

How to Put Affordable in the Missing Middle



A SUMMARY OF THE WEBINAR SERIES



City
Building



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DISCLAIMER

This report summarizes the main points discussed during the webinar series “How to Put Affordable in the Missing Middle.” The opinions, findings, and recommendations found in this document do not necessarily reflect those of the organizing institutions (the School of Cities at the University of Toronto, City Building TMU, and the Urban Land Institute - Toronto).

EXECUTIVE SUMMARY

Many municipalities, including Toronto, are implementing Missing Middle^[1] programs and other reforms to address the housing crisis. However, early evidence suggests that, at least in Canada, these changes are not generating affordable housing, but rather producing market-rate homes. Moreover, the uptake of these programs, even at market rates, is disappointingly low.

Opportunity for Affordable MISSING LITTLE

Recognizing the opportunities offered by Missing Middle housing types, the School of Cities at the University of Toronto and City Building TMU organized a webinar series in February 2023 focused on the “**Missing Little**.”^[2] The Missing Little represents the smallest scale of the Missing Middle typology range, and adds units to an existing house and/or yard. It does not require demolishing an existing home and building something new. We focused on the Missing Little in this webinar series because it has the potential to:

- Yield more affordable units because of reduced construction costs
- Involve less disruption for the homeowner and the neighbourhood
- Make it possible for the homeowner to age in place
- Be delivered more quickly than conventional apartments or demolishing/rebuilding projects
- Be scaled throughout neighbourhoods
- Provide low-carbon housing^[3]

The Webinar Series:

The webinar series was intended to re-centre the debate around affordability and equity within the Missing Little building scale. Experts addressed four key questions:

- How can we bring down construction costs by doing less construction?
- What are the barriers to implementing the Missing Little?
- What innovative financing tools would encourage homeowner participation?
- How can we ensure that the Missing Little is equitable?

By presenting promising practices across Canada and the United States, panellists proposed ways to promote a “Missing Little Renovation Revolution” that is affordable and equitable. Acknowledging the numerous barriers - zoning, building codes, design and permitting, construction, financing, social acceptance - the panellists emphasized that implementing the Missing Little is challenging, but doable (under certain conditions) and worthwhile. Recent changes in municipal policies that encourage diversity and innovation in housing types are promising and will, it is hoped, lead the way to changes on a larger scale.

Scaling up and reinforcing the demand - supply cycle is key to achieving affordability and feasibility, which requires removing all barriers, systemizing processes, and using replicable designs (where applicable). Furthermore, facilitating access to finance is essential to improving affordability and equity. The webinar suggested and showcased innovative and alternative finance strategies, such as co-ownership, stratification, community land trusts, etc., that can be used to finance renovations.

Achieving affordable and equitable Missing Little housing requires collaboration between all stakeholders whilst taking market conditions and local contexts into account, as well as ensuring that provincial and municipal policies prioritize affordability and equity.

Figure 1: Missing Little spectrum and where it fits within the Missing Middle

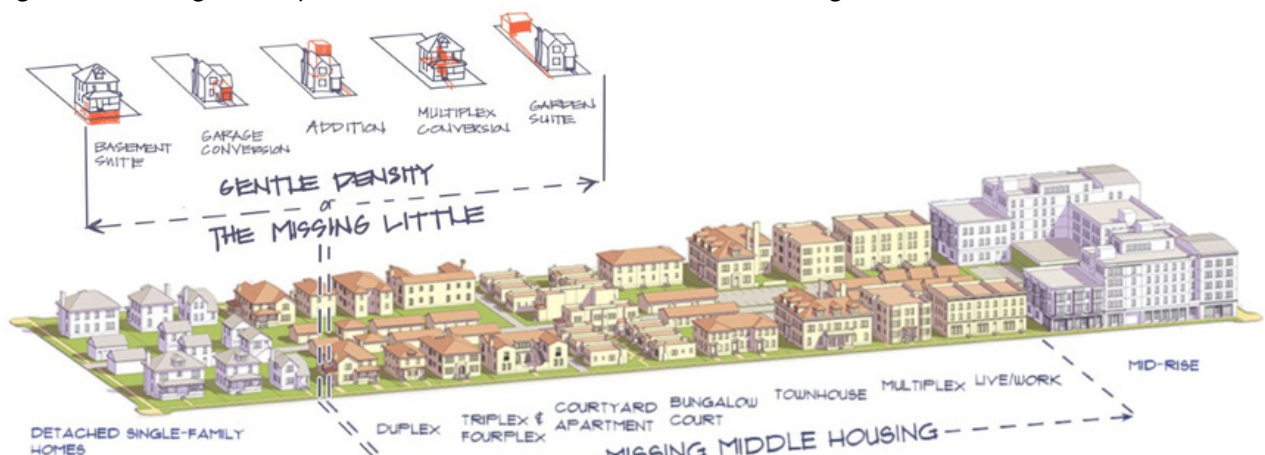


Image by Daniel Parolek, with additions by Tuf Lab, Michael Piper

INTRODUCTION

Many municipalities, including Toronto, are implementing Missing Middle programs and other reforms to address the housing affordability crisis. However, early evidence shows that these changes are not generating affordable housing, but rather producing market-rate homes. Moreover, the uptake of these programs, even at market rates, is disappointingly low.



[The Affordable Missing Middle initiative](#) at the School of Cities and City Building TMU, and its [Charter for affordable and equitable gentle urban density](#), is intended to **recentre the debate on affordability and equity**. A webinar series in February 2023 examined the issues.

California, which has seen a "gentle density revolution," can serve as an example. From 2019 to 2021, 12% of all housing permits in California were for Accessory Dwelling Units (ADUs)[\[4\]](#). Moreover, the units were largely affordable by design, with a median cost of US\$150,000[\[5\]](#).

While bylaws allowing for gentle density have also been adopted in Toronto, the results are very different. Since 2018, only 90 laneway dwellings have been created, many of them costing more than Can\$400,000 each. In Los Angeles, a city with a population comparable to that of Toronto, more than 25,000 ADUs have been permitted (21% of all housing permits) and almost half of those have been built.

How can Toronto and other Canadian cities that are rolling out these programs help create more Missing Little units (ADUs) at a lower price?

THE MISSING LITTLE - UNTAPPED AFFORDABLE HOUSING SUPPLY

Low-rise residential neighbourhoods constitute a tremendous opportunity to create new housing. Indeed, building onto or within an existing home is a carbon-efficient way to deliver new housing, and, if done effectively, can ensure affordability. Moreover, taking advantage of locations that already have the services and infrastructure needed by residents will save costs for municipalities and households, reduce reliance on driving and greenhouse gas emissions, and support local businesses.

The webinar series focused on the Missing Little, a term coined by Professor Michael Piper, to refer to what can take place inside a single-family house or on its parcel of land, usually by homeowners or "citizen developers." Panellists explored how the Missing Little might produce more affordable units, addressing four key questions:

1. How can we bring down construction costs by doing less construction? Can we design and build a more affordable blueprint to add units?
2. What are the barriers to implementing the Missing Little and how can these be overcome?
3. What's in it for the homeowner? What innovative financing tools would encourage homeowner participation?
4. How can we ensure that this "Renovation Revolution" is equitable?

THE MISSING LITTLE - A RENOVATION REVOLUTION!

Much of Toronto's urban land supply (54%) is made up of single-family housing lots. The possibility of transforming one house suggests the potential of transforming many, especially with the recent push in Toronto to encourage multiplexes with up to four units in the principal building and the possibility of a fifth unit in the form of an accessory dwelling.







A [report](#) prepared for the Urban Land Institute by architects, developers, and planners, compares proformas for four different buildings ranging from 3 units to 28 units. As shown in Figure 2, only the renovated triplex is affordable by design.

[Click this link to explore a report by ULI about multiplex housing financial feasibility \[6\]](#)

Compared with new construction, renovations can be both cost-effective and environmentally sustainable. Economies of scale do not seem to work here: large buildings seem to cost more than smaller ones, even though they produce more units per site. However, the Missing Little, supported by effective programs, could be faster to deliver affordable supply throughout neighbourhoods.

The case for renovation based on ULI's *Missing Middle Housing: Development Costs and Affordability* report:

Figure 2: Results of proforma comparison between new builds and renovation, based on ULI report

28 Units New Build	10 Units New Build	3 Units New Build	3 Units Renovation
			
\$708 PSF	\$604 PSF	\$465 PSF	\$365 PSF
Rent required for a viable project:	Rent required for a viable project:	Rent required to break even by year 3:	Rent required to pocket \$1200/mo in income:
\$2,490 / mo (1br) \$2,840 / mo (2br)	\$1960 - \$3300 / mo	\$3,050 / mo	\$1,650
Affordable rent for households earning median income:	Affordable rent for households earning median income:	Affordable rent for households earning median income:	Affordable rent for households earning median income:
\$1,595 / mo	\$1,725 / mo	\$1,940 / mo	\$1,940 / mo



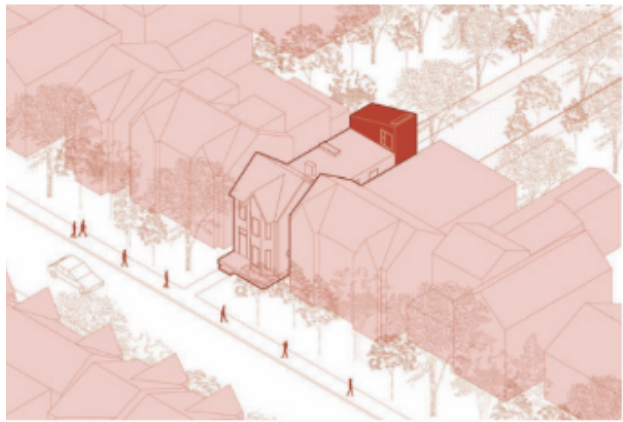
The website rehousing.ca offers cost-conscious designs to convert typical single-family homes across the Toronto "Yellow Belt" into multiplex housing, empowering citizens to achieve home ownership and create new units.

The missing little is light touch density prioritizing cost-effective renovations and additions to yield dignified forms of housing. Here are some examples:

Multiplex Conversion Rohan Walters - Spaces by Rohan



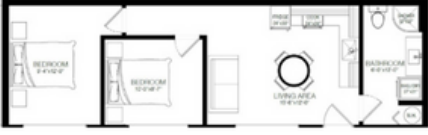
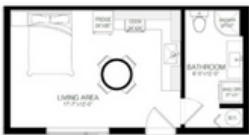
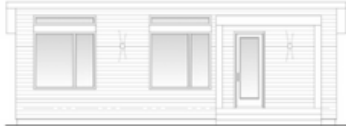
Garden Suite Kfir Gluzberg - Kilogram Studio



Laneway Suite
Janna Levit - LGA



Modular Suites, Jacob Sofer - Metrosuite



Panellists made the following points during the four webinars:

INCREASING PREDICTABILITY AND SYSTEMATIZATION

Having pre-designed blueprints for detached ADUs or backyard suites would allow for streamlined pre-approval and building permit processes.

For example, San Jose, California, has an [ADU pre-designed application portal](#) through which homeowners can apply and receive a permit in one day. "Rolling" pre-approved plan programs that allow any applicant to request "pre-approval" of their proposed plans allows homeowners the ability to choose from a variety of designers including prefab builders; to quickly access plans and permits; shortens re-review time for local agencies; and keeps responsibility of costs for plan accuracy and updating with the designers.

For other types of Missing Little housing, like multiplex conversions, additions, or garage conversions, pre-approved details could expedite the approval process.

Due to variations in dimensions and site conditions, full pre-designed blueprints that comply with building codes might not be practical for these typologies of Missing Little. However, providing a set of code-compliant details (such as a fire separated wall) that could be downloaded and included in a submission set would expedite the drawings review and approval processes.

Code changes for multiplexes to facilitate conversions.

Some changes to existing codes are needed to make multiplex creation and conversion easier, while maintaining safety. For example, creating code revisions to allow for single stair exiting, and revisions to electrical codes, will facilitate increased supply of multiplexes.

Creating repeatable designs and section details is a way to address the current shortage of labour and be efficient in the use of subcontractors.

Streamlining the permitting process through expedited reviews has the potential to address important time constraints in local government and the private sector that hinder the implementation of the Missing Little.

Normalization or standardization of zoning regulations across the city, as well as communicating them clearly, will simplify the submission process, reduce submission errors, and save time.

Building height requirements, for example, have varied widely from neighbourhood to neighbourhood, resulting in errors and resubmissions, which wastes time for both the applicant and the municipality. Some cities are using a tool called “site-specific exemptions” for specific zones to standardize zoning regulations for multiplexes city-wide.

Systematization covers many aspects of construction, including structural components, zoning requirements, fire codes, and safety. Those interested in renovating need to know what they should look for and what questions to ask. Marketing and education tools should present the different options and strategies available, the possible setbacks and complexities, as well as the potential benefits. Private websites could link homeowners with people who can design, build, finance, and insure the units. A municipal one-stop shop could make the process easier, as detailed later in this report.

CREATING INCENTIVES FOR HOMEOWNERS

A fundamental generational shift has resulted in increasing numbers of people or households motivated to undertake renovations. Considering how difficult and expensive it is to get into the housing market, younger generations are delaying homeownership at record rates. At the same time, younger generations do not necessarily see having a whole house for themselves as a goal. Moreover, diverse family situations and multi-generational models suggest that the division of a home can have different meanings and motivations.

For the older generation - senior citizens who are homeowners and want to downsize yet cannot afford to relocate within the same area - renovation allows them to rely on a rental income stream while preserving familiar social connections, support, and services.

Allowing architects and builders to ask the City to pre-approve detached ADU plans and section details for multiplex conversions makes the process easier for homeowners, the City, and designers. Pre-approvals can include a variety of designs, details, and manufacturing methods, and can address different family needs. Architects can help make the process more predictable, stable, and reliable by addressing long-term goals and flexibility to allow people to age in place, or accommodate changes in household structures over time.

The cost of real estate represents the main barrier to building housing at this scale, making it difficult to profit from conversions. Governments can help reduce certain costs (HST, development charges, permit timelines, non-safety construction requirements, or design fees, for example) associated with producing this kind of housing.

A not-for-profit developer could buy and aggregate a large number of scattered single-family dwellings in a way that provides economies of scale in renovating and adding units within the Missing Little context, in other words, a not-for-profit REIT^[7] that might provide affordable units. Other interesting models to investigate are [Options for Homes](#), which reduces downpayment costs, or a [Go Co-ownership](#) model such as [Co-Housing Options Canada](#), which brings people together to become their own developers and share costs and responsibilities. Vancity (Vancouver Credit Union) has templates for shared living or [co-ownership](#), providing financial structures for families to live and own together. These templates could help in the design and implementation of Missing Little units.



Casita Coalition and Office of: Office, have a guidance memo for homeowners, jurisdictions and ADU practitioners, to guide the creation of [Pre-Reviewed Plan Programs](#).

BUSTING THROUGH THE BARRIERS TO THE MISSING LITTLE

LESSONS FROM PORTLAND, OREGON

As in Toronto, single-family neighbourhoods make up much of Portland's land use (44%), an urban fabric that does not respond well to demographic changes. A high proportion of households in Oregon have only 1 or 2 residents, yet more than 85% of the housing stock has 2 or more bedrooms. **The number of ADU permits issued in Portland has increased significantly since 2005, averaging more than one a day between 2015 and 2018, and has stabilized at about 300 a year since 2019.**



Portland took several steps to enable this rapid increase. Every version of an ADU was allowed, to ensure that new units fit discreetly into existing neighbourhoods, and ADUs were allowed as of right on every lot in the city provided they met certain standards. Moreover, there are no owner-occupancy requirements, no extra parking is required, some permit fees are waived, and explanatory materials are provided to those new to the process. The fact that other cities legalized ADUs also accelerated the development of Missing Middle housing types. Eight states now allow ADUs as of right, and in some places two ADUs are allowed on a single lot.

Portland expanded the scope of gentle density, with small multiplexes and cottage clusters. [The Residential Infill project](#) incentivizes people to build additional units and enables the development of mid-sized homes. The size of permitted space shrank to 2,500 square feet for one unit, but the homeowner has more square feet to play with if more units are built.

Another option is to go smaller - by removing barriers to single room occupancies, group living, or small apartments with shared kitchens- by dropping restrictive household definitions from the zoning code, by allowing shelters as of right in more zones, or by legalizing tiny homes on wheels on residential lots.

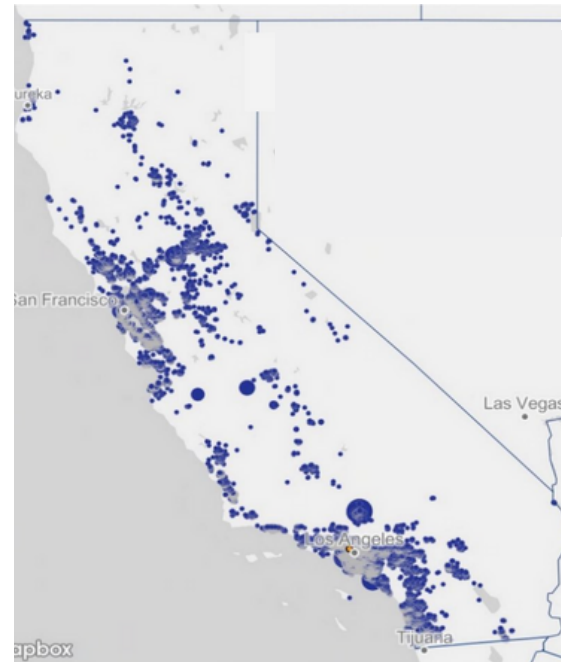
THE CALIFORNIAN GENTLE DENSITY REVOLUTION

California changed its state housing laws incrementally, with an initial 2003 law reformed in 2016 to allow ADUs as of right in existing structures and to eliminate existing barriers in the form of single-family zoning, added costs and complex processes, and parking requirements. This led the State Housing Department of Housing and Community Development to issue an ADU guidance memo and to begin monitoring implementation by municipalities. Other laws followed, making prohibitions from homeowners' associations impossible, dropping requirements for owner occupancy, eliminating fees below 750 square feet, and allowing two ADUs on single-family lots and more for multi-family buildings. Finally, in 2021 and 2022, new plex zoning laws were adopted.

The results were instantaneous and startlingly successful: **between 2018 and 2022, 63,000 ADUs were permitted state-wide**, representing a US\$6-billion industry. Small housing is becoming popular and the idea spreads because it works; 73% of people approve of ADUs in their neighbourhood.

The creation of a support coalition across public, private and non-profit-sectors and the formulation of strong arguments that resonated with most people (with a focus on local control, privacy, family needs, and flexibility in lifestyles) were key factors in passing State ADU bills. Uniform rules across all 450 cities and 58 counties spurred business innovations that lowered cost and successfully scaled up ADU construction across the state.

Figure 3: Distribution of ADUs in California - USA



- 63,000 ADUs permitted statewide 2018 - 2022 (approx 20% of all housing types permitted)
- \$6 Billion industry-jobs & economic growth

More barriers need to be overcome, however - primarily financial barriers, but also those of knowledge about and awareness of ADUs. The [Casita Coalition](#) is working to remove the second-generation barriers that must be addressed at the state and national level as barriers to ADUs are removed more widely including expanding options for ADU finance; trying to normalize ADUs through extensive education and outreach; increasing knowledge about ADU development through best practice guidebooks; and growing the pipeline of ADU designers, contractors, and factories. These changes must happen at a larger scale rather than on city-by-city basis.

BARRIERS TO BUILDING SMALL

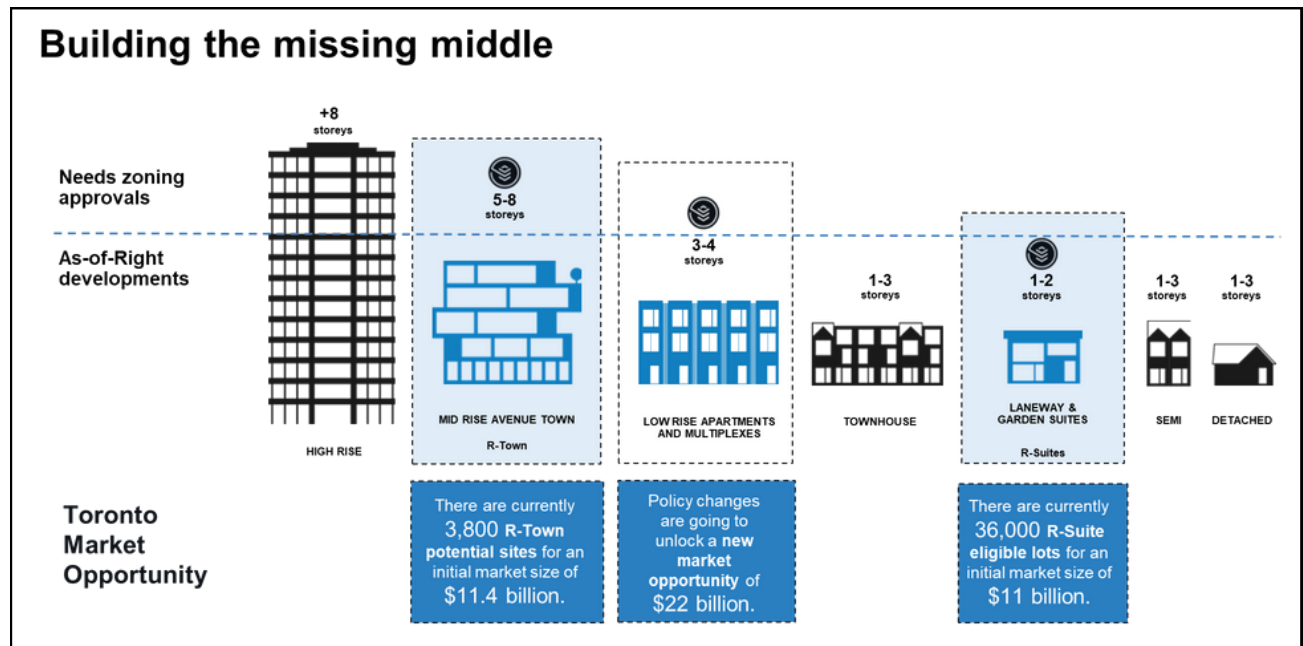
Building small is challenging, especially because of the existing regulatory framework and a lack of building capability. Three main types of barriers need to be removed:

- **Municipal barriers:** Because of restrictive zoning bylaws and overly prescriptive design guidelines, as of right entitlements and building codes for small units are needed to replace high-rise code standards.
- **Design, manufacturing, and logistics barriers:** As ADUs become legal across more provinces and regions, companies such as R-Hauz, a maker of prefabricated housing elements, are exploring ways to modernize the supply chain, increase delivery certainty, and overcome logistics barriers (decreasing costs and delivery timelines while increasing repeatability), and increase capacity. Normalizing repeatable designs and creating large multi-jurisdictional markets means that upfront investments can be amortized over many products, which is essential for expanded lowest cost factory production.
- **Financial barriers:** Challenges include mortgages for homeowners, submission and municipal report costs, insurance, and development charges. Currently, **it is not possible to fractionalize a mortgage;** multiple owners can be on a mortgage, but each person is essentially responsible for the entire mortgage. It is possible to condoize (stratify) a multiplex, but the process is similar to condoizing (stratifying) a big condo tower, so it is not necessarily feasible or easy for small projects. Also, financing multiplex conversions using purchase-plus^[8] loans for non-developers is difficult because banks require a cost estimate for the conversion renovation part of the project to grant approval, which in many cases is not feasible during the short timeline available when buying a home.

Policies adopted in Toronto, as well as provincial recommendations to change building codes to include CLT (Cross-Laminated Timber) and allow single-stair

residential buildings up to six storeys, are promising. Other necessary steps include exporting the model at a large scale, following the Californian example. Policy changes need to go hand-in-hand with improvements in production to add new units more rapidly and in greater numbers.

Figure 4: Small houses market opportunity in Toronto



MUNICIPAL CONSIDERATIONS IN ENCOURAGING MISSING MIDDLE HOUSING

Growth management plans and policies

In Peel Region, and other two-tier municipalities in the Greater Golden Horseshoe, the provincial government allocates certain growth numbers to local municipalities, which determine intensification decisions. Municipalities then come with their own assessments, policies, and plans. These plans need to be updated regularly.

Infrastructure

Hard infrastructure is needed to accommodate and serve gentle density, as well as soft infrastructure to create complete communities. The City of Brampton did an infill capacity analysis in four neighbourhoods to estimate how much uptake could be accommodated, because the state of the current infrastructure, density, and amenities are determining factors for ADU implementation.

Community and industry support

In Brampton, Missing Middle housing goals are connected to broader issues relating to the lack of safe and affordable housing for students, seniors and newcomers. This connection helped get support from student groups and non-profits. Meanwhile, the Town of Caledon is trying to work with community builders to overcome barriers to Missing Middle housing.

Cost and predictability are the two main barriers identified by developers and applicants. Municipalities can play a fundamental role by allowing for pre-approved plans where applicable (i.e. detached ADUs such as backyard suites), or pre-designed section details for multiplex conversions and additions, that can be submitted by designers and builders for quicker and lower cost approvals with less staff time. Also, in an attempt to reduce costs, Bill 23 in Ontario exempts residential buildings of 10 units or less from development charges and parkland dedication fees.

Capacity and processes

Collaborative arrangements between municipalities and other stakeholders, such as non-profit organizations, are worth exploring to ensure policy enforcement and wide homeowner awareness and support.

Expediting the approval process

In Ontario, Bill 23 reduces the scope of site plan control approvals by exempting residential buildings containing 10 units or less from site plan control. Cities such as Windsor and Kitchener are trying to remove barriers, for example by expediting the approval process. The City of Edmonton has a how-to guide for both [Secondary Suites](#) and [Garden Suites](#), as well as a [video](#).

Zoning

Zoning is a key tool if used well. Despite the adoption of Bill 23, which alleviated many provincial barriers to creating Missing Middle housing, many constraints are the responsibility of individual municipalities, notably standards relating to lot size and access, site characteristics (especially natural heritage features), parking, and density. Ontario can look to Alberta for a precedent: Edmonton replaced density maximums with minimums while controlling maximum lot coverage.

Building Code

Recent Building Code changes have made it easier and less expensive for homeowners to convert a basement to a legal unit. But the Building Code still leaves some matters open to interpretation; these matters need to be clarified.

Support programs to help with uptake

The National Housing Strategy is working on ways to increase the creation of Missing Middle housing, but few members of the general public are aware of these efforts. [The Gentle Density Accelerator program](#) (funded through CMHC's Housing Supply Challenge in partnership with Impact Canada), developed in British Columbia, could be a model. To overcome social and cultural barriers to the implementation of Missing Middle housing - mainly a general lack of understanding of gentle density and a related political reluctance to implement it - the Gentle Density Accelerator program proposes an interactive web tool and increased collaboration with municipalities and their stakeholders.

[ADUsearch.ca](#), with funding from CHMC, helps with homeowner participation. It provides information for 30 cities on ADU feasibility. On this platform, homeowners can easily identify if their lot can support and qualify for a detached ADU. The site also helps cities understand how they can streamline their bylaws to promote the creation of ADUs.



If you have ideas that can promote housing affordability and equity then submit them to the [Innovation Fund](#)

UPTAKE VS. AFFORDABILITY: WHAT'S IN IT FOR THE HOMEOWNER?

Assuming that pre-approved designs can reduce construction costs with less need for construction and fewer regulatory barriers, questions remain: What's in it for homeowners? Why would any homeowner go through a disruptive renovation and not charge as much market rent or sale price as possible? Can innovations in financing and incentives strike a balance between homeowner revenue and affordable units? What is the role of the National Housing Strategy?



EXISTING PROGRAMS AND FINANCIAL TOOLS

Existing financial options available to the homeowner in Canada, in the form of grants or loans for additional units, are limited. For example:

- Currently the most common means of financing a renovation project is to take out a loan, a line of credit or a HELOC^[9], all of which have high interest rates. Homeowners may not want to take on such an expensive loan or take on the risk of such a project with high interest rates.
- At the federal level, homeowners may be able to get mortgage loan insurance for ADU-related projects. For example, the federal government offers a new [multi-generational home renovation tax credit](#) of up to \$7,500, which could be used to build an ADU, but the terms and conditions are narrow: the renovation must be for a senior family member or an adult relative with a disability.

- At the provincial level, Ontario has passed legislation to waive or reduce development fees associated with new home construction for affordable, non-profit, and inclusionary zoning units. Cuts in development charges also benefit rental builders, with larger discounts for family-sized units. Moreover, the Ontario government requires that cities permit two ADUs on a property (that is a total of three units per lot including the main unit), and those new units would be exempt from development charges. British Columbia has plans for similar requirements. These changes reduce approval times, and thus save money.
- Toronto's [Laneway Suites Program](#) provides funding in the form of a forgivable loan of \$50,000.
- As in the U.S, action may be needed at the federal level to encourage finance programs that are more widely available to homeowners to add Missing Little homes.

LOCAL IMPROVEMENT CHARGES AND REVOLVING FUNDS

Many municipalities use Local Improvement Charges (LICs) to help finance energy efficiency and decarbonization of homes enabled by provincial regulations. LICs allow municipalities like Toronto to finance projects and individual property owners to access funding programs like the Home Energy Loan Program for energy and water improvements to houses. After completing the improvements, applicants give the receipts to the municipality, which allow the beneficiary to repay the loan through the property tax collection system over time. This loan is tied to the property and not to the individual owner. LICs could be extended to finance not only green retrofits and the renovation of existing units, but also to add new green units within existing homes while taking equity and affordability into account. This extension could improve access to finance and reduce the operational costs for tenants, saving both the environment and money. It could also support aging in place in an efficient manner. A revolving fund model could be adapted to sustain the next version of this program.

THE IDEA OF A ONE-STOP SHOP

Some municipal models explored in this series include the equivalent of a “municipal one-stop shop” that provides everything needed to make it easy for the homeowner to enter the program, such as:

- Access to pre-approved designs and details: As discussed earlier in the report, the city could accept designs and details from the local architecture and building industry so that these can be re-used multiple times by many homeowners. This allows a variety of architectural styles and methods of construction, reduces staff time to review, and keeps responsibility for legal concerns and updated plans with the architect or designer of record. Additional City work to develop sample designs for specific housing typologies could also be undertaken.
- Access to a local labour pool, trained to build these designs.
- Access to staff to facilitate approvals and permits.
- Access to grants or risk-free financial mechanisms to make the process simple, feasible, and affordable.
- Municipal pilot projects supported by the National Housing Strategy (NHS) to test and scale these innovations through the one-stop shop.
- The Federal [Housing Accelerator Fund](#) could support this type of municipal program and help roll out pilot projects with municipalities.

EXPLORING INNOVATIONS IN FINANCING

More research and analysis are needed to explore how innovations in funding, financing and taxation schemes could facilitate affordable Missing Little units and generate greater homeowner participation. The research might include examining practices and financial policies elsewhere.

Some important questions are:

- How can municipalities strike a balance between making the process and revenue worthwhile to the homeowner while yielding more affordable units?
- Are there other ways to help homeowners enter this program beyond access to traditional financing?
- Could tax credits to create and maintain one unit below market rate along with guaranteed revenue from rents generate a below-market rent?
- Could risk-sharing through a government program help with uptake?
- What is the role of the NHS in creating affordable Missing Little housing?
- Can programs support not only municipal pilot projects for a one-stop shop but also incentives for affordable Missing Little to demonstrate how an innovative approach could work on the ground and be scaled?
- How can the right incentives and financial innovations spark a renovation revolution?

- California jurisdictions report that ADUs rent for far less than market rates, and that homeowners are highly resistant to government regulation of their ADUs which may be needed for family members in the future and fall out of compliance with local affordability or rent regulations. If costs are lowered and ADUs are more widely allowed, is this sufficient to expand this housing type at lower price points for homeowners?
- Oregon and Texas report that ADUs are widely sold as condominiums, making them easier to finance with conventional mortgages and creating far more affordable entry level home ownership opportunities. The State of Washington also just legalized ADU condominiums state-wide. Can ADUs become entry level home ownership opportunities for generations that are otherwise priced out?

THE RENOVATION REVOLUTION INCLUDES EQUITY

EQUITY IN HOUSING POLICIES

Many municipalities in Ontario have official plan policies that encourage a range and mix of housing options, including Missing Middle housing, and more will adapt such policies in light of

Bill 23, which allows up to three dwelling units on any urban serviced lot. Peel Region, as well as other municipalities, has housing targets for large and new developments relating to affordability, rental units, and density. Municipalities consistently measure contributions to housing targets and monitor activities to

make sure that priorities and implementation plans are in line with changing housing needs. Creating more affordable housing for middle-income households could imply **creating a more supportive policy environment** as well as **encouraging ADUs**. Municipalities can also look at **ways to reduce the cost of building housing**, for example, through reduced parking requirements in areas near transit stations or in intensification corridors where car use is lower. This idea has been implemented in Toronto and Mississauga, and Brampton is considering using it.



If you are interested in exploring strategies and programs addressing the Missing Middle, check [Making Room for The Missing Middle strategy in Mississauga](#), and [Expanding Housing Options in Neighbourhoods in Toronto](#).

Municipalities have plans for policies that focus on **planning for diverse populations and housing needs**. These include universal accessibility features in existing and new residential developments, in line with provincial legislation requirements, in addition to continuous monitoring to ensure that cities meet targets and communities' changing needs are met.

Outreach and community engagement with a focus on including and identifying marginalized communities is essential to ensure equity. Program designers and policy makers can set attainable and realistic goals and avoid the paradox of competing goals that can paralyze projects.

ENSURING AFFORDABILITY

Several municipal initiatives provide funding to individual homeowners. For example, Peel has a "[My Home Second Unit Renovation Program](#)" that provides a forgivable loan of up to Can\$30,000 for homeowners to renovate an existing second unit in their home.

There are also **incentives to create more affordable housing**, such as agreements ensuring an affordability period of a minimum of 25 years. The City of Brampton's [Housing Catalyst Capital Project](#) provides funding to non-profits to incentivize new housing. The Region of Peel recently provided a Can\$2.5-million grant to [BlackNorth Homeownership Bridge Program](#) to address eligibility and affordability barriers faced by marginalized groups.

To ensure that marginalized and lower-income households can afford the newly created units, municipalities must plan for support once the unit is built so that it stays affordable. Post-construction support could include helping homeowners who are first-time landlords handle property management and tenant recruitment and screening.



Partnership between different stakeholders and collaboration is key to building on strengths and delivering the greatest impact.

TWO CASE STUDIES FROM THE UNITED STATES

CLT Plus One program, Durham, North Carolina

This [program](#) is trying to re-innovate the community land trust (CLT)[10] model of homeownership. It has three different phases. The first one consists of building a new home with an attached ADU on a vacant lot. The design process would help create a replicable model that fits the needs of the community, including provisions to enable homeowners to age in place. Targeting moderate-income households, it allows them to buy a home and receive rent from the ADU, thereby building wealth over time and expanding the household's purchasing power. Throughout the process, the organization supports homeowners in different ways (financial training, home purchase education) and provides property management for the ADUs, so the homeowner does not become a landlord and a first-time homebuyer in the same transaction.

The second phase consists of building ADUs behind rental properties that are already owned by the CLT, and the third phase entails building ADUs behind current CLT homeowner properties.

Figure 5: CLT Plus One program phases



Backyard Homes project, Los Angeles, California

This [project](#), initiated by LA Más, now led by Office of: Office, was developed to **explore the viability of ADUs as an affordable housing option**. It was designed to help homeowners build affordable rental units in their backyards by offering a one-stop shop to help with design, finance, permitting, and building. The aim of the program is to **promote stability for housing and tenants while supporting homeowners in earning reliable income from their new rental unit**. From 2017 to 2018, LA Más convened a series of focus groups and advisory committees to identify the barriers faced by homeowners and ways to support those homeowners. Demands included access to construction financing; technical assistance navigating the design, permitting, and building process; and support and education in taking on the responsibilities of being a landlord.

In exchange for the support, homeowners committed to renting to a “Section 8” tenant for a minimum of five years[11]. The [Section 8 program](#) in California has a very long waiting list, with a limited number of vouchers granted each year, and the housing stock available for these rental types is scarce. By focusing on Section 8, the organization was able to tap into an existing program and understand the potential of ADUs as a typology for a specific tenant category. It appears that it is still very challenging for low- to moderate-income homeowners to access the financing needed to build an ADU. The systems need to be accessible, affordable, and underpinned by a local network.

Figure 6: Backyards Homes project scope



In terms of financial support, several partners provided free technical assistance in operating the program itself. The program was made possible through a HUD Section 4 grant and support from Wells Fargo Bank. LA Más developed a neighbourhood-scale affordable housing program that sought alternative funding sources for multifamily development (low-income tax credits). A cash-out refinancing option was included for homeowners investing in the development of the unit itself.



Awarding grants to non-profit entities to provide one-stop shop services to create Missing Little units - such as design, permitting, construction, and project management - similar to the [Backyard Homes Project, Los Angeles](#), could be adopted in Canada, with pilot projects on a neighbourhood scale

MAIN FINDINGS AND RECOMMENDATIONS

- **Implementing the Missing Little is challenging, but doable and worthwhile.**

Indeed, this approach has the potential to increase housing stock extensively using affordable and sustainable solutions. It responds to changing housing needs and diverse household structures.

- **Policies adopted at all levels of government are encouraging.**

Promising practices in Canada, but also in the United States, should be explored and adapted to implement a renovation revolution.

- **Collaboration among stakeholders is necessary.**

Municipalities, developers, affordable housing providers, communities, realtors, and insurance companies should be aware of the value of adding Missing Little housing, and work to include equity and affordability principles. The creation of a support coalition across public, private, and non-profit sectors could help identify and overcome barriers.

- **Putting affordability in the Missing Middle requires getting to scale.**

The surest path to affordability is developing sufficient demand to support the emergence of a new industry that will compete based on cost.

- **Zoning barriers represent a series of walls.**

Each wall needs to be removed to enable the implementation of the Missing Middle - But this is only the first set of barriers.

- **Second generation barriers beyond zoning also need to be overcome.**

These include financial barriers; a lack of desire and awareness; physical limitations on sites; a lack of interest in becoming landlords; concerns about changes in neighbourhood character; different standards in each jurisdiction that undermine construction; and finance innovations that undermine cost-effective regional or national solutions in the financial services and homebuilding industries.

- **Allowing for systematization and replicability in design and construction is fundamental to increasing the development of Missing Little housing types and the scaling of a lower-cost housing industry.**

Considering the unique characteristics of each typology within the Missing Little, the standardization could be in the form of pre-approved plans for detached ADUs, pre-approved details for multiplex conversions, changes to code requirements, and the standardization of some zoning requirements.

- **Equity should be at the centre of Missing Middle policies.**

Specific needs of vulnerable and marginalized communities (such as Black communities, people with larger families, renters, people with disabilities, and older people) should be taken into consideration and addressed by municipalities and provinces.

- **Innovative and alternative financial strategies and tools include:**

- Co-ownership
- Stratification or condominium ownership
- Community land trusts
- Not-for-profit one-stop shops for design, financing, and permitting services
- Governmental grants and waivers for fees and charges
- Renovations and programs that add new units to existing buildings with other ongoing renovation programs

- **Market conditions influence the possibility and success of certain policies and financial tools.**

In British Columbia, for example, it is possible and common for people to stratify or sell off pieces of a smaller house, but this is rare in Ontario^[12]. Using stratification would change financing approaches, as it confers the ability to access a mortgage, which is perceived differently from rents.

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ENDNOTES

[1] Missing Middle housing: Multiunit or clustered housing types, compatible in scale with single-family homes. This form of gentle densification supports the development of inclusive and sustainable communities and can respond to the current housing crisis. Missing Middle housing types include duplexes, triplexes, cottage courts, townhouses.

[2] Missing Little housing: Adding gentle density to an existing home and optimizing its single parcel of land by converting, subdividing, or adding to the principal dwelling. Missing Little housing types include basement suites, garage conversions, garden suites, multiplex conversion, and additions to an existing building.

[3] Adding new units within an existing house represents a low-carbon alternative to building a new structure. Laneway and garden suites can be built without basements and with more carbon-friendly materials. Significant emissions reductions can be attributed to avoiding basements in such housing types, since concrete basements are responsible for about 56% of total material mass in single-family dwellings. Laneway and garden suites require fewer building components, and thus could be considered a lower carbon option.

[4] Accessory Dwelling Units (ADUs): An additional dwelling unit built in or near a main dwelling unit on the same lot.

[5] Chapple, K. G. (2021). Implementing the Backyard. University of California, Berkeley Center for Community Innovation.

[6] Multiplex TAP/ULI Toronto. See <https://toronto.uli.org/programs/technical-panels/technical-assistance-program-tap/6990-2/>

[7] A real estate investment trust (REIT) is a company that owns, operates, or finances income-generating real estate.

[8] A purchase-Plus Loan is a mortgage that covers the purchase price of the home plus additional money to cover renovation costs. In our example the plus/renovation cost will include the multiplex conversion cost.

[9] A home equity line of credit (HELOC) is a secured form of credit. The lender uses the home as a guarantee that the owner will pay back the money borrowed. HELOCs are revolving credit. Homeowners can borrow money, pay it back, and borrow it again, up to a maximum credit limit.

[10] Community Land Trusts (CLTs), as defined by the Canadian Network Community Land Trust, are community-led, non-profit organizations that acquire and hold land in the interest of their local communities. CLTs operate on a variety of scales, representing neighbourhoods, cities, or regions. CLTs are long-term stewards of affordability, working to ensure perpetually affordable housing, and to secure space for high social-benefit non-profit enterprises.

[11] Section 8 of the 1937 Housing Act, also known as the Housing Voucher Program, is a rental-assistance program funded by the United States Department of Housing and Urban Development (HUD) and administered by local public housing agencies. The program targets low-income families, people with disabilities, and the elderly.

[12] There are many examples across the U.S of ADU condo conversions (stratification), and there are movements to legalize it in more states (e.g. California). Texas state law does not prohibit ADUs from being sold separately, and that practice is common in cities and regions with higher real estate values, such as Dallas, Austin, San Antonio, etc.