



August 22, 2016

The Honourable Jean-Yves Duclos P.C., M.P.
Minister of Families, Children and Social Development
House of Commons
Ottawa, ON K1A 0A6

Recommendations for the Affordable Rental Housing Financing Initiative

Dear Minister:

FCM recognizes and appreciates the significant affordable housing investments introduced in the 2016 federal budget, in addition to the commitment to develop a National Housing Strategy. As with many of the priorities outlined in the federal budget, the development of the Strategy provides an important opportunity for the federal government to meaningfully engage with the municipal sector.

One of the measures announced in the budget of specific interest to cities and communities was the Affordable Rental Housing Financing Initiative, recognizing that more affordable rental housing is needed. As you know, cities and communities have faced the strain of low vacancy rates, which has pushed up rent levels due to an inadequate amount of purpose-built rental housing being constructed and a loss of affordable rental stock.

With expiring operating agreements and crumbling social housing buildings resulting from decades of chronic underinvestment, a federal commitment to protect social housing - and the households who live there - is a top priority for Canada's cities and communities. And the connection between long and growing social housing waitlists and affordability in the rental housing market is clear. When rental housing is out of reach for households, they turn to social housing to meet their housing needs. This is an increasingly precarious proposition, as much of Canada's social housing risks being lost unless the federal government commits to reinvesting in it, for which this financing initiative could play a role.

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The enclosed recommendations reflect how municipalities believe the Affordable Rental Housing Financing Initiative could be best structured, to realize the goal of growing the supply of affordable rental housing in cities and communities. If incorporated, FCM believes these recommendations can help ensure the rental housing enabled by this initiative is also affordable to households in need over the long-term, including by ensuring the repair, retrofit and renewal of existing social and affordable housing is eligible under this initiative.

We look forward to working with the federal government to ensure the success of this important and timely initiative. If more information on FCM's recommendations is needed, please contact Dallas Alderson, Manager of Policy and Research, at 613-907-6284 or dalderson@fcm.ca.

Sincerely,



Clark Somerville
Councillor, Regional Municipality of Halton
FCM President

Enclosure

FCM SUBMISSION TO CMHC ON AN AFFORDABLE RENTAL HOUSING FINANCING INITIATIVE

Introduction

There were a number of affordable housing initiatives introduced in the 2016 federal budget. They represented a significant response to FCM's call for federal investments in social and affordable housing in the short-term. FCM was also pleased to see a commitment in the budget to develop a National Housing Strategy. FCM looks forward to working with the federal government on this renewed effort to create more inclusive and livable communities across Canada by ensuring all Canadians have access to affordable, quality housing.

One of the measures announced in the budget was an Affordable Rental Housing Financing Initiative (the Initiative), which would provide up to \$500 million per year in low-cost loans over five years to municipalities and housing developers during the earliest and riskiest phases of development.

FCM welcomes the recognition that more affordable rental housing is needed. Our cities and communities are facing the strain of low vacancy rates and historically high rents due to low levels of purpose-built rental supply and a loss of affordable rental stock. This has made it very difficult for low and moderate income households to pay for their housing without sacrificing other necessities. This makes our cities and communities less inclusive and has a direct and negative impact on local economies.

The recommendations below reflect how Canada's municipalities would like to see the Initiative structured, to realize the goal of growing the supply of affordable rental housing in cities and communities.

Affordability through alignment with other federal investments & the National Housing Strategy

An initiative that solely finances the construction of rental housing will not enable affordability, even with favorable terms and conditions. In many municipalities, the best possible outcome would be a new supply of units with rental levels at average market rents (AMR). In other municipalities where land values are particularly high, up to 130% of AMR is more realistic. Core housing need will not be meaningfully reduced by developing rental housing with AMR rent levels, especially for households that require larger units.

Municipalities understand that the only way affordability will be achieved is by aligning this initiative with other federal investment streams or in-kind commitments. At a minimum, stacking with other programs (rent supplements enabled by the Investment in Affordable Housing program, for example) should be permitted and not be subject to penalty in any project evaluation process. Finally, it is crucial that the affordability enabled through connecting these investments be long-term in nature. Many municipalities will soon be faced with a loss of affordable housing when units developed through the Investment in Affordable Housing program come to the end of their required affordability period.

Specifically, there is an opportunity to amplify the impacts of this initiative if it is connected to the priorities and investments which will be part of the National Housing Strategy (NHS). One element FCM would like to see included in the NHS is the implementation of the commitment contained in the mandate letter of Minister Duclos with respect to making surplus federal lands available for affordable housing at low or no cost. If the rental housing financing initiative was combined with federal land made available to non-profit developers, then long-term affordability can be achieved.

Further, reinvestment in social housing must be prioritized in the NHS. For instance, social housing providers who are nearing the end of their operating agreement could renew their units and develop more by leveraging their soon to be unlocked equity, alongside new financing, if the terms of the Initiative encouraged and enabled this.

Flexibility in order to meet local housing needs, including for preservation of existing stock

The parameters of this initiative must be flexible enough to reflect different housing market conditions in different communities. For example, while some municipalities would see most benefit from a low-cost loan with a long amortization period to make construction feasible for local non-profit developers, others would be best able to act if a loan had flexible securitization terms so that developers could access funds to build on city-owned sites where ownership will be transferred after construction begins.

Further, this initiative should not be restricted to the construction of new units, but rather should also enable financing for the repair, retrofit and renewal of existing, affordable and social units. One of the biggest housing risks in many cities and communities is the loss of existing social and affordable housing if needed repairs and retrofits are not undertaken, as much of it is aging. As operating agreements expire for Canada's social housing units, federal spending will decline from \$1.7 billion to \$1 billion by 2020 — to zero by 2040. Meanwhile, inflating operating costs of these units and investment in capital renewal resulted in annual aggregate costs of almost \$3 billion in 2012–2013; costs that are expected to rise to \$3.7 billion by 2023. Financing the repair, renewal and retrofit of existing social and affordable housing units to ensure they are not lost is therefore an important local priority for many municipalities, which is also less expensive than constructing new stock. This initiative is an opportunity to make a big difference in the preservation of housing for low-income Canadians, stemming the loss of much needed affordable housing for years to come.

Access to financing and the role of CMHC

Financing terms and conditions offered by private sector financial institutions for construction financing for rental housing are often competitive and flexible. However, many municipalities who develop housing themselves, as well as developers, especially non-profit developers, struggle to access pre-construction financing. While Proposal Development Funding is offered by CMHC, it is often only available for a small proportion of the total costs involved. The full range of pre-construction activities and costs include consulting fees, deposits to secure land, legal fees, and various planning application fees, permits and development charges. Making available pre-construction financing that reflects the full range of costs in this phase of development would address a demonstrable gap. In addition, the terms and conditions of construction financing could include locked-in low rates over a longer amortization to incentivize and enable municipal, non-profit and private-sector developers.

Finally, CMHC's role in improving access to this financing should be through offering transparent, streamlined application and approval processes for proponents, and limiting reporting requirements to those which are high-level and outcomes-focused.

Conclusion

In order to expand the availability of affordable, high-quality rental housing in Canada over the long-term, it is recommended that this new initiative be designed to:

- To ensure affordability of units, align with other federal investment streams, including those that will be part of the forthcoming National Housing Strategy, with a specific focus on federal surplus lands for affordable housing;
- enable the renewal of existing affordable units as well as the construction of new units;
- support a wide range of projects operating in different conditions through flexible criteria;
- ensure financing can be used for full-range of pre-construction costs, in addition to construction and take-out financing, per the needs of the project; and
- maximize accessibility through streamlined application, approval and reporting processes.

Provided it is well designed, the Affordable Rental Housing Financing Initiative represents a historic opportunity to ensure federal investments in the rental housing sector deliver long lasting affordability to Canadians and the economy. FCM looks forward to partnering with CMHC as it moves forward on the development and implementation of this important endeavor.