Improving Opportunities for Affordable Housing in Edmonton

Background Report of the

Edmonton Task Force on Affordable Housing

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THE CITY OF Edmonton

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Executive Summary

Low levels of new rental construction and high population growth are contributing to an affordable housing crisis in Edmonton, marked by a dramatic rise in rent levels. Edmonton has experienced the largest increase in rents between 1999-2002 of any city in Canada and has fewer vacancies than almost any other Canadian city. Low wage families are facing housing costs beyond their means and new workers coming to the city have difficulty finding a place to live.

In response to the growing problem, the City of Edmonton Task Force on Affordable Housing was established by resolution of Council in March 2002 with a mandate to undertake an analysis of affordable housing need in Edmonton and to develop a strategy to respond to the limited supply of affordable housing.

In preparing this report, the Task Force has focused on ways to stimulate the market to build modest quality units at moderate rent units that will be generally affordable to modest income working households, as distinct from housing in which subsidies are required to bridge the gap between market housing and the amount that households can afford to pay at 30% of income.

This report summarizes the findings and recommendations of the Task Force to stimulate the market and non-profit sectors to build modest rental units.

Market context and housing need

Overall the Edmonton rental market is functioning better than most in the country – in excess of 1,000 new rental units have been initiated in each of the last three years, however these units are not being built at rent levels that low-moderate working poor households can afford.

Even though new rental construction has helped to improve the rental vacancy rate to 1.7%, Edmonton and Alberta in general have experienced strong population growth that has put additional pressure on the housing market. Edmonton continues to experience very low rental vacancy levels (still less than 2%) and one is among the cities with the largest year-year increase in rent levels – rents have increased by more than 36% since 1996.

While new construction is adding just over 1,000 units annually, population growth requires at least 2,300 new rental units each year and roughly 700 of these should be at affordable rent levels. Few of the new rental units constructed in recent years are affordable, and rising rent levels across the market are increasing the severity of affordability problems.

A key finding is that while there has been some new rental activity at higher rent levels, it is not attractive to developers to build new rental housing at modest affordable rents. There remains a gap between the costs faced by developers and the rental revenues generated by more modest new rental units. If this gap can be narrowed – by $150-$200 per month – the industry representatives believe that it would be possible and feasible to meet demand for moderate rent units (approximating the market average) without subsidies.

Potential actions

The Task Force has examined a range of options to improve general attractiveness for rental investment – with two objectives.

- First, to stimulate higher levels of new rental construction at *any* rent level. This will help to raise vacancy levels and thereby take the pressure of off existing rents.
- Second, the Task Force has also examined more specific measures aimed at supporting the production of new rental housing at affordable rents – at least at the average market level or below.

Flowing from the analysis and consideration of options the Task Force has identified actions that will remove or reduce the barriers and systemic disincentives that currently limit the production of moderate rent housing. In addition, the Task Force has identified a number of other measures to further improve the feasibility or producing housing at a lower more affordable cost as well as ancillary actions that have an indirect but positive impact on enhancing potential affordability.

The Task Force has developed the following recommendations –the underlying rationale for each is presented in the main body of the report. For a number of the recommendations the Task Force has also highlighted the actions that it believes should be given priority in the implementation phase:

Recommendations

1. Remove barriers and disincentives that discourage affordable development

The Task Force has identified existing systemic barriers and disincentives as the key challenge and recommends that the priority should be to eliminate these in order to re-establish a more balanced and attractive market environment that will encourage the development of rental housing, including development at moderate market rents affordable to low-modest income working households.

Related actions include advocacy and specific initiatives to: reform federal tax treatment of rental investment income; examine and remedy the impact of city development fees and charges on affordability; address practices that inadvertently discriminate or act to discourage multi-unit rental development; address the inequitable property tax burden on rental developments; streamline and expedite the development approval process; and initiatives to address NIMBY and the attendant persisting public resistance to multi-unit affordable developments.

2. Reduce the basic cost of development

Although many costs are difficult to reduce, since they are set in a competitive market (e.g. construction costs) a number of additional measures have been identified that can help to lower the cost of development. These relate primarily to ways to influence or offset land costs.

On this basis it is recommended that the City of Edmonton advocate for all three orders of government (Federal, Provincial and City) to identify all surplus property in Edmonton that could be used for affordable housing development and develop appropriate policies to make this available for affordable development on favourable terms, including leasing. In addition, it is recommended that the City examine options to develop incentive based density bonusing as a way to lower the effective per unit land cost.

3. Reduce financing costs

Detailed analysis of the costs and economic feasibility of new rental development identified ability to access mortgage financing and the terms of financing as critical issues impacting new rental development. A number of measures were identified to address these issues and these are directly primarily to the federal government and specifically to CMHC mortgage insurance policies and practices. It is also recommended that the City work with provincial, federal and private sector partners to examine ways further to increase access and to lower the cost of financing for affordable housing

4. Explore alternative ways to address affordable housing need

While the focus of the Task Force has been on increasing the supply of moderate rent units, through new construction, it is also clear that other complementary measures can be effective in creating alternative affordable options. These alternate approaches can have an indirect impact in reducing the pressure on a limited existing rental housing stock. Accordingly, it is recommended that the City of Edmonton proactively encourage the development of secondary apartments as a cost effective source of rental accommodation; work with the manufactured housing industry to expand the implementation of this affordable housing option; and encourage and expand options for affordable homeownership as part of its affordable housing strategy. Finally, a policy to preserving existing affordable rental properties is recommended to ensure that efforts to create new affordable housing are not undermined by the loss of existing affordable housing**.**

5. Implement the Federal-Provincial Affordable Housing Partnership Initiative (AHPI).

The City of Edmonton recognizes that the recently approved (June 2002) federal-provincial affordable rental grant program creates a short-term added resource that can help to stimulate affordable development. Immediate implementation of a fair and transparent proposal call process together with full provincial cost sharing over the life of the initiative is recommended.

The Task Force notes that a number of the recommended actions require the City to invest in affordable housing and accordingly the budgetary process must allocate funding for this purpose. The City has previously adopted a role of limited funding partner and limited its contributions to 15% of total contributions. This guideline is used in recommending $1.2 million City capital funding annually in each of the next four years in support of affordable housing initiatives.

6. Addressing lack of income

The Task Force notes that lack of income is a pervasive issue underlying problems of housing affordability and as such initiatives focused only on the housing part of this issue can have only limited effect. While outside of the scope of the Task Force, there is a need to examine the problem of inadequate incomes and the Task Force recommends that that Province of Alberta examine this part of the affordability issue and remedy inadequacies in existing income support programs that contribute directly to affordability problems.

7. Implementing the Task Force recommendations

In order to monitor and champion the implementation of the Task Force recommendations and to co-ordinate allocation of funds from the AHPI, the Task Force has identified two additional sets of actions:

1. The City should request the Edmonton Joint Planning Committee on Housing (EJPCOH) to monitor, co-ordinate and subsequently evaluate the implementation of the Council-approved recommendations relating to the final report and recommendations of the Task Force on Affordable Housing; and

2. The City commit its own resources and advocate with the federal government and the Province of Alberta to allocate an appropriate level of administrative funding to the EJPCOH to:

   - Lead and co-ordinate implementation of the Council-approved recommendations relating to the final report and recommendations of the Task Force on Affordable Housing;
   - Administer a Request for Proposals process to identify Edmonton-based projects seeking funding from the Province and City under the Affordable Housing Partnership Initiative and
   - Establish an affordable housing advisory/resource group to ensure that conditions imposed by individual funding sources encourage the best and most equitable use of funding and other resources.

A "Call to Arms"

The primary emphasis of these recommendations and priority actions is on creating a more attractive and effective market environment that will enable more affordable moderate rent development to be undertaken on a sustainable basis, without large-scale subsidies. As such, the success of the Task Force recommendations is contingent on the industry playing its part in responding to this challenge.

At the same time the Task Force acknowledges that the market has limits – it is extremely difficult to meet the needs of very low-income households through new construction. The community sector through the delivery of support programs and management and operation of a range of options from emergency shelter to social housing remains a key partner in addressing the multiple needs of the most vulnerable households.

While the market can be effective in creating new supply and ensuring a range of affordable options, government assistance will continue to be required at the lower end of the housing continuum.

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1. Introduction

The City of Edmonton Task Force on Affordable Housing was established by resolution of Council in March 2002 with a mandate to undertake an analysis of affordable housing need in Edmonton and to develop a strategy to respond to the limited supply of affordable housing.

Although a recent agreement between the federal government and the province of Alberta will create a temporary (4 year program) to provide capital subsidies to stimulate production of affordable housing, the Task Force believes that this is a relatively limited and unsustainable response. To have a significant impact in improving the rental market, longer term more sustainable solutions are required. This means removing the barriers and disincentives that discourage new rental development, and restoring a more balanced and attractive investment environment so that the private development industry can more effectively respond to rental demand without large scale public subsidy.

While this federal-provincial initiative will provide an important source of funding to assist in addressing affordable housing need, this should not be seen as the only way, nor indeed as the most effective way, to respond to need. An array of complementary and supplemental measures must also be developed to work outside of this program, as well as in conjunction with it to stretch these limited resources as far as possible. This broader approach is the primary focus of this strategy.

Accordingly, the Task Force has identified a number of measures to help stimulate modest rental development. These focus on removing impediments and disincentives that dissuade investment in affordable housing and creating an investment environment that is fair and conducive to development of housing at affordable rent and price levels.

Defining the scope

Building Together: The City of Edmonton Low-Income and Special Needs Housing Strategy 2001-2011, approved by City Council in January 2002, includes a definitions of “Affordable Housing” based on the Provincial document, *A Housing Policy Framework for Alberta: Family and Special Purpose Housing, September 2000*.

Accordingly, “Affordable Housing” is defined as:

- *Rental or ownership housing provided to households who have an affordability problem (pay in excess of 30% of their income on housing) and earn less than the median income, but are capable of independent living, without a need for support services;*
- *Requires no ongoing government subsidies; and*
- *Includes housing built by the private, co-operative, non-profit and public sectors.*

The Council strategy separately defined the related terms “Social Housing”, “Supportive Housing”, and “Housing for the Homeless” as a way to distinguish the term *affordable housing* from these. In essence, the definition places *affordable housing* as the more permanent part of a continuum that begins with emergency shelters and transitional/supportive housing, and which does not depend on ongoing subsidies.

While much social housing in the recent past has focused on housing targeted to the most needy, the implication of housing *without ongoing subsidies* is that this housing will fill a niche between the most needy (partly served by the homeless and special needs initiatives and partly served by existing social housing) and those able to attain safe and affordable housing without assistance – essentially the lower end of the market.

Although this definition explicitly precludes ongoing subsidies, it does not necessarily preclude serving very low income working poor households – however, substantial capital subsidies would be necessary to meet this income target.

As demonstrated in this report, in order to ensure rents affordable at 30% of income to working poor households at minimum wage, rents in the order of $277 (single) to $553 (two earner family) would be necessary. These rents represent 52% (single person) to 75% (two earner household) of the 2002 average market rent levels.   So, while this report focuses on the issue of stimulating production of affordable moderate rent housing, it also highlights the related issue of insufficient income as an underlying cause of affordability issues.

Methodology

In order to assist the Task Force in developing this strategy, the City of Edmonton retained the assistance of Focus Consulting Inc. (Steve Pomeroy) and Greg Lampert.

The consultants have worked closely with the Task Force to assess need and the potential role of the market. As part of the process, they conducted a series of discussions and focus groups with community based non-profit housing experts as well as active developers. The consultants also completed an assessment of the typical costs of development and the barriers that constrain the market's ability to build rental housing at affordable levels, and the experience in other jurisdictions. A discussion paper defining the issues and outlining possible responses was also circulated to stakeholder groups who were asked to submit briefs with their views. The process also included the input of a working group of individuals from industry, government and the community sector.

From this, options and recommendations to address this issue in Edmonton were developed for the Task Force. Following consideration and discussion of options by the Task Force, this report, which summarizes the findings and recommendations of the Task Force, was prepared.

Organization of the report

Following this introduction, Part 2 of the report sets the context by overviewing the prevailing level and nature of housing need in Edmonton (with additional supporting details provided in Appendix A and B).

Part 3 then overviews possible approaches and remedies available to address affordable housing need and presents the associated recommended actions.

Part 4 quantifies the potential impact of the identified measures in reducing rent to more affordable levels.

Finally, Part 5 summarizes the Task Force’s conclusions and presents additional recommendations related to implementation.

Detailed background analysis is provided in the appendices, together with summaries of input received from stakeholders during the focus groups and in written submissions to the Task Force.

2. *Overview of the Context and Challenges*

An assessment of the nature and magnitude of housing need is provided in Appendix A. Appendix B similarly provides an assessment of the housing market context. In overview, the following points (drawn from the background research presented in the appendix) summarize the affordable housing challenge and market context.

Why is the lack of affordable rental housing important?

The lack of affordable rental development has long-term consequences on future growth and the quality of life, particularly for younger Edmontonians.

- Housing costs and prices in Edmonton are rising faster than personal incomes. As this gap widens, the next generation of buyers faces greater difficulty in enjoying the benefits of homeownership. The greatest impact is on households with low and fixed incomes – mainly renters.

- While many voters and municipal citizens own their own homes and see rising house prices as a positive trend, this has a negative impact on many citizens, and their difficulties undermine the overall quality of life of the City. Concentrated poverty contributes to substandard housing and neighbourhood decline – which scars some areas of the City and impacts on all residents.

- Younger skilled workers are valuable to the City; however, they are mobile and will gravitate to areas which provide the best opportunity, quality of life and affordability. An insufficient supply of modest rental housing impacts the labour market as prospective employees face higher costs when considering relocating to Edmonton and young individuals just starting out in the work market have difficulty finding housing that they can afford at entry level wages.

- The failure to take a strategic perspective on community development and on investment in our housing stock can have long term consequences on the desirability of Edmonton as a place to live, work, learn and play.

Complementary roles of the private and community sectors

Housing is a continuum from emergency homeless shelters, through to subsidized social housing, to transitional housing forms, to rental, to entry-level ownership, to mid and higher range ownership housing. Within this continuum, there are important sub-sectors and areas of expertise that benefit respectively from the participation of the private sector and community based non-profit organizations.

The market has been effective in creating much of the rental stock and historically has also created modest cost rental housing. However, there are limits in the ability of the market to respond. For very low-income households, such as those with fixed incomes and minimum wage jobs, income is often insufficient to afford even older modest housing. In some cases, individuals require additional services and supports. The community sector plays an important role in helping to provide and operate housing to individuals and families with these needs.

Understanding the drivers that impact housing cost and affordability.

Housing costs are made up of two key components:

1. Capital costs (land, site servicing, construction and related soft costs, such as financing arrangements, marketing, etc.); and

2. Monthly operating cost (property taxes, utility costs, insurance, maintenance, and management).

The capital costs also flow through to impact monthly costs in the form of mortgage payments (a function of the total cost as well as interest rates and terms of the loan).

Many factors are increasing the capital cost of new housing, including:

- rising land values
- downloading of site servicing costs by municipalities to new home buyers (e.g. development cost charges)
- shortage of skilled labour (aging work force)
- increasing regulatory and risk liability costs.

Meanwhile, interest rates are at record lows, which has enhanced access to ownership (and thereby relieved some pressure from rental sector), and also improves the economics of new rental development as lower mortgage costs improve cash flow. This may be a short-term benefit as mortgage rates are forecast to rise over the coming year.

But, it must also be recognized that monthly operating costs of rental housing (without even accounting for any debt service payments to cover capital costs) can exceed 30% of monthly incomes for low income Edmontonians. Hence, at the poorest levels, housing affordability is about a shortage of income and cannot be resolved merely by reducing capital costs – other approaches are necessary, including ways to enhance income and ability to pay.

Restoring an attractive investment environment

Private rental investors have traditionally accounted for most of the supply of new rental housing. However, there are currently two critical impediments to the development of new market rental housing:

- Large amounts of equity needed (restricts participation to few developers with available equity);.
- Low return on equity (far below the 10% to 12% returns on equity needed to compensate for the high risk involved in rental development)

Over the past two decades, the context for new rental development has changed and become less attractive to investors. The response has been increasing demands for subsidies so that the community sector can meet the need historically met by the private market. While the non-profit and community sector can and do play an important role in the supportive and transitional housing parts of the system, the Task Force believes that a more effective way to address the problems of most tenants (including those with affordability problems only) is to repair and improve the private rental market investment environment – to fix the fundamentals of the market place.

Housing is impacted by all three levels of government, the private sector, and the non-profit sector (supportive housing). Many of the systemic barriers to making the rental marketplace work are based upon municipal, provincial, and federal government policies. These policies increase both the capital and operating costs for modest housing, and skew private investment away from modest rental housing. Punitive taxes and regulations (such as higher property tax rates on rental properties and federal GST, together with unfavourable income tax treatment of rental investments) should be targeted as a first priority.

Subsidies can be effective, but should be carefully designed. Some subsidies can “distort or skew” the marketplace, and can have an unintentionally negative effect on investor motivations. Subsidies should be used as a “carrot” to encourage innovation and the reduction of systemic barriers. This will result in the lowest possible subsidy, will reward creativity, will create the maximum number of homes, and could result in sustainability. Capital grants should be targeted to reduce equity (by substituting for some of the developer equity), to increase returns to minimally acceptable levels for investors.

3. Responding to the Affordability Challenge.

Responding to the challenge

To address the issues summarized in part 2 (above), a combination of actions is required. In the following overview, these are grouped in the following categories of recommendations:

1. Remove or reduce market distorting barriers, fees and charges
2. Reduce the basic cost of development
3. Reduce financing costs
4. Explore alternative ways to address affordable housing need
5. Implement the Affordable Housing Partnership Initiative to directly subsidize development
6. Improve capacity of lower income tenants to afford market rents

In preparing this report, a series of actions were identified under each of these categories. These were discussed with representatives of the housing industry, community and non-profit housing sector and officials at the municipal, provincial and local level. From these discussions, a number of potential actions have been refined and are presented in the following sections. Others were discussed and rejected and are therefore not included here.

The options are first presented and discussed. The specific recommendation action which flow from these options are then presented. The potential impact of each of these measures in terms of improving rental affordability is assessed in part 4.

3.1. Remove or Reduce Market Distorting Barriers, Fees and Charges

The examination of market trends and discussions with the industry did not reveal a single large impediment; however, there are a variety of smaller issues and irritants that, in the aggregate, can combine to discourage investment and development. A first step in stimulating new supply, and ideally affordable development is to create a more positive and encouraging environment. This means breaking down the existing barriers and disincentives.

While the most significant cost impacts relate to land and hard construction costs, public fees and charges add roughly 10-12 per cent to the total cost. These publicly levied costs have an important influence on the economics of rental development – affecting both capital and operating costs. Almost half of these fees and charges relate to federal jurisdiction (GST and CMHC mortgage insurance fees). In addition to the added cost, delays and uncertainty in the development approval process, and practices that inadvertently discriminate against innovative lower cost development, have also been identified as an impediment to new development. This set of issues is overviewed below.

3.1.1 Advocating with the federal government for reforms to tax treatment of rental housing

A prerequisite to encourage new rental investment is to increase the after-tax attractiveness of this type of investment. Current federal income tax treatment of rental income is significantly less beneficial than that in previous eras (especially the early 1970's).

The Task Force found evidence to show that rental housing is taxed punitively compared to other forms of housing, resulting in investor reluctance to build new rental housing. A recent report prepared for the Housing Supply Working Group (in Ontario) identified the following seven recommended federal tax changes to spur private investment in new rental development:

- a full rebate of GST on new rental housing;
- deferral of capital gains tax and recaptured Capital Cost Allowance (CCA) upon sale of a property and re-investment in rental housing;
- increase in CCA to 5%;
- restoration of soft cost deductibility, with negotiation on the definition of soft costs;
- elimination of the capital tax on rental housing;
- allowing small landlords to qualify as small businesses; and
- extension of eligibility for CCA losses to all investors in rental housing.

In addition, the Province of Ontario cost-benefit research suggests that just three of these measures would have the most significant impact and could yield net revenues to the federal government that more than cover the revenue losses due to the changes:

- Full GST rebate;
- Increase of CCA rate to 5%; and
- Immediate deductibility of soft costs ($5,000)

National production of 6,000 or more new rental housing units attributable to these three measures would fully cover the federal tax revenue foregone by making the changes, and *development above this level generates a new gain in federal tax revenue*.

There is widespread support for federal tax changes to encourage new rental housing development. This includes recommendations from the Final Report of Prime Minister's Caucus Task Force on Urban Issues (Sgro Report), Nov. 2002, the Urban Development Institute, Chamber of Commerce, Canadian Home Builders' Association, and Federation of Canadian Municipalities. The Province of Alberta *Family and Special Purpose Housing Policy Framework for Alberta, August 2000* encourages the federal government to re-evaluate their tax structure to help promote the construction of affordable housing.

The City formally endorse the following recommended reforms to the federal tax system, as previously recommended by the Ontario Housing Supply Working Group, Final Report of Prime Minister's Caucus Task Force on Urban Issues (Sgro Report), Nov. 2002, the Urban Development Institute, Chamber of Commerce, Canadian Home Builders' Association, and the Federation of Canadian Municipalities:

Action 1.1: The City should advocate to the federal government for reforms to the federal tax treatment of rental housing to create a more favourable and attractive environment for private investment in new rental housing development. Recommended tax reforms should include:

- **A full rebate of the Goods and Services Tax (GST) on new rental housing;**
- **Deferral of capital gains tax and recaptured Capital Cost Allowance (CCA) upon sale of a property and re-investment in new rental housing;**
- **Increase in CCA to 5% for new rental housing;**
- **Restoration of soft cost deductibility up to $5,000 for new rental housing;**
- **Elimination of the capital tax on rental housing;**
- **Allowing small landlords to qualify as small businesses; and**
- **Extending eligibility for CCA losses to all investors in new rental housing.**

While seven reforms are listed, the first three are deemed to have the highest priority

3.1.2. City fees and charges

Upfront fees drain limited cash resources both for smaller private developers and for community based non-profit proponents which tend to have limited cash resources.

For affordable housing developments meeting specified criteria, this could be addressed by deferring all permit fees and charges until the project reaches completion. Fees would be paid prior to issuance of occupancy permit, but the project would not be required to carry the cost of fees in interim financing.

A more aggressive action is to fully exempt new affordable rental development from all City fees and charges. This implicitly shifts the processing cost onto other sources of City revenue and, as such, may be seen as unfair. Nonetheless, the City may wish to entertain such approaches in periods when new rental starts and vacancy levels fall below desirable targets.

Effectively, waiving fees and charges is the same thing as providing a grant to offset such charges. While some municipalities (notably those in Ontario) have adopted the practice of waiving development charges, an equivalent approach is to establish a fund to provide offsetting grants. This results in a more explicit and streamlined process, avoids the perception of unequal treatment of different permit/approval applicants and enables the City to manage this expenditure.

The written submissions from stakeholders received by the Task Force identified the option of waiving fees and changes as a desired option.

Action 1.2: The City should examine possible options to reduce the impact of City fees and charges on affordability of new rental housing, including

- **deferring or waiving fees and charges;**
- **providing offsetting grants to qualifying affordable housing development; and**

– **developing a policy to reduce the impact of city fees and charges on rental housing affordability.**

3.1.3 Examine and reform City practices that discriminate against and discourage modest cost affordable development

Many existing City practices inadvertently act to discourage affordable development (both rental and condominium), often in favour of more expensive (and less affordable) single detached development. Inequitable property tax rates are a prime example of this and are addressed in a subsequent recommendation.

A significant deterrent to multi-residential development is the trend to downloading ongoing operating costs to the project – especially when the site is developed with alternative standards – with narrower roadways, reduced sidewalks, smaller lots and reduced setbacks. Typically, in such situations the landlord or owners' association must contract for services such as snow clearing and garbage pickup – services provided by the City and included in property taxes in single detached subdivisions. This adds fees and charges that increase monthly rents or condominium fees and impacts affordability for the residents. In the case of rental housing, this is even more inequitable – rental developments have a higher tax rate and may receive a lower level of service.

Minimum property standards, such as road width, setback requirements and prohibition of cross lot servicing (each dwelling in a multiunit development required to have separate service connections from the street) similarly add to the development cost – in the case of modest units, it would be helpful to have either the ability to lower standards, or a modest unit type set of standards that would provide a fiscal incentive to encourage this type of development.

It is recognized that the City, like many municipalities, is concerned about liability for issues arising from alternative standards; however, this concern frustrates efforts to achieve more cost effective development solutions. If the response is to limit the City's risk by requiring independent servicing contracts, then this reduction in service and risk to the City should be reflected in reduced property taxes and fees. A further option would be for the City to consider awarding credits against property tax bills when a development does not use specific City services (e.g. garbage removal or snow removal).

In addition to City standards, those established by utility companies also impact development costs.

Action 1.3: The City examine and reform City practices that discriminate against and discourage modest cost affordable development, including:

– **review of current minimum site servicing standards to identify opportunities where standards could be revised to be more flexible on a site-specific basis to stimulate affordable units; and**

– **where certain services, normally provided by the City are directly paid by landlords or owners' associations, consider providing property tax credits to lower property taxes to more fairly reflect the cost of services received.**

3.1.4 Unfair property tax burden on rental housing compared with owner-occupied

On the operating side, rental properties are currently taxed as income producing properties (classed as "other residential") and face a higher tax rate than similar owner-occupied condominium projects. The industry has for some time argued that this is unfair and discourages investment in rental housing (and especially affordable rental housing). It is also noted that the tenants that ultimately pay these higher taxes tend, on average, to have lower incomes than owner-occupants benefiting from the lower tax rate.

For example, an apartment built as a condominium is taxed at a total mill rate (including education) of 11.6013 compared with 12.9994 if the apartment is developed as a rental property.[1]

This has an indirect impact on financing – lower taxes increase the project cash flow and enables the developer to leverage more financing. Alternatively, lower property taxes could enable a developer to retain the existing level of financing but pass through reduced property taxes to lower rents.

The municipal tax mill rate differential also compounds the inequitable burden from federal taxes and adds to investor reluctance to build rental housing.

City Council recently considered and rejected a proposal to equalize the tax rates and thereby lower the burden on rental housing. The Task Force on Affordable Housing argues that this decision is inconsistent with the objective of encouraging affordable housing as tax treatment is one of the key barriers identified that discourages investment and development of rental housing (instead developers will favour condominium apartments). [2]

While there is some concern that equalization of tax rates would result in a tax increase for single-family residential units, most proposals recommend that the elimination of the tax differential be phased in over a 3 – 5 year period. This would have the effect of reducing the upward adjustment of single-family taxes to as little as 40¢ per month.

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[1] In addition to different tax rates, rental and owner-occupied properties are assessed on a different basis. Rental property is valued based on the potential rental income, rather than assessed sales price. Equalizing the tax rate would result in actual taxes that are lower for rental than for an equivalent condominium building. This would have a more beneficial impact on enhancing rental viability – but exceeds the principle of equal treatment.

[2] One of the arguments identified in the staff report to Council is that, like commercial landlords, rental properties represent a business and taxes can be written off to reduce taxable income. However, there is unfair treatment between residential rental property and other commercial properties in that residential rents cannot include GST and therefore landlords cannot claim GST input tax credits, which are available to other commercial landlords that can and do charge GST on commercial rents. Therefore a comparison with other commercial properties is not a fair comparison.

Moreover, the Task Force acknowledges that, while it is difficult to ensure that this tax reduction is immediately passed on to tenants, it must be recognized that in a competitive market, which will be enhanced by the stimulus measures recommended by the Task Force, over time, competitive pressure will help to pass on this benefit to tenants. A more attractive climate for new development will result in downward market pressures on rental rates as a result of new multi-family inventory being constructed (stimulated in part by this revised tax treatment).

To minimize the issue of potential loss of municipal revenue, one option would be to apply the lower (equivalent rate) only to new rental housing (an approach adopted in Ontario).

It may be necessary to determine whether this approach is permissible under the Municipal Government Act, and if necessary seek the assistance of the province in amending the Act to enable municipalities to establish a separate tax class for new rental housing with tax rates set on a fair basis to encourage rental development.

Action 1.4: Reconsider the City's position, on a pilot basis, regarding the existing inequitable property tax burden on rental housing compared with similar owner-occupied units and develop options to reduce this inequity, including:

- **Establish a new property tax class and tax rate for new rental housing to equalize the tax expense carried by rental and ownership housing of similar value**.

3.1.5 Streamline and expedite the development approval process.

Beyond these direct public fees and taxes, another concern is the slowness and uncertainty of the development approval process. Delays in securing development approvals create risk and uncertainty for the developer (both for-profit and not-for-profit). This issue was raised by a number of participants in the focus group discussions. It was noted that more often than not, delays are caused by a "due process" of public consultation and often relate to NIMBY resistance – especially in inner city and infill areas. The requirement for public announcements and hearings was identified by focus group participants as a factor that contributes to NIMBY.

While the impact of these delays may be relatively small as a percentage of total cost (e.g. increases in the cost of interim financing), the larger issue is that many developers and builders have limited capital – they cannot initiate additional development until they move through the sale or rent-up on the current project – so a slow process clogs up the capacity of the industry.

Increased public awareness about the consequence of the lack of rental and affordable housing could help to address the NIMBY resistance that underlies much of the delays and associated risk. In addition, Canada Mortgage & Housing Corporation has supported considerable research in development of strategies for overcoming community opposition to new residential development/addressing the NIMBY syndrome. Development of a City strategy in this regard would benefit from a review of those CMHC research findings.

It is also important that the City take a firmer position in supporting well designed multi-unit development so that the industry is not discouraged from pursuing such development options in favour of more acceptable, but often less affordable, lower density forms of housing.

The City could consider creating an affordable housing facilitator position (or expand the existing social housing facilitator role) with a working knowledge of the housing development process to work proactively with affordable housing developers to facilitate the timely and consistent review of their development permit applications using land use planning measures designed to facilitate those developments. This project expeditor/housing facilitator could assist in processing large (>50 units) and innovative (e.g. alternative development standards – ADS) projects through the approval process. This individual would be responsible for shepherding a project though the multiple reviews process and coordinating and managing this process within prescribed time frames.

Action 1.5: The City should streamline and expedite the development approval process by: creating a housing facilitator position to assist in identifying barriers and expediting approval of housing developments (including affordable housing developments) and ensuring that affordable and innovative applications are not unduly delayed or discouraged.

In order to address persisting problems of opposition to multi unit and affordable development actions are also necessary:

Action 1.6 The City should develop a public education strategy with affordable housing partners to increase public awareness of the benefits of affordable housing development

Action 1.7 Building on CMHC research and workshops, the City should develop and implement an ongoing educational process to address NIMBY (Not-In-My Back Yard) issues and to increase community support for proposals for new affordable rental housing development.

3.2. Reduce the Basic Cost of Development

The affordability problem arises as a result of the relative cost of housing compared to the income of consumers. Ideally, increased affordability would be achieved by reducing the cost of building housing. However, leaving aside the publicly levied fees and charges, identified above, costs are set in a competitive market and there is limited opportunity to lower this part of the affordability equation. One area where some gains may be made is with respect to the land component of cost, which is more directly influenced by public actions, and specifically by the City's planning and development regulatory framework.

3.2.1 Public property for affordable housing

Land costs and, equally important, the cost of servicing multi-unit land in transitional areas (e.g. railway lands, where services are not already at the property line) are an important element of capital costs – often accounting for 10-15% of cost. A number of submissions received by the TASSK Force and raised in the focus groups supported the idea of a housing first policy, that would require all levels of government to give priority to using appropriate surplus land for affordable housing.

The City currently has a policy and a limited budget to purchase property (land or buildings) on behalf of non-profit housing developers (Low Income Housing Capital Assistance Program – LIHCAP), and to provide these lands for *social housing development* at up to a 50% discount below market, plus servicing costs.

The Municipal Government Act prohibits the municipality from disposing of land at less than market value. Therefore, to use a land contribution as a way to enhance affordability, it is necessary to purchase the land at full value (through an approach similar to that currently used in the LIHCAP) and then make the land available to affordable housing developers.

In addition to the City, other public agencies (including the School Board as well as provincial and federal departments) have unused or surplus lands. Where appropriate for residential use, the City could advocate for use of these land for housing – either using LIHCAP to purchase land on behalf of affordable housing proponents, or encouraging other levels of government to make these lands available on favourable terms. The federal Supporting Community Partnerships Initiative (SCPI) related to homelessness, also includes a budget for acquisition of federal lands and this source can be pursued.

At the federal level, the Sgro Report advocates for the federal government *"Facilitating agreements with municipalities to transfer small tracts of surplus land, owned by the Canada Lands Company, to community groups"*

Similarly, the province could be asked to identify and make land available. Current provincial policy does not permit sale of surplus provincial land at less than market value, however options such as leasing the land or allocating proceeds of sales to an affordable housing fund could be explored with the province.

Action 2.1: The City advocate for all three orders of government (Federal, Provincial and City) to identify all surplus property in Edmonton that could be used for affordable housing development and

- **formally request that the Federal and Provincial governments make properties available on favourable terms, including leasing of properties, to facilitate development of affordable housing**
- **develop policies to establish criteria under which all surplus city owned property can be made available on favourable terms, including leasing of properties, to facilitate development of affordable housing.**

3.2.2 Create an affordable housing density bonus

As illustrated in Appendix B (Exhibit B-4), increasing density effectively lowers the cost of land. The City could create a new zoning provision to bonus any developer prepared to include affordable housing in the development. Overall, the bonus would add additional market units, while including a specified portion of non-market or affordable units (e.g. 20% bonus with minimum 15% to be affordable – meeting specified criteria).

This approach has been used effectively in other jurisdictions. The best-known example is in Montgomery County Maryland - the Modest Priced Development Unit bylaw. The MPDU is a **mandatory, inclusionary** zoning law that specifies a density bonus allowance to builders for providing affordable housing. The density bonus was designed to ensure that developers did not lose market-rate units. The affordable units are added to the total density, rather than included in the existing allowable density, which would reduce the number of market rate units). In addition, to help offset some of the production costs of the MPDUs the bylaw includes opportunity to add profitable market units.

The MPDU bylaw allows a density increase of up to 22 percent above the normal density permitted under the zone; and presently requires that between 12.5 and 15 percent of the total number of units in every subdivision or multi-unit building of 50 or more units be moderately priced. The ordinance also allows some attached housing in single-family zoning classifications so that optimum development of the property can be achieved and less costly housing can be constructed.

The density bonus, in effect, creates free lots upon which the MPDUs are constructed. The builder normally obtains some additional market rate units equal to the difference between the density bonus and the MPDU requirement. Because of physical constraints of the land, the full density bonus cannot always be obtained; the MPDU requirement, therefore, falls within a range of from 12.5% to 15.0% based on the actual bonus density achieved.

The modest units are sold at cost to a local housing authority as part of a rental portfolio or may be sold as assisted ownership units to lower income-qualifying families. When used as assisted ownership, the County imposes certain resale and occupancy restrictions on the MPDUs when the completed units are sold. The price for which the unit can be resold is controlled for 10 years. If and when the unit is subsequently sold at market price, after the control period expires there is a split between the County and the owner of any "excess" or "windfall" profit obtained through the sale.

The key feature of this approach is that it creates an incentive and fair compensation to the developer. Such an approach could be implemented in Edmonton with the result that affordable units would be integrated across all new development in the city, and with no cost to the City.

Action 2.2: The City should develop a land use bonusing strategy to enable builders to supply a percentage of all units in new residential developments at sales prices or rental rates that are affordable to low to moderate-income households in Edmonton, including:.

Establishing an incentive mechanism structured with the potential to increase developer's investment return on the overall development in return for offsetting some of the production costs of providing the affordable housing units.

3.3. Reduce Financing Costs

Because of the high capital costs involved in developing rental housing, new developments are typicically highly leveraged. As a result, the cost of financing is one of the largest ongoing costs for a rental project – in most cases, mortgage payments comprise by far the largest component of total on-going costs. Reductions in the cost of financing would help to improve the feasibility of new rental development, since more debt could be leveraged with the same level of payments. In addition, access to financing can often be challenging due to the risk management practices of lenders and CMHC (in its role as mortgage insurer). Mortgage insurance also adds cost to the development – sometimes as much as 5.5% of the mortgage amount. The approaches outlined below can help to address these concerns.

3.3.1 CMHC underwriting criteria and premiums for rental housing

The joint industry-government Housing Supply Working Group in Ontario examined revised underwriting policies and premiums implemented by CMHC effective March 2002 for CMHC mortgage insurance for rental housing. The working group advocated for additional flexible underwriting and reduced premiums.

The Working Group also recommended that the federal government undertake a comprehensive review of the ways in which broader federal policies act to restrict competition in the area of housing financing. In particular, the federal government should be asked to review requirements for mortgage insurance on high ratio real estate loans in the *Bank Act*, and for additional capital reserves for lenders dealing with private mortgage insurers.

Reforms to mortgage regulation and insurance practices have also been recommended in the Final Report of Prime Minister's Caucus Task Force on Urban Issues (Sgro Report), Nov. 2002. Specific Sgro Report recommendations called for:

- "Establishing grants against the cost of CMHC mortgage insurance";
- "Changes to CMHC mortgage insurance to allow greater flexibility";
- "Changing CMHC mortgage underwriting criteria to allow a more customized and flexible system"; and
- "Providing targeted mortgage insurance for brownfield redevelopment and revitalization in areas where there is a shortage of affordable housing"

The City can add its voice to this lobby by endorsing the proposals from the Ontario Housing Supply Working Group to the federal government.

Beyond a saving in mortgage insurance premiums, as quantified in part 4 below, revised underwriting criteria could also lessen the prohibitively high equity requirement, one of the key barriers to rental investment.

3.3.2 Improving mortgage qualifying amounts and mortgage insurance costs for affordable housing providers

The cost of mortgage financing is associated with the level of assessed risk. The lender is concerned first that the borrower has the ability to repay the loan – so a guarantee from another party that the rent will be paid (for example a rent supplement agreement) can provide security to the lender. In the event that the borrower does default, the lender is concerned that the value of the property will enable the loan amount to be recovered through sale of the property. Current underwriting practices tend to manage risk by applying high requirements, that include loan limits which effectively increase the borrowers equity requirement. CMHC mortgage insurance is the main vehicle currently available to help lenders manage or share risk. By insuring the lender against risk of default and risk that the property will not have sufficient value to repay a defaulted loan, the lender is more willing to provide funding and will usually do so at a lower rate than he would in the absence of this added security

Under former social housing programs, the province executed a loan insurance agreement with CMHC which provided the benefit of mortgage insurance but without the cost of any premiums. For affordable housing projects developed today, this premium adds a cost equal to 5.5% of the mortgage amount (for 35-year mortgages). The former loan insurance agreement also increased the level of financing available to 100% of *cost* (not lending value) on former social housing loans – secured by the guarantee of ongoing subsidy (no longer available for new development).

Such a guarantee approach could be resurrected with the City and possibly the province sharing in the risk and indemnifying the CMHC Mortgage Insurance Fund against loss. The intent of such a new agreement would be to share risk and lower or eliminate the cost of mortgage insurance premiums on affordable rental housing. By executing such an agreement, the City (or Province) would take on a contingent liability for any claim in the event of default – however, careful selection of applications and the provision of the capital grant (effectively limiting the loan-value ratio to 85%) should help to limit this risk.

Actions 3.1: The City should work with provincial, federal and private sector partners to examine ways to increase access and to lower the cost of financing for affordable housing

Actions 3.2: Ask the federal government to:

- **Consider and implement revisions to current CMHC underwriting criteria and premiums for rental housing such as those articulated by the Ontario Housing Supply Working Group**
- **Require full reporting by CMHC to monitor, assess and publicly report on the impact of the revised rental insurance policies implemented in March 2002.**
- **Review requirements for mortgage insurance on high ratio real estate loans in the *Bank Act*, and for additional capital reserves for lenders dealing with private mortgage insurers.**

Action 3.3: The City should form a working group with all orders of government and the financing industry to find ways to reduce risk and related mortgage insurance fees in financing affordable rental housing developments and assess the benefits of reduced mortgage insurance fees to renters.

3.4. Explore Alternative Ways to Address Affordable Housing Need

The background work and discussions in the Task Force meetings identified a number of alternatives to building new rental housing. To the extent that the economic viability of new rental development is constrained (especially for lower cost development), these alternatives should form part of the City's strategy. For example, improving access to homeownership and provision of unconventional rental options (such as secondary suites) can draw tenants out of the conventional rental stock and help to improve vacancy levels.

3.4.1 Pro-actively encourage secondary suites

Secondary suites (or apartments in existing dwellings) exist in numerous neighbourhoods, often illegally – in some cities secondary suites account for up to 20% of the total rental stock. Some municipalities (and provincial enabling legislation) have permitted secondary suites as of right in single-family zones; others have permitted them in specific zones. These have become a normal part of the housing continuum, providing a much-needed source of rental accommodation, especially in the lower rent ranges.

This form of housing typically involves a much lower installation cost than new rental buildings; makes better use of existing hard and community infrastructure (sewers, roads schools, community centres etc); and is effectively a form of intensification – thereby contributing to a smart growth strategy.

Provision of secondary suites also helps to improve access to homeownership so those on the margin of affordability, by providing a supplementary source of income to the purchasers.

Some cities have recently approved new developments that include units with a secondary suite, which similarly offer opportunities for new purchasers to provide rental accommodation and generate income to help pay their mortgage. This option could also be explored in newer developments in Edmonton, again subject to zoning bylaws.

The City could pro-actively encourage installation of additional suites in existing or new homes with a specific program to address issues related to health and safety and parking standards. Such a program could involve assistance in the form of an interest-free loan to offset the cost of installation of the secondary suite – such a loan could be repayable from rental income and could be amortized over a short period (e.g. 5 years) to minimize cost to the City. [3]

The City's options in encouraging secondary suites may be constrained to the extent that such units must meet provincial building and fire codes and standards. The province should be asked to examine code requirements and, where appropriate, make amendments to facilitate this housing form, consistent with health, safety and fire protection.

[3] For example an interest-free loan of $25,000 at 7% for 5 years would cost the City $4,970 in interest expenses.

Actions 4.1: The City proactively encourage the development of secondary apartments as a cost effective source of rental accommodation by:

- **in collaboration with the Province, examine and where appropriate revise zoning, building and fire standards, and initiate a pilot program to encourage the installation of secondary suites in new and existing homes.**
- **explore opportunities to work with mortgage lenders to create financing and property tax incentives to help finance the cost of installation of secondary suites.**

3.4.2 Facilitate manufactured housing development

Manufactured housing has been identified as an affordable building form – in part, due to reduced time for construction. However, manufactured housing faces a number of barriers, including zoning and property tax treatment (lot taxed as commercial, home as residential). Manufacturers are currently developing multi-unit forms, which could similarly offer a lower cost alternative to frame or concrete construction of apartment-style projects.

In general manufactured homes have been identified as a lower cost option due to reduced construction duration.

The City could work with the manufactured housing industry to encourage these emerging new approaches, and ensure that existing codes and bylaws do not preclude these options. This has some potential for entry-level purchasers. It may also be possible to explore options to lease City land for manufactured homes.

Action 4.2: The City should create zoning and building regulations that support and do not inadvertently preclude manufactured housing communities and work with the manufactured housing industry to expand the implementation of this affordable housing option.

3.4.3 Support and expand affordable ownership programs

A review of existing home sales (Appendix B, Exhibit B-5) demonstrates that there is a healthy offering of modestly priced dwellings that can be purchased by moderate-income households – including those facing high rent burdens. Affordable homeownership is an effective, albeit indirect, way to assist the rental sector since a rental unit becomes vacant as each renter household buys a home.

The Edmonton Housing Industry Forum is currently providing assistance to encourage homeownership – Home Ownership Education and Downpayment Assistance Program – that includes education and credit counseling to help potential purchasers that are credit impaired.

The City could support and seek to expand this initiative in partnership with the realtor and lending community. The City could explore the option of a pilot program to provide downpayment assistance or second mortgage financing. This approach is used extensively in the

US, using capital funds provided from federal grants, supplemented by loans using tax exempt bond issues, as outlined above.

The focus of such an initiative is not to simply accelerate a home purchase that would likely occur even without assistance – rather it is intended to lower the home-ownership opportunity threshold down to an income level that would otherwise be precluded from buying a home – to expand effective demand.

Action 4.3: Encourage and expand options for affordable homeownership as part of the City's affordable housing strategy by working with the Edmonton Housing Industry Forum to identify ways to enhance and expand the recently developed Home Ownership Education and Downpayment Assistance Program

3.4.4 Preserving existing affordable rental properties

Each year, a number of properties are condemned and demolished due to unsafe conditions. Code requirements often impose high rehabilitation costs to bring buildings up to newer code levels and can contribute to demolition as a result of these high upgrade costs. Some attention could be given to explore ways to preserve such stock – for example asking the province to develop more appropriate minimum standards for upgrading of older properties so that these costs are not prohibitively high.

In addition, existing multi-unit rental properties are regularly placed on the market and purchased by new owners – typically at values 50-60% of the cost of new construction. This is the approach used extensively by institutional and corporate investors to build a portfolio of rental properties. If this makes business sense for these investors, there may be merit in adapting this approach to the non-profit sector, rather than focusing on new development. Often, these new owners upgrade the property and, as a result, rents increase – effectively eroding the existing affordable stock. Since the economics of new rental development are especially challenging when seeking to provide housing to lower income households – preserving the relatively affordable existing stock may be a more cost-effective option for affordable housing providers.

One way to do this is to enable or assist existing non-profit housing societies to selectively purchase some of these existing properties. Typically, non-profit societies lack the capital to provide downpayments – the City could assist with a grant or interest-free loan (possibly though the City's LIHCAP), or alternatively the City could purchase the property and sell or lease it back to a non-profit society at a reduced price (subsidized by LIHCAP). Another route could be as a result of the property being acquired by the City through a tax seizure.

The CMHC RRAP program could also provide a source of funding in the event that the building requires some capital improvement. Current funding for Rental RRAP expires at the end of March – although the Sgro Report has recommended that this be renewed and extended in the federal budget.

Another option to preserve existing rental housing, which is used in many other Canadian cities, is to adopt a bylaw constraining or precluding the conversion of rental properties to condominiums. While such conversions do offer the opportunity of affordable entry-level ownership, they also erode an already limited rental stock.

Action 4.4: Develop a policy (with the province where necessary) to preserve existing affordable rental properties, by

- **Ensuring that municipal interpretation, enforcement and coordination of the provincial Fire Code permits and encourages affordability, while in no way compromising safety.**
- **Asking the Province to examine existing building and Fire Code requirements that impact rehabilitation of older properties to create more flexible policies that do not compromise safety but would encourage preservation of existing affordable housing**
- **Working with the federal government through CMHC to maximize use of the Residential Rehabilitation Assistance Program as a vehicle to facilitate preservation and upgrading of older more affordable properties.**

3.5. Implement the Affordable Housing Partnership Initiative

One approach to encourage and stimulate affordable development is to provide subsidies directly linked to new affordable projects. This is the focus of the Federal-Provincial Affordable Housing Partnership Initiative (AHPI) announced in June 2002. This program will provide capital grants to facilitate more affordable development. The province is required to cost share the federal funding and recently announced funding of $8.5million to cost share the initial year of funding.

In addition, the City of Edmonton has an existing capital assistance program and this could also assist in increasing the number of affordable units created.

Some members of the Task Force note that direct capital grants may not be the optimal way to stimulate development. They suggest that it would be more cost effective to implement the range of other initiatives – particularly tax changes that will stimulate investment at a lower cost to government and can be more sustainable in the long run. That said, capital grants can have a positive impact on the economics of development for both not-for-profit and for-profit developers.

Effectively, a capital grant can reduce the level of equity required from a proponent. This can be an important contribution for non-profit proponents with very limited equity. For private developers, grants which reduce the equity contribution can enhance the potential rate of return to improve project feasibility.

These public subsidies can also be effective in reducing required rents to levels which may be affordable to individuals and households earning minimum wage income.

While no specific budget allocation has been provided for Edmonton, the overall provincial budget for the affordable rental program directed to urban areas is $59 million in federal funding over 4 years. Based on a federal contribution of $25,000 per unit, this implies a level of funding that would support roughly 2,400 affordable housing units (600 annually) across the entire province.

Edmonton will qualify for some unknown share of this but, given the overall provincial allocation, it is clear that this will be a relatively small number of units relative to the identified levels of need. Over the next decade, the total number of rental households in Edmonton is expected to increase by 2,000-2,300 per year, with roughly one-third of the total growth, or just under 700 renter households annually expected to require affordable units. Therefore, it is necessary to try to stretch this federal funding as far as possible.

In developing the recommendations above, the Task Force has identified a number of measures that imply expenditure by the City – for example waiving development fees and charges, assisting in the purchase or write down of land, interest free loans to encourage installation of secondary suites. The City therefore needs to establish a budget to implement these actions.

The City has adopted a role of "Limited Funding Partner" as one of the major future City roles as identified in the City of Edmonton Low-Income and Special Needs Housing Strategy 2001-2011. This major City role is based on the premise that "While the primary responsibility for providing direct funding for low-income and special needs housing, that cannot be met through market forces, rests with the federal and provincial governments, the City will continue to be a limited funding partner, with City funding intended to generate significantly greater funding and other resources from other non-City sources to increase the supply of low-income and special needs housing in Edmonton." The City Housing Strategy also indicates that another major City role in low-income and special needs housing is "Municipal Co-ordination": "dedicating resources to assist, co-ordinate, and facilitate at the local level through advocacy, determining needs and priorities, planning, allocating resources and delivery of housing services".

Consistent with the principle of a limited funding partner and the need to resource the priority actions identified above, the Task Force has identified a capital fund equivalent to 15% of the anticipated federal-provincial AHPI funding that may be directed to Edmonton.

Based on the limited size of the AHPI, the Task Force believes that the City must extend its efforts beyond the AHPI to implement a range of other measures than can effectively narrow the affordability gap so that the AHPI capital funds can be leveraged to create more units at modest rent levels.

It is also noted that the AHPI is a short-term (4 years) funding program and is intended to be transitional in nature – it is designed as a short-term stimulus, while other more sustainable reforms are implemented.

In 2003, once the province formally initiates the program, a call for proposals will be required to identify and select candidate projects for capital funding. This process must encourage the creation of new modest housing communities by running a transparent and competitive process that leverages the federal funds available along with creative cost savings proposed by the proponents. The RFP process should encourage the participation of all housing stakeholders in public, and private (for-profit and not-for-profit) sectors.

Action 5.1: The City request that the Province of Alberta match the funding contributed by the federal government to the Affordable Housing Partnership Initiative, over the life of the initiative to maximize the number of affordable housing units developed.

Action 5.2: Request that the Province of Alberta implement a fair and transparent process for communities to implement *Request For Proposals* (RFP's), including making the evaluation and approval criteria publicly known in advance. Private and non-profit partnerships should be encouraged and supported.

Action 5.3 Consistent with a principle of a limited funding partner role, the City should provide capital funding in the amount of $1.2 million per year over the next four years (2003-2006), representing 15% of the total anticipated capital grant funding provided by the federal and Alberta governments for Edmonton-based projects under the National Affordable Housing Program.

3.5.2 Edmonton Low Income Housing Capital Assistance Program

The City has an established fund – the Low Income Housing Capital Assistance Program (LIHCAP) specifically intended to allocate capital grants to community based organizations seeking to provide low-income housing (more targeted than the affordable housing that is the primary focus of this report). This grant fund originated in a previous City program to support the lease or sale of City-owned land for social housing development. In 1994, the "Low-Income Housing Land Sales Program" was renamed the "Low-Income Housing Capital Assistance Program" (LIHCAP).

In recognition of the City's role as a "limited funding partner" with other funding partners, LIHCAP funds have been generally limited to approximately 15% of a project's total capital cost. Applicants for LIHCAP funding are to be incorporated entities not receiving other forms of assistance from the City of Edmonton either through grants or lease subsidies. If LIHCAP funding is sought, the Administration requires assurances that proposals have received or will receive funding commitments from other non-municipal sources to significantly offset an applicant's overall anticipated operating expenses both initially and over the life of the project.

Thus, the existing LIHCAP program is an ancillary source for capital funding to complement the federal-provincial funding from the AHPI – it also tends to target to a lower income profile – the traditional clients of social housing – as well as special needs such as supportive and transitional housing. It is also notable that the LIHCAP funds have greater flexibility than AHPI funds and have been used to support upgrading and rehabilitation of existing properties – not just new development. As such, the LIHCAP is an important vehicle in supporting initiatives outside of the AHPI, including proposals that may not be eligible under AHPI. This independence should be retained.

The City allocated $364,000 to LIHCAP in 2002 and these funds have been allocated to support the development or upgrading of projects to meet priority low-income and special housing needs as identified by the Edmonton Joint Planning Committee on Housing.

The proposed 2003 capital budget identifies an allocation of $364,000 to LIHCAP – this is separate from the request to provide capital funding in support of the AHPI as in recommendation #14 above. The LIHCAP fund remains an important vehicle to assist community groups targeting the most needy households.

Action 5.4: The City should retain the existing LIHCAP program and allocate capital funding at the current level ($364,000/year), or greater, over the next four years (2003-2006).

3.6. Improve Capacity Of Lower Income Tenants To Afford Market Rents

While the focus of the Task Force mandate is on encouraging the supply of affordable housing, and the range of options discussed in the preceding sections seek to do this, the Task Force also recognizes that there is a range of lower income households that cannot afford even modest rent units, approximating the market average. It is therefore necessary to examine how lack of income (and the reasons for low income) influence affordability problems.

Most households are adequately housed – but those with lower incomes simply pay too much relative to their income.

As demonstrated in the illustrative project presented in Appendix B, it is expensive to build new housing, even of modest quality. It is especially expensive to subsidize very low-income households to live in newly constructed housing – the gap between the breakeven rent on new supply and the amount that they can afford to pay is much larger than the gap between what they may be currently paying in an existing market unit and an affordable rent at 30% of income.

For example, as summarized in Exhibit 3-1 below, for workers at minimum wage income, paying 30% of income, this amount covers only 50%-75% of the average rent and leaves a monthly shortfall of $170-$300). Among the working poor, at or close to minimum wage, few can afford to pay market rents without expending well over the benchmark 30% of income for rent.

For those on income assistance (Support for Independence – SFI), the gap between the maximum housing portion of their allowance and actual (or average) market rent is similar ($200-240) and the SFI maximum rental allowance covers less than 50%-70% of the average market rent.

Due to low rental supply, many households cannot find accommodation in lower rent units so incur a high shelter cost burden.

Exhibit 3-1
Affordability gap for low income households in Edmonton

	(Bachelor)	(2 bed)	Child (3bed)
Average Rent (October 2002)	490	709	776
Working poor (at Minimum wage)	one earner	two earner	
Min wage Income *	11,000	22,000	22,000
Min Wage Rent @ 30% of Income	275	550	533
Difference Ave Rent less 30% **	215	159	243
30% of Min Wage as % Average Rent	56%	78%	69%
FSI Shelter Allowance	253	503	546
Difference Ave Rent less FSI Shelter Allowance	237	206	230
FSI as % Average Rent	52%	71%	70%

* Minimum Wage 2002 ($5.90/hr)(@ 50 weeks, 37.5hrs/wk)
Bachelor assumes single earner; two/three bed assume two earners

3.6.1 Consider Expand Rent Supplement Program and other Forms of Income Support

A rent supplement assistance program could help reduce the high housing costs that working poor households face. The province currently funds a rent supplement program with roughly 3,000 households assisted (1,000 in Edmonton)

One concern with rent supplements is that landlords may not be interested in periods of low vacancy rates (as currently prevail). However, if offered to landlords with existing tenants facing a high burden (especially those in arrears and in risk of eviction, solely as a result of low income), landlords may be willing to enter into agreements.

Another concern is the rising cost of the supplement over time, as the gap between market rents and 30% of income widens due to inflation in market rents (and often lagging or fixed income). The province has expressed concern about this uncontrollable rising cost and has suggested a fixed rate rather than a rent geared to income (rgi – which is based only on the percentage of the household income with no rent cap) rent supplement as a way to make the existing rent supplement program more sustainable.

It is true that over time the costs of assisting households with a rent supplement will rise. Rent supplements also do not help to build an asset with long-term affordability. It is equally true that the affordability gap is much narrower for rent supplements on existing modest properties when compared to the gap on new rental properties. A hybrid that combines the effect of non-profit operation (goal to maintain lower rents rather than maximize revenue) with the benefit of lower rents in existing stock is a non-profit acquisition approach, as discussed in recommendation #12 above (preservation of the existing affordable rental properties).

A small rent supplement program would also enable non-profit societies that already operate portfolios with market units (e.g. federal section 95 projects built between 1973-85) to increase assistance to lower income households at a modest costs (since their “market” rents tend to be below market, and rise less quickly than true market rents).

Rent supplements could enable non-profit societies acquiring existing properties, or those with a little equity and able to build, to develop and secure financing on the basis of full market rent, while ensuring affordability to a portion of units through rent supplements.

To the extent that the Affordable Housing Partnership Initiative (AHPI) will produce units at average market levels, often above the affordable range for working poor on minimum wage, coupling a small rent supplement with the AHPI would effectively enable some of the units to be provided to lower income households.

Action 6.1: The City advocate that the Province address the problem of income as a major barrier to accessing and maintaining occupancy in affordable housing. Payments under all provincial income support programs, including Support for Independence (SFI), Assured Income for the Severely Disabled (AISH), minimum wage and monthly housing rent supplements for the working poor should be increased to reflect current housing costs in Edmonton.

4. Assessing the Impact of Recommended Actions

Part 3 presented a range of potential actions and recommendations designed to increase the potential to develop housing at costs and rents that will be more affordable – ideally at or below average market rent levels. This part assesses the potential impact of the measures and, based on a typical development, provides estimates of how each measure can help to lower rent to the affordable target range.

4.1. Potential Impact on Affordable Housing

The range of possible actions and related activities vary across a number of criteria:

- Which level of government is ultimately responsible to implement the change;
- Whether the initiative has a direct impact on affordable rental production, or simply has an indirect benefit;
- Whether the action is readily implementable (short term impact) or will require some time; and
- Whether the action will have a tangible and quantifiable impact on rental feasibility and can enhance affordability.

Exhibit 4-1 summaries these impacts. The exhibit shows that a number of measures have high short-term impacts – these are further quantified in the next section, and should be prioritized for action.

In other cases, the impact is more indirect, will take longer to implement and often depends on other levels of government taking responsibility to the action.

While these latter initiatives are either beyond the direct control of the City or have less immediate impacts, their implementation would assist in creating a more attractive and sustainable rental housing sector over the longer term. In these cases, the City can either work toward implementing the approach over the longer term or, where the responsibility of others, advocate in support of implementation by the appropriate levels of government.

Exhibit 4-1: Summary of Potential Approaches and Impacts				
		Potential Impact *		
Type of Initiative	***Responsibility***	***Direct/ Indirect***	***Short –Long Implementation***	***Low-high impact***
Advocate for reforms to tax treatment of rental housing	Federal/Provincial	○	○	✯
Reduce City fees and charges	City	✯	✯	🗎
Streamline and expedite the development approval process/address NIMBY	City	✯	🗎	🗎
Reform City policies that discriminate against and discourage multiunit development	City	✯	🗎	🗎
Equalize property tax on new rental housing with owner-occupied housing	City	✯	🗎	🗎
Public land for affordable housing	City, (Prov/Fed)	✯	✯	✯
Create an affordable housing density bonus	City	🗎	🗎	○
Endorse Ontario recommendations on CMHC underwriting criteria and premiums	Federal	○	○	○
Improve mortgage qualifying amounts and mortgage insurance costs	Federal	○	○	○
Pro-actively encourage secondary suites	City	○	🗎	✯
Facilitate manufactured housing development	City	○	🗎	🗎
Support and expand affordable ownership programs	Industry/City	○	✯	✯
Preserve existing affordable rental properties	City	✯	✯	🗎
Optimize use of the AHPI to leverage other resources	City/Province	✯	✯	✯
Advocate for a improved income support programs	Province	✯	🗎	🗎
***** Ratings ○ = indirect, long, low; 🗎 = medium; ✯ = direct, short, high				

4.2. Quantifying the Impacts

Among the measures identified to improve rental production and affordability the following specific options can be readily quantified

- Waiving City Fees and Charges
- Public land for affordable housing
- Create an Affordable Housing Density Bonus
- Improving mortgage qualifying amounts and mortgage insurance costs
- Equalize property tax burden on owner-occupied and new rental housing
- Optimizing use of the AHPI (Federal and Provincial Grants)

Although identified as a priority measure, reform to federal income tax treatment cannot be readily quantified as this depends on the particular ownership structure and circumstances of the owner property, so this is not included in this cost impact assessment.

Exhibit 4-2:Quantifying Impacts

Based on illistrative typical development - actual impacts will vary by project

	Ave 1&2 bed	*3 bed*
Base Capital Cost	92,500	123,700
Capital Cost Reduction		
Capital equivalent of Equalized Tax Rate	1,094	1,407
Waive Municipal Fees and Charges	3,001	6,942
20% Density Bonus	1,500	2,917
City Land at No Cost	9,000	17,500
Waive CMHC Insurance Premium	2,403	3,183
City Grant (15% Capital)	14,034	18,833
$25,000 Provincial Grant	25,000	25,000
$25,000 Federal Grant	25,000	25,000
Amortized Equivalent Monthly Impact *		
Equalized Tax Rate for New Rental	-7	-9
Waive Municipal Fees and Charges	-19	-44
20% Density Bonus	-10	-19
City Land at No Cost	-58	-112
Waive CMHC Insurance Premium	-15	-20
City Grant (15% Capital)	-90	-120
$25,000 Provincial Grant	-160	-160
$25,000 Federal Grant	-160	-160

*assumes capital reduction financed at mortgage rate (6%; 25 years)

Exhibit 4-2 examines these impacts based of a typical pro forma for two typical building types: a mixed one and two bedroom low-rise apartment and a three-bedroom townhome. In both cases construction is assumed to be modest quality (similar to Appendix B, Exhibit B-3).[4]

It should be noted that these are illustrative cases – actual costs and impacts will vary by specific project as costs and other factors change. These illustrative examples are intended only to assess

[4] Note that Exhibit B-3 was used to illustrate the situation for an unassisted market development with rent levels above the average market level. It also assumed that the tenants paid for their own utilities. In the underlying pro forma for Exhibit 4-2, average market rents as per the AHPI program are used – this affects the net operating income, property value and property tax level.

the general order of magnitude of each measure and to show the effect of each measure in improving affordability together with the potential cost.

For each measure, the capital value is identified, based on project costs (or in case of grant options, the maximum available grant). In the case of the equalized property tax rate (lowering the tax rate on new rental to match the ownership rate), this results in reduced operating costs, so these are converted to a capitalized amount. The capitalized values are amortized at the assumed mortgage rate (which implicitly assumes that the proponent uses these reductions to reduce their mortgage loan amount). Highlights of Exhibit 4-2:

- A package of City options including waiving fees and charges and lowering the tax rate has the effect of lowering monthly rental charges by roughly $26 per month for the apartment and $53 for the townhouse. The associated cost to the City is roughly $4,100 (apt) and $8,300 (townhouse).

- Providing a 20% density bonus (with provision that 12-15% of units in project are developed with affordable housing) effectively lowers the land cost per unit. . This would lower the monthly rents by $10-$19 if applied across all units, but by $58-$112 if the entire benefit is targeted only to the few affordable units in a larger (mixed income) project. Moreover this can be achieved at no cost to the City.

- Conversely, if the City (or other public agency) makes land available at no cost, this conveys a similar level of rent reduction, but, of course, there is a commensurate cost to the City or agency.

- Waiving or offsetting the CMHC mortgage insurance fee through a risk sharing approach can lower rents by $15-$20, with no immediate cost to the City – although there is a contingent liability in the event of a default. This approach may be more feasible in those cases where City land is leased to the proponent so in a default the City may retain ownership of the property anyway.

- The option of a City grant is identified based on the precedent of LIHCAP funding up to 15% of the capital cost – here a grant of $14,000 (apt) to almost $19,000 (townhouse). This grant level is considerably higher than the value of city fees and charges noted above and could be provided instead of waiving fees and charges. A direct grant is more direct and transparent than the option of waiving fees and charges.

- Clearly, the larger provincial and federal grants that will be available under the AHPI ($25,000 each) convey the most significant benefit, each lowering the rent level by $160 per month.

In total, these various capital reductions could accumulate capital contributions of more than $80,000 (apartment) to $100,000 (townhouse) and cover 80-90% of total capital costs. This would result in rent levels that are extremely low – as low as $365-$465 (this reflects minimal residual debt servicing costs, ongoing operating expenses and property taxes). This assumes that all resources are stacked on one project – the overall program objectives are to more broadly stimulate rental production at rents closer to average levels. Nonetheless, some stacking to achieve greater affordability in a portion of units may be desirable.

These potential monthly rent reductions reflect an absolute amount. They do not reflect a reduction from average market rent – in fact, the breakeven rent before consideration of any of these measures would be far higher than the target average market level – in short, a number of these measures are required simply to lower starting rents to this target AMR level.

Recall that the amount of mortgage financing that can be secured is a function of the value of the property. At average market rents (and rents constrained by program requirements for 20 years), the property value, based on net operating income, would be approximately 60% of total cost for these two modest base cases. The maximum financing (based on 85% of this value) would be only 50%. So, simply to achieve the target average market rent level ($642 in the apartment; $776 for the 3-bed townhouse) would require capital contributions (i.e. proponent equity, plus any grants and contributions) of $44,000 and $59,000 respectively. [5]

While the other measures, identified earlier cannot be easily quantified, some could nonetheless have a tangible impact of project feasibility – for example, income tax changes that permitted existing property owners to roll-over the proceeds of a property sale tax-free, provided that these proceeds are reinvested, would increase the sources of equity investment in rental housing. Streamlining the approvals process could also help to free up capital and to increase levels of investment.

In addition, other more indirect approaches such as actively promoting the installation of secondary suites, facilitating homeownership and addressing inadequate income supports can have a beneficial impact on rental affordability issues.

[5] In these two base illustrative examples, the initial breakeven rent that would have to be charged to be viable and financeable would be roughly $900 and $1,100 respectively – so cumulative reductions totaling $250 (apt) and $330 (townhouse) are required just to bring rents down to the targeted average market levels. Any additional reductions/contributions can achieve more affordable levels.

5. Conclusions

In assessing the nature of this problem and the array of potential remedies, the Task Force has noted that the affordable housing issue does not belong solely the one level of government. All three levels impact on both the feasibility and potential affordability of rental housing and, accordingly, all three levels should be part of the response. On this basis the recommendations of the Task Force are directed to all three levels of government.

The recommendations are intended to provide a more facilitating and enabling policy and program framework within which the community non-profit sector and the private housing industry will be able to step up to the plate and deliver affordable housing solutions.

The Task Force has acknowledged the recently announced federal provincial capital program – the Affordable Housing Partnership Initiative (AHPI), but realizes that this is limited in scope and scale. As a result, the Task Force has focused its efforts on identifying potential actions that can complement and supplement this federal-provincial initiative. The Task Force's primary goal is to create a sustainable framework to encourage new rental production. To the extent that the measures help to lower costs, they will also help to address affordability issues.

The Task Force has identified existing systemic barriers and disincentives as the key challenge and recommends that the priority should be to eliminate or reduce these in order to re-establish a more balanced and attractive market environment that will encourage the development of rental housing, including development at moderate market rents affordable to low-modest income working households.

A number of additional measures have been identified that can help to lower the cost of development, particularly those related to reducing the per unit land cost, which is directly influenced by the City's regulatory and development fee system.

While the focus of the Task Force has been on increasing the supply of moderate rent units, it is also clear that other complementary measures can be effective in creating alternative affordable options. These alternate approaches can have an indirect impact in reducing the pressure on a limited rental stock. Measures related to adding units in the existing stock in the form of secondary suites, encouraging entry-level ownership and preserving older relatively affordable stock have been identified.

The Task Force notes that lack of income is a pervasive issue underlying problems of housing affordability and as such initiatives focused only on the housing part of this issue can have only limited effect. While outside of the scope of the Task Force, there is a need to examine the problem of inadequate incomes.

5.1. Implementing the Task Force Recommendations

The previous parts have outlined a range of recommendations and developed a set of actions on which the City is encouraged to move forward.

The Task Force recognizes that new affordable housing developments will require access to multiple sources of funding and has highlighted the need for an affordable housing advisory/resource group.

Although many recommendations in this report are directed to the City, the Task Force believes that an independent body can be an effective way to engage industry, the community sector and other levels of government in implementing and monitoring the recommendations developed by the Task Force. To the extent that the Edmonton Joint Planning Committee on Housing (EJPCOH) is broadly based and has developed a well established reputation, it is identified as the best organization to take on the lead role in monitoring implementing of the recommendations as well as delivering the Edmonton portion of the AHPI.

While already in place, the Task Force feels that the membership and mandate of the EJPCOH can and should be strengthened. The EJPCOH should review its mandate and membership to ensure it functions as a decision-making body with adequate diversity of representation to carry out the required work (including participation from the for-profit home building industry and CMHC).

In relation to the AHPI, the recommended RFP process should be transparent and competitive and have as its objective to lever federal funds available along with creative cost savings proposed by proponents to create new affordable housing units. The process should encourage participation of all housing stakeholders in the public and private (for-profit and not-for-profit) sectors.

Accordingly, the following recommendations are made to facilitate implementation:

Action 7.1: The City should request the Edmonton Joint Planning Committee on Housing (EJPCOH) to monitor, co-ordinate and subsequently evaluate the implementation of the Council-approved recommendations relating to the final report and recommendations of the Task Force on Affordable Housing;

Action 7.2 Formally request that the federal government, the Province of Alberta and the City of Edmonton each allocate an appropriate level of administrative funding to the EJPCOH to:

- **Lead and co-ordinate implementation of the Council-approved recommendations relating to the final report and recommendations of the Task Force on Affordable Housing;**
- **Administer a Request for Proposals process to identify Edmonton-based projects seeking funding from the Province and City under the Affordable Housing Partnership Initiative and**

– **Establish an affordable housing advisory/resource group to ensure that conditions imposed by individual funding sources encourage the best and most equitable use of funding and other resources.**

Appendices

A. Housing Need in Edmonton

B. The Housing Market Context

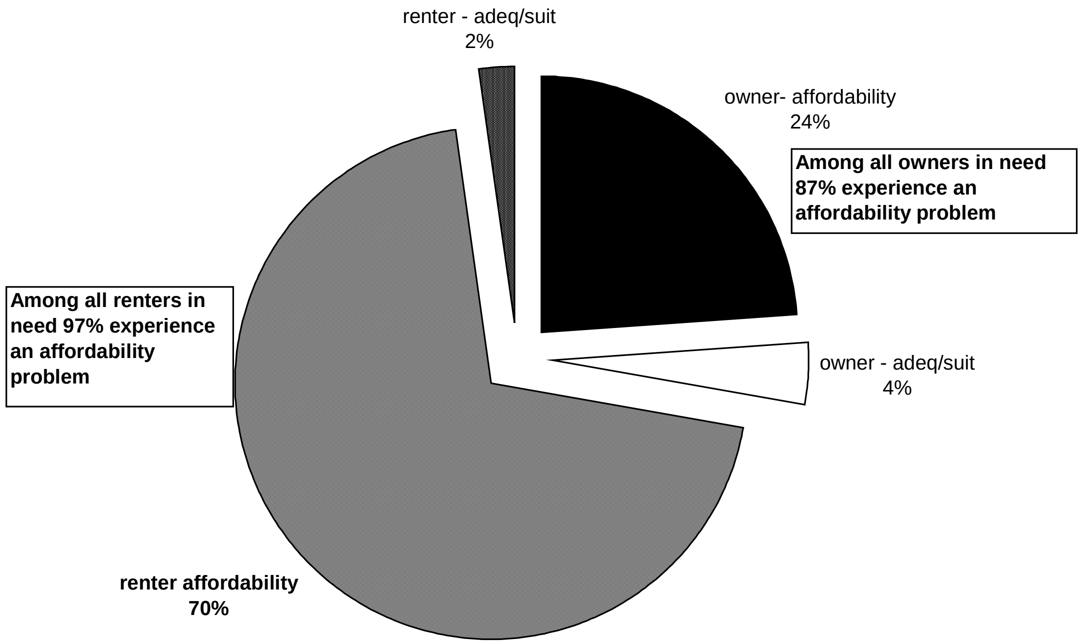
C: Summary of Focus Group Discussions

D. Summary of Written Submissions from Stakeholders

Appendix A: Housing Need in Edmonton

The primary concern of the Task Force is with housing affordability. This is the predominant problem experienced by low-income households and is related in the main to renters.

Exhibit A-.1:
Vast Majority of Need is Among Renters and Relates to Affordability



Source: CMHC Housing in Canada , 1996

Estimates of housing need are developed by Canada's housing agency, CMHC. Unfortunately these estimates are based on 1996 census data and are somewhat dated – the relevant 2001 census data has not yet been released.

The 1996 estimates do, however, identify the broad nature and distribution of housing need.

As highlighted in Exhibit 2.1:

- The majority of households in need were renters (72%) and the relative incidence of need is much higher among renters – 30% of all renters are in core need; the comparable incidence rate for owners is 6%.
- The predominant problem is affordability – 97% of core need among renters relates to affordability (and 87% among owners).
- Problems of overcrowding (suitability) and poor physical condition (adequacy) are relatively small in comparison to affordability, but remain an issue, especially in older inner city areas. In total 18,000 dwellings (6%) were reported to be in need of major repair in the 1996 census – 60% of these are owner-occupied.

Not surprisingly, low-income is a key determinant of core housing need. The average income of renters ($29,250) in 1996 was less than half that of owners (61,500). In addition, 30% of renters had incomes of less than $15,000 (compared to 10% of owners).

Renters also tend not to share the overall income gains from a growing economy. In part, this is due to a number of renters on fixed incomes – but even for those working, income gains tend to be weaker as those with improving incomes often shift to ownership tenure.

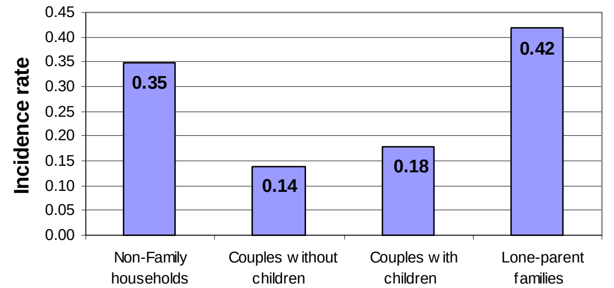
Between 1997 and 2000, the incomes of renters aged 20-44 (those most likely to purchase a home) rose by only 8.1 %.[6] Over the same period, rent levels increased by 14%. [7] So the ability of renters to pay has tended to fall increasingly behind the rising rent level.

The degree of need varies between household types – lone parents have by far the largest incidence of need – over 4 in every 10 lone parent families are in core need (Exhibit A-2).

Need is also high among single person (non-family) households, which represent the single largest group and suggest a need for smaller apartment type units.

Aboriginals are disproportionately represented in housing need. In total, aboriginal households make up just fewer than 6% of the Edmonton population but account for 10% of core housing need.

Exhibit A-2:
Incidence of Need Among Renter Households , Edmonton CMA, 1996



Source: CMHC Housing in Canada , 1996

Number of households in need will continue to grow

Based on the 1996 census, a total of 44,000 households were in core housing need in the Edmonton metropolitan area – a disproportionate level (86%) of this need is in the City of Edmonton (which represents 75% of the metropolitan area population.

In addition to this backlog of unmet need, as the population continues to grow it is expected that a proportion of new households will have low income and will continue to experience housing need.

In total, the number of renter households is expected to increase by 2,000-2,300 per year over the next decade.[8] Within this overall growth of renter households, the level of housing need will increase by roughly one-third of the total growth, or just under 700 households annually (and predominantly will involve problems of affordability).

[6] Index of average weekly wages for renters aged 20-44 in Edmonton CMA. Based on special tabulation from Statistics Canada Labour Force Survey.
[7] Rents increased even more dramatically in the subsequent 2000-2002 period, however, since income data is available only for the 1997-2000 period, this timeframe is used for this comparison.
[8] Based on Population and Household Projections by CMHC (medium scenario).

A growing majority of future renters in need (more than two-thirds) will be non-family households and most of this group will be non-elderly singles, mainly women aged 35-64 (including many former lone parents whose children will have moved out).

Implications for future affordable housing need

Overall, this review shows that, with a growing population, there will be increased demand for rental dwellings as well as increasing pressure on rent levels, especially at the lower rent ranges.

Based on the existing and projected household characteristics, there will be a requirement for the production of roughly 2,300 rental units annually over each of the next 10 years.

It is further anticipated that, based on projected household type propensities, two thirds (1,100-1,300) of projected new rental units should be appropriate for non-family households – predominantly one bedroom with some choice in bachelor and two bedroom units. The remaining third (600-700 units annually) should be larger units appropriate for families – at least 2 bedrooms, but ideally 3-4 beds in size.

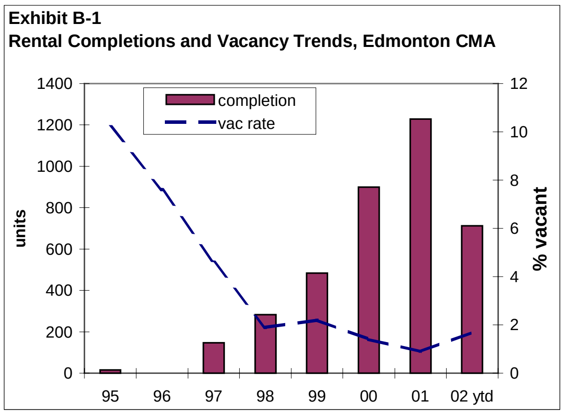
However, these proportions should be modified to take into account the backlog of existing need. Recently, there has been an undersupply of rental units appropriate for families with children – especially affordable family units. This is reflected in the waiting list for social housing on which families are disproportionately represented. To remedy these past trends and patterns of need, selection criteria for future initiatives and program funds should favour a catch up in family type units. So, rather than an allocation based strictly on projected future growth, which would allocate two-thirds of resources to singles, a more balanced 50/50 allocation between non-family and family type households should be pursued.

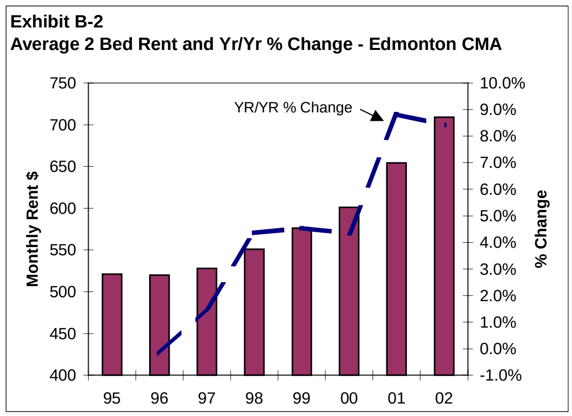
Appendix B: The Housing Market Context

This appendix briefly overviews a number of issues relating to construction levels and costs.

Low rental production

Low levels of new rental construction, combined with a growing population and related demand for rental accommodation, has translated into a dramatic decline in the level of vacancies in Edmonton – and upward pressure on rent levels.





Source: CMHC, Canadian Housing Statistics

A very soft rental market in the early 1990's, with vacancies above 10%, discouraged new rental development (Exhibit B-1). However, as vacancy rates fell there are clear signs of a market response and new rental construction has increased noticeably – a phenomenon that has not evolved to this degree in many other parts of Canada.

In many respects, there is a better environment for new rental development in Edmonton (and Alberta) than in much of the rest of Canada as there has been a very consistent and minimal level of rent regulation – a factor most frequently noted in other provinces as a deterrent. Concurrently, the absence of rent controls has permitted rents to rise with market pressure – an issue highlighted by affordable housing advocates.

Notwithstanding the increase in new rental construction, the volume remains low relative to demand and, in the face of low vacancies, rent levels have increased dramatically (Exhibit B-2). This has a dual effect. On the one hand, it increases the feasibility and potential profitability of new rental development; however, rising rents exacerbate the extent of affordability problems faced by lower income renters.

Between October 1995 and October 2002 rent levels in Edmonton have increased by 36% (2 bedroom apartments) – and Edmonton has been highlighted as the Canadian city with the largest single year rate of increase in rents between 2000-2001 (8.7% – two bed units), and again one of the highest in 2002 although the amount of increase has fallen slightly to 8.4%.

Weak economic fundamentals limit rental production

Low levels of new rental production and, more particularly, the absence of any production at affordable rent levels, are a result of the weak economic feasibility of rental development.

Exhibit B-3 presents an illustrative pro forma as a summary of the economics of modest new rental development – this reflects a minimal cost modest product.[9] This exhibit assumes a low-rise wood frame construction with a mix of one and two bedroom apartments.

Land and construction costs reflect prevailing market prices and the rent is assumed to be $775 (a blended average of one and two bedrooms assumed at $725 and $825 respectively). This is not an "affordable rent", rather it reflects a level that the market will bear for a newly constructed apartment – because it is new, it would attract rents above the overall market average, which is pulled down by the older existing units.

In addition to basic land and construction costs, the total cost is increased by GST as well as a premium that is charged to secure mortgage insurance. The total capital cost including these federal charges is $90,100 – the low end of new construction costs.

Typically, developers of rental housing seek to finance as much of the cost as possible. However, mortgage lenders (and CMHC in approving the loan for mortgage insurance) apply a number of criteria to manage risk which have the effect of limiting the loan amount. The difference between total cost and the maximum loan must be covered by the developer and is identified in the exhibit as equity ($18,800).

The maximum level of financing is a function of both the potential rental revenue and operating costs – properties with higher rents can support a higher level of financing. Conversely, lower rents mean reduced capacity to support financing and a greater equity requirement (an issue in creating affordable rental housing).

In Exhibit B-3 a potential market rent of $775 ($9,300 annually) is assumed. The net operating income (NOI) before mortgage payments is $6,708. Although not shown in the exhibit, based on this NOI, the value of the property for lending purposes would be in the order of $84,000, somewhat less than the total cost of $90,000.

With the maximum financing at just over $71,000 (85% of the value for lending purposes), the associated mortgage payments are $5,748 and the project generates a small cash flow which provides the investor with a return on equity of just 5.1% – this rises to 8.0% by the fifth year as rents inflate, but is still low, relative to the level of equity and risk involved in rental development (industry sources identify minimum rates of return in the range of 12%+, since rental development is a highly risky venture). These are cash on cash returns before any consideration of income tax treatment – a factor that also affects investor interest.

[9] The cost estimates used in this pro forma are based on discussions with industry representatives and data collected for Edmonton – however, it is noted that costs can vary from one site to the next based on a variety of factors. The pro-forma is not intended to convey definitive cost estimates. Rather, it is intended to show typical illustrative costs to identify the relative proportion and significance of different cost elements.

Exhibit B-3 Illustrative Pro Forma
Mixed One and Two Bedroom Project
Modest-Woodframe - Inner City Edmonton

PROJECT DEVELOPMENT COSTS		PROJECT FINANCING	
Land	9,700	Max Financing	71,300
Construction Costs	76,500	Equity	18,800
	86,200	**Total Costs**	90,100
GST	3,900	Mtg Ins Fee	3,565
Total Costs	90,100	**Total Financing**	74,865

ANNUAL REVENUES, COSTS AND CASH FLOW

		Year 1	*Year 5*
Revenues:	Rental Income ($775/month)	9,300	10,067
	Other Income	300	325
	Vacancy Allowance	(288)	(312)
	Gross Income	9,312	10,080
Operating Costs:	Maintenance and Operations*	1,800	1,948
	Property Taxes	804	870
	Total Operating Costs	2,604	2,819
	Net Operating Income	6,708	7,261
Mortgage Payments:	Principal	1,347	1,707
	Interest	4,401	4,041
	Total	5,748	5,748
	Cash Flow	960	1,513
	Return on Equity (cash on Cash)	5.1%	8.0%

*tenant pays utilities

The market rents used in Exhibit B-3 ($775) compare to average 2002 market rents for one and two bedroom units in the inner city zones of $578 and $742 (average $660) – the rents for a newly constructed apartment will typically command a level above the market average (rent data based on CMHC annual rental survey, Oct 2002). At the average market level (and associated lower lending values), the equity requirement almost doubles to $42,000 and the rate of return declines to 1.2% (2.2 in yr 5)

While costs are a factor in rental feasibility, the more serious issue for affordable rental housing is the low rental revenues and related difficulties accessing financing. Potential ways to improve this low feasibility are discussed in the main report – for example, contributions to lower costs as well as ways to increase net income.

Cost Drivers in the Broader Housing Market

Housing costs are made up of two key components:

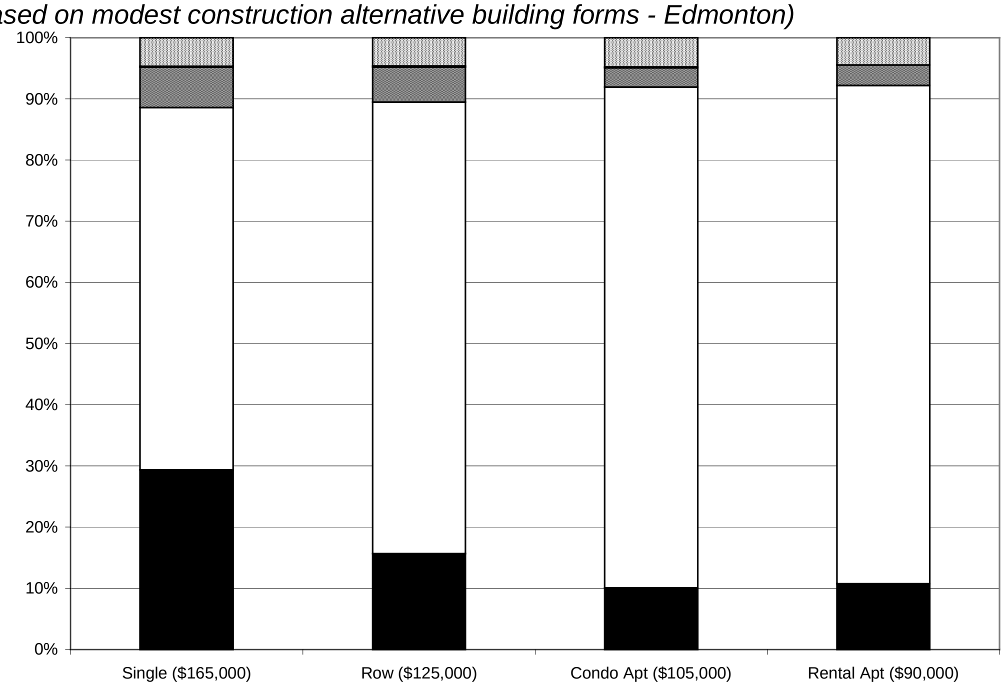
1. Capital costs (land, site servicing, construction and related soft costs); and

2. Monthly operating cost (property taxes, utility costs, insurance, maintenance, & management).

The capital costs flow through to impact monthly costs in the form of mortgage payments (a function of the total size of the mortgage as well as interest rates and terms of the loan).

In considering options to reduce the capital costs (and improve affordability) Exhibit B-4 overviews the key capital cost drivers for a variety of housing types – all premised on modest quality development. This exhibit overviews the costs in both the ownership and the rental sector since ownership market also impacts on both rental costs and vacancy levels.

Exhibit B-4
Typical Residential Construction Cost Elements
(based on modest construction alternative building forms - Edmonton)



New Homeownership

In the detached new homes sector, the cost of land (and associated servicing costs) are an important issue – accounting for almost one-third of house cost. Publicly levied fees and charges are often highlighted as an issue by the industry and typically account for 10-12% of total cost – the municipal component of total fees and charges account for roughly one-third to one half of this (4-6%). As such, these fees and charges add to cost, and arguably at the margin of affordability can be a factor (adding $5,000-$10,000 to total cost and as such almost equivalent to a minimum downpayment). However, the frustration around excessively long approval processing, which ties up limited capital and stalls the development and building process, is another important issue. This is an issue that also applies to the rental sector.

The current system is also weak in responding to innovative potentially cost-cutting proposals – and therefore tends to discourage innovation in favour of the path of least resistance. For example, alternative development standards can reduce road width, setbacks and servicing costs – but because ADS are untested, and challenge the existing standards, developers that propose them risk a protracted approval process as staff “study” the new approach. The response is to pursue the path of least resistance – conventional subdivisions, and the attendant higher costs. Municipal leadership can be a significant factor in improving receptivity to these approaches.

The exhibit also shows that higher density building types – particularly apartments can be significantly more affordable – largely because the land cost is spread over more units, but also because smaller unit areas reduce construction costs.

Rental Issues

In the rental segment, land costs are lower – reflecting higher density, but a limited supply of appropriately zoned and serviced land, especially in inner city areas is a constraint. Within land costs, almost one-third of the total land cost relates to site servicing fees and charges levied by the municipality. Fees and charges also impact costs but are not the main barrier – the more significant issues in rental development relate to market uncertainty, restrictive mortgage underwriting practices (lenders and more particularly CMHC insurance requirements) and the tax treatment of rental income.

Initiatives are being pursued to address these issues through a federal/provincial/territorial housing minister’s process – there is little that the City can do beyond adding its voice to advocate for reform at the federal level.

In relation to affordable private rental development, it is simply not feasible to build new rental at low-mid market rent levels – the rate of return is too low. Viable projects are possible at the higher end of the market, but this is a niche market and at risk of competition from rented condominiums.

Creating affordable new rental requires some level of subsidy – either ongoing as a way to prop up rents to full market (and thereby enable a higher level of financing) or in the form of capital subsidy to lower equity requirements (and in the case of private investors, improve rates of return on investment to acceptable levels).

To the extent that there are serious constraints on rental markets due to weak effective demand, it is appropriate to pursue alternatives to purpose-built new rental – notably pro-active promotion of second suites (potentially using interest free loans) and encouraging investment in condominium units, an important source of informal rental supply.

The remedies are not exclusively in the rental sector – initiatives to enhance the ability for renters at the margin of ownership to achieve this aspiration can have an indirect and often significant impact on the rental part of the market. This creates vacancies in rental buildings as households shift into ownership and has been an important factor over the past few years as low mortgage rates have enhanced ownership opportunities.

Existing Resale Market

The Task Force focus is on improving access to affordable housing, not solely on building new affordable housing – although this is also a concern. In many cases, existing properties are priced lower than the cost of building new and therefore represent an opportunity.

Exhibit B-5
MLS Existing Home Listings November 2002, City of Edmonton
(Properties under $160,000 only)

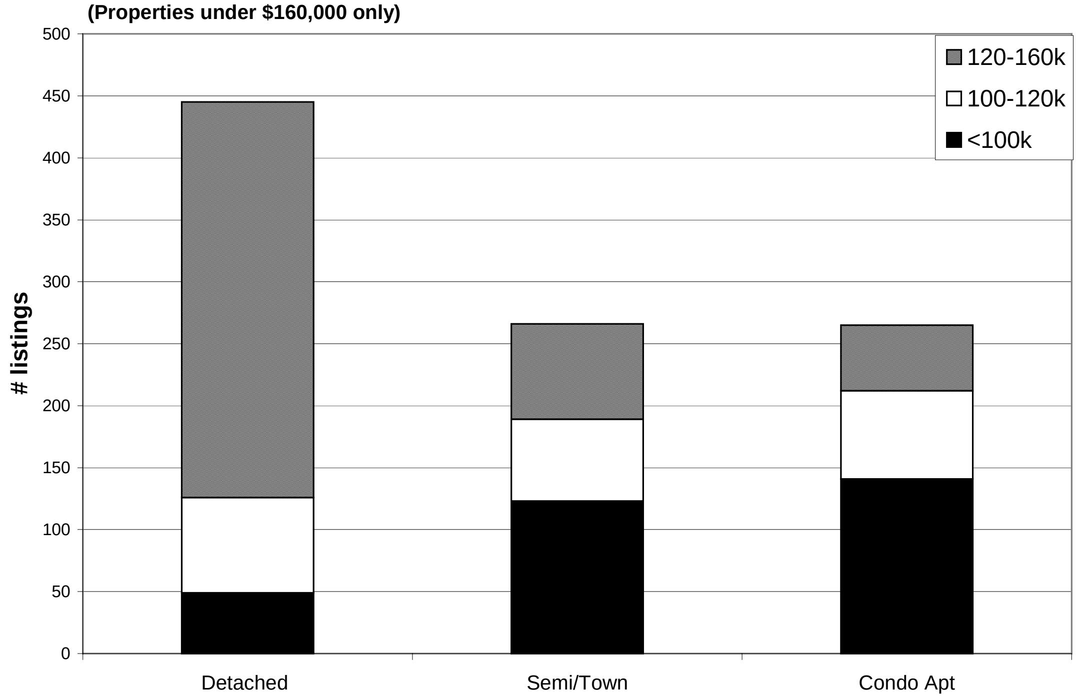


Exhibit B-5 identifies the volume of recent (November 2002) listings on the MLS in Edmonton and shows that in this one month alone there were almost 1,000 listings below $160,000 and more than half of these (527) were below $120,000.

While not affordable to very low income households, properties in the $80,000-$120,000 range provide an opportunity for working poor households with modest incomes ($25,000-$40,000) currently in housing need and paying rents well over 30% of income to access entry level ownership.

Relative Affordability Levels

Based on the price range of modest building types reviewed above, the relative levels of affordability for homeownership for different types of dwellings are illustrated in Exhibit B-6. This assumes a 10% downpayment on a mortgage at 5.5% and includes taxes and utilities.

It appears that new ownership options would be affordable to families with incomes of $37,000-$45,000. For couples or singles, the required income is just over $31,000 annually (condo apartment). In many cases, these prospective buyers may be paying almost this amount for rent; however, they may lack downpayments or the necessary level of credit to qualify for mortgage financing. Some initiatives may be required to address these constraints and to facilitate home purchase.

Exhibit B-6:
Relative Affordability of New Dwellings

	Single (1,400 sf)	**Row (1,100 sf)**	**Condo Apt (900 sf)**
Price	165,000	125,000	105,000
10% Downpayment	16,500	12,500	10,500
Mortgage amount (incl CMHC premium)	151,841	115,031	96,626
Monthly Carrying costs			
P&I (25 yrs, 5.5%)	927	702	590
Property Taxes	164	125	105
Utilities	120	100	90
Total Monthly cost	1,211	927	784
Income required @ 30%	**48,453**	**37,070**	**31,379**
Existing Rental Comparison		One Bed	Two bed
Oct 2002 rent		575	709
Utilities		90	90
Total Costs		665	799
Income required @ 30%		**26,600**	**31,960**

In comparison, an individual, or two-earner family on minimum wage can earn roughly $11,000-$22,000 annually (Exhibit B-7).

At 30% of income, these households can afford rents of $277 and $553, respectively – rents that are between $189 (two-person earnings) and $256 (single) below the average market rent levels.

Exhibit B-7:
Affordability of Average Market Rent Units for working poor households

One earner income	11,063
Min Wage Affordable rent @ 30% *	277
2002 Average rent bachelor/one bed	533
Affordability gap (average less affordable rent)	256
Two earner household *	22,125
Min Wage Affordable rent @ 30% *	553
2002 Average rent two/three bed	742
Affordability gap (average less affordable rent)	189

** Minimum Wage 2002 ($5.90/hr)(@ 50 weeks, 37.5hrs/wk)*

This exhibit also demonstrates that single earner households and individuals at minimum wage are unable to earn sufficient income for their rent at 30% of income to cover even the operating costs of new rental housing, while a two income minimum wage family only just exceeds this level. This means that even if all capital costs were eliminated, ongoing operating expenses will continue to cause affordability problems. So there is a need also to examine ways to lower operating costs – the most notable public component of which is property taxes, although sewer and garbage disposal charges are also a factor.

Issue of Stock Mismatch

When the existing rental stock by rent range (1996 census) is compared against the income and related level of affordability of renter households, the nature of the affordability issue becomes quite obvious – there are too many lower income households trying to access a very limited stock of lower priced rental units. This comparison is, however, premised on relative levels of affordability and rents in 1996 – as already noted, rent levels have increased substantially (36%) since 1996 and, as a result, the rent distribution will have shifted with fewer low rent units.

At the same time, while much of Canada, and Alberta in particular, have enjoyed a strong economy through the latter 1990's and, in general, incomes have increased, there is some evidence that the incomes of lower income renter households have generally not kept pace with the overall gains. So it is likely that the situation for those households in need has not improved.

Data from the 2001 census is not yet available but, given the rent trends of the past 6 years, it is very likely that this mismatch will have increased – many lower income households seeking lower rent units (ideally below $500) but most units are in rent ranges above $500. The actual rent levels will be higher and number of units in the lower rent ranges lower.

Many of the lower income households may occupy some of these higher rent units and pay a high proportion of income for rent (some more than 50%). For these households, building new more affordable housing is not the only option. There is also some benefit in exploring shelter assistance approaches, including rent supplements or shelter allowances that can lower the rent burden.

Given the economics of new rental construction, there is a significant premium attached to building new units for very low-income households. New units will have a break-even (and market) rent well above the average market level, so the subsidy required will be much larger than that required to subsidize households already renting in the mid market range, but paying an excessive proportion of their income for rent.

In the absence of a healthy level of new rental supply, focusing only on the demand side (improving ability to pay) does little to address overall shortage and resulting inflationary pressure on rents – so a complementary set of initiatives is required to stimulate general rental supply and increase vacancies. However, this stimulus does not need to be restricted to lower rent units – any supply will help to moderate vacancies and rent levels.

Appendix C: Insights from the Focus Groups

The focus group discussions were framed around potential parameters of an RFP and associated process. Highlights of discussion are presented below.

Who should manage the process:

General support was expressed for using the EHTF, as this group has demonstrated capacity in the SCPI selection process. It was further noted that, if the objectives are clear and the evaluation framework is transparent, this becomes largely an administrative function – the criteria will ultimately drive the selection. Although the options for an alternate (ad hoc) selection committee were identified there were no specific suggestions on the composition of such a committee. It was noted that there is no need to create a new structure when a capable existing one already exists. The committee should, however, be non-partisan and broadly represent the community (including private, non-profit and public interests).

Which priority groups should be targeted?

Various specific groups were identified. It was suggested that a minimum number of units (e.g. 10%) in any funded project should be designed as accessible. There was limited support for a process that targets a specific target group each year – in preference for the opportunity to address more than a single group. It was further suggested that a project might accommodate a range of target groups, so a single target may not be appropriate. It would be desirable to identify the target groups that will be encouraged, potentially with some numeric targets – e.g. x units for families; y units for frail seniors; and z units for non-elderly singles.

Defining Affordable

As currently proposed (in federal/provincial agreement), the program would utilize a rent benchmark as a proxy for affordability – it is assumed that average market rents will result in units that are relatively affordable. The current definition of an affordability problem is based on calculating income required to afford average rent without exceeding 30% of income – so if, for example, average rent is $600, it is affordable to anyone with an income above $24,000 annually.

It was suggested that setting affordable rents doesn't ensure affordability – nor does it ensure that households with low-moderate incomes are the ones to occupy the units. If the province/city wish to target the units to specific groups, then some eligibility criteria and a method of monitoring ongoing compliance would be advisable.

Preserving Long Term Affordability – Ongoing Enforcement/Administration:

The discussion of priority groups generated considerable discussion about the fundamental objectives the AHPP – whether the program seeks to maximize the number of units available (least grant amount per unit) or the level of affordability (lowest possible rent). This led to questioning on how targeting and affordability would be enforced over time. Without ongoing oversight and project level reporting of the characteristics of existing residents or newly housed tenants, the initial targeting plan will be eroded over time and become meaningless.

Thus, any decision on targeting (client group, and degree of affordability) must be made in the context of planned program administration. Proponents will be required to enter into a funding agreement, which can specify the targets, but again, without ongoing reporting and enforcement, this agreement may have limited impact.

The degree of project oversight and associated reporting requirements will also have some impact on the interest and willingness of private developers to participate. One private sector property manager did note that for projects funded under the previous Limited Dividend program, it was necessary to request income verification from all tenants, and this had not been a problem (in the main these were modest income seniors who knew that the project had more affordable rents – whether regular market tenants would be as willing to declare is debatable).

If the program objective is to stimulate new rental supply, with rents at average market levels, this rent benchmark is above the range of affordability of most traditional social housing tenants so testing for eligible income and ongoing enforcement are less meaningful. Alternatively, if the program aims to generate affordable units, with rents well below average market, then some level of ongoing program eligibility and enforcement is desirable to ensure that the intended beneficiaries are in fact being housed (and units continue to serve this eligible range into the future).

There were mixed views among participants – most non-profit proponents favour deeper targeting (well below average market) and are prepared to accept the associated program oversight (they are accustomed to this from previous programs). Private developers viewed the program more as a general supply and were less enthusiastic about ongoing enforcement and intrusion to require tenants to declare income annually.

An alternative suggestion was that incoming tenants filling vacancies must meet eligible income criteria, but there would be no ongoing policing and income validation of existing tenants.

Requirement for minimal equity

Most private sector proponents agreed there should be minimal equity contributions from the proponent; non-profits had difficulty with this – few have cash available and most would likely be precluded by such a requirement. If the evaluation criteria favour lowest grant, the availability of proponent equity is implicit – those with access to equity will likely include this as a way to lower their grant request and thus increase their chance of selection.

The idea of separate pools and competitions from private and non-profit was discussed – there was a mixed response to this. Some responded that this might preclude options for non-profit-private joint ventures. Allowing partnership proposals to enter either pool could over come this concern and also act to encourage partnerships (as they would have two separate chances for success).

Minimum standards

Participants felt that the building code already establishes a sufficient minimum standard. While politically it may be desirable to establish modesty criteria, modesty should be a natural outcome of a process that favours a lowest required grant approach. As noted above, it was suggested that some minimum proportion of accessible units should be required.

Making program more sustainable

The idea of flowing funds as an interest free loan, rather than a grant as a way to recycle funds for future reinvestment was suggested. There was interest in exploring this option further. Some proponents (both non-profit and private) indicated a preference for a loan rather than a grant. In terms of enforcement, providing the assistance in the form of a forgivable loan, with forgiveness earned over time was suggested as a good approach – and one proven by the experience in RRAP.

It was also suggested that a repayable loan would not provide as great a benefit and, given the fixed amount of subsidy funding available, would therefore be likely to stimulate fewer new units than an outright grant.

Appendix D. Summary of Written Submissions from Stakeholders

<u>SUMMARY REPORT ON WRITTEN SUBMISSIONS</u>

Background

In late September, an advertisement was placed in the *Edmonton Journal* and *Edmonton Examiner* inviting written submissions to the Task Force. The purpose was to seek stakeholder views of ways to remove barriers and find solutions to meet affordable housing needs in Edmonton. The ad asked persons wishing to prepare a written submission to provide their contact information to Community Services by October 4. By that date, 28 had registered to make a written submission. On October 7, Community Services mailed to each registrant a copy of two background papers prepared by the Consultant to guide the preparation of written submissions by the October 25 deadline.

By the deadline, the following 15 persons had submitted written submissions:

1. *Mary Jane Buchanan, Member, First Baptist Church and Associate Member, Downtown Edmonton Community Association;*
2. *Maurice Gaudet, President, Centre de sante Saint-Thomas Health Centre;*
3. *Vicky Martin, GE Capital Mortgage Insurance Canada;*
4. *Barb Budesheim-Houle, private citizen;*
5. *Terry Draginda, Wyser Construction;*
6. *Herbie Kot, Principle Owner, Kingsland Homes (1998) Inc.;*
7. *Trevor Wiltzen, President, Livia Stoyke Foundation;*
8. *Derek Chewka, Manager, Child Welfare Programs, Boys' and Girls' Clubs of Edmonton;*
9. *Colin Simpson, Executive Director, Edmonton and Area Chapter, Schizophrenia Society of Alberta;*
10. *Martin Garber-Conrad, Executive Director, Edmonton City Centre Church Corporation;*
11. *Rafique Islam, Sector Advisor, Community Development/Housing/Municipal Affairs and Agriculture, Metis Nation of Alberta;*
12. *Phil Jenkins, Director of Development, Handicapped Housing Society of Alberta;*
13. *Lewis Nakatsui, President, Lincolnberg Homes. Ltd.;*
14. *Blair Halliday, Executive Vice-President & Chief Operating Officer, Winalta, Inc.; and*
15. *Val Kaufman, Chair, Edmonton Aboriginal Urban Affairs Committee.*

Each of these written submissions was reviewed by staff and a consolidated summary prepared for the Task Force. It was found that many of the ideas and issues raised had already been identified in the work of the consultants, however these submissions provided useful refinement and amplification of certain issues.

The following summarizes the main recurring themes from the submissions.

Recurring Themes from Written Submissions

(9 from not-for-profit agencies and 5 from for-profit agencies)

Recommendations for the RFP Process for Affordable Housing Partnerships Initiative (AHPI) Program Delivery in Edmonton

1. That "Affordable Housing projects" include a mix of units with most at average market rents but with some (10% to 25%) at rents affordable to low-income households (e.g. on "Social Housing" application wait lists);

2. That the definition of "Affordable Housing" include "Supportive Housing" units (i.e. for which daily support services/supervision are provided to enable occupancy by some special needs households such as frail seniors and mentally-ill persons);

3. That there be no minimum equity requirements for project proposals (but rather long-term affordability requirements);

4. That the Edmonton Housing Trust Fund administer the process;

Recommendations for methods to enable Affordable Housing in Edmonton beyond AHPI Capital Grants*:*

1. That the provision of capital grants from all orders of government (including the City) is the best way to encourage quality housing developments with a long-term commitment to affordability);

2. That adoption of "Housing First" policies by all orders of government (especially by the City) to provide surplus land through sale or lease at an affordable price (ideally for nominal consideration) is another good way to ensure affordable housing project viability;

3. That the City provide following additional assistance for affordable housing projects:

    - Modify zoning standards (e.g. reduced on-site parking requirements, higher densities, secondary suites, flexibility to allow manufactured housing):

    - Waive development permit fees;

1. That the Province provide rent supplements to enable increased affordability in existing housing;

2. That the City support acquisition and renovation of existing housing stock or commercial space;