Affordable, Available, Achievable

Practical Solutions to Affordable Housing Challenges

April 2003

The Toronto Board of Trade

Table of Contents

Executive Summary

The Toronto Board of Trade is committed to a competitive and vibrant Toronto. In recent submissions to government, we have made the case for a new deal for the city and asked governments to address the problems of Toronto's crumbling infrastructure. In particular, we have called for a five-year capital plan to support transportation, affordable housing and development of Toronto's waterfront. This report is concerned solely with affordable rental and ownership housing as a key factor in creating a city that is competitive with other North American centres and offers a compelling quality of life.

Toronto's supply of affordable housing is inadequate. The same is true in a number of other cities. Ultimately, the supply of affordable housing affects the success of all businesses. Along with other infrastructure components, it helps to determine whether or not companies and employees locate in the city. A lack of affordable housing can lead to a host of other, more serious social and economic problems.

Toronto is an expensive place to live. Approximately one-third of families in the Toronto CMA are paying more than 30 per cent of their incomes for shelter. The average rental price for Toronto apartments is beyond what many people can afford.

Governments have taken some small steps to address affordable housing challenges – but action to date is inadequate. The Toronto Board of Trade believes that the shortage of affordable housing is a problem that can be solved. The solutions require changes to government policy and funding, largely through the tax system. Some of the recommendations in this report can be implemented immediately, at little cost to government. They include:

- **Development and implementation of a national affordable housing strategy.**
- **An expanded mandate for the Canada Mortgage and Housing Corporation (CMHC).**
- **Simple changes to the federal tax system as it affects construction and operation of rental housing.**

Recommendations that would be implemented over a five-year period, with higher associated costs include:

- **Tax changes to encourage businesses to invest in rental housing and to prevent the demolition of older affordable buildings.**
- **Greater equity in the property tax system between residential and rental housing.**
- **Measures to encourage reclamation of "brownfield" sites for use in housing.**
- **Introduction of a new tax credit and a tax exemption on Ontario Opportunity Bonds to stimulate construction of affordable rental and ownership housing.**

We encourage governments to work with the private sector to increase the supply of affordable housing. Increasing the supply of affordable housing will help the business community remain competitive and ensure that people can both live and work in Toronto.

A Board of Trade Perspective on the Housing Problem

By any measure, Toronto is a vibrant and growing city. Home to over two million people comprising some 90 ethnic groups, the city is a dynamic centre of culture, media and entertainment, and the business powerhouse that drives the economic engine of Canada.

Yet signs of a decline in the quality of city life are everywhere – from the growing number of the homeless on downtown streets to the rush-hour gridlock that paralyses the main arteries of the city. The *New York Times* has described Toronto as "fraying" under the strain and no longer able to keep up with the demand for housing and other services created by an ever-growing population.

As Toronto has grown, the supply of affordable housing has shrunk. Many people who work in Toronto can no longer afford to live here. Those who find a place often struggle with the high costs of shelter, while others who choose to live outside Toronto become unwitting contributors to urban sprawl and traffic congestion.

How big is the problem of affordable housing in Toronto? According to Canada Mortgage and Housing Corporation (CMHC)[1], families who pay more than 30 per cent of their income on housing are considered cost burdened and may have difficulty affording other necessities such as food and clothing. In 1996 there were approximately 375,000 families (or 33 per cent of all families) in the Toronto CMA who paid over 30 per cent of their income on housing.[2]

The severe shortage of affordable housing is one of the major issues facing the city. It is a longstanding concern of the Toronto Board of Trade and a key component of the Board's call for a new deal for Toronto. In June 2000, the Board released *Building Solutions to Homelessness: A Business Perspective on Homelessness and Toronto's Housing Crisis,* a report containing recommendations directed at the federal, provincial and municipal governments.

Our June 2002 report, *Strong City, Strong Nation*, recommended immediate action to address Toronto's crumbling infrastructure and called on government to develop a five-year agreement to support transportation, affordable housing and Toronto's waterfront. The Toronto Board of Trade has made similar recommendations in a series of federal, provincial and municipal budget submissions.

We are concerned that, without enhanced investment in the city's infrastructure, Toronto will be unable to maintain its competitive edge, resulting in the city playing a much-diminished role in the economic life of the province and the nation.

[1] CMHC Web Site, *Frequently Asked Questions, Affordable Housing*, October 2002.
[2] Statistics Canada, *Census families in private households by selected household and dwelling characteristics, Census Metropolitan Areas,* 1996 Census.

In recent years, all levels of government have announced initiatives to deal with this pressing issue. However, much more needs to be done. This report contains several recommendations for improving Toronto's stock of adequate, affordable housing.
One way of understanding "affordable housing" is to view it as a continuum. At one end is the shelter system and emergency housing for those in direst need. Transitional and supportive housing is near the centre and permanent stable housing lies at the other end of the spectrum. While emergency and transitional housing represent important needs, *this report focuses on permanent affordable rental and affordable ownership housing*.

Why Affordable Housing Matters to the Business Community

Affordable housing is one of the major factors in creating an attractive, liveable and competitive city. Along with other infrastructure components, it determines whether or not businesses locate or expand their operations here and influences the willingness of employees and their families to move to or remain in the city. A lack of affordable housing often leads to other social problems, including homelessness and crime, as well as a general deterioration in the quality of city life. Among many other problems, it has important consequences for the desirability of Toronto as a tourist destination and major convention centre. Ultimately, it affects the success of all businesses in the Toronto area and our collective opportunities as employees and citizens.

There are many practical reasons why the supply of affordable housing is important to Toronto's business community:

Affordable housing is a strong selling point for attracting and retaining employees. Toronto competes with some 300 international city regions and many smaller centres for investment, new business and employees. The cities that attract the best and the brightest people are those that successfully leverage their competitive advantages – housing being one of them. People will flock to a city that offers a good supply and mix of housing that people of varying occupations and income levels can afford.

Toronto must be able to house people who provide essential services. The people most affected by Toronto's affordable housing crisis are lower income earners who provide important services. These include employees from a broad range of business sectors. Toronto cannot afford to provide such valuable employees and their families with anything less than adequate and affordable housing.

Businesses in Toronto must remain competitive with respect to labour costs. As housing costs rise, so must wages. To stay competitive with other global companies, firms in Toronto must be able to keep their wage bills reasonable.

Businesses need healthy and productive employees. Businesses pay a high cost in terms of lost productivity, absenteeism and illness when employees are forced to commute long distances to work or are constantly worried about living costs and living accommodations.

Affordable housing represents a partial solution to Toronto's growing traffic problems. More than 70 per cent of major highways in the GTA are now congested in peak periods, resulting in serious delays in business deliveries and significantly increasing businesses' transportation costs. Moreover, congestion is forecast to increase dramatically throughout the region over the next twenty years. The Board estimates that the cost of congestion to businesses could reach $3 billion annually, or 1.3 per cent of regional GDP by 2021.[3] More affordable housing in the city represents a partial solution to this growing problem.

The affordable housing crunch will only become worse as the city grows. Census data show that 100,000 new arrivals are being added every year to the population of the Greater Toronto Area. A recent study by the city suggests that population and employment across the GTA will grow by 2.19 million residents and 1.45 million jobs respectively between 1996 and 2021. This influx of new residents will put an immense strain on all facets of the city's infrastructure, including affordable housing.

Availability and Affordability of Rental Housing

The struggle to find decent, affordable housing in Toronto – a struggle that often pits young working professionals against families and seniors – has become part of the lore of city living. Here is one account:

> *They rise at six a.m., grab a coffee and start scanning the classifieds, the alternative weeklies, the on-line listings, the ethnic papers. No time for a shower. They approach the search like a military campaign, the kitchen table strewn with maps, flow charts and highlighters. At seven a.m., they start to place the calls…. By nine a.m., it's too late: the best places will be gone. Welcome to the world of apartment hunting in Toronto.*
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> *Toronto Life*, "Renter's Hell," Wendy Dennis, March 2002.

For anyone who has chased down apartment space in Toronto in recent years this description might sound all too familiar.

Why has Toronto's rental market become so tight? There are several contributing factors, among them a long-term decline in construction in new rental housing. In Ontario, such construction has fallen from an annual average of 37,000 (private and government assisted) units in the early 1970s to less than 2,000 (private sector constructed) units annually for the four-year period 1997-2001.[4]

Unfortunately, it is no longer economical for private developers to construct affordable rental units. According to a recent report completed for the Ministry of Municipal Affairs

[3] Toronto Board of Trade, *A Strategy for Rail-Based Transit in the GTA,* July 2001.
[4] Ministry of Municipal Affairs and Housing, Housing Supply Working Group Interim Report, *Affordable Rental Housing Supply: The Dynamics of the Market and Recommendations for Encouraging New Supply,* May 2001.

and Housing, the spread between the cost of developing new projects and the return required by investors is insufficient to motivate the construction of units with rental rates below $1,000 per month. Developers would require a subsidy of $75,000 per unit to justify construction of units with a targeted monthly rent of $900.[5]

Without action to stimulate new rental construction, the problem will only become worse. According to a recent Ontario government report, the shortfall of new rental units projected over the next fifteen years, based on current rates of production, will be 14,000 new rental units per year.

The loss of rental housing stock due to demolition and condominium conversion is further contributing to a tight rental market. From 1991 to 2001, 8,300 apartment units were demolished across the country.[6] In addition, over 13,000 rental units were lost to condo conversions over a five-year period in the 1990s.[7]

Cities require an estimated rental vacancy rate of at least two to three per cent to ensure an adequate supply of affordable housing. However, in Toronto, the imbalance in the supply and demand of rental space has created a situation characterised by excessively low vacancy rates – at or below one per cent for much of the recent past – and very high rents, making it difficult for many to make ends meet.

Table 1: Average Rents in the Toronto CMA
(dollars)

Average Rents	2000	2001	2002
1-Bedroom	$830	$866	$891
2-Bedroom	$979	$1,027	$1,047

Source: CMHC, Rental Statistics, November 2002.

To afford a one-bedroom apartment costing $891 per month, while paying less than 30 per cent of one's income on rent, as recommended by CMHC, a single person in Toronto would have to earn at least $35,640 per year. Many in Toronto, including workers in the hospitality, service, retail, or food and beverage industries, earn less than this figure and would have difficulty affording that one-bedroom unit.

Fortunately, there has recently been an improvement in the rental market. According to CMHC's latest annual report on rental markets, the average apartment vacancy rate in Canada's metropolitan centres rose to 1.7 per cent in October 2002 from 1.1 per cent in October 2001. This is the first increase in vacancy rates since 1992, and appears to be due mainly to the recent decline in mortgage interest rates, which has encouraged many renters to buy homes. Table 2 shows the improvements in vacancy rates in cities across Canada.

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[5] Ministry of Municipal Affairs and Housing, Housing Supply Working Group, *Comparative Real Estate Finance Analysis,* prepared by Ernst & Young, 2000.

[6] Canadian Housing and Renewal Association, *Municipal Initiatives: Stemming the Loss of Rental Stock*, October 2002.

[7] Federation of Canadian Municipalities, *Towards a National Housing Strategy: A Working Paper Prepared for the FCM Big City Mayors Conference,* April 2000.

Table 2: Vacancy Rates across Canada (%)

City	1999	2000	2001	2002
Vancouver	2.7	1.4	1.0	1.4
Calgary	2.8	1.3	1.2	2.9
Winnipeg	3.0	2.0	1.4	1.2
Toronto	0.9	0.6	0.9	2.5
Montreal	3.0	1.5	0.6	0.7

Source: CMHC, Rental Statistics, November 2002.

Table 3 shows a similar pattern for other cities in Ontario.

Table 3: Vacancy Rates in Cities across Ontario (%)

City	1999	2000	2001	2002
Hamilton	1.9	1.7	1.3	1.6
Kitchener	1.0	0.7	0.9	2.3
London	3.5	2.2	1.6	2.0
Oshawa	1.7	1.7	1.3	2.3
Ottawa	0.7	.2	.8	1.9

Source: CMHC, Rental Statistics November 2002.

While it is encouraging to see vacancy rates improving, this is unlikely to become a long-term trend, particularly for Toronto, with its rapidly expanding population base.

Funding Affordable Housing in Canada and the U.S.

Canadians often assume that our approach to social issues is more comprehensive and compassionate than how these matters are handled in the U.S. But when it comes to affordable housing, we can learn a lot from our American friends.

Affordable housing is funded in dramatically different ways in United States than in Canada. For example, the U.S. uses a variety of tax and other incentives to leverage development dollars out of the private sector. Few such programs exist in Canada, and this accounts for the noticeable difference in the total number of rental units completed in each jurisdiction. In the U.S., total rental completions (including both market rate and affordable rental) have accounted for more than 16 per cent of total new housing production over the past 10 years. The comparable figure in Canada is nine per cent.[8]

[8] CMHC, extract from *The Role of Public Private Partnerships in Producing Affordable Housing: Assessment of the U.S. Experience and Lessons for Canada,* prepared by Steve Pomeroy and Greg Lampert, in association with James Wallace and Robert Sheehan, July 1998.

Private enterprise in the U.S. is generally much more active in the affordable housing sector than is the case in Canada. For that reason, the U.S. private sector also tends to be more aware of needs and has formed a much closer relationship with the not-for-profit sector in advocating for more affordable housing.

So-called "third parties" are also more involved in U.S. rental construction. The tax credit system in the U.S. necessitates a third party to bring together those who receive the tax credits (housing financing agencies) and those who wish to purchase them (developers) and to assist with the technical aspects of making the tax credits work. This role is played by an array of institutions in the U.S., including the community development subsidiaries of major financial institutions and non-profit corporations. This broad institutional framework also ensures that communities have the information and the access to programs that are required to tackle their affordable housing needs. A similar network of institutions has not evolved in Canada, largely because of the way we have financed affordable housing.

The two charts that follow outline the primary programs designed to stimulate rental construction in Ontario and the United States. Details of some of these programs are contained in Appendix 2 of the report.

Chart 1: Major Programs Available in Ontario to Fund Affordable Housing

Measure	Explanation	Estimated Cost
Federal-Provincial-Territorial Housing Agreement	***The federal government and each of the provinces and territories will sign bilateral agreements which match federal contributions to provincial/territorial contributions up to $25,000 per unit***	$1 billion over 5 years from the federal government. Matching funds can be cash or in-kind contributions. (Ontario's portion is approximately $360 million)
Federal Residential Rehabilitation Assistance Program (RRAP)	A federal program used to upgrade the homes of low income renters, rooming house residents and homeowners	$7.5 million to the city in 2000
Canada Mortgage and Housing Corporation	Provides mortgage insurance for commercial and individual residences	
Province of Ontario PST grants	The province provides grants of $2,000 per unit for a new purpose built rental unit	Total investment of $20 million
City of Toronto "Let's Build" Program	The program has many components that encourage new affordable housing. These include: loans from a Capital Revolving Fund; exemptions from municipal development charges; property tax exemptions	Total amount of the CRF is $10.8 million

Chart 2: Available in the United States to Fund Affordable Housing

Measure	Explanation	Estimated Cost (U.S. $)
Community Reinvestment Act (1977)	Encourages financial institutions to reinvest in their communities. Each lender's performance is publicly disclosed. Helps prevent "red-lining" of poor neighbourhoods	NA. There is no evidence that suggests red-lining exists in Canada
Low Income Housing Tax Credit	A subsidy program created within the U.S. Tax Code for rental housing. States receive a per capita allocation	Over $3.4 billion annually
Tax Exempt Bonds	Bonds which are exempt from Federal and State taxes, generally with terms of 10 to 30 years	Proceeds of bonds undertaken in support of rental housing totalled just over $3 billion in 2000
Community Development Block Grants	Provides formula-based federal block grants to communities for redevelopment and revitalization activities	CDBG annual appropriation is over $4 billion, approximately $200 million annually is used for affordable housing
HOME Investment Partnership Program	Provides federal grants to state and local levels to assist in housing strategies tailored to low income needs	The program was funded at $1.8 billion in 2001
Fannie Mae	Purchases mortgages in the secondary mortgage market in the U.S. Develops community lending mortgage products for low income purchasers	Fannie Mae has committed $2 trillion by 2010 to their "American Dream Commitment" which will increase affordable ownership and affordable rental

Practical Solutions

A developer's decision to construct affordable housing, whether for rental or ownership, is affected by government policies at the federal, provincial and municipal levels.

Taxes are a major consideration. Income taxes, and the GST in particular, have a significant impact on investor decisions. In fact, changes to federal tax policy in the early 1970s were largely responsible for a subsequent decrease in the number of new, purpose-built multi-residential rental units. Property taxes also have a major impact: higher property taxes on purpose-built multi-residential units in Toronto, as compared to taxes on either condominium or other ownership housing, has tended to discourage new rental construction.

Other factors affecting investment include interest rates, access to low cost mortgage insurance and the availability of serviced land. Rent-control laws, as well as landlord tenant legislation, also affect the long-term profitability of rental investments.

The Board of Trade believes that changes to government policy represent an important first step in solving the affordable housing crisis. We recognize that governments have taken action in recent years to address the challenge of affordable housing. The province of Ontario has made several legislative and regulatory changes to give municipalities more flexibility in dealing with the issue of affordable housing. The federal government and provinces have also signed a framework agreement on affordable housing. In Ontario's case, a bilateral agreement with Ottawa will result in approximately $360 million in federal funds being invested in affordable housing over a five-year period. Matching grants are to be provided by the province and municipalities.

The city has also been active on this issue through its *Let's Build* program. This offers prospective builders the services of experienced development and housing professionals, who can assist in the planning and development process, plus a toolkit of incentives to increase the economic viability of affordable housing projects. These incentives may include the use of city owned land, the waiving of development fees, tax incentives and one-time financial assistance from the city's $11 million Capital Revolving Fund for Affordable Housing.[9]

But the Board of Trade believes much more can be done. The recommendations that follow are divided into those that could be carried out within the next year, with little cost to government, and those which could be implemented over the next five years and have higher costs associated with them.

We also believe that the private sector can play a leadership role in expanding the city's stock of affordable housing, providing it is allowed to generate reasonable returns in doing so.

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[9] City of Toronto Web Site, *Let's Build Outlook*, October 2002.

Solutions for the Short Term

Many of our recommendations can be fully implemented within one year. They include: the development of a national housing strategy; changes to the mandate and focus of the Canada Mortgage and Housing Corporation (CMHC); federal tax changes; and, the sale of surplus lands.

Canada needs a national housing strategy
The federal government has a leadership role to play in developing a national housing strategy. Affordable housing is a national problem. We believe that Canada needs a national co-ordinated housing strategy, involving all levels of government, which would focus on increasing the availability of affordable housing.

Such a strategy would recognize the need to foster an investment climate that encourages the construction of affordable rental and ownership housing, promotes housing and support services, and provides financial assistance to low income tenants who are most at risk in cities like Toronto.

The Board of Trade recommends:

- That the federal government develop and implement a comprehensive and co-ordinated national housing strategy to address the shortage of affordable housing.

Canada's national housing agency needs to focus on affordable housing
The Canada Mortgage and Housing Corporation (CMHC) is Canada's national housing agency. It provides mortgage insurance and financial assistance for low income Canadians, conducts research and administers the federal government's housing agreements and programs. But the agency has few tools to promote affordable housing, and little flexibility to implement new ideas.

CMHC's effectiveness would be enhanced if it had the authority and used its resources to research solutions to the affordable housing crisis, coordinate affordable housing funding and disseminate information about affordable housing across Canada. CMHC should also be given the tools to support construction of affordable rental and ownership housing, if this direction becomes part of a future housing policy.

CMHC's surplus is growing. It is projected to grow from $1 billion in 2001 to $3 billion in 2006. We believe that CMHC should use a portion of its growing surplus to ease underwriting criteria for multi-residential projects.

The Board of Trade recommends:

- That the federal government enhance CMHC's mandate to allow it to expand its research activities and communication function and improve its co-ordination of non-profit housing initiatives
- That the federal government should direct the CMHC to use a portion of its mortgage insurance fund surplus to lower mortgage insurance terms and premiums for multi-residential projects.

Federal tax changes will spur the development of more rental housing
Efforts by the federal government over the past 30 years to close loopholes in the federal tax system have discouraged private investment in rental housing. Changes in three areas – the tax treatment of losses due to Capital Cost Allowance (CCA), the amount of CCA deductible, allowable soft cost expenses[10] and the application of tax on capital gains – have substantially reduced the attractiveness of rental construction. The application of the GST to the full cost of new rental housing is also a serious deterrent to investment.

The federal budget of 2000 extended a residential rental property rebate of 2.5 per cent for newly constructed, substantially renovated and converted residential rental accommodation. However, we believe that substantial changes in the tax system are still needed to encourage investment in rental housing and must be part of any national housing policy.

Recent cost-benefit analyses suggest that just three measures will yield revenues to the federal government that more than offset revenue loss due to tax changes: a full GST rebate, an increase of the CCA rate to five per cent and immediate deductibility of soft costs. Construction of just 6,000 or more incremental units will fully cover the costs incurred by making these changes.[11]

The Board of Trade recommends that the federal government**:**
- Allow a full rebate of GST on new rental housing projects;
- Increase CCA to five per cent for new rental housing; and
- Expand the "soft costs" which can be deducted in the first year of operation of new rental properties

The cost of building affordable rental and ownership housing can be lowered
The Sale of Surplus Lands
Various government agencies and departments – including Canada Lands, Public Works and Government Services Canada, the Ontario Realty Corporation, and the municipal Chief Administrators Office — are all charged with the disposal of government lands as part of their mandate.

A big challenge in developing affordable housing is procuring land. This could be addressed, in part, by giving priority in purchasing government lands at market value to investors who intend to build affordable housing.

Such investors also face problems in gaining access to financing and meeting onerous zoning requirements. We suggest that institutions responsible for selling government surplus land show greater flexibility by accepting conditional offers with a term of one year instead of six months, and by requiring only a nominal deposit on the land (less than the current 10 per cent).

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[10] Soft costs are costs which are necessary to prepare and complete the non-construction needs of projects such as: architecture, design, engineering, permits, consultants, inspections etc.
[11] Ministry of Municipal Affairs and Housing, Housing Supply Working Group, Second Report, *Creating a Positive Climate for Rental Housing Development Through Tax and Mortgage Insurance Reforms*, November 2002.

The Board of Trade recommends:

- Governments at the federal, provincial, and municipal levels give priority to developers planning to build affordable housing by making land available at market rates.
- Governments at the federal, provincial, and municipal levels give their agencies in charge of selling surplus land the flexibility to accept one year conditional offers from developers of affordable housing.
- Conditions for the above should be based on such criteria as receiving zoning for the property and arranging financing.
- Greater flexibility should also be allowed in the amount of deposit required from those building affordable housing.

Solutions for the long term

In the United States, over $8.5 billion annually is spent by governments on affordable housing. These programs in turn encourage the private sector to invest in construction, with spin-off benefits throughout the economy. Programs available to the province of Ontario (including the federal-provincial housing agreement) equal approximately $85 million per year for affordable housing – a meagre amount by any measure.

Our longer-term recommendations would require a significantly larger financial commitment from governments and be implemented over a five-year period.

The tax system can be used to prevent the demolition of older affordable housing
Federal tax laws require an investor who sells an investment in rental property to pay taxes if the sale price exceeds the depreciated value of the project. The taxes payable are based on a combination of recaptured depreciation and capital gains, and act as a deterrent to selling the project. In some cases, the investor demolishes the existing property to avoid the tax consequences of recapture.[12] Since 2000, the city of Toronto has lost 431 rental units to demolition.[13]

There are two ways that the federal government could amend tax policy to discourage investors from demolishing affordable rental buildings. It could allow individuals to <u>defer</u> capital gains tax if the proceeds of the sale of one rental property are invested in another rental property. It could also allow individuals to receive a reduction on the amount of taxes on capital gains owing on the disposition of a rental property if the property is given to a public foundation that would continue to manage the building as an affordable housing project.

Both of these tax policy changes would discourage investors from demolishing older affordable housing investments.

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[12] Ministry of Municipal Affairs and Housing, Housing Supply Working Group, *Options for Changes in Federal Taxes To Encourage New Rental Construction*, report prepared by Greg Lampert and Steve Pomeroy, March 2002.
[13] The Toronto Board of Trade, *Strong City, Strong Nation,* 2002.

The Board of Trade recommends:

- Federal taxation laws be changed to allow the deferral of capital gains tax and recaptured depreciation on the sale of a rental building -- provided the proceeds are invested in another rental building of greater or equal value.
- Section 38 of the Income Tax Act (Canada) should be amended to encourage gifts of land or land and buildings to public foundations established for the purpose of providing affordable housing.

Property taxes should be fair and equitable

Another way to increase the supply of rental housing is to provide property tax equity across the property tax system. Multi-residential and business property owners are taxed at a much higher rate than the residential tax class. In our report of June 2000, the Board of Trade called on the city to remove the eight-year time limit that allowed new multi-residential developments to be taxed at the rate equal to the residential class. A provincial *Assessment Act* amendment now permits municipalities to increase the time limit from 8 to 35 years for new rental units.

While we continue to support fair multi-residential tax treatment, we are concerned that this reduction may be carried out, as suggested in a recent provincial report,[14] by distributing the costs of the reduction among all property classes.

The Board of Trade recommends:

- The province must ensure that over time, the property tax burden is fairly balanced across property tax classes.

Tax changes that will encourage businesses to invest in rental housing

Since 1972, income tax rules affecting rental housing have become increasingly punitive. Individual investors who may own one or two rental properties are not entitled to deduct CCA losses against other income.

Small businesses that invest solely in rental properties are excluded from the favourable tax treatment afforded other small businesses by the small business deduction. Specifically, small businesses, which do nothing but rent real estate and have fewer than five employees, are excluded from this beneficial tax rate.[15]

Both the federal and provincial governments assess capital taxes against large corporations, including those that invest in real estate. Assessing capital taxes on businesses that invest in new rental housing decreases the expected return to these companies from their investment and serves to discourage investment.

We were pleased with the announcements in the 2003 provincial and federal budgets to eliminate the capital tax by 2008.

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[14] Marcel Beaubien, MPP, Special Advisor to the Minister of Finance, *Property Assessment and Classification Review, Final Report,* Fall 2002.

[15] Ministry of Municipal Affairs and Housing, Housing Supply Working Group, *Options for Changes in Federal Taxes To Encourage New Rental Construction*, report prepared by Greg Lampert and Steve Pomeroy, March 2002.

The Board of Trade recommends:

- The federal government allow all investors in new rental housing projects, and not just principal business corporations, to deduct CCA losses against other income.
- The federal government allow the small business deduction to be extended to all small businesses that invest in new rental housing.

Brownfields can provide a new pool of land for affordable housing

Brownfields are idle or underused properties that may be contaminated but also have potential for remediation. They are located mainly in established urban areas, where existing municipal services are readily available or along transportation corridors. It has been estimated that there may be as many as 30,000 brownfield sites in Canada.[16]

In Ontario, brownfield sites are located in almost all established communities with an industrial past. Greater Toronto and Hamilton have the largest number of old industrial sites in this province, and it an estimated 10 to 15 per cent of these sites are brownfields.[17]

Those interested in redeveloping brownfields are often faced with several challenges, including financing, environmental liability and cleanup costs. The Board of Trade participated in the Brownfields Policy Review and subsequently made comments on Bill 56, *The Brownfields Statute Law Amendment Act*. Despite the good work of the province in removing barriers to remediation and redevelopment of brownfields, much more progress can be achieved.

We urge the provincial and federal governments to make a larger, longer-term financial commitment to brownfield remediation by providing financial incentives in line with the level of commitment provided in the U.S. In addition to municipal tax relief, and a brownfield fund, potential incentives could include tax abatement, tax credits, waiving of fees and provincial sales tax rebates.

There are many approaches to remediation and re-using brownfields safely. One method that could be used for developing sites for affordable housing is the risk-based remediation approach. This method restores brownfields to a state as safe as they would have been had a dig-and-dump approach been used, but at much reduced cost. This allows developers to recapture property for affordable housing at a relatively low cost.

The federal, provincial and municipal governments should develop procedures to encourage the use of such approaches where properties are to be used for affordable housing. Streamlined and supportive approval regimes are needed to support these efforts. Governments should also permit former owners and polluters of such property, who properly contribute to the remediation and development of affordable housing, to be exempted from potential future liability, both civilly and under the regulatory regime. Such methods should include review and approval under the *Brownfields Statute Law Amendment Act, 2001* procedures, together with indemnities from the Province and the

[16] National Round Table on the Environment and the Economy, *National Brownfields Redevelopment Strategy,* February 2003.
[17] Ministry of Municipal Affairs and Housing Web Site, *Brownfields Showcase*, February 2003.

municipality, to provide protection from potential liability. Using such an approach would safeguard people's rights, while ensuring that any risks associated with such development would be borne by the public, which would benefit most from more affordable housing.

While the province allows the city to provide municipal tax incentives to owners of brownfields, both the federal and provincial governments have failed to put in place funding or incentives to encourage clean up and redevelopment.

The Toronto Board of Trade is encouraged by the recent report by the National Round Table on the Environment and the Economy, which recommends a national strategy for the clean up of brownfields. We welcome the attention paid to harmonizing federal and provincial regulations to promote a favourable environment for private sector participation in brownfields clean up.

The Board of Trade recommends:

- That municipal governments offer tax relief to developers of affordable housing who purchase and remediate brownfields sites.
- That the provincial government and the federal government create a fund or tax incentive that would help defray the costs of cleaning up brownfields sites for developers of affordable housing.
- That the provincial government take further steps to protect those remediating brownfields by clarifying that those innocent parties (developers, bankers, owners, occupiers) who are involved in the remediation and subsequent use of contaminated sites are not liable, either civilly or under the regulatory regime, for contamination that has migrated from the property to another property.
- That the provincial government develop a streamlined approvals procedure for the redevelopment of brownfield sites for affordable housing based on risk-based remediation approaches.
- That the provincial government and the municipalities develop a process to indemnify those involved in the brownfield redevelopment process for affordable housing from any future liabilities (both civilly and under the regulatory regime) that may arise with respect to the property. (This would include former owners and polluters of the property who properly contribute to the redevelopment process.)
- That the federal government examine innovative financing and liability arrangements that would encourage the clean up and redevelopment of brownfields for affordable housing.

New sources of financing for affordable housing should be created

Funds for Affordable Housing

In the U.S., the Low Income Housing Tax Credit (LIHTC) has been highly successful in attracting private sector funding for affordable housing. The LIHTC is a tax credit worth 100 per cent of the investment and costs the U.S. treasury approximately $3.4 billion annually. One component of a multi-layered financing system, the tax credit is structured to pay a part of the cost of an affordable housing project. The tax credit does a successful job of levering money out of private sector investors and encouraging them to invest in affordable housing.

Canada has never had a program resembling the LIHTC, but we have had funds created to assist small businesses (Labour Sponsored Venture Capital Corporations or LSVCC) since the early 80s. The LSVCC, one of the few tax credit vehicles available to passive investors in Canada offers a 30 per cent tax credit that is split equally between the federal and provincial governments.[18] The purpose of the LSVCC is to encourage investment in Canadian companies with less than $50 million in assets and fewer than 500 employees.

A new tax vehicle modelled on the LSVCC -- an Affordable Housing Venture Capital Corporations (AHVCC) -- could be created to allow ordinary Canadians to invest in affordable housing and receive a sizable tax credit.

The Board of Trade recommends:

- The federal government consider creating a new tax credit modelled after the tax credit available through labour sponsored venture capital corporations. This new tax credit would encourage ordinary Canadians to invest in affordable housing venture capital corporations, which would in turn invest in affordable housing projects.

Tax Exempt Bonds

Tax-exempt bonds have been used successfully in the United States to raise financing for affordable housing. Proceeds can be used to fund below-market mortgages for both first time homebuyers and for multi-family rental development.[19]

The Ontario government has created tax-free Opportunity Bonds to assist municipalities with important infrastructure projects. The new program is designed to provide a provincial tax exemption to investors in opportunity bonds. Unfortunately, interest earned by investors will still be taxable by the federal government. If this program is to be effective, the federal government must exempt holders of Opportunity Bonds from taxation.

The Board of Trade recommends:

- The federal government exempt interest earned on Opportunity Bonds from federal taxation.

[18] VanCity Enterprises, Exploring *Tax Based Measures to Attract Private Investment for Affordable Housing: Discussion Paper*, prepared by Steve Pomeroy, December 2001.
[19] CMHC, extract from *The Role of Public Private Partnerships in Producing Affordable Housing: Assessment of the U.S. Experience and Lessons for Canada,* prepared by Steve Pomeroy and Greg Lampert, in association with James Wallace and Robert Sheehan, July 1998.

Conclusion

Affordable housing is critical to our competitiveness. The supply of affordable housing affects the success of all businesses in Toronto and our opportunities as citizens. Government must ensure that the policy framework is in place to encourage the private sector to build more affordable housing.

We believe that our recommendations to address affordable housing challenges in Toronto and other cities are achievable.

Resolving affordable housing in Toronto will ensure that we remain a world-class city. It will help the business community remain competitive and keep Toronto a vibrant urban centre.

We encourage government to work with the private sector to increase the supply of affordable housing. The time has come to make the policy and tax changes required to ensure an adequate supply of affordable housing.

Appendix One: Summary of Recommendations

MUNICIPALITIES	PROVINCE OF ONTARIO	FEDERAL GOVERNMENT
Short –term Recommendations SURPLUS LAND • Priority should be given to developers planning to build affordable housing in making land available at market rates • Municipalities should give their agencies in charge of selling surplus land the flexibility to accept one year conditional offers from developers of affordable housing • Municipalities should be flexible on conditions such as zoning, financing and the amount of deposit for those building affordable housing **Long-term Recommendations** BROWNFIELDS • Municipalities should offer municipal tax relief to developers of affordable housing who purchase and remediate brownfield sites • The province and municipalities should develop a procedure to provide indemnities to protect those involved in the brownfield redevelopment process for affordable housing from any future liabilities that may arise with respect to the properties	**Short –term Recommendations** SURPLUS LAND • Priority should be given to developers planning to build affordable housing by making land available at market rates • The Province should give their agencies in charge of selling surplus land the flexibility to accept one year conditional offers from developers of affordable housing • The Province should be flexible on conditions such as zoning, financing, and the amount of deposit required for those building affordable housing **Long–term Recommendations** BROWNFIELDS • The province, along with the federal government should create a fund or tax incentive that would help defray the costs of cleaning up brownfields sites for developers of affordable housing • That the province take further steps to protect those remediating brownfields by clarifying that those parties who are involved in the remediation and subsequent use of contaminated sites are not liable for contamination that has migrated from the property to another property	**Short–term Recommendations** SURPLUS LAND • Priority should be given to developers planning to build affordable housing by making land available at market rates • The Province should give their agencies in charge of selling surplus land the flexibility to accept one year conditional offers from developers of affordable housing • The federal government should be flexible on conditions such as financing, and the amount of deposit required for those building affordable housing • Greater flexibility should be allowed in the amount of deposit required from those building affordable housing CMHC • CMHC's mandate should be enhanced to expand its research activities and communication function and improve its co-ordination of non-profit housing initiatives • The federal government should direct the CMHC to use a portion of its mortgage insurance fund surplus to lower mortgage insurance terms and premiums for multi-residential projects TAXATION CHANGES • The federal government should allow a full rebate of GST on new rental housing projects • The federal government should increase the CCA to 5 per cent for new rental housing • The federal government should expand the definition of "soft costs" which can be deducted in the first year of operation of new rental properties

Appendix One: Summary of Recommendations (con't)

<table>
<tr><th>MUNICIPALITIES</th><th>PROVINCE OF ONTARIO</th><th>FEDERAL GOVERNMENT</th></tr>
<tr><td></td><td>Recommendations
• That the province develop a streamlined approvals procedure for the redevelopment of brownfield sites for affordable housing based on risk based remediation approaches
• That the province and municipalities should develop a procedure to provide indemnities to protect those involved in the brownfield redevelopment process for affordable housing from any future liabilities that may arise with respect to the properties
PROPERTY TAXATION
• The Province must ensure that over time, the property tax burden is fairly balanced across property tax classes</td><td>Recommendations
NATIONAL HOUSING STRATEGY
• The federal government develop a national housing strategy
FURTHER TAXATION
• The federal government should allow the deferral for capital gains tax and recaptured depreciation on the sale of rental buildings, provided the proceeds are invested in another rental building of greater or equal value
• The federal government should expand provisions in Section 38 of the Income Tax Act (Canada) to gifts of land or land and buildings to public foundations established for the purpose of providing affordable housing
• The federal government should extend to all investors in rental housing projects and not just Principal Business Corporations, the opportunity to deduct CCA losses against other income
• The federal government should allow landlords of smaller properties to qualify as small businesses
NEW SOURCES OF FINANCING
• The federal government consider creating a new tax credit modelled after the tax credit available through labour sponsored venture capital corporations
• The federal government exempt interest earned on Opportunity Bonds from federal taxation
BROWNFIELDS
• The federal government should examine innovative financing and liability arrangements which would encourage the clean-up and redevelopment of brownfields</td></tr>
</table>

Appendix Two: Programs in Canada and the U.S.

Affordable Housing Programs in Canada

Federal Participation
Federal participation in social housing can be traced back to the end of the Second World War, when the federal government was challenged to house returning soldiers. The response was a plan to build and maintain affordable housing for veterans, administered by the Canada Mortgage and Housing Corporation (CMHC).[20]

During the 1950s and 1960s, CMHC's mandate was broadened to provide affordable housing for low-income families. Federal participation in the building of social housing continued until the early 1990s, when the federal government virtually stopped participating in the construction of new social housing. In its most recent annual report, CMHC describes itself as "Canada's National Housing Agency", with a mandate to deliver on public policy objectives while remaining commercially viable.[21] In 1973 the government of the day amended the National Housing Act to create the non-profit and co-op housing supply programs. Non-profit housing provides housing owned by not-for-profit groups in the local community. While still funded by CMHC, governance of the housing was placed in the community.

In terms of home ownership, Canadian lenders (chartered banks and credit unions) can lend up to 75per cent of the estimated value of the real estate being purchased. Only CMHC, and its private sector competitor, GE Capital and Mortgage Insurance, have the authority to insure up to 95per cent of the value of the real estate. For rental housing, CMHC is the only organization in Canada that provides mortgage insurance for the development of rental housing projects.

Participation in Ontario
Ontario was the first province to establish a housing agency in the mid 1960s (the Ontario Housing Corporation) in order to take advantage of provisions in the National Housing Act (NHA) which provided for 90 per cent loans and a contribution of 50 per cent of the operating losses of a subsidized housing project owned by a provincial, municipal, or public housing agency.[22] Among the provinces, Ontario is the largest provider of public housing. While Ontario contains 37 per cent of all households in Canada, it has 55 per cent of all Canada's public housing units.[23]

Between 1985 and 1989, the Ontario government funded the building of non-profits and co-ops through the then Ministry of Housing. In 1995 the province effectively stopped participating in the building of social housing.

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[20] Ontario Non-Profit Housing Association Web Site, October 2002.
[21] CMHC Annual Report, *Making a Difference Together*, 2001.
[22] Fannie Mae Foundation, Housing Policy Debates, Volume 6, Issue 4, *Challenges of Public Housing in the 1990s: The Case of Ontario, Canada by* Nancy Smith, Ontario Housing Corporation, 1996.
[23] Ibid.

In January of 1997, the provincial government announced that provincial responsibilities for social housing would be devolved to municipalities as part of their "local services alignment." The Ontario Non-Profit Housing Association reports that non-profit housing is the most common form of social housing in Ontario, providing 49 per cent of social housing in the province.

In terms of building new "purpose built" rental housing, a report carried out for the provincial government notes that rental housing, even at the high end, has not been economic to build for those in the development industry since the mid-1970's.[24] A major factor behind the decline in rental housing was the removal of more favourable federal income tax treatment. The report notes that the federal government in response to concerns that the existing system was encouraging speculation implemented a series of reforms to the tax treatment of rental housing.

Affordable Housing Programs in the United States

Housing and Urban Development

The U.S. Department of Housing and Urban Development (HUD) is the U.S. federal equivalent of the Canadian governments CMHC in that HUD's mission is to expand the supply of affordable housing for low-income families. HUD's definition of affordability is for a household to pay no more than 30 per cent of its annual income on housing. However, in 1999, at the tail end of the nation's longest economic expansion, 12 million renters and homeowner households paid more then 50 per cent of their annual incomes for housing in the United States.[25] HUD administers a number of programs available to states, communities and non-profits, all designed to increase the stock of housing affordable to those with low incomes.

The system of providing financing for affordable housing in the United States is a combination of legislative requirements and incentives to invest for the private sector.

The Community Reinvestment Act

On the legislative side, the U.S. has the Community Reinvestment Act of 1977 (CRA), which was enacted to encourage banking institutions to help meet the needs of their entire communities, including low and moderate income neighbourhoods, consistent with the safe and sound operation of the institution.[26] The CRA requires that each insured depository institution's record in helping meet the credit needs of its entire community be evaluated periodically, and ratings be provided based on lending activity. That rating record is taken into account by regulators when considering an institution's application for deposit facilities, including mergers and acquisitions. [27] The CRA has allowed many innovations that lever participation in the affordable housing field from partners who might otherwise not have worked together. For instance, lending consortia have been created under the CRA.

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[24] Ministry of Municipal Affairs and Housing, Housing Supply Working Group Interim Report, *Affordable Rental Housing Supply: The Dynamics of the Market and Recommendations for Encouraging New Supply,* May 2001.
[25] U.S. Department of Housing and Urban Development Web Site, October 2002.
[26] Federal Reserve Study On the Performance of the Community Reinvestment Act of 1977, 2000.
[27] Federal Financial Institutions Examination Council (FFIEC) Web Site, September 2002.

The Low Income Housing Tax Credit

The U.S. has a multi-layered system that provides a number of different financial incentives for building affordable housing. The Low Income Housing Tax Credit (LIHTC) is recognized as perhaps the single largest source of support for affordable rental development and rehabilitation in the United States.[28] The tax credit is a subsidy program for rental housing created within the U.S. federal tax code. The program is administered by a designated allocating agency in each state – in most cases, this would be the state's housing finance agency. Each state receives a per capita allocation, which has been $1.25 per capita since its inception in 1986.

The per capita allocation was recently raised to $1.50 for 2001 and to $1.75 effective in 2002. Thereafter, it will index with inflation. Each allocation earns 10 years worth of credits at a cost to the U.S. federal treasury of over $ 3.4 billion annually.[29] The housing tax credits are allocated to affordable housing rental projects within the receiving state's borders. For a rental project, tax credits are available only for those rental units that are rented to tenants with incomes at or below 60 per cent of the local area median income. The tax credit program originally required a 15-year tax credit compliance period; however in 1990, the rent restriction period was extended 15 years for a total of 30 years. The IRS recaptures a portion of the tax credits taken if a project does not operate for the full compliance period.[30]

Once the credits are secured to build the affordable housing units, the developers sell or syndicate the tax credits to raise equity for the development.[31] Investors in the projects create limited partnerships, thus limiting their liability in the projects. Investors usually keep the investment for the life of the tax credits and then sell the project to a non-profit.

Housing Financing Agencies

Various states have state Housing Financing Agencies (HFAs), which were created in the 1960's with a mandate to raise financing for affordable housing. These agencies are allowed to issue tax-exempt bonds on which the interest is exempt from federal taxes with a cap of $75 per capita or $225 million per state -- whichever is greater. HFAs can also issue tax-exempt bonds on behalf of charitable tax-exempt organizations. There is no cap on these bonds, which can be used to develop housing owned by charitable non-profits.[32]

Community Grants

Community Development Block Grants (CDBG) are grants which are allocated based on a formula and support a wide range of community development activities including neighbourhood revitalization, economic development, and improvements to services and facilities.

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[28] Ministry of Municipal Affairs and Housing, Housing Supply Working Group Interim Report, *Affordable Rental Housing Supply: The Dynamics of the Market and Recommendations for Encouraging New Supply,* May 2001.

[29] Ernst &Young Kenneth Leventhal Real Estate Group, *The Low-Income Housing Tax Credit: the First Decade*, 2001.

[30] The Enterprise Social Investment Corporation Web Site, September 2002.

[31] CMHC, extract from The Role of Public Private Partnerships in Producing Affordable Housing: Assessment of the U.S. Experience and Lessons for Canada, prepared by Steve Pomeroy and Greg Lampert, in association with James Wallace and Robert Sheehan, July 1998.

[32] Ministry of Municipal Affairs and Housing, Housing Supply Working Group Interim Report, *Affordable Rental Housing Supply: The Dynamics of the Market and Recommendations for Encouraging New Supply,* May 2001.

The legislation dictates that 70 per cent of the funds must be used for activities that benefit low and moderate-income persons or aid in the prevention or elimination of slums or blight. In 1998, the cost to the federal treasury was $4.2 billion.[33]

The HOME Investment Partnership

The HOME Investment Partnership program provides federal funds to mainly local and state governments for broadly defined housing programs. HOME requires a matching requirement from the participating jurisdiction. In 2001, the HOME program cost the federal treasury approximately $1.8 billion.[34]

The last major federal assistance for affordable housing comes in the form of changes that were made to the tax code. The 1981 Economic Recovery Tax Act (ERTA) shortened the depreciation period for rental investments. The tax provisions also applied to passive investors, permitting losses to be applied against income from other sources.[35]

In 1997, it was estimated that the U.S. government spent over $120 billion a year for housing subsidies. [36] While the U.S. system has a number of innovations and has strong private sector involvement, it is not without its critics.

Critics argue that the largest and most regressive housing subsidies are the tax expenditures for investors and homeowners. They cite 1995 figures and estimate that deductions for mortgage interest and for property taxes in that year cost the federal government over $72.5 billion. They estimate that approximately one-half (49.7 per cent) of the $58.3 billion in mortgage interest deductions goes to the wealthiest 5.6 per cent of taxpayers with incomes over $100,000. The 1.2 per cent of taxpayers with incomes over $200,000 received $12.6 billion on mortgage interest deduction, representing 21.6 per cent of the entire amount.[37]

The Role of Philanthropists

Philanthropists are more heavily involved in the affordable housing sector in the U.S. than they are in Canada. In fact, philanthropists have been trying to resolve the affordable housing challenge in the U.S. since the late 1800s. While they have tried many approaches over the years, they have found that throwing money at the problem is not the solution.

Lobbying senior levels of government in the U.S. for policy changes is one of the main roles that the foundations in the U.S. play. During the 1990s, foundation giving for housing and shelter was estimated to be between 1.2 and 1.4 per cent of all grant making.[38]

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[33] CMHC, extract from *The Role of Public Private Partnerships in Producing Affordable Housing: Assessment of the U.S. Experience and Lessons for Canada,* prepared by Steve Pomeroy and Greg Lampert, in association with James Wallace and Robert Sheehan, July 1998.
[34] Ministry of Municipal Affairs and Housing, Housing Supply Working Group, The *Context for Private Rental Housing Production in the U.S.,* prepared by Greg Lampert and Steve Pomeroy, March 2002.
[35] Ibid.
[36] Fannie Mae Foundation, Housing Policy Debates, Volume 8, Issue 1, *Philanthropy and the Housing Crisis: The Dilemmas of Private Charity and Public Policy*, Peter Dreir.
[37] Ibid.
[38] Fannie Mae Foundation, Housing Policy Debates, Volume 8, Issue 1, *Philanthropy and the Housing Crisis: The Dilemmas of Private Charity and Public Policy*, Peter Dreir.

Two of the largest private foundations in the U.S. that play a role in the area of affordable housing are The Ford Foundation, through it's creation of Local Initiatives Support Corporation (LISC), and the Enterprise Foundation, founded by developer James Rouse. According to Peter Dreier, who has written on the role of philanthropies in the U.S., both LISC and the Enterprise Foundation serve two major purposes: they use their networks to get major corporations, banks, local governments and local community foundations to provide operating support, loans and equity to Community Develop Corporations (CDCs) and they provide technical assistance to community development corporations to help improve their development, management and fundraising skills.[39] Both organizations are heavily involved in lobbying for changes to the tax system to create a similar vehicle to the low income housing tax credit for affordable ownership housing. There are, of course, numerous other foundations in the U.S., which support affordable housing, mainly through local projects at the community level.

There are more than 3,600 community development corporations in the U.S.. CDCs have produced approximately 550,000 affordable homes and apartments in the U.S. In addition, they have provided nearly $2 billion in financing to almost 60,000 businesses, developed 71 million square feet of commercial and industrial space and created nearly 250,000 jobs. Almost all of this activity has occurred in the most distressed neighbourhoods in America.[40]

While the U.S. government heavily funds the U.S. system, the ability to leverage investment dollars out of the private sector to build affordable rental housing is something that the Canadian system – to date – has not been able to achieve. There are many advantages to having the private sector involved with affordable housing. The fight to get funding to build affordable housing is carried out by both business and social groups. All governments find it particularly difficult to say no to an issue when stakeholders from all parts of the social and economic spectrum argue for the same thing.

Because there is an awareness in the private sector of the business of "affordable housing" – and of the ability to make a reasonable return from investing in it – there are always new players coming up with creative ways of building new housing. That said, for all of the money that the U.S. spends on affordable housing each year, many problems persist. A recent study carried out by the Fannie Mae Foundation reported that working families in the U.S. consider the lack of affordable homes to be as big a problem as the lack of affordable health care in the U.S. Roughly the same percentage of working Americans believe that lack of affordable homes is a very or fairly big problem compared to the lack of affordable heath care, and more believe it is a very or fairly big problem compared to high unemployment or crime. [41]

[39] Ibid.
[40] Enterprise Foundation Web Site, September 2002.
[41] Fannie Mae Foundation Web Site, June 2002.

Appendix Three: Innovations in Canada

The following are some examples of innovations in affordable rental and ownership in Canada that have been developed by various organizations, despite the lack of significant federal, provincial, or municipal dollars available.

Fonds d'Investissement de Montreal

The Montreal investment fund was formed in 1996 as a result of a number of private sector partners getting together to fund purchases, renovations, and upgrades to the existing housing stock. The original partners in the fund were: the Quebec Solidarity Fund; Caisses Desjardins du Quebec; National Bank of Canada; Royal Bank of Canada, Hydro Quebec; and, Claridge Investments. The fund has $5 million, and the members have invested for a 15-year period. The annual rate of return is approximately 4per cent, and the fund is used mainly to renovate apartment buildings and low rise housing stock. The housing is managed by a non-profit organization and is rented out as affordable housing, with 84per cent of households earning less than $30,000 annually. To date 300 affordable units have been created and the fund is planning to expand by an additional $5 million[42]

Borealis and Concert Properties Ltd.

Concert Properties (a BC based pension fund owned company) and Borealis Capital Corporation (which is owned in part by OMERS) have established a joint venture that will develop, own, and operate rental housing in Ontario – focused mainly in Toronto and Ottawa. Concert and Borealis will develop two types of rental properties. One which will be strictly rental and which will be aimed at the mid-market renters. Both companies are taking a long-term view of these investments, and expect a return of 8 – 12 per cent on their investments. These projects will be registered as condominiums in order to take advantage of the favourable property tax rates that condominiums enjoy over rental properties.

The second type of project that Borealis and Concert plan to undertake, in partnership with the appropriate government agencies, is the development of rental properties with a certain percentage of units tagged affordable – and thus available for funding under the Canada/Ontario Housing Agreement ($25,000 per unit). The developers are also working closely with the city of Toronto to determine what other benefits can be conveyed as a result of the change in the Municipal Act regulation (O. Reg. 189/01) which enables municipalities to convey benefits to the private sector in exchange for the delivery of affordable housing. - such as loans or grants, long-term land leases, sale of city-owned land at below-market value, partial or full exemptions from municipal development charges, and property tax exemptions.

Options for Homes

Options for Homes is a private, not for profit, corporation led by development professionals who obtain access to residential land and pre-sell ownership homes to low-and-moderate income households. It coordinates the design and development of buildings on these lands, with the goal of keeping all costs to a minimum on behalf of these households.

Options makes the homes available to purchasers at 10-15 per cent below market value. Each home carries a second mortgage on title that equals the difference between the cost price and market value. These mortgages are payable upon resale and go into an equity pool that must be used to develop other similar projects. This allows owners to sell at any time and benefit from a market appreciation, only on the funds they invested themselves. Options have generated $2.5 million in cash and $13 million in mortgages on the first five buildings they have built in this fashion.[43]

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[42] Information from a presentation given by C. Guidon to the Canadian Housing and Renewal Association, and conversations with Robert Cohen, Montreal.

[43] Options for Homes*, The Key to Home Ownership for Everyone: Frequently Asked Questions* 2002.

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