Affordable Housing in Ontario: Mobilizing Private Capital in an Era of Public Constraint

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The Institute on Municipal Finance and Governance (IMFG) is an academic research hub and non-partisan think tank based in the Munk School of Global Affairs at the University of Toronto.

IMFG focuses on the fiscal health and governance challenges facing large cities and city-regions. Its objective is to spark and inform public debate, and to engage the academic and policy communities around important issues of municipal finance and governance.

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Executive Summary

This Perspectives paper considers how to create the conditions for greater private participation in affordable housing in Ontario. The purpose of affordable housing is relatively simple: to provide adequate shelter for people at a range of incomes who cannot reasonably afford to pay the market rate. But the economics of affordable housing is complex and there is no “free lunch.” Somebody has to pay the difference between the affordable rates and the market price.

Traditionally, governments largely filled this gap through large capital and operating investments, shelter allowances for individuals or other funding. This traditional model appears less suited to today’s challenges, which include:

- A federal-provincial fiscal context that limits the scope for large new investments;
- The strain on social housing providers and local budgets to maintain existing stock; and
- A growing need for affordable housing, due in part to rising home prices and the shortage of new rental housing supply.

The housing affordability problem is driven in large measure on the demand side by low and stagnating income levels. Ultimately, this problem can be addressed only through higher employment incomes, government tax and transfer mechanisms, or both.

But there are pressing needs on the supply side as well. This paper focuses on two major supply-side objectives where private participation can have an impact: the creation of new affordable supply, and the maintenance of existing social housing and private rental stock.

Four pathways to increasing private participation in affordable housing are discussed:

1. **Levers to Make Affordable Rental and Ownership Models Work**, including tax reforms and credits, or inclusionary housing models that use public lands and other incentives.

2. **Investment Vehicles for the Social Housing Sector** such as mortgage refinancing, Real Estate Investment Trusts (REITs), or emerging social finance instruments.

3. **Incentives to Maintain Private Rental Supply** like improved rent dispute processes, expedited property tax equalization, or enhanced financing for repairs and retrofits.

4. **Creating the Conditions for Private Participation** by ensuring fair and consistent market conditions, and by building on the success of public-private partnership (P3) models.

Case studies also highlight affordable housing models in the United States, United Kingdom and Australia, all of which face similar housing affordability challenges and fiscal constraints.

There are no easy answers. But what is clear is that it is an opportune time for a renewed discussion about how to mobilize private investment in affordable housing.
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1. Introduction

Access to adequate and affordable housing is an essential component of thriving and equitable communities. An important social determinant of health, equality of opportunity and community participation, affordable housing also serves a critical economic function by supporting a productive workforce and reducing social service costs. In large urban centres, where most people live, the concentration of poverty, income stratification, and homelessness create demand for affordable housing. This is particularly true in Ontario, the only Canadian province in which social housing is a municipal responsibility. While federal and provincial governments play funding, regulatory and oversight roles, cities and communities deliver housing.

The vast majority of housing in the province is privately owned and rented. Of 4.5 million Ontario households, 70 percent are owners. The vast majority own detached houses though a growing number live in condominiums. Renters tend to live in apartments, often in buildings over five storeys. Social housing, managed by private and municipal non-profits and co-operative providers, is an important safety net for people on low-incomes or requiring special supports. It accounts for about 5 percent of all housing and 20 percent of the rental supply.

The need for affordable housing continues to grow, not only among low-income renters, but also increasingly among medium-income homebuyers. Yet little new affordable and rental supply is being built. Social housing providers and local budgets are straining to maintain existing stock, and federal and provincial governments are facing fiscal constraints that limit the scope for large new investments. New solutions and sources of investment are needed – including an expanded role for the private sector.

The question this paper poses is, how do you create the conditions for greater private participation in affordable housing in Ontario? Section 2 assesses the problems, describing the housing affordability gap, the state of the social housing sector, federal and provincial housing policies and fiscal conditions, and the present uncertainty in the housing market. Section 3 presents the challenge: the twin aims of building new affordable housing and maintaining the existing supply. It identifies some pathways to private participation.
and profiles some international case studies. The last section provides concluding observations and reflects on how to spark a discussion about mobilizing private investment in affordable housing.

## Important Terms

**Affordability**: The traditional measure of housing affordability is 30 percent of a household’s before-tax income. Recently, government policies have set affordability targets as 80 percent of average market rents or prices.

**Market Housing**: Housing priced at the full market rate to buy or rent.

**Social Housing**: Mixed-income housing (some rent-gearied-to-income, some market rent units) owned and operated by municipalities, local faith groups, and other community organizations. Social housing is usually funded by a legally prescribed government program and technically defined as either:

- **Non-profit housing**, which is community-based affordable rental housing provided by non-profit corporations where a percentage of tenants pay rent-gearied-to-income and the remaining pay market rents; or

- **Co-operative (co-op) housing**, in which households are members of a co-operative corporation that owns the building and elects from amongst themselves a board of directors responsible for overseeing the management of the building.

**Rent-Gearied-to-Income (RGI)**: Units with rents determined by the tenant's ability to pay – normally about 30 percent of the gross monthly household income. The housing provider receives a “rent subsidy” from the government for the difference between the RGI rent paid and the market rent of the unit (as assessed by the government).

**Capital Repairs**: Repairs that go beyond normal maintenance, including structural repairs and improvements to the building envelope and grounds. Capital repairs are designed to extend the life of the building, increase its energy and water efficiency, and address any health and safety concerns resulting from the age of the building.

**Source**: Toronto Community Housing, Ontario Non-Profit Housing Association

## 2. The Problem: A Housing Affordability Crisis in a Time of Fiscal Constraint

The Canadian housing market has shown remarkable resilience throughout the global financial crisis. While the housing sectors in the United States and many other developed countries have suffered, Canada's has remained a pillar of strength. Over the past decade, housing-related spending in Canada grew from about 17 percent of gross domestic product (GDP) to nearly 20 percent in 2011. This prolonged growth has helped underpin economic growth and increased the wealth of many Canadians. These gains, however, have been achieved at the cost of declining housing affordability and a rise in housing-related debt.

### Housing Affordability has been Deteriorating for Many Households

Canada's housing boom has in part been fuelled by demographic factors such as population increases and changing consumer preferences, notably among condominium buyers seeking urban amenities and lifestyle in cities like Toronto. But construction activity and rising house prices have also been stoked by historically low interest rates that have encouraged household borrowing. This cycle of escalating debt and housing costs has put a strain on household finances. The average Canadian household is shouldering record levels of debt, 80 percent of which is housing-related (see Figure 1).

In Ontario, two other factors have impacted affordability. First, incomes have not been growing for many households. The average income of the bottom fifth of Ontarians in 2010, after taxes and government transfers and adjusted for inflation, was $15,500 – almost the same as in 1990. For middle-income households, incomes have risen by only 10 percent over two decades (see Figure 2). Second, the supply of rental housing has tightened. New construction has focused almost entirely on the ownership market for single-family homes and multi-unit condos, with very little new purpose-built private rental development (see Figure 3).
Between 2006 and 2010, nearly 90,000 condominium units were built, compared with about 20,000 rental units. In the Greater Toronto Area (GTA), this trend has seen condos grow to more than 10 percent of the total rental units. More than one in five GTA condos is now rented. Secondary units in single-family homes are another critical source of rental supply. Together, condos and secondary units represent about one-third of the GTA’s rental supply, with a far higher share in the City of Toronto. While about half of the new purpose-built rental supply during this period was generated through the federal-provincial Affordable Housing Program, this was a very small fraction of all new housing.

The shortage of new private rental supply, particularly at the lower end of the market, has put upward pressure on rents. In the GTA, average vacancy rates for purpose-built rental units have declined over the past decade from 4 percent to less than 2 percent, with average rents increasing to almost $1,100 per month. Vacancy rates are even lower for condo rental units, which are typically more expensive. Condo rents average more than $1,500 across the GTA and nearly $1,700 in central Toronto. The long-term trend is troubling: between 1990 and 2008, rents for one- and two-bedroom private rental units in Ontario grew twice as quickly as the median income of renters. Social assistance rates have not kept up either. The monthly benefit for a single person is about $600; on average, bachelor apartments in the GTA rent for more than $800.

The Canada Mortgage and Housing Corporation (CMHC) reports that 630,000 Ontario households, or more than 15 percent, are in Core Housing Need (see Figure 4). A measure of housing affordability and adequacy, Core Housing Need is concentrated among those with the lowest incomes and disproportionately among lone-parent and one-person households, immigrants, youth and seniors. A much larger proportion of renter households are in Core Housing Need, though more than one-third of the total are homeowners.

Rising costs for energy and food are increasing the financial burden on many households.

Social Housing Providers are Struggling to Maintain their Existing Stock

Social housing provides a safety net for those on low incomes, with subsidized rent-g geared-to-income (RGI) units. There are 270,000 social housing units in Ontario, many of which were built decades ago and require major renovations. Estimates suggest that 70 percent of the units have capital reserve shortfalls, creating a liability of more than $1.2 billion. Toronto Community Housing, North America’s second-largest social housing provider, reports a $750-million capital repair backlog. Some units are left vacant because they are in such poor condition. Still, there are over 150,000 households on social housing waiting lists across Ontario.

There is limited financial flexibility for social housing providers. Under provincial legislation and operating agreements, they are required to maintain their portfolios of RGI units. This means that they cannot share higher costs for energy or mortgage debt service with tenants. As a result, many have deferred major capital repairs or investments in more efficient energy, water, and mechanical systems that could reduce ongoing operating costs.
The pressures will intensify as federal operating subsidies for social housing providers gradually phase out over the next two decades (see Figure 6). As the subsidies are tied to mortgage terms, providers who are paying more to service their mortgages than they are receiving in subsidies can remain viable when their mortgages end. For others, notably those with high ratios of RGI tenants or major capital repair needs, there will be a funding gap that creates pressures to raise rents, reduce the proportion of affordable units, or draw on the municipal tax base to cover shortfalls.\footnote{These pressures are expected to intensify in the coming years as federal operating subsidies phase out.}

Desperate times are calling for radical thinking. In late 2012, Toronto City Council, on the advice of a Special Housing Working Group, approved the sale of some of Toronto Community Housing’s single-family homes to address short-term funding pressures, and directed staff to report back in June 2013 with a five-year social housing capital financing plan. The Working Group’s recommendations signal a shift towards funding models that embrace market mechanisms and partnerships with private and non-profit actors.\footnote{The Working Group’s recommendations for a five-year social housing capital financing plan were reported back to Toronto City Council in June 2013.}

### The Federal-Provincial Fiscal Context Limits the Scope for Large New Investments

Meanwhile, the longer-term trend has been a diminishing role for the federal and Ontario governments in social housing. During the 1990s, the federal government – the central player in the construction of public housing in the postwar period – withdrew funding for affordable rental development and transferred responsibility for administering housing to the provinces. Ontario in turn devolved responsibility for social housing to municipalities in 2001. More recently, the provincial *Housing Services Act* and other reforms have signalled a more limited direct role for the province in housing admin-

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**Figure 5 - Who Does What in the Housing Sector?**

| **Municipal Governments** | Consolidated Municipal Service Managers (e.g. cities, regional governments, or counties) are responsible for local policy, funding and administration of housing and homelessness under the *Housing Services Act*. Local governments are also responsible for planning policies, project approvals and building permits, and servicing new developments. |
| **Social Housing Sector** | Municipal non-profit corporations (e.g. Toronto Community Housing) and private non-profits (e.g. independent community agencies or religious groups) manage housing portfolios and provide affordable rental for low income tenants, whereas co-operative housing is owned and managed by resident members of a co-operative corporation. |
| **Government of Ontario** | The Ministry of Municipal Affairs and Housing develops policy and oversees the *Housing Services Act* (HSA) and the *Residential Tenancies Act*. Other ministries fund and administer some supportive housing for groups like the frail elderly and developmentally disabled. The Housing Services Corporation, established under the HSA, delivers province-wide programs and services to the social housing sector, while the Ontario Financing Authority and Infrastructure Ontario provide mortgage refinancing support and low-cost lending for the sector. |
| **Government of Canada** | In addition to directly administering on-reserve Aboriginal housing, the federal government provides funding through social housing operating agreements and housing and homelessness programs, mortgage loan insurance and housing programs through the Canada Mortgage and Housing Corporation, and regulation and oversight of the housing sector. |
| **Public, Private and Non-Profit Intermediaries** | There are a broad range of of housing sector intermediaries. Private sector architects, planners and construction firms play a role in the development process. Industry and sector associations (e.g. BILD, the Federation of Rental-Housing Providers of Ontario and the Ontario Non-Profit Housing Association) represent their members and undertake policy and advocacy work. |
| **Residential Developers** | Residential developers are generally involved in all aspects of a project, purchasing land, finding financing, hiring architects and planners, securing building permits and zoning approvals, hiring and overseeing the construction, and leasing, renting or selling the new units. |
| **Financers and Investors** | Mortgage brokers, chartered banks and institutional investors such as pension funds raise money, provide loans or make investments in projects. Typically, a project will require term loans to buy the land, construction financing to build the property, and longer-term mortgage financing that is paid off over 25 to 35 years. |
| **Private Rental Owners** | Private owners and operators of residential properties can include developers, property management companies or Real Estate Investment Trusts (REITs). They generate revenues through rents, which must exceed the costs of maintaining properties and paying down mortgage debts. |

*Source: Toronto Community Housing, Ontario Non-Profit Housing Association, University of Toronto Cities Centre*
istration, focusing instead on increasing flexibility for social housing providers while improving their capital asset management.\textsuperscript{20}

Since the financial crisis of 2008, the fiscal context has also shifted dramatically. The last decade has seen a modest increase in federal and provincial housing investment, though increasingly through time-limited programs such as the Investment in Affordable Housing (see Figure 6). Today, with both governments firmly committed to deficit reduction and facing competing spending priorities, the prospects for new funding commitments for housing on the scale needed are dim. As the Drummond Report on Ontario’s finances made clear, the Province faces a particularly daunting path to budget balance in 2017-18, requiring a “sharp degree of fiscal restraint ... over the next few years.”\textsuperscript{21}

Cooling Housing Markets could Create New Opportunities

Concerns about affordability and public finances have been coupled with uncertainty about the state of housing markets. The Economist magazine recently raised alarms about significant housing overvaluation in Canada.\textsuperscript{22} The consensus among forecasters, however, seems to be that Canadian housing markets will experience a modest downward adjustment in the coming years.\textsuperscript{23} CMHC has suggested that housing demand in Ontario peaked in early 2012, with house prices and new construction activity expected to be flat or in gradual decline through 2013.\textsuperscript{24} The agency also notes that markets remain stable, with the proportion of residential mortgages in arrears remaining near the historical average at less than 0.5 percent.\textsuperscript{25}

The cooling housing market could offer some benefits. Declining prices would ease pressures on lower-income homebuyers. A slowdown in real estate activity with continued low interest rates could also present an opportune moment to explore new ways to provide affordable housing. While a gradual market correction may not significantly improve the private development economics of affordable housing, it could create private-sector interest in new housing models and investment opportunities.

3. The Objective: More Private Participation in Affordable Housing

A 2003 report by TD Economics made the case that the housing affordability problem must ultimately be addressed on the demand side by raising low incomes to levels that allow people to afford adequate shelter, whether through better-paying employment, government tax and transfer mechanisms, or both.\textsuperscript{26} This diagnosis is no less relevant today. Yet the preceding section illustrates a pressing need on the supply side, with two primary challenges: maintaining the existing supply of social housing and private rental stock, and creating the conditions for investments in new affordable units. Addressing these two challenges will require increased private-sector participation.

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Some Pathways to Increasing Private Participation

The market preference for building condos compared with purpose-built rental development is easy to explain: condos are less risky and more profitable. Developers pre-sell the majority of condo units before they start building. Pre-sales generate cash flow to help finance construction. They also

<table>
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<tr>
<th>Overview</th>
<th>Funding and Timing</th>
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<td>Canada-Ontario Investment in Affordable Housing (IAH)</td>
<td>A cost-shared program that provides funding for new construction, renovation, homeownership assistance, rent supplements, shelter allowances, and other supports. New housing must remain affordable for a minimum of 20 years.</td>
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<tr>
<td>Federal-Provincial Social Housing Program (operating agreements)</td>
<td>The long-term agreements (25 to 50 years) between the federal government and housing providers provide operating subsidies for over 200,000 units in Ontario. The agreements generally end when mortgages are paid.</td>
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Source: Ontario Long-Term Affordable Housing Strategy; Ontario Public Accounts 2011-12; 2013 Federal Budget

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reduce financing risks for lenders who are concerned about the viability of projects when land and construction costs are high. Reducing risk lowers borrowing costs for developers and allows them to use more debt and less of their own equity to finance projects, increasing returns and freeing up their funds to invest in other projects (see Figure 5 for details about Who Does What in the Housing Sector).

Rental development is riskier and more costly. Developers must leave their equity in projects over the long-term, limiting their ability to revolve their capital into new projects. There is less immediate cash flow because they cannot generate revenues until the units are built and occupied. Financiers also perceive greater risks, increasing borrowing costs, requiring that developers purchase mortgage insurance and delaying the financing process. A recent study for the University of Toronto Cities Centre suggests that for developers to generate a reasonable return on a standard rental property development, units must be priced at luxury rent levels in excess of $2,200 – well above average condo rental rates and more than double the average affordable rent level.37

The Low Income Housing Tax Credit in the United States

The Low Income Housing Tax Credit (LIHTC) underpins 90 percent of all affordable rental development in the United States.38 In use since 1986, it is a permanent federal tax credit that supports new construction and rehabilitation of existing affordable rental housing. The credit is a dollar-for-dollar tax deduction against investors’ income when they invest in eligible affordable properties. LIHTC-qualified projects must meet certain minimum affordability requirements for up to 30 years – with 20 to 40 percent of units occupied by households with incomes at or below 60 percent of the area’s median income. Rents are set based on a percentage of an area’s median income as determined by the US Department of Housing and Urban Development.39

Each year, the federal government allocates a set number of credits to states. Typically, an affordable project will receive credits when it has been deemed as qualified by a state housing agency. The project then allocates these credits to equity investors, who are eligible to use the credits to make income deductions for a period of 10 years. Large organizations like Enterprise Community Partners play an important “syndicator” role, acting as market intermediaries that connect groups of investors to projects with available credits. In addition to harnessing capital for affordable housing projects, the model has helped non-profits build financial capacity and discipline in due diligence and underwriting.40

Levers to Make Affordable Housing Models Work

Many ways of improving the economics of rental development and creating new affordable housing have been proposed. The federal-provincial Investment in Affordable Housing program provides an important, if inadequate, funding lever. Substantively improving the economics of rental development, however, could require more favourable tax treatment for rental properties. The rental housing industry has advocated for the elimination of GST/HST on rental housing, tax deferrals on rental property sales and re-investments and higher capital cost allowance (CCA) deductions.31 Tax credits or incentives are another option. The C.D. Howe Institute has proposed a “made-in-Canada” Low-Income Housing Tax Credit modeled on the program in the United States.32 Australia’s National Rental Affordability Scheme (NRAS) is a similar mechanism to encourage affordable rental development (see case studies 1 and 3). At a time of public constraint, however, there are also levers that have less direct fiscal impact.

Perhaps the most promising are mechanisms to reduce development land costs. The 2012 report of the City of Toronto Private Sector Housing Roundtable recommended leveraging surplus city lands and infill around existing social housing or private apartment towers to build rental housing.33 Inclusionary housing models – which incorporate some affordable rental or ownership units as part of private developments – have proven successful where the costs and risks to developers can be offset by incentives like land grants. Experts agree that incentives are not enough to make these models viable where units are targeted at very low-income households. Yet they can work if the affordable units are priced closer to the market rate – at about 70 to 80 percent of market rent or sale prices.34 In highly unaffordable cities like New York, such policies are aimed at middle-income households.

Research by Gladki and Pomeroy has found that in Ontario, inclusionary models that include 15 percent affordable units in new developments can be economical if developers are provided increased building density and exemptions from municipal fees and charges to offset the costs. As a recent IMFG Paper suggested, Section 37 agreements that trade additional density for benefits from developers, as permitted under Section 37 of the Planning Act, can also be used for affordable housing.35 As the conditions and costs are unique for each development, voluntary, incentive-based municipal policies that give developers latitude in negotiating offsets and adjusting unit sizes have been effective.36 In other jurisdictions, these models have created private investment opportunities while encouraging denser, mixed-income communities.

Affordable ownership models have also proven effective. Non-profit developer Options for Homes and Home Ownership Alternatives, a non-profit financier, offer a shared-appreciation second-mortgage – a form of down payment assis-
tance that is paid back with market appreciation when the owners sell their units. The Daniels Corporation, a private developer, offers homebuyers gradual deposit payment plans and rent-to-own programs. Toronto’s Private Sector Housing Roundtable noted that there could be opportunities to scale up these types of affordable ownership models.

**Case Study 2: Austerity and a Growing Role for Private Investment in the United Kingdom**

In the wake of the financial crisis and the deterioration of the United Kingdom’s public finances, the central government imposed severe austerity measures that reduced the housing budget by 50 percent in 2010. These cuts increased pressure on non-profit Housing Associations (HAs) that manage much of the social housing stock. HAs bid to operate public (or Council) homes, or build new affordable and market units by securing public grants and private financing through loans or debt issuance. The largest of the HAs, Sanctuary Housing, manages 64,000 supportive and affordable housing units.

With public funds limited, housing policies in the United Kingdom are focusing on attracting private investment. The Affordable Homes Programme, the government’s major funding vehicle for new supply, is leveraging smaller public capital grants by raising affordable rent limits from 50 to 80 percent of market rates and providing landlords with greater flexibility in offering tenancies. A Build to Rent Fund that will grow to £1 billion offers recoverable public loans for private rental development, providing both bridge financing and public risk sharing. Another program will guarantee housing provider debt to make affordable housing projects commercially viable.

The United Kingdom is also experimenting with social housing real estate investment trusts (REITs). The first social housing REIT, Houses for Homes, is targeting returns in the 6 percent range and will be listing on London’s junior stock exchange. Focused on supportive housing, Houses for Homes acts as an intermediary between institutional investors and local authorities or small housing providers. It provides access to low-cost financing and creates economies of scale in new housing projects, sharing up to 40 percent of the return on capital appreciation.

**Investment Vehicles for the Social Housing Sector**

New investment vehicles are also needed to finance the refurbishment and retrofitting of existing social housing. A number of models are being explored. Toronto Community Housing recently announced that, with Infrastructure Ontario’s assistance, mortgage refinancing terms had been negotiated for 18 social housing properties that would free up nearly $100 million for capital repairs. As the first social housing real estate investment trust (REIT) launches in the United Kingdom (see case study 2), the City of Toronto is also assessing whether a REIT model could leverage Toronto Community Housing’s portfolio of market-rental units to raise capital.

Another proposal, outlined in a report by the Housing Services Corporation (HSC), calls for the creation of a Social Housing Capital Fund. Managed by Infrastructure Ontario or a chartered bank, the fund would provide social housing service managers with reliable and low-cost financing for renovations and capital improvements. Along similar lines, major financial institutions are assessing the viability of social finance instruments. Social housing repairs and energy retrofits offer appealing investment opportunities as they can generate returns while achieving positive social and environmental outcomes. Limiting investor risk through government loan guarantees or first-loss provisions could make these models more attractive to investors.

An important prerequisite, however, is reliable data on the social housing stock to inform the underwriting of investment decisions. The Province is taking steps to support asset management planning and building condition audits, but data can be unreliable and there is no province-wide baseline assessment of social housing assets. In addition, expiring operating subsidies threaten municipal budgets and the viability of some providers. Maintaining the affordable rental stock could require that the Province consider offering greater flexibility on social housing service standards and RGI rates.

**Incentives to Maintain Private Rental Supply**

As most renters live in private apartment buildings, maintaining these units is also a priority. The economics of acquiring existing rental buildings have generally been better than building new rental housing. Older properties can be acquired for significantly less and provide stable cash flows immediately. Yet, certain factors have limited investments in maintenance and capital improvements. Older buildings generally have lower rents and higher energy costs. Deferred capital repair costs are difficult to assess, increasing risk for investors. Property tax inequities for older rental buildings, rent controls on occupied units, and inflexible tenancy rules are further disincentives.

For policymakers, one option would be to compel a greater focus on the quality and state-of-repair of private rental assets through firmer enforcement of building standards or by mandating capital reserve funds, as required for condominiums. A more collaborative approach, however, could focus on improving the incentives for private investment. This could include improving the lengthy and cum-
borsome landlord-tenant rent dispute process, or expedited equalization of property tax rates.\textsuperscript{47} It could also focus on promoting or enhancing the available financing incentives for repairs and retrofits, such as forgivable loans through expansion of the federal-provincial Ontario Renovates program or the Toronto Atmospheric Fund’s (TAF) insured capital financing program for energy retrofits. Under TAF’s program, loans finance energy performance improvements in residential buildings, with the building owner and the lender sharing in the ongoing operating savings.

**Case Study 3: Australia’s National Affordable Rental Scheme**

Faced with housing shortages and severe affordability issues, the Australian national government, in partnership with the states and territories, launched the National Rental Affordability Scheme (NRAS) in 2008. NRAS is an incentive program that aims to generate 50,000 new affordable units by 2014. Rather than creating social or public housing, NRAS is designed to make investment in affordable rental homes competitive with other asset classes.

NRAS provides financial incentives to private and non-profit businesses and community organizations that build and rent homes for at least 20 percent below market rents to eligible, government-approved tenants. Individual investors may also participate by investing in larger entities that own NRAS properties. For each qualifying unit, the program will pay the investor about Au$10,000 per year for 10 years – indexed to inflation – through a combination of income tax-exempt refundable tax credits and payments through the national and state/territorial governments. Investors must stay in the program for at least 10 years, after which time the property is free from any rental or resale restrictions.\textsuperscript{48}

**Creating the Conditions for Private Participation**

Private-sector representatives commonly stress the need for fair treatment and certainty about their operating environment. These conditions are critical in the housing sector, as investments are long-term and can be risky. Government actions, such as abrupt changes to housing policies, regulations and tax structures, or time-limited government funding programs that provide little ongoing certainty, can create instability for private market actors. For example, the residential construction and development industries recently raised concerns about the uncertainty caused by slow municipal implementation of planning policies under the province’s regional growth plan for central Ontario.\textsuperscript{49} Governments need to reassure private participants that they can have confidence in the rules of the game.

At the same time, public-private partnerships (P3s) have been increasingly common in Ontario for public infrastructure projects. While it is important to note that P3s are a project financing mechanism for delivering capital projects rather than a source of funding, they offer a number of potential benefits. These include risk-sharing, pay for performance, asset lifecycle planning, and the application of private expertise and ingenuity to public objectives.\textsuperscript{50} The few examples of Canadian housing P3s – such as Toronto’s Regent Park revitalization – highlight some success factors: private-sector leadership, trust and commitment by the partners, and binding contracts that set out roles and responsibilities.\textsuperscript{51} Ultimately, successful models of private participation require a sense of shared interests among public, non-profit, and private organizations, and openness to new ideas and partnership opportunities.

**4. Concluding Observations and Questions**

While the need for affordable housing continues to grow in Ontario’s cities, little new affordable rental supply is being built. Existing social housing is aging and straining municipal budgets, and the federal and provincial governments face long-term fiscal constraints. To build affordable housing and maintain the existing supply, new solutions and sources of investment are needed – requiring increased private-sector participation.

There are a number of pathways to increasing private participation in affordable housing. On the one hand, there are opportunities for substantive reforms, potentially borrowing from the models in the United States, the United Kingdom and Australia. But are these types of reforms feasible and fiscally attainable at this point in time? On the other hand, there are existing levers and incentives at the disposal of Ontario policymakers – for instance, surplus public lands, inclusionary housing models and retrofit financing instruments – that can be put to use quickly and with less incremental cost. Do they provide more immediate opportunities?

It is an opportune time for a renewed discussion among public, private and non-profit stakeholders about how to mobilize private investment in affordable housing. It should be premised on two key notions. First, private participation will be sustainable only if partnership models offer adequate returns on investment. Second, given the scrutiny of public transactions, partnerships with government require that private players accept new ways of doing business. The discussion should begin with an honest assessment of shared interests, current barriers and potential opportunities. The following questions provide a good starting point:

- What are the major barriers to private participation in affordable housing development, maintenance and financing?
• Are substantive reforms needed to create the conditions for private participation?

• Can existing levers and incentives provide immediate opportunities for increased private participation?

• What opportunities should be pursued – both immediately and over the longer term?

Endnotes


2. Single-detached, semi-detached, or row houses.


5. Francis Fong, Toronto – A Return to the Core, TD Economics Observation report, Toronto, January 2013.


13. This includes 141,000 units under municipal non-profits and local housing corporations, 83,000 under private non-profits (e.g. faith groups or community agencies), and 44,000 co-operative housing units. Housing Services Corporation, data from February 2009.


19. The six financing options to be explored are: mortgage refinancing; bond borrowing; Real Estate Investment Trust (REIT) opportunities; energy retrofits; and value capture from new public-private affordable housing. City of Toronto, Putting People First: Transforming Toronto Community Housing, Special Housing Working Group Report, September 2012.


23. TD Economics, Long-Run Rate of Return for Canadian Home Prices, Special Report, 11 March 2013.


27. This section leans heavily on research by Jill Black, The Financing and Economics of Affordable Housing Development: Incentives and Disincentives to Private-Sector Participation, Cities Centre Research Paper 224, Toronto, September 2012, as well as John Gladki and Steve Pomeroy, Implementing Inclusionary Policy to Facilitate Affordable Housing Development in Ontario, Ontario Non-Profit Housing Association, 2007; these studies provide analysis of the economics of affordable housing, and include modelling of condo and affordable rental development.


43. City of Toronto, “Infrastructure Ontario Refinancing of Toronto Community Housing Mortgages,” Staff Report to Executive Committee, 6 March 2013.


47. Ibid., 33.


51. See Moskalyk, op cit., v.