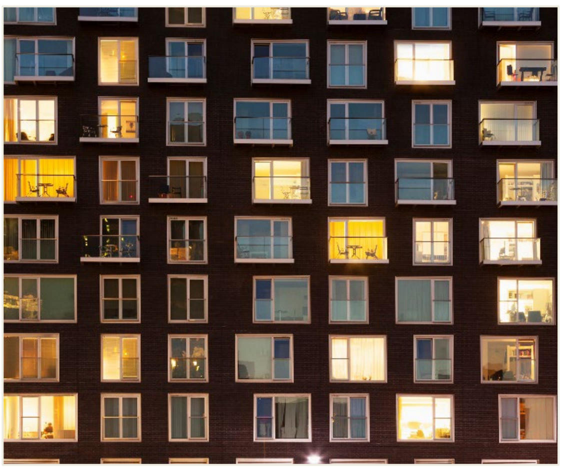
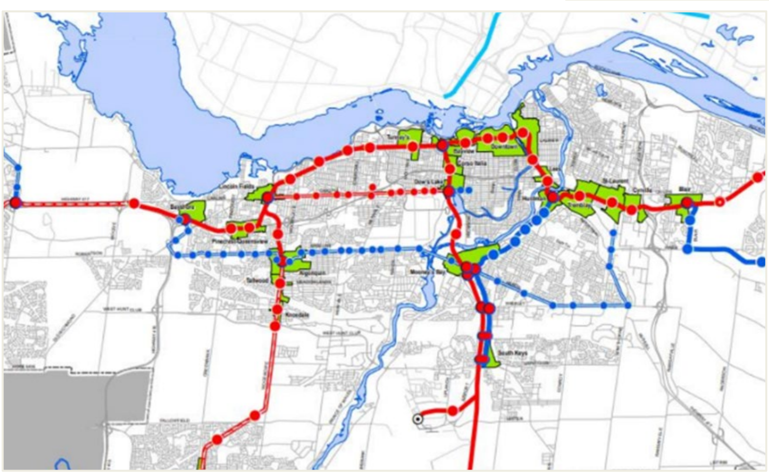
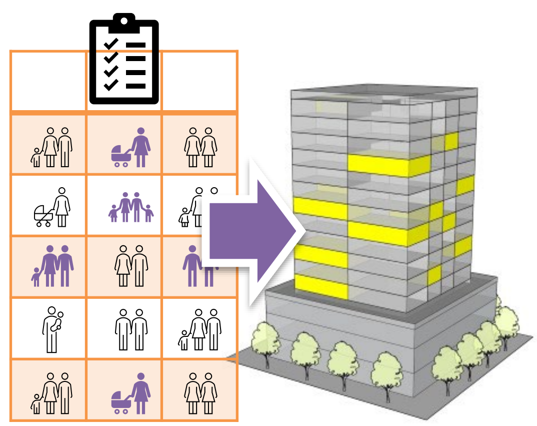
Inclusionary Zoning

Discussion Paper & Proposals







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Inclusionary Zoning is a land use tool that requires new residential developments to include affordable housing units near major transit stations. This Discussion Paper has been prepared to outline the proposed approach of the City of Ottawa towards Inclusionary Zoning and allow for feedback, prior to bringing forward a final recommendation to City Council. This paper outlines the key results from the recently completed Inclusionary Zoning Housing Market Assessment Report, identifies the next steps towards implementation, and describes key strategic directions and recommendations to bring an Inclusionary Zoning framework forward.

Inclusionary Zoning is targeted towards moderate-income households, earning between the 4^{th} to 6^{th} decile of household income in either a rental or ownership context. It is not sufficient on its own to provide affordable housing for low-income households but can help deepen affordability for everyone by increasing housing diversity in the market.

The program directly affects the economic calculations that lie behind any housing project, making significant changes to how costs and development viability is calculated. Inclusionary Zoning requires new development to sell or rent a portion of units at a reduced cost to meet affordability thresholds. As a mandatory requirement, developers must provide these units as specified or they will not meet the legal requirements needed to receive approval to move forward with their development.

The Housing Market Assessment prepared by Dillon & NBLC in 2025 indicates that IZ as a short-term policy direction to increase social and housing equity near transit would have the effect of further limiting creation of any units at all – market or affordable. Further, IZ could slow down a market return and push development to geographic market areas not subject to IZ – an impact that would be counter to the growth and policy intent directions of the Official Plan. Further, a number of newly-launched municipal, provincial and federal housing incentive programs are currently underway, the impact of which has not yet been assessed.

As such, this Discussion Paper and recommended actions propose taking a longer-term policy view of how Inclusionary Zoning interacts with the housing market from the perspective of advancing social and housing equity within transit-oriented developments for when the market achieves greater stability. It is proposed that the regulatory framework for Inclusionary Zoning be implemented immediately via amendments to the Official Plan and Zoning By-law, with the mandatory requirement set to 0 percent pending creation of detailed Implementation Guidelines and future re-assessment of housing economic and equity conditions subject to market triggers and assessment of the impact of current incentive programs.

Implementing the regulatory framework now positions the City to activate Inclusionary Zoning when required. This will align with provincial program requirements and transition periods. Amendments to the Official Plan and Zoning By-law are proposed to come forward to Committee and Council in March 2026.

1.0 INTRODUCTION

1.1 Purpose of this Discussion Paper

Inclusionary Zoning (IZ) is a land use tool that requires new residential developments to include affordable housing units near major transit stations. While no single policy can solve all the City's housing challenges, IZ represents one of many available tools that can help with affordability and housing equity as Ottawa grows.

Ontario's *Planning Act* and recently updated Ontario Regulation 232/18 empowers municipalities to adopt IZ by-laws for projects with ten or more units in designated Protected Major Transit Station Areas (PMTSAs), with set-aside rates capped at 5 percent of units (or gross residential floor area), a maximum affordability period of 25 years, and required minimum affordability depths. Ottawa's Official Plan, effective November 4, 2022, designates 26 PMTSAs in the Downtown, Inner/Outer Urban, and Suburban transects. Further, Council has directed staff[1] to pursue IZ as a priority measure to meet the Ten-Year Housing and Homelessness Plan target of 500 new affordable and supportive units annually. Inclusionary Zoning is also included within Initiative 1 of the signed HAF agreement with CMHC with completion of the Market Assessment Report and Implementation as milestones, where IZ contributes to the overall affordability target.

This Discussion Paper has been prepared to outline the proposed approach of the City of Ottawa towards Inclusionary Zoning and allow for feedback, prior to bringing forward a final recommendation to City Council. This paper outlines the key results from the recently completed Inclusionary Zoning Housing Market Assessment Report, identifies the next steps towards implementation, and describes key strategic directions and recommendations to bring an Inclusionary Zoning framework forward.

1.2 Background

Inclusionary zoning is a legislated tool under the *Planning Act* that permits municipalities to require affordable units in market developments as a mandatory requirement. In Ontario, inclusionary zoning is only permitted to apply in Protected Major Transit Station Areas and community planning permit areas and is subject to Ontario Regulation 232/18 under the Act which specifies how inclusionary zoning may occur.

The City's journey on Inclusionary Zoning dates back to 2019, and has evolved through shifts in direction, market and economic instabilities and significant provincial legislative shifts. The City began preliminary steps during the creation of the New Official Plan. These steps flowed from recommendations in the 2020 Ten-Year Housing and Homelessness Plan, which viewed Inclusionary Zoning as a tool for increasing housing equity near transit.

[1] City of Ottawa Council Meeting #79, June 22, 2022 - Item 16.2 (ACS2022-PIE-EDP-0013)

In June 2022, staff provided an update to Council on the status of inclusionary zoning and received various directions on how to move Inclusionary Zoning forward in Ottawa. At the time, staff had developed a draft feasibility study which concluded that moderate levels of inclusionary zoning were potentially feasible for condominium developments, but not for rental developments. Due to market conditions at the time, the condominium market in Ottawa was relatively strong, while developers were struggling to make the financial feasibility analysis work for rental development amid very tight vacancies and a poor lending environment. Staff received direction to consider various inclusionary zoning scenarios and to move ahead with implementation.

In November 2022 in conjunction with the *Bill 23, More Homes, Built Faster Act*, the Province released a proposed update to the regulation which would substantially modify the rules by which municipalities could implement this program. In particular, the proposed amendments imposed an upper limit on the number of units or Gross Floor Area permitted to be set aside for Inclusionary Zoning at 5 percent and established a maximum affordability period of twenty-five (25) years.

These are key variables when studying feasibility of inclusionary zoning, which is the purpose of preparing an Assessment Report. Prior to this regulation, Council had directed staff to explore set-aside rates of up to 20 percent in some market areas with a 99-year affordability period consistent with the approach taken by Toronto, and so the proposed regulation represented a significant shift in direction. As a result of the significant policy and market uncertainties at play, further development of IZ was placed on hold and the draft market assessment abandoned.

Work restarted in November 2024 after discussions with the Province that indicated final IZ regulations were forthcoming. This work included commissioning of a new up-to-date Market Assessment Report. The Provincial government issued the final amendments to Ontario Regulation 232/18 on May 12, 2025, setting the maximum set aside to 5 percent, and a maximum affordability period to 25 years, while also harmonizing the definition of affordability with the *Development Charges Act* and *Provincial Planning Statement*. With this final clarification, the City has been able to complete the required Market Assessment Report with confidence of policy context.

1.3 Who is Involved in Inclusionary Zoning?

Inclusionary Zoning involves a number of partners and organizations, including multiple City departments including Housing Services, Planning, and Legal – and coordination with developers, housing providers, and potential residents.

Figure 1: City Involvement in Inclusionary Zoning

Official Plan
Provides the enabling policies and locations

Zoning By-law
Sets out requirements that development must meet

Development Applications
Affordable units negotiated with developers

Housing Services
Administers and matches residents to IZ units

The key agents are as follows:

- **For-Profit Developers:** New projects would be obligated to provide IZ units.
- **Non-Profit Developers:** non-profit housing providers may manage or acquire the affordable units and help match residents to units.
- **The City of Ottawa:** The City creates the policy and zoning framework, as well as the ongoing administration and compliance monitoring of the program.

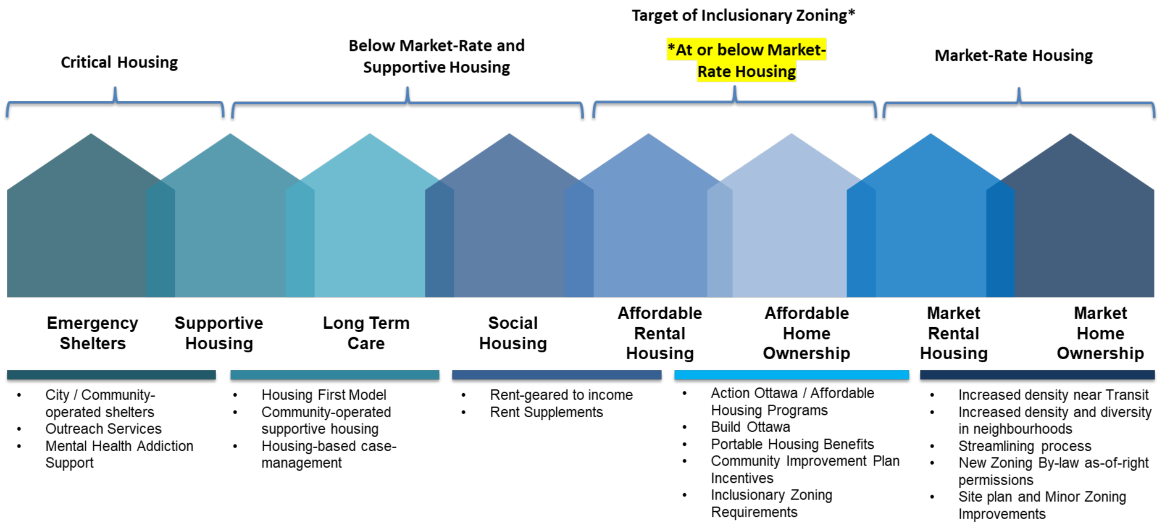
Making Inclusionary Zoning work as a functional tool to provide affordable housing requires a number of steps and alignment – from setting the right rates for the economic conditions, ensuring the agreements are in place, linking residents to new homes, and ensuring the program works effectively as planned for residents and the developer over the long term.

1.4 Who does Inclusionary Zoning Help?

Inclusionary Zoning is targeted towards moderate-income households, earning between the 4th to 6th decile of household income in either a rental or ownership context. It is not aimed towards low-income households but can help deepen affordability for everyone by increasing housing diversity in the market.

When looking at the overall housing continuum (Figure 2) and the various programs and initiatives the City has available to address affordability, Inclusionary Zoning can be thought of as providing a “bridge” between market housing and affordable housing - but it is not designed or intended to provide deep levels of affordability to replace below-market and supportive housing. Deeper levels of affordability can generally best be provided by the non-profit housing market as the degree of subsidization per unit is - in most cases - beyond what is feasible for the private housing market.

Figure 2: Inclusionary Zoning and the Housing Continuum

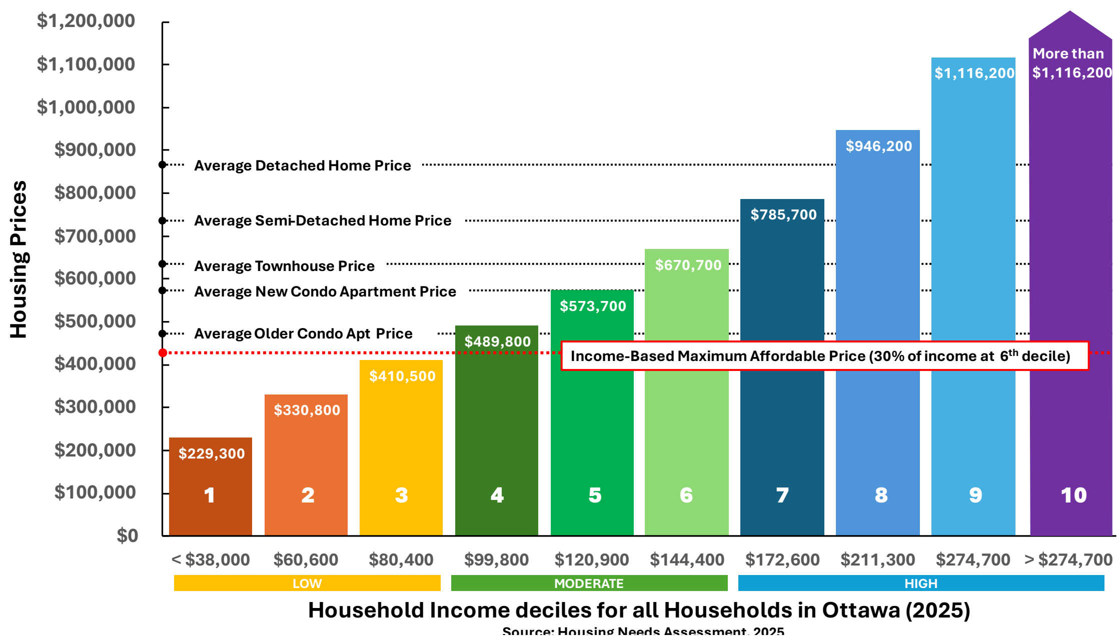


The degree to which Inclusionary Zoning can help moderate income earners is directly related to the depth of affordability required, and the difference between what a unit would have cost under market conditions and what the unit is priced at under Inclusionary Zoning. The Province has defined affordability for purposes of legislative eligibility requirements using two tests – the lesser of 90 percent of the Average Market Rent (or Purchase Price) OR the reasonable housing costs that can be borne by a household at the 6th decile of household income in the City. As these numbers vary quite significantly between cities and even within municipal geographies, these calculations[2] are updated frequently by the Province and in consideration of data from Statistics Canada and Canada Mortgage and Housing.

Figure 3 below shows the range of how household income breaks down into deciles across the Ottawa area, with comparison to the average cost of home ownership and the potential purchasing power of that decile based on market indicators for Ottawa-area real estate. The red line indicates what the maximum affordable purchase price would be, based on provincial income classifications and purchase price affordability testing definition. This shows that average new apartment prices are currently achievable for a household in the 5th and 6th decile, but out of reach for a household in the 4th decile (making just under $100,000 in gross annual pay). Inclusionary Zoning would reduce the cost to purchase, bringing a new apartment into the range for a 4th decile household to purchase.

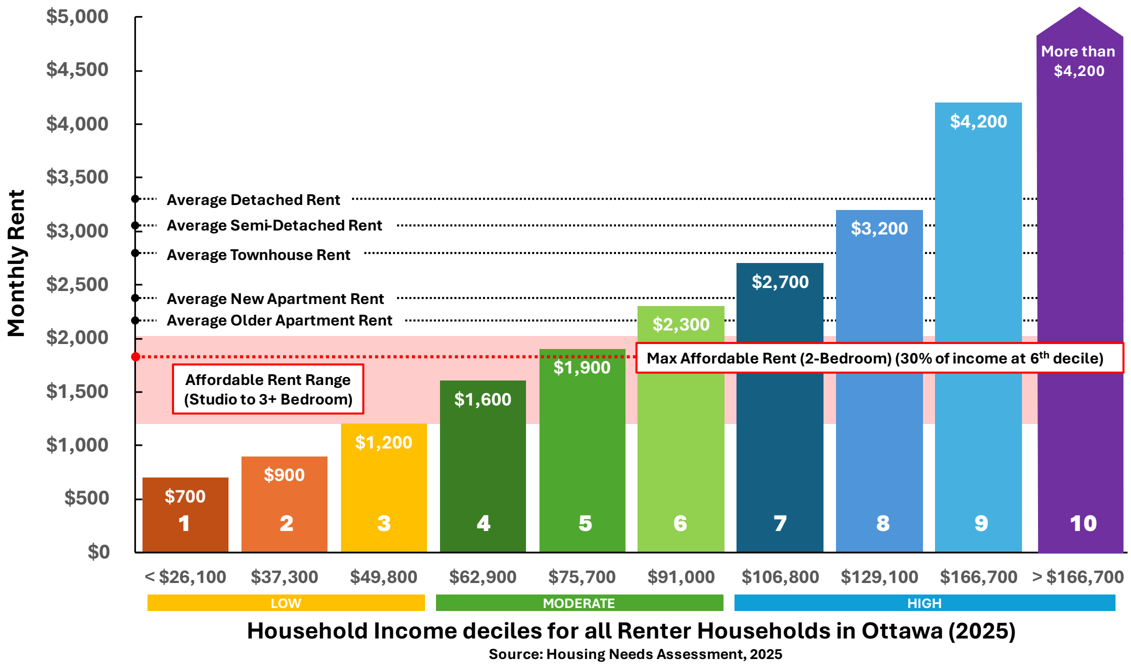
[2] Affordable Residential Units for the Purposes of the Development Charges Act, 1997 Bulletin (Updated Annually)

Figure 3: Purchasing Capacity of Ownership Household Incomes by Decile



For renter households the calculation is a bit different and is shown in Figure 4 below. Based on Statistics Canada census data rental households generally have a reduced household income range available. Further, the Province and CMHC breaks down rental apartment affordability based on how many bedrooms are provided – with studio apartments offering the lowest rent, and 3+ bedrooms renting for more. However the overall conclusion is similar to the home ownership table, where average rents have moved higher than moderate-income earners can reasonably afford as a function of their living expenses. Inclusionary Zoning would require a reduction in rents down to a range where 4th to 6th decile households could find housing at a more affordable level.

Figure 4: Renting Capacity of Renter Household Incomes by Decile



In short, this is the social benefit for Inclusionary Zoning. It offers a means by which some portion of a market development can be set aside for a broader range of households across the socio-economic spectrum – leading to greater housing equity particularly near to transit.

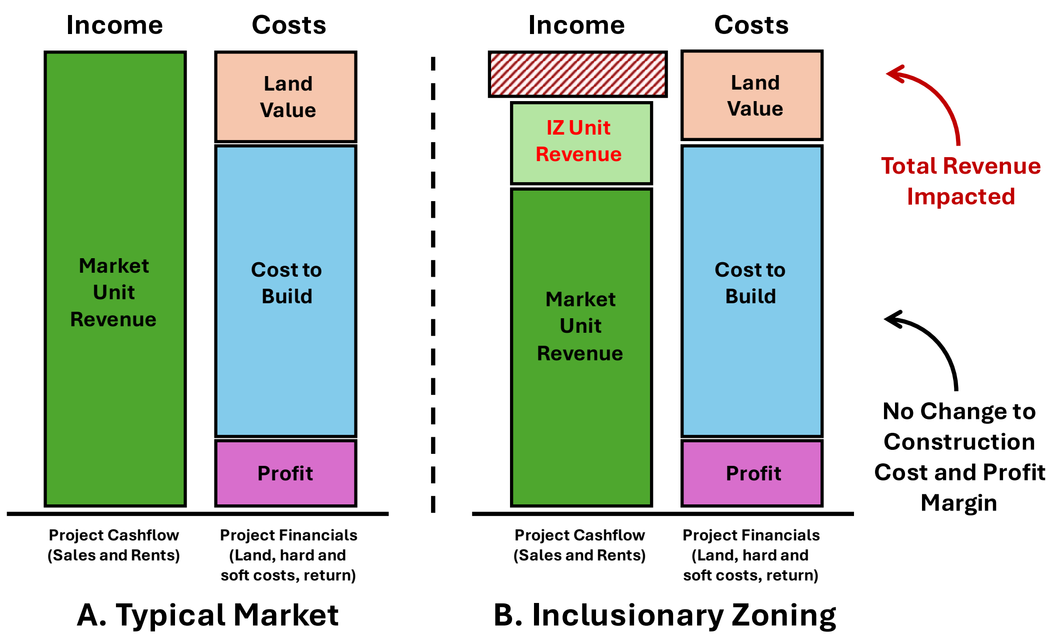
1.5 How Does Inclusionary Zoning Work?

Inclusionary Zoning reduces the sale or rental price for new units provided in a market building, which has benefit to increasing who can afford to live there, but it comes at a cost.

The program directly affects the economic calculations that lie behind any housing project, making significant changes to how costs and development viability is calculated. Inclusionary Zoning requires new development to sell or rent a portion of units at a reduced price to meet affordability thresholds. As a mandatory requirement, developers must provide these units as specified or they will not meet the legal requirements needed to receive approval to move forward with their development.

Figure 5 provides a simplified and high-level view of the inputs and outputs involved in the economics behind Inclusionary Zoning. The affordable price is assigned directly to the unit for a specified period of time, meaning the affordability is legally tied directly to the unit, and is separate from who purchases it or rents it. Any rent increase or sale value change between owners can only happen within the bounds of what is considered affordable per the Inclusionary Zoning requirements. In turn, the purchaser or renter is required to be means-tested to ensure the affordable unit is going to a household who will benefit from the lower housing price. So the result is a unit that is guaranteed to be affordable for an extended period of time.

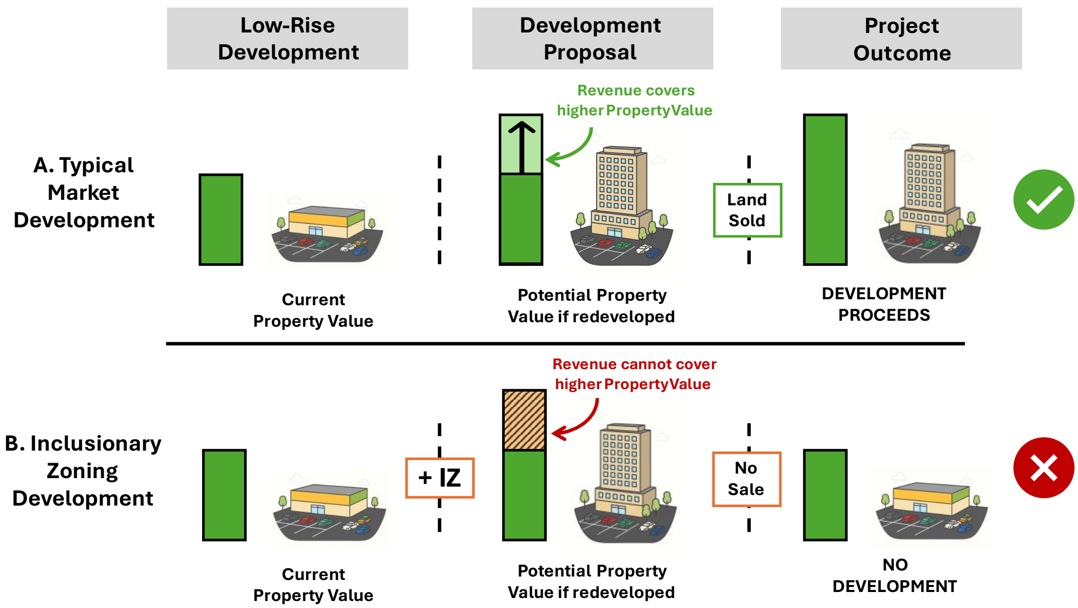
Figure 5: Economics of Inclusionary Zoning



This immediate and ongoing reduced housing price has social benefits, but it is not free. The reduced price of an Inclusionary-Zoned unit significantly impacts its sale or rental price. The effect depends on how large the decrease is from market price to the affordable rate. However, for the developer the cost to build the unit is the same and the long-term operating costs for the building overall remain the same. This means the developer will not earn the same revenue from that unit as would have been received – both as an initial sale, and as a contribution to long-term building operation.

To "make the math work" developers need to find a way to offset the decreased revenue through other means – by increasing the sale or rental price for other units (if the market will allow this to happen), renegotiate the purchase price of the development site (if not already acquired) to reflect the change in land value resulting from reduced project revenue, or potentially change the project entirely if the pro forma no longer makes sense. Figure 6 demonstrates the potential risks to the decision making that can happen "behind the scenes" as these costs are worked through in a development transaction.

Figure 6: Development Feasibility Risks with Inclusionary Zoning



In the "Typical" scenario, a developer assesses the current value of a property and how much they may be willing to pay to purchase a property from a seller (who is looking for the best price). The developer considers what could be built and calculates the potential return on investment (or the anticipated capitalization rate for a rental project) and assesses whether the desired land price is fair – if so, the deal moves forward.

In the "Inclusionary Zoning" scenario, the developer assesses what can be built for a viable return, and in this case, concludes that the seller's land price is too high relative to the potential return and passes on the project – meaning no housing at all. By regulating the sale or rent value of units in a project. It therefore directly affects a development pro forma, and requires a market developer to do any of the following:

A. Accept a reduced margin on the total project;
B. Renegotiate land acquisition costs (if possible);
C. Offset IZ subsidy by increasing prices on remaining market units; or
D. Revise or abandon the project until feasibility improves.

In effect, Inclusionary Zoning transfers value from one part of a project in order to subsidize affordability for a portion of units and can affect project viability. This push-pull between affordability and development viability is a big part of what makes Inclusionary Zoning so controversial and challenging to implement, why the Province sets strict requirements on what municipalities can require, and what economic analysis needs to be prepared to justify a mandatory requirement for affordability in market developments.

2.0 Housing Market Assessment Report

A Housing Market Assessment Report is required by subsection 16(9) of the *Planning Act* when a municipality wants to introduce inclusionary zoning. Since requiring affordable units in market developments affects the revenue generated by those developments, the purpose of an assessment report is to ensure that inclusionary zoning would not render development in the subject area(s) infeasible.

Ontario Regulation 232/18 details the required components of an Assessment Report, including "an analysis of potential impacts on the housing market and on the financial viability of development or redevelopment in the municipality from inclusionary zoning by-laws…". This means that any final recommendations must be consistent with the market analysis, and demonstrate that there is a reasonable basis.

The following provides a summary of the findings of the Report. The full report can be viewed online at the City of Ottawa website on Inclusionary Zoning.

2.1 Housing Market Assessment Report Overview

Staff have received an updated Inclusionary Zoning Market Assessment Report prepared by Dillon Consulting and N. Barry Lyon Consultants for the City of Ottawa, in conjunction with a Peer Review as provided by UrbanMetrics, in accordance with Provincial regulations. Inclusionary Zoning (IZ) allows municipalities to require a portion of new residential development to be affordable, but its success depends on aligning planning policy, market demand, and project economics.

The report evaluates IZ feasibility in Ottawa's transit-oriented Protected Major Transit Station Areas (PMTSAs), identifies current market constraints, and recommends a flexible, phased implementation approach supported by targeted incentives.

2.2 System Pressures and Market Realities

The Housing Market Assessment was developed alongside the overall Housing Needs Assessment prepared for the 10 Year Housing and Homelessness Plan to ensure consistency. The Market Assessment includes a deeper dive into the market economics at play, particularly in areas near transit. The following are the key points:

- Ottawa's population grew by 15 percent from 2011 to 2021 and is forecast to add nearly 400,000 residents by 2046.
- Roughly one third of new households will rent long-term, driven by younger adults, post-secondary students, immigrants, and non-permanent residents.
- Over 100,000 Ottawa households live in core housing need, spending over 30 percent of their income on shelter, and more than 15,000 remain on social housing wait lists for 4-7 years.

- Rental vacancy rates hover near 2.5 percent, well below the healthy 3-5 percent range, and average rents (now $971/month) have outpaced income growth.
- Housing Starts have been significantly impacted by inflation and high interest rates. Construction costs have risen 55 percent since 2020, while the Bank of Canada's policy rate has increased ten times in 2022-23 to curb inflation.

For many projects, the cost of development is now higher than the achievable market pricing necessary for the project to be viable – a result of rising construction costs and interest rates that increase financing and carrying costs, as well as rising municipal fees and charges. Achievable market pricing has also declined. When interest rates rise, the purchasing power of buyers is negatively impacted for both new and resale homes and the pool of potential purchasers is decreased. This has resulted in the price of both new and resale units declining with softened demand.

The overall picture is that these pressures have eroded development viability. Fewer condominium projects are launching, rental deliveries have outpaced condos, and condominium resale and pre-construction sales volumes have softened. New purpose-built rental supply continues but is sensitive to financing costs and land values.

2.3 Mandatory Exemptions

The regulation establishes mandatory exemptions. An Inclusionary Zoning By-law cannot apply to a development or redevelopment that contains fewer than 10 residential units, or is proposed by a non-profit housing provider or a partnership in which a non-profit housing provider has an interest greater than 51 per cent, or where a minimum of 51 per cent of the units are intended as affordable housing, excluding any offsite units that would be located in the development or redevelopment.

The regulation further exempts developments based on the status of applications at the time of implementation. Site Plan or Building Permits are exempted if submitted on or before the day the Inclusionary Zoning By-law is passed. Subdivision or Condominium applications are exempted if applications for Official Plan and Zoning By-law Amendments were submitted along with an application for a Plan of Subdivision or Condominium description on or before the day the Official Plan policies were adopted.

2.4 Feasibility Analysis Framework

Financial feasibility testing of development models is a requirement of the regulations, and central to the Market Assessment Report. This is to understand the impacts of IZ policies on the fundamental economic realities that go into development of a residential housing development near to a transit station.

Three high-density development prototypes were developed to test these economic impacts:

- 55-storey concrete in the Downtown;
- 30-storey high-rise in the Inner/Outer Urban area; and
- Six-storey wood-frame mid-rise in the Suburban transect.

These potential development scenarios were then tested under “base case” (100 percent market rate) and two IZ scenarios (5 percent set-aside at income-based ownership or at 100 percent of average market rent). A forward-looking sensitivity applied moderate assumptions - lower interest rates, stabilized construction costs, partially waived development charges, and modest revenue growth - to gauge future feasibility.

2.5 Key Findings

The results of the above analysis demonstrated that Inclusionary Zoning has a frictional effect on development, resulting in unviable development under current market conditions, or reduced development opportunity that may limit market return as economic conditions improve. The key findings are as follows:

- Base-case land values for most market-rate scenarios are negative - costs plus profit exceed revenue - so adding Inclusionary Zoning without offsets further undermines viability.
- Rental projects show relatively stronger resilience than condos, thanks in part to federal/provincial rental-specific incentives and robust rental demand.
- In optimistic “forward-looking” conditions, modest positive land values emerge for rental prototypes and some condo cases, but IZ still compresses residual land values unless paired with incentives or increased density.

The findings indicate that IZ as a policy direction to increase social and housing equity near transit would have the effect of further limiting creation of any units at all – market or affordable. Further, if not implemented with care, IZ could slow down a market return and push development to geographic market areas not subject to IZ – an impact that would be counter to the growth and policy intent directions of the Official Plan.

3.0 Public and Stakeholder Engagement

This memo consolidates findings and key feedback received from consultation activities conducted from September to November, 2025. This includes industry consultations, peer municipal interviews, and comments received from public open houses in conjunction with the 10 year Housing and Homelessness Plan. The memo provides an overview of these consultation activities, key observations, lessons learned, and next steps to inform Ottawa's Inclusionary Zoning (IZ) implementation strategy.

3.1 Engagement Activities

Three streams of consultation took place:

- **Peer Municipal Interviews (September, 2025)**. With the assistance of staff from Dillon Consulting, staff engaged with key contacts at the City of Toronto and City of Mississauga to discuss their work and implementation of Inclusionary Zoning, and lessons learned.
- **Public Open Houses (September/October, 2025).** In conjunction with the staff responsible for delivering the 10 Year Housing and Homelessness Plan, staff attended three open houses with information and materials about inclusionary zoning – speaking with 24 attendees over the course of the three sessions.
- **Industry Engagement (October/November, 2025).** With the assistance of staff from Dillon Consulting, staff met with representatives from non-profit and for-profit housing industry representatives one-on-one to discuss Inclusionary Zoning and get their perspectives on how best to implement this tool.

The key themes and findings from the engagements are summarized below.

3.2 Definition of Affordability

The definition of affordability – and what is considered affordable and by whom – was a subject of key concern across all three engagement streams. Peer municipalities use income-based definitions (30 percent of household income) and AMR benchmarks that are customized to their individual markets and vary depending on the type of unit being sought. This provided them with customization, though also increased the administrative burden and complexity.

For-Profit Industry stakeholders expressed concerns that provincial affordability thresholds (as defined in the *Provincial Planning Statement, 2024* and as calculated in the Affordable Residential Units for the Purposes of the Development Charges Act, 1997 Bulletin) while consistent in application are overly high-level and do not accurately reflect local market rates, costs and conditions, resulting in substantial impact on feasibility. Not-for-profit Stakeholders were less concerned and were supportive of tying to the provincial definitions, while preferring affordability tied to 90 -100 percent of Average Market Rent (AMR) and not necessarily to income.

Public feedback emphasized transparency and clarity in affordability calculations, expressing concern over being clear on what affordability means, and who benefits from where the limits are set.

3.3 Implementation

All three streams acknowledged the need for some form of transition period to avoid disrupting the housing market unduly, though public comments were more concerned that the provincial changes to the scope and scale of inclusionary zoning could result in little to no actual meaningful impact. Public comments expressed a range of preferences for 1, 2 and 3-bedroom units, with accessibility considerations raised by residents as something the City should consider requesting in addition to affordability.

For industry stakeholders, it was noted that administrative models can vary substantially. For-profit rental operators vastly preferred to have the City stay away from the internal operations of their buildings and allow for their own in-house management systems to take lead in securing, testing and managing tenants, while not-for-profit stakeholders expressed willingness to manage units if delivered at scale.

Municipal contacts recommended keeping things as simple as possible, noting that the complex and customized processes they had set up for their own programs were proving a challenge to administer and properly resource, and were creating friction with the housing industry.

3.4 Financial Viability and Incentives

No comments were received on this from the public open houses, but were a matter of substantial comment from industry stakeholders. For-profit stakeholders unanimously viewed Inclusionary Zoning as a direct revenue loss without any offsetting programs or benefits provided. They noted that the impact was not just on the revenue side, but also compounded available funds for ongoing operating costs above and beyond the discount between market value and a potential IZ-unit revenue stream.

Municipal colleagues noted that similar concerns had been received for their programs as well, with particular frustrations voiced over complicated legal agreements.

Suggested incentives include ensuring full linking and stacking opportunity with Tax Increment Equivalent Grants (TIEGs), development charge waivers, and expedited approvals. As IZ involves providing affordable housing as a community benefit, it was suggested that the Community Benefit Charge applicable to the whole building could also be looked at as an incentive, either as a funding source for an affordability offsetting fund or waived in entirety where IZ units are provided. Not-for-profit stakeholders stressed the need for upfront capital contributions and partnership agreements.

3.5 Flexibility and Openness to Alternatives

For-Profit and Non-Profit stakeholders both expressed a need for the future policy to not pre-suppose solutions but instead focus on the outcome of improving housing equity around transit. To that end, policies were urged to not be prescriptive and allow a number of innovative ways to achieve the results desired.

Off-site provision of units was discussed and is supported by both sectors if it creates operational scale, but there were some concerns about how to value the off-site units appropriately, and how these could be conditioned without resulting in onerous and challenging agreements and securities provision. It was noted that peer municipalities are allowing off-site units within PMTSAs under strict criteria (timely delivery, zoning compliance, improved housing outcomes) though no agreements have yet been processed.

3.6 Key Takeaways

Key lessons and takeaways learned from the discussions to date can be summarized as follows:

- **The affordability definition is important.** Setting the right definition will have a huge impact on project feasibility, and in how a development subject to IZ can align across various municipal, provincial and federal programs to increase viability and avoid confusion.
- **Keep implementation guidelines simple and predictable.** Other cities have gone down the route of trying to be prescriptive on how the program will be delivered by the private sector, what units will be provided, and how residents will be selected – which has resulted in complex and lengthy processes and resource issues.
- **Build for the outcome and maintain flexibility in approach.** The objective is to ensure that there are opportunities for housing across the socio-economic continuum near transit. Inclusionary zoning is but one tool to achieve affordability near transit, and there are many ways to encourage affordability. The policy tool should not presuppose tenure options, how units could be provided on or off site, or close the door on innovative approaches.
- **Pair IZ with financial incentives and partnerships to ensure viability.** As a mandatory tool, even at 5 percent requirement IZ can have a very negative impact on development near transit, thereby reducing housing action in the areas the City most wants to see it happen. As such, IZ policies and implementation need to be linked with other levers to offset implications and encourage the desired outcome.
- **Clear triggers and metrics linked to the desired outcome are critical.** It is clear that financial viability cannot be the only test for whether inclusionary zoning should be activated in a transit area. The tests for whether or not to apply inclusionary zoning should be linked to housing equity and have a basis in metrics that assess whether equity is rising or falling. This can include changes in rental vacancy and rates across income deciles, socio-economic factors such as relative age or household formation, or other key metrics. These must be

reasonable and clear indicators that provide information on not simply if inclusionary zoning is feasible, but also if it is necessary and desirable to introduce in a transit area.

4.0 THE PATH FORWARD

This section summarizes the key policy directions to guide the Official Plan policies and Inclusionary Zoning By-law regulations for the City of Ottawa. The proposed framework is structured around two main categories:

- **Standard and Regulatory Parameters:** These are the mandatory, non-discretionary policies required to legally "enable" the framework (authorizing policies, mandatory reporting). These requirements are fixed legislative obligations that must be included to comply with the Planning Act and O. Reg. 232/18.
- **Strategic Policy Directions:** These are the discretionary parameters where the City must determine specific settings (set-aside rates, unit mix, off-site provisions). These "Directions" are informed by the findings of the Assessment Report and consultation with stakeholders.

The proposed directions support the City's goal of implementing this tool effectively as a sustainable, long-term tool to increase affordable housing stock, aligning with Council's direction, the Housing Needs Assessment, and the 10-Year Housing and Homelessness Plan.

4.1 Standard and Regulatory Parameters

To ensure full conformity with *O. Reg. 232/18* and the *Planning Act*, the Official Plan and Inclusionary Zoning By-law must incorporate the following mandatory statutory requirements[3]:

- **Authorization:** Official Plan policies will explicitly authorize the use of Inclusionary Zoning within Protected Major Transit Station Areas (PMTSAs).
- **Goals and Objectives:** Policies will articulate the goal of increasing the stock of long-term affordable housing to foster integrated, complete communities.
- **Legal Agreements:** The Inclusionary Zoning By-law will require, as a mandatory condition of development approval, that property owners enter into agreements with the City registered on title. These agreements will secure the long-term obligations of the affordable units in accordance with the Inclusionary Zoning Implementation Guidelines.
- **Mandatory Reporting:** To satisfy accountability requirements, Council will ensure a public report is prepared at least every two years detailing the program's status. This report will track the total unit count, unit types (e.g., bedroom count), location, income depths served, the number of affordable units converted to market units, and any proceeds received from resales.

[3] The Planning Act and O. Reg. 232/18 require municipalities to define how measures and incentives would be determined for IZ. While there are statutory exemptions for certain charges, the municipality has discretion on other incentives; therefore, incentives are discussed further in this paper.

The *Planning Act* and *O. Reg. 232/18* prescribe the mandatory requirements that must be encoded in the Official Plan (OP), the Inclusionary Zoning By-law, or both. These requirements are presented in Table 1 below.

Table 1: Legislated Mandatory Requirements

Parameter	Legislative and Regulatory Requirement	Mechanism
Authorization	Authorize the use of IZ.	Official Plan
Goals and Objectives	Set out the specific goals and objectives of the IZ policies.	Official Plan
Geographic Application	Apply entirely within Protected Major Transit Station Areas (PMTSAs) or areas subject to a Community Planning Permit System (CPPS).	Official Plan and Zoning
Minimum Development Threshold	Specify the minimum scale of development (e.g., unit count or GFA) that triggers the application of IZ.	Official Plan and Zoning
Maximum Set-aside Rate	Limit requirement to a maximum of 5 per cent of the total residential units or 5 per cent of the total residential Gross Floor Area (GFA).	Official Plan and Zoning
Affordability Term	Establish the affordability period, capped by regulation at a maximum term of 25 years.	Official Plan and Zoning
Affordability Depth	Define the approach to determining affordable prices/rents.	Official Plan
Range of Household Incomes	Identify the specific range of household incomes for which the affordable housing units are intended.	Official Plan
Measures and Incentives	Include measures and incentives (financial or non-financial) to support delivery. IZ By-law may provide for additional measures and incentives not included in Official Plan policy.	Official Plan and Zoning
Unit Standards	Set authorized unit ranges and require enforceable standards for mix, type, and size to ensure integration and quality.	Official Plan and Zoning
Off-site Units	Authorize the provision of off-site units and establish the circumstances and conditions under which they are permitted.	Official Plan
Maintenance of Affordability	Require that units be sold or leased at affordable rates during the affordability period to ensure continued compliance.	Official Plan and Zoning
Agreements	Require the property owner to enter into an agreement with the municipality to ensure continued compliance with IZ requirements, to be registered on title.	Official Plan
Net Proceeds from Resale	Set out the approach to determine the percentage of net proceeds from the sale of an affordable ownership unit that must be distributed to the municipality. The IZ By-law *may* require a portion be distributed, which cannot exceed 50 per cent.	Official Plan and Zoning

4.2 Strategic Policy Directions

The following subsections detail the specific policy parameters where the City has exercised its municipal discretion to balance housing needs with development viability, grounded in the findings of the Assessment Report.

Should IZ Introduce a Sub-Market Approach?

Analysis

The Assessment Report concludes that under current market conditions, characterized by high interest rates and construction costs, market-rate development across Ottawa's Transects is already struggling to achieve financial viability. The analysis indicates that implementing a mandatory set-aside (e.g., 5 percent) without significant financial offsets would likely impede housing delivery in transit nodes.

While a "sub-market" approach (setting different rates could theoretically be utilized to vary set-aside rates by geographic area or transit station catchment, the financial analysis demonstrates that viability challenges are currently systemic rather than localized. Consequently, a sub-market approach is unlikely to yield a significant number of affordable units in the near term and would require a complex, resource-intensive monitoring framework to manage amendments for specific areas. Implementing a blanket 0% rate across all PMTSAs is the most prudent interim measure, ensuring the policy does not hinder development while positioning the City to adapt quickly when market conditions improve.

Direction

Official Plan policies and Inclusionary Zoning By-law regulations should apply Inclusionary Zoning uniformly across all PMTSAs and establish a single initial set-aside rate of 0 percent.

Rationale/Feedback

- **Strategic Agility:** Establishing the regulatory framework now allows the City to "turn on" requirements through a targeted Zoning By-law Amendment once the market rebounds. Future updates to the Assessment Report can evaluate if specific sub-markets have recovered sufficiently to absorb costs earlier than others.
- **Partnership Development:** This interim period positions the City to continue working with the development community and non-profit sector to facilitate dialogue on project viability and develop the partnerships necessary to support future delivery.

How Should the Affordability Threshold be Defined?

Analysis

To satisfy legislative requirements, the Official Plan must identify the range of household incomes served by the policy. The Community and Social Services Department at the City of Ottawa has been refining a new unified definition of affordability to help provide a common understanding of what affordability means for market and income-based programs. The Provincial income and market-based definition aligns with the new income-based municipal definition of affordability, and is in line with the intent to create a common eligibility framework for municipal programs. Further, calibrating the definition of affordability with Provincial statutory exemptions ensures that units created under this policy are automatically eligible for mandatory waivers of Development Charges, Parkland Dedication, and Community Benefit Charges. The Provincial definition establishes a "lesser of" test to ensure depth of affordability:

- **Rental:** The rent must be no greater than the lesser of the income-based affordable rent (30 percent of the gross household income of the 60th percentile of the renter household) or the Average Market Rent (AMR).
- **Ownership:** The purchase price must be no greater than the lesser of the income-based purchase price (30 percent of the gross household income of the 60th percentile of the total household) or 90 percent of the average purchase price.

Direction

Official Plan policies should align the definition of "affordable" with the proposed income-based municipal definition of affordability and connect with the Affordable Residential Units for the Purposes of the *Development Charges Act, 1997* Bulletin. This establishes a standardized, annually updated affordability threshold for both ownership and rental units within a consistent municipal framework.

While this definition differs from the eligibility requirements for the Tax Increment Equivalent Grant (TIEG) established in the Affordability Housing Community Improvement Plan (CIP), IZ units that also meet the CIP's eligibility requirements will be eligible for "stacking" of the Provincially-mandated development charge exemption and the TIEG and is it anticipated the TIEG program will adjust as the new municipal affordability definition is implemented corporately.

Rationale/Feedback

- **Strategic Alignment:** This definition targets the 60th percentile of the household income distribution, directly addressing the "market affordable" gap identified in the City's *Housing Needs Assessment* and *10-Year Housing and Homelessness Plan*.
- **Administrative Efficiency:** Stakeholders favored a harmonized definition over site-specific calculations. Relying on an income-based municipal unified definition calibrated with the Provincial Bulletin reduces administrative burden as the Province updates the data annually based on CMHC and census data, meaning the City's affordability thresholds will be coordinated with evolving economic conditions without requiring staff to recalculate and publish new rates.
- **Stacking Incentives:** Developers still have the option to access additional financial incentives through the Affordable Housing CIP and benefit from newly launched DC, CILP and CBC waivers – all of which could further support overall project viability and help offset the forgone revenue associated with the provision of affordable units.

Should IZ Establish a 25-Year Affordability Period or Less?

Analysis

O. Reg. 232/18 caps the affordability period for Inclusionary Zoning units at a maximum of 25 years. While the City has the discretion to set a shorter term, doing so would reduce the public return on investment. The negotiation, registration, and ongoing monitoring of IZ agreements require significant municipal resources. Applying the maximum 25-year term ensures the most efficient return on this administrative investment, securing the longest possible benefit period for each agreement executed. Furthermore, requiring units to remain affordable for the full duration ensures that the housing stock provides long-term stability and is not lost to the open market in the short-to-medium term.

Direction

Official Plan policies and Inclusionary Zoning By-law regulations should establish a mandatory affordability period of 25 years for all Inclusionary Zoning units. While this 25-year affordability term differs from the eligibility requirements for the TIEG established in the Affordable Housing CIP, IZ units secured for a 25-year period could be eligible for "stacking" with the CIP to access the TIEG, provided the development meets the broader program criteria established in the CIP and Inclusionary Zoning By-law.

Rationale/Feedback

- **Stakeholder Feedback:** During engagement, non-profit housing providers advocated for a 99-year or perpetuity period to align with their operational models and ensure permanent housing stock. However, stakeholders acknowledged that the City is constrained by the 25-year Provincial cap. Developers indicated that while a shorter term is preferable for resale marketability, a 25-year term provides a predictable timeframe for pro-forma modeling compared to perpetuity.
- **Stacking Incentives:** The 25-year term in the Inclusionary Zoning By-law facilitates access to the TIEG if the development meets all the other eligibility requirements of the Affordable Housing CIP program. Further alignment would need to happen as a next step.

Should IZ Focus on Rental or Ownership Tenure?

Analysis

The City’s Housing Needs Assessment identifies a critical shortage of affordable options in both the rental and ownership markets. Limiting the policy to a single tenure would restrict the City's ability to address housing gaps across the entire continuum. Permitting both tenures provides the necessary flexibility to secure affordable units within any type of high-density residential development, regardless of the specific business model proposed by the developer.

Direction

Official Plan policies and Inclusionary Zoning By-law regulations should permit both rental and ownership tenures for Inclusionary Zoning units.

Rationale/Feedback

- **Development Industry (Rental Integration):** Developers of purpose-built rental housing emphasized that aligning the affordable tenure with the market tenure maximizes operational efficiency by allowing them to leverage existing leasing and management infrastructure.
- **Non-Profit Sector (Ownership Mechanics):** Housing providers expressed a preference for ownership tenure specifically to facilitate "block acquisition." Retaining an ownership option allows non-profits to acquire a distinct parcel of units (a critical mass) rather than managing scattered individual units. This structure allows for economies of scale in property management and tenant support, making the long-term administration of the units financially sustainable.

Should IZ Allow for Proportional Unit Mix or Require Family-Size Units?

Analysis

The 2024 Housing Needs Assessment identifies distinct pressure points at both ends of the housing spectrum. While data confirms a high volume of Core Housing Need among smaller, single-person households, it also highlights a critical shortage of family-sized rental units (3-bedroom or more). It is recognized that 3-bedroom units in high-rise contexts have economic feasibility challenges, and are not a replacement for expanding the supply of 3-bedroom units in low and mid-rise contexts.

However, a policy approach that mirrors the market mix would assist furthering the goal of affordable supply remaining diverse and integrated while avoiding site-specific complications in determining what units are to be linked to the inclusionary zoning requirements. This strategy addresses the high volume of demand for smaller units while ensuring that, where larger-sized units are proposed by the market, a proportionate share of these are secured as affordable to address the scarcity of larger rental stock and provide some additional variety of unit sizes at varying price points.

Direction

Official Plan policies should require the unit mix of Inclusionary Zoning units to be proportional to the unit mix of the market component of the development.[4]

[4] Unit mix and design standards will be further secured at the Site Plan approval stage to ensure conformity with Official Plan policies and compliance with the Zoning By-law.

Rationale/Feedback

Industry stakeholders emphasized that the cost of delivering affordable housing is significantly lower for smaller units. Developers noted that the revenue gap between market and affordable rents is widest for family-sized units, meaning that a policy mandating a heavy concentration of large units would disproportionately impact project feasibility and may result in unintended consequences. Adopting a proportional unit mix partially mitigates this risk, ensuring that the affordable housing obligation aligns with the economic structure of the proposed development.

Should an Off-Site Provision be Permitted?

Analysis

O. Reg. 232/18 requires that if a municipality permits off-site units, the Official Plan must explicitly set out the circumstances and conditions for their allowance. Providing the regulatory option for off-site delivery offers necessary flexibility for complex sites or unique partnership opportunities but ensures that the flexibility of off-site delivery is reserved for scenarios that generate a tangible public benefit beyond what would be achieved through standard on-site compliance.

To allow the City to adapt to specific project complexities without embedding prescriptive detail in the Official Plan, criteria such as specific proximity boundaries, occupancy timing triggers, and minimum development thresholds can be housed in the Inclusionary Zoning Implementation Guidelines.

Direction

Official Plan policies should permit the provision of IZ units on an off-site location, strictly at the City's discretion by way of a Zoning By-law Amendment or equivalent alternative process as identified in the Inclusionary Zoning Implementation Guidelines. To ensure operational viability, off-site provision will be subject to the applicant demonstrating an "Improved Housing Outcome" and adherence to additional criteria as established in the Inclusionary Zoning Implementation Guidelines.

Rationale/Feedback

- **Municipal Precedent:** A Zoning By-law Amendment to secure off-site units is consistent with approaches employed by the City of Toronto and the City of Mississauga, where off-site provision should only be permitted at the City's discretion when the applicant can demonstrate an "Improved Housing Outcome”.
- **Alternative Approach:** By establishing an alternative approach to ensuring off-site units are secured, the City provides the flexibility to support creative solutions and partnerships while providing developers with a more streamlined pathway to fulfill their obligations without the necessity of a formal Zoning By-law Amendment.
- **Market-Rate Developers:** Feedback indicates that while off-site provision is a welcomed flexibility for complex scenarios, it will likely be a secondary option. Developers of purpose-

built rental noted that managing IZ units on-site is generally more efficient than securing a separate off-site location.

- **Non-Profit Sector:** The non-profit housing sector expressed a strong willingness to partner on off-site delivery, identifying it as a key mechanism to acquire "blocks" of units or receive dedicated land contributions to scale their operations.

What Should Be Established as the Minimum Development Threshold?

Analysis

The establishment of a minimum development threshold should balance the City's intensification objectives within the "Protected Hubs" ("Hubs") designation, administrative requirements, and the regulatory constraints imposed by the Province for maximum set-aside rates. Determining a minimum development threshold should consider the goals of the Official Plan as they relate to minimum density requirements, the type of built form IZ policies should be applied to, and strategic consideration of operational efficiencies to support administrative sustainability and ensure that IZ policies do not discourage "missing middle" or low-rise densification.

Establishing a dual threshold based on unit count and GFA creates a clear mechanism to capture the scale of mid-to-high density development that characterizes growth within Ottawa's PMTSAs. This threshold aligns with Official Plan policies for "Hubs", targeting the specific high density and large-scale mixed-use typologies intended for these transit nodes.

Official Plan Policy Alignment (Sections 3 & 6):

Section 3 mandates minimum density targets for Strategic Growth Areas, which include the "Hubs" designation, ranging from 150 dwellings per net hectare for Suburban "Hubs", and 350 for Downtown "Hubs". Section 6 of the Official Plan designates "Hubs" as the primary focus for the City's most significant intensification, permitting and encouraging high-density typologies to define these transit nodes.

Assessment Report Framework:

The Assessment Report evaluated financial feasibility on "benchmark" prototypes ranging from 223 to 438 units. These scenarios demonstrate that prototypical development happening within PMTSAs provides scale to which IZ is intended to apply to across Transects. While these scenarios confirm viability for large-scale projects, the regulatory framework must also capture development which may be smaller than the prototypes modeled but are essential for meeting density targets on smaller parcels.

Establishing the 80-unit Baseline:

A critical factor in determining the threshold is the Provincial legislation, which strictly caps the set-aside rate at 5 percent of total units or 5 percent of total residential floor area. This could create a mathematical constraint regarding "whole unit" delivery.

The Assessment Report establishes an average unit size for developments in the Downtown Transect at 65 square metres. If a unit threshold is set too low, rounding a fractional requirement up to the nearest whole unit could inadvertently permit a developer to provide less than a whole unit (e.g., 5 percent of 75 units would require 3.75 affordable units). The City would not be statutorily permitted to request the fourth unit without breaching the 5 percent cap identified in O. Reg. 232/18. In Transects where average unit sizes are smaller and density is generally higher, establishing a minimum threshold for unit delivery allows the to City to secure a baseline “cluster” of units to support operational scale.

To secure a meaningful cluster of 4 whole affordable units without exceeding the legislative cap, a development must have a minimum of 80 units. Establishing the threshold at 80 units ensures the set-aside rate is sufficient to deliver a whole number of 4 IZ units that remains strictly compliant with the 5 percent limit.

Applying a concurrent set-aside rate to total residential floor area supports the flexible delivery of IZ units while avoiding the complexity of satisfying set-aside rates on potentially fractional residential unit counts. This approach aligns with Official Plan policies establishing a proportional unit mix and provides developers with the flexibility to determine the final unit sizes and counts to satisfy Inclusionary Zoning requirements.

Capturing "Luxury" Inventory with GFA:

The inclusion of a GFA threshold ensures that developments with large floorplates but lower unit counts (e.g., luxury condominiums with large average unit sizes) remain eligible for Inclusionary Zoning contributions. A 40 unit building with an average unit size of approximately 150 square metres results in a residential GFA of 6,000 square metres. Including GFA as a metric that triggers IZ prevents a loophole where a building effectively matches the physical scale of a higher density development but falls under the unit count threshold due to unit consolidation.

Direction

Official Plan policies and Inclusionary Zoning By-law regulations should trigger IZ for developments containing 80 or more residential units or 6,000 square metres or more of residential Gross Floor Area (GFA).

Rationale/Feedback

- **Operational Efficiency:** Setting the threshold at this level supports administrative sustainability. It concentrates municipal resources on large-scale projects that deliver a "critical mass" of affordable housing, rather than creating a fragmented inventory of scattered units (e.g., 2 units in a 40-unit building) that may be resource-intensive to monitor and manage.
- **Supporting Diverse Housing Forms:** By focusing on large-scale projects, this policy safeguards the viability of smaller-scale densification, which is critical for growth in less dense areas such as the Suburban Transect. It helps ensure that low-rise, mid-rise, and "missing

middle" infill projects can proceed without the administrative complexity of IZ requirements, thereby preventing barriers to gentle intensification in PMTSAs.

- **Comparative Policy Context:** Peer municipalities utilize minimum thresholds as a direct policy response to the local development context and the administrative inefficiency of managing small numbers of IZ units. The unit and GFA trigger is a key implementation detail designed to focus administrative resources where they will have the greatest impact.
  - **City of Toronto:** The threshold is 100 units or 8,000 square metres GFA.
  - **City of Mississauga:** The threshold is 50 units or 3,600 square metres GFA.

Should the City Require Net Proceeds from Affordable Unit Sales?

Analysis

O. Reg. 232/18 grants municipalities the authority to secure a share of the "net proceeds" from the sale of an affordable unit, capped at a maximum of 50 percent. Without this provision, a single private owner could receive a massive, publicly subsidized windfall simply for outlasting the 25-year affordability term. Capturing a share of this uplift allows the City to reinvest the value generated by the IZ policy back into the Housing Reserve Fund to subsidize future affordable housing developments.

For sales occurring during the affordability period, relying on a restrictive covenant on title could create a system that is largely self-managing. The covenant could obligate the seller’s lawyer to verify the purchaser's income eligibility as a condition of closing thereby reducing administrative burden on the City to be an intermediary on private transactions.

Direction

Official Plan policies will establish the specific approach for determining net proceeds, requiring that:

- **End of Term (Post-25 Years):** The City shall receive 50 percent of the net proceeds in the event an affordable ownership unit is sold at a market price following the expiration of the affordability period.
- **During Term (Years 1–25):** The mandatory legal agreements registered on title will include a restrictive covenant to govern resale conditions. This covenant will stipulate that any sale occurring within the affordability period must be to an eligible household meeting specific income verification thresholds as outlined within the Inclusionary Zoning Regulations.
- **By-law Requirement:** Inclusionary Zoning By-law regulations will explicitly require the distribution of these net proceeds to the City as a mandatory condition of development.

Rationale/Feedback

- **Municipal Precedent:** This approach aligns with the best practices of peer municipalities. Both the City of Toronto and City of Mississauga have adopted the maximum 50 percent share to protect the public interest and disincentivize "flipping" for personal gain.
- **Administrative Efficiency:** Utilizing restrictive covenants could be a more efficient administrative tool than direct municipal involvement. It could minimize the need for City staff involvement in individual private transactions.

Should the City Establish IZ Transition Periods?

Analysis

Implementing a defined transition period is a critical mechanism to reduce friction during the initial rollout of the policy. By providing a clear window of time before mandatory requirements take effect, the City ensures that projects currently in the pre-application or design phases can adjust their proformas to account for the new cost obligations. This approach mitigates the risk of stalling development activity and supports a smoother shift towards the new regulatory environment, ensuring that the introduction of the policy does not inadvertently compromise projects that are already well-advanced in the planning process.

Direction

The Inclusionary Zoning By-law will include at minimum a two-year transition period (harmonized with the biennial reporting period) to provide the development industry with sufficient lead time to integrate affordable housing requirements into active project pipelines.

Rationale/Feedback

- **Industry Feedback:** Industry stakeholders indicated that a transition period is essential to accurately reflect the cost of Inclusionary Zoning in project development budgets. Stakeholders emphasized that without this lead time, projects that have already established land values based on previous assumptions would encounter viability challenges. Providing at minimum a two-year transition linked to amendments to set-aside rates arising from changes in market and housing needs would provide a baseline for industry.
- **Municipal Precedent:** Peer municipalities (Toronto and Mississauga) confirmed that applying reasonable transition periods was a successful strategy. Staff from these jurisdictions noted that this approach aided in the administration of the policy and helped maintain a collaborative relationship with the development industry during the implementation phase.

How to Establish Additional Incentives?

Analysis

Recent legislative changes (The More Homes Built Faster Act, 2022) have simplified the incentive landscape by linking financial exemptions directly to the Provincial definition of an "affordable residential unit". Specifically, these statutory exemptions include:

- Development Charges (DCs);
- Community Benefit Charges (CBCs); and
- Parkland Dedication requirements.

Staff are mindful that there are a number of new provincial and federal incentives that are either in place or are aligning in short order, and there are municipal incentives including flexibility with development charges, community benefits, cash in lieu of parking, and programs such as the Affordable Housing Community Improvement Plan Tax Program which can add value and impact degree of affordability – with or without Inclusionary Zoning as a further layer.

By referencing the Implementation Guidelines for the administration of any additional Council-approved incentives (e.g., Affordable Housing CIP, or potential future grant programs), the City retains flexibility. This ensures that if Council chooses to develop additional incentive programs in the future, the administrative mechanics can be updated efficiently in the Guidelines without requiring an Official Plan amendment.

Direction

Official Plan policies and IZ By-law will establish that the primary "measures and incentives" provided to support Inclusionary Zoning are the statutory exemptions mandated by Provincial legislation. Any additional discretionary incentives as may be established by Council to achieve improved housing outcomes will be detailed and administered in accordance with the Inclusionary Zoning Implementation Guidelines.

Implementation Guidelines will reference eligibility for Community Improvement Programs including the Affordable Housing CIP, and encourage developers to consider setting the rates of the affordable housing units to meet both the IZ and CIP criteria to access the beneficial financial incentive programs of the CIP.

Rationale/Feedback

- **Statutory Alignment:** Eligibility for statutory exemptions (fees and charges) is determined strictly by adherence to the affordability criteria set out in the applicable Provincial Bulletin.
- **Municipal Discretion:** The City is not obligated to provide financial incentives beyond statutory exemptions for base compliance.
- **Guideline Reference:** The procedures for validating eligibility and administering any discretionary incentives will be determined in accordance with the Inclusionary Zoning Implementation Guidelines.

- **Incentive Stacking:** Integrating the Affordable Housing CIP within the IZ framework, albeit with more stringent eligibility requirements for depth and term of affordability, represents an opportunity for further incentives to support project feasibility and offset the forgone revenue associated with mandatory affordable housing delivery.

When Should the City Update the IZ Assessment Report?

Analysis

The statutory five-year update cycle provides a "safety net" to ensure housing needs and viability data remain current. However, given the recommendation to launch with a 0 percent set-aside rate, the City requires a responsive mechanism to "turn on" the policy when the market recovers.

A "Market Trigger" approach ensures that the City does not miss the window of opportunity during a market upswing. A timely update to the *Assessment Report* provides the necessary financial evidence to support a Planning Committee report recommending a Zoning By-law Amendment to increase the set-aside rate above 0 percent.

Crucially, the City need not rely solely on the findings of "viability" in the *Assessment Report* to justify an increase in the set-aside rate. Section 2(1), item 6 in O.Reg, 232/18 only requires an "analysis of potential impacts on the housing market and on the financial viability of development" and does not specifically require proof of viability before implementing IZ. This means that the City could include an equity lens in a future assessment report upon which Council could choose to increase the set aside rate.

Direction

While *O. Reg. 232/18* mandates an update to the *Assessment Report* every five years, Official Plan policies will establish both a "Market Trigger" and "Housing Need" monitoring framework to ensure the program remains responsive to evolving conditions.

- **Market Trigger:** Policies will direct Staff to monitor key market indicators (e.g., land transaction volumes, rental absorption rates, and construction cost stabilization) on a biennial schedule. If monitoring indicates that market conditions have improved sufficiently to support a mandatory contribution of affordable housing units, Staff will initiate an early update to the Assessment Report.
- **Housing Need Trigger:** Policies will direct Staff to monitor indicators within the Housing Needs Assessment (e.g., core housing need, income-to-shelter cost ratios, and vacancy rates), or other key municipal, provincial or federal data. If monitoring demonstrates an increased affordable housing need, the City may initiate an update to the Assessment Report with consideration of social equity objectives alongside market considerations.

Rationale/Feedback

- **Predictability:** Stakeholders emphasized the need for predictability regarding when and how the set-aside rate would change. By codifying the "Market Trigger" approach in policy, the City provides clear notice to the industry that rate increases will be evidence-based and tied to specific economic recovery metrics, rather than arbitrary timelines.
- **Equity Needs:** By integrating housing need monitoring, the City ensures the IZ framework is not a static financial tool but a responsive housing policy. This dual-track approach allows the City to provide a transparent, data-backed rationale for policy changes, whether driven by the market or an urgent need to address the affordable housing gap.
- **Administrative Agility:** This framework enables the City to initiate a review of the set-aside rate ahead of the standard five-year cycle as soon as evidence, either market or social, indicates there's merit in a re-assessment, thereby ensuring the policy remains a proactive tool for maximizing public benefit.

4.3 Implementation Guidelines

To ensure operational efficiency and responsiveness, staff propose to develop Inclusionary Zoning Implementation Guidelines to house the detailed mechanics of the program. The intent of these Guidelines is to codify the operational requirements that are not statutorily mandated for inclusion in the Official Plan or Zoning By-law.

By separating legislative requirements for IZ policy and regulations from operational procedures, this approach significantly reduces the administrative burden of future amendments. It ensures the City can rapidly adapt administrative protocols to evolving market conditions or best practices, while providing the development industry with a clear, consolidated manual of requirements.

The following considerations provide direction on the operational mechanisms required to operationalize this framework effectively:

Implementation Philosophy

The Guide will establish guiding principles (e.g., equity, accessibility, transparency, and administrative simplicity) to steer the interpretation of the guidelines and the resolution of unique cases.

Unit Standards and Design Guidelines

- **Integration**: Design standards ensuring affordable units are visually indistinguishable from market units and share common entrances, elevators, and lobbies.
- **Amenity Access:** Confirmation that affordable housing residents have access to all indoor and outdoor amenities (e.g., pools, gyms, party rooms) on the same terms as market residents.

- **Phasing:** Requirements for affordable units to be ready for occupancy concurrently with market units to prevent delivery delays.

Household Eligibility and Selection

- **Income Verification:** Procedures for applying Provincial income data (e.g., Regional Market Area data) to determine maximum household income eligibility.
- **Selection Process:** Protocols for managing tenant and purchaser selection (e.g., randomized selection processes or centralized waitlists) to ensure fair access.

Administration

- **Affordability Rate Determination:** Protocols for the annual updating and publication of affordable rents and purchase prices. The guidelines will specify when these rates are released (e.g., following the publication of the annual Provincial Bulletin) and how they are calculated for specific unit types to ensure developers have clear, predictable pricing targets.
- **Monitoring and Compliance:** Protocols for the ongoing verification of occupancy and affordability. This includes the collection of data required for the statutory biennial Council report (e.g., tracking unit counts, locations, and affordability depths) and procedures for annual compliance audits (e.g., review of rent rolls and tenant eligibility).
- **Rental:** Guidelines for "Tenant Access Plans," rent control formulas (tied to Provincial guidelines), and annual compliance reporting.
- **Ownership:** Procedures for calculating maximum resale prices and the City's share of "Net Proceeds" in accordance with the applicable Provincial Bulletin.
- **Block Leasing and Purchasing:** Options and procedures for "block" arrangements, where non-profits lease or purchase multiple units.

Off-Site Provision Criteria

- **Evaluation Framework:** A checklist for Staff to evaluate "Improved Housing Outcomes" (e.g., does the proposal provide deeper affordability or more family-sized units).
- **Proximity Standards:** Clear definitions of "proximity" (e.g., within the same PMTSA or a specific radius).
- **Timing Triggers:** Requirements linking the delivery of off-site units to the building permits or occupancy of the market development.

Agreement Parameters

- **Subject Matter for a Standardized Agreement:** Identification of the standard subject matter (e.g., insurance requirements, indemnities, and default provisions) and the incorporation of the operational parameters identified above (e.g., unit standards, eligibility, and administration) to ensure a comprehensive enforcement framework within the Section 35.2 Inclusionary Zoning Agreement.

The development of the Implementation Guidelines is proposed to occur after passage of the Official Plan Amendment and Zoning By-law Amendment, during the transition period proposed in the recommendations above and prior to the biennial re-assessment of applicable rates for Inclusionary Zoning.

5.0 Conclusion

This Discussion Paper outlines the purpose and structure of how Inclusionary Zoning can be implemented in Ottawa, and recommends the comprehensive policy and regulatory framework required to implement this tool. The proposed framework is described in Table 2.

Table 2: Proposed Policy Framework

Parameter	Recommendation
Geographic Application	Apply entirely within Protected Major Transit Station Areas (PMTSAs). No sub-market approach is currently recommended.
Minimum Development Threshold	80 or more residential units or 6,000 square metres or more of residential Gross Floor Area (GFA), applicable to both purpose-built rental and condominium developments.
Maximum Set-aside Rate	0 percent, subject to review in the next market assessment.
Transition Period	Where an existing set-aside rate is proposed to increase, a minimum 2-year transition period will be included in the Zoning By-law.
Affordability Term	25 Years
Affordability Depth	Align the definition of "affordable" with the new unified income-based municipal definition of affordability in the forthcoming 10 Year Housing and Homelessness Plan update, calibrated with the “Affordable Residential Units for the Purposes of the *Development Charges Act, 1997* Bulletin.”
Range of Household Incomes	4^{th} to 6^{th} income deciles (owner and renter households) as identified through the “Affordable Residential Units for the Purposes of the *Development Charges Act, 1997* Bulletin.”
Measures and Incentives	Alignment with existing TIEG and additional programs to be explored through development of Inclusionary Zoning Implementation Guidelines, impact of existing provincial and municipal DC, CILP and CBC exemptions will be assessed in the next market assessment report.
Unit Standards	Proportional to the unit mix of the market component of the development.
Off-site Units	Permitted by way of a Zoning By-law Amendment or equivalent alternative process as identified in the Inclusionary Zoning Implementation Guidelines.
Maintenance of Affordability	Restrictive covenant to be added on title specifying resale and rental value as indexed to the affordability levels set out and updated from time to time in the “Affordable Residential Units for the Purposes of the *Development Charges Act, 1997* Bulletin.”
Agreements	Require the property owner to enter into an agreement with the municipality to ensure continued compliance with IZ requirements, to be registered on title.

Housing Market Assessments	Official Plan policies will establish both a "Market Trigger" and “Housing Need” monitoring framework with reporting on a two-year cycle to ensure the program remains responsive to evolving conditions.
Net Proceeds from Resale	City to receive 50 percent of the net proceeds in the event an affordable ownership unit is sold at a market price following the expiration of the affordability period.

The recommended approach secures the necessary legal authority and regulatory structure today, employing an initial 0 percent set-aside rate as an interim measure until the next market re-assessment to ensure housing development within Ottawa’s PMTSAs is not further constrained while the housing market continues to adjust to rapid shifts in federal, provincial and municipal housing policy. This strategy aligns with the findings of the Inclusionary Zoning Assessment Report, adheres to the regulatory requirements of Provincial legislation, and integrates critical feedback from the development industry and non-profit sector.

5.1 Administrative and Monitoring Considerations

It is important to note that while the implementing tools are Planning Act instruments (Official Plan and Zoning By-law), IZ requires a significant administrative, legal and coordination framework that must be implemented, resourced and maintained – signed legal agreements on title are required from developers, and individual units obtained from IZ must be tracked and monitored through the duration of their affordability term.

Further, early discussions with non-profit providers have made clear that the rate of 5 percent of units in a future condominium development would not provide the scale of housing that would be manageable for a non-profit provider to administer on behalf of a for-profit developer – so a path where ownership units could be consolidated (off-site provision) or administered by the City or other entity in a block format would need to be explored if deemed necessary.

This framework must be developed and be ready to go before Inclusionary Zoning can become a mandatory requirement. In addition, regular provincial reporting and revised market assessments are required by Provincial law. Key tools to be developed include:

- Develop standardized IZ agreement clauses capturing tenure, income verification, resale controls, net-proceeds sharing, and compliance monitoring.
- Integration of IZ approvals pathways into Site Plan and Building Permit (zoning compliance) workflows to minimize delays.
- Prepare an biennial Inclusionary Zoning Performance Report (per O.Reg. 232/18) and a full Inclusionary Zoning Assessment Update every five years.

- Partner agreements with non-profits for block leasing/purchase of IZ units to maximize affordability stability if and where deemed necessary.
- Finalize the detailed "Implementation Guidelines" to provide clear structure and guidance for the implementation of Inclusionary Zoning for staff and the development industry.

5.2 Planning for Long-Term Housing Equity

Inclusionary Zoning is a powerful tool, albeit one that requires patience given current housing market conditions, and needs to be considered as "one of many" options to improve housing affordability alongside regulatory reform, financial incentives and direct delivery of housing. Imposing Inclusionary Zoning requirements now could create friction in an already-constrained housing market. This may delay projects further or render them non-viable.

As such, it is paramount that a longer-term view be taken with Inclusionary Zoning. The pathway to IZ should be looked at from the perspective of advancing social and housing equity within transit-oriented developments for when the market achieves greater stability. In turn, policy considerations should look to how IZ may be "stacked" with other incentive or assistance programs from the municipal or other levels of government to "offset" the immediate feasibility impact.

While the market cannot currently support mandatory set-aside rates without potentially hindering housing supply, implementing the IZ policy framework at this stage allows the City to adapt quickly to new programs, incentives and market shifts. By establishing the IZ framework now, the City will be positioned to "turn on" IZ requirements once conditions improve, and where erosion in housing equity requires public intervention in the housing market.

By adopting this "Market Trigger" approach, the City positions itself to adapt to shifting housing conditions. Establishing the full policy and regulatory framework now ensures that the City is better poised to phase-in mandatory affordable housing requirements upon demonstrated market viability and should housing equity near transit further erode.

5.3 Next Steps

Technical reports and materials, including the Housing Market Assessment Report, Peer Review, and this Discussion Paper are available for public viewing and comment at the Inclusionary Zoning website, and should be reviewed alongside the contents of this discussion paper.

A full report with proposed Official Plan and Zoning Amendments to set out the framework for Inclusionary Zoning are proposed to be presented to committee in **Q1 2026**, in line with federal and municipal commitments. Creation of the detailed Inclusionary Zoning Implementation Guidelines and market trigger criteria for future re-assessment will follow Council review and direction to staff following submission of the report and By-law Amendments.

Comments and feedback on this Discussion Paper and proposed policy directions must be received by **February 9, 2026** in order to be considered prior to submission of the final recommendations to committee. Please contact **David Wise, Housing Acceleration Fund Coordinator** at David.wise@ottawa.ca for submission of comments or to keep informed of further developments of this housing tool.