



Community and Health Services Department
Office of the Commissioner

Memorandum

TO: Members of Committee of the Whole

FROM: Katherine Chislett
Commissioner of Community and Health Services

DATE: September 7, 2017

RE: **Submission to Canada Mortgage and Housing Corporation's
Affordable Rental Innovation Fund**

This communication provides information about a funding submission staff are preparing to Canada Mortgage and Housing Corporation's (CMHC) Affordable Rental Innovation Fund. The purpose of the funding request is to seek up to \$50,000 to fund a consultant to test the feasibility of a combined ownership and rental housing development model for York Region that could be implemented by Housing York Inc.

York Region's high cost of ownership and constrained rental markets require innovative solutions to provide a mix of housing options

As reported to Council in [June 2017](#), the average re-sale house price in York Region increased by 138% between 2006 and 2016; at the same time, incomes only increased by 20%. The rising cost of ownership has become a serious issue for moderate-income earners, and has pushed ownership out of reach for lower income households. Recent research by the Canadian Urban Institute found that having affordable home ownership options supports economic resilience, frees up affordable rental units, and helps to retain workers.

New rental housing options are also needed, as the Region had the lowest proportion of rental housing stock in the Greater Toronto Area as of mid-2011, and the lowest number of new purpose built rental units added to the stock since that time. In 2016, the vacancy rate for private purpose-built rental units was 1.5%, and 1.1% for rented condominiums. The majority of new rental supply has resulted from Regional investments and privately rented condominium units.

CMHC offers funding to encourage the development of affordable housing

CMHC introduced an Affordable Rental Innovation Fund in 2016 to encourage new funding models and innovative building techniques in the rental housing sector. The \$200-million fund is expected to create 4,000 new affordable rental housing units across Canada over five years, and reduce the reliance on long-term government subsidies. Proposals may combine homeowner, rental and commercial space, however, only the affordable rental housing component is eligible for funding. The fund is available to municipalities, private developers and non-profit housing providers, and funds are allocated on a first come, first served basis to eligible projects.

CMHC has established minimum criteria for Innovation Fund proposals. The development must include at least five affordable rental units, use locally established definitions of affordability; and the units must be maintained as affordable for at least 10 years. The design must contain resource efficiencies, and the financial model must demonstrate long-term viability and sustainability without long-term government subsidies.

Additional consideration may be given to projects that reduce construction or operating costs, generate revenue, have replicable designs, provide easy access to transit, or serve vulnerable client groups. Projects funded by the Innovation Fund must be completed by mid-2021.

Applications that may not meet all of CMHC's criteria, but show potential, will be referred to an Innovation Lab for further refinement and potential resubmission for consideration. It is not necessary to have all potential legislative or financing issues addressed and resolved prior to submission. Submitted applications become the property of CMHC.

To date, CMHC has awarded funding to one project, a 40-unit temporary modular housing development in Vancouver built and operated by the Vancouver Affordable Housing Authority. The project was built on vacant City-owned land, and CMHC contributed \$1.5 million of the project's \$3 million capital budget.

Staff are developing a submission to the CMHC Innovation Fund to create an innovative model that provides a range of affordable rental and home ownership options

Typically, federal-provincial funding programs, such as the Investment in Affordable Housing Program, include an optional home ownership component that Service Managers may use to provide down payment assistance to eligible households. The availability of funding to explore innovative housing options provides an opportunity to investigate affordable homeownership assistance in forms other than down payment assistance.

The CMHC Innovation Fund also provides an opportunity to develop a model that, if implemented in a future development, would address housing needs in the Region by providing a range of affordable rental and home ownership options.

Staff established an internal working group to develop a submission to the Innovation Fund. The goal is to develop a model that meets CMHC's criteria as well as the following objectives:

- Offers a range of market and below market homeowner and rental units
- Viable and sustainable without long-term Regional subsidies
- Innovative or unique in terms of financing, with ownership units internally subsidizing affordable rental units
- Capital from sales can be reinvested in portfolio growth

Model proposed is exploring a condominium registered development with a mix of ownership and rental housing

Staff researched best practices related to integrated affordable home ownership and rental models in Canada, the United States, the United Kingdom and Australia. Through this review, staff identified a model that uses a condominium ownership structure to provide ownership and rental opportunities at market and affordable rates. For example, this approach was used for Rollins Square, a 184-unit mixed-income development in Boston, Massachusetts, built by the Planning Office for Urban Affairs, a non-profit development organization owned by the Archdiocese of Boston. All units were registered as condominiums, with 74 units sold at market rates, and 73 units sold to moderate-income households. Proceeds from the sale of the market units subsidized the moderate-income units. The remaining 37 units are rented at a subsidized rate to low-income households on the Boston Housing Authority's wait list.

Based on this research, the proposed model would take the form of a medium to high density development that is registered as a condominium upon completion. A portion of the condominium units would be sold at market prices. The proceeds from the sale of these units would be used to cross-subsidize the affordable rental units in the project and/or be used as rolling capital to fund future affordable housing development.

The affordable home ownership units will be provided using an incremental ownership approach. With incremental ownership, both the buyer and the Region would own a portion of the condominium unit. The buyer would be responsible for a minimum down payment, and must qualify for an insured mortgage on their share of the unit. As the homeowner builds equity, or as their income increases, the buyer would have the option to purchase a larger share of their unit.

For example, in a building with 150 units, 25 condominium units could be sold at a market-rate of \$300,000 per unit. An additional 25 units could be sold using the

incremental ownership approach at \$100,000 each. The sale of these 50 units would provide \$10 million in rolling capital for a future development, therefore reducing the capital investment required by the Region. The remaining 100 units would be available for Housing York Inc. to provide as affordable rental housing.

The Region, through Housing York Inc., would retain a majority share of units in the project in order to provide rental options and ensure a high standard of maintenance. Through condominium fees, homeowners would help to cover maintenance costs.

A proposal will be submitted to CMHC to fund a consultant to investigate the feasibility of the model for York Region

It is anticipated that the Region would request up to \$50,000 from CMHC to retain the services of a consultant. The consultant would determine the model's feasibility and the scale of the development required to ensure its financial viability, and would develop a pro forma. The consultant would also assess the risks and opportunities related to affordable ownership and mixed ownership/rental tenures in the Ontario context.

The model being explored supports the goals of the Region's 10-Year Housing Plan and the strategic directions of Housing York Inc.'s 2017 to 2020 Plan

The Region's 10-year Housing Plan includes goals to increase the supply of rental units and to support home ownership affordability by increasing new affordable home ownership options. Pursuing CMHC funding for the proposed model supports both goals.

Housing York's 2017 to 2020 Plan includes a strategic direction to build long-term financial sustainability, including aligning efforts around profit for purpose initiatives that generate revenues to support social mandates. The proposed model supports this direction, as the sale of ownership units could provide internal subsidies for the affordable rental units and provide funds for future development. Exploring the financial and legal feasibility of a profit for purpose model is a key deliverable under Housing York Inc.'s 2017 to 2020 Plan.

Staff will report back to Council with the outcome of the application and consultant study

It is anticipated that an application will be submitted to CMHC in late 2017, pending further scoping of the project. Staff will report back to Council on the outcome of that application and the results of the consultant study should the application be successful.

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