

Supplementary Report on Considerations for Social Housing Providers to Act as Developers

Date: July 15, 2019
To: City Council
From: Deputy City Manager, Community and Social Services
Wards: All

SUMMARY

At its meeting of July 3, 2019, the Planning and Housing Committee adopted, with amendments, item *PH7.4 - A New Approvals Framework for Toronto Community Housing Corporation Revitalization Projects* which recommended a revised approval process for future Toronto Community Housing Corporation ("TCHC") revitalization and redevelopment projects. The Committee also requested the Deputy City Manager, Community and Social Services to report directly to City Council on options for social housing providers to act as the developer.

This Supplementary Report responds to the Planning and Housing Committee's request and also provides an overview of the development of social and affordable housing by the non-profit housing sector in Canada. Additionally, it outlines the changing program and market environment that impact the feasibility of new social and affordable housing developments.

Given the short timeframe to report on this matter, this report provides a preliminary review of non-profit housing development models in Toronto and other jurisdictions. However, staff will continue to examine options to strengthen non-profit housing organizations in the development of new social housing and affordable housing, and will report back to the Planning and Housing Committee in Q2 2020 with more specific recommendations and an action plan to help build development capacity in the sector.

RECOMMENDATIONS

The Deputy City Manager, Community and Social Services recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

There are no financial implications arising from this report. Staff will report back to the Planning and Housing Committee in Q2 2020 with more specific recommendations and an action plan to help build development capacity in the sector. Any financial implications arising out of the action plan will be identified at that point.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting of July 3, 2019 the Planning and Housing Committee adopted with amendments items *PH7.4 - A New Approvals Framework for Toronto Community Housing Corporation Revitalization Projects* (previously item PH5.5 at the April 30, 2019 meeting of the Committee) and PH7.4a - a Supplementary Report. The Supplementary Report recommended a revised approval process for all future Toronto Community Housing Corporation (TCHC) revitalizations and redevelopment opportunities, including any demolition and reconstruction of multiple buildings and infill opportunities. The Committee decision is available here:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.PH7.4>

On April 30, 2019, the Planning and Housing Committee deferred item *PH5.5 - A New Approvals Framework for Toronto Community Housing Corporation Revitalization Projects* to the July 3, 2019 meeting of the Planning and Housing Committee in recognition of the Auditor General's report on TCHC revitalizations. The Committee decision is available here:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.PH5.5>

At its meeting of January 30 and 31, 2019, City Council adopted *EX1.1 - Implementing the "Housing Now" Initiative to activate City lands for new affordable housing development*. Included in the Housing Now implementation plan was \$1 million for a Non-profit Housing Capacity Fund to support the participation of non-profit housing organizations in the initiative. The Council decision is available here:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX1.1>

City Council adopted item *EX36.32 - Housing Opportunities Toronto Action Plan (2020-2030) Directions Report* at its meeting of July 23, 24, 25, 26, 27 and 30, 2018. Through this item City Council requested a recommended Housing Action Plan for 2020-2030 for City Council's consideration prior to the end of 2019. The decision can be accessed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX36.32>

COMMENTS

Background

This second Supplementary Report to item *PH7.4 - A New Approvals Framework for Toronto Community Housing Corporation Revitalization Projects* responds to the Planning and Housing Committee request of July 3, 2019 for the Deputy City Manager, Community and Social Services to report directly to City Council on options for social housing providers to act as the developer.

This report provides an overview of how social, non-profit and affordable housing development has been achieved in Toronto and other jurisdictions during different program eras, the current development challenges facing the non-profit housing sector in Toronto and actions to strengthen the role of non-profit housing organizations in the development of new social and affordable housing.

Overview of Social, Non-profit and Affordable Housing Development

The history of social, non-profit and affordable housing development can be broken into roughly three periods: the post-war through 1970's public housing era; the non-profit housing era that began in the 1970's, and the current affordable housing era which started in the early 2000's.

Public housing era was characterized by the federal government directly financing, constructing and operating housing for low income households. Direct government capital development financing as well as long term operating subsidies provided for homes with rents at rent-geared-to-income ("RGI") levels. During this public housing period, development was undertaken by private residential development corporations funded by the federal and provincial governments.

In the early 1970's, the federal government introduced new community-based non-profit and cooperative programs. Through these initiatives federal capital funding was provided to community sector and municipal non-profit corporations to build and operate mixed-income housing.

Federal long-term operating funding provided for RGI homes alongside market rent homes. In the community sector the housing development function was typically provided by specialized social housing development consultants, commonly referred to as resource groups. Such resource groups were paid a fee of 2% of the capital cost of projects. For some twenty years ongoing government program funding supported the non-profit and co-operative sectors in growing Canada's supply of socially owned housing. This social housing period ended in the early 1990's with the withdrawal of federal and provincial government funding.

The current affordable housing era began in the early 2000's with a new commitment from the federal and provincial governments to address an increase in homelessness and the need for new affordable housing supply. Since then, new housing development has been delivered by a mix of private rental housing developers and community and municipal non-profit corporations. In Ontario, while municipal Service Managers are funded up to 5% of the capital value of federal/provincial program allocations to

administer the affordable housing program, there is no equivalent funding for social housing proponents.

Capital development funding and financial support is often shared between the federal, provincial and municipal governments. Private and non-profit developers rely on a mix of low-cost government and regular private mortgage financing. Rents are provided at varying levels but long-term operating subsidies and RGI support are typically not funded to provide for deeply affordable rents.

Current Market and Program Environment Impacting Social Housing Development in Toronto

The resilient and hot housing market in Toronto provides a range of challenges for both the private and social housing sectors in building new affordable rental housing. This includes: high residential land prices; complex regulatory and approval requirements; rising construction costs for labour and materials; the challenges of securing equity and financing; and, having the organizational capacity to manage the pre-development and development stages of during the multi-year development timeline.

The proposal development, pre-development and development phases are complex and costly undertakings that involve a wide-range of professional consultants. The team needed to plan and realize a new rental housing development would include such professionals as:

- Real estate brokers/agents to assist in finding development sites;
- Architects and planning consultants to determine built form and design;
- Cost consultants to test financial feasibility;
- Development consultants to advise on business plans and funding and financing;
- Engineers to provide environmental, geotechnical, transportation and other studies;
- Community facilitators to engage local communities; and,
- Lawyers to advise on real estate and housing development matters.

A number of social housing organizations in Toronto over the last two decades have distinguished themselves in successfully building new affordable rental housing. During this time some 118 new non-profit developments totalling more than 5,900 homes have been created. However, scaling up this activity and sustaining the momentum has been very challenging.

In addition to the general challenges within the Toronto housing market, the other major challenge has been the shifting federal/provincial housing program environment. Over time the federal/provincial housing program have shifted funding to “shovel ready” developments where funding is on a “use it or lose it basis”. This has put the social housing sector at a disadvantage as they often do not have the capacity or capital to resource proposed projects to the “shovel ready” stage.

To assist social housing groups in the pre-development stages and in covering the costs of pre-development both the federal government and the City of Toronto provide a number of funding incentives including:

1. The federal government, through Canada Mortgage and Housing Corporation, offers a Seed Funding Program to assist in paying pre-development activities. The program, while not exclusive to non-profit groups, offers a maximum grant of \$150,000 and a maximum loan of up to \$350,000.
2. The City of Toronto's Open Door Program provides a multi-year approval process for eligible affordable rental developments early in the development stage, thus providing certainty of the City's financial and funding commitments. The City's new Housing Now Initiative provides seed funding through a \$1 million Non-Profit Housing Capacity Fund. This Fund will provide assistance to non-profit and co-operative housing groups with up-front funding for pre-development and due diligence assistance.

Jurisdictional Scan of Actions to Support Social Housing Development

There is a wide range of examples in other jurisdictions where financial and organizational support is provided to non-profit organizations developing social housing.

In the province of British Columbia, the co-operative housing sector is aggressively developing new social housing with provincial funding and surplus land from the City of Vancouver.

In the province of Alberta, the City of Calgary makes land available to social housing providers and provides eligible groups a \$50,000 pre-development grant program.

In London, England, the Transport for London agency provides surplus land for housing to small developers, housing associations, and community-led organizations with a target of 10,000 homes by March 2021. Transport London operates an affordable housing program as part of its larger site transit orientated developments.

City staff will continue to review the practices in other jurisdictions and the various options in supporting social housing providers in developing new housing, including acting as the developer.

Conclusion and Next Steps

Canada has a long history of supporting the development of public and social housing to provide rental homes to low-and-moderate-income households. From the 1940's through to today, government agencies and social housing providers have played a variety of roles in the development of social housing.

However, scaling up the development of housing has become increasingly challenging for non-profit and social housing providers in Toronto. High land prices and escalating construction costs have made it difficult for non-profit organizations to participate in the

housing market without significant government investments to offset costs and help mitigate risks for lenders.

Most non-profit and social housing providers also do not have capacity to borrow money because of insufficient equity and unsustainable long-term operating models. As a result, many not-for-profit organizations are collaborating and looking at ways to pool resources and become less reliant on government sources of funding. Various non-profit organizations are also looking at developing mix-income buildings which would not only increase their borrowing capacity and make their long-term operating models more sustainable, but would also help build more integrated buildings and communities.

Staff will continue to work with the non-profit housing sector to better understand challenges and review approaches that help these organizations acquire the skills and resources required to build more social and affordable housing. Under the City's Housing Now Initiative approved by City Council at its meeting of January 30 and 31, 2019, the City has also dedicated one million dollars to develop a Non-Profit Capacity Building Fund to help non-profit organizations participate in the development of City-owned land to build affordable housing, including social housing.

Results of further discussions, additional research on successful models, and an action plan to help build the capacity of non-profit developers complimentary to the HousingTO Action Plan 2020-2030 will be presented to the Planning and Housing Committee in Q2 2020.

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