Designing for Impact: Options to optimize deployment of the Hamilton Community Foundation Affordable Housing Impact Fund (AHIF)

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Introduction

The Hamilton Community Foundation (HCF) has established a goal to establish a social, impact investment stream in support of affordable housing and has targeted investment contribution of $50 million in capital over the next 10 years. The purpose of this brief is to examine critical gaps in the existing affordable housing ecosystem and to identify options for optimal investment.

In parallel the City of Hamilton is seeking to reboot and refocus the City’s approach and support for affordable housing and homelessness. It is expected that along with other external partners and funding sources, through the proposed Affordable Housing Impact Investment Fund (AHIIF) the HCF can be an effective catalyst and contributor for the City.

Hamilton, like many communities across the county faces significant challenges in housing affordability across the continuum from the homeless shelter system through the existing social housing legacy stock as well as affordability concerns in the private rental market and in the homeownership part of the housing system.

High home prices constrain access to asset building for young families. Unable to access ownership these families remain in the rental sector adding demand and placing upward pressure on rents. Population growth including international, inter-, and intra-provincial migration adds demand in both the rental and ownership sector (exacerbated when households bring large amounts of equity from cashing out in higher priced markets). And increased recruitment of international students by universities and colleges adds rental demand – often competing for lower rent properties and squeezing out low-income households. With few, and declining affordable options in the lower end of the market there is nowhere for individuals seeking to exit homelessness to exit to.

These issues and challenges interact within a broad and complex system, which also overlaps with poverty, health, education, and well-being. So, it is critical to take a system wide view and think about system design. By taking a systems perspective it is possible to identify critical gaps and weaknesses in the system. By designing to address these gaps and weakness, interventions and investments can broaden more synergistic impacts. The HCF wishes to position and design its AHIF to have maximum catalytic impact related to these gaps.

- The critical question is where are these gaps? What is the current level of demand/need across the various elements of the housing continuum? What is the current level of supply, and where are the pressure points? How does investment in one part of the continuum create flow across the housing continuum?
- What types of investment can have the greatest impact and leverage the array of other funding sources that already flow into and through this system?
- Is it possible to use strategic investment to attract new sources of capital and investment into this sector (e.g., philanthropic, social impact and institutional ESG related investment)?

- As we answer the question for philanthropic sector, are their applications that are useful for other sectors who may also be preparing to invest in housing? (e.g., municipal government, credit unions, etc.)

Organization of this brief

This brief first examines the characteristics and trends in the housing system and the key factors that are impacting and undermining housing affordability. It then explores options to address some of the identified gaps, especially those not already being addressed through other initiatives within Hamilton’s HHAP.

Recent market trends and factors causing spiraling prices and rents

Over the past few years and the pandemic era there has been a dramatic increase in home prices and rents. Between Jan 2020 and Jan 2022, the MLS composite home price in Hamilton/Burlington increased by 77%; while it has corrected down 25% from the peak (Feb 2022) it remains 50% higher than before the pandemic. Rents for new tenancies in Hamilton (two bedrooms) in January 2023 are 17.4 percent higher than one year ago (rentals.ca). These rent and price pressures reverberate down through the market and especially impact lower income households, where there is in addition an ongoing process of erosion reducing the number of lower rent options.

Much of the discussion on the cause of these trends has fixated on a lack of supply, asserted to be caused by onerous and slow municipal processing of development and building applications.

While there may be some friction, and potential to accelerate and streamline approvals in the planning development system at the City to catch up with growing demand, the larger cause of price pressure is the surge in population growth and associated demand. This heighted volume of demand was then exacerbated, until Spring 2022, by historically low mortgage rates (and it is the rise in mortgage rates that has now enabled the price correction, and ironically is suppressing needed supply).

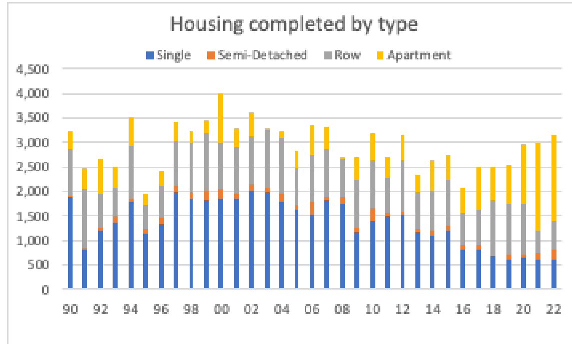
New home construction did not decline as much as it has simply been unable to accelerate in line with population, and household growth and thus housing demand. And, in addition to the *quantity* of demand, the *quality* of demand has been enhanced by low interest rates (cheap money) and accumulated equity among pre-existing owners. Together these factors enable overbidding and excessive prices.

Examining trends in the housing system

New home construction

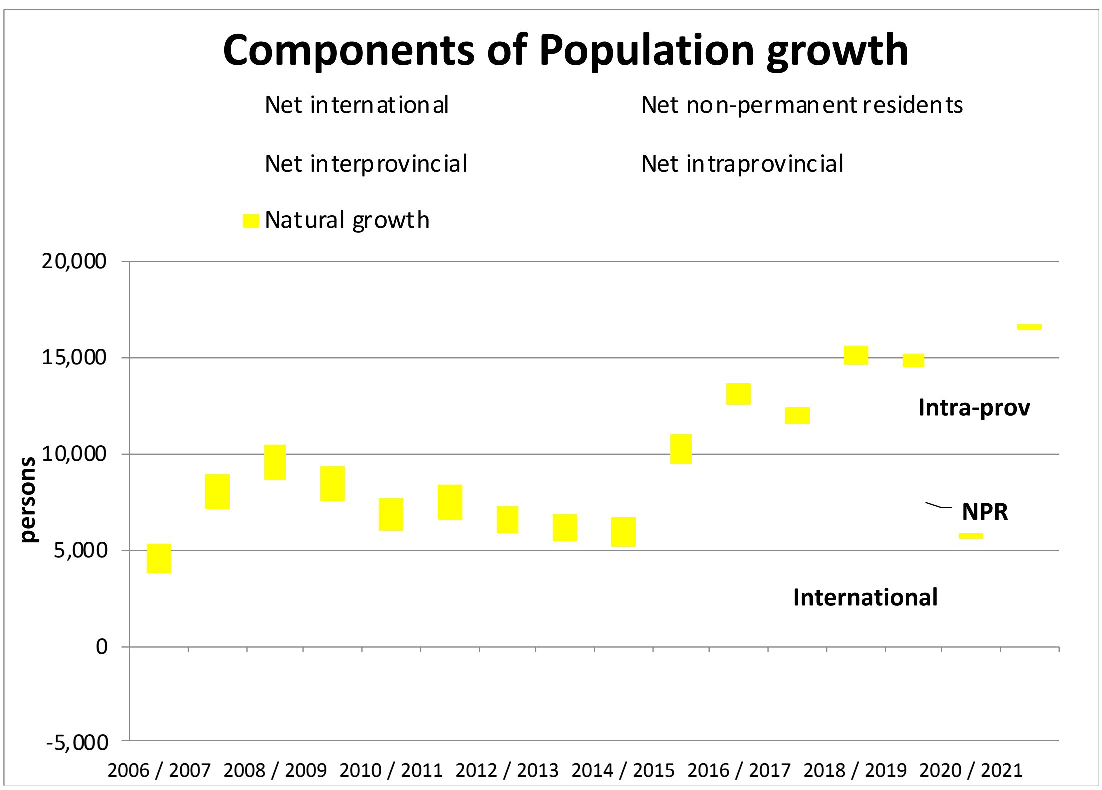
Compared to the first decade of the millennium, new home construction in Hamilton has declined, (by about 20%), but since a low point in 2016 has been on an upward trend.

There has been a shift away from typically owner occupied single detached homes in favour of multi-unit apartment structures.



Household growth and demand

While the 20% reduction in new homes completed over the second decade of this millennium (shortage of supply) is a contributing factor in price/rent pressures, the larger factor is a very substantial surge in population (increased demand), especially after 2015. Between 2007 and 2015 the population grew on average by just over 6,000 people; and between 2016-2020 this growth more than doubled to, on average, over 14,000 per year. With international boarder closed and few international and NPR, 2020 stalled, but with re-openings the pause (and outflow) in 2021 immediately rebounded to over 15,000.



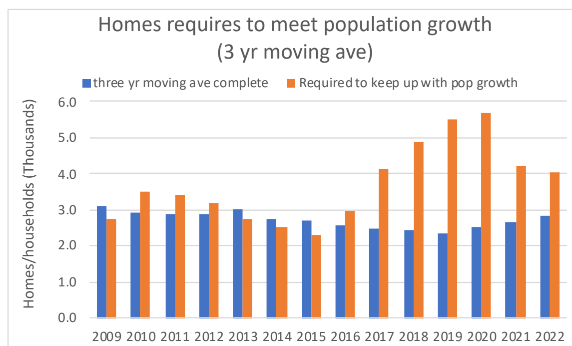
While intra-provincial (e.g., folks from the GTA and rest of province) has been consistent since 2009, the major shift post 2015 is from international migrants and “non-permanent residents” (NPR). The NPRs are predominantly international students, reflecting the need for post-secondary institutions to generate enhanced revenues. This group has a very significant impact on rental demand, so examining ways to meet it, which require little, or no subsidy could be fruitful.[1]

Alongside international students, domestic students from outside of Hamilton also add to local rental demand. Together, McMaster and Mohawk College have both seen increased overall enrollment. Since 2012, international students increasing by 4,300 while domestic enrollment was up by 5,400. While some of this increase would include local residents, but much would come from inter and intra-provincial students and in total has added demand for an additional 2,000 to 4,000 homes.

This suggests that some attention could be directed to exploring ways to expanding purpose-built student housing to reduce the displacement effect these students have on existing lower rent stock. The configuration of student housing with 3-4 students sharing generates solid rent revenues and can be viable with no subsidy – if institutions and private developers can be encouraged to take this on. And further downstream some of the newcomer students may seek to settle in Hamilton creating demand for entry level ownership options.

Mismatched supply and demand

When these two data sets (new construction and population growth) are combined and population counts translated into households at the local average household size of 2.5 persons per home, this level of population growth can be compared to the growth in new home construction. The chart here uses a three-year moving average to smooth individual year volatility.



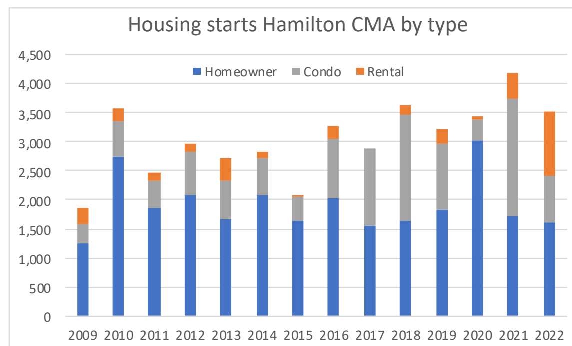
This reveals that even though new home construction had declined from the first decade, the number of new homes build from 2009 through 2015 was initially sufficient to keep pace with household growth – until the 2016 population surge. Reflecting the much higher levels of international and NPR migration after 2015 there was excess home demand. While people can jump on a plane and arrive the same day, it takes 3-4 years to build a new home, so the mismatch has compounded over time – placing upward pressure on both rents and home prices.

[1] Data on enrollment at McMaster show that the number of fulltime equivalent international students has doubled from 2,700 in 2016/17 to 5,700 in 2021/22 Assuming that students share accommodation this increase of 3,000 students per year will have generated new demand for at least 1,000 additional homes.

On average since 2016, with this high level of population growth there has been a shortfall in new construction (completed homes) of roughly 2,200 homes per year. In response to increase demand new starts have already trended up, averaging 3,400 since 2016. If growth continues at this pace, new construction will need to expand by a further 28% up to 4,800 new homes per year.

Impacts of the supply: demand mismatch

The obvious consequence from a mismatch with excess demand is upward pressure on rents and prices. In an efficient market, a supply response would also be expected. And to a degree this has happened, but due to the low elasticity of supply it is a slow and lagged response.

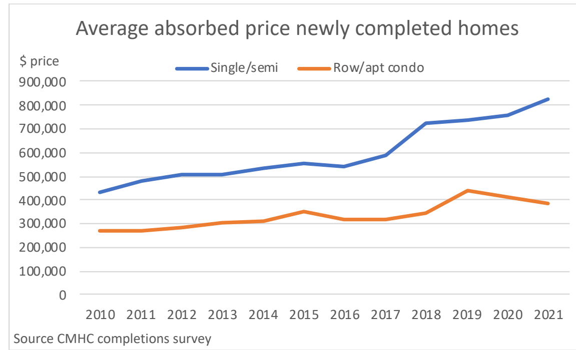


As shown previously, new housing construction has gradually increased, with a steady upward trend since the low point in 2009 (due to the global financial crisis). But it takes time for these new starts to materialize as completed homes that can be occupied. The pandemic clearly slowed new multi-unit starts in 2020 (condo and some rental) but this was offset by much higher level of detached homes, mainly for owner occupants. This expansion stalled due to higher interest rates through 2022, acted to suppress new construction.

Notably after two decades of very minimal activity, new rental construction expanded substantially post 2016 for Canada as a whole (up four-fold), although this increased did not occur in Hamilton until 2022, when over 1,100 apartments were started.[2] To some extent this was influenced by rent trends and the higher rents now achievable (which strengthens viability and investment attention).

[2] The categories of starts may reflect some change in intended use during construction from condo to rentals – fewer than 500 new rent unit starts were reported between 2018-20, but almost 2,000 were completed after 2019, so clearly there was under reporting on rental initiations in 2018-20. And data for 2020 erroneously identified condo as homeowner – CMHC is correcting the data file

New supply has not translated into affordable homes

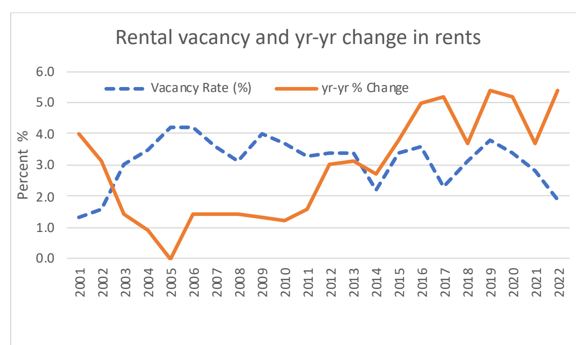


While there has been a steady increase in new home construction, very little of this addresses the demand (or need) from lower income households. The prices for newly completed homes for sale has followed the broader trend in existing home sales. This is especially true for single and semidetached for which prices increased 52% 2016-21; for row and apartment (condo) units, prices peaked in 2019 and then dropped off (prior to the rising mortgage rate effect) – likely a result of the heighted number of condo starts and completions 2016-19.

And similarly, the rents being charged on newly completed rentals is also high. For purpose built rental properties, in units completed post 2015 the average rents in 2021 were 44% above the average of those built prior to 2016 (with an increase in new rental starts in 2022 it is likely that 2022 data will reveal a larger variance between the existing average and that for newly constructed rentals).

Existing rentals becoming less affordable

With high home prices constraining access to homeownership, more people remain as renters. In 2006 71.6% of households in Hamilton owned their home; by 2021 this had declined to 68.6, (over the same period the ownership rated for Canada contracted from 69% to 66.5%, so the contraction is slightly more pronounced in Hamilton. So most household growth since 2016 has been from renters (note discussion above re student demand). Instead of creating vacancies when they buy, these remaining renter households retain pressure in the existing stock. This results in declining rental vacancies and upward pressure on rents.



The CMHC Oct 2022 rental survey, which covers the purpose-built rental stock (roughly half of all rental properties) recorded the lowest vacancy rate (1.9%) since 2002 (1.6%). Except for 2020, when the province placed a moratorium on rent increases for existing tenants, the overall average rent increased by more by more than 5% in all years since 2016.

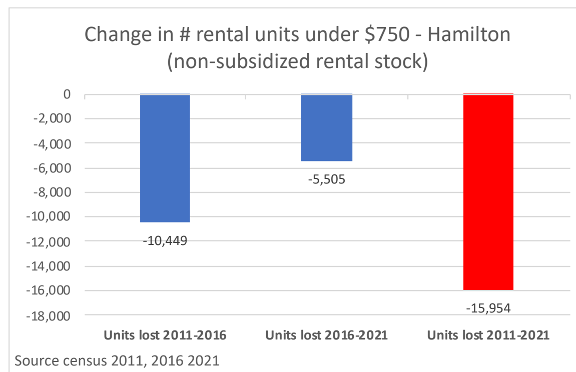
Note that the CMHC survey collects data for all units and more than 85% of tenants do not move in any one year, so this overall increase combines low guideline increases for most rental units with much larger increases for those apartments that turnover (existing tenant vacates). The CMHC Oct 2022 survey reported that in Hamilton 12.3% of purpose-built rentals turned over. The rent change in this subset was much higher than the overall yr-yr increase of 5.3%.

While CMHC does not measure the yr-yr change just for the turn-over subset, a new source of web-based rental listings has created a new data source (rentals.ca) that reports the average rents of new tenancies. The rentals.ca data includes both the CMHC surveyed purpose-built stock of some 47,000 apartments and the so-called secondary market of rented homes, suites in homes and condo rentals, which in 2021 totaled almost 29,000 homes. The data however tracks only rents in new tenancies, and these are compared to the new tenancies one year ago.

For Hamilton this reveals that among the subset of units that had new tenants in January 2023 rents increased by 13.5% for one bed and by 17.4% for two-bed compared to the rents in January 2022. So, tenants that move face substantially higher rents than those that remain in current rental – an issue that is especially acute for lower income households forced to move due to family separation, arrears/eviction, employment change etc.

Existing affordable stock is eroding

And compounding renter affordability challenges, the number of lower rent units is rapidly eroding. This occurs with absolute loss via demolition and from relative loss from increasing rents. Annual rent increases, especially on turnover of lower rent properties pull rents up above affordable levels. This is assessed by using the benchmark of $750, which relates to an income of 30,000 per year if paying 30% of income for rent. [3]



Between 2011 and 2016 the number of rental units in Hamilton below $750 declined by 10,400; with a further 5,500 lost between 2016-21. Over that decade almost 16,000 lower rent units (under $750) were lost; meanwhile new affordable housing funded under various federal-provincial programs, most delivered via the City added only 550 units. [4] So, for every new affordable unit funded, 29 existing low rent units were lost.

This pace of erosion in the lower rent stock massively undermined new investment and efforts to address affordable need. So in addition to building new funding programs must also support efforts by non-profits to acquire existing property – which once held under nonprofit ownership can isolate from the market pressures causing rent inflation.

[3] $750 was chosen as this aligns with the rent ranges reported in the census. Coincidentally at 30% it also approximates a minimum wage income of 30,000. Additional analysis also examined losses between $750-1,000 in 2016-21 and found that the erosion has moved up to this rent band – an additional 9,200 units renting between $750-$1,000 were lost in that later five-year period.
[4] With expanded funding under the national housing strategy additional affordable housing has been initiated in recent years and there are currently some 385 units currently in the construction pipeline.

Expiring subsidies in social housing

Alongside loss of private rental units, there is a risk that some legacy social housing may be lost as federal subsidies expire. Most social housing was built between the mid 1960’s and mid 1990’s and typically involved a mortgage to cover 100% of the cost and ongoing subsidy payments to ensure projects could repay the mortgage loan, while sustaining low rents (set of a rent-geared-to income basis. Subsidies were typically cost shared between the federal and provincial government and in Ontario, the provincial share was devolved to the local level.

The mortgage and subsidy were initially for a period of 50 years, and post 1978 projects over 35 years, and most begun to expire around 2015 with expiries continuing through to 2030. Projects that have low RGI rents and a high proportion of units as RGI generate insufficient rental income to cover operating costs. Consequently, for these, when the mortgage matures and federal subsidy ends many will be unviable, without renewed subsidy from the City. This imposes a fiscal burden on the city.

However, with no additional mortgage payment, per unit subsidy should be lower than at present. In part this may be offset by the need to finance needed capital renewal, as the properties are aging. The National Housing Strategy includes a funding stream to help address this renewal of subsidy (Canada-Ontario Community Housing Initiative), but this may not be sufficient, without additional City subsidy. In most cases this should be manageable, but there is some risk and an obligation for ongoing City expenditure.

Giving the aging stock, need for renewal and expiring federal subsidy it is important to undertake a comprehensive asset review of the entire Service Manager portfolio (i.e., properties owned by Housing Hamilton as well as those owned by community non-profits) to assess condition and capital needs, as well as identifying properties with intensification potential. Currently some 500 units are out of service due to repair needs – the cost benefit of rehabilitating vs redeveloping should be assessed, as well as whether to bring back as deep RGI (deeper subsidy need) vs. near market affordable (including a review of how the HSA Service Manager standard is implicated in this choice).

Potential to restructure subsidy and manage City expenditure

Recent amendments to the Housing Services Act creates new options for the City, as Service Manager, and for community housing providers when a project reaches the “end of Mortgage (and any federal subsidy ends). Providers can enter into a new subsidy agreement to cover ongoing RGI requirements as well as funding toward capital renewal. Or they can elect to opt out of the Act, so are no longer subject to regulations, most notably restrictive rent setting policies that apply to OW and ODSP recipients living in RGI units. But most providers are unviable and unable to preserve affordable rents without RGI subsidy, so most will seek a new agreement. An alternate approach is to opt out and then negotiate a rent supplement agreement. This can secure sufficient subsidy to preserve RGI levels and contribute to replacement reserves but avoid the administrative oversight that applies when regulated in the HSA.

From a City (Service Manager) perspective opting out and entering a rent supplement agreement can be highly advantageous in circumventing the low “maximum rents” applied to OW/OSDP tenancies in social housing. The current regulations mean that the OW/ODSP shelter benefits paid by the province to recipients and then paid as rent to the City are very low ($85 for single; $185 for family). If the same (or similar household) lived in private rental housing (or affordable units outside the HSA) they would be eligible to receive up to the maximum shelter benefit under OW/ODSP ($390 and $479 for singles and $642/$781 for a lone parent and one child).

This means that the City is effectively cross-subsidizing the province and pays a much higher amount of housing subsidy (on average around $400 /unit/month) compared tom if the tenant was treated the same as a similar private tenancy.

Across the portfolio of over 11,000 social housing units, it is estimated that the City is paying more than $14 million annually in additional housing subsidy and reducing provincial welfare costs by the same amount. Restructuring (via the new HSA provisions could correct for this situation and generate up to $14 million to be reprofiled into the affordable housing budget – and potentially used to substantially expand housing allowances to remove households from the waiting list – potentially the waiting list could be cut in half with 3,000 households assisted from this “new money”.

Another option is to more carefully and strategically allocate new assisted housing clients to different portfolios or programs – e.g., allocating OW/ODSP to affordable units outside of the HSA so they can be charged the maximum shelter benefit amount; and allocating working poor and seniors to RGI housing).[5] This can similarly optimize use of limited City subsidy budgets.

Insufficient supply of low rent housing

These price and rent and new construction trends and the impact of erosion combine to create a large mismatch between need, based on income and capacity to pay, and existing availability of housing that is affordable.

Using 2021 census data the distribution of households by income range can be compared to the number of units in an equivalent rent range. So, for example incomes below $20,000 are compared to units renting for under $500 (20,000/12 months x 30%); incomes of $20,000-$30,000 relate to units rent $500-$750, etc.[6] Data here are for non-subsidized renters (i.e., exclude those in social housing and social housing units).

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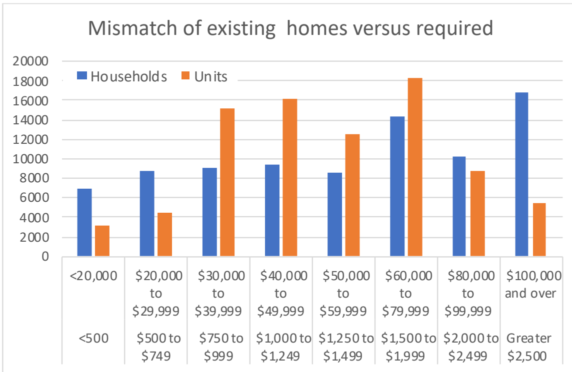
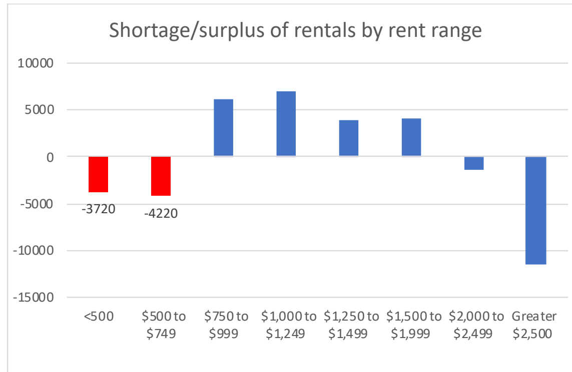
[5] For example a single or lone parent earning minimum wage would have an income of approximately 30,000 per year and at 30% could afford to pay rent of $750. If the same unit is rented to an OW/ODSP single the rent paid and revenue received by the provider is only $85, necessitating a large rent subsidy.

[6] Note that the 2021 census data may reflect temporarily inflated incomes as they capture the temporary pandemic benefit paid during 2020, and thus under count the number of lower income households (i.e., once the impact of CERB etc. are removed more households will be in the under $20,000 range). For reference in 2016 there

in 2021 there was a shortfall of almost 8,000 units under $750, a rent range needed for those with incomes under $30,000 – and as indicated above, this has been influenced by the erosion of these lower rent units.





The lack of lower rent units means that households with incomes below $30,000 live in units renting above $750, and many above $1,000 and thus spend well over the 30% affordability benchmark – and will consequently be in core housing need.

It may not be necessary to build new affordable units – in many cases, when the household is living in suitable and adequate housing but paying over 30% a housing allowance or rent supplement could resolve their affordability problem. The substantial (but temporary) reduction in the number of households with incomes below $20,000 between 2016 and 2021 confirms the positive impact that a small income supplement/rent allowance can have (i.e., impact of the CERB wage supplement).

The right chart suggests a theoretical shortage in units over $2,500 but this reflects a substantial number of higher income renters that benefit from units renting under $2,000. This large number of higher income renters might also attract investment in higher luxury rental development (although many may also rent detached homes).

Assessing core housing need

The core need methodology helps to identify the nature of need (and confirms that the predominant problem is affordability). It can also help to identify the characteristics of households in need and the affordability gap (difference between actual rent and 30% of income – the level of assistance ideally provided through a rental allowance payment).

The core need measure calculates how many households experience one of three problems – home in inadequate condition, home unsuitable (too few bedrooms) and affordability (paying

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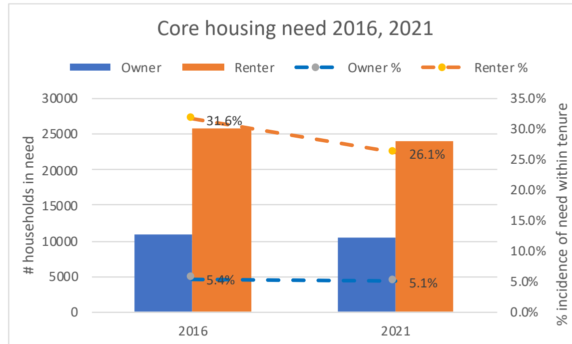
were 18265 households with incomes below 20,000; in 2021 this had declined to only 9,385 (all renters including those in subsidized housing). So, this assessment presents the minimal shortfall in low rent units.

over 30%). It also applies an income threshold to exclude those deemed to have sufficient income to resolve their problem without assistance.[7]

Due to temporary improvement in 2020 incomes from pandemic benefits, total core need declined from 36,800 to 34,500 households and as a share of all households from 13% to 11.6%.

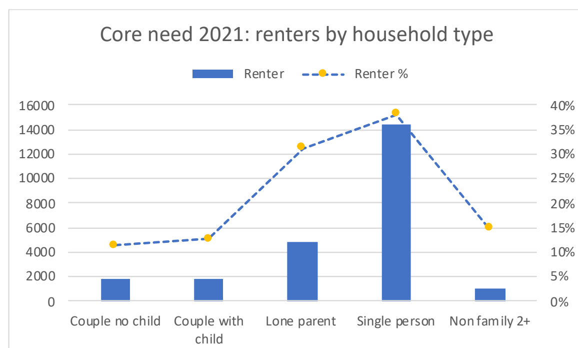


As shown in the chart, the number and incidence of need is much higher for renters – mainly because, on average, renters have much lower incomes (generally less than half that of the median owner household).

Among owners only 5% are in need while for renters more than one in every four (26.1% in 2021) are in core need.

Given the more acute and extensive level of core need among renters it is useful to examine in more detail the nature of renter need, as well as which household types are most effected.

In 2021 just over 24,000 renter households were in core need in Hamilton. The vast majority (74%) live in adequate and suitable housing and experience only an affordability problem. A small proportion experience adequacy and suitability so require a new home or renovation – but many can be assisted with rental assistance (and by not moving also will not trigger vacancy control on existing home).



Just under one-third (31%) of these renters in need are seniors, over 65 years of age.[8]

Not surprisingly, with the most significant problem being affordability, core need is more acute among single income households – singles and lone parent families – in both cases one in three (over 30%) are in need.

And while singles (including senior and non-senior) make up almost half of those in need, problems are also acute for lone parents, who are the next largest household type in need.

[7] Income thresholds are developed by household and bed size and use the median market rent for each size. These are converted to an income equivalent using 30% norm. So, if the median two-bed rent is \$800 the income threshold for 2–3-person household would be \$800 x 12 months divided by 30% = \$32,000. Households experiencing any one of combination of the three problems but with income over \$32,000 would not be considered in core housing need.

[8] Note that the core need measure excludes seniors living in residential care facilities – it counts only self-contained dwellings.

The census data provide a basis to determine the affordability gap – the shortfall between current rent and 30% of income (and thus estimate the magnitude of a housing allowance). Because the 2021 data is distorted by the now expired temporary pandemic benefits 2016 data is used here to estimate the affordability gap. Across all household types the gap is quite similar in the mid $300 range. With recent inflation in rents and readjusted post pandemic incomes this has likely increased and is likely now in the range of $400-$500.This is the average amount of Housing Benefit required to remove households from core need – a shallower benefit would also help but would not fully remove from need.

Non subsidized renters in core need (2016)						
Hamilton CMA						
	Total - Household	Couple with children	Couple without children	Lone-parent family	One-person household	Two-or-more-person non-family
Private households	20455	2445	1915	4920	10045	1005
Ave household income before taxes ($)	24848	36554	25508	30828	18171	30118
Average shelter cost ($)	975	1227	1000	1131	819	1073
Afford at 30% income	621	914	638	771	454	753
Afford gap (2016)	**354**	**313**	**362**	**360**	**365**	**320**

More severe need – homelessness

While core need provides insight on housing need, it only examines those that are housed and completed the census form – it excludes those living in shelters and those unsheltered.

While there are many contributing factors and many identified as chronic homelessness experience mental health and addictions challenges, a much larger proportion of homelessness is associated with affordability – the “economic homeless” Shelter utilization data confirm that most people (over 80%) and households that present at emergency shelters have experienced an emergency associated with an event like loss of income, family separation and consequently lack the resources and income to secure housing, usually because there are no lower rent units available.

The number of individuals (including persons in families) in the shelters has increased over the last few years from close to 1,000 in 2020 to roughly 1,500 in 2022. Within this count the number of chronic homeless (i.e., experience homelessness for more that 180 days) increased through 2021 but is now back to a similar level at around 500 individuals, largely due to being assisted to secure housing.

Many chronic homeless shelter users access an array of services including basic health care food and lodging in the shelter system and while Hamilton has created a Housing First program to move individuals out of the shelters into housing (339 housed in 2022), efforts to secure housing are thwarted by the previously quantified lack of lower rent homes that these individuals can afford (most rely on OW/ODSP benefits). Augmenting their capacity to pay rent via a housing allowance/benefit could accelerate housing placement and help to end chronic homelessness.

It is important to note that the population of chronic homeless persons is not static – even as individuals are assisted to find and placed into housing, others, either on the street or already in the shelter system age into the chronic category. In 2022, while 339 were placed into housing, another 247 individuals were newly identified as chronic. So while facilitating exits, it is equally critical to slow the flow into homelessness.

Emergencies will continue to occur, but growth of long-term homelessness can be stalled by early intervention in prevention and diversion programs. This is especially the case for those facing economic hardship and unable to find/afford housing. Connecting with housing help and providing rental assistance, including necessary deposits, assistance with furnishing and ongoing rental allowance can assist in slowing this flow.

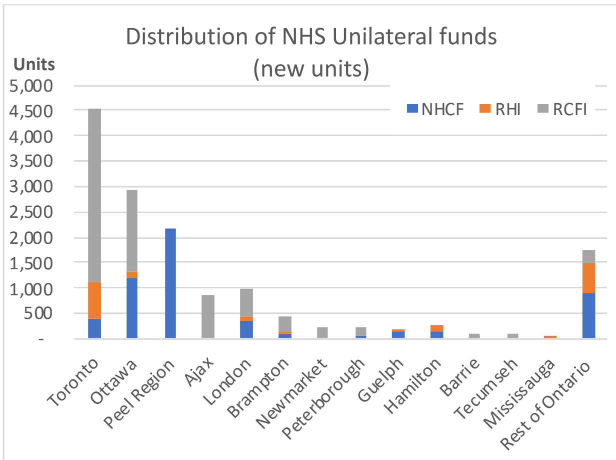
Underutilization of new federal NHS funding sources

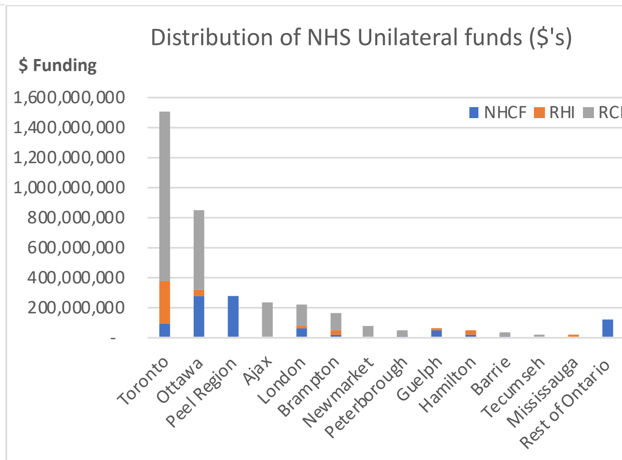
A National Housing Strategy (NHS) was announced in late 2017, initially at $40 billion but now expanded to $80 billion over 10-years (2018-28). A small portion of funding flows via bilateral agreements and in Ontario is then allocated across municipalities (includes OPPI, COCHI and COHB). This totals only 15% of the funding in the NHS. The majority (85%) of funds are delivered through federal programs with most in three programs:

- National Housing Co-investment Fund (NHCF) – funds both social housing retrofit and new affordable.
- Rental Construction Financing initiative (RCFI) primarily a market supply program with a small affordability component; and
- Rapid Housing Initiative (RHI) provided capital funding to build new or convert non-residential to create permanent supportive housing (but requires provincial funding for supports).

Unlike the bilateral programs, there is no allocation – funds are accessed on a competitive basis, and first come first served basis (except RHI where there was a specific allocation to municipalities (15 in round 1 and 41 in round 3), including Hamilton (which has 6 projects with 142 units)

Various nonprofits in Hamilton have been successful in securing funding under these unallocated programs, however the city and community partners have not been as pro-active or successful as other Ontario cities. These charts reflect new build only; and additional stream funded social housing repair and renewal (including almost $17 million for City Housing Hamilton)





The single largest pot of funds has flowed to the City of Toronto and TCHC as they were especially pro-active. Hamilton’s share of secured funding was only 1.4% of the total amount in Ontario; and accounts for 5.2% of the funds. This is mainly due to several RHI projects, which receive a much higher per unit contribution that projects in the other streams. six projects with 142 units were funded under RHI; another three are building 145 units under NHCF and as noted above an existing 146-unit project received almost $17 million for repair and retrofit under NHCF and the Innovation Fund (in combination).

It is noted that in total 80% of this federal “funding” is in the form of repayable low-rate loans; only 20% is in the form of forgiveable loan, or grant. Nonetheless this is a significant source of project funding, and a more proactive approach could increase access for providers in Hamilton to draw on this source. For example, by developing detailed asset renewal and expansion plans Toronto (TCHC), Ottawa (OCH) and Peel Region were all able to secure portfolio funding for either retrofit (TCHC)M or new build (Ottawa and Peel).

Having capacity to assemble applications including at a portfolio scale may strengthen the ability of the community housing sector to secure more of this funding.

New legislation in Ontario to stimulate supply

The More Homes Built Faster Act (2022) seeks to substantially increase new housing supply and includes several provisions that impact on affordable housing. It requires municipalities to waive Development Charges for non-profits building affordable housing, which can help on overall costs; but also removes the affordable housing item from the listing of eligible cost charges so reduces some municipal revenues that have previously been used by municipality to provide capital subsidy to new affordable development. It constrains previously enacted provisions for Inclusionary Zoning, limiting this to a maximum 5% of units on a site and to 25 years of affordability; and it places some constraints on introducing new bylaws for rental replacement.

Given the limit to regulate new transit related development to include affordable units it may be better to assist non-profit developers to acquire properties in designated transit zones. Through ownership, a higher proportion of units can be affordable (on a mission related voluntary basis) while market unit sales can help offset the cost to add the affordable units (likely near or below market, vs deep affordable).

In the case of existing lower density rental properties at risk of redevelopment, acquiring such properties as an initial revenue generating rental property can emulate the effect of a replacement bylaw as the purchasing non-profit will commit to redeveloping with moderate rents.

Drawing on patient equity with loans via the HCF could be one way to secure both potential TOD sites and protect/replace older rentals at risk of replacement.

Consolidation and identification of key gaps

The background review of trends and issues has highlighted a series of challenges across the housing continuum, with some of these reverberating through the system. Issues within the housing market especially high home prices and rents ultimately impact homelessness and efforts to exit homelessness. This means that indirect actions can similarly have reverberating beneficial effects. This includes efforts to increase market rate new supply by accelerating and streamlining the development approval process, which can help to take some pressure off prices and rents (albeit not necessary create affordability); and as well as more targeted initiatives to improve access to ownership for first time buyers, which removes them from renting and takes some pressure from the rental sector.

Insufficient new home construction – recent population growth driven in large part by international immigration. Federal immigration targets and especially increased visas for international students has created a mismatch between new housing supply and housing demand. Data reveal an annual shortfall of roughly 2,000 units per year since 2017 in new construction – so need to encourage and facilitate increased construction (this should also update estimates on population growth and refine this requirement accordingly). Federal immigration targets remain high and will increase marginally over the coming years. Assuming Hamilton continues to receive a similar number of net domestic and international migrants it will be critical to double new home construction from recent levels.

To expand production, the city should use planning and development policy to incent more missing middle type development – ground-oriented row and townhouse scale, which can fit well with assisted ownership products, as noted below. For example, recalibrate DCs to incent smaller more modest units vs. expansive single detached.

In part this could also be pursued with partnerships between private sector and the university and colleges to build market-based purpose-built student housing. Minimal subsidy would be required, but such development could be incented (e.g., via access to low-cost federal financing).

And with mortgage rate pressures causing private developers to put some projects on ice, there is an opportunity to encourage and accelerate non-market development – especially that targeting the intermediate rental market and thus requiring minimal subsidy (and/or some patience social capital).

Enable/facilitate first time buyers. While partly correcting after the peak in February 2022 high home prices, together with macro-prudential policies (mortgage qualifying rules) create a constraint on first time buyers. Hamilton has seen a very substantially decline in the home-owner rate (down from 71.6% 2006 to 68.6%, 2021. More significant, the rate among younger buyers has been even more severely curtailed. For households aged 30-39 the ownership rate in 2011 was 68.5%; by 2021 it had fallen to 61.1%.

With so many aspiring owners trapped in the rental market this places pressure on rents and impacts affordability (inflationary pressures on vacancies in lower rent stock). A healthy housing system requires tenure mobility and access to ownership to help households build wealth, and to release pressure from the rental sector. This would benefit from specific targeted First Home Buyer (FTB) programs at the federal and provincial level. The city can contribute by designing specific initiatives (accelerated approval, waived or deferred fees and charges and potential access to land) in partnership with non-profit home purchase programs such as those delivered by Options for Homes and Trillium Housing – both offer homes at discounted prices using equity sharing models.

In some cases, tenants in social-affordable housing have been successful in gaining better jobs and increasing their income to the point where some may be close to qualifying for home purchase. It may be useful to explore partnerships to build entry level ownership to facilitate this transition to renting. Such models can be structured with a shared equity soft second mortgage and can both generate immediate capital receipts to the non-profit developer as well as downstream equity repayments. By targeting existing tenants, the existing unit can be freed up for a now low-moderate income household (e.g., current partnership between Kiwanis Homes, City of Hamilton and HCF on shared equity ownership).

Encourage and enable affordable and intermediate market purpose built rental. A recent increase in new rentals is promising, but most are at high rents, generally above 150% of the existing CMHC measured average. Deeply affordable rental requires substantial subsidy per unit, which is limited. Encouraging non-profits to build into the intermediate market (e.g., rents at 110-130% of existing average vs. 150% for new private market), drawing on favourable financing under the federal Rental Construction Finance Initiative (RCFI) program can help to expand the scale of the non-market sector. Creating rental housing that operates on a non-profit basis can become relatively affordable over time (e.g., in ten years it can be at 90% of the then average market rent).

Slow the erosion of moderate rent units through non-profit acquisition – the review revealed very substantial erosion of the existing private unsubsidized rental stock, with 29 existing low rent units in the private market “lost” for every new affordable unit funded. This completely negates efforts and expenditures in new affordable housing. One way to address this critical issue is to enable non-profit providers to acquire existing assets. Operating at market rents, albeit moderate rents, these properties generate cash flow to leverage debt, but some equity is required alongside mortgage financing. CMHC is already engaged with the foundation sector and HCF have already invested to support a few acquisitions in Hamilton.

Low volume of new affordable housing - to date most efforts have relied on funding allocated to the city under the NHS bilateral agreement – Ontario Provincial Priorities Initiative (OPPI – previously IAH); and Canada Ontario Community Housing Initiative (COCHI). Annual allocations are known and are being used to support some new affordable development. The current level of new affordable development can be expanded by maximizing use of federal programs In addition most of the funding under the NHS flows via unallocated federal programs – notably the Rapid Housing Initiative, the National Housing Co-investment Fund, and the Rental Housing Finance Initiative. The City should aggressively and pro-actively seek access to these additional funds – encouraging and supporting community non-profits as well as the City's own housing corporation to access this pool of funding. Most federal programs require and reward partnerships, so minimal City contributions should be strategically allocated to maximize leverage of federal funding (e.g., rather than allocate $5 million to a single new project – allocate across several projects to secure more federal funds). *The recent Rapid Housing Initiative (RHI) can be an effective program in helping to expand the stock of permanent supportive housing, so this program – Hamilton has received funding for 45 units today.*

Insufficient funding for Housing Benefit/rental assistance - the review noted that most households in core need simply lack sufficient income and their affordability challenge can be addressed via providing additional income via a rental allowance. Insufficient benefit levels for those of OW/ODSP seeking to exit insecure housing or homelessness also constrain options to secure stable housing. While the Canada-Ontario Housing Benefit is scheduled to ramp up and can help further expansion in such allowances is needed. For many facing affordability challenges, improving labour market skills and consequently income can enable individuals to gradually reduce dependency of the rental assistance, thereby freeing up funds to be reallocated anew recipients.

Restructuring existing social housing subsidy

The issue of very low maximum rents for OW/ODSP beneficiaries living in social housing creates significant consequences, in particular in causing city subsidy to cross subsidize provincial welfare budgets. Reform of the current regulations as well as strategies to avoid and circumvent this impact can help retain City funds to be redeployed to expand housing allowances to assist in removing households with affordability challenges only from the waiting list.