April 27, 2022

Ministry of Municipal Affairs and Housing
Housing Programs Branch
777 Bay Street, 14th Floor
Toronto, ON M7A 2J3

RE: **Feedback on Access to Provincial Financing for Not-for-Profit Housing Providers**

Background

The Ontario Co-operative Association and several of its Credit Union Members are pleased to be working with Community Wealth Co-operative Corporation and Home Opportunities Non-profit Corporation who have developed a delivery system for affordable ownership housing that can serve households across Ontario with incomes as low as $35,000. The model has been designed to be scalable and not require any grants, subsidies or tax write-offs from any source. It does take advantage of existing financing tools offered by Infrastructure Ontario and CMHC, though we offer some suggestions below on ways to tweak these tools to make them more accessible, efficient and effective.

By focusing on an affordable <u>ownership</u> model, we believe tens of thousands of housing units a year can be added to desperately needed supply across all of Ontario, and in particular urban centres. Importantly, an ownership-focused affordable housing model lifts families out of poverty and grows wealth for these families.

Variations of our model have, over the past twenty years, received extremely strong public support for our delivery system. We often turn "NIMBY" and opposition to

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development, into “YIMBY” and broad-based community support for these communities because “ownership” communities are often seen as more permanent.

The core of our model is a delivery system that requires participation from all components of the development sector and partnership from government with some adjustment to their current lending programs, but no direct taxpayer subsidy or grants. Our model assembles all of the best practices under one framework- not so much a silver bullet as a silver umbrella.

Our model is built on three beliefs:

First, **projects must be built at a sufficient size and scale to quickly address the housing supply crisis Ontario faces**. Consensus estimates suggest Ontario needs to be building up to 100,000 new units of housing a year for the next ten years just to get us to the OECD average and meet the demands of a rapidly growing population. This demand will not be met with small, unambitious projects – though of course there is a role for these infill projects as well. Our model works best on larger-scale projects of 1,000 or more units and it works for all types of housing – seniors, students, low- and modest-income families.

Second, **we believe that home ownership is a cornerstone** of achieving the Canadian dream. Rental accommodation has a role – there is no doubt – but home ownership helps build community, has positive societal benefits and contributes to generational wealth for families. **We believe everyone deserves an equal opportunity to own a home.** This is especially important to low- and modest-income families who are otherwise trapped in a cycle of poverty. Home ownership is also associated with inequality. In 2018, only 48% of the Black population lived in a home that was owned by a household member. The national home ownership rate was 73% and it is commonly believed that this correlates to higher rates of poverty in the Black community, for example.

Having equity in a home is among the best investments a low or modest-income family can make, both for the generation living in the home, but also for future generations of that same family. As policy analyst Sean Speer wrote in the National Post in 2020:

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> *The evidence is overwhelming: homeownership is positively linked to a raft of economic, social and civic behaviours that are crucial to self-actualization and a healthy society.*
>
> *It's really striking, in fact: from family and marriage to crime rates to educational outcomes for children to voting and more, homeownership is a powerful source of stability and opportunity, particularly for low- and middle-income families.*[1]

A more recent article in *The Atlantic*[2] states that homeownership *"(is) not just a financial commitment. It can alter people's relationships to a community, a place, and even time."*

Third, we our model is built on the belief – and a century of evidence – that **co-operative governance of housing is an efficient and effective way to build better communities**. Our model modernizes the typical co-operative housing model somewhat, but builds on the strength of collective action to build strong communities, which is especially important for low-and modest-income families seeking to break free from generational poverty. Co-operative governance means that held capital is re-invested back into the community to provide even more cost-effective housing, job creation, education and other social supports.

Let us describe the model:

1) Community Wealth Co-operative, a multi-stakeholder corporation that organizes financing, works with a co-operative development corporation to build affordable ownership housing.

2) Together they secure land and the financing for the developments through loans from traditional financial institutions (preferably credit unions) and/or sources of government-backed financing such as Infrastructure Ontario.

   Our model works particularly well when securing surplus government lands (municipal, school board, provincial or federal) that have been designated for

[1] https://nationalpost.com/opinion/sean-speer-in-defence-of-home-ownership-a-very-good-thing
[2] https://www.theatlantic.com/family/archive/2022/04/homeownership-first-house-happiness-psychology/629529/

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not-for-profit housing. This helps us avoid the situation where we are competing with private land developers who may be interested in securing the land and land-banking for future profits. Our interest is in building housing <u>now</u>, not in equity appreciation by holding lands.

3) "Community Wealth" secures construction financing from a combination of private (preferably credit union) and government financing sources – in particular CMHC – and contracts a construction firm to build the project.

   The project is tailor made to the community it serves, but typically features larger condominium units – 3 or 4 bedrooms - and townhomes built for families. The development incorporates shared amenity spaces such as playgrounds, nearby social and healthcare services (such as long-term care or homecare) and other amenities needed by families.

   The project is also designed to be efficient, and reduce cost wherever possible. Modular construction, standardized design options and fewer "frills" all keep the project cost lower and these are savings passed along to the homeowner.

   Marketing and realtor cost – which can be as high as 7% of a typical condominium project – are minimized in our model, as marketing is done by the Community Wealth co-operative in partnership with a municipality to their affordable housing wait list. For the cost of a few community "town-hall" meetings and a carafe of coffee, our experience is that projects of this type sell out quickly without the need for model homes and expensive marketing campaigns. These are cost savings passed through to the homeowner.

4) Upon completion of construction, Community Wealth provides down-payment loans for the buyers for up to 60% of the equity. This allows the monthly mortgage payment carrying cost to be lowered to the <u>**same or less**</u> than the subsidized rental payment this same family would be eligible for. ***Home ownership becomes affordable at the same or lower monthly cost as affordable rental housing***.

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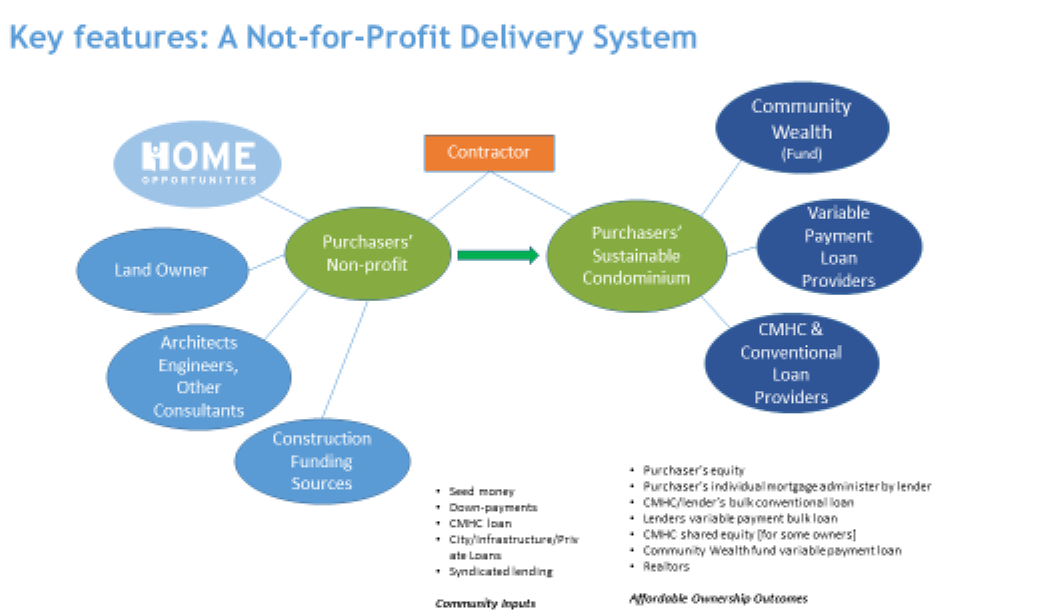
As the equity in the property grows over time, both the homeowner – with as little as 40% of the equity in the home – and the stack of debt-financing providers (credit unions, Infrastructure Ontario, CMHC and – in future – pension funds and other institutional investors) all benefit from that appreciation. The property secures the loans, making this a very low risk investment for patient long-term investors.

Upon sale or refinancing of the unit, the investors are paid out, with interest. Surplus is paid back into Community Wealth, who will accumulate these "profits" to develop more affordable housing and other social benefits in the community in perpetuity.

5) Community Wealth – as the key equity provider, manages the income for the entire development on behalf of all lenders. Loans will be structured to smooth out any increase in payments by the purchasers to insulate them from market variability.

6) Ongoing management of the property is done through a condominium corporation – governed by the resident homeowners - with all of the protections provided by the Condominium Act.



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In short, we believe we have developed and refined a model over the past twenty years that can scale quickly to deliver tens of thousands of affordable owned housing units across Ontario over the next decade and beyond. Our model will help thousands of families build equity and wealth and allow them to break the cycle of poverty.

With specific reference to your questions, we are pleased to respond as follows:

1) **Could easier or less costly access to lending increase the supply of not-for-profit housing?**

   We believe that easier access to lending from Infrastructure Ontario "IO" could lead to the production of <u>at least 10,000 additional affordable ownership</u> units a year over the next 10 years. (We say 10,000 units because we believe this is the approximate limitation of the not-for-profit sector in Ontario to handle projects of this size and scale. Over time, as the not-for-profit sector develops these housing development skills and competencies, even more projects could be done.)

   Our model is described in the preamble to this submission. Our model contemplates using IO loans meant for affordable housing, but is somewhat constrained in the current configuration of those loans because IO gives preference to loans that are backed by a municipal guarantee. Municipalities have, so far, indicated they are reluctant to provide this guarantee – despite the safety of the investment - because of limitations of the size of their balance sheet and their need for IO financing for other infrastructure priorities. It is not that municipalities don't believe in the model; they are constrained by competing priorities.

   In addition, we believe the IO lending should be constructed as a variable payment with the principal and accumulated interest paid back when the homeowner sells. In this way, the IO loan would cover payment of the land and servicing cost and would allow all the remaining funding to come from CMHC and private/credit union sources. This should satisfy the IO risk-

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tolerance because the loan is made on land and hard infrastructure to service the land – something IO does all the time.

2. **What are the key barriers and gaps that prevent not-for-profit housing providers in accessing the capital financing needed to build and repair more housing (for example, through commercial and government loans or through capital financing and funding provided by federal and provincial programs)?**

   The critical gap for affordable homeownership is the provision of equity during the construction period. The use of purchaser down payments (properly bonded), deferral of development charges and a loan from IO for land and services would cover that gap. The acceptance by CMHC and IO of our deferred profits as equity and recourse provides the security that is needed by our other lenders.

3. **Do the issues around access to financing differ for not-for-profit development of affordable rental housing compared to home ownership or other types of development? Are they different for private sources of financing (e.g., commercial lending) compared to government sources?**

   The issue of access to financing is very different for rental and homeownership as it applies to our model (see-attached power point). The key is that the Community Wealth delivery system does not require any grants or subsidies - only lending. Because it is a non-profit delivery system, it has some specific challenges related to equity and recourse, which we can address successfully through the involvement of IO and CMHC. In our view, the IO loan also should be on a variable payment bases provided at a fixed interest rate but repaid when the home sells.

4. **What role could government play in addressing those barriers? Is there an opportunity for various levels of government to work together to address barriers?**

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We are not alone in promoting that local (including school Boards), regional, provincial and federal levels of government all have a synchronized role to play in the delivery of large-scale affordable ownership housing. All these levels of government have access to lands that are surplus or not being utilized for highest and best use. Our model makes a grant and subsidy-free housing delivery system possible with access to lower-interest loans from all levels of government. Partnering these funds with investments from the private/credit union sector, coupled with a proven co-operative governance model, will allow this model to grow to reach its full potential. That potential is tens of thousands of units of affordable – ownership – housing across Ontario added to the supply every year, in perpetuity.

5. **How could the government prioritize its financial assistance to not-for-profit housing providers?**

Since our model eliminates the need for grants and perpetual subsidy, there is little need for prioritization. In fact, with the need for more housing at all levels of the market, the priority should be those projects that can get "shovels in the ground" most quickly. The only limitation is on the non-profit housing development sector to manage projects, though this is a problem of scale that can be solved over time with training and partnership. The other limitation might be on the capacity of the IO balance sheet to accommodate financing, but since the financing being provided is on land value, it is extremely low risk.

Since the preferential loan criteria from all three levels of government are presently available primarily to non-profit corporations, we believe our non-profit delivery system is already given priority for financial assistance. We believe this policy should be maintained.

Finally, we recommend lending criteria such as the requirement for a 5% down payment be based on the purchaser's level of income.

6. **For not-for-profit developers: does your not-for-profit organization have long-term financing need for capital expenditure? If yes, then:**
   a. Does your organization have surplus cash flows to service loan repayment?
   b. Does your organization have a third-party entity, such as a municipal government, that can provide a financial guarantee?

   Our delivery system creates condominium corporations that have a legislated requirement to cover long-term capital expenditures through replacement reserves thus there is no additional need for support. We have also designed funding approaches into our system that provides protection for owners related to changes in household income and increases in interest rates.

7. **Do you have other suggestions for ways to improve non-profits housing providers' ability to build and repair more housing?**

   The most important issue facing Ontario is the need to scale up a viable affordable ownership solution as soon as possible. We feel our delivery system can provide that solution. We are prepared to work with others to expand our capacity to develop this solution.

In summary:

This is the involvement needed from each level of government.

a) Municipal and regional government
   1. Surplus land at fair market value paid when construction starts.
   2. Planning application fees deferred until construction starts
   3. Development charges and levies deferred until closing on the homes.
   4. Property taxes for 30% of the units deferred until resale of the homes in order to allow us to reach even lower incomes for some of the units within our blended income communities.

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b) Provincial
   1. Surplus land at fair market value paid when construction starts. (The creation of the Ontario "Centre of Realty Excellence" and their focus on freeing up land for affordable housing development is an excellent step in the right direction.)
   2. Loans from IO using the municipal deferrals as security and proposed to lenders as part of the recourse requirements.
   3. These loans provided as variable payment loans with a minimum interest rate and repaid when the home sells.

c) Federal
   1. Surplus land at fair market value paid when construction starts.
   2. Access to the Share Equity Mortgage Program "SEMP" at a sufficient scale to help large scale developments move forward.
   3. Seed capital to develop a delivery system that is province wide.
   4. Access to the Co-investment fund at $200,000 per unit.

We are available to meet at a suitable time to have further discussions with the Ministry with respect to how we can focus key components of the development industry on our solution that can provide the housing that the citizens of Ontario deserve.

Sincerely,

Erin Morgan
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