



REPORT FOR INFORMATION

Supplementary Report on Open Door Program Call for Applications 2019: Support for 651 New Affordable Rental Homes

Date: September 25, 2019

To: City Council

From: Executive Director (Interim), Housing Secretariat

Wards: All

SUMMARY

At its meeting of September 17, 2019, the Planning and Housing Committee adopted report *PH8.3 - Open Door Program Call for Applications 2019: Support for 651 New Affordable Rental Homes* with amendments, recommending financial contributions for eight non-profit and private sector development proposals. At this meeting the Committee also requested the Executive Director, Housing Secretariat to report directly to City Council at its meeting scheduled for October 2 and 3, 2019, on the results of a third-party financial review of the recommended 2019 Open Door Program proposals.

In addition to the above request, when City Council adopted the results of the 2018 Open Door Call for Applications in July, 2018, it directed the City Manager to conduct a value-for-money analysis of the 2018 Program approved proposals. The 2018 Call for Application supported eight affordable rental housing developments, representing 606 affordable homes.

This report responds to these requests and summarizes the results of a third-party review of the 2018 and 2019 Open Door proposals recommended for City support. The firm N. Barry Lyon Consultants (NBLC) was contracted by the Housing Secretariat to provide this financial viability and value-for-money review. NBLC is a Toronto-based firm specializing in housing, development feasibility and real estate strategy.

NBLC's review found that the recommended 2019 Open Door proposals and 2018 Council approved applications were financially viable from both capital development and operating perspectives, and represent good value-for-money for the City's Open Door Program contributions. This Supplementary Report reviews NBLC's key assessment methodologies and findings.

With the approval of the recommended 2019 proposals, some 7,660 new affordable rental homes will have been approved by the City under the Open Door Program. Open Door provides City financial contributions, fast-tracked planning approvals and surplus public land for affordable housing development, creating a pipeline of affordable homes for the Toronto market. The Program's financial support takes the form of waived City planning fees, development charges and tax relief, as well as capital contributions from

the Development Charges Reserve Fund for Subsidized Housing (XR2116). NBLC's review supports the Open Door Program as a sound investment in affordable rental housing for the City of Toronto.

FINANCIAL IMPACT

There are no financial implications arising from this report.

The 2018 and 2019 Open Door Program recommendations total 16 developments and a combined 1,257 affordable rental homes. There were 8 developments recommended in both 2018 and 2019 with 606 homes and 651 homes respectively. Capital funding from the City's Development Charges Reserve Fund for Subsidized Housing was \$9,941,566 in 2018 and \$12,327,344 in 2019, resulting in an average per unit contribution of \$17,716. Foregone revenue in the form of waived City planning fees, development charges and municipal tax relief, averaged an estimated \$52,000 per home.

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

EQUITY IMPACT STATEMENT

Access to safe, secure, affordable housing in all parts of Toronto is a fundamental goal of the City's 10-year Housing Opportunities Toronto (HOT) Action Plan 2010-2020. The provision of new affordable housing is also a goal of the City's Poverty Reduction Strategy.

The HOT Action Plan 2010-2020 also supports the provision of a mix of housing opportunities and the creation of affordable housing in mixed-income, inclusive and complete communities.

Developments recommended in the Open Door Program Call for Applications 2019: Support for 651 New Affordable Rental Homes report, and those non-profit proposals recommended for pre-development funding, serve Indigenous persons, people experiencing homelessness, low-income seniors, people with disabilities and seniors struggling with mental housing challenges, in addition to low- and moderate-income households of various sizes.

Creating affordable homes for Toronto residents improves their economic and social well-being, and contributes to more inclusive communities and a more equitable city.

DECISION HISTORY

Item PH8.3 *Open Door Program Call for Applications 2019: Support for 651 New Affordable Rental Homes* was considered by Planning and Housing Committee on

September 17, 2019 and adopted with amendments. The accompanying report outlines the results of the 2019 Open Door Program Call for Affordable Rental Housing Applications and recommended eight non-profit and private sector development proposals, representing a total of 651 affordable homes. The Committee decision is available here:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.PH8.3>

City Council adopted Item EX36.27 *Creating 606 Affordable and 422 Mid-Range Rental Homes in Toronto - Results of the 2018 Open Door Call for Applications* at its meeting on July 23, 24, 25, 26, 27 and 30, 2018, with amendments. The accompanying report outlines the results of the 2018 Open Door Program Call for Applications and recommended eight affordable rental housing development proposals for Council approval, representing 606 affordable homes across the City. City Council's decision included direction to the City Manager to conduct a value-for-money analysis of the 2018 Open Door Program and is available here:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX36.27>

COMMENTS

Background

The City's Open Door Affordable Housing Program was launched in 2016 to support affordable rental housing construction by providing City financial contributions, fast-tracking planning approvals and activating surplus public land. Including the 651 homes being recommended to City Council for approval through item PH8.3, the Open Door Program has supported some 7,660 affordable rental homes to date, creating a pipeline of new affordable housing for the City. Open Door provides financial contributions in the form of waived City planning fees, development charges and municipal tax relief, as well as capital from the City's Development Charges Reserve Fund for Subsidized Housing.

Annual Calls for Applications have been held under the Open Door Program in 2017, 2018 and 2019, with 23 developments recommended for support, representing a total of 1,555 new affordable homes. In addition to the annual Calls for Applications, Open Door contributions have been awarded to approximately 3,700 affordable units on 11 City development sites through the Housing Now initiative. Other types of Open Door projects include support for some 430 Toronto Community Housing homes and 1,290 units on other public sites including those approved in conjunction with the Provincial Lands for Affordable Housing Initiative.

In July, 2018, when City Council adopted the results of the 2018 Open Door Program Call for Applications, it directed the City Manager to conduct a value-for-money analysis of the 2018 proposals. Additionally, at its meeting of September 17, 2019, the Planning and Housing Committee requested the Executive Director, Housing Secretariat to report directly to City Council at its meeting of October 2 and 3, 2019 on the results of an independent, third-party financial review of the recommended 2019 Open Door Program proposals.

Open Door Program Financial Review

This Supplementary Report responds to the above requests and summarizes a third-party review of the 2018 and 2019 Open Door proposals conducted by the Toronto-based firm N. Barry Lyon Consultants (NBLC). NBLC is a broad-based advisory firm involved in a range of public and private initiatives and was contracted by the City's Housing Secretariat to undertake the review. NBLC provides residential, commercial and industrial market research and advisory services, including site-specific development feasibility studies for private and public sector clients. The firm has been tracking Canadian real estate markets for over 40 years and has extensive experience in community and affordable housing policy.

NBLC's review of the 2018 Council approved Open Door projects and the 2019 projects recommended for approval through report PH8.3 concludes that all proposals represent good value-for-money to the City. The review also highlights how the City's contributions help to make the projects financially viable as rent levels are set at or below 100% of average market rents in all developments.

The 2018 and 2019 Open Door Program projects include a diverse group of developments, both non-profit and private sector in many different areas across the City. The largest development includes 220 homes and the smallest 12 affordable homes. Rent levels range from 70% of City-wide Average Market Rents (AMR) to 100% of AMR (the maximum under the City's Official Plan definition of affordable rental housing). And the length of time of homes will be affordable varies from 25 years (the City's minimum under Open Door in 2018, now raised to 30 years) to 99 years. These various factors were considered in NBLC's review.

Financial Assessment Criteria

To test the viability of the Open Door developments, NBLC compared the budgets submitted by the applicants to industry development cost benchmarks. This comparison was broken down into "hard" construction costs and "soft" costs, such as architectural, financing and other consultant's fees. The comparison illustrated how much the applicants' cost assumptions might differ from industry standards. Any significant variances from NBLC's benchmarks were investigated and clarified by Housing Secretariat staff to determine if they were justified. Examples of supportable variances included lower than benchmark construction costs for the delivery of smaller, efficiency units for formerly homeless residents, or higher finishing costs to better serve a hard-to-house resident group. The recommended applicants were found to have realistic and reasonable cost assumptions when all relevant factors were considered.

Another key financial viability indicator used in rental housing development is a debt service ratio. This calculation illustrates whether the project's regular operating income (generated primarily by rents) is sufficient to pay back the construction financing required to build the development. The federal government, through Canada Mortgage and Housing Corporation (CMHC), currently provides low-cost financing and/or contributions for affordable rental housing through programs under the National Housing Strategy. NBLC's analysis found that CMHC financing was central to the financial sustainability of most proposals and their ability to maintain a healthy debt service ratio.

In cases where the NBLC review identified a weaker debt service ratio, Housing Secretariat staff reviewed the proposals and budgets to confirm that sustainability was achievable.

In addition to the above, another key value-for-money indicator used by NBLC assessed each Open Door application's foregone revenue by providing rents at the affordable levels compared to the value of the City's financial support. This method essentially compared the potential financial returns of each development if it was operated at market-level rents (versus returns based on rents at the affordable levels) against the City's Open Door Program contributions. Basically, it is assumed that each public dollar invested in a development should be returned in the form of lower rents when compared to market levels.

Site-specific factors such as neighbourhood rent levels, lack of appropriate housing options for vulnerable groups and the lack of development potential in the local housing market without public investments were taken into consideration. NBLC's findings were that the recommended applications represent good value-for-money to the City using this financial metric and considering site-specific context and some non-financial, qualitative elements of the proposals.

CONTACT

Valesa Faria
Director (Acting)
Housing Secretariat
Tel: 416-392-0602
Email: Valesa.Faria@toronto.ca

SIGNATURE

Sean Gadon, Executive Director (I), Housing Secretariat