

Integrated, Affordable and Fast:

A REPLICABLE RESPONSE TO THE RENTAL HOUSING CRISIS

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ACKNOWLEDGEMENT

Our cities face a whole new class of challenges, such as climate change and growing structural inequality, which need system-scale intervention, innovation, transformation and unprecedented levels of investment. As we increasingly understand the externalities and unintended consequences that drive these deep-seated challenges, we see civic capital, also known as capital innovation, as a key mechanism in both financing a new class of 'solutions' and a new innovative way of financing itself.

The Future Cities Canada Capital Innovation Lab was established to bring together partners and stakeholders in order to collectively mobilize public, private and philanthropic financial capital in new and more efficient ways to accelerate low carbon, inclusive cities.

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MEETING THE AFFORDABLE HOUSING CHALLENGE

How can we meet the pressing need for affordable housing in Canada's cities, and how can we do it FAST?

You start with a building that is already under construction. And you enable every participant in the process to do what they do best: developers develop, investors invest, property managers manage, governments fund and regulate, and non-profit service organizations support the people they are mandated to serve.

In this report we look at a partnership between the Daniels Corporation, Sun Life Assurance Company of Canada, WoodGreen Community Services, the federal and provincial governments and the City of Toronto to create 34 affordable apartments in a new 346-unit building.

These spacious two- and three-bedroom apartments will house women and their families who have graduated from homelessness to self-sufficiency through WoodGreen's Homeward Bound program. Their starting rent will be 80% of CMHC's Average Market Rent across Toronto – up to 50% lower than the market rent for new apartments in the vicinity – and will remain affordable for 40 years. The affordable apartments are distributed throughout the building and are indistinguishable from the building's remaining apartments. The mother-led families who move into these apartments will enjoy the same benefits as anyone else in the building. And although as Homeward Bound graduates they are unlikely to need ongoing support, WoodGreen is there should an emergency arise.

Harnessing Civic Capital

Every city brims with civic assets – the tangible and intangible resources that can be tapped to promote the common good.

This is a story of private, public and civic partners creating inclusive affordable housing in a building already under construction. In other words, they made the most of existing assets – the land, the building, downtown infrastructure and services, expertise and relationships – to benefit the working mothers most in need of a spacious, affordable downtown living. The partners reduced their collective risks, and Canadian cities have a new scalable model to draw upon.

To learn how others have made the most of our shared civic assets, visit: www.civic.capital

A Replicable Response to Canada's Affordable Housing Crisis

By every measure, it is becoming harder and harder for Canadian families to find an affordable home.

A 2020 survey of 92 major housing markets in eight countries ranked Vancouver the second least affordable city after Hong Kong, and Toronto the 5th least affordable. Montreal and Ottawa-Gatineau also ranked as "severely unaffordable."¹

In October 2020, in the midst of a pandemic, the average rent for Toronto's two-bedroom apartments increased 4.4% over the preceding year, and three-bedrooms increased 7.4%.² The prognosis for the next decade, according to a recent market survey? Worsening conditions among already severely burdened households, steeply rising rents, a further distancing of house prices from wages and a severe lack of supply of social/affordable housing.³

In response to the growing housing crisis, the federal government has promised to invest in the creation of 125,000 new affordable homes through its National

Housing Strategy,⁴ and cities have set ambitious affordable-housing targets. The City of Toronto, for example, set a 10-year goal to create 40,000 affordable homes.⁵ In Vancouver, the 10-year target is 72,000 new homes, half serving households earning less than \$80,000 per year.⁶

These public commitments are essential. However, the targets are unlikely to be met if it takes four years or more to shepherd even the most modest affordable housing development through land acquisition, planning approvals and construction. Instead, we need fresh approaches to respond to the market conditions in Canada's major cities, take advantage of opportunities in buildings already in the development pipeline, and in the process offer pension funds, insurance companies and other patient investors a secure return.

This report shows how a developer, an investor, a non-profit organization and a municipality were each prepared to "give a little" to create the affordable housing Canadian cities need – and do it now.

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1. Urban Reform Institute and the Frontier Centre for Public Policy, Demographia International Housing Affordability, 2021 Edition. The ranking compares the median house priced divided by the gross median household income in Australian, New Zealand, Hong Kong, Singapore, the UK, Ireland and the US. <http://demographia.com/dhi.pdf>
 2. Canada Mortgage and Housing Corporation, Rental Market Reports 2020 for Toronto, and Vancouver, January 28, 2021. <https://www.cmhc-schl.gc.ca/en/data-and-research/data-tables/rental-market-report-data-tables>
 3. Canadian Centre for Economic Analysis and the Canadian Urban Institute, Toronto Housing Market Analysis, From Insight to Action, January 2019, Executive Summary. <https://www.toronto.ca/legdocs/mmis/2019/ph/bgrd/backgroundfile-140633.pdf>
 4. Government of Canada, National Housing Strategy, What is the National Housing Strategy, retrieved March 1, 2021. <https://www.placetocalhome.ca/what-is-the-strategy#:~:text=The%20National%20Housing%20Strategy%20is%20committed%20to%3A%20creating,home%20because%20of%20their%20gender%2C%20religion%20or%20background>
 5. City of Toronto, HousingTO 2020-2030 Action Plan, p. 12. Retrieved March 1, 2020. <https://www.toronto.ca/wp-content/uploads/2020/04/94f0-housing-to-2020-2030-action-plan-housing-secretariat.pdf>
 6. City of Vancouver, Housing Vancouver Strategy. <https://vancouver.ca/people-programs/housing-vancouver-strategy.aspx>

HOW IT BEGAN: THE FIRST STEP IS PARTNERSHIP

It Began with the Developer and a Willing Investor

In 2017 The **Daniels Corporation's** President Mitchell Cohen listened to the affordable housing targets discussed during Toronto's municipal election campaign and wondered, "What would make it possible to achieve these ambitious goals?"

It was clear the conventional paths to affordable housing development would not be enough. In the preceding few years the City had only once met its affordable housing target of 1,000 new units per year.⁷ Affordable housing developments were taking six to seven years to move from land acquisition to occupancy. In some cases, delays in funding and planning approvals were causing non-profit housing developers to lose sites.⁸

Cohen asked, "What would it take to re-purpose developments already in the pipeline to create affordable housing." Daniels already had a number of developments in the works. Among them was EVOLV, a 346-unit rental building under construction in Toronto's Regent Park neighbourhood.

Daniels Corporation reached out to EVOLV's investment partner **Sun Life Assurance Company** to test whether EVOLV might become a "test case" for a new approach to financing affordable housing. Sun Life understood the need for more affordable housing, but they also had obligations to their clients. That meant that reductions in rents would need to be at least partially offset with reductions in operating costs. It did not matter where those offsets came from – capital infusions, rent subsidies, management efficiencies – as long as they permitted a reasonable return on investment.

The Essential Government Funding Role

Enter the **City of Toronto's Housing Secretariat** and the **Federal/Provincial Ontario Priorities Housing Initiative (OPHI)**. The Housing Secretariat is the City's affordable housing development lead, responsible for delivering federal, provincial and municipal affordable housing programs and working with the private and non-profit sectors to develop and maintain Toronto's affordable housing stock. The Daniels Corporation met with the Secretariat to explore options available to

7. City of Toronto, Budget Summaries for City Programs and Services, 2016 - 2020. <https://www.toronto.ca/city-government/budget-finances/city-budget/previous-budgets/2016-city-budget/>

8. Toronto Alliance to End Homelessness, Developing Supportive Housing in Toronto: Experiences, Challenges and Ideas, April 2019. <https://static1.squarespace.com/static/56c4a231d51cd428ca552a3a/t/5cc084b7b208fcf03996eea2/1556120763631/Developing+supportive+housing+%281%29.pdf>

them. In addition to the City's Open Door Affordable Rental Housing Program, a contribution from the City's allocation of Federal/Provincial OPHI funding was a natural fit.

The Non-profit Partner

Daniels also sought a partner in the non-profit sector that would provide the crucial role of referring and supporting the tenants in EVOLV's affordable two- and three-bedroom apartments under construction.

The right match was found in **WoodGreen Community Services**. WoodGreen is one of Toronto's largest multi-service agencies and the second largest non-profit housing provider, owning and managing over 800 deeply affordable non-profit units at 16 sites. Among

WoodGreen's initiatives is Homeward Bound, a four-year program that enables homeless or inadequately housed single mothers to achieve economic self-sufficiency. The program provides free education, affordable housing, on-site childcare and after-school programs, counselling, internships and access to sustainable employment through Industry Partners.

Homeward Bound graduates earn an average of \$43,000 per year. That is a significant achievement for someone graduating from homelessness, but it is not enough to rent a home when vacant two-bedroom apartments in Toronto are affordable only to households earning more than \$80,000 per year. The EVOLV partnership will enable graduates to build on their success, free from the stress of an unaffordable rent in the open market.



Across the Greater Toronto Area and across Canada there are thousands of units under construction and thousands more in the pipeline. This is the time to act."

- Mitchell Cohen, President, The Daniels Corporation

The Partners:

The Daniels Corporation

The Daniels Corporation is one of Canada's leading developers and builders. Over the past 37 years, it has created more than 30,000 new homes across the Greater Toronto Area.

Daniels has a long history of working with the non-profit sector. It was Toronto Community Housing's lead partner in the revitalization of 53 of the 69 acres in the Regent Park neighbourhood. Daniels has also partnered with Habitat for Humanity to create affordable ownership opportunities, with Artscape, Toronto Community Housing and the Regent Park community to create the Daniels Spectrum arts facility, and with Egale to build Canada's first facility combining counseling, emergency and transitional housing dedicated exclusively to serving homeless LGBTIQ2S youth.

Sun Life Assurance Company

Sun Life is a leading international financial services organization providing insurance, wealth and asset management solutions to individual and corporate clients. Sun Life has operations in a number of markets worldwide, including Canada, the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Japan, Indonesia, India, China, Australia, Singapore, Vietnam, Malaysia and Bermuda. As of December 31, 2020, Sun Life had total assets under management of \$1,247 billion. Sun Life Financial Inc. trades on the Toronto (TSX), New York (NYSE) and Philippine (PSE) stock exchanges under the ticker symbol SLF.

WoodGreen Community Services

With a rich history spanning more than 80 years, WoodGreen is one of Toronto's largest social service agencies, serving 37,000 people each year from 36 locations. WoodGreen's poverty reduction purpose spans many demographics, including seniors, low-income families and individuals and people with disabilities. WoodGreen believes that when everyone has access to safe and affordable housing, all citizens of Toronto benefit.

Government funders

This project was supported by the Government of Canada and the Province of Ontario through the Ontario Priorities Housing Initiative, and contributions from the City of Toronto.

The City of Toronto has made affordable housing a top priority. In 2019, after extensive public consultation it approved an ambitious blueprint for action through its HousingTO 2020-2030 Action Plan. The plan calls for 40,000 new affordable rental homes, including 18,000 new supportive home approvals for vulnerable residents and a minimum 10,000 units for women and girls including women-led households. This new supply agenda is complemented with initiatives to prevent evictions and preserve and invest in existing private and non-profit rental housing.

THE TURNING POINT: BRIDGING THE AFFORDABILITY GAP

In September 2019, the City of Toronto called for proposals from non-profit organizations to create affordable rental housing using part of the City's funding allocation from the Federal-Provincial Ontario Priorities Housing Initiative (OPHI).⁹

WoodGreen applied on behalf of the partnership and was one of five successful non-profit proponents under the fund's rental housing development/acquisition stream. The City committed \$5.1 Million in OPHI funds, or \$150,000 for each of the 34 affordable units. Through the Open Door Program, the City also waived property taxes on the 34 affordable units for the 40-year affordability period. According to the City, this 40-year tax waiver has a net present value of \$720,847.

The Result: 34 spacious family-sized apartments for Homeward Bound graduates and their families. The apartments are scattered throughout the building – no poor-door here! – and tenants can enjoy all the amenities available to other tenants. WoodGreen will identify the tenants, collect rents, cover any arrears or vacancy loss and be available for ongoing support if the tenancy is at risk.

The apartments rent for 80% of Toronto's city-wide Average Market Rent as reported by CMHC, but are 47% - 60% lower than rents for apartments in the immediate area. Over the 40-year affordability period, rents will rise by the Ontario Provincial Rent Guideline. When an apartment is vacated during the affordability period, rents will be adjusted to 80% of the CMHC Average Market Rent (AMR) in that year.

Set Rent for Each Unit Type:

Unit Type	Number of Units	Average Size (SF)	Dwelling Type	80% of CMHC AMR*	Local Market Rent	% below local market rent
2 Bedroom	25	707	Apartment	\$1,194	\$2,250	47 %
2 Bed + Den	2	825	Apartment	\$1,194	\$2,443	51 %
3 Bedroom	7	1031	Apartment	\$1,331	\$3,306	60 %

* Average Market Rent as reported by Canada Mortgage and Housing Corporation

9. City of Toronto Request for Proposals For Non-Profit Affordable Rental Housing Development & Rooming House Repair and Rehabilitation, September 18, 2019. Document on file with authors.

The Ontario Priorities Housing Initiative (OPHI)

The City's 2019 OPHI proposal call was a time-limited opportunity, but the program requirements were similar to those of other current Federal and Federal-Provincial affordable housing initiatives.

The Proposal Call

\$16 Million in Federal and Ontario funding was made available by the City from its OPHI allocation. The OPHI covered a maximum 75% of total capital costs via a 30-year forgivable loan. In addition, the City of Toronto waived development charges, planning fees and property taxes, as it does for other developments through the City's Open Door Program.

Timing

Funding committed by December 13, 2019 with construction beginning before April 11, 2020. Planning approvals and building permits must be in place.

Affordability Targets

- Rents must be no greater than 80% of the CMHC's City-wide Average Market Rent
- Rents must stay affordable for at least 30 years, including a five-year phase-out as units are vacated. Annual rent increases are limited to the lesser of the Ontario Rent Increase Guideline or the increase in CMHC's City-wide Average Market Rent.

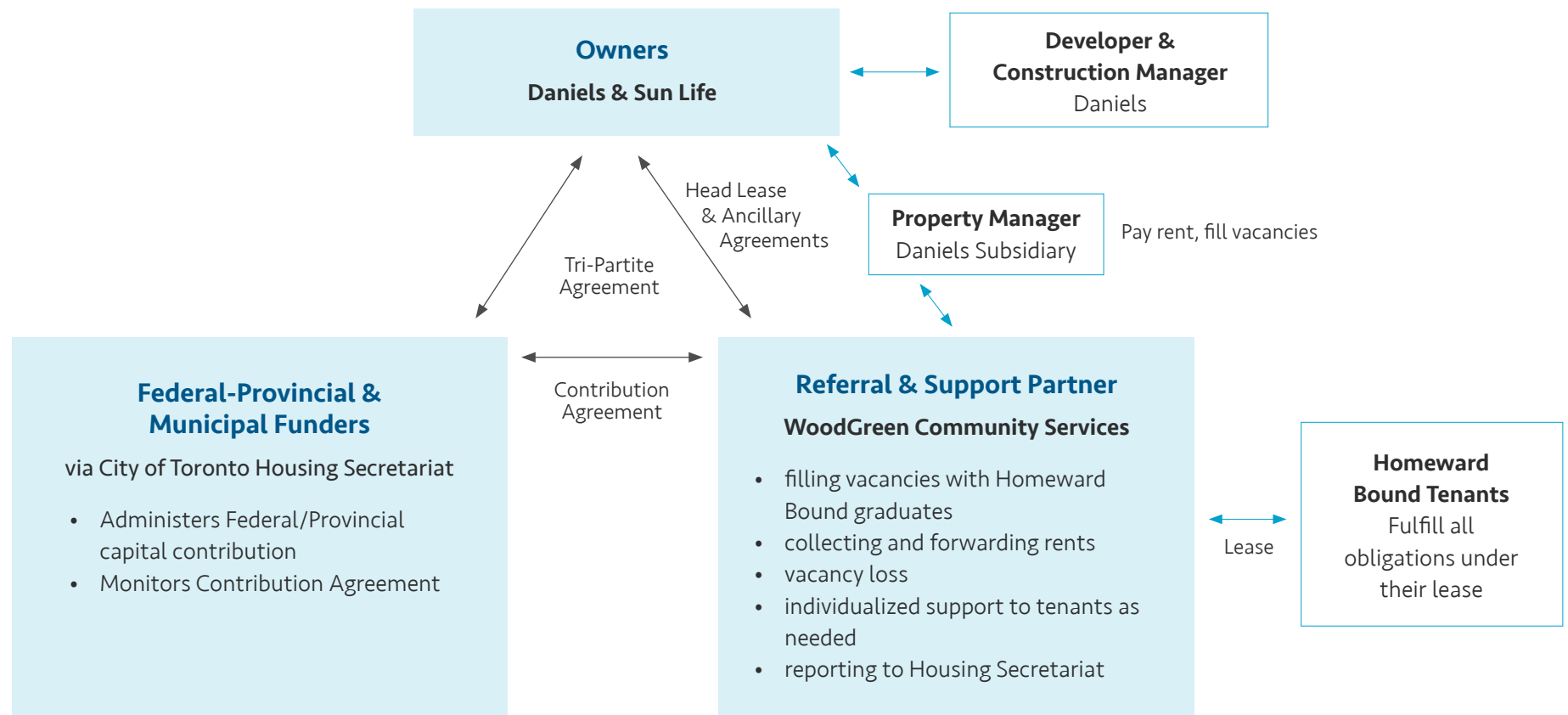
City Priorities

In evaluating proposals, the City looked for deeper affordability, longer affordability periods, development and management qualifications, financial soundness, quality design and barrier-free units.



THE STRUCTURE OF THE DEAL

With the necessary funding for the affordable units secured, Daniels, Sun Life and WoodGreen entered into a 40-year partnership that builds on the strengths of each party. The partnership is governed by agreements, still being finalized at the time this report was published, that define the benefits and obligations of each party.



Give a Little, Gain a Lot

As with all good partnerships, each partner in the EVOLV project has something to contribute and something to gain.

CONTRIBUTION

GAINS

WoodGreen Community Services	
<p>Government liaison. As sole partner eligible for public affordable housing funds, assumes responsibility for obtaining government funding and upholding responsibilities of a 40-year Contribution Agreement with the City of Toronto</p> <p>Tenancy management, including responsibility for residential tenant recruitment, retention, vacancy management and rent collection at an estimated cost of \$68,000/year</p> <p>Insurance at an estimated cost of \$10,000 per year</p>	<p>Family-sized quality units for mother-led working families in a mixed-income community</p> <p>Advances its own growth targets, now severely limited to WoodGreen-owned land or through acquisitions or mergers with other non-profit housing providers</p> <p>Limited risk. No capital invested. Owners assume responsibility for building development and operations.</p> <p>Opportunities to learn from best practices in property management and customer service in a high-end private rental building</p>
The Owners: Daniels & Sun Life	
<p>A reduction of approximately 10 basis points (or 0.1%) from the anticipated (but higher risk) returns that could have been earned in a 100% market-rent building</p> <p>A reduction in the value of the property should the owners wish to sell.</p>	<p>A secure and predictable return for their clients and investors</p> <p>Assured full occupancy and rent paid. Any challenges with tenants referred to WoodGreen</p> <p>Access to public funds available only to non-profit organizations, in this case valued at \$5.1 Million in Federal/Provincial capital funds (and would have included City waivers for development fees and charges had the affordable component been included pre-development)</p> <p>Relief from the risk of property tax increases at a time when municipalities are pressured to increase taxes faster than inflation</p> <p>Recognition as civic leaders by piloting a voluntary path to inclusionary housing</p> <p>Assurance to clients and other stakeholders that the financial impact of ethical investment is minimal, but the public benefit can be significant</p>

CONTRIBUTION

GAINS

City of Toronto	
<p>Property tax revenues on 34 units over 40 years – 10 years longer than required in RFP – with an estimated net present value of \$720,847</p> <p>Opportunity cost of directing \$5.1 Million of provincial funding to this project as opposed to another initiative</p>	<p>A replicable model for what could be a very significant contribution to Toronto’s affordable housing stock</p> <p>A higher percentage of affordable rental units than envisioned in the City’s proposed Inclusionary Zoning policy</p> <p>Affordable family-sized units -- a rarity in private-sector new builds</p> <p>Effective engagement of the non-profit sector and an alternate approach to creating supportive housing</p>

THE BENEFITS

Flexibility and speed

The EVOLV partnership enabled WoodGreen to enter the partnership mid-construction, without tying up its staff through a long, uncertain approvals and construction process. The result was 34 affordable apartments in 1.5 years, compared to a 4+ year process if it had started from scratch.

This flexibility also allowed the partners to take advantage of government proposals whenever they arose in the development process, unlike purpose-built affordable housing that must await government funding before proceeding.

Specialization

Daniels brings development expertise and, with \$1 Billion in projects under development and another \$1.5 Billion in the pipeline, the connections to bring partners to the table and ensure contractors deliver. It also brings expertise as building managers – something not every non-profit agency has – and the benefits of operating at scale.

WoodGreen is eligible for funds not available to the private sector, has strong civic connections, and brings a deep understanding of tenants' needs and a broad network of service providers to address those needs. It is also accountable to government funders, offering them the assurance that public funds will secure affordability in the long-term.

Integration

Lower-income families can enjoy the same quality housing and amenities as their wealthier neighbours. Unlike a stand-alone affordable housing building, which requires its own management staff and contracted services, the EVOLV model shares these costs across the building.

Long-term affordability

Unlike housing allowances – the most common approach to creating affordable housing within private rental buildings – affordability is guaranteed for 40 years at a lower cost. It would cost \$8.2 Million to provide 34 EVOLV families with the typical \$500 housing allowance over 40 years, and yet bridge only half the gap between EVOLV's affordable and market rents. It is this gap that has relegated housing allowances chiefly to older building at the low end of the market. Under the EVOLV model, tenants can enjoy the benefits of living in a new building at a lower cost to the public. Following the 30th year, and then annually, WoodGreen and Daniels will work together to discuss a process for transitioning to market rates in year 40 onwards in the context of affordability commitments to the City and Tenants as defined by Legislation.



Controlled risk

The owners are protected because WoodGreen assumes some of the risks associated with being a landlord: vacancy loss, arrears, damages, or conflicts among neighbours. Should the partnership with WoodGreen break down for any reason the owners, working with the City of Toronto, could seek out an alternative supportive housing provider.

WoodGreen is protected from any capital or operating cost overruns. If the developer walked away from the deal mid-development, tenants would be disappointed but WoodGreen would not suffer any losses.

Tenants are protected from arbitrary evictions or rent increases by the Residential Tenancies Act and the Provincial Rent Increases Guideline.

The City is protected from escalating costs by a capped capital contribution, with no cost over-runs.

Summary of Project Benefits:

	Yes	No
Enables non-profit agencies without development capacity to grow	●	
Reduces delivery time	●	
Offers a model that can be replicated	●	
Offers permanent affordability		● *
Offers deep affordability		● †
Predictable number of units delivered annually	●	
Offers high quality units	●	
Offers income mixing/social integration	●	

* Affordability for as long as property taxes are waived.
 † Requires additional financial assistance from government.

THE POTENTIAL FOR REPLICATION

In the City of Toronto alone there are 12,500 purpose-built rental apartment units under construction, over 148,000 residential units with at least one planning approval, and another 193,000 units under review.¹⁰ What would it take to replicate the EVOLV model and ensure that at least some of these new homes are affordable to the majority of Toronto renters who cannot afford to live in a new building?

The Right Partners

- A **developer** prepared to assemble the partnership with a suitable project under development
- A **long-term investor**, such as an insurance company, pension fund or Real Estate Investment Trust prepared to reduce returns by 8 - 12 basis points for a public benefit
- A **non-profit partner** with the capacity to deliver services over the long term, the willingness to adapt practices in a building they do not own, and the credibility to obtain public funds. In this model, it is the municipality that ultimately approves the non-profit partner.
- A **funder from any level of government** ready to support creative partnerships. A significant challenge for municipal governments is the stop-and-start nature of federal/provincial programs. A predictable stream of senior government funding would be transformational.

A Plan to "Close the Gap" between Market and Affordable Rents

EVOLV's owners were prepared to accept a reduced return on investment, but they could not afford to absorb the entire shortfall between market and affordable rents. Reducing the rents on 34 units represented \$560,000 per year in lost revenues, equivalent to 40 basis points of return on investment. The EVOLV model, with the initial capital injection and ongoing property tax waiver, reduced this shortfall to an annual loss of \$140,000, the equivalent of approximately 10 basis points.

The EVOLV model offers one way to bridge the affordability gap. But there are other ways to keep rents affordable or meet other needs, all while offering a reasonable return on investment.

10. City of Toronto, City Planning Division, Development Pipeline 2020, October 2020, p. 6.

Affordable in Perpetuity

The EVOLV model assumes an affordability period at 40 years. However, extending the property tax waiver would keep units affordable at the same level as long as the waiver was in place. Should the City wish to end the agreement, they could terminate with notice. Rents would remain affordable to sitting tenants but would revert to market rents as tenants left.

Stacking the EVOLV Model with Other Initiatives

The EVOLV model and the variations listed above could build on other public initiatives to increase the number of affordable units or to provide a greater depth of affordability.

For example, in Toronto the EVOLV model could be stacked onto future phases of the Housing Now Program, which offers developers access to City-owned lands at below-market prices.

It could also enhance Toronto's Inclusionary Zoning (IZ) initiative now under development. The small set-asides now under discussion for rental buildings can make it challenging to manage the affordable units created. A tax-waiver approach could increase the number of affordable units in IZ-regulated buildings, as well as facilitate the management of these units.

Finally, it could be stacked with provincial support funding to broaden the range of potential non-profit partners and the tenants housed. The EVOLV model required a non-profit partner large enough to absorb the costs and the risks of supporting tenants. Provincial funding programs could enable niche support providers to house seniors, people with disabilities and others seeking affordable, integrated housing who would particularly benefit from the greater physical accessibility often available in new buildings.

A Readiness to Work Through the Details

As with any new venture, the partnership between WoodGreen, the City and the owners required answers to a host of "What ifs . . . ?" Answering these questions required patience among all the partners. It also required lawyers with deep experience in both non-profit and private sector development to codify the outcome of these discussions in written agreements.

The good news is that the partners, and others interested in similar developments, can benefit from the EVOLV experience. The agreements developed for this project can become the template for similar developments. And WoodGreen is already considering improvements to incorporate into the next project, such as extending the affordability period from 40 years to the life of the building and reducing WoodGreen's risk by building in a buffer for vacancy loss.

