

Montreal QB: *Inclusionary Housing Strategy*

Background

This strategy – called a ‘strategy for inclusion of affordable housing in new residential projects’ – was adopted by the city in August 2005.

This strategy applies in the city of Montreal, the largest jurisdiction in the Montreal metropolitan area. Since the de-merger in 2006, the city contains a population of 1.6 million in its 19 constituent boroughs. The wider metropolitan area contains a total of 3.6 mil and 82 local governments.

The strategy is designed to operate within this two-tier government framework. The city government has jurisdiction over most city-wide functions, including social housing funding and development, but it must work through the boroughs, which have control of local planning and development approval.

The goal of the strategy is to provide housing for a mix of different income brackets in all new large housing developments. This is to be achieved particularly by facilitating the development of social housing, and stimulating the production of affordable housing for first-time homeowners.

The formulation of the strategy started in 2003, and engaged wide spectrum of stakeholders active in housing. It was a response to a number of pressures: the rising house prices in the city together with the growing demand for affordable housing, the depleting supply of city-owned land for affordable housing, and the uncertain future availability of social housing funding. These prompted a search for ways of involving private sector in providing affordable housing, and of securing sites for social housing on privately-owned lands.

A 2002 report by Professor Dansereau was also instrumental in identifying the social, economic and environmental benefits of encouraging ‘mixite social’ (social and economic diversity). This report was important in establishing wide public and political support for this concept, and then by extension, for the inclusionary housing strategy.

The mayor of Montreal was a key supporter of the strategy. He called for working towards ‘une ville inclusiv’ as a way for providing a better quality of life for all Montrealers.

The city’s 2004 Master Plan established an important benchmark. It contained the city’s formal commitment to making 30% of all new units affordable, half in social housing and half by the private sector through government incentives.

Provisions

The strategy establishes a guideline that all new large residential developments provide a minimum of 30% of the new units as affordable housing. This guideline is further broken down into two parts:

- 15% in social housing; and
- 15% in affordable rental or affordable ownership.

This inclusionary set-aside is framed as a guideline rather than a requirement because its implementation is dependent on the boroughs. Therefore, the strategy recognizes it could vary in response to the local conditions.

The strategy applies to developments of 200 and more units. Research found that developments of this size were capable of viably accommodating a mix of housing. More particularly, given the 15% target, it provides for 30 units of social housing, which was considered to be generally the smallest desirable project for this type of housing.

The obligation to provide affordable housing is imposed specifically in large developments that require one of the following:

- major changes to the approved master plan or zoning provisions, such as a change of use to residential, or an increase in the permitted density or height; or
- public investment in basic infrastructure or environmental improvements.

The strategy affects lands owned, not only private owners, but also local governments and public agencies. The public owners are expected to participate even when their lands do not need additional approvals or public investment, and furthermore, they are expected to provide affordable housing in excess of the guideline.

The affordable housing obligation can be met through new construction, or renovation of existing non-residential structures.

Target

The affordable housing provided under the strategy is intended for households earning less than 120% of the regional median income. This income threshold is used primarily for determining the top price or rent of the affordable ownership and affordable rental units. The income threshold is not used to control the income eligibility of the households buying or renting these units.

The strategy is also portrayed as serving these two particular income groups:

- households with low incomes (generally those earning below \$35,000 per year) that have difficulty in finding apartments in the city with affordable rents; and
- households with moderate incomes (earning roughly \$35,000 to \$50,000) that aspire to become homeowners but cannot find homes in the city with affordable prices.

Authority

The existing legislated powers in the province do not allow the city to require all residential development to include affordable housing as in a full mandatory program.

This was a major issue during the consultative process for the strategy. Housing advocates pushed for the stronger mandatory approach, but the city foresaw that there would be major delays and difficulties in obtaining the necessary changes to the city's charter and the provincial legislation.

So, the city opted for a more limited approach that will still be effective, but could be implemented more quickly within its current powers and resources. The city also committed to monitor the effectiveness of the strategy, and then depending on the results, to revisit its decision about pursuing mandatory powers.

This strategy is described by city officials and documents as voluntary, but this is true only in a very narrow sense. The strategy is voluntary only because the city cannot impose it directly, but rather must work through the development control powers of the individual boroughs. When the boroughs are on side, their ability to deny development approval makes the affordable housing obligation effectively mandatory for the selected developments to which it applies.

Participants

The success of this strategy depends very much on the participation and co-operation of many players. These include the elected officials and staff in the city's individual boroughs, SHDM, the public agencies and government bodies, the private and non-profit developers as well as the technical resource groups.

The boroughs have multiple important roles. In the first place, they are called upon to implement the guidelines by establishing their own specific targets based their needs and potential, and then to impose these targets in the local planning and development approval process. They are also expected to identify and provide regulatory concessions in support of the affordable housing, and to ensure that affordable housing is included whenever large municipally-owned sites are sold for housing development.

SHDM (Société d'habitation et de développement de Montréal) is a non-profit organization that manages, develops and supports affordable housing for the city. It is described as "a privileged partner" of the city in implementing its policies, and often serves as an intermediary in projects involving the city and the public and private sectors. It also is now responsible for managing the provincial funding programs within the city, and as such provides the funding all social housing developments.

Its own development activities are focused on housing for households not eligible for social housing but also not able to afford market housing. In that capacity, it builds and provides privately-owned affordable as well as community-owned rental housing. Through its program *Accès Condos*, it provides financial assistance for affordable ownership housing.

A key role is played by the technical resource groups. These are independent non-profit organizations that over the years have developed considerable expertise in managing the development of non-profit housing projects. In the strategy, they work as agents for the municipal governments in planning of these projects, integrating the various pieces, and integrating all of the private, non-profit and public interests.

Assistance

The strategy relies on subsidies, incentives and other assistance from various government sources. There is no consistent formula; these all vary somewhat in each development according to what is available and suitable.

Development Assistance

Funding has been available through various provincial programs through SHQ. The cost of these programs is shared by the federal, provincial and city governments.

The development of social and co-operative housing (logements sociaux et communautaire) is funded by two programs – *Accès Logis* and *Affordable Housing Quebec - social*.

The development of affordable rental and ownership housing (logements privés subventionnés) is funded by *Affordable Housing Quebec - privé* and *Programme Rénovation Québec* (PRQ). The latter is used by non-profit entities to renovate existing non-residential buildings and convert them to residential.

Other Incentives & Supports

The city and individual boroughs are expected to assist by selling their lands at below-market value to the non-profit developers.

The boroughs also are called upon to use their regulatory and planning tools to support affordable housing. These can include offering regulatory concessions, promoting or allowing lower-cost types of units, and using cost-saving standards or other measures. One borough offers a fast-tracked approval process.

The city also pays for infrastructure improvement costs and decontamination costs where necessary.

The developers are expected to provide land for the social housing at a reduced price. In the case of the affordable ownership units that they construct, they are able to build units of smaller size and lower amenity as a way of cutting costs.

Homebuyer Assistance

Financial assistance for homebuyers is available from two separate programs. The homebuyers, when eligible, are able to make use of both of these programs:

- Under its *Home Ownership Program* started in late 2003, the city provides a grant for first-time buyers to purchase a new home in the city. First-time buyers are defined as buyers that have not owned a home in the last five years.

The grants are provided at two levels:

- For households without children, \$6,500 is available for a house costing up to \$180,000.
- For households with at least one child less than 18, \$10,500 up to \$235,000.

The program is intended to help moderate-income households earning up to 120% of regional median income, but there are no income limits placed on the

purchasers. The only control is that the buyers must repay the assistance if they do not occupy the property as their principal residence for the first three years.

The funding is jointly provided by SHQ and the city under the cost-shared PRQ.

- Under *Accés Condos*, SHDM offers downpayment assistance equivalent to 10% of the purchase price for buyers of its condo units.

This assistance is protected by a mortgage deed held by SHDM and registered on title of the property. The assistance must be repaid only when the unit is sold or rented. It also can be voluntarily repaid at any time. In both cases, the initial assistance must be fully refunded, and an additional amount determined by the increase in the property value over the corresponding time.

Achievements

A partial snapshot of the results of the strategy can be obtained from information available at two different times.

Development Picture in mid-2007

As of September 2007, there were 10 approved developments with construction starting or anticipated in 2006-2008. A breakdown of the housing output was available for 8 of these developments.

The sites ranged in size from 250 to 1650 units in size. They accommodated (or will accommodate) more than 5150 units, including 1253 (24%) as social housing and 1874 (36%) as affordable ownership units.

As a measure of the scale of this activity, the total units in these developments represented more than 26% of the total completions in the city for 2006-2008, and the social and affordable units alone nearly 16%.

Out of these, 6 sites were privately owned, 3 by the city and 1 combined lands from both. There were no sites from public agencies.

All the developments contain social housing, and all but one (a privately-owned site) affordable ownership housing.

SHDM was involved as a developer in 4 of the 10, and a technical resource group as a project co-ordinator in 8.

Three of these developments are in the borough of Sud-Quest, and another three in Mercier-Hochelaga-Maisonneuve. Sud-Quest is known for taking a particularly rigorous approach in applying the strategy, due in large part to pressure from local housing groups.

At this time, there were in the pipeline another 15 large developments subject to the strategy. These could contain a total of about 26,500 units.

Development Picture in late 2009

As of the end of 2009, the record for the developments under the strategy is as follows:

- 21 inclusionary developments conforming to the strategy have been approved. (Out of these, two were smaller than 200 units, but still provided affordable housing.)
- 17 inclusionary developments are in the approval process.
- 16 other housing developments have been approved or in the approval process that have or will not provide inclusionary housing. These fall into these categories:
 - developments not triggering the affordable housing obligation because they did not require a major change to the master plan or zoning;
 - developments providing housing for seniors or students; and
 - developments providing furnished hotel suites.

Approximately 2/3s of these developments have needed a major change to the permitted planning or zoning provisions.

The guidelines are being met in nearly all of these developments. On the lands provided by the city and public agencies, the guidelines typically are being substantially exceeded. On some of the more peripheral sites, the social housing component might be lowered.

Two downtown sites will be giving cash-in-lieu of affordable housing. This is a relatively new option that has not been entirely formalized. It is a consequence of the high land values on these sites, as well the unresolved difficulty of providing social housing in projects consisting of a single tower.

All of the developments contain a social housing component. There has been funding to support the social housing, and furthermore, to build the housing in a timely way along with the market housing. This has been made possible by the fairly predictable funding, and the city's ability to adjust the funding allocations in response to emerging circumstances.

In addition to the market housing, the developments typically also include affordable ownership housing in of two types:

- 1) subsidized (logements privés subventionnés) built either by SHDM through LAQ -prive funding or by a non-profit entity through PRQ funding; and
- 2) non-subsidized (logements privés non subventionnes) built by the private developers or a sponsored non-profit without any government funding.

While the developers have built some of the non-subsidized affordable units, most are being built by a local non-profit entity using land or buildings provided at a below-market cost by the developers. Often these units are also made more affordable by reducing their size and amenities.

These two types of affordable ownership housing are distinguished principally by how they are produced, and not by their price. In both cases, they are expected to set a selling price targeting households earning 120% or under the median income.

The financial assistance provided to the homebuyers does not figure into this distinction. The city assistance can be used in types of affordable ownership housing, while the SDHM assistance can be used only in their buildings.

Although there are no controls protecting the on-going price of the affordable ownership units, the city's monitoring to date has found that the resale prices have not been significantly out of line with those for other units, and there has been no apparent evidence of flipping the units.

Although it is included as one of the potential options, the strategy so far has not generated any rental housing outside of the social housing. The prevailing rents in the city still remain too low, despite the recent increases, for new rental construction to be built at a viable rent.

Challenges

The strategy continues to develop and evolve. The city is looking at how to address these issues:

- securing the buy-in by all boroughs and government bodies;
- stimulating the provision of affordable housing suitable for families – or, more specifically, units containing at least 3 bedrooms;
- providing social housing in high-rise condo towers where a separate site is not possible; and
- controlling the resale of the affordable ownership units, and protecting their long-term affordability.

Observations

Montreal's strategy clearly has been successful in meeting its own goals. The number of units, and particularly their percentage of the total housing production on these sites, is impressive.

Strategy as a model

The strategy represents an instructive model for other Canadian big cities. It shows what can be done to effectively support inclusionary housing in the absence of the authority to impose mandatory provisions on all residential developments.

The strategy can be seen, not as implementing an entirely new approach, but rather as harnessing the city's available powers, tools, incentives, and other resources in a more co-ordinated and focused way to provide affordable housing, and specifically within integrated mixed-income developments.

Among the significant, and transferable, features of this strategy are these:

- Using the leverage provided by development approval process to ensure that major projects needing special approvals support the provision of affordable housing;
- Applying the affordable housing obligation on developments of a size capable of accommodating a mix of housing, and particularly a site for a viable social housing.

- Applying the affordable housing obligation to lands owned, not only privately, but also to lands owned by governments and public agencies whenever released for residential development;
- Administering the available funding in a way that ensures that the social housing is built at the same time as the market housing in an integrated mixed-income project; and
- Including affordable ownership housing in the mix of housing provided on every site.

It is notable that this strategy, unlike most Canadian programs, is not fixated on providing solely social or rental housing. In this strategy, affordable ownership is recognized as a legitimate and needed form of affordable housing that merits government support.

The success of the strategy benefits from conditions that might not be found everywhere, including the following:

- the continuing and somewhat predictable funding for social housing as well as affordable ownership;
- the established and sophisticated support infrastructure provided by the technical resource groups; and
- the firm and wide support, starting with the mayor and extending to the public, for pursuing the concept of 'social mixite'.

Comparison with inclusionary zoning

The strategy is not an inclusionary zoning program as practised in the US. Although both are directed at providing mixed-income developments, the two have fundamentally different objectives, and use different approaches in reaching those objectives.

The two approaches are not incompatible. Montreal's strategy could be comfortably nested within an inclusionary zoning program, and this would considerably enhance the productivity of the strategy.

There are these notable differences between Montreal's strategy and typical inclusionary zoning programs:

- 1) The strategy is applied principally to developments of 200 or more units that require additional development approval for changes to the permitted use, density, height or other controls.

Inclusionary zoning programs typically affect a much wider range of developments, including those proceeding as-of-right and without needing special approvals. While some do exclude small developments, the cut-off is typically at 10 to 50 units.

- 2) The strategy principally leverages private developers provide development sites at a reduced cost for affordable housing. The construction of that housing is then dependent upon government funding.

Inclusionary zoning leverages the private developers to build and provide the affordable housing at a reduced price. The programs do not rely upon government funding for the construction that housing.

- 3) The strategy produces “low-end-of-market” affordable ownership housing – that is, housing that is marginally more affordable, but still within capability of the developers to produce, through some reduction in the attributed land price and in the size and amenities of the units.

Inclusionary zoning produces “below-market” affordable ownership housing – that is, housing substantially below the price for the same market housing.

- 4) The strategy produces affordable housing on sites separate from the market units.

Inclusionary zoning typically produces affordable housing that is inter-mixed within the market units

- 5) The strategy does not control the affordability of the affordable ownership units. This has not been necessary because the price reduction and financial assistance have been relatively marginal.

Inclusionary zoning protects the affordability of the units by controlling the resale price and purchaser’s eligibility. This is made necessary by the substantial price reduction achieved by these programs.

It could be argued that the strategy is more effective in one important way: unlike inclusionary zoning, it supports the provision of social housing serving those with low incomes. While it is true that most inclusionary zoning programs do not incorporate social housing, the mechanism is capable of doing so. There is one example that does very nearly what Montreal does. That program in Davis CA requires developments of more than 75 units to set-aside a site at no cost for the development of social or special needs housing.

It is notable that neither the strategy nor inclusionary zoning has been capable of stimulating the provision of affordable rental housing in markets where there is no private developer interest in providing it.