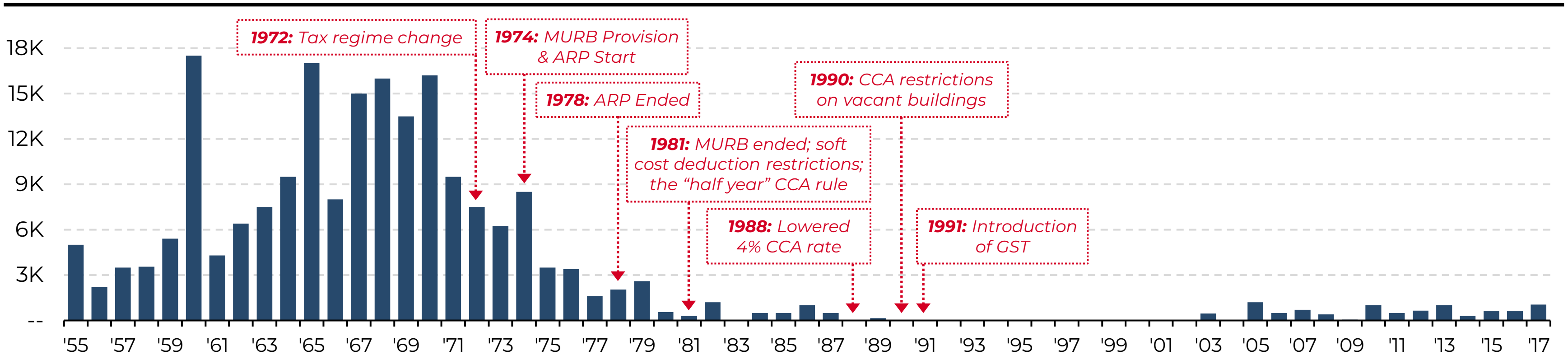
Source: Statistics Canada
1. 2015 total household income adjusted using a five-year inflation factor of 8%.
2. The Gini index is a measure of income inequality; a value of 0 represents perfect equality, where a value of 1 expresses maximum inequality.

2. The Rental Market

Background on Toronto Rental Market

- Until the early 1990s, purpose-built apartment buildings were Toronto's primary source of rentals
- Various tax incentives were major factors driving rental construction, but these were phased out over a period of several years, beginning in 1972[1]:
  - A capital gains tax was introduced, whereby 50% of gains realized would be taxable
  - Rollover provisions that allowed investors to defer CCA recapture upon a sale were removed[2]
  - The ability for investors to use rent-related taxable losses to reduce non-rental income was removed
- These changes, combined with rising interest rates and rent control fears, led to a huge decline in rental creation
- In 1974, the multi-unit residential building ("MURB") provision and the Assisted Rental Program ("ARP") were attempts to spur the rental market, but both programs were ultimately canceled by 1981[3]
- Other regulatory changes since the early 1980s continued to hinder the rental market (see chart below)
- Only recently, in the middle of an affordability crisis, have efforts from all levels of government been made to once again incentivize rental construction (e.g. removal of GST on new rental construction)

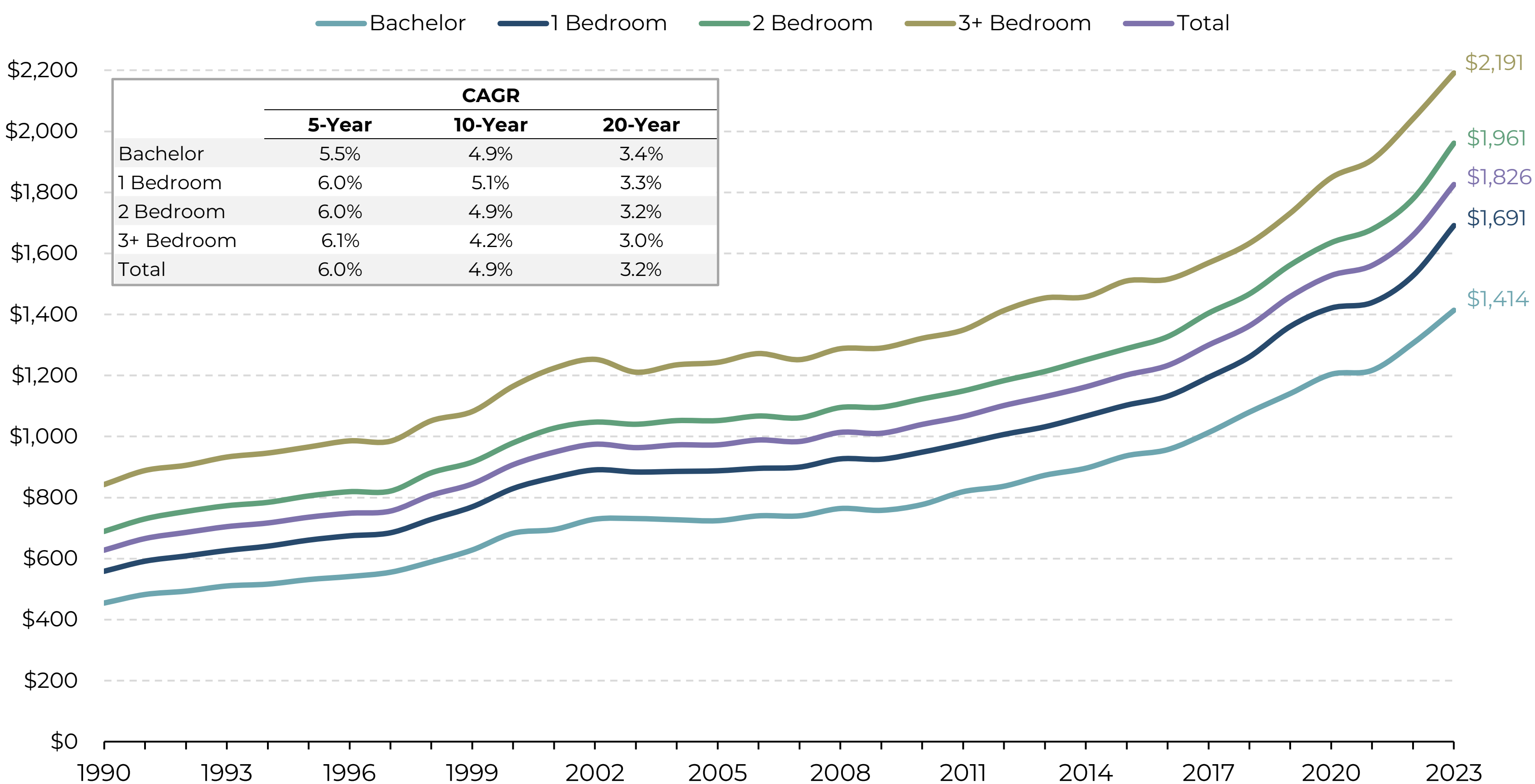
Toronto Market Rental Starts[4,5]



1. Source: Clayton Research Associates
2. Post-1972, CCA pools could still be formed for properties with a <$50K value.
3. MURB provision allowed for rental loss deductions against other income; ARP provided project grants.
4. Estimated from CANCEA's PBR development report from April 2019.
5. Includes private starts only.

GTA Rental Rate Analysis

Historical Average Rents by Bedroom Type - Toronto

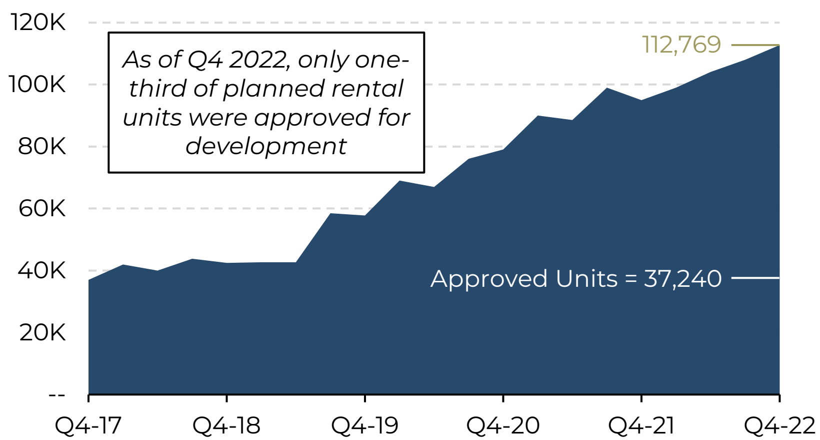


	CAGR		
	5-Year	10-Year	20-Year
Bachelor	5.5%	4.9%	3.4%
1 Bedroom	6.0%	5.1%	3.3%
2 Bedroom	6.0%	4.9%	3.2%
3+ Bedroom	6.1%	4.2%	3.0%
Total	6.0%	4.9%	3.2%

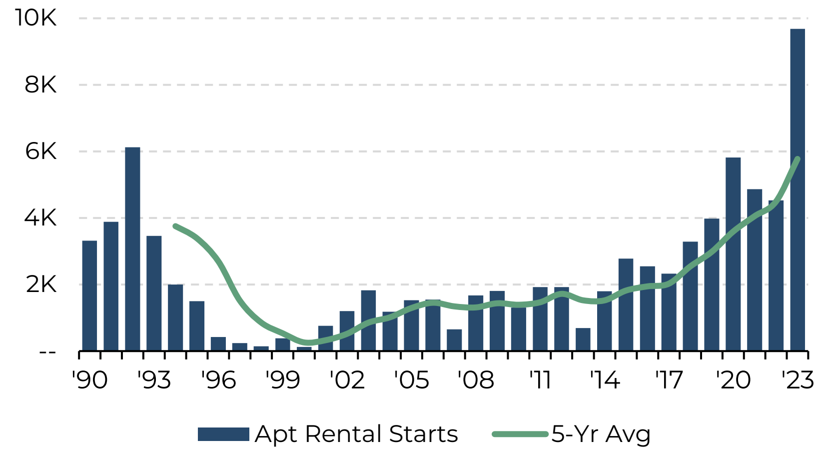
Source: CMHC
Note: Considers only apartments, excludes townhouses.

GTA Purpose-Built Rental Apartment Overview

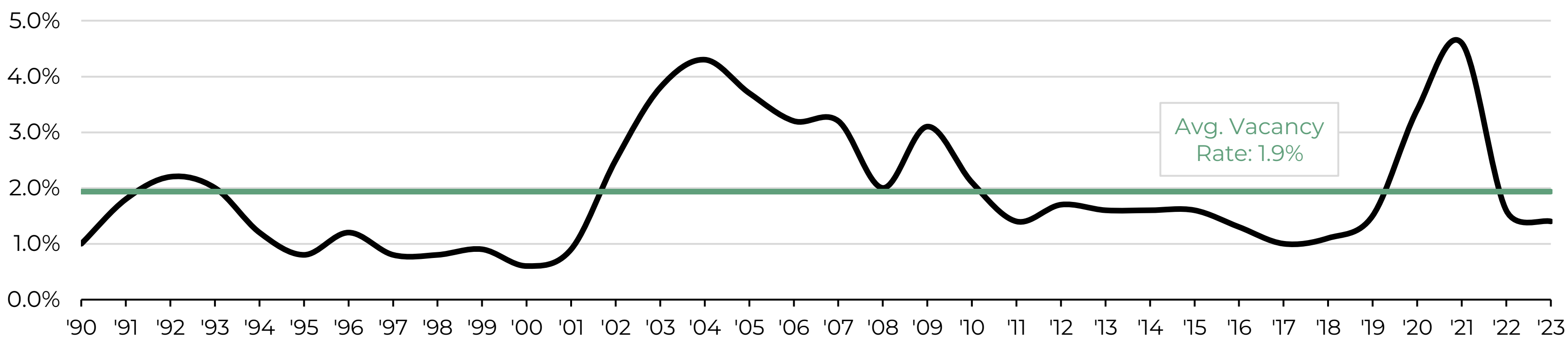
GTA Planned Purpose-Built Rental Inventory



GTA Apartment Rental Starts[1,2]



GTA Purpose-Built Rental Apartment Vacancy[1,2]



Source: CMHC, Urbanation
1. Includes both private and social unit starts.
2. Excludes rowhouses – i.e. apartments only.

History of Rent Control in Ontario

1970s

Rent control is introduced in 1975 with Ontario rent increases being capped at 8% and only applying to units occupied before Jan 1976

1980s

In 1985, rent control regulations tighten to apply to all residential units; maximum rent increase caps change several times[1]

1990s

In 1992, rent control exemptions are given to new buildings; in 1998, legislation permits rent to be set at any rate at the start of a tenancy

2000s

In 2006, the Residential Tenancies Act ("RTA") ties guideline rent increases to the Ontario consumer price index

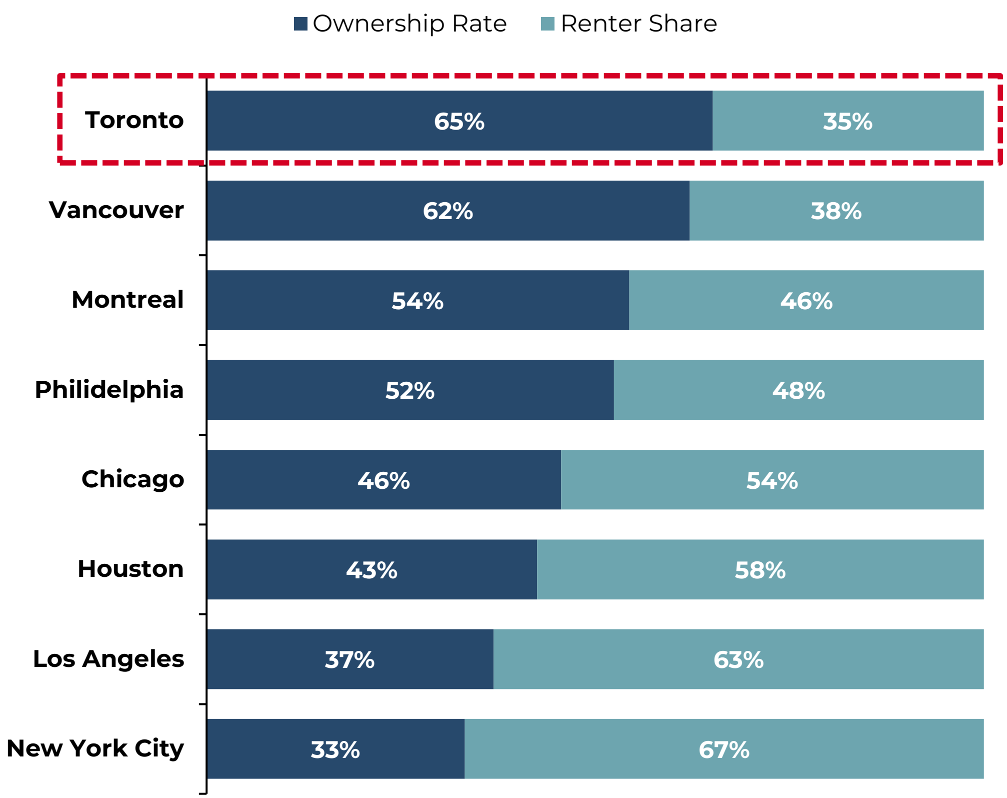
2010+

Exemption for new properties was removed in 2017; it was reinstated shortly after with controls not applying to units built post-2018

1. The 1985 Residential Tenancies Amendment Act sets a 4% rent increase cap. The 4% cap was removed in 1986 and rent increases begin to be based on the Residential Complex Cost Index, a figure published by the Minister of Housing.

Benefits of Rental Supply

Home Ownership Rates in Major North American Cities



- Toronto has the lowest rental share among major North American cities at 35%
- A relatively low modern stock of purpose-built rental supply puts Toronto at a disadvantage from both an affordability and innovation standpoint
- Benefits of having rental stock include:
  - **Affordability:** Having rental options gives flexibility to residents who have been priced out of the market and cannot afford a down-payment
    - Particularly key for immigrants, who often start their housing journey in the rental market
  - **Innovation:** Having a large rental stock helps provide the flexibility a city needs to absorb young people and mobile talent, supporting innovation & growth

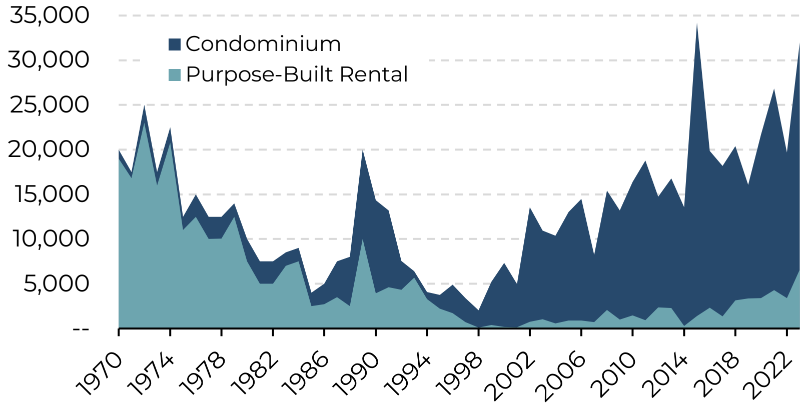
Growing the rental supply would help to solve Toronto's affordability crisis and foster innovation

Source: Statistics Canada, U.S. Census Bureau

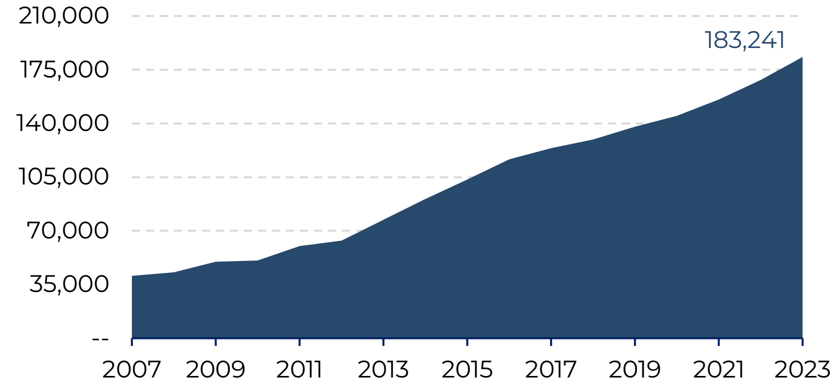
3. The Condo Market

Condo as Rental

GTA Apartment Completions by Tenure



Number of GTA Condo Units Used for Rental



- As GTA purpose-built rental development slowed down in the 1990s, a gap was created in the rental market, which soon began to be fulfilled by the city's condo stock
- Condo's role as a provider of rental has grown in importance as more condo stock is being used as rental
  - A decade ago, only ~25% of GTA condos were used as rentals, today this figure is ~40% (183K units)
- Many condo investors have chosen to rent their units because they have anticipated heightened rent growth as the city's supply-demand imbalance has continued to deteriorate

The condo market has become Toronto's de facto rental market

Source: Urbanation, CMHC

Condo Financing Basics

Deposits

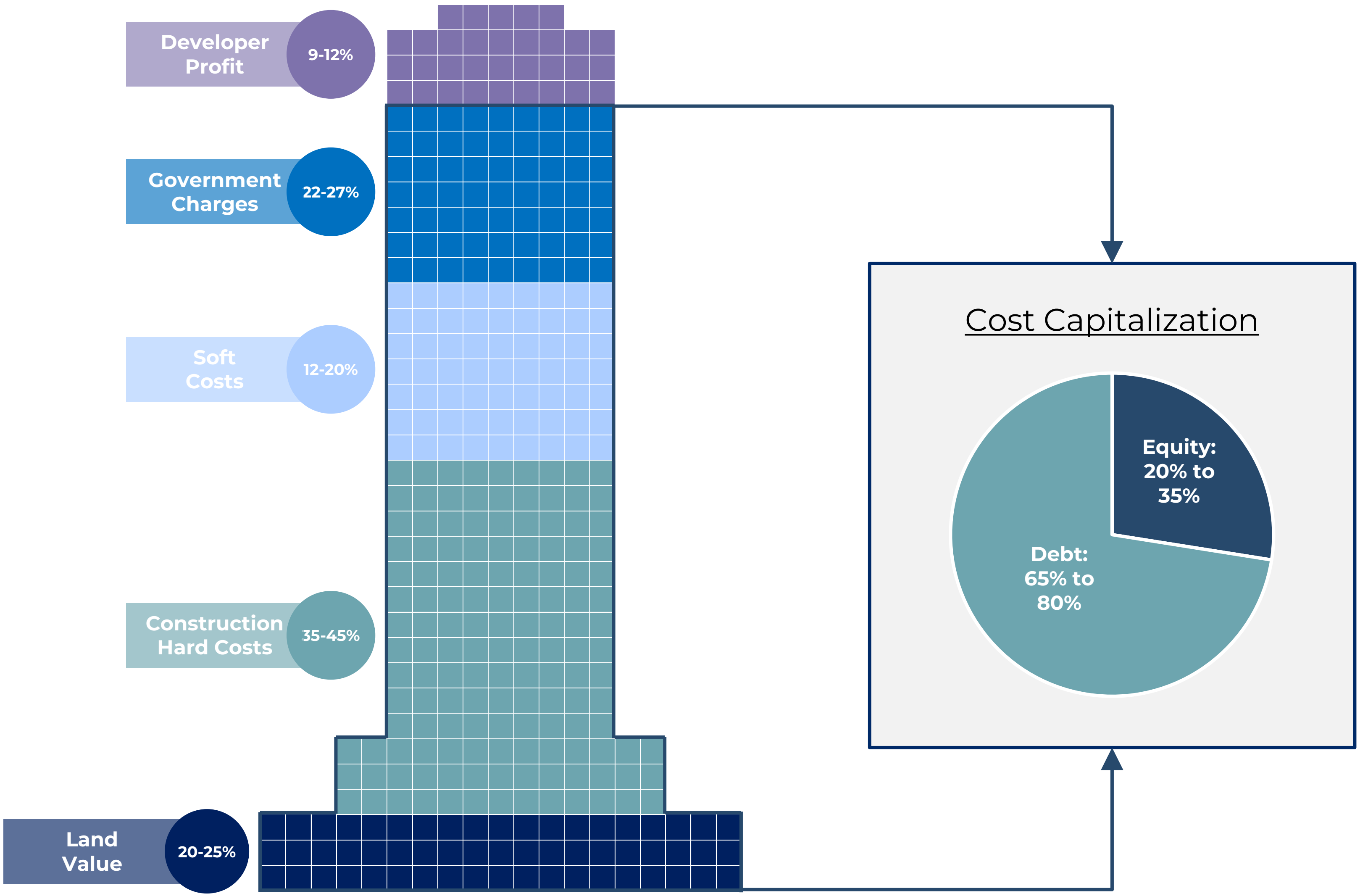
- The pre-construction condo sales process starts with the purchaser putting down an initial deposit for the unit (~5% of the purchase price); incremental deposit payments are then usually owed as part of an extended deposit structure, spread out over 1 to 3+ years
  - The total deposit (i.e. upfront + incremental deposits) typically equates to 15% - 20% of the purchase price
- At closing, an incremental downpayment & mortgage cover the remaining balance owed
- Various mechanisms are in place to protect purchaser's deposits:
  - **Tarion Insurance:** Tarion, the administrator of Ontario's new home warranty program, provides deposit protection of up to $20K upon APS termination or builder bankruptcy
  - **Condominium Act (Section 81):** Any deposit received by the developer must be held in a lawyer's trust account, rather than going directly to the developer
  - **Excess Condominium Deposit Insurance (ECDI):** For deposits over $20K, builders can obtain excess deposit insurance; this protects purchasers and enables the builder to use deposits as low-cost financing
- If a project is canceled, builders are required to provide a deposit refund to the purchaser within ten days
- Additionally, while an ECDI policy is not required to sell condo units, it becomes a requirement if developers choose to access deposits to fund construction costs prior to condo registration

Pre-Sale Thresholds

- In a project's pre-construction stage, the developer also needs to prove the project's financial feasibility in order to secure funds from a lender to start building
- Generally, to secure funding, a lender will typically require that 70% of the project's revenue be earned prior to the start of construction

Source: GTA Homes, FCA Insurance Brokers, Pierre Carapetian Group

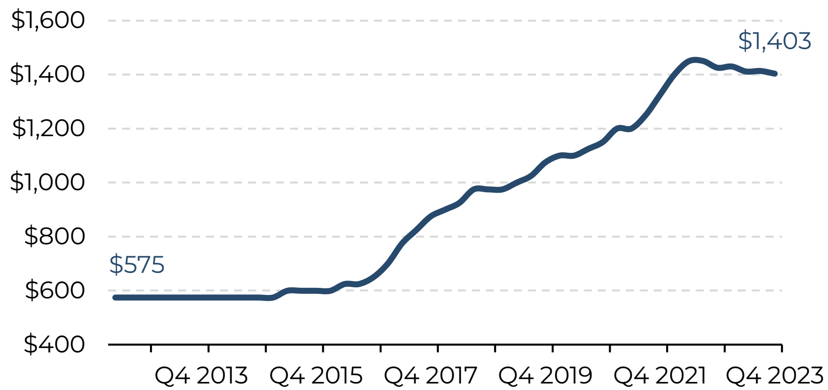
Typical Toronto Condo Development Economics



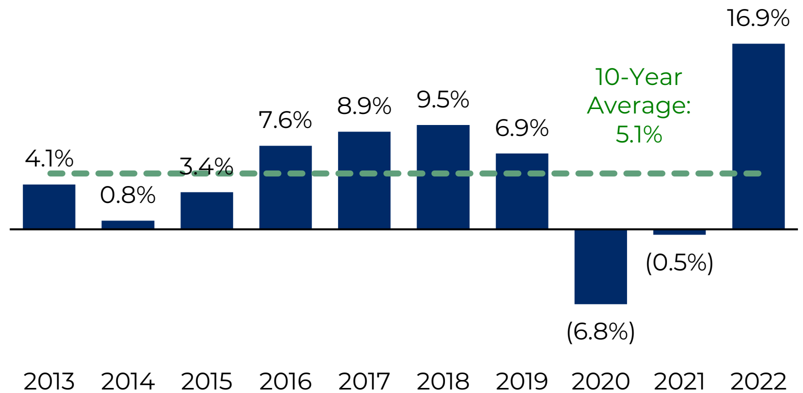
Source: Altus (March 2022)

GTA Condominium Overview

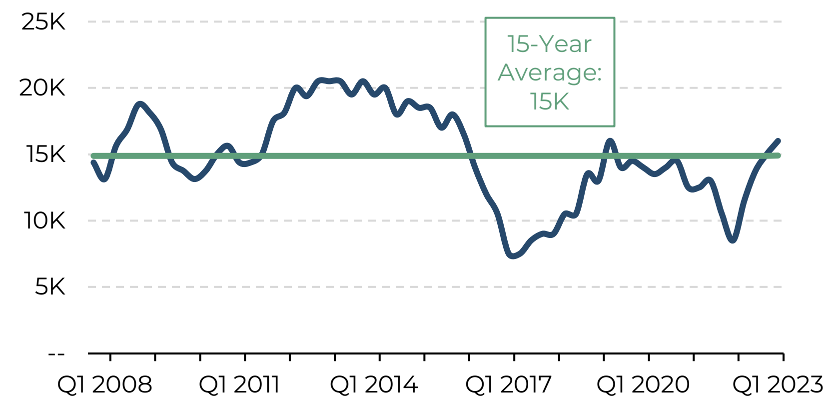
GTA - Average New Condo Price PSF



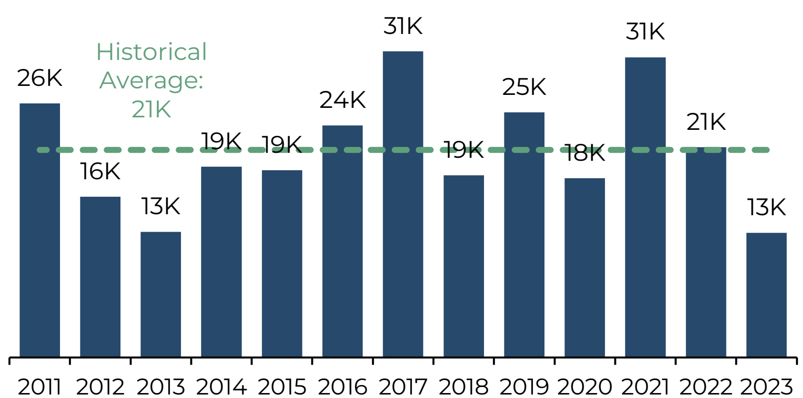
GTA - Annual Growth in Condo Rents PSF



GTA - Unsold New Condo Inventory in Units



GTA - New Condo Unit Sales

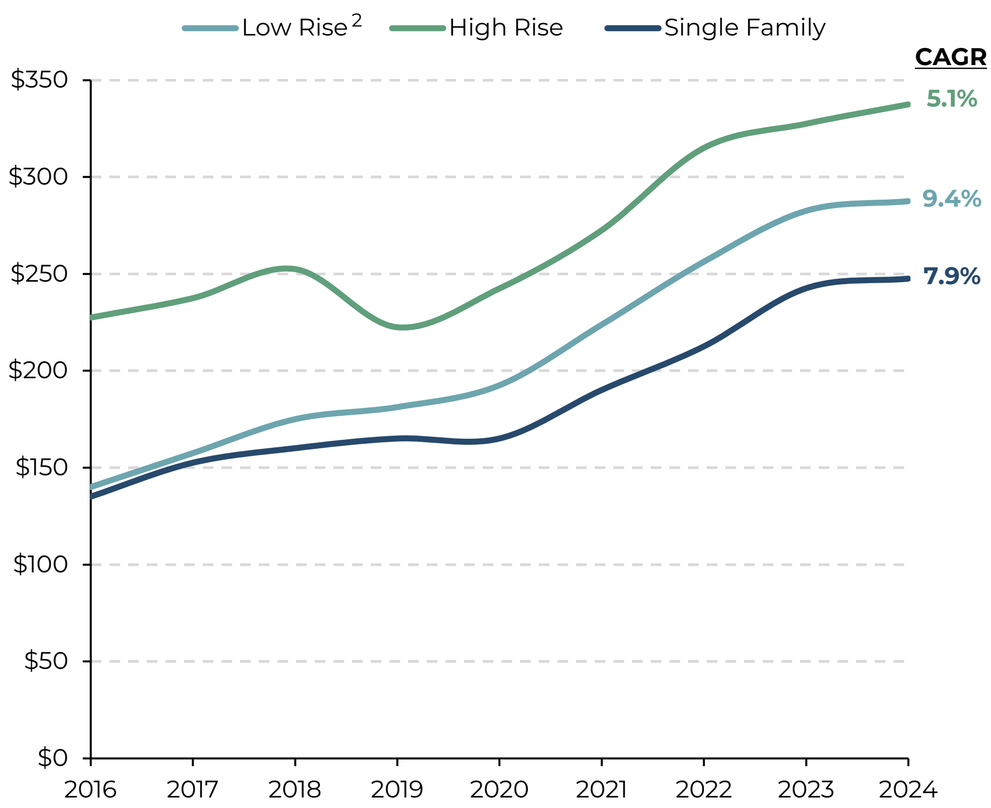


Source: Urbanation

4. Construction

Hard Cost Escalation

GTA Residential Hard Costs PSF Over Time[1]



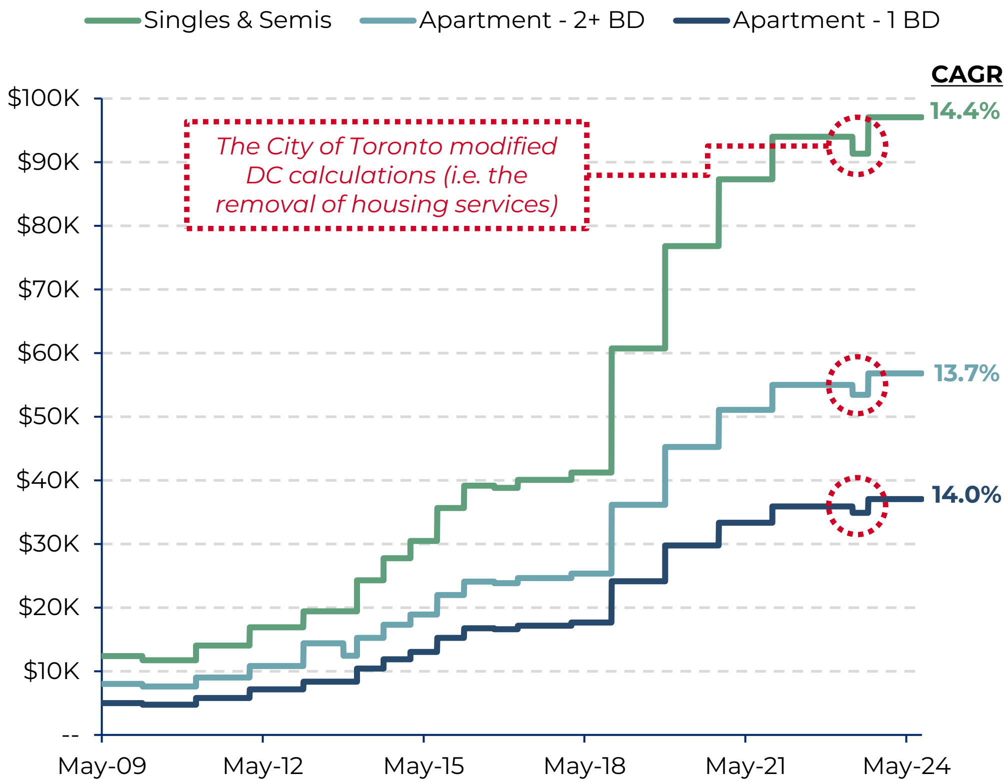
- For many years, Toronto's construction industry has demonstrated resilience which has resulted in strong annual hard cost growth; the recent COVID-19 pandemic played a role in exacerbating this trend
- Factors contributing to hard cost growth since the start of COVID-19 include:
  - Significant construction demand, from increased immigration and backlog
  - Commodity price inflation on inputs such as steel, lumber, and concrete, alongside supply chain disruptions
  - Rapidly rising interest rates
  - Labour shortages
- Ultimately, rising hard costs have been passed on to end consumers, which has worsened affordability in Toronto

Hard cost increases have ultimately been passed on to end consumers

Source: Altus Group
1. Based on the midpoint of the given ranges.
2. Based on average of the "Up to 4 Storey Wood Frame Condo" and "5 to 6 Storey Wood Framed Condo" for every year before 2024.

Development Charge Escalation

Toronto Development Charges ("DCs") Per Unit Over Time[1]



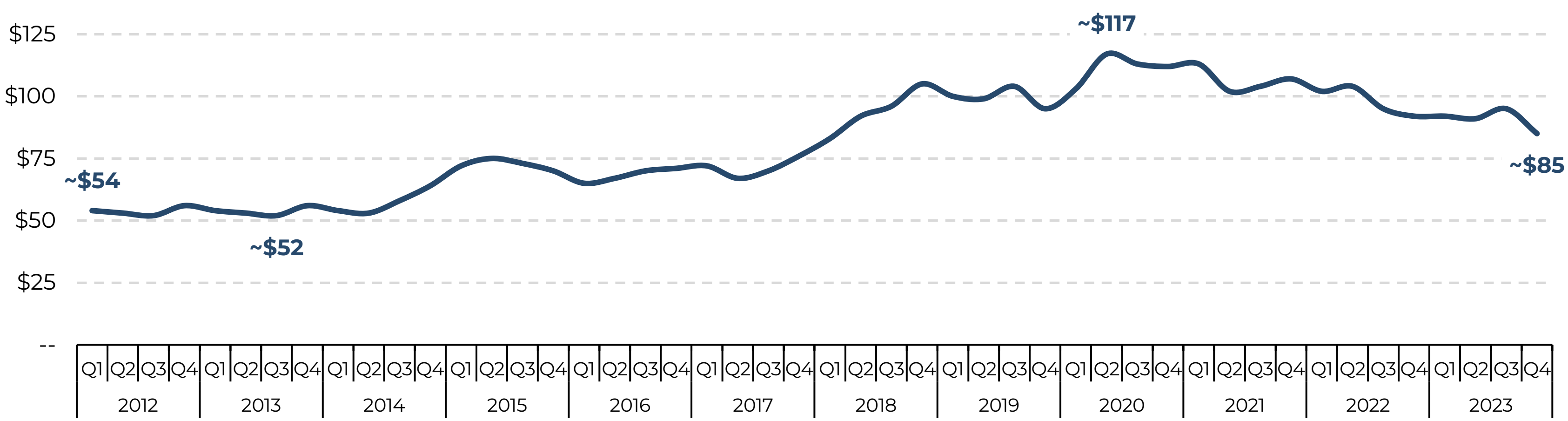
- As developers seek a target profit margin, the increased cost of DCs gets passed on to end consumers, contributing to rising home prices and unaffordability
- Due to Bill 23, some DC relief has been provided and charge rates have been bifurcated depending on whether the build is a rental or not
  - Toronto DCs are significantly higher than both comparable US and Canadian cities
- A fine balance needs to be struck between growth paying for growth and encouraging housing supply

Rising development charges hurt affordability

Source: City of Toronto, Report of the Ontario Housing Affordability Task Force
1. Based on non-rental and non-inclusionary zoning builds.

GTA Land Value Growth

High Density GTA Residential Land Transactions – PBSF[1]



- The scarcity of development land along with growing demand for housing (due to population trends) has created greater competition between developers to acquire land and deliver product; this situation has resulted in consistent land price increases historically
  - Specifically, the GTA experienced a striking ~117% increase in the transaction land values from the start of 2012 to Q2 2020 (or a ~10% CAGR), from ~$54 PBSF at the start of 2012 to ~$117 PBSF in Q2 2020
- The 27% fall in land values since the peak in Q2 2020 has been due to several factors including rising construction costs, increasing government fees, longer approval times, and higher interest rates
- Ultimately, as inflation normalizes & demand persists over time, we expect GTA land values to continue to grow

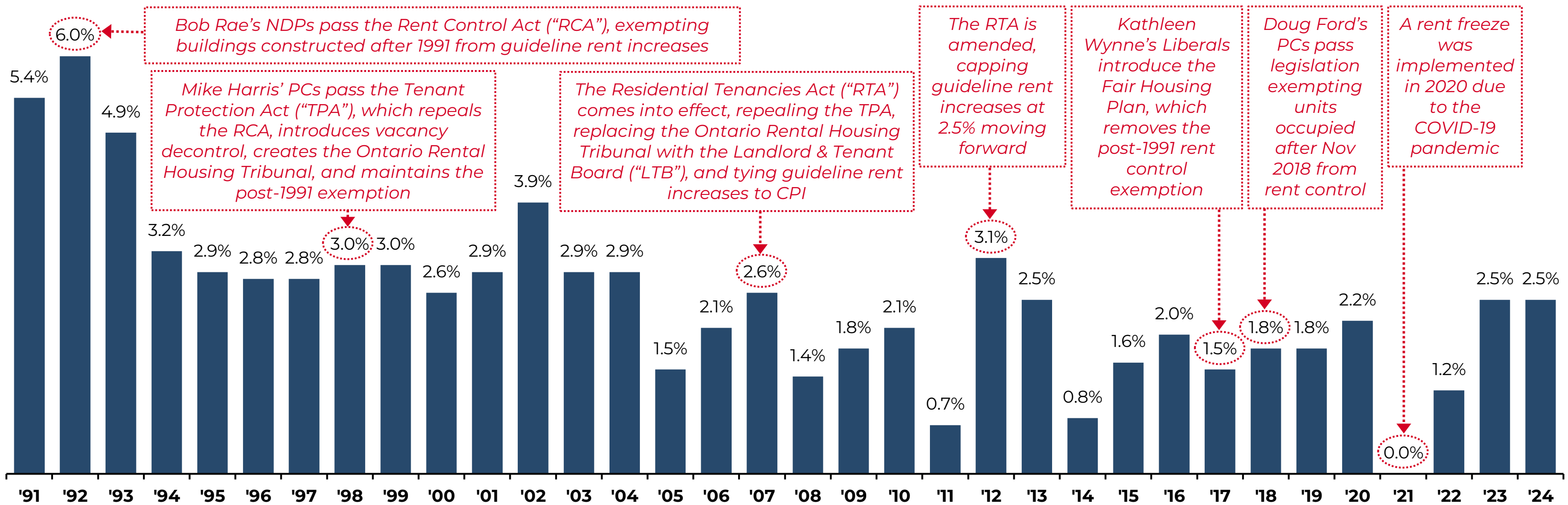
GTA land values have grown historically, and we expect this trend to continue in the long-run

Source: Altus Analytics
1. Each data point is based on the LTM average.

5. Policy Challenges & Responses

Rent Control Concerns

Ontario Guideline Rent Increases



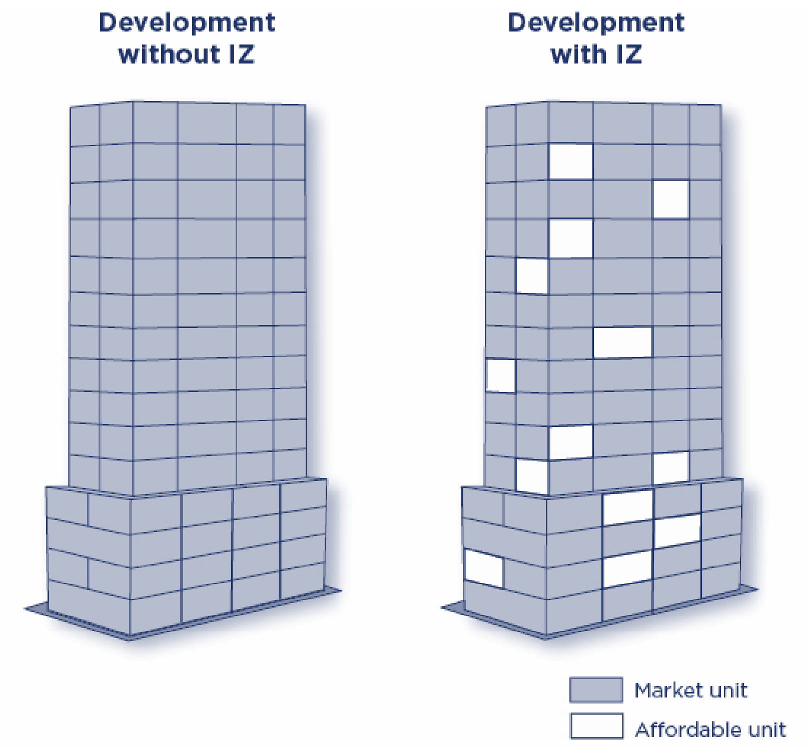
- Current rent control legislation in Ontario contains three key provisions: (1) guideline rent increases are determined by averaging CPI over a 12-month period, subject to a cap of 2.5%, (2) vacancy decontrol is in effect, which permits landlords to charge market rent for vacant units, and (3) residential buildings in Ontario that were first occupied after Nov 2018, are not subject to rent control
- There is a constant political theme in Ontario, generally espoused by the NDP that worries investors
  - Lobbying to remove vacancy decontrol, tying rent increases to units vs. tenants
  - Pledging to reverse the deregulation of rent increases for units built after Nov 2018

Threats to remove vacancy decontrol and subject new buildings to rent control concern investors

Source: Government of Ontario

Inclusionary Zoning Complications

GTA Inclusionary Zoning ("IZ") Commentary

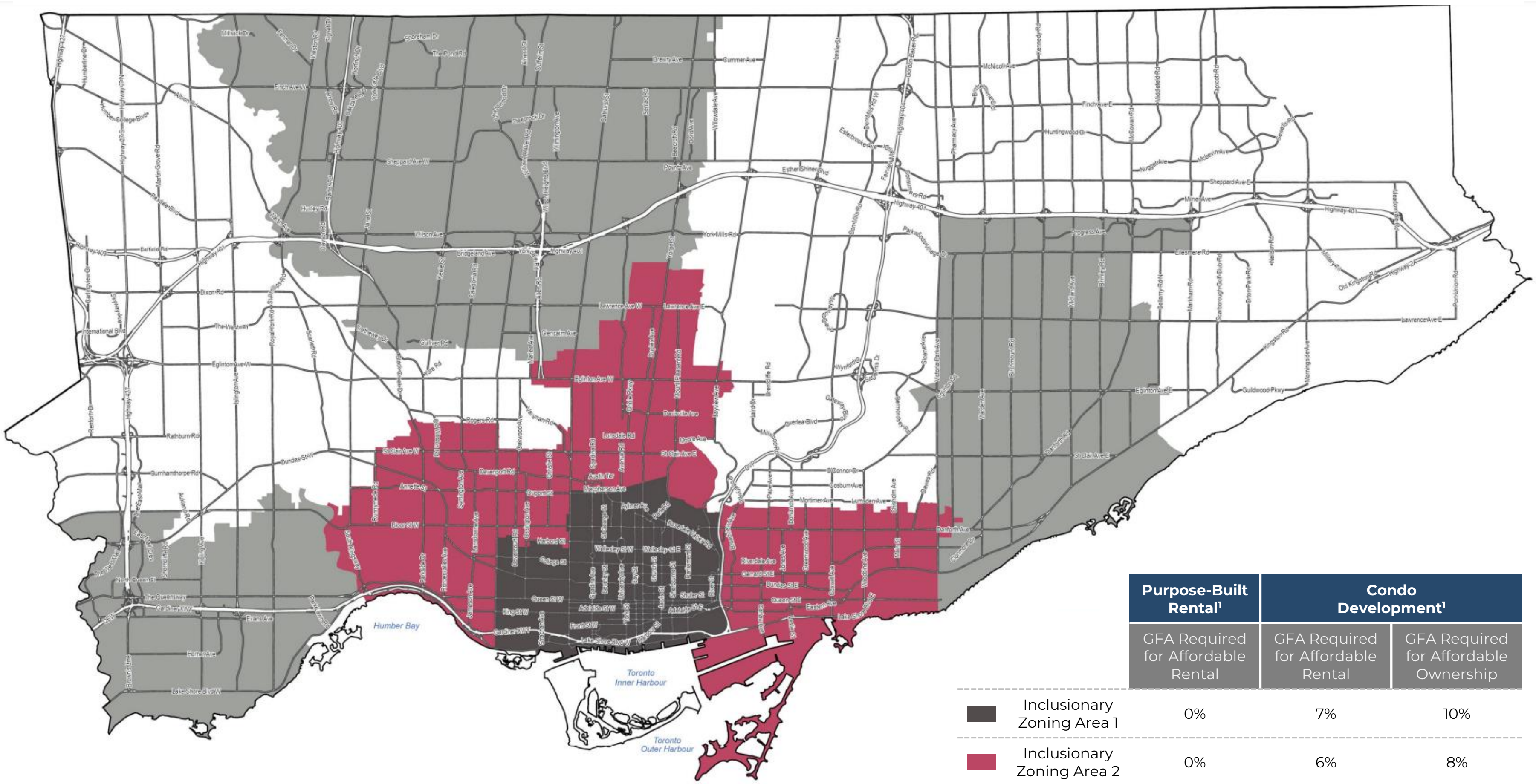


- Toronto's IZ policy states that condos constructed after 2021 will need to make 5% to 10% of new units affordable, incrementally rising to 8% to 22% by 2030[1]
  - Though not currently in force, the Housing Minister has proposed a 5% cap for IZ affordable units
- Further, IZ only applies to projects that:
  - Are situated in a "market area" within the City of Toronto (see following page)
  - Are close to a major transit station
  - Have over 100 units or ~86K SF of GFA
- IZ hurts affordability as it forces developers to raise prices on new market units in order to subsidize affordable units and meet their margin / return targets
- Additionally, IZ disincentivizes the delivery of high-density projects on transit nodes; new incentives are needed to stop the highlighted problems related to IZ

Inclusionary zoning disincentivizes high-density development, exacerbating supply shortfalls

Content Source: RENX; Image Source: City of Mississauga
1. The affordable unit % requirement will increase 1.5% / 1.0% / 0.5% annually for buildings in Market Area 1 / 2 / 3, respectively, beginning in January 2025 and ending in January 2030 (see the next slide titled "IZ Market Areas" for additional detail on the market areas).

IZ Market Areas



	Purpose-Built Rental[1]	Condo Development[1]	
	GFA Required for Affordable Rental	GFA Required for Affordable Rental	GFA Required for Affordable Ownership
Inclusionary Zoning Area 1	0%	7%	10%
Inclusionary Zoning Area 2	0%	6%	8%
Inclusionary Zoning Area 3	0%	5%	7%

Source: The City of Toronto
1. Effective from September 18, 2022 to December 31, 2024.

Rental Replacement

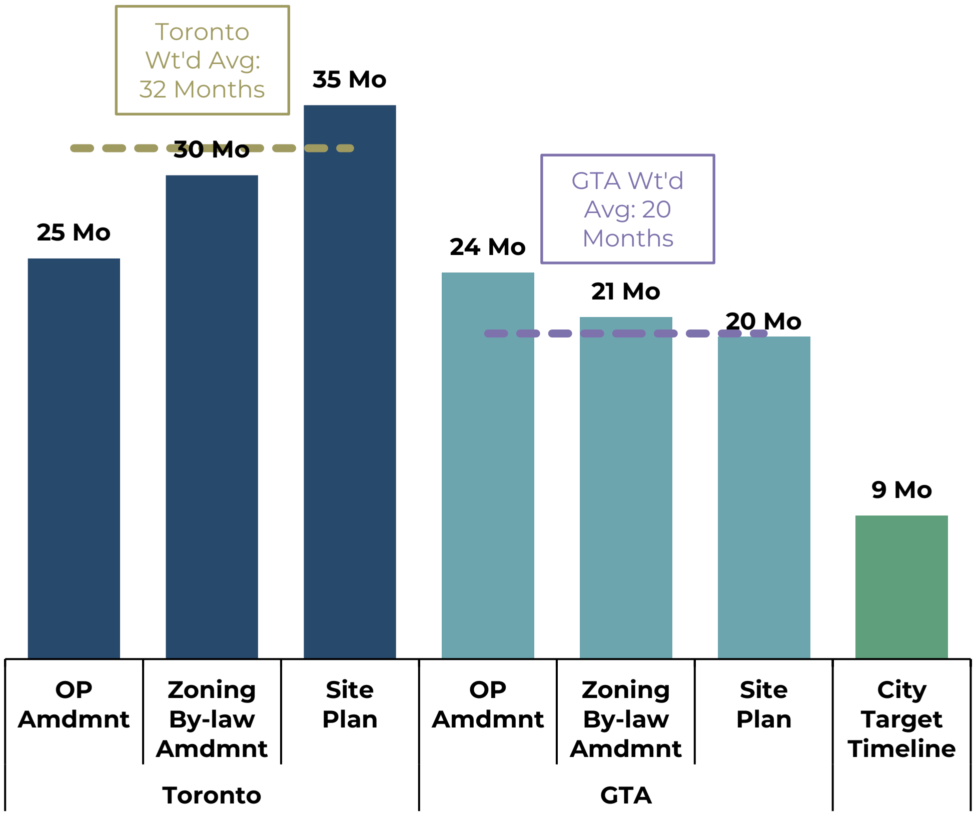
Rental Replacement Commentary

- Toronto's current bylaws require that any developer planning to demolish rental buildings with six or more units must replace the existing units with ones of comparable size and price, and offer those to existing tenants, alongside alternative housing for relocation and associated compensation, if needed
- Though the replacement requirement increases the city's affordable rental stock, it effectively serves as a tax on developers because it raises the bar for density required to make a project economically feasible
  - We estimate that ~4x to ~7x more density (on an FSI[1] basis) is needed before developer hurdles are met to justify tearing down an existing building with rental replacement requirements
- Rental replacement disincentivizes the redevelopment of many properties that were developed in a lower density context than would be considered appropriate land use in the modern era
- The Ford government has taken actions to limit Toronto's rental replacement practices:
  - Newly introduced Bill 97, the *"Helping Homebuyers, Protecting Tenants Act",* builds upon previously enacted measures in Bill 23 and provides the Minister of Municipal Affairs & Housing with the ability to limit the City's enforcement of rent replacement laws
  - It enables the Minister to define key terms pertaining to rental replacement and allows for exemptions to be granted, paving the way for major changes to the city's rental replacement practices
  - Further, changes could be enacted relating to tenant compensation, unit sizes, replacement unit rents, and the provision of cash vs. units

Source: Government of Canada, Toronto Star, Aird & Berlis LLP
1. "FSI" stands for the "Floor Space Index".

Bottlenecks in the Approval Process

Average Toronto Approval Timelines by Planning Application Type[1]



- Toronto's slow development approval process is a key factor contributing to the city's low number of housing starts
  - Specifically, the average application in Toronto takes ~32 months to process vs. the city's target timeline of 9 months (and the GTA average of ~20 months)
- Canada's approval process was ranked as the 2nd slowest of the 35 OECD countries
  - In a 2022 survey of 20 prominent Canadian municipalities, Toronto ranked last for development approval time
  - Toronto is the slowest city in one of the slowest countries at processing development approvals
- Drivers of the municipal government's sluggishness include:

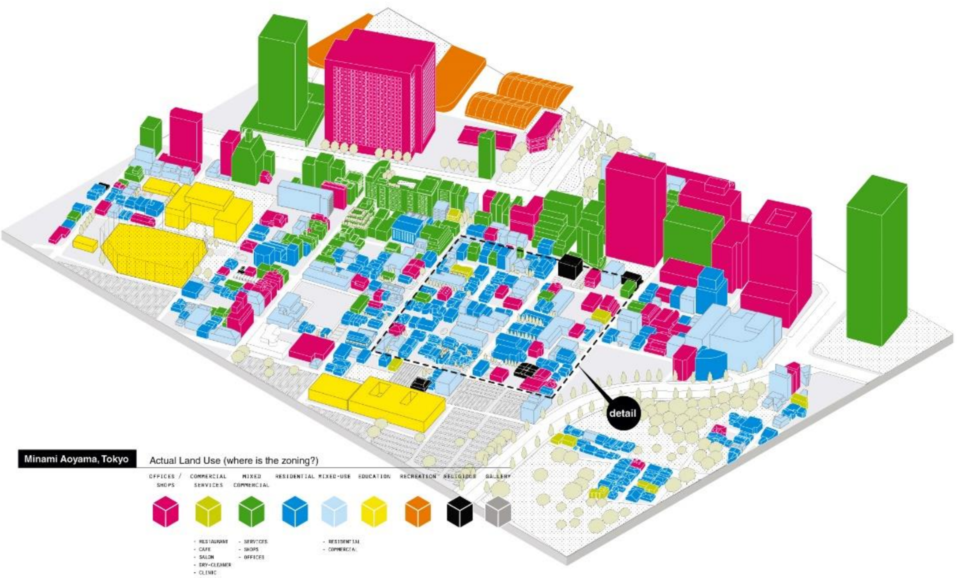
1) Staffing / funding shortage
2) Red tape from public agencies
3) Councilor interference & negotiation

Toronto's slow approval process is a significant bottleneck in creating new supply

Source: Altus Group's Municipal Benchmarking Study, Report of the Ontario Housing Affordability Task Force
1. The approval timelines are measured from the date the city acknowledges that an application is "complete" to when a development approval is provided.

Federal Policy vs. Implementation - Japan Case Study

Japan’s Federal Housing Policy



- Japan’s federal government has much more control over land use and building policies than Canada’s government, leading to seamless centralized policies and no NIMBYism[1]
- Japan’s focus on zoning deregulation, with fewer restrictions on heights / density, gives developers the flexibility to build various typologies and ultimately support a growing housing stock
- By increasing the housing supply at a pace that matches demand, Japan has further ensured rental prices are stable without the usage of rent control
  - For reference, consider the fact that average rents in Tokyo for a two-bedroom apartment have been under US$1,000 for years – significantly less rent than that of an equivalent unit in Toronto or Vancouver

Japan has embraced a centralized approach to its housing policy, supporting supply growth

Source: Sightline, The Spec

1. The term “NIMBYism” comes from “NIMBY”, meaning “not in my backyard”. This phrase is a characterization of opposition by residents to proposed developments in their local area.

The “Missing Middle” - What is it & Why Does it Matter

- The “missing middle” refers to a range of housing types between single-family homes and high-rise buildings
- Historically, much of Toronto was subject to exclusionary zoning (i.e. the Yellowbelt) and many “missing middle” typologies were restricted; this created a shortage of mid-density housing in Toronto, which significantly impacted housing affordability across the city
- Bill 23 aims to mitigate this problem with the introduction of “gentle density” zoning
- While Bill 23 puts us on the right track, Toronto must actually construct the “missing middle” - this will further increase intensification while maintaining the city’s “character”, limiting NIMBYism

Toronto’s “missing middle” housing shortage is contributing to the city’s lack of intensification

Source: Smart Density, Evergreen, Ministry of Municipal Affairs, Scotiabank Economics, Statistics Canada

The “Missing Middle” - Global Examples

Paris Case Study

- Paris has focused on the construction of mid-density housing since the 17^{th} century when multi-family flats were the dominant form of housing (i.e. the creation of Grand Boulevards)[1]
  - Years of mid-density construction has resulted in many Parisian neighborhoods lined with low-to-mid-rise apartments
- Paris is a far denser city than Toronto (from both a FSI and population perspective)[2], but, partially due to the functional diversity of mid-density construction, the city is considered to be one of the world’s most livable cities[3]

Berlin Case Study

- Germany is not only one of the most active homebuilders in Europe, but most of its construction / stock is dedicated to missing middle housing
  - German cities’ supply of mid-density housing is supported by no exclusive single-family house zoning
- Berlin is city that has a similar density to that of Toronto, but has a housing mix that it much more diversified; furthermore, it is also considered to be one of the world’s most livable cities[3]

Paris & Berlin are perfect examples of world-class cities that have embraced mid-density housing

1. Source: University of Waterloo Faculty of Environment
2. Toronto has a density of 4,457 people per km^2, Paris’ is 21,067 people per km^2 (Source: Fraser Institute), and Berlin’s is 4,112 people per km^2.
3. Source: Economist Intelligence Unit

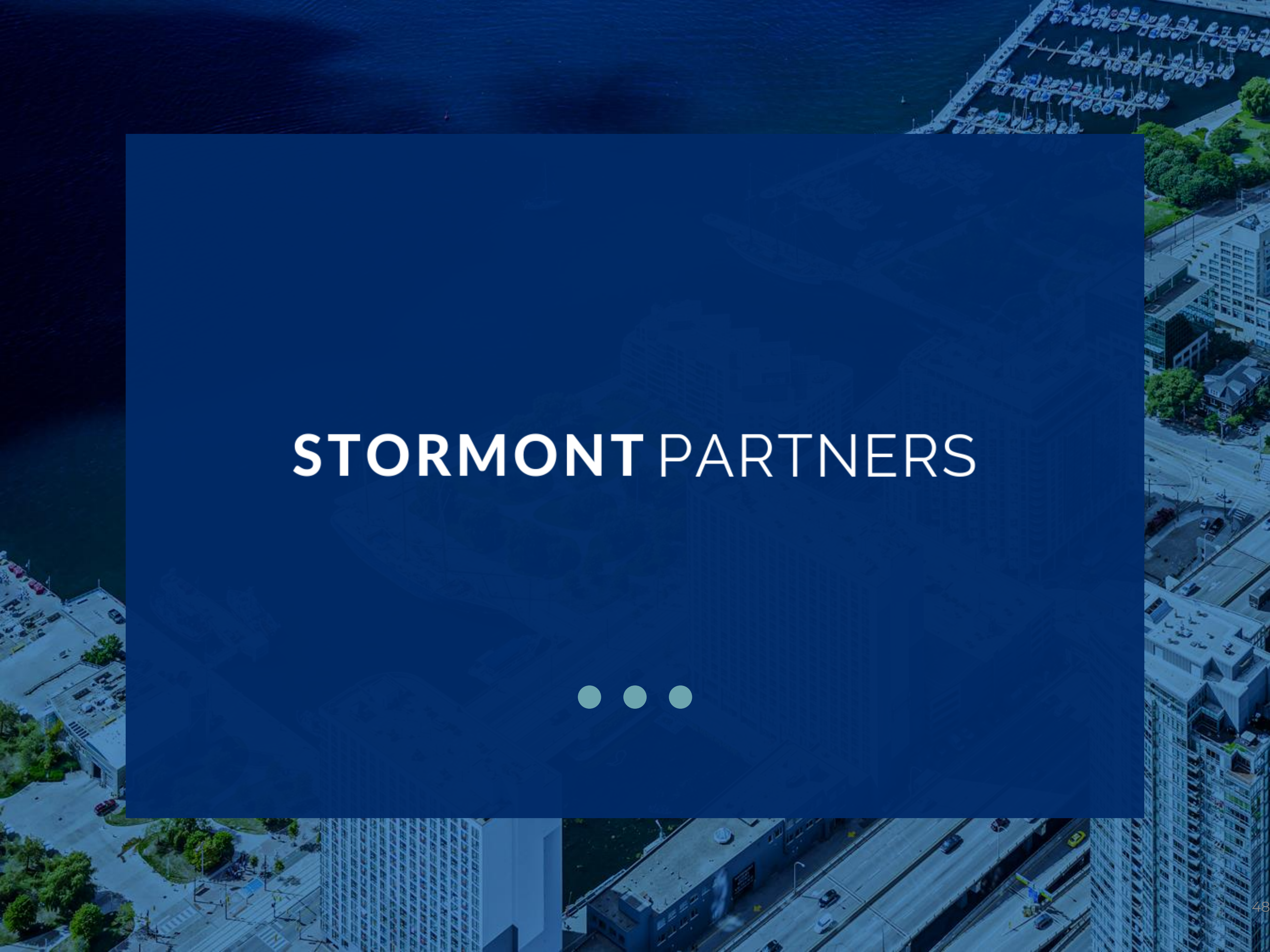
Bill 23 Overview - Ontario’s Response

Bill Background & Context	▪ In late 2022, Doug Ford’s provincial government introduced Bill 23, a key piece of legislation to support the goal of building 1.5M homes in Ontario over the next decade ▪ Below, we highlight only some key changes pertaining to planning & development
Promoting “Gentle Density” Housing	▪ The Bill overrides existing zoning by-laws to allow up to three residential units per lot “as-of-right” (i.e. without the requirement of additional zoning approvals) ▪ The units can be within the existing structure, a basement suite, or a garden home
Exemptions for Affordable Housing	▪ Bill 23 specifies that new affordable, non-profit, or inclusionary zoning units will be exempt from DCs, parkland dedication fees, and community benefit charges ▪ Defines affordable rental rates and prices as being less than 80% of market
Reducing Development Charges for Rentals	▪ Bill 23 also amends the Development Charges Act to incentivize rental development ▪ Specifically, the amendment provides the following DC reductions on new purpose-built rental units: 15% / 20% / 25% for 1 BD & Bach / 2 BD / 3+ BD units, respectively
Changing the Method of Determining DCs	▪ Bill 23 also specifies that charges under existing and future DC by-laws will be reduced by 20% during Year 1 the by-law is in force, 15% in Year 2, 10% in Year 3, and 5% in Year 4 ▪ Further, housing services will be removed from capital cost list used to calculate DCs
Limiting Conservation Authority Oversight	▪ Under Bill 23, conservation authorities’ ability to comment on development applications is limited to matters within their purview, including natural hazards and flooding ▪ Also proposes replacing the 36 conservation regulations with one overriding regulation

6. The Way Forward

No Easy Solution

- Solving the affordability crisis that Toronto is experiencing has no easy solution and it's a Canada-wide problem
- Canada needed to address its supply / demand imbalance aggressively, on all fronts, at least 15 years ago in order to create an affordable market environment; while the imbalance makes investment in the short-to-medium-term an attractive proposition, in the long-run, it will lead to problems related to labour supply, job growth in major markets, and the attractiveness of Canada as a destination for immigrants
- Housing takes a long time to produce, so it is clear that the housing crisis is here for at least a decade
- Municipal approval processes and infrastructure creation needs to happen at a faster rate in order to support a large-scale increase in supply, which is a significant challenge that will not be readily or evenly met in all markets
- Capacity of Canada's construction industry, which is already challenged at the current rate of production, will be increasingly tested as waves of retiring skilled workers exit the economy, with too few people replacing them
- Lastly, the balance sheet of the housing economy in Canada is already stretched to meet the current supply pipeline – there is not enough debt nor equity to fund a rapid increase in supply, even if approvals, infrastructure delivery, and construction services were up to the task
- Canada's housing-related financial capacity needs to be augmented in a massive way to solve the housing shortage that we are experiencing
- Tax relief on many levels is key
- A change in the narrative around foreign investment is also critical – we have an increasing share of the world's population, and we need more of the world's money to go with it



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