



October 8, 2024

Position Paper on Affordable Homeownership

From: Michel Labbe

President and CEO of Home Opportunities Non-profit

On behalf of the Co-operative Homeownership Sector

To: All those that are suffering from the lack of proper housing

Re: An **OTHER** Part of the Housing Solution, Affordable Homeownership

Preamble:

The status quo makes the stated government housing targets completely unachievable. We need to recognize that there is no “One Solution” to the housing crisis, and that an all hands on deck approach, is indeed, needed.

Let’s look back to what worked in the 1980’s - an accountable and innovative Non-profit/Co-operative Housing Delivery sector, that aligned the interests of the financial and private construction sectors, with social outcomes.

The financialization of real estate has brought us to this untenable housing situation.

The Co-operative Homeownership Sector has developed an innovative solution that uses unmet demand, to control risk and satisfy desired stakeholder needs for Affordable Housing production.

The keys:

- No grants or subsidies.
- Pay fair market value for land.
- Utilize thoughtful borrowing using existing financial lending mechanisms.
- Establish a sustainable and scalable non-governmental delivery channel.

Too good to be true? Then you are intrigued to learn more – please read on!

Introduction:

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The Co-operative Sector has always been a leader helping Canadians deal with pressing social issues. In the 1970's and 1980's we created the Co-operative Rental Sector, applying our principals to significant success. Today we are once again taking the lead by creating the Co-operative Homeownership Sector, ramping up capacity to build thousands of homes that will be OWNED, not rented, to address the housing crisis without the need of grants or subsidies.

A very common statement with respect to delivering enough housing for Canadians is the requirement for an "all hands-on-deck" approach. CMHC has declared it wants to see 4.5 million additional housing units in Canada by 2030, and Ontario's goal is an additional 1.5 million units by 2032.

Does Government think it is as easy as setting a target to solve this gargantuan problem?

If the status quo was able to solve the current housing shortage, they would have already done so.

Governments at all levels have been assuming that somehow, somewhere, with a little assistance from government, the private sector profit-making development industry will figure out a fix.

We believe the private sector has had more than enough time to prove to anyone with basic housing knowledge, that they are not able to resolve the affordable housing challenge on their own. The private sector is not equipped or properly aligned to address the size and scope of the issue.

Unfortunately, shortages are good for-profit margins.

We need to address four issues in the following ways to establish a comprehensive affordable housing solution:

1. *The Non-profit/Co-operative sector MUST "Captain the Ship"*

The 1960's and 1970's provide significant insight into what does and doesn't work.

The Non -profit/Co-operative sector, with its focus on improving society for everyone, makes it perfect for focusing all housing industry participants, including profit-making entities, on a housing solution that will serve all income groups on budget while providing reasonable margins for industry rather than windfall profits.

Charities are best suited to focus on supportive housing for very low-income households because of their legal mandates. They have not been successful to date at supplying significant amounts of housing.

2. Use Loans instead of Grants or Subsidies

There is not enough government funding available to subsidize rental programs to the scale needed to address the housing crisis.

Every subsidized program introduced since 1975 has needed, more and more money, to build fewer and fewer units.

It would require \$1.2 Trillion of grants and subsidies over the next 8 years for Canada to address the issue exclusively through subsidized rental!

The key to an affordable and comprehensive housing solution is implementing an action and recovery program that **REQUIRES NO PUBLIC MONEY** in grants and subsidies.

The Co-operative Homeownership Sector can accomplish this by using loans instead of grants and subsidies.

Equity growth overtime within this type of financing program makes it progressively more self-sustaining as more supply is built.

Canadians becoming homeowners means better cared for properties and increased household equity. History will attest to the fact that persons invested in themselves, their families, and their futures become “civic participants” and better neighbours. It also means more tax payers investing in their communities rather than drawing on the limited resources available presently.

YES! IT MEANS A PARADIGM SHIFT!

Rental is part of the solution. OWNERSHIP IS THE OTHER SOLUTION WE NEED TO INVEST IN for all our benefit and for a massive return!

The Credit Union movement in collaboration with the Co-operative sector are fully capable of leading this shift.

3. Pre-sales focused on lower income households (\$30-\$85,000)

Selling the majority of the units to lower income households addresses the greatest market need. Affordability is key to solving the entirety of housing problem.

CMHC defines affordability as, “a household spending less than 30% of its gross income on acceptable shelter.”

Since ownership involves savings by the purchaser through their principle payments we use 32%.

Many households cannot “afford” homeownership, because they are not able to:

- Save a sufficient **down-payment**
- Gain a mortgage approval due to **high interest rates**
- Enter the housing market due to **high housing prices**

Most households are thus forced to remain in rentals, experiencing:

- Household **insecurity**
- **High expenses**
- No equity **appreciation**

We can achieve pre-sales by helping those requiring assistance with their down payment and carrying costs, utilizing sources of lending that are repaid when the original purchasers sell their homes. The Co-operative Homeownership Sector has already accomplished this with Credit Unions.

Our model allows purchasers/co-op members to:

- **On average, pay a mortgage on their home that is half the purchase price**
- **Purchase their home with a down payment as low as 5%**

In addition to this game changing solution, up to **10% of our units can be sold using our “Save to Own” program that requires a minimum of \$500 as a down payment and a commitment to saving 5% before the unit title is transferred!**

Our Community Wealth Development Model targets household incomes as low as \$35,000 per year, creates significant economic development opportunities for those that need it most and bolsters our economy by making it easier for employers to recruit and retain workers.

4. Double Canada's Construction Capacity, Starting in Toronto

To deliver the number of units that Canada requires, **we must double the current capacity of the construction industry.** We can achieve this by requiring that the homes we design generate **50% of their components in factories**, thus doubling the production capacity of the available on-site work force. The Co-operative Homeownership Sector in concert with the Credit Union Movement, are ideally suited to do this since we are providing the financing and therefore can require that all project designs be factory production friendly.

What does this mean for Toronto?

In 1993 when all levels of government terminated the funding for affordable housing, Toronto required the production of 10,000 units of affordable housing every year to meet its needs. In the following 20 years, there was no production, but the annual need continued to increase. In the last 10 years, Toronto completed at best 5,000 units.

Toronto now has a deficit of approximately 300,000 units!

Given the magnitude of this need, it is no wonder the suffering and frustration is boiling to the surface in our subways, in our schools, on our roads and in our neighbourhoods.

It should be no surprise that employers in Toronto are having trouble retaining workers. The University Health Network alone loses 25% of its nurses every 2 years due to lack of affordable housing! Think of how many other workers and their families have and are being forced to leave Toronto and the civil institution and businesses that need them to thrive.

To begin the process of recovery the city must generate at least **25,000 affordable units per year.**

According to city of Toronto's own published figures, it is currently planning to provide grants and subsidies to produce about 5,000 units of affordable rental and ownership housing, leaving a gap of 20,000 units per annum.

The Co-operative Homeownership Sector using the Community Wealth Development Model implemented by 20 delivery agencies led by Home Opportunities Non-profit, can, over the next 5 to 10 years, hit that target.

The City of Toronto hired an external consultant to create a, **“Report on affordable ownership housing needs in the city”**. **This new report once released, will create a rare opportunity to get the production of affordable housing back on track.** The key to any such program producing at scale, hinges on eliminating the need for grants, subsidies or permanent incentives.

Governments can afford to lend and invest, but they cannot possibly afford to subsidize our way out of the housing crisis in our current economy.

At the Co-operative Homeownership Sector we strongly believe, based upon our research and our team’s experience over the last 40 years, that this report should include an Affordable Homeownership Program that integrates the following recommendations:

1. Set an Affordable Homeownership Housing Goal of 10,000 units per year within 5 years and 20,000 units per year within 10 years.
2. Grant priority access to all government-controlled land within Toronto, (including, but not restricted to TCHC, CreateTO, TDSB, Provincial and Federal lands) not designated for affordable rental housing, to Non-profit delivery agencies. **ALL** RFP’s and REOI’s should require that the lead proponent be a Non-profit delivery agency.
3. Require recovery of fair market land value plus any proportionate share of market appreciation of the units when the homes are resold or rented.
4. Require that the non-profit agency sell at least 30% of the units to households with incomes below the 30th percentile, 15% below the 40th, 15% below the 50th, 15% below the 60th and 15% below the 80th.
5. Establish that any, and all, incentives provided to the non-profit delivery agency be recovered on the following basis:
 - Waived/deferred Development Charges recovered when homes are resold or rented
 - Federal and/or Provincial program loans to be recovered when homes are resold or rented
 - Waived/deferred parks levy recovered when homes are resold or rented
 - Waived/deferred permit fees recovered when homes are occupied
 - Waived/deferred additional municipal fees recovered when homes are occupied
 - Deferred Community Benefit Contribution recovered when homes are resold or rented
 - Deferral of the Municipal Land Transfer Tax recovered when homes are resold or rented
 - Deferral of Property tax through an incremental tax grant on a declining basis for 10 years recovered when homes are resold or rented

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Note: Facilitating agreements and approvals required for the rapid ramp up of this Affordable Homeownership Program approach include:

- Access to CMHC long-term bulk financing from the Affordable Housing Fund
 - Access to Infrastructure Ontario long-term bulk financing recovered when homes are resold or rented
 - Expedited municipal development approvals (C2K/Priority Development Review Stream Facilitating access to a preconstruction loan [2-year term])
6. Recognize that household eligibility for ownership and higher income households varies and adopt the following guidelines:
 - For incomes up to the 50th percentile 32% of their income for their mortgage carrying costs
 - For incomes from the 50th to the 60th percentile 34% of their income for their mortgage carrying costs
 - For incomes from the 60th to the 80th percentile 36% of their income for their mortgage carrying costs
 7. State that Affordability in perpetuity will not apply:
 - If a replacement unit for the same income group is provided elsewhere in the non-profit's portfolio within the City of Toronto
 - When the proponent returns City equity on resale
 - If the land being developed was originally intended for market housing
 - If the sector is not producing in excess of 10,000 units a year.
 8. Define the maximum unit price as the cost of the home that a purchaser is carrying, with the remaining value of the home protected for future use by low-income purchasers. This would be subject to the maximum values set by the province.
 9. Accept Affordable Homeownership Housing development applications under the program on private lands, on a project-by-project basis.
 10. Require annual reporting on the progress and size of all Affordable Homeownership developments.

Conclusion:

The City of Toronto can only solve its housing crisis if it chooses to support both Rental **AND** the Ownership Housing delivery mechanisms implemented by the right partners using the same approaches that it used successfully in the 1980's.

This non-market solution still works within the market but is flexible enough to continue to produce under all market conditions. It is important that programs trying to work at scale do not rely on grants and subsidies.

A handwritten signature in cursive script that reads "Michel Labbe".

Michel Labbe

President



November 16, 2024

An Implementation Strategy for Affordable Homeownership

From: Michel Labbe

President and CEO of Home Opportunities Non-profit

On behalf of the Co-operative Home Ownership Sector (CHOS)

To: Previous recipients of our "Position Paper"

Re: An Implementation Strategy for Toronto

Preamble:

We have had several enquiries for more detail on how our additional recommendations suggested for the upcoming report on affordable ownership would lead to the production of 20,000 units per year in Toronto. In response, we provide the following potential implementation strategy that would follow adoption of these recommendations.

Assumptions:

As outlined in the position paper, we are assuming that only non-profit delivery agencies using the model developed by Home Opportunities Non-profit Corporation and financed by Community Wealth Co-operative will be the focus of these recommendations.

There are several such agencies active in Toronto today. They include those listed on the city's website as delivery agencies: Habitat for Humanity, Options for Homes, Trillium Housing and Miziwe Biik Development Corporation. Beyond these four there are several other delivery agencies that specialize in affordable rental that have capacity to expand to affordable ownership, such as Woodgreen, The Neighborhood Group and the Co-operative Housing Federation. It is also our expectation that organizations such as the Labour Council and the City of Toronto itself would create delivery agencies to work with the model.

CHOS and Community Wealth Co-operative would train, accredit and supervise all of the delivery agencies operating within the newly created Co-operative Home Ownership Sector.

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Ultimately as happened in the 1980's, this CHOS will grow to more than 30 such delivery agencies active within Toronto and beyond.

How do the recommendations enable this?

First, we remind the reader that this growth and delivery requires the use of our financial model, which does not require any grants or subsidies and has a minimal impact of Toronto's budget. Note as well that it still reaches incomes as low as \$35,000 a year (minimum wage). We describe the key benefits of each recommendation in italics below.

1. Set an Affordable Homeownership Housing Goal of 10,000 units per year within 5 years and 20,000 units per year within 10 years.

The Sector, in partnership with the city, cannot reach the numbers required unless the goal is set at the ultimate need for the city. Toronto with a backlog of 300,000 units requires 25,000 a year - that should be the goal. (5,000 affordable rental units and 20,000 affordable ownership units)

2. Grant priority access to all government-controlled land within Toronto, (including, but not restricted to all TCHC, CreateTO, TDSB, Provincial and Federal lands) not already designated for affordable rental housing, to Non-profit delivery agencies. **ALL** RFP's and REOI's should require that the lead proponent be a Non-profit delivery agency – the reasons are outlined below.

There are 150,000 units worth of land controlled by government within the boundaries of the City of Toronto. Focus 7,000 units worth of land per year, (originally proposed for market housing in previous Request for Proposals) on non-profit delivery agencies. This would create the impetus to increase not only production of much needed housing but also lead to an increase in the non-profit delivery agencies to deliver it. Once established, these agencies would also deliver twice as many units on private land, as happened during the 1980's.

3. Require recovery of fair market land value, plus a proportionate share of market appreciation of the units when the homes are resold or rented.

Governments do not have the resources to provide large tracts of land without eventually recovering its market value. Allowing recovery after one cycle of ownership is reasonable and appropriate. This will allow the development of land at an

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accelerated rate. This in time will generate a greater recovery of revenue from land sales than would have otherwise been the case.

4. Require that the non-profit agency sell at least 30% of the units to households with incomes below the 30th percentile, 15% below the 40th, 15% below the 50th, 15% below the 60th and 15% below the 80th.

The Key to the value of the co-op sectors model lies in serving those who need housing the most. Thus, our additional intent to free up existing supportive housing units and RGI units by providing 3% of the units to individuals on minimum wage serves buyers, who are ready to leave supportive housing and create spaces for others. This represents a subset of the units that will be serving incomes below the 30th percentile.

5. Establish that any, and all, incentives provided to the non-profit delivery agency be recovered on the following basis:
 - Waived/deferred Development Charges recovered when homes are resold or rented
 - Federal and/or Provincial program loans to be recovered when homes are resold or rented
 - Waived/deferred parks levy recovered when homes are resold or rented
 - Waived/deferred permit fees recovered when homes are occupied
 - Waived/deferred additional municipal fees recovered when homes are occupied
 - Deferred Community Benefit Contribution recovered when homes are resold or rented
 - Deferral of the Municipal Land Transfer Tax recovered when homes are resold or rented
 - Deferral of Property tax through an incremental tax grant on a declining basis for 10 years recovered when homes are resold or rented

All of these incentives are key to CHOS's model, as they, along with the land value mentioned in recommendation 3, represent approximately 30% of the cost of delivering a new unit. In addition to the 20% deferred profits that our model provides as a shared appreciation mortgage, our structure allows the average purchaser to carry 50% of the purchase price as their mortgage obligation. These loans and deferrals from the city also satisfy the cash contribution requirements from lenders. An average of 50% allows some to carry at 25% while others carry at 75%, which allows us to reach the income targets listed in recommendation number 4 without needing grants and subsidies. Note that we would need this source of funding for the initial ramp up period of 10 years then CHOS will be able to access all of its funding through private sources.

Note: Facilitating agreements and approvals required for the rapid ramp up of the Affordable Homeownership Program approach include:

- Access to CMHC long-term bulk financing from the Affordable Housing Fund or MLI Select.

Access to CMHC preferred rate lending would improve our efficiency and the growth of wealth for our purchasers by increasing the proportion of the home they can carry.

- Access to Infrastructure Ontario long-term bulk financing recovered when homes are resold or rented

This source of funding is available to Ontario cities; including Toronto should it wished to recover any of its deferred expenses earlier than the sale of the homes.

- Expedited municipal development approvals (C2K/Priority Development Review Stream Facilitating access to a preconstruction loan [2-year term])

Moving faster benefits everyone waiting for appropriate housing.

6. Recognize that household eligibility for ownership and higher income households varies and adopt the following guidelines:

- For incomes up to the 50th percentile 32% of their income for their mortgage carrying costs
- For incomes from the 50th to the 60th percentile 34% of their income for their mortgage carrying costs
- For incomes from the 60th to the 80th percentile 36% of their income for their mortgage carrying costs

Recognizing that higher incomes can afford higher payments, as is now recognized by the mortgage market, is an important way to make our model more effective. As an example, a household paying 32% with an income of \$60,000 has \$40,800 left to cover other costs. A household with a \$120,000 income at 36% has \$72,000.

7. State that Affordability in perpetuity will not apply:

- If a replacement unit for the same income group is provided elsewhere in the non-profit's portfolio within the City of Toronto
- When the proponent returns City equity on resale
- If the land being developed was originally intended for market housing
- If the sector is not producing in excess of 10,000 units a year.

If we are providing the units needed by the city every year, how long they are affordable becomes irrelevant. Our focus on land designated for market housing means that there would have been no affordability at all. Note that the market can only absorb so many units, land provided for market housing does not produce any new units it reduces production on private land.

8. Define the maximum unit price as the cost of the home that a purchaser is carrying, with the remaining value of the home protected for future use by low-income purchasers. This would be subject to the maximum values set by the province.

A small point in the big picture but a more accurate way to assess what we are achieving since the carrying costs relates to the incomes we are serving not the market value of the unit.

9. Accept Affordable Homeownership Housing development applications under the program on private lands, on a project-by-project basis.
10. Require annual reporting on the progress and size of all Affordable Homeownership developments.

Conclusion:

We offer the City of Toronto a unique opportunity to take advantage of a model that has been 45 years in the making. Using it, we can deliver the number of homes required to address affordable housing needs throughout the city with minimal impact on Toronto's budget or its taxpayers. The bipartisan support from councillors and civil society stems from that fact.

Although we rely heavily on financial tools to reach the low incomes that we have targeted, it is worth noting that we will continue to use all of the techniques developed over the years to keep cost down.

A comprehensive response is what the city needs and should support.



Michel Labbe

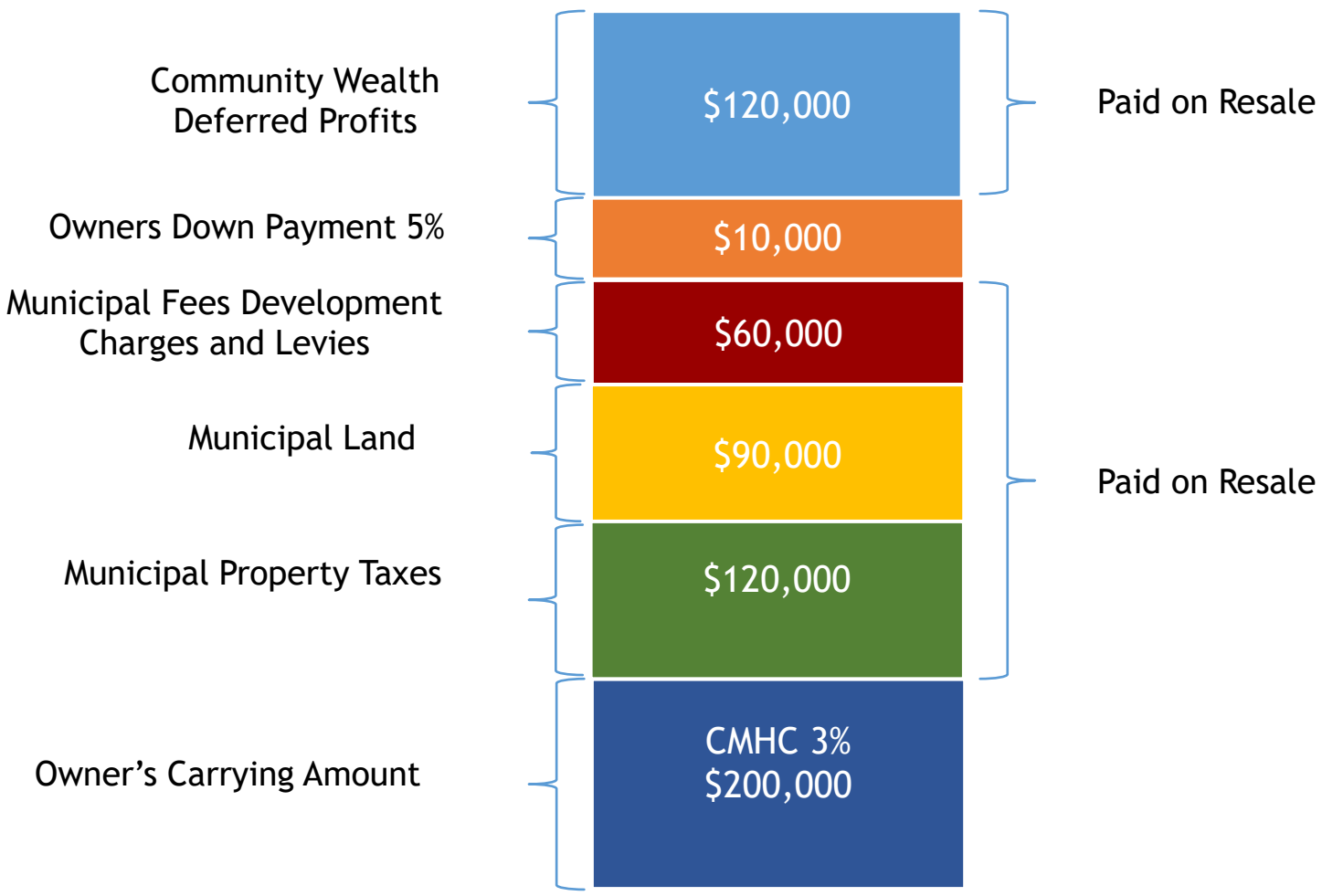
President

Broadening the Toolkit of Ideas



Financing for Non-profit Organizations (Home Opportunities Model)

580 sq. ft.
1 Bedroom

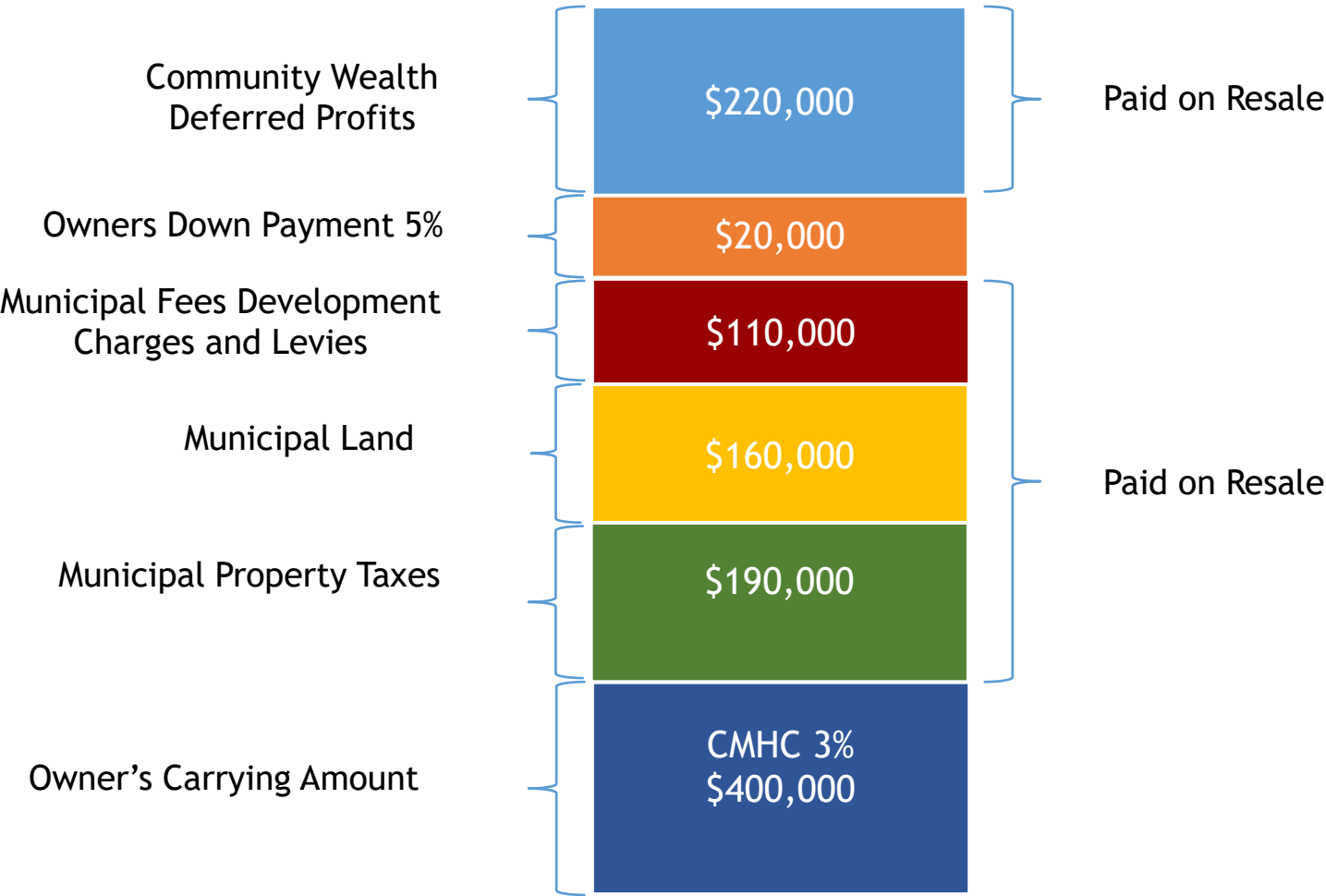


Market Value \$600,000

<u>Monthly Payment Loan</u>	
Monthly P&I	\$644
Common Exp.	\$240
Taxes	\$210
Total Carrying	\$1,094
Income required	\$41,025

Financing for Non-profit Corporations (Home Opportunities Model)

950 sq. ft.
3 Bedroom



Market Value \$1,100,000

<u>Monthly Payment Loan</u>	
Monthly P&I	\$1,288
Common Exp.	\$440
Taxes	\$370
Total Carrying	\$2,098
Income required	\$78,675

	2024		Affordable owner occupied Home Opportunities		
	80% Average Market Rent	Qualifying Annual Income	30% of units	30% units 10% below the qualifying income	20% attainable
Bachelor	\$1,142	\$45, 680	\$38,000	\$56,000	\$76,000
1 Bedroom	\$1,366	\$54,640	\$48,000	\$71,000	\$91,000
2 Bedroom	\$1,594	\$63,760	\$58,000	\$89,000	\$109,000
3 Bedroom	\$1,793	\$71,720	\$68,000	\$107,000	\$127,000
4 Bedroom	\$2,083	\$83,320	\$78,000		