Federal Development Bonds:
A Tool for Financing the Construction of Affordable Rental Housing in a Fiscally Responsible Manner

SLIDE PRESENTATION

MARCH 2, 2015

BACKGROUND:

- The Government's gross capital input into **leveraging** the construction of Affordable Rental Housing in major urban centres is a maximum of $150,000 per unit (via a **non-repayable grant system** of funding) less the program's 20% overhead costs and fees, leaving $120,000 net per unit towards new construction. This grant usually needs an additional construction loan to complete the project.

- The current grant approach **has been difficult to sustain** in any meaningful volume that will address the extent **of the growing need** for Affordable Rental Housing in our large cities and our industrial hotspots.

CURRENT SITUATION:

- **Current gross capital Funding Extension by the Government** is $1.25 Billion for 6 years. This will, after the program's overhead and fees, leverage the construction of about 1,500 housing units per year nationally for a maximum of about 9,000 units throughout Canada over 6 years, if all the funds were allocated into leveraging the construction of new Affordable Rental Housing, which is not the case. This **demonstrates the difficulty with the current Affordable Rental Housing Funding Model's ability,** to meet the existing and the growing rental housing needs in our major urban centres.

- Nationally there are close to a total of 3,000,000 people that fall in one or more of these categories:

  ✓ **Cannot afford** the rent or,
  ✓ Live in **substandard housing** (unhealthy or crowded conditions) or,
  ✓ Are on various **waiting lists** for affordable housing or,
  ✓ Are **homeless** or,
  ✓ Are on the verge of **becoming homeless.**

OUR PROPOSAL:

That the Federal Government be the facilitator to raise repayable construction capital via **35 Year Federal Development Bonds at 2.5% interest to be used for the construction of new Affordable Rental Housing Units** in a ***Sustainable, Accountable and Efficient*** manner.

We propose that the **Government facilitate the financing** of this capital and that the **private sector develop, build, lease and manage** the new Affordable Rental Housing.

Federal Government sells Development Bonds.

$6 Billion in capital is raised from this sale.

Existing **Lending Institutions**, subject to criteria, become responsible for **lending** this capital for the **construction of Affordable Rental Housing.**

Builders and Developers that meet the criteria for these loans/mortgages, **borrow the money to build Affordable Rental Housing.**

Upon occupancy, the **loans and mortgages are paid back to the Lender monthly, over 35 years** according to the pre-agreed lending terms.

Lender collects the paid back loans and mortgages **and holds funds in interest bearing account.**

Bond Holders are **paid back.**

Our proposal will create **SUSTAINABLE**, **ACCOUNTABLE** and **EFFICIENT** construction of much needed Affordable Rental Housing. This will also generate more jobs and will create more wealth in the economy as a whole.

- **SUSTAINABLE** – With the capital from the Bonds being paid back via repayable loans/mortgages, this proposal becomes more sustainable than the current non repayable grant system.
- **ACCOUNTABLE** – It will continue to use CMHC's yearly published rental rates for Affordable Rental Housing together with the household income limits for Affordable Rental Housing occupancy during the first 20 years of the loan/mortgage.
  Our approach will continue to ensure that all the standards and all the local targeted needs are met as set by Provincial and Municipal Governments.
- **EFFICIENT** – Our proposal will bring reductions to the overhead costs and the administration fees that are currently applied to the non-repayable grant system for Affordable Rental Housing by using the existing processes of our lending institutions and thus, making a more efficient use of funds and a more efficient process.

EXISTING PROGRAM	PROPOSED DEVELOPMENT BOND CAPITAL FINANCING INITIATIVE	PROPOSAL'S BENEFITS
• **\$150,000 gross cost/unit including overhead and fees, to leverage the construction of Affordable Rental Housing.**	• **\$72,784 gross average cost to the Government** under the proposed Development Bond initiative (including overhead and administration fees). This is on average a **51.48% saving** over the current program costs to the Government.	A. Our proposal will **cost the Government (per unit) less than 50%** of the current grant amount used to leverage one new unit.
Leveraging at best the construction of about **9,000 housing units for all of Canada** over 6 years (at the rate of about **1,500units per year), if** all money goes into construction, which is not the case.	Proposed **\$6 Billion Development Bond** invested in repayable loans and mortgages **to build** new Affordable Rental Housing will generate **28,570 Affordable Housing unit**s over the first 6 to 7 years of this initiative at an average of about 4,400 Affordable Rental Housing units per year.	B. Our Development Bond proposal will generate more than **triple the number of units compared to the current funding,** at almost **triple the number of units per year,** all at the CMHC published rents for Affordable Housing.
Currently the \$1.250 Billion gross investment generates \$1 Billion for leveraging construction funds, due to current program 's 20% overhead costs and administration fees.	Proposed **\$6 Billion Development Bond Capital lent for Affordable Rental Construction through our existing lending institutions,** will require only a **5% administration and overhead fee** out of the total gross capital investment.	C. Our proposal will **reduce fees and charges to 5%** by using existing lending institutions. The **current program costs 20%** in **overhead fees and charges.**
10,750 jobs over 6 years in construction and related industries (at the rate of almost **1,800 full time jobs per year**) can be created if all the funds go into leveraging new construction.	Proposed **\$6 Billion** Capital from **Development Bonds** to be invested in new Affordable Rental Housing Construction **will generate 64,500 full time jobs** in construction and related industries over the first 6 to 7 years of the proposed initiative. **This means almost 10, 000 full time jobs per year.**	D. Our proposal **generates 6 times** the number of **full time jobs** compared to the current program.
Current Federal Program provides **forgivable non-repayable grants** to leverage the capital construction cost needed for new Affordable Rental Housing.	**Proposed** Affordable Rental Housing Construction Capital via **Development Bonds will be paid back** to the Government as construction loans/mortgages payable back monthly **over 35 years.**	E. Our proposal **is for repayable construction capital,** not for non repayable grants that need another construction loan to complete the job, per the current situation.
Under the current program, the average Net Cost per year to the Government is **\$60,378,800** to leverage construction of a maximum **9,000 Affordable Rental Housing units** and the creation of **10,750 full time jobs,** if all the funds go into construction, which is not always the case.	Under the proposed initiative, **the average Net Cost** per year to the Government is **\$59,412,500** to generate **28,570 Affordable Rental Housing units and 64,500 full time jobs.** This is to create triple the number of units and 6 times the number of jobs. The gross cost per unit to the Government will be **reduced by more than 50% to an average of \$72,784/unit** (including the administration and overhead fees) compared to the current gross cost to the Government of \$150,000 to leverage the construction of one unit, which will still need construction financing to finish the job.	F. **For the same current Annualized Average Net Cost to the Government ,** our proposal generates : • **triple the number of units,** • **6 times the number of jobs** and, • **costs the Government (per unit) less than ½ of its current grant per unit.**

LEGEND: = 1,000 Units = 1,000 Full time Jobs = for every \$10,000 of gross average cost per unit to the Government

Our Proposal Details:

- That the **Federal Government raise capital via 35 Year Development Bonds**, over 3 to 4 years in three to four tranches of $1.5 Billion to $2 Billion each, **for a minimum total of $6 Billion**, to begin to address as fast as possible the current Affordable Rental Housing issues in Canada's major urban centres.

- These 35 Year **Bonds will be secured by** the fully developed and leased **rental housing properties** that will be built with these funds. This is like the security of a first mortgage on any new rental property.

- **Three to four such $1.5 Billion to $2 Billion tranches** raised over 3 to 4 years, for a total of <u>$6 Billion will be invested in the construction of new Affordable Rental Housing units and will, by **the 6th to 7th year**, have generated **28,570 rental housing units** and will have created **64,500 jobs** in housing construction and related in industries.</u>

- We are suggesting that the raising and the investment of the **first $1.5 Billion of Capital**, be considered as a **Pilot Project** to launch immediately this initiative. After the Pilot Project is launched, the Government will raise the rest of the $6 Billion capital necessary for the construction of much needed Affordable Rental Housing in Canada.

Our Proposed Process:

1. The **capital** from each tranche will be **invested immediately and continuously** in the construction of Affordable Rental Housing in our urban centres.
2. This Affordable Rental Housing construction capital will be invested via **repayable construction loans/mortgages.**
3. These construction loans/mortgages will be paid back over 35 years.
4. The first **20 years of the 35 year term** of the loan/mortgage, will be covered by the **Affordable Housing Agreement**, currently applicable to Affordable Rental Housing buildings and will **follow the CMHC annually published rents.**
5. The loan/mortgage payback will start upon full occupancy of the rental units.
6. The construction loan/mortgage monies will be paid back monthly to the lender who will have to invest it in an interest bearing account so that the Bond Holders can be paid back at maturity.
7. The **loans/ mortgages will be interest free for the first 20 years** (principal payment only, with 2.5% of the principal being paid yearly). During the first 20 years (which is currently the Affordable Housing program's core affordability period) rents will be kept at the CMHC published yearly affordable rent levels. During the first 20 years, $3 Billion of the principal will be paid back without interest.
8. For the **last 15 years the loan/mortgage payments will be principal plus interest** at the Bank of Canada prime rate, not to exceed 2.5% rate of interest. During the last 15 years another $3 Billion will be paid back with interest.
9. All the paid back loans/mortgages over the term will be deposited into an Interest Bearing Account out of which the Bond Holders will be paid back their principal investment upon redemption.

SUMMARY

- The implementation of our proposal will generate Affordable Rental Housing that **will cost the Government per unit less than half the current non-repayable grant amount per unit.**
- For the **same yearly annualized net average cost** to the Government as the current program funding costs, our proposal will generate **triple the new Affordable Rental Housing units** and **six times the number of full time jobs.**
- Implementation by the Federal Government of Affordable Rental Housing **Construction Capital via Development Bonds**, **will demonstrate** to the entire country **that:**
    a. **this Government understands** the needs of **our major urban centres** and,
    b. **this Government is committed** to the **economic health** and to the **social viability** of our major urban centres.

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THANK YOU

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