CHRA CONGRESS SESSIONS SERIES 2017

New Opportunities in Rental Housing Financing

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Introduction

Speakers:

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Simon Davie, Chief Operating Officer, Terra Housing (BC)
Josh Brandon, Community Animator, Social Planning Council of Winnipeg (MB)
Patrice Tardif, Consultant, Innovation Fund, Canada Mortgage and Housing Corporation (Nat'l)

Moderator:

Kaye Melliship, Executive Director, Greater Victoria Housing Society (BC)
Audrey Moritz, Regional Vice-President, CMHC (Atlantic Region)

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I. Setting the Context

Steve Pomeroy, Principal, Focus Consulting Inc. (Nat'l)

Pomeroy examined the current and international context of Canada's housing situation to understand the opportunities that exist. One-third of Canadians rent. Recently, condominium housing has shifted towards ownership from the rental market, which has increased real estate prices across all housing units. This increase makes it increasingly difficult for new home-purchasers to enter the housing market and has begun to increase the number of rental units on the market. Investors emerged as owners of condominium buildings as rental values of units have reached profitability in most Canadian markets. Despite this, individuals continue to supply the majority of rental units in Canada. An estimated 20-30% of new condos are rentals, kept as investment properties, yet the housing system is more than just condos.

For the past 15 years, 63% of Canadians have owned homes. In recent years, home ownership rapidly increased to 69% and many renters were able to transition to homeowners, reducing demand on the existing rental market and available units.
Canada's total supply of rental housing is similar to international levels. Most rental units are managed by private sector individuals or companies, with some rental units managed by the public sector. A 40-year international trend is the decline in rental units, especially individually owned rental units. For countries who have a stable rental market, such as Germany, Ireland and Sweden, a key factor that support a stable rental market is the presence of a large supply of rental units and cultural acceptance of rental as a lifestyle. Rental stock as a whole is increasing in North America. Part of the growth in rental stock is due to housing units transitioning from private homes to rental units after the North American housing collapse.

There are several key findings that affect the housing market. Weakened homeownership markets are increasing rental units. This trend is reinforced by macro-policies federally and provincially that limit debt levels and house prices. At the same time, existing policies and programs that encourage investment in rental units are weak. Opportunities to ease pressure on rental markets include creation of student rental housing, which enables students to free-up multi-bedroom family dwellings, and stabilizing rental markets through programs similar to United States' Low Income Housing Tax Credit, Australia's National Rental Affordability Scheme, United Kingdom's Buy-To-Let mortgages, and Germany's Tenure Neutral Policy.

Opportunities to support affordable housing in Canada based on these findings exist. Institutional investment into existing residential properties highlights the low-cost of entry compared to new construction. The price of investment is sometimes 60% the price of new development. There is an opportunity to develop new housing units at currently unmet price points as new housing unit developments are frequently priced at 140% of average market rent and affordable units are frequently developed at less than 90% of average market rents. For non-profit organizations that develop affordable housing, the opportunity to finance affordable housing through generated revenue exists by developing market housing units at 120-130% of average market rents to subsidize affordable housing units.

II. Development Discussion and Examples

Simon Davie, Chief Operating Officer, Terra Housing (BC)

Terra Housing Consultants works in social purpose real estate development. Over the past 30 years, Terra Housing has assisted in developing over 12,000 units as part of 275 projects for over 150 clients. Terra Housing focuses on development management, business planning, and structuring partnerships for mixed tenure housing.

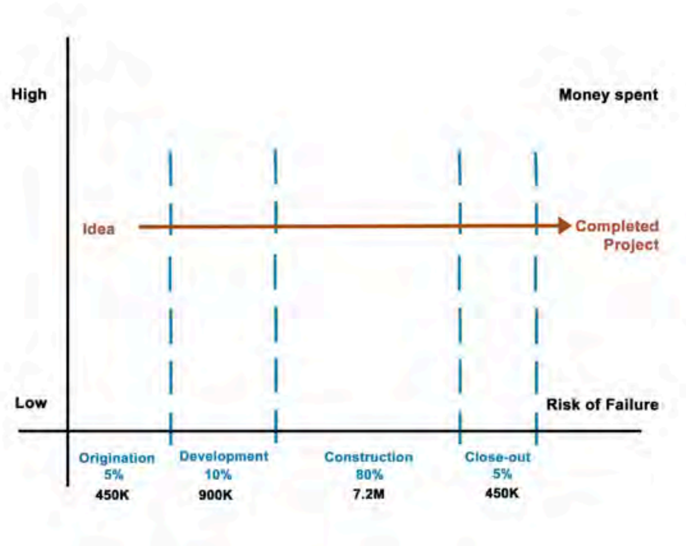
Terra Housing works primarily in Vancouver and B.C., where over 600 non-profit organization housing providers manage an estimated 60,000 units in 1,500 buildings. These non-profit organizations are frequently "land-rich, and cash poor," yet are mature operators with great connections and a growing capacity to collaborate. The Province of B.C. has been involved through the B.C. Housing Corporation for the past 50 years, and a robust development consulting sector has developed.

Projects that thrive in this environment have a clear site and program early in the planning process. Experienced teams need to create accurate, and consistently updated, pro formas, and be ready to adapt and alter programs over time. While projects, managers, and organizations don't need to have every skill and resource at their fingertips, it is critical to understand the skills that do exist, the skill-gaps to be addressed, the control of land, who a strong team and stakeholders are, and to have a clear understanding of the type and limitations of housing to be constructed (e.g. Tenure housing might be ideal, yet tenure models need to sell quickly to enable future projects).

Projects are not easy. Land, zoning and brownfield sites can increase project timelines due to unforeseen circumstances. Inexperienced teams can make small mistakes early which lead to large issues later. Pro formas are based on future predictions as to the cost of building and the cost of financing may prove inaccurate over time. Marketability of units is often unpredictable.

The risk-to-cost profile of development changes over time. Risk of failure is high in the beginning of projects, making the low financial-investment in this phase extremely high risk. As projects move forward and confirm land, zoning, and other aspects, the risk decreases and the financial investment increases. For these reasons, early projects are best explored by working with external stakeholders, such as Canada Mortgage and Housing Corporation, who can afford to invest in high risk stages of projects. As your project transitions to less risk, investing organizational capital is more rewarding.

Risk-Cost Profile of Development



Other key elements to consider include the pro forma, hard costs, financing, and revenue of projects. Learning to let go of projects quickly when the pro forma does not show profit is key. Accurately estimating hard-costs, such as the cost of land, construction, taxes, fees, and contingency budgets are critical to developing a robust pro forma. "Land rich, cash poor" non-profit organizations need to consider the costs of financing projects, cost of partnerships such as sales teams, and costs related to covenants or restrictions on the land. Affordable housing units need to generate positive revenue below average market rates and the net, long-term, operating and maintenance costs need to be considered.

Anavets Senior citizens housing society - North Vancouver

- Old low rise affordable housing project, with new affordable rental mid-rise tower
- Developer built affordable housing units before new market building was created.
- Height increase enabled this to happen.
- Took 13 years of collaboration before it happened

For more information visit:
http://www.cnv.org/

Vancouver Community Land Trust

- 358 homes
- Partnerships with City of Vancouver, Terra Consulting, and various lenders.
- Very desirable area on riverwalk
- At 90% market rent, nearby is 76% market rent
- Loans will be paid back over 15-20 years, to eventually show profitability

For more information visit: https://www.theglobeandmail.com/

III. Income Subsidies and Affordable Housing

Josh Brandon, Community Animator, Social Planning Council of Winnipeg (MB)

Supply solutions to affordable housing issues can't succeed if people can't afford rent. Josh Brandon and the Social Planning Council of Winnipeg work with individuals to get them into houses and off the streets. Manitoba has a history of poverty, and over 100 groups exist to address homelessness.

Rental rates dramatically increased in Manitoba just after 2001 and have not decreased. Since 2001, 15% of renters meet criteria for core housing need, which is exacerbated in people with multiple barriers. Almost all very low income individuals, and an increasing number of middle income individuals, have core housing needs. For low wage earners a Winnipeg two bedroom unit costs 1.76 full time jobs, and a single bedroom unit costs 1.37 full time jobs. This high cost of housing makes it exceptionally difficult for low income earners, and single parents, to find affordable housing.

The benefits to individuals from social assistance decreased in the 1990s, in Manitoba. After rents increased in 2001, individuals on social assistance were required to spend up to 70% of their income to pay for the cheapest accommodation. Specific subsidy programs provided additional assistance for those with multiple barriers, yet most people in core housing need were insufficiently supported.

After a bus driver gave a homeless person shoes off his feet in 2012, homelessness in Winnipeg hit major media attention. The Social Planning Council took action and asked "what are we doing to collectively solve homelessness?," which led to the Raise the Rates campaign. Raise the Rates advocated for increased social assistance rates for those in need. The campaign gained media attention. After multiple early successes, the Conservative opposition party in Manitoba was the first major political party to support the campaign. Additional support came from the third party and eventually the majority party of Manitoba for the campaign. This multi-party support led to establishing the RentAid program in 2013, introduction of Rent Assist in 2014, and full implementation of a new rental assistance program in 2015.

With the full program implemented, financial assistance has increased integration of programs, changed enrolment from a maximum number enrolled to need based enrolment, and tied the assistance amounts to median market rent. A change in concept transitioned the focus from rental assistance to an income subsidy, which empowers individuals to manage their own finances and make individual choices in personal budget trade-offs, such as choosing cheaper accommodation to afford more groceries, or affording additional costs of transportation.

The program is designed holistically, and is continuing to transition towards a basic income guarantee for renters. Concerns about unincentivizing paid-work led to program design where benefits for workers decrease incrementally as income increases. This design has also resulted in more equitable assistance for individuals, as even with 25% of monthly income a recipient can continue to afford rent with the program. The enrolment changes have removed a “lottery style” housing assistance program, where only a limited number of people were supported, to one where assistance is based on need. Despite the fears that increases in social assistance funding would increase rental rates, increases in rental rates have not varied away from existing 10 year averages.

IV. Affordable Rental Innovation Fund

Patrice Tardif, Consultant, Innovation Fund, Canada Mortgage and Housing Corporation (Nat’l)

Canada Mortgage and Housing Corporation’s Affordable Rental Innovation Fund (The Fund) is only a few months old. The Fund is to create 2000 affordable units in Canada, and has $200 million that must be committed to projects by December 2018, with all projects completed within five years. It is not a matching fund and has a vested interest in creating affordable housing, yet can only fund very specific projects.

Housing projects eligible for The Fund must show innovation in implementation. The Fund lowers costs of developing affordable rental housing for those non-profit organizations, institutions, or private sector partners who are seeking a funding partner to support an innovative funding model or building technique to develop five or more affordable housing units. All innovations must contribute to lowering the overall cost of affordable housing units. Innovations must be unique to the local region, yet can draw from similar projects in other parts of Canada or internationally. Proposed housing projects must also be viable in the long-term, without subsidies.

Not all innovative projects are eligible. Green roofs are an innovative building technique that has not been shown to lower long term operating costs or rental rates and is therefore not eligible. Social innovations are difficult to connect to lower operating costs or rental rates and are also not eligible. Housing projects that are looking for donors without further input are also not viable as The Fund is seeking to partner and collaborate on projects through contribution of equity, loans, or forgivable loans.

Innovation Fund Project: Vancouver Affordable Housing Agency

- City of Vancouver has land and needs affordable housing units
- Modular houses and movable houses add temporary use to vacant lands

For more information visit:
https://www.cmhc-schl.gc.ca/

Canada Mortgage and Housing Corporation has additional initiatives for affordable housing. The Rental Construction Financing Initiative offers up to $1 million in low cost, 10-year term loans. At the end of 10 years, the loan must be repaid in full to Canada Mortgage and Housing Corporation. This allows for financially viable projects to transfer remaining debt to a private lender after 10 years, and returns capital for new affordable housing projects to Canada Mortgage and Housing Corporation. Loans can be up to 100% of the cost to build residential units, yet cannot be up to the market value of units. In total there are $2.5 billion in loans available for the construction of rental housing units in Canada. The Rental Construction Financing Initiative is open to non-profit organizations, government and private sector applicants.

Follow-up Discussion

Discussion followed the presentations. Direct questions connected to real-world contexts assisted in revealing aspects of the presentations not clearly addressed.

The first question was directed at Patrice Tardiff; "If I had an innovative lower-cost option for affordable housing, why would I need the Affordable Rental Innovation Fund?" Tardiff responded by explaining that many financial institutions are less interested in financing untested techniques, and that for some projects the innovative financing model of the project might not fit a traditional loan process. The Affordable Rental Innovation Fund reduces the risk and enables insurance on untested, innovative affordable housing projects.

The next question was directed to Josh Brandon; "Is the Rent-Assist program in Manitoba available to all, or a certain limit of funding?" Brandon replied by saying that there is no funding limit. Each year has seen an increase in the budgeted amount based on the number of applicants. Steve Pomeroy was asked, "What are your thoughts on rent controls?" He responded by stating that as long as rules exist, are clear, and perceived as fair, then it might dissuade some investors, yet it will be unlikely to affect the market as a whole.

The panel was asked "The Affordable Rental Innovation Fund does not have subsidies tied to incomes, making it difficult to provide affordable housing for all clients; e.g. mental health clients or those on the street. Are there planned or existing subsidies for those clients?" Audrey Moritz responded by explaining that the Affordable Rental Innovation Fund is not designed to do that, and that the programs explored in this presentation are only a step towards a national health and housing strategy, which is still in progress. Future budgets and programs are anticipated to complement existing initiatives by enabling creative approaches to affordable housing.

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