



INFORMATION REPORT

TO:	Chair and Members Emergency and Community Services Committee
COMMITTEE DATE:	February 21, 2019
SUBJECT/REPORT NO:	National Housing Strategy – Co-Investment Fund (HSC19006) (City Wide)
WARD(S) AFFECTED:	City Wide
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Council Direction:

Not applicable

Information:

On November 22, 2017, the Federal Government released Canada's first National Housing Strategy, A Place to Call Home, which focuses on not only housing but also people, communities, and partnerships. The vision of the strategy is to ensure Canadians have access to housing that meets their needs and is affordable. For the strategy to be successful, it is necessary for public, private, and non-profit sectors to partner together.

After the release of the National Housing Strategy, the National Housing Co-Investment Fund (CIF) was launched on May 2, 2018. The CIF is a \$13.2 B federal investment to support and develop mixed-income, mixed-tenure, mixed-use affordable housing. The CIF includes two funding streams, New Construction and Repair/Renewal.

The CIF is planned to support the following:

- 60,000 new units;
- 240,000 repairs to existing affordable and community (social) housing units;
- At least 4,000 shelter spaces created or repaired;
- At least 7,000 new affordable units for seniors; and,
- At least 2,400 new affordable units for persons with disabilities.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

This fund is comprised of two types of funding allocations, \$8.65 B in loans and \$4.5 B in capital contributions or grants. For both streams of the CIF, affordable means that rents for a minimum of 30% of the units must be at maximum 80% of median market rent as defined by CMHC.

The New Construction component of the CIF focuses on new affordable housing supply that is mixed-income, mixed-tenure, mixed-use, fosters social inclusion, and is in proximity to amenities and other community supports. Mandatory requirements for development projects include affordability, environmental efficiency, accessibility or universal design, and financial viability.

The Repair/Renewal component focuses on the repair and renewal of existing community, social, and affordable housing to support sustainability and longevity. Social housing is typical rent-geared-to-income housing supported through historical government programs. Community housing is the new federal term for social housing. Affordable housing is a generic term for a range of housing of varying levels of affordability. The goals of repair and regeneration projects are to foster mixed communities, environmental responsibility, and financial independence.

Increasing City Funding from 2014 to 2018

Below is a chart of federal, provincial, and municipal capital funding contributions from 2014 to 2018 for all capital programs, including construction and regeneration programs. In addition to the funds shown in the chart, the YWCA Ottawa St. N. project has just been awarded a CIF grant of \$3.7 M as well as a loan of \$6.4 M.

There was a significant increase in federal and provincial funding in 2016 and 2017 due to addition of the Social Infrastructure Fund which provided new funds for social housing regeneration (SHIP), as well as new rental construction and rent subsidies. Additionally, provincial funding significantly increased in 2016 and 2017 due to social housing repair programs funded by Ontario's cap and trade program. As this program has been cancelled, there has been a decrease in provincial contributions in 2018. Municipal contributions have been trending upwards since 2014 as the city has made investments through Poverty Reduction Fund, Municipal Capital Grants, and development charge exemptions.

5 Year Capital Funding Chart				
	Federal	Provincial	Municipal	TOTALS by year
2014	\$3,086,000	\$3,085,000	\$500,000	\$6,671,000
2015	\$3,048,000	\$3,048,000	\$500,000	\$6,596,000
2016	\$12,345,000	\$20,116,000	\$1,500,000	\$33,961,000
2017	\$5,575,000	\$20,296,000	\$4,500,000	\$30,371,000
2018	\$4,529,000	\$4,529,000	\$7,700,000	\$16,759,000
	Federal Total	Provincial Total	Municipal Total	Grand Total
	\$28,583,000	\$51,074,000	\$14,700,000	\$94,357,000

Minimum Requirements of the National Housing Co-Investment Fund

The CIF is open to municipalities, provinces, non-profits, community or social housing, indigenous organizations, and the private sector. All projects must:

- have a minimum of five units;
- be primarily residential;
- meet minimum requirements for partnerships;
- demonstrate financial viability, affordability, energy efficiency and accessibility; and,
- be building permit and shovel ready.

Specific details are provided below:

Partnerships: Federal funding must be supplemented by investment from another level of government.

Energy Efficiency: At least 25% reduction in energy savings and greenhouse gas emissions must be achieved.

Accessibility: 20% of units must meet accessibility standards and common areas must be barrier free.

Financial Viability: Applicants must demonstrate financial ability to carry the project, viability of the proposed project, and the capacity to deal with development risks.

Affordability: Rents for a minimum of 30% of the units must be maintained at 80% of median market rent for minimum of 20 years.

Funding Options – Loans and Capital Contributions

The CIF includes two funding streams, New Construction and Repair/Renewal, both of which are primarily considered by CMHC to be a loan program. Each loan offers a 10-year term with a fixed interest rate, renewable for another 10 years; up to a 40-year amortization to create smaller monthly payments and long-term viability; and, up to 95% loan to cost ratio for residential space and 75% for non-residential space.

Capital contributions may also be available when a loan is not sufficient to ensure project feasibility, when the project has other funding to cover the majority of total project cost or provided as an incentive to encourage higher performing projects.

Co-Investment Fund Uptake in Hamilton

In 2018, seven Council approved affordable housing projects were in development or construction, funded through various federal / provincial programs and the City of Hamilton Poverty Reduction Fund. Of these projects:

- Two have applied to the CIF New Construction stream. Indwell's application for 500 James Street North, is under review. A CIF commitment of \$3.7 M in grant (contribution) and \$6.39 M in loan has been announced for the YWCA Ottawa Street North project.
- At least one other project proponent will apply once they are building permit / shovel ready.
- Four projects are too far advanced to apply to the CIF as financing is in place and a CIF application would require delaying the project schedule.

Separate from the Investment in Affordable Housing Program, one project, the CityHousing Hamilton 500 MacNab Street North tower restoration project has applied to the CIF Repair and Renewal stream. It has received a commitment of \$1 M in grant contributions and \$2.6 M in loan from the CMHC Affordable Housing Innovation Fund but is expecting to receive a considerably larger grant and loan from the CIF.

Twelve other projects are at the early or middle stages of development and plan to submit a CIF – New Construction application. Projects with a building permit have the best opportunity for CIF approval and consequently many projects have not yet applied.

Staff are approached regularly by both non-profit and private sector organizations wanting to build affordable housing. As the projects are early in predevelopment and feasibility work, it is too soon to provide details, but there are several social housing providers working on new affordable housing projects. Their federal operating agreements have expired and they are now permitted to leverage their equity to contribute to financing new housing.

Given that creating financially viable, let alone profitable affordable rental projects is so challenging, private sector developers typically do not ultimately pursue affordable projects, albeit that there are a couple of potential exceptions.

Co-Investment Fund Barriers

Experience with the CIF since May 2018 has identified several program barriers CMHC and City staff are working to resolve.

Community Capacity – Financing

Projects are required to be well advanced in the development process, possessing a building permit or being shovel ready, to achieve CIF funding. Social housing providers, faith based groups, and community agencies frequently have land and a desire to create and operate affordable housing, but do not have the financial resources required to undertake the necessary extensive development studies and other pre-development work to advance a project to the shovel ready stage. CMHC and City staff are directing these groups to apply for CMHC Seed funding for early stage project development. While this is a partial solution, Seed funding is needed earlier than it is currently available and CIF or other additional funding sources are needed to fund the early stages of development.

The current practice of CMHC is to strongly favour applications from projects late in the development process. For a project to reach building permit stage it has already proven financially viable without CIF funding. This means it would be rare for CIF funding to result in a project that would not have been created without the funding. The additional CIF contribution or financing may increase the affordability of some units, save the organization money for future developments, or rejuvenate a financially strained project. A process with conditional CIF commitments earlier in the development process would reduce project risk and result in more projects advancing through the development process to create new housing.

Community Capacity – Expertise in Land Development and Large Renovation Projects

Due to the lack of investment in affordable housing development and social housing repair in the last twenty-plus years in Ontario and Hamilton's affordable and social housing sectors, there is a general lack of expertise and capacity in both new development and large-scale renovations. This challenge is compounded by limited availability of funding to hire experts and consultants. In the last two City administered requests for affordable housing development proposals, projects were awarded to some organizations with limited recent development experience. These organisations are learning and thereby expanding the base and capacity of affordable housing developers in Hamilton.

Staff are working with a broad network of consultants, providing increased levels of support to affordable housing developers in the early stages of projects, and providing direct development education to aspiring developers. Staff will be hosting a series of information sessions for key stakeholders, such as large and small private developers, as well as non-profit organizations including social housing providers. These sessions will include such topics as: lessons learned from previous affordable housing projects, proposal writing, Passive House Standard, development financing, the development approvals process, and more. This staff support will increase affordable housing development capacity in Hamilton and help ensure that good quality CIF applications are submitted to CMHC.

The City has also supported many building condition studies for community housing properties, both financially and by providing expertise. The completion of these studies facilitates CIF Repair/Renewal applications.

CMHC Direct Delivery of the CIF

As the CIF is directly delivered by CMHC, the City does not receive any associated administrative funding. Compounded by the lack of development capacity in the sector and a significant increase in the number of new affordable housing development projects, this means that City staff are required to provide considerably more support to affordable housing development projects than in the past. Existing staff resources have been realigned to assist with meeting this need, but the capacity is limited.

CIF Application Costs and Complexity

CIF applications are complex, require extensive documentation, and are costly in both time and money to complete, making them difficult for small or inexperienced organisations to complete. Flexibility by CMHC staff to accept alternate development progress and financial viability documentation, would help reduce the cost and time involved in completing an application. City staff and community partners will review specific examples that have arisen in the first round of applications with CMHC to identify opportunities to simplify the application process.

Minimal Grant Funding

The CIF is based on low interest mortgages with a minimal grant component, where historically, federal-provincial affordable housing development programs, including the Investment in Affordable Housing (IAH) and Social Infrastructure Programs (SIF), have provided a significant per unit grant. To date, the Hamilton projects that have applied for the CIF are also receiving funding from other grant programs such as IAH and SIF as well as City exemptions of development charges and for some projects, contributions

from the Poverty Reduction Fund. It is unclear at this time what level of funding is required in addition to the CIF for projects to be financially viable.

Staff are working to better understand the financial realities of developing new affordable rental housing in Hamilton and are sharing this new information with CMHC and the Province. For instance, Altus Group, which provides construction cost information globally, has indicated that compared to the Greater Toronto Area, construction costs in Hamilton are 4% higher due to specifics of the Hamilton labour market. This information was provided to CMHC. The next step is for staff to determine whether and for which types of projects CIF funding alone may be sufficient and which types of projects may require larger grant programs.

IAH is expected to be replaced in 2020 once the current program has expired. The federal-provincial cost matching agreement was signed prior to the recent provincial election, but no more recent information has been provided. The question remains as to whether the CIF will continue to create additional affordability, accessibility, or sustainability in projects that already have government funding, or whether CIF will create additional affordable housing projects.

Required Municipal Investment

Projects applying for CIF funding must demonstrate funding from another level of government and CMHC has indicated the expectation that all Hamilton projects will have 'monetizable' City of Hamilton support. While generally this means direct financial support, other supports such as the provision of expertise are acceptable. To date, the Hamilton projects that have applied for the CIF are also receiving exemptions of City development charges and for some projects, contributions from the Poverty Reduction Fund.

With respect to the rental construction component of the Poverty Reduction Fund (PRF), there are no uncommitted funds remaining, though \$7 M of the \$10 M allocated to CityHousing Hamilton has not yet been allocated to specific projects. Currently, affordable housing projects participating in an affordable housing program of an upper level of government and meeting other criteria are exempted from paying development charges. The development charges have and are being paid by the City through various means, most recently the PRF for projects funded by the PRF, but there is currently a significant deficit. As there are now significantly more affordable housing development projects than in the past twenty years, the cost to the City has increased substantially. Thus, the automatic development charge exemption is being carefully considered as part of the Development Charges By-law review. City staff are also exploring opportunities to use land sale revenues to fund municipal affordable housing contributions.

Next Steps

Staff will continue to support and build the capacity of Hamilton's housing sector to develop and repair/renew affordable and community housing and raise awareness about the availability of the CIF. These efforts will increase the quality and number of Hamilton CIF applications and thereby maximize Hamilton's uptake of the CIF.

CMHC has expressed commitment to continuous improvement to the CIF program and has solicited input in this regard. Staff will forward Report HSC19006 to the President and CEO of CMHC to offer Hamilton's comments.

Appendices and Schedules Attached

None