



# Affordable Housing in Hamilton's B-Line Corridor

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To Whom It May Concern:

This report, entitled "Affordable Housing in Hamilton's B-Line Corridor", was prepared as co-op work term report for the City of Hamilton. I was employed as an Assistant Transportation Planner in Hamilton's Rapid Transit section. The rapid transit team is working closely with Nodes & Corridors Planning staff, which allows for the joint development of transportation and land use planning as the B-Line rapid transit project moves forward. The purpose of this report is to explore the tools that may be most useful for preserving affordability in the housing market around a new rapid transit line.

**This report represents my sole opinion. It does not reflect the views of the City of Hamilton, nor should it be interpreted as a staff recommendation.**

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- Paul Johnson and Vimal Sarin, for their valuable insight into Hamilton's current affordable housing market.

Should you wish to contact me with any questions or comments regarding this report, please send an email to [skinabi@uwaterloo.ca](mailto:skinabi@uwaterloo.ca).

Sincerely,

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# Summary

The purpose of this report is to identify tools that may be useful for preserving the affordability of housing amid rising land value in Hamilton's B-Line corridor. The B-Line is identified as a primary corridor in Hamilton's Official Plan, meaning that it is a preferred location for increased density, population growth, and increased transit service.

Hamilton is currently planning for rapid transit in the B-Line, which will bring many social benefits to the residents that live in the immediate influence area. However, the proximity to rapid transit is very likely to raise rents and property taxes, potentially displacing low- and moderate-income households. Hamilton is in need of policy tools to preserve the current affordable housing stock and ensure that new development provides affordable options.

This report examines housing affordability from a land-use planning perspective at the local level. The current policy environment, demographic statistics, and housing market data are analyzed to determine which strategies might be most useful for the different sections of the corridor.

Case studies of other North American cities are discussed, so as to judge their applicability for Hamilton.

Due to Hamilton's current "cold" investment climate, it is recommended to pursue development incentives such as tax abatements, unbundling of parking, and an

acquisition fund to encourage development, especially the redevelopment of surface parking lots in the Downtown.

As the market heats up, Hamilton will be in a position to use more aggressive methods to ensure affordable housing such as inclusionary zoning and tax increment financing. These tools must be in place as early as possible, to ensure that Hamilton is well-equipped to preserve affordability when investment in the B-Line begins to accelerate.



# 1 Introduction

This report is based on the following premise: it is important that affordable housing be served by rapid transit to provide reliable access to jobs, services and amenities. The demographic groups that most need affordable housing (e.g. New Canadians, low-income households, and fixed-income seniors) are also those that will benefit the most from rapid transit.

Often, the announcement of a new rapid transit line, especially if it is the first rapid transit line in a city, causes rents and property taxes to increase due to a speculative rise in land value. Such an increase in housing costs may prevent low and moderate households from staying in their homes. Also, it may make the construction of new affordable housing less likely. (Thorne-Lyman et al., 2008)

There are many ways to approach the affordability problem that rapid transit can create. One way is on the demand side: by providing income supplements, tax credits and grants, households that would otherwise be priced out of the market can afford to live close to transit. This report will not explore these demand-side methods. The focus will instead be on the land-use planning and policy tools that can be used to maintain and increase the *supply* of affordable housing near rapid transit.

In Hamilton, as in all Ontario municipalities, affordable housing is a responsibility shared by multiple levels of government, though municipalities are the front-line service providers. (Keys to the Home, 2004) As later sections of this report will

explain, much of a municipality's capacity to ensure an adequate affordable housing supply is related to the amount of provincial and federal funding available.

This report provides recommendations to the City of Hamilton's Nodes and Corridors Planning staff, for the purpose of guiding the integration of affordable housing policies in the B-Line Corridor Secondary Plan. However, as this report's findings may prove useful to staff in a range of departments, from Planning to Public Works to Housing and beyond, it is intended to reach a broad audience that may not be familiar with technical terms. To this end, terms that may be unclear have been defined in the Definitions section.

## **1.1 Assumptions**

It should be noted that while the future of light rail transit (LRT) in Hamilton is uncertain, the B-Line corridor is a defined primary corridor in the Hamilton Urban Official Plan. Primary corridors are the focus areas for intensification, population growth, and increased transit service in the City of Hamilton. These areas are intended to be pedestrian-friendly, transit-oriented, dense, and vibrant places. (Council-Adopted Urban Hamilton Official Plan, 2009)

At the provincial level, two major reports (MoveOntario 2020 and The Big Move) have identified the B-Line as a major rapid transit corridor. In its Benefits Case Analysis, Metrolinx identified LRT as the mode of rapid transit that would bring the most benefits to the B-Line. (Hamilton King-Main Rapid Transit Benefits Case, 2010)

Hamilton city council also directed staff to focus on LRT in Phase 2 of the Rapid

Transit Feasibility Study. (Rapid Transit Feasibility Study - Public Consultation Update, 2008) Therefore, although council has yet to make a final decision on the preferred mode of rapid transit on the B-Line, the projections and assumptions in this report will be based on LRT.

It is also assumed that when LRT is confirmed for the B-Line, the investment climate will change dramatically from a largely “cold” market to a “hot” market, enabling a wider array of tools for maintaining affordability.

## **2 Policy Environment**

The summaries in this section explain how this report fits in with the larger policy goals of the Federal Government, Provincial Government, and the City of Hamilton.

### **2.1 Provincial Policy Statement**

The 2005 Provincial Policy Statement affirms the need for "establishing and implementing minimum targets for the provision of housing which is affordable to low and moderate income households". Furthermore, planning authorities are required to facilitate "all forms of housing required to meet the social, health and well-being requirements of current and future residents, including special needs requirements". Higher densities should be encouraged, in order to "support the use of alternative transportation modes and public transit in areas where it exists or is to be developed". (Provincial Policy Statement, 2005)

These provisions give strong support for the inclusion of affordable housing near rapid transit, so as to maximize the social benefits for those residents.

### **2.2 MoveOntario 2020**

A precursor to The Big Move, MoveOntario 2020 identified Hamilton's B-Line as a rapid transit corridor with expanded service by 2020. This plan, which included rapid transit projects across the Greater Toronto and Hamilton Area, was intended to

be fully funded by the provincial and federal governments. However, that funding arrangement has since lapsed. (Office of the Premier, 2007)

## **2.3 The Big Move: Regional Transportation Plan**

This report, which was published in 2008, identified five rapid transit corridors in Hamilton, including the B-Line (from McMaster University to Eastgate Mall). The City of Hamilton used these five lines to create the City's "BLAST" network, a plan for the expansion of rapid transit over 25 years. The B-Line is the first priority of this plan, and is intended to be completed within 15 years.

## **2.4 Provincial & Federal Affordable Housing Funding**

Upper levels of government are the largest financial contributors to affordable housing in Hamilton. Very few affordable housing projects are realized without funding from upper tiers of government.

Both federal & provincial governments have contributed funding to various affordable housing programs in Hamilton, including the Hamilton Affordable Housing Partnership Initiative (HAHPI) and the Community Rental Housing Program. (Housing Support Programs for the Development of Affordable Housing, City of Hamilton, 2011)

In 2002, the Community Rental Housing Program received \$489.42 million from provincial and federal governments, which leveraged the construction of 159 new affordable units. In 2005, a further \$15.25 million was committed for the City of

Hamilton under the Canada-Ontario Affordable Housing Agreement. Hamilton saw 162 new affordable rental units as a result of this investment. (Housing Support Programs for the Development of Affordable Housing, City of Hamilton, 2011)

The Ontario Government has also promised new funding that will, if re-elected, be allocated to affordable housing initiatives throughout the province. Details of such funding are currently unavailable. (Sarin, 2011)

## **2.5 Hamilton Housing Policy**

Hamilton spends \$32 to \$33 million annually on subsidized housing, mostly through CityHousing Hamilton, the City's affordable housing agency. (Keys to the Home, 2004)

CityHousing Hamilton has recently sold 90 of its rental units to tenants, thereby converting some rental units to affordable ownership units. This has the benefit of stability for the residents in CityHousing's buildings that wish to own their home. It also provides a source of revenue for CityHousing. To replenish the rental supply for the approximately 3,000 people on the waiting list for rental units, CityHousing plans to construct 2 new units for each one that has been sold. This is an ambitious but necessary plan, as no new rental housing has been constructed in the B-Line by CityHousing over the last 18 years. (Sarin, 2011)

The City of Hamilton waives development charges for new affordable residential developments that qualify for federal or provincial funding. New construction

under the Community Rental Housing Program, for example, would qualify for an exemption from development charges. (Keys to the Home, 2004)

### **2.5.1 Keys to the Home**

Hamilton adopted this housing strategy in 2005, which lays out broad policy goals for affordability. It makes a number of recommendations, including the need for policies on the following topics: condominium conversions, maintenance of Hamilton's dwelling stock, intensification, housing supply, accessory apartments, and development costs. The report states: "Official Plan policies should articulate the concept of an affordable housing continuum and the objective to facilitate the provision of a wide range of housing forms to meet the diverse housing needs of current and future Hamilton residents of all backgrounds and lifestyles." (Keys to the Home, 2004)

Since the adoption of this policy, some progress has been made on these objectives. The New Hamilton Urban Official Plan includes provisions for as-of-right accessory apartments, an initiative that will vastly increase the availability of legal affordable housing in the city, while ensuring the safety and security of tenants. Construction costs are the single largest barrier to investment development, causing lagging investment in the B-Line (Johnson, 2011). As for condominium conversions, Hamilton has not yet enforced a distinct policy. The issue of condo conversions has not been particularly harmful to affordability in the B-Line, mainly due to the high vacancy rate in the city. (CMHC Rental Market Report, Hamilton and Brantford CMAs, 2010)

### **2.5.2 Council-Endorsed Social Assistance Report**

In July 2011, Hamilton city council was presented with a report on the need for an evidence-based social assistance policy. Council approved a motion to encourage the provincial government to adjust social assistance benefits based on evidence, rather than ideology. (Wong, 2011) This signals a desire for council to provide adequate social assistance to its residents based on evidence, which suggests that a strategy for preserving affordable housing along the B-Line corridor would find support in council.

### **2.5.3 Growth Related Integrated Development Strategy (GRIDS)**

This document breaks down the population projections that Hamilton must reach to fulfil its obligations under the provincial Places to Grow Act. The preferred growth strategy envisions a nodes and corridors structure that projects an additional 58,400 residential units within the existing urban boundary by 2031. 26,500 of these units are to be intensification developments. (Growth Related Integrated Development Strategy: Growth Report, 2006)

This intensification target is within the possibility of current market conditions, as identified by Clayton Research. GRIDS reserves major nodes and corridors as the places where a majority of intensification should occur. The downtown node, which makes up a portion of the B-Line, is expected to absorb 10,000 of these new intensified residential units. (Growth Related Integrated Development Strategy: Growth Report, 2006)

To improve the affordability of the corridor, aggressive policies to increase the supply of affordable units must be adhered to. The “hot” investment climate that LRT would bring to the B-Line would allow for the intensification targets to be met while including provisions for affordability.

#### **2.5.4 Inclusionary Zoning and Density Bonusing**

Inclusionary zoning and density bonusing are two approaches to encourage the development of affordable units in desirable housing markets.

Hamilton does not currently have an inclusionary zoning policy in place, and therefore cannot require a certain proportion of new residential units to be affordable. While Hamilton lacks this useful tool, new affordable units built with HAHPI funding are required to keep units affordable for a specified period of time – usually 20 years. (Sarin, 2011)

Density bonusing is possible in Hamilton, though it is not used currently because there is not enough market demand. Developers are very unlikely to exceed the city’s height limits, so there must first be a desire for dense construction before density bonusing becomes a viable tool for increasing the supply of affordable housing. (Johnson, 2011) The introduction of rapid transit in the B-Line could provide such a catalyst, seeing as property values are highly likely to rise with the introduction of LRT. (Pollack et al., 2010)

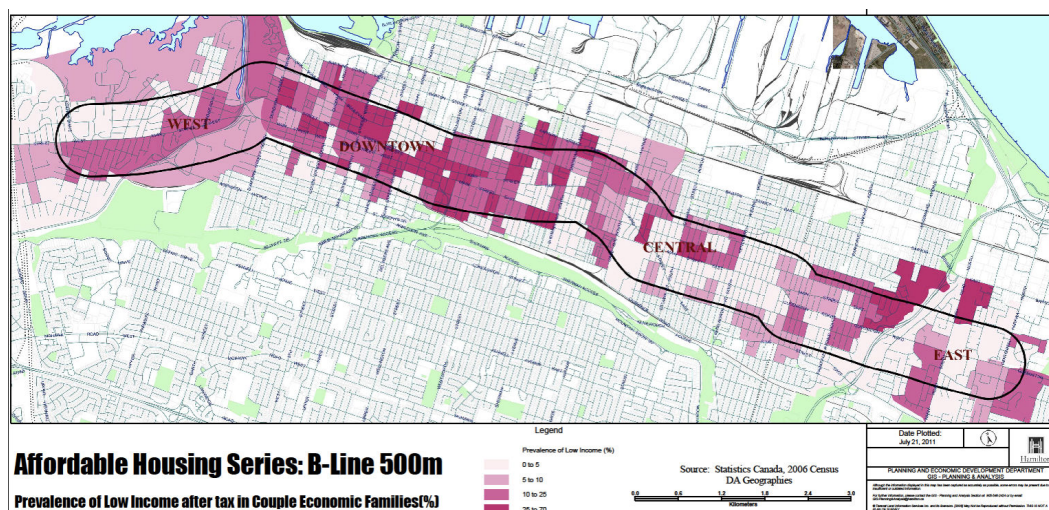
### 3 Impact of Affordable Housing on Ridership

#### Levels

Some of the literature that was reviewed for this report concluded that mixed-income (as opposed to fully market rent) transit-oriented development ensures stable ridership levels. This is based on the assumption that higher-income households are more likely to own personal vehicles, and therefore will use transit less often. (Austin et al., 2008)

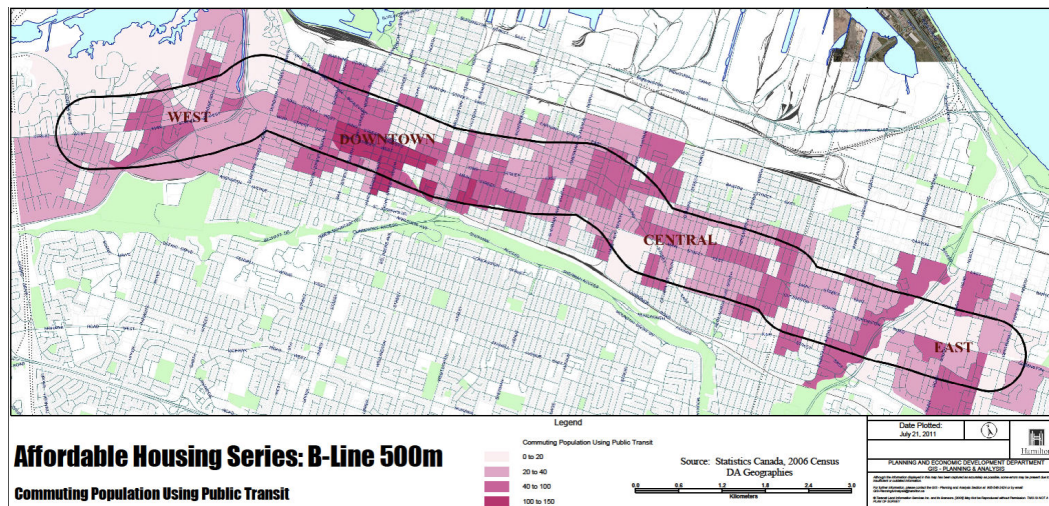
The conclusion drawn above seems to be supported by the congruency of spatial trends in income and public transit use in Hamilton, as shown in Figs. 1 and 2.

**Figure 1: Spatial Distribution of Low Income in the B-Line**



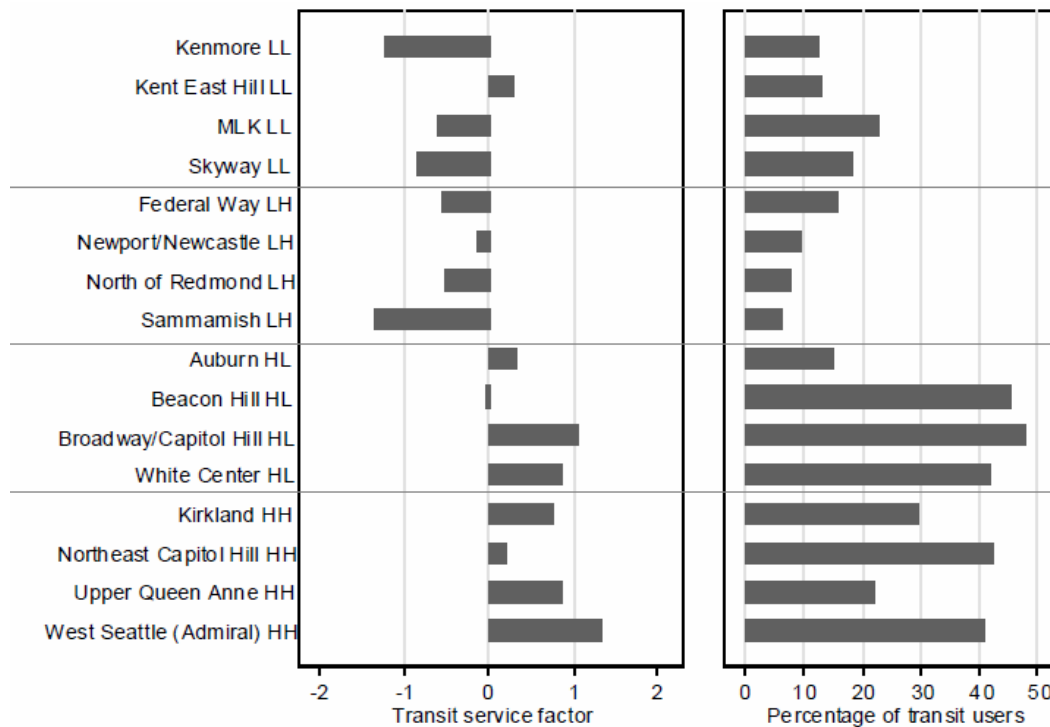
Source: City of Hamilton, Planning and Economic Development Department

**Figure 2: Spatial Distribution of Public Transit Use in the B-Line**



Source: City of Hamilton, Planning and Economic Development Department

One might conclude that this spatial relationship is causal, but a study conducted at the University of British Columbia offers a different explanation: walkability as a lurking variable. A survey of Seattle neighbourhoods (Lachapelle, 2010) did identify a relationship between income level and transit use, but the correlation was only significant in neighbourhoods with low walkability, i.e. areas with a suburban street layout (Fig. 3). In neighbourhoods with high walkability (i.e. traditional street grid), levels of transit use between low- and high-income households were similar. As the B-Line corridor is generally a highly walkable area, the amount of affordable housing would not appear to significantly affect ridership levels.

**Figure 3: The Effect of Income and Walkability on Transit Use**

Note: LH: Low walkability and high income; HL: High walkability and low income; etc.

Source: Lachapelle, 2010

The City of Denver has experienced a similar trend that supports Lachapelle's conclusion: Residents of that city's walkable LoDo neighbourhood tend to drive less and use transit more often than residents in more suburban neighbourhoods, even though the proximity to transit may be identical. (Belzer, 2007)

From these studies, it can be concluded that affordable housing is not absolutely necessary to ensure high ridership along the B-Line. However, this fact does not mean that affordable housing should be relegated to transit-poor areas. The lower rates of vehicle ownership among low- and moderate-income households mean that they are necessarily more dependent on other modes of transportation, such as

public transit. Therefore, every effort should still be made to preserve the affordability of housing in the B-Line corridor.

## 4 B-Line Spatial Characteristics

The B-Line traverses the main east-west arterials of Hamilton's lower city – Main Street West, King Street, Main Street East, and Queenston Road (Fig. 4). While the neighbourhoods it travels through differ widely in character, they do have some things in common.

**Figure 4: B-Line Corridor showing West, Downtown, Central, and East Sections**



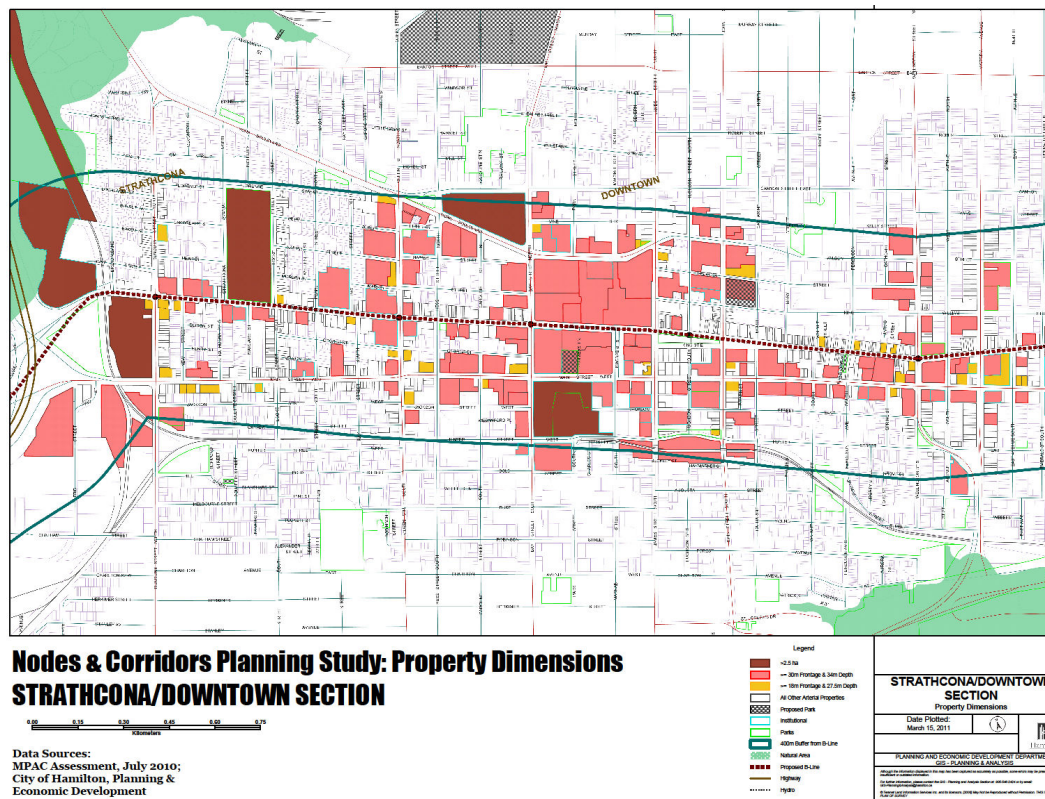
Source: Nodes and Corridors B-Line Background Report

### 4.1 Parcel Size and Vacant Lots

Foremost among these similarities is the scarcity of vacant land. As noted in some of the case studies that will be examined, the availability of large developable vacant parcels can significantly increase the potential for new development near rapid transit lines.

In July 2010, the Municipal Property Assessment Corporation (MPAC) conducted an assessment of land parcel sizes along the corridor. It identified a number of parcels that are large enough to accommodate mid-rise development. (Fig. 5) Mid-rise development potential is important for affordable housing, because it is usually only fiscally viable to construct affordable housing with 50 or more units. (Center for Transit-Oriented Development, 2008)

**Figure 5: Land Parcels Large Enough for Mid-Rise Development in the B-Line**



Source: Municipal Property Assessment Corporation (2010)

The map in Figure 5 shows the most built-up area of the B-Line, with many lots (orange, red and pink) large enough for mid-rise development. However, only one of these parcels is a truly vacant lot (southwest corner of Queen St. and Napier St.). All

the other large parcels in the B-Line corridor have existing uses, such as public parks, existing buildings, and surface parking lots. As the development of public parks is not an option, new construction along the B-Line must make extensive use of redevelopment and infill. This may deter investment in the B-Line due to increased costs for remediation and redevelopment.

In the downtown, where there are many surface parking lots within the immediate influence area, redevelopment of these parking lots presents the greatest opportunity in the corridor for transit-supportive land uses and high density development.

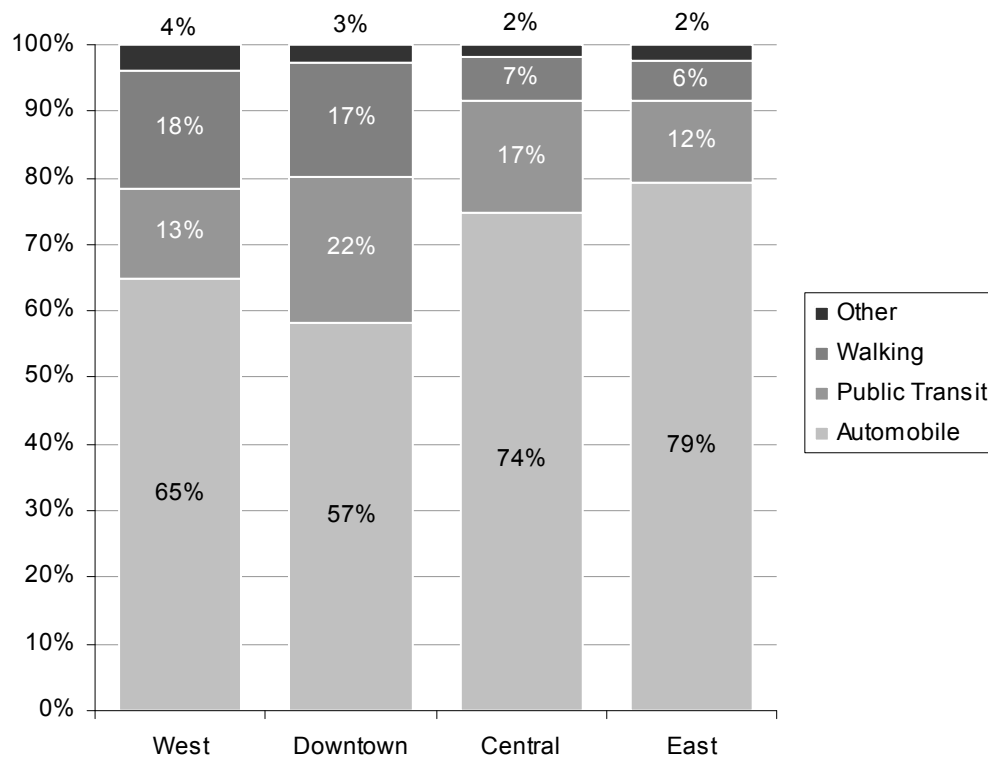
To further incent mid-rise development, new larger parcels may be created by reassembling neighbouring residential properties at key locations along the corridor to make higher density development more feasible.

## **4.2 Transit Use and Mode Share**

The B-Line is currently the best-served area of the city in terms of transit. Four bus routes run along the corridor, with north-south bus connections at nearly every major intersection. Hamilton Street Railway, the city's transit operator, conducted an operational review that found over 80 passenger boardings per capita in the B-Line corridor for the 2007 fiscal year – the highest rate of any corridor in the city (see Appendix A). The introduction of rapid transit in the B-Line corridor will bolster its role as the city's central transportation artery. (HSR Operational Review, 2010)

Within the B-Line corridor itself, the mode share of commuters varies significantly. The downtown section has the highest use of public transportation, while automobile use is most prevalent in the more suburban east end. (Fig. 6) A rapid transit line may make public transport a more viable alternative for commuters in the east and central sections of the city, where travel by automobile is most prevalent.

**Figure 6: Mode of Transportation to Work**



*Note: "Automobile" includes drivers and passengers. "Other" includes Bicycle, Motorcycle, Taxi, and other modes.*

Source: 2006 Census (Statistics Canada)

The above chart represents only the mode of transportation to and from work, and does not represent the proportion of people that use transit for leisure, shopping, appointments, or other activities.

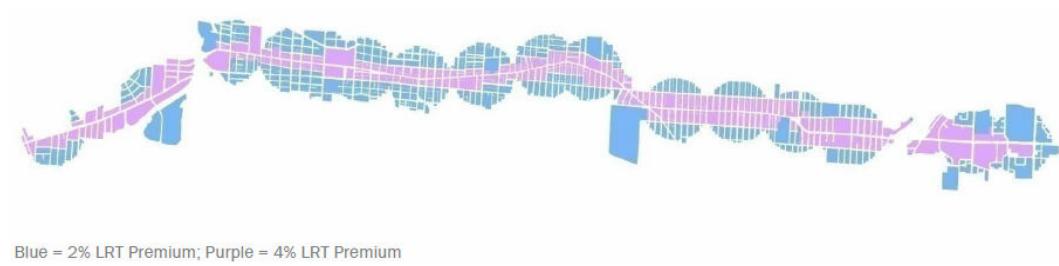
### 4.3 Influence of LRT on Property Values

Two examples are given to justify a 500 m buffer zone as the area of immediate influence for property values. In Portland, Oregon, an increase in property values of 10.6 per cent was observed for homes within 500 m of the LRT line. Similarly, office space rents in Toronto command a 10 per cent premium if they are within 500 m of a TTC subway station. If we assume that Hamilton will experience a similar increase in rents and property values within 500 m of the B-Line, we can put specific programs in place to protect the affordable housing stock in that area. (IBI Group, 2009)

A cost-benefit analysis released by Metrolinx estimated the potential value uplift along the B-Line corridor. A 500 m catchment area was used. Based on a comprehensive review of approximately 150 studies, a full LRT system in Hamilton would be directly responsible for an increase of 2-4 per cent in land values of non-vacant residential properties within the catchment area. This uplift includes only the effects directly attributable to the light rail infrastructure itself, and does not take into account the additional increase in property values attributable to zoning changes, land use policy, or other City initiatives. (Hamilton King-Main Rapid Transit Benefits Case, 2010)

These findings were echoed in a report on value uplift by the Canadian Urban institute, though it used a different catchment area (Fig. 7).

**Figure 7: Estimated Value Uplift due to Rapid Transit**



Source: Hamilton B-Line Value Uplift and Capture Study (2010)

The B-Line Background Information Report , prepared by Hamilton's Nodes & Corridors staff in 2010, also defines an immediate influence area of 500m from the proposed rapid transit right-of-way. It is in this catchment area that all demographic information, including income and housing statistics, is measured.

## 5 Hamilton's Housing Market

Residential properties within the immediate influence area are far from uniform. There are several distinct neighbourhoods, each with its own character, traversing the length of the B-Line. To simplify the analysis, this report will split the corridor into four sections: West, Downtown, Central, and East. These are the same sections that were used in the demographic analysis for the Nodes & Corridors B-Line Background Information Report. (See Fig. 4)

Over the past few decades, a lack of new rental construction, coupled with the conversion of some rental units to condominiums, has resulted in a decrease of the number of renter households in Hamilton. (Mayo, 2011)

That said, the introduction of LRT is projected to be responsible for an increase of 3,755 square metres of single-family residential housing and 245,458 square metres of multi-residential housing along the B-Line corridor within 15 years of operation. This increase is over and above the investment that would occur in a business-as-usual scenario. (Hamilton B-Line Value Uplift and Capture Study, 2010) There is definite opportunity to leverage that investment to address the deficit of affordable rental units.

In terms of housing tenure, the majority of downtown properties – 79 per cent – are rented. This compares to 43 per cent for the west section, 38 per cent for the central section, and 47 per cent for the east section. While both rental and owned properties can be subject to affordability concerns, in the Downtown section the high

prevalence of rental properties necessitates a different strategy than the other segments of the corridor. (B-Line Background Information Report, 2010)

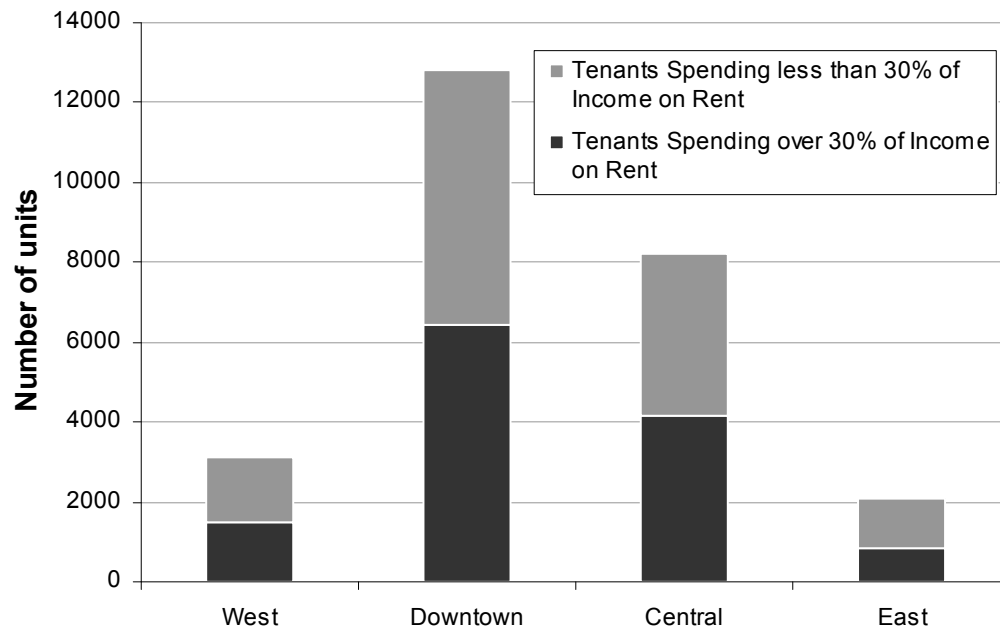
A 2010 study by the Canadian Urban Institute found that investment in LRT would result in higher rents and property values, as well as additional infill development. The study compared the station areas along the B-Line to similar station areas in Dallas, Portland, and Minneapolis - all cities that had a similar economic climate as Hamilton has today before they built their LRT. The station areas with the greatest development potential, according to the study, are Gore Park (Downtown), McMaster Innovation Park (West), and Scott Park (Central). (Hamilton B-Line Value Uplift and Capture Study, 2010)

The Nodes & Corridors B-Line Background Information Report identifies specific properties, mostly fronting directly on the corridor, that have uplift potential for new mid-rise development. The criteria for such development is that lots be at least 18 metres wide and 27.5 metres deep. Along the B-Line, especially in downtown Hamilton, opportunity for development on vacant lots of this size is extremely limited. This means redevelopment and intensification will have to play a much greater role in the transformation of the B-Line corridor.

The 2006 census reports that 19 per cent of homeowners citywide spend more than 30 per cent of their income on major payments for their home. For renters, 44 per cent are in that situation. For the B-Line in particular, about 25 per cent of owners and half of renters are living in accommodation that is not affordable. The most

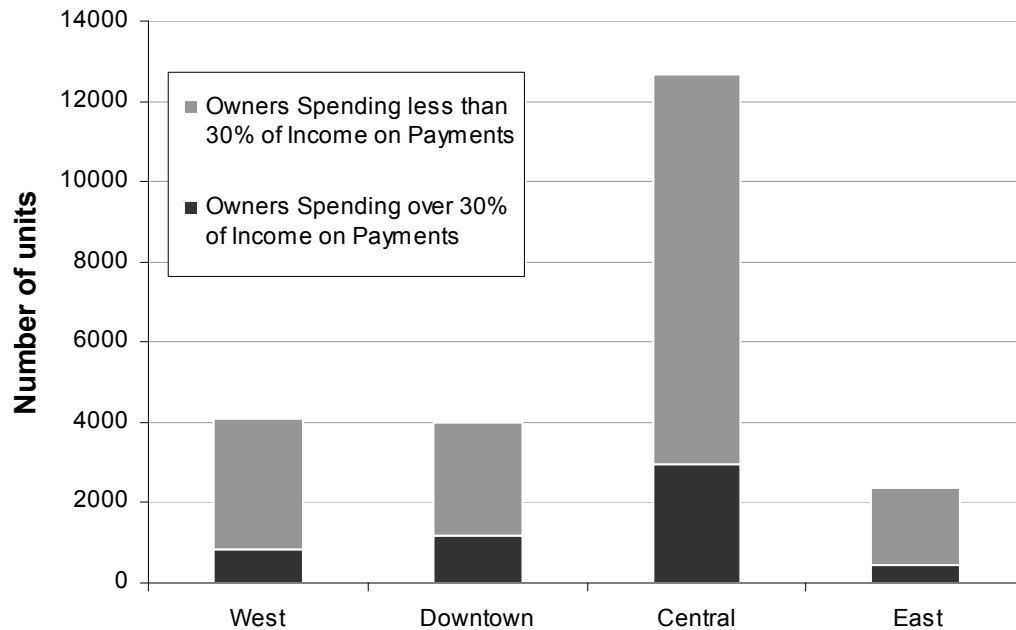
affordable area of the B-Line is the east end, with the downtown being the least affordable. (Figs. 7 & 8)

**Figure 7: Rental Affordability in the B-Line**



Source: 2006 Census (Statistics Canada)

**Figure 8: Ownership Affordability in the B-Line**



Source: 2006 Census (Statistics Canada)

In total, the number of rental dwellings slightly outnumber the number of owner-occupied dwellings in the B-Line corridor, but overall the type of occupancy (tenancy vs. ownership) is evenly split along the B-Line. The exception is downtown, which has more than three times as many rental dwellings as owner-occupied ones. Therefore, an affordable housing strategy for the B-Line must take into account both rental and homeownership needs.

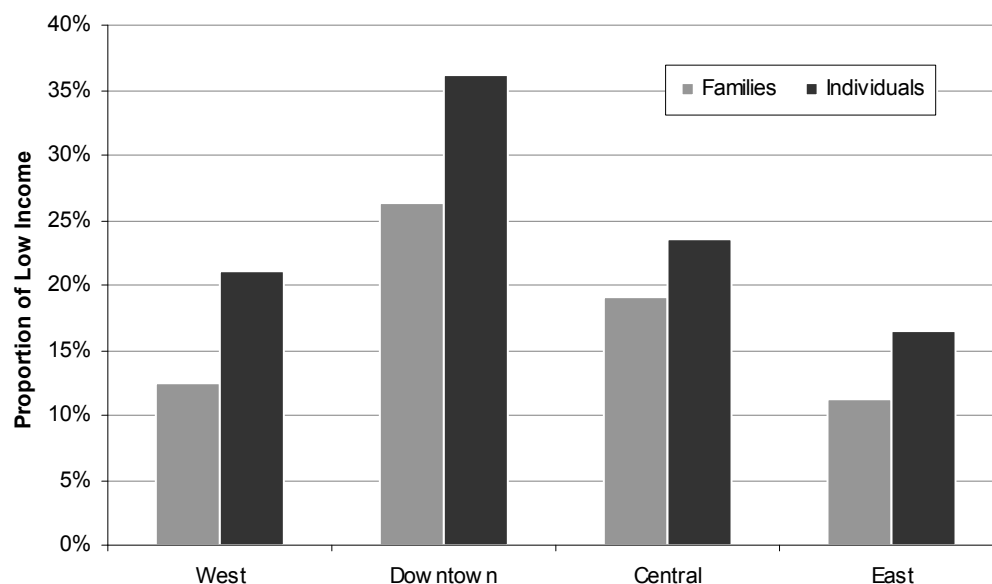
This data suggests that the preservation of existing affordable housing would do best to focus on owner-occupied dwellings, while new affordable developments should be focused on rental units.

## 5.1 Poverty Concentration

Hamilton suffers from a concentration of low-income neighbourhoods, some of which are found along the B-Line. Unchecked gentrification of the B-Line corridor would push Hamilton's low-income residents into even more concentrated areas of poverty. In fact, this is exactly what happened with the gentrification of Locke Street in the late 1980s and 90s. As the area became more affluent, residents and businesses were priced out of the market and forced to move to areas of Hamilton where poverty was already prevalent. (Johnson, 2011; Sarin, 2011)

While the low-income threshold is not a direct indicator of poverty, no exact measure of poverty currently exists, so it is the closest approximation available with census statistics. Figure 10 shows the prevalence of low income in the B-Line.

**Figure 10: Prevalence of Low Income in the B-Line**



Source: Statistics Canada, 2006 Census

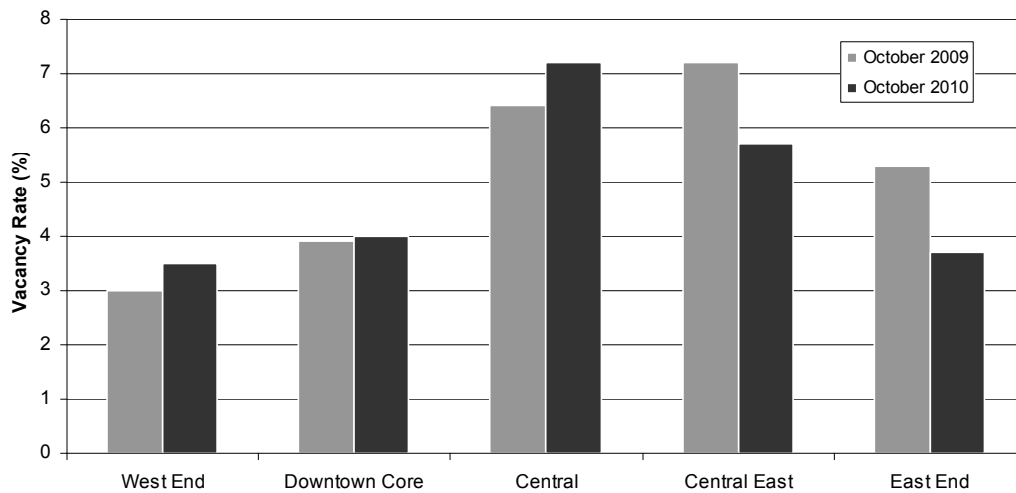
The high concentration of low income in the Downtown section means that rising property values have the potential to displace many existing residents. New residential development in the Downtown area should therefore ensure a mix of incomes.

Paul Johnson, the Director of Hamilton's Neighbourhood Development Services, has said: "It's really important, for social and political reasons, to address inequities between areas." (Nolan, 2011) The incorporation of affordable housing policy in the B-Line Corridor Secondary Plan aims to do that. Hamilton is extremely divided along geographic lines and a focus on the B-Line - the area of the city with the most problems with housing affordability - will help alleviate those inequalities.

## **5.2 CMHC Statistics**

According to statistics from the Canada Mortgage and Housing Corporation (CMHC), Hamilton's vacancy rate is very high in the zones traversed by the B-Line corridor (Fig. 11). A vacancy rate of 2-3 per cent is generally considered a healthy rental market. (Council-Adopted Urban Hamilton Official Plan, 2009) The zones through which the B-Line corridor traverses exceed this rate across the board.

**Figure 11: Private Apartment Vacancy Rates**



Source: CMHC Rental Market Report, Hamilton and Brantford CMAs (Fall 2010)

The geographic areas in the above chart do not correspond with the influence area of the B-Line, and is therefore a rough approximation of the properties within the defined corridor. Nevertheless, this chart shows that a lack of rental supply is not necessarily the cause behind the B-Line's affordability problem.

Paul Johnson, Director of Neighbourhood Development, suggests that the problem isn't a lack of supply, but a lack of affordable supply. High construction costs make it difficult for developers to offer affordable rental units and still make a profit. Therefore, many units sit empty as their rents are too high for many people to afford. (Johnson, 2011)

Due to this predicament, it might be possible to increase the supply of affordable housing without constructing any new units, simply by subsidizing vacant units to allow property owners to offer more rent-geared-to-income units.

### **5.3 Condominium Conversions**

Since 2007, eight condominium conversions have taken place in the B-Line corridor. They were all apartments, and they mostly occurred within the downtown area. (Condominium Conversions, City of Hamilton, 2010)

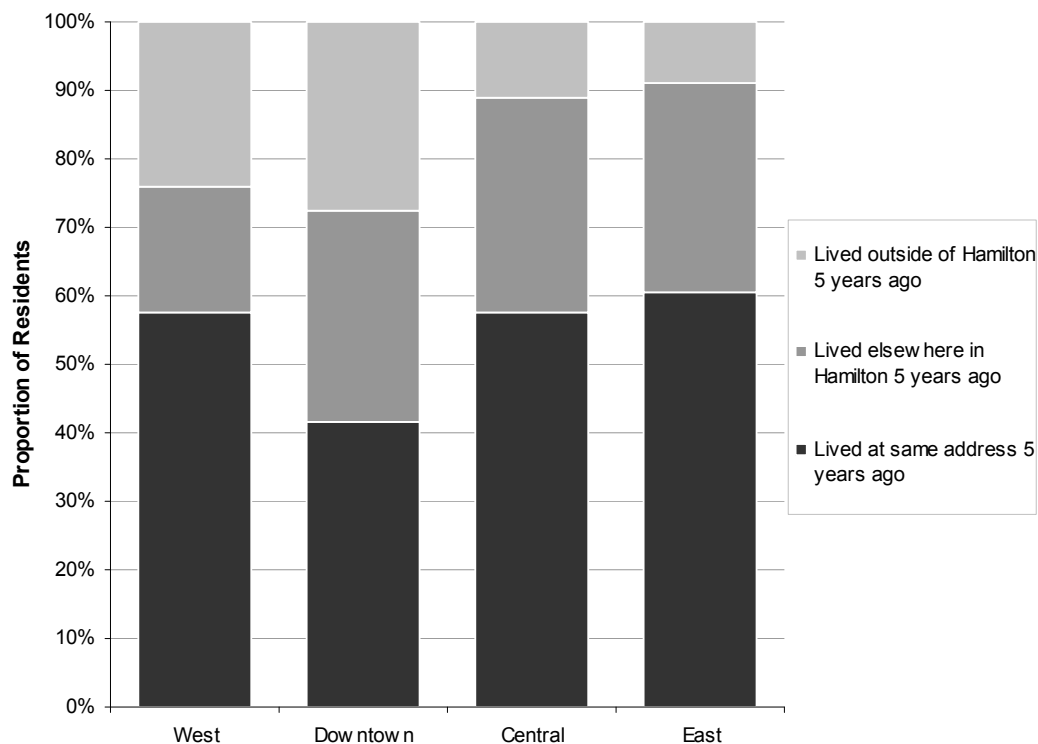
The New Urban Hamilton Official Plan includes provisions for protecting affordable housing against condominium conversions. If a conversion is not supported by at least 75 per cent of the existing tenants, it can only pass if it will keep the rental vacancy rate above 2 per cent, and if the current market rent of the units is not significantly below average. (Council-Adopted Urban Hamilton Official Plan, 2009)

These provisions are a step forward from the previous Official Plan, but they do not protect subsidized or rent-geared-to-income (RGI) units from condominium conversion. Using market rent levels as a baseline excludes the RGI units, and therefore does not encourage mixed-income development. Not only do condo conversions reduce the amount of rental units, they are most effective, under the new Official Plan, at removing the affordable units for mixed-income developments.

### **5.4 The Importance of Neighbourhood Stability**

Using the Mobility and Migration data from the 2006 census, a picture of the B-Line's neighbourhood stability emerges (Fig. 11).

**Figure 12: Neighbourhood Stability in the B-Line**



Source: 2006 Census (Statistics Canada)

Predictably, the Central and East sections are the most stable areas of the B-Line. This can be explained by the high concentration of students in the West section, and the transient nature of the downtown section. Newcomers to a city often arrive in the downtown core before finding a more permanent accommodation.

Two conclusions can be drawn from this chart. First, with the exception of the students that dominate the West section, 30 per cent of B-Line residents (6 percentage points above average) moved there recently from elsewhere in Hamilton. This speaks to the desirability of living near the B-Line, which is the city's best-served area for transit (HSR Operational Review, 2010). Second, the highest proportion of affordable ownership housing is found in the most stable sections of the B-Line (i.e.,

Central and East), as was shown in Figures 7 and 8. Real estate speculation may upset this delicate balance, therefore it is imperative to protect the existing housing stock against a sudden increase in homeownership costs.

## 6 Preserving Affordability near Transit in Other Jurisdictions

The following section categorizes various tools for preserving affordability near transit that are used by other jurisdictions. There are four categories:

1. Enabling funding: creative methods of financing new affordable development;
2. Preservation: protecting the existing affordable housing stock;
3. Development incentives: tools that encourage developers to build affordable units; and
4. Transportation-housing affordability index: integrating the cost of travel with the cost of housing in planning to fully capture the entire picture of affordable development.

Planning policies can be very effective at mitigating against the meteoric rise of land values. However, to be effective, these tools must be in place well in advance, so as to properly plan for the long-term protection of affordability. (Pollack et al., 2010)

Minneapolis-St. Paul's new light rail line, the Hiawatha, which traverses some low-income neighbourhoods not unlike the B-Line, nevertheless saw immense investment into these areas because it was the first LRT line in the city. Similar rapid transit projects like the Indigo line in Boston and the West line in Denver didn't

provide as much uplift because there were already other LRT lines in place. This bodes well for the B-Line's potential to generate value uplift. However, the Hiawatha also traverses large developable formerly industrial lands, which is an added bonus for easy development. (Thorne-Lyman et al., 2008)

## **6.1 Enabling Funding**

### **6.1.1 Acquisition Funds**

A cautionary tale about land value increase can be found in the experience of the Lakewood Housing Authority, which bought a parcel of land that had been acquired by a real estate speculator, held for 8 days, and sold at a 69 per cent markup. When housing authorities and affordable developers fail to act quickly to secure land, speculation can significantly drive up the cost of affordable housing. (Thorne-Lyman et al., 2008)

#### **6.1.1.1 San Francisco**

The San Francisco Bay Area has established a mixed-income Transit-Oriented Development (TOD) acquisition fund. It serves to encourage the development of new affordable housing in areas close to transit. It is estimated that 50 per cent of future housing demand in transit-serviced areas will come from low-income households, but those are the same areas that have little vacant or underutilised land, compared to their counterparts that are not served by transit. (Center for Transit-Oriented Development, 2008)

The fund covers the costs of property taxes and other fees until a site is ready to be developed. Short-term funding can be allocated to facilitate mixed income transit-oriented development in "hot" markets where speculation is driving up the cost of vacant land. In a complementary fashion, long-term funding can be set aside for "cold" market properties that will be held for several years until mixed-income TOD is a financially viable development opportunity. This helps to keep the land price from increasing too quickly, which facilitates the development of better quality mixed-income development with a higher proportion of affordable units. (Center for Transit-Oriented Development, 2008)

In essence, the fund's money (provided by multiple investors but largely the municipal government) is used to acquire property outright or give low-interest loans for affordable housing developers to acquire property, before real estate speculation makes the cost of land skyrocket. (Center for Transit-Oriented Development, 2010)

The fund is used to temper the boom and bust nature of the San Francisco region's real estate markets. It makes it easier to integrate affordable housing in "hot" markets, giving developers an incentive to build mixed-income developments rather than completely market-rate units. For vacant properties that have gone unused for years as a result of low investment potential, the fund can help finance projects that are proactive about land acquisition. (Center for Transit-Oriented Development, 2008)

A developer who wishes to buy land near a proposed transit line for affordable housing may not have the details of the project finalized, nor have funding for

the project itself, but wants to make an offer to acquire the land. Under the acquisition fund, she can be quickly granted a loan with deferred interest payments to cover the costs of securing the land and paying property taxes until the affordable housing project is ready to be built. (Center for Transit-Oriented Development, 2010)

There are conditions, however, that may limit the fund's applicability to dense urban corridors. It favours areas that have large undeveloped parcels, so as to make the construction of new affordable development (which typically need at least 50 units) more feasible. Though it is geared towards development within nodes and corridors, it seems to be most effective in suburban industrial areas where investment is lacking. (Center for Transit-Oriented Development, 2008)

#### **6.1.1.2 Denver**

From now until 2030, 40 per cent of new housing demand near transit in Denver will come from low-income households. Mixed-income TOD initiatives help to meet that demand and, in the process, create true affordability by minimising transportation costs. Proximity to a transit network increases the number of employment opportunities available, which makes the region more economically competitive because its workers have choice. (Belzer et al., 2007)

Due to federal and state budgetary constraints, affordable housing subsidies are decreasing. Affordable developers don't have the necessary capital to hold land speculatively. Further, the rezoning process is lengthy and hinders the redevelopment of old buildings into mixed-income TOD. (Belzer et al., 2007)

Another innovative idea is to allow the transit authority to purchase land. This requires less bureaucracy than a traditional land acquisition fund. With the transit authority acting as a developer, it can ensure that mixed-income, dense, TOD is built near transit hubs - the kind of development that encourages ridership. (Belzer et al., 2007) Despite its effectiveness in theory, this method has been subjected to a legal challenge in Denver and requires that available land is plentiful near proposed transit stations. (Thorne-Lyman et al., 2008)

In Denver's West Line, the transit authority had the ability to hold land for purposes other than direct transit infrastructure. While this power is useful for ensuring transit-oriented development in proximity to the stations, it caused concern among property owners, who found that they were getting a less-than-anticipated price when they sold their properties to the transit authority. There is also a more general concern that the transit authority is overstepping its bounds with the ability to put commercial and residential projects on its "surplus lands". Colorado House Bill 1278 was subsequently proposed, limiting the transit authority's ability to buy land to only public transit purposes - not even park-and-ride facilities would be allowed. The bill has been postponed indefinitely and not signed into law, but it merits reflection when deciding which organizations should have land-use control in TOD projects. (Thorne-Lyman et al., 2008)

### **6.1.2 Tax Increment Financing**

Tax Increment Financing (TIF) has been widely used in the United States for decades, and has become recognized as one of the best ways for cash-strapped municipalities

to spur investment in their communities. (Cunningham, 2009) In terms of affordable housing, TIF can be used to capture future property tax revenues, which are used to fund the up-front costs of affordable developments. Winnipeg and Calgary have recently used TIF to revitalize neighbourhoods. Manitoba's Community Revitalization TIF Act, which enabled the tool for use in Winnipeg, specifies affordable housing as one of the investment recipients.

The government of Manitoba stated in a press release: "This would mean that incremental property tax increases in the zone would be placed into a separate fund for time-limited period to pay for infrastructure and other economic supports in the zone. Once the zone is redeveloped, and the TIF zone is lifted the expanded tax base returns to the municipality, the province and the school division." (Government of Manitoba, 2008)

Calgary's Community Revitalization Levy is essentially a Tax Increment Financing tool that has proven successful at spurring development in the city's historic downtown, catalysing new investment that has brought a surge of residents to the area. (Cunningham, 2009) While not specifically geared towards affordable housing, the city was awarded a Brownie Award from the Canadian Urban Institute for excellence in brownfield redevelopment – due, in large part, to the TIF funding that made such redevelopment possible.

## 6.2 Preservation

When looking at the breakdown of income levels of transit riders, it is clear that transit riders are skewed to the lower end of the scale. Transit plays an important role in the job security of poorer households. An analysis on commute costs by the Brookings Institute found that for the working poor, driving to work used 8.4 per cent of their pay, compared to 5.8 per cent if they were able to take transit. (Pollack et al., 2010)

In the multivariate analysis undertaken by this report, the three variables most closely correlated with new rail transit infrastructure were: an increase in median gross rent, an increase in in-migration, and an increase in motor vehicle ownership. It is very unlikely that transit would cause a significant decrease in housing values or rents. (Pollack et al., 2010)

In areas that implement LRT, the rate of in-migration is nearly 5 per cent greater than that of the transit service area as a whole. There are significant increases in population (20%), median household income (nearly 80%), owner occupancy (nearly 150%), median housing value (500%), and percent of households with 2 or more cars (over 50%). (Pollack et al., 2010)

These statistics speak to the potential for low- and moderate-income households to be displaced by a new LRT line. In light of this, techniques for the preservation of affordable housing are of utmost importance.

### **6.2.1 Rent Control, Tenant Eviction Protection, Right of First Refusal, and Condominium Conversion Control**

The City of Calgary, like Hamilton, has an affordable housing policy based on a spectrum of housing need that ranges from “No Shelter” to “Market Housing”. The city’s Office of Land Servicing & Housing creates incentives and develops policy to encourage affordable and entry-level housing opportunities. However, like Hamilton, Calgary lacks the supply of affordable housing to meet its demand. It lists the conversion of rental units to condominiums and the lack of new rental construction as two significant barriers to this goal. (Learn About Affordable Housing, City of Calgary, 2011)

A “just cause” eviction policy can help prevent the loss of affordable rental units by bolstering the rights of tenants to stay in places that are affordable and convenient for them. (Austin et al., 2008) The New Hamilton Urban Official Plan will help in this regard by affirming the right of tenants to live in accessory apartments without fear of eviction by city bylaw officials.

Rent control measures that are tied to Transit-Oriented Development could be targeted to Downtown Hamilton, where there is a high proportion of rental units. This would aid in maintaining affordability. A robust condominium conversion policy could add to this by allowing former tenants to have the first opportunity to buy new condo units at the same rate as their former accommodations. The benefit to this would be that developers can redevelop a rental building into condos with more

units. The existing tenants would be guaranteed a spot, and the new residents would pay market rent.

Montgomery County, Maryland offers the right of first refusal to the city's housing commission. Nonprofits have second right of refusal. Permanent affordability is the goal with this policy, and has made it a model for other jurisdictions to follow. (Belzer et al., 2007)

### **6.2.2 Inclusionary Zoning**

Inclusionary zoning preserves affordability by mandating that new residential construction include a proportion of affordable units. They may be part of a general affordable housing policy, or negotiated on a site-by-site basis as Community Benefit Agreements. (Pollack et al., 2010)

While inclusionary zoning only deals with the construction of new units, it has been classified as a “preservation” tool because it actually deters development rather than incentivizing it. Inclusionary zoning puts restrictions on residential development in a specific area which may limit its profitability. Therefore, this is a tool that only works in “hot” real estate markets, where developers are willing to make concessions in order to construct new residential units.

Some municipalities allow developers to pay cash-in-lieu of affordable units, to fund the construction of more affordable units elsewhere in the city. (Curran and Wake, 2008) In Hamilton, such an allowance would not be advisable, because the intent of

an inclusionary zoning tool would be to preserve affordability in a specific geographic area – the B-Line.

## **6.3 Development Incentives**

In cooler markets, incentives are needed to attract affordable development. Punitive measures such as inclusionary zoning are effective only when there is pent-up market demand for construction. As this is not currently the case in the B-Line, Hamilton must make creative use of development incentives to encourage the construction of new affordable housing.

### **6.3.1 Revised Parking Requirements**

Parking requirements can be changed to facilitate the development of new high-density affordable units. By no longer requiring that each unit have a designated parking space, the cost of parking is disassociated from the cost of housing. Such a system encourages two things: it lowers the price of housing, making it more feasible for affordable units, and it encourages the use of other modes of transportation, such as rapid transit. This disassociation, called unbundling, has been found to reduce vehicle ownership in other jurisdictions by 10-20%. (Litman, 2011)

As innovative as these changes may be, however, the capital cost of parking as a proportion of total construction costs is not significant enough to spur affordable development on its own, at least not in Hamilton's current investment climate. (Sarin, 2011) While unbundling parking can play a part, other tools are clearly necessary to encourage the development of transit-oriented affordable housing.

### **6.3.2 Reduced Fees and Simplified Rezoning Process**

Lowering brownfield remediation costs for affordable developers is a good way to ensure affordable infill development, especially in complicated downtown areas such as the B-Line. If improvements to water supply infrastructure, for example, are necessary, the developer can avoid paying those costs by designating a proportion of units as affordable housing.

Incentives can be as simple as waiving all fees and expediting development reviews for affordable housing that is served by transit, as is done in Austin, Texas. Similar programs exist in Portland, Denver, and Boston. (Zimmerman et al., 2009)

Without TOD-specific zoning, the zoning amendment process is lengthy and a barrier for developers. Adding more conditions for affordability might just turn developers away. (Belzer et al., 2007)

To promote the development of affordable housing, Calgary has appointed a single facilitator to manage any necessary rezoning at the same time as the development application is being reviewed. This streamlines operations and reduces the number of administrative hurdles for developers of affordable housing. (Contact Affordable Housing, City of Calgary, 2011)

### **6.3.3 Property Tax Abatement**

The City of Portland has implemented a property tax abatement for transit-oriented development. Projects must be high-density, mixed-use developments within a designated geographical area. The city has also implemented a separate tax

abatement program for affordable rental housing. In both cases, property owners are protected from any increase in property taxes for a specified length of time – up to 10 years. (Portland Housing Bureau, 2011) Freezing property taxes allows for rents to remain stable, which makes living near rapid transit more viable.

While a tax abatement is similar to the aforementioned Tax-Increment Financing, it subsidizes the operating costs of a development, rather than providing upfront capital funding.

#### **6.3.4 Bonusing**

Density bonusing allows municipalities to negotiate with developers for the inclusion of affordable units in exchange for higher density. This would contribute to additional units along the corridor which further encourages rapid transit. If the developer doesn't want to manage the affordable units, it can sell to a local affordable housing organisation. An elimination of time limits on how long the units need to stay affordable for would ensure permanent affordability. (Belzer et al., 2007)

Bonusing can also apply to reduced parking requirements. Los Angeles gives density bonuses and reduced parking requirements for affordable housing in order to encourage new affordable residential development. (Zimmerman et al., 2009)

### **6.4 Housing and Transportation Affordability Index**

There are significant benefits to integrating mixed-income housing with transit-oriented development. Unlike the affordable housing commonly constructed out

near the city limits or close to industrial lands, mixed-income TOD ensures the availability of affordable housing near affordable transportation. The proximity to transit increases access to jobs for those without a car, which tend to congregate along strong transit corridors. (Austin et al., 2008)

Illinois has developed a Housing & Transportation Affordability Index, which provides quantitative benchmarks in order to direct funding for transportation and housing assistance to areas where affordability is at risk. It's a measure that builds in transportation costs into the affordability picture and would be a very useful tool for deciding where to focus affordability initiatives. (Zimmerman et al., 2009)

Despite having an LRT line, Calgary has not included a transit component in its affordable housing strategy. Hamilton can learn from the innovations of Calgary's land use planning and housing policies, and build upon it by adding rapid transit into the mix.

## 7 Conclusions

### **Rapid transit will attract investment and raise property values.**

Hamilton is currently in a “cold” housing market, but the investment climate will rapidly heat up once rapid transit along the B-Line corridor becomes certain. As one local developer stated, “No one is going to run in and buy up all this stuff on a dream.” (Macleod, 2011) Developers need certainty that LRT will be in place before they begin investing in new residential construction.

The substantial amounts of surface parking, especially in the downtown section, will have high development potential. The impending flurry of new residential units means that Hamilton will soon be in a position to use tools such as density bonusing and inclusionary zoning that may have deterred developers in the past.

### **Up-front construction cost is the largest hurdle for affordable development.**

Hamilton currently waives development charges for new affordable units, but it has not been enough of an incentive to spur affordable development in the B-Line. More ambitious incentives like removing parking requirements, covering the cost of parcel reassembly, and covering infrastructure improvement costs are necessary to encourage affordable developments.

**Affordable housing policies should not exacerbate the concentration of poverty in small areas.**

While existing affordable housing should no doubt be preserved, the influx of residential development should aim for mixed-income dwellings that offer low- and moderate-income households choice in where they live along the corridor. Policies should encourage the coexistence of market rent units, rent-geared-to-income, rentals, and ownership units.

**Affordable housing tools must be in place before the market is ready.**

Hamilton's current low vacancy rate and affordable ownership housing in the B-Line should not be cause for complacency. Hamilton's affordable housing tools are not presently robust enough to address the challenges that lay ahead as increased development occurs along the B-Line corridor. Without the adequate policies in place ahead of time, affordability in the B-Line may worsen, further exacerbating the concentration of poverty in small pockets throughout the city.

## **8 Recommendations**

### **Surface parking lot acquisition fund for mixed-income housing.**

Due to the lack of truly vacant land in Hamilton's B-Line, a land acquisition fund such as the one in the San Francisco region will not likely increase the supply of affordable housing along the B-Line. However, this model could be modified by focusing on the redevelopment of surface parking lots (rather than the development of vacant land) into mixed-income developments.

### **Tax increment financing and property tax abatement.**

Through the use of tax increment financing, Hamilton can use future tax revenues to encourage affordable development in the transition from a "cold" market to a "hot" market. A TIF zone for the B-Line would redistribute the property tax increases in one part of the B-Line to other parts, so as to diffuse the concentration of poverty.

Once a successful TIF has expired, further tools may be needed to protect affordable housing prices from skyrocketing. A tax abatement program, not dissimilar to the one in Portland, is recommended in order to give homeowners and developers of affordable housing the confidence to improve their properties without fear of increased property taxes.

## **Waived parking requirements.**

Parking unbundling, in and of itself, does not give developers a significant cost savings. However, it is still a tangible cost reduction for new construction, and, combined with other initiatives, could make the difference between a vacant parking lot and a vibrant, mixed-income apartment in Hamilton's downtown.

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# Glossary

## Affordable

- a) in the case of ownership housing, the least expensive of:
1. housing for which the purchase price results in annual accommodation costs which do not exceed 30 per cent of gross annual household income for low and moderate income households; or
  2. housing for which the purchase price is at least 10 per cent below the average purchase price of a resale unit in the regional market area;
- b) in the case of rental housing, the least expensive of:
1. a unit for which the rent does not exceed 30 per cent of gross annual household income for low and moderate income households; or
  2. a unit for which the rent is at or below the average market rent of a unit in the regional market area.

(Provincial Policy Statement, 2005)

## Immediate Influence Area (also Corridor, B-Line)

A 500-metre catchment area around the rapid transit line, identified by the B-Line Background Information Report and the IBI Economic Potential Study as the area within which property values are strongly influenced by rapid transit infrastructure.

In this report, the terms “corridor” and “B-Line” are analagous with the immediate influence area.

### **Low and Moderate Income Households**

In the case of ownership housing, households with incomes in the lowest 60 per cent of the income distribution for the regional market area; or in the case of rental housing, households with incomes in the lowest 60 per cent of the income distribution for renter households for the regional market area. (Provincial Policy Statement, 2005)

### **Primary Corridor**

Areas, such as the B-Line, that are intended to provide major transit services and dense built form. These corridors already have rapid transit routes or are planned to include rapid transit in the near future. (Draft Urban Structure Plan and Official Plan Policies, 2008)

### **Rapid Transit**

Limited-stop, high frequency transit service that operates in an exclusive right-of-way with signal priority over cross-traffic at intersections.

### **Regional Market Area**

The area defined by the New City of Hamilton single-tier municipal borders. (Provincial Policy Statement, 2005)

**Secondary Plan**

Secondary Plans provide direction for future development, by means of land use plans and policies. They are adopted by amendment into the Official Plan, to ensure that their intent is binding. (Secondary Plans, City of Hamilton, 2011)

**Transit-Oriented Development (TOD)**

Development that promotes increased access and usage of transit through mixed use development, higher densities, and providing a high level of amenities in a pleasant, walkable area. (Transit Oriented Development, City of Hamilton, 2011)

**Vacancy Rate**

The proportion of units in a given area that are currently unoccupied and available to be rented immediately. (CMHC Rental Market Statistics, Spring 2011)

# Appendix A

