

## Additional Residential Units Funding Program

The District of Muskoka is offering funding for property owners to build Additional Residential Units (ARUs). The ARU Program is intended to increase the supply of affordable rental housing in Muskoka.

Muskoka property owners can receive their choice of two funding amounts per unit depending upon the length of time they are willing to rent out the ARU to a qualifying tenant at a rate at or below the allowable District Alternative Average Market Rent (AAMR). This is called the affordability period. Funding amounts and their respective affordability periods are included in the table below. Funding is based on the cost of approved work items plus HST and is provided in the form of an interest-free, forgivable loan.

Funding Amount	Affordability Period
\$40,000	10 years
\$50,000	15 years

### Program Requirements:

- The property on which the ARU will be constructed must be within the District of Muskoka and must be appropriately designated and zoned in the Area Municipality in which it is located.
- Property taxes must be paid and up to date.
- Mortgage must be paid up to date\*.
- Insurance must be paid up to date and your property must be insured to its full replacement value.
- Any work carried out before written confirmation of approval from the District of Muskoka may not be eligible for assistance.
- Any labour charges from the applicant or members of the applicant's family are not eligible.
- Invoices for all project costs must be submitted to the District of Muskoka and must include the date, name of the property owner or project, project address, and the contractor's business number.
- Construction shall commence within 120 days of approval of the application, and/or in accordance with the submitted project schedule, unless otherwise agreed to by the District of Muskoka.
- Over the term of the agreement the household income of the incoming tenants of the unit (verified at time of move in) will be at or below maximum household incomes as set by the District of Muskoka.
- Rent charged for the new ARU must be at or below District Alternative Average Market Rent.

- The application is for the creation of a new ARU (renovations to existing units are not eligible for funding).
- Capital Incentive Funding Agreement to be registered on title for the affordability period.

\* Total of all property mortgages and any other financing registered on title, plus the program funding, cannot exceed the market value of the home, as determined by the assessed value of your property shown on your Municipal Property Assessment Corporation (MPAC) Notice of Assessment. If you feel your property value is not accurately reflected by the MPAC assessment, you may commission, at your own expense, a Market Value Appraisal, completed by a designated member of the Appraisal Institute of Canada. The District reserves the right to approve other valuation methodologies from time to time.

## **Frequently Asked Questions**

The purpose of this FAQ is to provide you with some general information and links to further information about constructing an ARU. You may also wish to review the District's ARU Guide, Your Guide to Building Additional Residential Units, for more information.

### **The Benefits of ARUs**

From a community perspective, ARUs add to the stock of private rental accommodation, providing shelter for community members, including young people and seniors. These projects also provide work for smaller, local contractors. The nature of ARUs also allows for the construction of new affordable housing options while minimizing the footprint of new housing, and reducing urban sprawl, maintaining the character of existing neighbourhoods.

For individual homeowners, ARUs can provide rental income to offset ownership and maintenance costs. They may also allow for live-in caregivers, for young people to access an affordable independent rental with family members, or for seniors to "age in place" with family. Adding an additional unit to the home can also help to increase property value and personal equity.

### **What is considered an ARU?**

For the purposes of the District's funding program, an ARU is a self-contained residential dwelling unit that is clearly ancillary to the primary use of the property, and that is located in a single detached, semi-detached or townhouse, or in an attached or stand-alone ancillary structure to a single detached, semidetached or townhouse.

An ARU is independent of the main dwelling unit (with a locked door) containing a kitchen, bathroom facilities, and sleeping area(s). A good resource for detailed information is the [Ontario Government's Guide to Adding a Second Unit](#), however it has not yet been updated to include considerations for ARUs in detached ancillary structures.

An ARU may be located within a dwelling, such as a basement, or it may be located in a detached accessory building, such as within a garage or in its own, detached building. ARUs may be permitted in a single detached, semi-detached or townhouse (row, cluster, stacked)

dwelling. All can be considered ARUs. Check with your Area Municipality (your Town or Township) to determine what type(s) of suites are permitted on your property.

To be considered legal, an ARU must be permitted by your municipality’s official plan and zoning by-law/community planning permit system, comply with the Ontario Building Code, and meet any other applicable legal requirement. For more information, see [Ontario Building Code Information](#). If your house is less than 5 years old, different Building Code rules apply. Talk to the building department at your Area Municipality to find out more. Contact information can be found at the end of this document.

### **How big can an ARU be?**

Depending on where you live, there may be different minimum and maximum areas for ARUs. For specific information for your municipality, please contact your local Area Municipality’s building department.

### **Where am I permitted to build an ARU?**

ARUs are permitted in urban residential zones and in some community residential and rural zones. Contact your local Area Municipality’s building and planning departments to discuss specific requirements.

### **How much rent can I charge?**

Rent charged for an ARU funded through the District’s ARU funding program cannot exceed the AAMR. Annual rent increases are allowed; however, increases must follow the annual allowable increases as prescribed under the Residential Tenancies Act. Rental rates as of June 2024 are as follows, exclusive of utilities\*:

<b>Unit Size</b>	<b>Monthly AAMR</b>
Bachelor	\$920.00
One bedroom	\$1,180.00
Two bedroom	\$1,400.00
Three bedroom	\$1,700.00

\*Subject to change. Contact our office for updated rental amounts.

AAMRs are adjusted periodically to reflect changes in the rental market. When a tenant moves out part way through the affordability period and a lease agreement is being signed with a new tenant, rent must not exceed the AAMR that is in place at the time the lease agreement is signed with the incoming tenant, and the incoming tenant must meet the income limit that is in place at the time.

### **Do utilities have to be included in the rent?**

Not necessarily, however, it might make it simpler to include utilities.

### **Who can I rent to?**

You are to select your own tenant(s). (Please see the FAQ, “Does the District assist with placement of tenants?” for further information.)

The ARU must be rented to a tenant whose income meets program guidelines. The ingoing occupant(s) of the ARU must have a maximum household income within the 60<sup>th</sup> income percentile for renter households as published annually by the Ministry of Municipal Affairs and Housing in the Provincial Policy Statement, currently set at \$67,900 as of June 2024\*.

\*Subject to change. Contact our office to confirm current income limits.

### **Can the property be owned by a corporation?**

Yes, however the owner(s) must provide current articles of incorporation and any amendments.

### **Can the property be a legal duplex, Boarding Lodging Rooming House, or apartment building?**

No, funding can only be used to create ARUs on the property of a single-residential dwelling.

### **Can I use a recreational vehicle (RV) as an ARU?**

No, ARUs are not permitted to be a recreational vehicle (RV), mobile home, boat house or any temporary structure.

### **Are short term rentals like AirBnB eligible as part of the ARU program?**

Policies and licensing of short-term rental properties do not fall within the mandate of this program. If you choose to convert your affordable ARU into a short-term rental (if this is permitted by your Area Municipality) before the expiry of your loan agreement/affordability period, you will have to pay back the outstanding loan amount, plus administrative fees, as described below.

### **What makes a basement suite legal?**

There are specific requirements for basement suites including size, ceiling height, windows, fire separation, and required means of egress. Please consult with a qualified contractor or contact the building department at your Area Municipality for information.

### **Can I have an ARU if I am in a rural area and service my property with a septic system?**

Check with your local municipality (Town or Township) to determine what is permitted for your specific property. If you are permitted to construct an ARU(s), you will be required to have a septic review completed to ensure there is adequate capacity for the additional unit(s). Your

Area Municipality (Town or Township) will be able to answer any questions you have about that review.

### **Do I need a building permit to put in an ARU and how much will it cost?**

Yes. All ARUs require a building permit from your local municipality and must comply with local municipal official plans, zoning or community planning permit by-laws or be permitted by the Planning Act.

In addition to a completed application, a building permit requires drawings of the ARU by a competent person(s) to ensure minimum Building Code and life safety requirements are met.

For more information on what is required, including zoning requirements and expected cost of a building permit, please visit your local municipal website. Contact information for each Area Municipality is linked at the end of this document.

**Building without a permit can be very costly to a homeowner; practice due diligence and ensure that you obtain a building permit when required!**

### **Are there timing requirements?**

Yes, construction must begin within 4 months (120 days) of receiving funding approval and/or in accordance with the submitted project schedule, unless otherwise agreed to by the District of Muskoka.

### **Can I do the work myself?**

Some work can be done by the homeowner. Only material would be eligible for reimbursement in this case. However, if you choose to build your own ARU, you should be aware of Ontario Building Code requirements (including fire code, ventilation and heating requirements, and minimum design requirements), appropriate zoning by-laws, and be able to provide code-compliant detailed drawings to scale. All electrical work must be done by a qualified electrician, and depending on your project and your local building department requirements, you may need other licensed tradespeople to complete some of the work (i.e. a qualified plumber, etc.).

Hiring a professional can reduce delays, minimize costs, and help prevent unexpected complications. However, you should ensure that your contractor has previous experience building ARUs and working with your local municipality.

### **How do I find a contractor?**

As with any building project, selecting a good and reliable contractor is very important. Unfortunately, we cannot recommend contractors. An approved contractor must have liability and Workplace Safety and Insurance Board (WSIB) insurance. Suggestions for finding a reliable contractor include:

- Asking friends/neighbours who have had similar work done
- Calling your local Builders Association
- Checking building supply stores, the internet, or Yellow Pages

## **Can I move into the new apartment and rent out the other part of my house?**

No, your new ARU must be rented to a new tenant.

## **Does the District assist with placement of tenants?**

The property owner will be responsible for finding and selecting their tenant(s) and leasing the ARU. The District may, upon request by the property owner, provide a referral for a potential tenant that meets the income requirements under the program. If the District refers an applicant to the property owner, the property owner is responsible to approve or decline the applicant.

## **What are the rights and responsibilities of landlords and tenants?**

Information about the rights and responsibilities for landlord and tenants can be found on the following websites:

- Landlord Self-Help Centre: <https://landlordselfhelp.com/>
- Ontario laws that affect tenants and landlords: <https://www.ontario.ca/page/renting-ontario-your-rights>
- Landlord and Tenant Board: <https://tribunalsontario.ca/ltb/>
- Residential Tenancies Act: <https://www.ontario.ca/laws/statute/06r17>
- Ontario Human Rights Commission: <http://www.ohrc.on.ca/en/guide-your-rights-and-responsibilities-under-human-rights-code-0>

## **Do I have to have a signed lease with the tenant?**

Yes, a lease agreement is required. The province has released a mandatory standard lease agreement for new tenants as of April 30, 2018. The 'Residential Tenancy Agreement' is available for your use at the following link: <https://forms.mgcs.gov.on.ca/en/dataset/047-2229>

## **What if the cost to create the ARU is higher or lower than the funding amount?**

Any costs over and above the approved funding amount are the responsibility of the property owner.

If the cost to construct your ARU is less than the funding amount you applied for, the District will not provide funding over and above the actual cost to complete the ARU. The property owner must submit all invoices for review by the District. The District will only fund the total amount of all invoices received and approved by District staff.

After your application has been approved and you have signed an agreement with the District, the affordability period for your funded unit(s) cannot be changed. For example, if you sign an agreement for \$50,000 in funding (15-year affordability period) and your costs come in below \$40,000 (10-year affordability period), you must still fulfill the 15-year commitment. You should ensure you understand how much your unit will cost to build (consider obtaining contractor quotes) and apply for the most appropriate funding amount.

## **What is a 'forgivable loan'?**

Funding for the ARU Program is considered a 'forgivable loan.' During the first half of the affordability period, no forgiveness would be earned by the applicant. If the applicant wished to repay the loan during the first half of the affordability period, they would need to pay back the full amount of the loan together with interest. In the second half of the affordability period, forgiveness is earned at an equal amount each year.

No payments are required, and no interest is charged so long as all of the terms and conditions of the loan agreement are adhered to. This means that if the applicant rents out the ARU according to the program requirements for the term of the loan (the affordability period), the entirety of the loan will be forgiven. If the applicant does not rent out the unit in accordance with the program guidelines for the duration of the affordability period or otherwise comply with the terms and conditions of the agreement they will have to pay back the outstanding amount (unforgiven portion) of the loan they received in addition to any accrued interest and administrative fees.

If the applicant sells the property before the end of the affordability period, the loan agreement may, subject to the approval of the District, be assumed by the prospective buyer to preserve the affordable unit when the property is sold and if the new buyer agrees. This may mean that the initial property owner would not have to pay back the loan when selling the property.

## **Is the loan secured?**

ARU loans are secured against the property through registration of a mortgage on title. The District's legal team provides the legal documents used in this process to your solicitor. Please obtain independent legal advice when reviewing the ARU loan agreement. Please contact us if you need clarification.

Once the loan agreement is secured, the homeowner is responsible for the costs to discharge the mortgage registration upon maturity or repayment.

## **Why is the loan secured?**

All ARU loans are secured on title to ensure that the District receives notice when a property is sold and allows the District to recover any unforgivable portion of the loan in the event that the property owner does not fulfill their agreement. It also helps ensure that the property owner and/or their estate advise the District of any transfer of ownership or new encumbrances.

## **How is the loan advanced?**

After the loan agreement is signed by all parties and registered on title of the property, the ARU funding is advanced directly to the property owner and structured generally based on proof of your municipal building permit inspection passes. The following is an example of the disbursement schedule. This is subject to change, and the details will be outlined clearly in your funding agreement. Invoices must be provided to the District as you receive them.

Advance Number	Percentage of Funding Disbursed	Condition/Event
1	50% (less 10% holdback)	- Upon receipt of fully executed agreement, receipt of applicable building permit(s) and confirmation of start date (or other as outlined in the funding agreement)
2	40% (less 10=% holdback)	- Confirmation of building progress as outlined in the funding agreement, e.g. structural framing completion for a detached structure.
3	10%	- Receipt of unconditional occupancy permit (or other as outlined in the funding agreement)
4	Release of Hold Backs	- Hold backs will be released after receiving evidence that there are no registered liens upon the expiration of applicable lien periods (or other as outlined in the funding agreement)

### Repayment Example 1

Original Forgivable Loan Amount (10-year affordability period) \$40,000  
 Homeowner fulfills commitment to end of affordability period Year 10  
 Forgiven amount of loan (0%/year for first 5 years, 20%/year for next 5)  
 (0% x 5 years; 20% x 5 years) = 100%

**Total amount repayable to the District of Muskoka** = \$0  
 + administrative fees\* and any applicable interest

Year	20% Forgiveness earned per year after Year 5	Outstanding Amount of Loan to repay
0	0%	\$40,000
1	0%	\$40,000
2	0%	\$40,000
3	0%	\$40,000
4	0%	\$40,000
5	0%	\$40,000
6	20%	\$32,000



7	40%	\$24,000
8	60%	\$16,000
9	80%	8,000
10	100%	\$0

### Repayment Example 2

Original Forgivable Loan Amount (10-year affordability period) \$40,000  
 Homeowner repays loan four years after work has been completed Year 4  
 Forgiven amount of loan (0%/year for first five years) (0% x 4 years) = 0%  
**Total amount repayable to the District of Muskoka** = \$40,000  
 + administrative fees\* and any applicable interest

Year	20% Forgiveness earned per year after Year 5	Outstanding Amount of Loan to repay
0	0%	\$40,000
1	0%	\$40,000
2	0%	\$40,000
3	0%	\$40,000
4	0%	\$40,000
5	0%	\$40,000
6	20%	\$32,000
7	40%	\$24,000
8	60%	\$16,000
9	80%	8,000
10	100%	\$0

### Repayment Example 3

Original Forgivable Loan Amount (10-year affordability period) \$40,000  
 Homeowner repays loan eight years after work has been completed Year 8  
 Forgiven amount of loan (20%/year for second five years) (0% x 5 years; 20% x 3 years) = 60%  
 (or \$24,000 of the loan)  
**Total amount repayable to the District of Muskoka** \$40,000 - \$24,000 (60%) = \$16,000  
 + administrative fees\* and any applicable interest

Year	20% Forgiveness earned per year after Year 5	Outstanding Amount of Loan to repay
0	0%	\$40,000
1	0%	\$40,000
2	0%	\$40,000
3	0%	\$40,000
4	0%	\$40,000
5	0%	\$40,000
6	20%	\$32,000
7	40%	\$24,000
8	60%	\$16,000
9	80%	8,000
10	100%	\$0

**Repayment Example 4**

Original Forgivable Loan Amount (15-year affordability period) \$50,000  
 Homeowner repays loan nine years after work has been completed Year 9  
 Forgiven amount of loan (12.5%/year after 7 years) (0% x 7 years; 12.5% x 2 years) = 25%  
(or \$12,500 of the loan)

**Total amount repayable to the District of Muskoka** \$50,000 - \$12,500 (25%) = \$37,500  
+ administrative fees\* and any applicable interest

Year	12.5% Forgiveness earned per year after Year 7	Outstanding Amount of Loan to repay
0	0%	\$50,000
1	0%	\$50,000
2	0%	\$50,000
3	0%	\$50,000
4	0%	\$50,000
5	0%	\$50,000
6	0%	\$50,000
7	0%	\$50,000
8	12.5%	\$43,750
9	25%	\$37,500
10	37.5%	\$31,250
11	50%	\$25,000
12	62.5%	\$18,750
13	75%	\$12,500
14	87.5%	\$6250
15	100%	\$0

**\*How much are the administrative fees?**

Administrative fees are calculated based on the District’s User Fees and Charges By-Law 2024-25 (see Legal Services Section), as applicable and as updated from time to time.

**What if I decide not to rent out the apartment?**

This is considered a default of the loan agreement. The unforgiven portion of the loan amount, in addition to any administrative fees, would become due and payable.

**Can I voluntarily repay the loan?**

Absolutely! Repayments are made in a one-time lump sum payment. All funds repaid to the ARU Program are returned to the Program and offered to applicants on the waiting list. Additional administrative fees apply when exiting the loan agreement early.

**What happens if I decide to sell my house?**

The loan agreement may, subject to the District’s approval, be assumed by the prospective buyer when the property is sold. If the District’s approval is granted and the new buyer agrees to assume the loan agreement and the affordable tenancy, the original property owner would not have to repay the loan. If the District does not provide its approval or the new buyer does not agree to assume the loan agreement, you would have to pay back the unforgiven portion of the funding, plus administrative fees and any applicable interest.

**Where can I find the application for the ARU Program?**

Click here to view or download the [ARU Program Application](#).

**After I submit my application, how long will it be before I receive a decision on whether I have been approved for funding?**

It can take between 3-6 months from the time you submit a complete application and all required supporting documentation to the time you are formally approved for funding. District staff will keep you updated throughout the approval process.

**Who can I speak with for additional information?**

Contact your local Area Municipality’s building and planning departments for additional information on applying for ARU permits and other requirements.

**Town of Bracebridge**

Building Services Branch

<https://www.bracebridge.ca/town-services/building-services/>

Planning Services Branch

<https://www.bracebridge.ca/town-services/planning-services/>

**Town of Gravenhurst**

Building Services Branch

<https://www.gravenhurst.ca/en/services-and-info/building-information.aspx>

Planning Department

<https://www.gravenhurst.ca/business-building-development/building-and-planning/planning/>

**Town of Huntsville**

Building Department

<https://www.huntsville.ca/en/home-property-and-planning/building.aspx>

Planning Department

<https://www.huntsville.ca/en/home-property-and-planning/planning.aspx>

**Township of Georgian Bay**

Building Department

<https://www.gbtownship.ca/en/business-and-development/building-permits.aspx>

Planning Department

<https://www.gbtownship.ca/en/business-and-development/planning-and-zoning.aspx>

**Township of Lake of Bays**

Building Department

<https://www.lakeofbays.on.ca/invest-and-build/building-and-renovating/>

Planning Department

<https://www.lakeofbays.on.ca/invest-and-build/planning-and-development/>

**Township of Muskoka Lakes**

Building Department

<https://www.muskokalakes.ca/en/business/building.aspx>

Planning Department

<https://www.muskokalakes.ca/en/business/planning.aspx>

For additional information about the ARU funding program, contact:

**The District Municipality of Muskoka**

[Affordable Housing Department](#)