



*Building in  
Brampton, Caledon,  
Toronto & York Region.*

## Mayor's Open Door Initiative

Recommendations from Habitat GTA  
for Scaling up the Rate of Building  
Affordable Homeownership Units

November 4, 2015



## List of Recommendations

### Addressing the **Money** Constraint

1. Provide Habitat with a full **exemption from development charges**, park levies, planning application fees and building permit fees.
2. Provide **relief from property taxes on the land** associated with approved Habitat GTA ownership projects during the development and construction period.

### Addressing the **Land** Constraint

3. Leverage **surplus municipal, provincial and federal land** to increase the production of affordable housing units.
4. **Set yearly targets** for creating affordable housing opportunities and for the time it takes to realize these opportunities.

### Addressing the **Time** Constraint

5. Designate Habitat GTA projects for “**Fast Track**” treatment during the planning approvals process.
6. Establish and monitor **benchmarks for target timelines** from the time a project is identified for affordable housing to the time building permits are issued.

### Other Considerations

7. Explore the possibility of **tax relief programs for new purchasers** of eligible affordable homeownership units in high property tax neighbourhoods.
8. Evaluate the possibility of municipally-backed **loan guarantees**, or failing that, to enter discussions with the provincial and/or federal governments regarding loan guarantees.

## Executive Summary

For over twenty-five years, Habitat for Humanity Greater Toronto Area (Habitat GTA) has been engaging local governments, communities and businesses to work together with low-income families helping them break the cycle of poverty through affordable homeownership.

By the end of 2015, Habitat GTA will have helped over 300 families realize home ownership. The impact of home ownership for these families and for the Toronto region is transformative. Collectively, Habitat GTA homeowners are contributing well over \$600,000 in municipal property taxes every year. Moreover, the reduced reliance of these families on subsidized rental housing and other social supports generates another \$3 million annually of avoided government spending. Most significantly, the children in these families are going on to post-secondary education and futures in which they are accessing market rental and market ownership housing. Mortgage payments from these families help us build more homes enabling us to repeat the cycle and provide a hand up to more families.

*But so much more is possible. Much more is urgently needed in the face of growing wait lists for social housing and tremendous core housing needs across this City and Region.*

Mayor John Tory has put out a clear challenge with the Open Door initiative for bold actions that can be taken to scale up the rate at which affordable housing – both rental and ownership – units are being produced. Habitat GTA commends the Mayor for this initiative, and, in particular, for recognizing the importance of affordable homeownership as a critical pillar in the City's affordable housing strategy. Appendix A elaborates on why this emphasis on homeownership is so critical in a growing urban region like the GTA.

Habitat GTA is fully committed to scaling up its rate of delivering affordable homeownership. In fact, Habitat GTA was formed by the 2014 amalgamation of three smaller Habitat for Humanity affiliates expressly for the purpose of doing more.

This submission responds to the question: **What stands in the way of Habitat GTA scaling up to build even more homes?** While the solutions will require boldness and focused effort, the answers to these questions are relatively straight-forward. Habitat GTA's rate of home delivery is constrained by three overall factors:

- **Money**
- **Land**
- **Time / Approvals delays**

The City of Toronto has the opportunity to materially address each of these challenges through choices and policy changes. This submission elaborates on these opportunities and provides advice on some of the mechanics of what the solutions might look like.

## Addressing the Money Constraint

### Development Charges and Other Government Fees

The Habitat for Humanity model is “a hand up, not a hand out”. We do not give away – or discount – the homes we build. Rather, Habitat partner families buy their homes at the appraised market value at the time of completion. Yet, Habitat partner families are working families, who lack the funds for a down payment and whose incomes are well below the level required to qualify for a conventional mortgage. *So, how do we make homeownership possible for these families?*

We make homeownership possible by not only being the home builder, but also by being the mortgage holder. Our mortgages are zero down payment, zero interest mortgages with a fixed term of 20 years. We use a 20 year term because it approximates a generation – the time it takes to raise a family. When the 20 year term expires, if a residual is still owing on the Habitat mortgages, homeowners can either refinance with a conventional mortgage or sell their home and use a portion of the proceeds to pay out Habitat GTA. Mortgages are structured so that payments are at a level that our partner families can afford with payments mirroring household income. Volunteer labour, donations of cash, construction gift-in-kind materials and services, and the mortgage payments of existing Habitat homeowners provide the resources for us to make our ownership model work.

The pace at which we can deliver this model, is, however, severely constrained by the cost of land and by the development charges and other related fees we incur. As with other developers, land and development costs represent roughly half of the total costs we incur in delivering our homes.

The Mayor’s direction letter encouraged staff to expand policies and procedures for the discount, exemption and waiver or deferral of City development charges, planning and building permit fees and property taxes for affordable rental housing.

**To maximize the rate at which Habitat is able to build homes, the best policy solution would be to provide Habitat with a full exemption from development charges, park levies, planning application fees and building permit fees.** It is important to recognize that this exemption would not be a “hand out” to the family since families purchase their homes at full market value. Rather, this exemption would directly translate into increased cash flow for Habitat to build more homes.

We know there is a concern within some City departments of the impact of this policy change on City revenues. In weighing this trade-off, consideration should be given to the aggregate financial impact of a Habitat home.

A May 2015 Boston Consulting Group study of the Habitat for Humanity model in Canada found that every \$1 invested in a Habitat home generates \$4 in societal benefit. These benefits accrue from increased income taxes due to improvements in household income, new property taxes, avoided social housing spending, and second generation income benefits from higher educational attainment.<sup>1</sup>

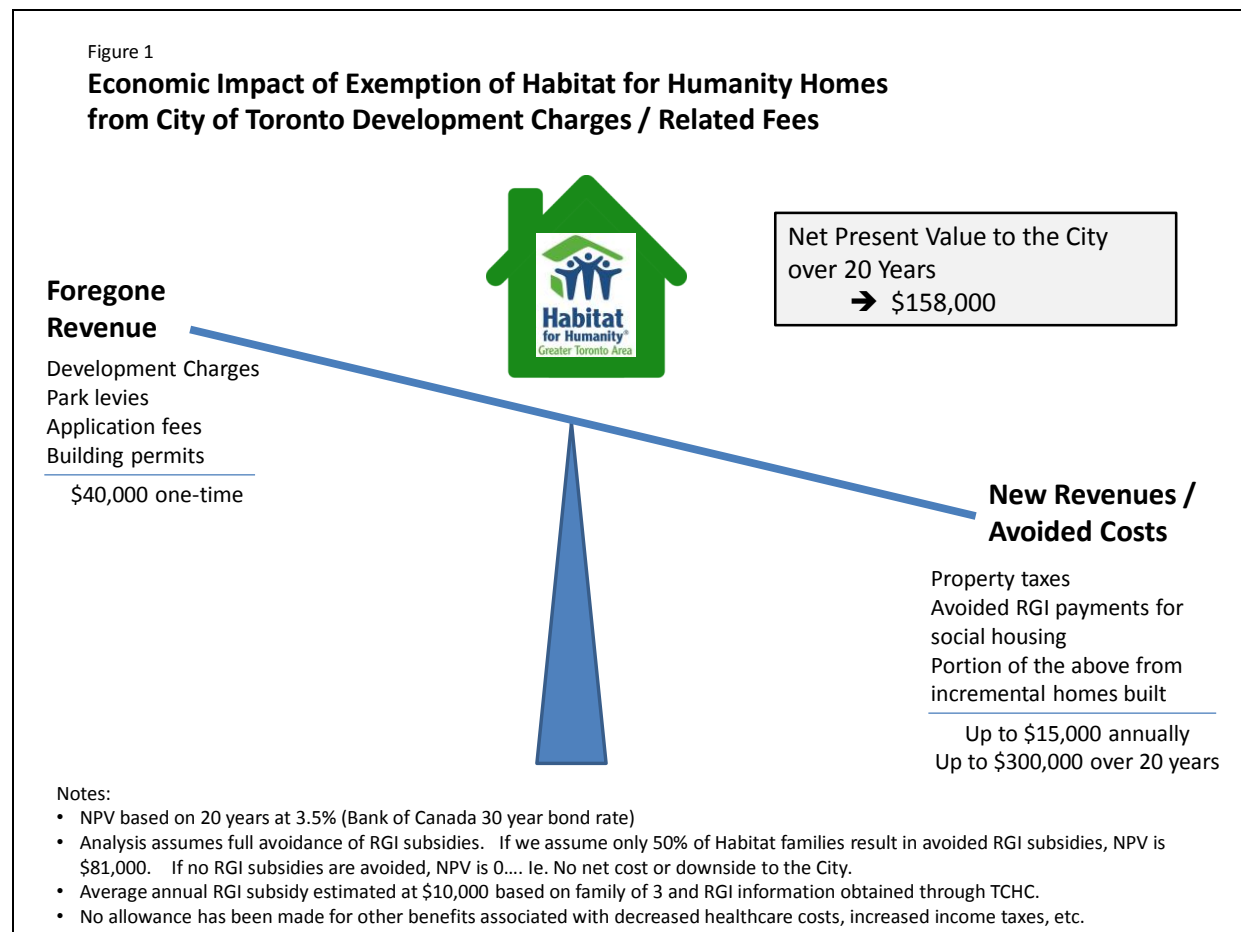
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<sup>1</sup> Boston Consulting Group. *Transforming Lives: The Social Return on Habitat’s Work in Canada*, 2015

*But what is the direct financial impact on the City of Toronto?* Development charges and related fees amount to approximately \$40,000 for each Habitat home built in the City of Toronto. If Habitat GTA did not incur these fees, it could build one more home for every six homes currently built. It is important to note that 56% of Habitat homeowners are either former TCHC residents or have been on the TCHC waitlist. Taking these factors into consideration, exemption from (or granting back of) these fees would have the following economic benefits to the City:

- New property taxes from new homeowners
- Avoided rent-geared-to-income subsidies
- The impact of these gains from the incremental homes that Habitat GTA could build

Figure 1 demonstrates these overall economics of Habitat homeownership to City of Toronto revenues and costs. In short, the economics strongly favor exempting Habitat GTA builds from these fees.



Habitat GTA could also benefit from a deferral of development charges and related fees – although the impact on home building would be less. Deferred development charges could be set up as a second mortgage on the property payable by the homeowner at the time of maturity of the Habitat loan. This approach would be more administratively cumbersome for the City and would have reduced impact on the Mayor’s overall challenge of scaling up the rate at which homes are built. Moreover, as

demonstrated in Figure 1 the City of Toronto stands to gain more from exempting Habitat GTA from these charges than by the status quo or the alternative of deferring these charges.

It should be noted that the Region of York provides Habitat GTA full exemption from development charges and encourages its local municipalities to do the same. Hence, this approach is not without precedent in our own region.

## Addressing the Money Constraint

### HOAP Loans, IAH Funds, Property Tax Relief

Habitat GTA and other non-profit homeownership providers currently benefit from two grant programs that provide some relief from the cash burden of development charges and related fees. The Home Ownership Assistance Program (HOAP) provides \$25,000 at the time the building permit is issued as an offset against some of these fees. Habitat GTA is also eligible for federal Investment in Affordable Housing (IAH) funds of \$50,000 per unit.

These two programs have been a significant help to Habitat GTA and the Affordable Housing Office has been proactive in ensuring Habitat GTA has access to these programs. However, several nuances should be noted:

- The IAH program was renewed by the Federal government in 2013 but will expire in the coming years. In 2015, the Affordable Housing Office was only able to provide IAH loans for 14 Habitat units even though we are building 25 homes in Toronto this year.
- IAH funds do not flow until after legal transfer of the property has occurred. Since most Habitat GTA builds are multi-unit condominium builds, the timing of these revenues is out of sync with when development and construction costs are incurred.
- HOAP funds flow at the time the building permit is issued, however, the program has not been consistently available. From 2012 through to the end of 2015, only 70% of Habitat homes have received HOAP funding.
- Both programs require an extensive applications and approval process, creating administrative demands on both Habitat and the Affordable Housing Office.

A straight exemption of Habitat for Humanity units from development fees and related charges would circumvent these limitations. Funding ear-marked for HOAP loans could then be redirected for other purposes – potentially as grants for land purchase for affordable housing.

Habitat GTA also recommends that the City provide **relief from property taxes on the land associated with approved Habitat GTA ownership projects** during the development and construction period. Relief of property taxes during the approvals and construction period would directly augment cash availability for home construction.

To quantify the opportunity, in 2015, Habitat GTA has five Toronto properties actively under construction or going through development approvals<sup>2</sup>. The combined 2015 property taxes on these projects is \$75,000. Four of these properties were market purchases by Habitat GTA. One property, 357 Birchmount Road was City of Toronto surplus land offered to Habitat for Humanity in 2008 for the construction of affordable ownership units. The formal sale of this property was completed in 2010. Habitat for Humanity encountered considerable community opposition to development of this property with the result that construction is only now starting in fall 2015. From sale of property to targeted occupancy in summer 2016, Habitat GTA will have paid \$34,000 in property taxes.

While these property tax revenues are negligible to the City, they are of significant impact to Habitat GTA, and directly undermine our capacity to support the City's objective of scaling up affordable ownership units.

## Addressing the Land Constraint

### Availability of Surplus Land for Affordable Housing

The Mayor has been very vocal in his recognition of the tremendous potential of leveraging surplus municipal, provincial and federal land to increase the production of affordable housing units.

Habitat GTA is fully supportive of this strategy. Of the five Habitat GTA properties currently under development in Toronto, only one (357 Birchmount Road) is surplus City of Toronto land. The remaining four properties were acquired through the open market. **Land currently averages 27% of costs for Habitat for Humanity builds in Toronto.** Hence, the Mayor's surplus land strategy can significantly the cash costs of building affordable housing. Result: more units built in a shorter period of time.

In keeping with the "hand up, not a hand out" principle of affordable ownership, Habitat GTA is supportive of asset transfer models that retain or return the value of the land to the public. Recently, Build Toronto in collaboration with the Planning Department and the Affordable Housing Office, developed an affordable housing program for surplus City lands at 411 Victoria Park Avenue ("the Quarrylands"). This program will see the construction of 30 affordable homeownership units in partnership with Habitat GTA. The City, through Build Toronto, is contributing the land for the affordable units. The value of that contribution is secured through a separate agreement and payable to the City if the mortgage is discharged or comes to term. In addition, the value of the contribution increases proportionate to the increase in the market value of the unit.

This example represents one of many strategies that can be used to realize the public value of land assets while realizing the parallel goal of advancing affordable ownership.

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<sup>2</sup> 2015 Toronto Properties under development are: Market-Purchases 140 Pinery Trail (50 units), 960-970 Brimley Road (9 units), 270-280 McLevin Avenue (6 units), 3385 Dundas Street West (60 units); and City of Toronto Land 357 Birchmount Road (9 units)

The Affordable Housing Office has an established track record of working with local Councillors and city departments to identify surplus land for affordable housing opportunities. Similarly, over the last year, Build Toronto has emerged as a proactive and invaluable partner in identifying and structuring opportunities that meet both its revenue generation and affordable housing mandates.

Habitat GTA recommends that targets be set – both in terms of the aggregate affordable housing opportunities that are created each year and also in terms of the *time to realize these opportunities*. In the last several years, we have witnessed relatively modest-sized properties be ear-marked for affordable housing potential only to be bogged down in evaluation processes. The result is that land sits fallow and affordable housing opportunities are delayed.

## Addressing the Time Constraint

### Gold Star / Fast Track Planning Approvals Process

Time is money.

Currently, in spite of a Mayor, Chief Planner, Affordable Housing Office, and many other allies who genuinely support advancing affordable housing, there is no formal process to differentiate between planning applications for high-end condos and planning applications for affordable homeownership projects.

The impact on the pace of delivering new affordable housing units should not be under-estimated. For non-profits like Habitat for Humanity, application processing delays stretch our very limited planning and cash resources. Every month (and year) of delay represents cash that is tied up in properties and property taxes that are being paid on land on which we are not building. **Result: avoidable costs incurred; higher resources expended per unit; fewer units produced.**

The combined property tax and financing costs for the five properties Habitat GTA has under development in Toronto in 2015 amounts to approximately \$370,000 in carrying costs.

**Designating Habitat GTA projects for Fast Track treatment would have an immediate and direct impact on these costs and on the rate at which we can scale up and deliver more homes.**

Habitat GTA also recommends that benchmarks should be established for target timelines from the time a project is identified for affordable housing to the time building permits are issued. Specific targets and milestones should be assigned to each approved project by the Planning Department in consultation with the Affordable Housing Office. In turn, an update on progress versus milestones for Fast Track projects should become a standing item on the Affordable Housing Committee agenda so that there is ongoing monitoring by the Committee. Projects that have fallen behind targets should be reported in an update by the Affordable Housing Committee to the Mayor and/or the Executive Committee.

## Other Considerations

Two other considerations deserve mention. One is a challenge. One an opportunity.

In every deputation by Habitat GTA over the last two years to City of Toronto committees, we have flagged the challenge of **property taxes**. Partnerships with organizations like Build Toronto and private developers can enable organizations like Habitat GTA to make home ownership possible anywhere in the City, including expensive areas like the downtown. The result benefits us as a city. Mixed income communities are stronger communities and in turn create stronger cities. *Diversity is our strength.*

However, creative solutions are needed to ensure that these opportunities do not become home ownership in name only with property taxes eroding any possibility of building a meaningful level of equity and financial independence. The City of Toronto has a program for temporary relief of property taxes and water bills due to “sickness and extreme poverty”. Similarly, the City has a program for “property tax increase deferral” for seniors and low income persons with disabilities. There is merit in exploring the possibility of tax relief programs for new purchasers of eligible affordable homeownership units in high property tax neighbourhoods. These programs could be structured around a phase-in of property taxes over a defined period of time (say ten years) while family income grows. Neighbourhood eligibility and income eligibility parameters would need to be determined.

We close by flagging an **opportunity**. New home development is inherently expensive. This is why a sophisticated commercial real estate financing market has evolved over time. Every for-profit developer actively accesses commercial financing to support their build projects. Real estate developments offer significant security to lenders and investors. Land assets. Mortgages. Pre-sales.

Notwithstanding that organizations like Habitat GTA have considerable land and mortgage assets to offer as security, we face barriers to accessing the financial markets. Lenders are understandably reluctant to introduce the risk of having to seize the assets of a non-profit provider like Habitat for Humanity or force Habitat homeowners into foreclosure if loan conditions are not met. Non-profit affordable rental housing projects are viewed as less risky because they are associated with secure government revenue streams associated with subsidized rental payments.

For Habitat GTA and other non-profit homeownership builders, limited financing access constrains our capacity to increase our rate of builds.

Governments at all levels – municipal, provincial and federal – have the opportunity to address this constraint. **Loan guarantees** for qualified affordable ownership projects (as deemed eligible by the Affordable Housing Committee) could be provided by governments at virtually no cost to tax payers. These guarantees would, in turn, solve the security problem for non-profit builders and enable traditional lenders to actively contribute to scaling up affordable ownership.

Habitat GTA encourages the City of Toronto to evaluate the possibility of municipally-backed loan guarantees, or failing that, to enter discussions with the provincial and/or federal governments regarding loan guarantees.

\* \* \*

2015 has been a year in which we have seen an unprecedented level of goodwill, dialogue and collaboration among all players in the housing sector. Moreover, there is a clear and encouraging level of recognition at all three levels of government around the importance of affordable housing to the economic and social wellbeing of our communities. The conditions have never been more opportune for action. Habitat GTA has been pleased to be part of these discussions and is fully committed to acting on and realizing the potential of Open Door initiatives that are unleashed in 2016 and beyond.

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## Appendix A

### The Critical Role of Affordable Homeownership in a Sustainable Affordable Housing Strategy

Any discussion of housing affordability must include consideration of how to ensure a *sustainable* supply of affordable housing. Sustainable supply requires mechanisms through which individuals and families can move from one form of affordable housing to another – and ultimately, to market-based housing.

The Greater Toronto Area’s population is projected to grow by more than 2 million people in the next twenty years to a total population of roughly 9 million<sup>3</sup>. With demand for affordable housing already far out-stripping supply, the challenges facing Toronto and the 905 communities will become ever greater as our population grows.

Homeownership models delivered by organizations like Habitat for Humanity provide a bridge out of substandard and unaffordable rental housing, thereby enabling low-income families to achieve stability and improve health and wellbeing, while building equity and financial security for their futures. Additionally, because children of Habitat families typically grow up to be financially independent, raising their own families without the need for social housing or other poverty-related supports, the impact of this bridge to homeownership amplifies over the generations.

Figure 2 below illustrates these two alternative futures.

On the left is the support-focused approach to affordable housing. In this scenario, emphasis is on providing supports (typically government-funded) to people who are homeless, have mental health conditions or disabilities, or are unable to access market-based rental accommodations. In this scenario, limited attention is placed on providing transitions to home ownership and financial independence. In effect, there are no “off-ramps” out of the formal system of housing supports. As a result, the demand for and economic burden of affordable rental housing continues to grow as the population grows and as poverty is passed from one generation to the next. In traffic parlance, there are no “off-ramps”. This results in a spiraling of affordable housing needs with an ever-growing demand for affordable, typically subsidized, housing together with parallel demands for other social programs.

On the right is an alternative. In this scenario, affordable housing policy also puts emphasis on transitions to homeownership and other forms of housing independence. With off-ramps available for low income families to transition out of social or other rental housing, second-generation demands are mitigated and new demands for social and affordable housing stemming from population growth are offset by the households that permanently move from poverty to financial stability and security.

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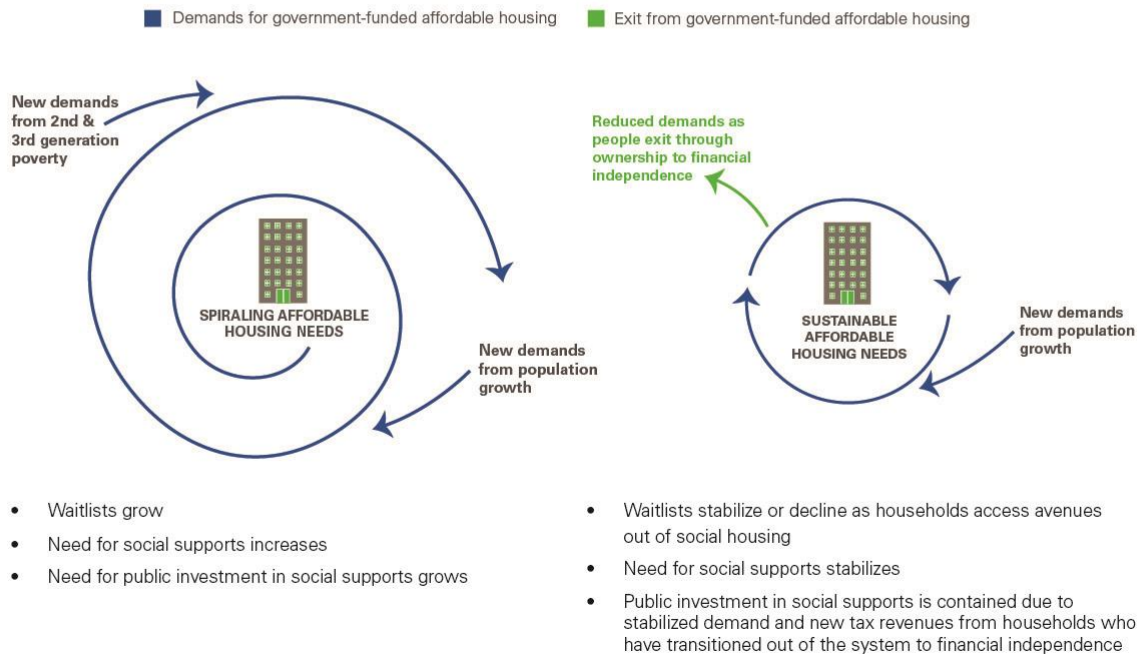
<sup>3</sup> Ontario population projections <http://www.fin.gov.on.ca/en/economy/demographics/projections/>

## SUPPORT – FOCUSED APPROACH TO AFFORDABLE HOUSING

**Policy Emphasis:** Focus is on homelessness, as well as subsidized rental and supportive housing; no consistent province-wide approach to ownership.

## SUSTAINABLE APPROACH TO AFFORDABLE HOUSING

**Policy Emphasis:** Focus is on achieving a balanced mix of affordable housing stock, including homeless shelters, supportive housing, affordable rental *and* affordable ownership, enabling for transitions along and out of the affordable housing continuum.



**Figure 2: The Affordable Homeownership “off ramp”** Without tangible increase in affordable homeownership opportunities, many families cannot build the equity and financial stability to move themselves from dependency on social housing.

We know from first-hand experience that when a Habitat partner family realizes homeownership:

- The rental accommodation that they leave behind becomes available for another family;
- Mortgage repayment enables Habitat for Humanity to build more homes for more families; and
- More often than not, children of Habitat partner families go on to post-secondary education and market-based rental or ownership housing.

The Boston Consulting Group (BCG) carried out a study for Habitat for Humanity Canada that was released in May 2015<sup>4</sup>. The results indicated that Habitat’s program improved the well-being of partner families in the following years in comparison to a control group of similar income levels. In contrast to the control group, Habitat homeowners experience:

<sup>4</sup> Boston Consulting Group. *Transforming Lives: The Social Return on Habitat’s Work in Canada*, 2015

- Above average increases in household income and income security;
- Reduced reliance on food banks and other social programs;
- Improved health and health behaviors as measured by decreased incidence of smoking and higher levels of physical activity;
- Improved educational outcomes for children; and
- Increased involvement in community in terms of volunteerism and voting.

**In short, the study found that every \$1 invested in a Habitat home generates \$4 in societal benefit.**

These benefits accrue from increased income taxes due to improvements in household income, new property taxes, avoided social housing spending, and second generation income benefits from higher educational attainment.

Other affordable homeownership providers recognize the impact that comes with affordable ownership housing. In their Social Impact of Homeownership Report, Trillium Housing cited increased household and financial security, improved outcomes for children, improved health and well-being and community and neighbourhood impact as all derivatives of affordable homeownership.<sup>5</sup>

The inter-relationships between income inequality, access to homeownership, and social outcomes should not be overlooked. A child's income rank – family income in relation to the household income of other families – has a direct correlation to the child's future adult income.<sup>6</sup> Research by Habitat for Humanity and others has demonstrated that homeownership increases household incomes.

In short, homeownership can break the cycle of poverty – creating a sustainable solution to offset the inherent affordable housing pressures arising from population growth.

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<sup>5</sup> Trillium Housing. *The Social Impact of Homeownership: The Trillium Housing Model*, 2014

<sup>6</sup> Raj Chetty et al. "Where is the land of opportunity? The geography of inter-generational mobility in the United States." Harvard University, 2014. [http://scholar.harvard.edu/files/hendren/files/mobility\\_geo.pdf](http://scholar.harvard.edu/files/hendren/files/mobility_geo.pdf)