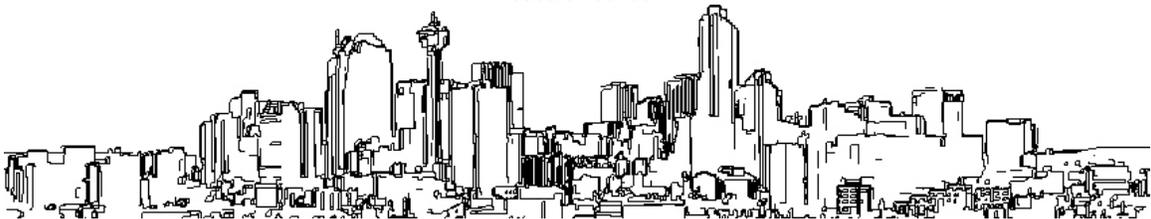


**AN UNTAPPED RESOURCE:  
ENCOURAGING PRIVATE SECTOR ENGAGEMENT IN  
AFFORDABLE HOUSING**

**Cities, Policy & Planning**  
research series



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# AN UNTAPPED RESOURCE: ENCOURAGING PRIVATE SECTOR ENGAGEMENT IN AFFORDABLE HOUSING

Melissa Witwer

Supervisor: Dr Sasha Tsenkova

December 2007

Cities, Policy & Planning  
research series



ENVIRONMENTAL | UNIVERSITY OF  
DESIGN | CALGARY

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**UNIVERSITY OF  
CALGARY**



**Poverty Reduction Coalition**



**United Way**  
of Calgary and Area

<b>Executive Summary .....</b>	<b>3</b>
<b>1. Introduction.....</b>	<b>5</b>
<i>Background.....</i>	<i>5</i>
<i>Purpose and Objectives of the Report .....</i>	<i>7</i>
<i>Methodology .....</i>	<i>8</i>
<i>Outline of Report .....</i>	<i>8</i>
<i>Limitations and Assumptions .....</i>	<i>10</i>
<b>2. Literature Review .....</b>	<b>11</b>
<i>Private Sector Perspective.....</i>	<i>12</i>
<i>Possible Incentives.....</i>	<i>13</i>
<i>Conclusion .....</i>	<i>35</i>
<b>3. Environmental Scan .....</b>	<b>37</b>
<i>Artisan Homes.....</i>	<i>38</i>
<i>Boardwalk - Cornerstone’s Plan .....</i>	<i>40</i>
<i>Calgary Real Estate Foundation .....</i>	<i>42</i>
<i>Calgary Regional Home Builder’s Foundation.....</i>	<i>44</i>
<i>Calgary Regional Home Builder’s Foundation.....</i>	<i>46</i>
<i>Centron Residential Corporation .....</i>	<i>48</i>
<i>Classic Construction.....</i>	<i>50</i>
<i>Communitas Group Ltd. ....</i>	<i>52</i>
<i>Kanas Corporation .....</i>	<i>54</i>
<i>P &amp; S Investments.....</i>	<i>56</i>
<i>P &amp; S Investments .....</i>	<i>59</i>
<i>Three Sisters Mountain Village .....</i>	<i>61</i>
<i>Vinterra Properties Inc.....</i>	<i>63</i>
<i>Vinterra Properties Inc.....</i>	<i>65</i>
<i>Vinterra Properties Inc.....</i>	<i>67</i>
<i>Conclusion .....</i>	<i>69</i>
<b>4. Industry Representatives’ Response .....</b>	<b>70</b>
<i>Private Sector Perspective.....</i>	<i>70</i>
<i>Current Situation .....</i>	<i>71</i>
<i>Opportunities .....</i>	<i>76</i>
<i>Conclusion .....</i>	<i>81</i>

<b>5. Recommendations .....</b>	<b>83</b>
<i>Regulatory, Fiscal, Financial and Institutional Recommendations .....</i>	<i>83</i>
<i>Recommendations Requiring Further Investigation.....</i>	<i>86</i>
<i>Conclusion .....</i>	<i>86</i>
<b>Bibliography .....</b>	<b>88</b>
<b>Appendix A: Annotated Bibliography .....</b>	<b>95</b>
<b>Appendix B: Housing Statistics .....</b>	<b>106</b>
<b>Appendix C: Year 1 Government Asks .....</b>	<b>108</b>

# EXECUTIVE SUMMARY

## Purpose

The report examines promising practices of private sector provision of affordable housing and identifies innovative opportunities to encourage further involvement by the development and homebuilding industry in Alberta. Opportunities to increase private sector engagement in affordable housing are presented based on the input and perspectives of industry representatives.

## Objectives

Key objectives of the report include:

1. To outline promising practices of private sector involvement in the provision of affordable near-market rental and homeownership housing;
2. To identify barriers to private sector involvement in affordable housing;
3. To investigate innovative opportunities to provide new affordable rental and homeownership units that utilize the unique capacity of the private sector through the use of various incentives, such as tax or financial incentives; and,
4. To provide recommendations regarding how to effectively engage the private sector in the provision of affordable housing.

## Background

Since the mid-1990's, Alberta, and Calgary in particular, experienced high levels of growth that put pressure on the supply of affordable housing due to reduced vacancy rates and increasing housing costs. A declining rental stock, low vacancy rates and high housing costs for both rental and homeownership have combined with constant levels of poverty over the last decade to make affordable housing a pressing issue in Alberta.

The private sector can potentially have a vital role in the provision of affordable housing to address the increasing demand throughout Alberta and Calgary specifically. Involvement by the private sector is merely one method to increase the supply of affordable housing and it does not replace or negate the role of government or non-profit organizations. However, the private sector incorporates unique characteristics, such as the ability to leverage capital and financing that could contribute significantly to increasing the supply of affordable housing, and complement the efforts of other sectors.

## Outline

### *Literature Review*

This section of the report examines different incentives used in Canada, the U.S., the U.K. and Australia that encourage additional private sector engagement in affordable housing by offsetting a potential loss in profit. The incentives are categorized based on supply and demand-based initiatives as well as by the amount of time required to implement each incentive. Both short and long-term incentives are necessary to produce a comprehensive and effective environment for private sector provision of affordable housing.

### *Environmental Scan*

This section provides an overview of affordable housing projects across Alberta involving various forms of private sector participation. The level of private sector participation ranges from initiating the project, providing designs and arranging permit applications, to contributing funds and development expertise.

### *Conclusions*

Disincentives to participation include:

- *Time constraints.* Uncertainty resulting from a negative lending atmosphere, including complicated requirements for government grants and subsidies, as well as unpredictable time and requirements to secure a development permit.

- *Increasing land and construction costs.* Difficulty in maintaining affordability for lower income individuals with high capital project costs.
- *Lack of clarity.* Regarding defining affordable housing and the potential role of the private sector within that designation.

Opportunities for a larger role for the private sector in affordable housing include:

- *Increasing transparency and predictability of the development approvals process.* Creating a more streamlined approach could encourage innovative or higher risk developments, such as affordable housing.
- *Access to land.* Long-term leases are the most effective method of making land available, for developers, governments, and residents.
- *Innovative financing tools.* Potential tools include Real Estate Investment Trusts (REITs), Real Estate Investment Companies (REICs) through mutual funds and pension funds, and other forms of socially responsible investment.
- *Purchasing affordable units within market-rate buildings.* Using funding for purchasing units to make them affordable rather than using them for capital housing projects.
- *Philanthropy.* Increased awareness of the broader issues related to affordable housing in order to encourage greater private sector and individual contributions of funds, gifts-in-kind or expertise.

## Recommendations

Recommendations present the most effective methods to encourage greater private sector participation in affordable housing to increase the existing supply.

*Short-term recommended actions include:*

- Development of a 'one-stop', centralized organization that fulfills the mandate of both a housing and land trust as well as serving as the key coordinating organization for information sharing between the public, non-profit and private sector
- Creation of comprehensive municipal policy relating to the local government role in facilitating private sector participation in affordable housing. A comprehensive municipal policy would include a density bonusing program that may or may not be an inclusionary zoning policy, direction regarding the use and dissemination of land for affordable housing projects, and identification and elimination of inefficiencies in the development permit approvals process for affordable housing applications.

*Long-term recommended actions include:*

- Amendment to Federal tax laws to encourage new construction of affordable rental units

*Potential areas for future investigations:*

- Innovative financing options for private sector developers and builders including Socially Responsible Investment Funds, Labour-Sponsored Investment Funds, and social enterprises.

# 1. INTRODUCTION

## Background

### *Need for Affordable Housing*

Alberta has recently been suffering from a decline in housing affordability as significant growth factors raise house prices to unaffordable levels. In Calgary, vacancy rates have fallen to 0.5% for 2006 and 2007 and in Edmonton, vacancy rates were as low as 1.2% in 2006 and 2007, as shown in Figure 1.2, 1.3 and 1.4 (CMHC, 2007c). Additionally, rents across Alberta have increased, with the average rent for a private two-bedroom apartment in Calgary and Edmonton in April 2007 at \$1,037 and \$877 respectively (see Table 1.1). Cities across Alberta have also experienced a decrease in rental stock due to condo conversions, which has intensified the lack of affordable housing in the province. For example, in Calgary, there were 919 conversions in 2005 and another 946 conversions in 2006 reducing the total rental stock by 2.6 percent to 40,333 units (CMHC, 2006a). This reduction in the supply of rental housing has contributed to the low vacancy rates and increased rents. Furthermore, the amount of new rental construction in Calgary in 2006 totalled two projects with 148 units including 60 units of affordable housing under the Affordable Housing Initiative (ibid). For more statistics on housing in Calgary, see Appendix B.

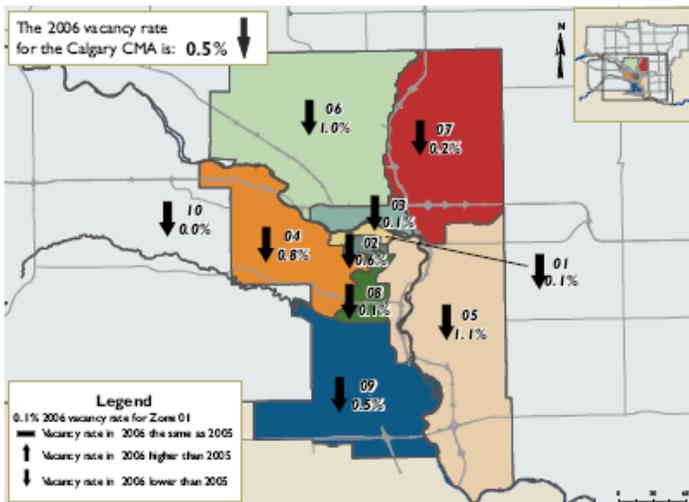
**Table 1.1.** Average Rent (\$) for a Two-Bedroom Apartment

	2005	2006	2007
Calgary	808*	960*	1,037***
Edmonton	732**	808**	877***

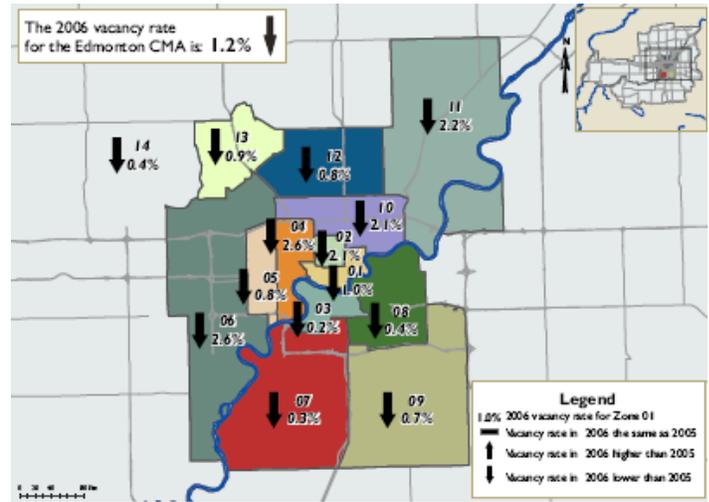
\* Source: CMHC Calgary Rental Market Report, 2006

\*\* Source: CMHC Edmonton Rental Market Report, 2006

\*\*\* Source: CMHC Alberta Rental Market Report, Spring 2007



**Fig. 1.1.** Calgary Vacancy Rates, 2006  
 Source: CMHC Calgary Rental Market Report, 2006



**Fig. 1.2.** Edmonton Vacancy Rates, 2006  
 Source: CMHC Edmonton Rental Market Report, 2006

### *Defining Affordable Housing*

Affordable housing is a contested construct and often difficult to define. For the purpose of this study, affordable housing refers only to rental and owned housing for low- and moderate-income households based on the Canada Mortgage and Housing Company's (CMHC) definition of affordability in which "the cost of adequate shelter should not exceed 30% of household income" (CMHC, 2007). More specifically, a low-income household is defined as a household making 65%-80% of the median income and a moderate-

income household makes less than 80%-100% of the median income (Urban Land Institute, 2002). The City of Calgary combines both definitions to formulate their own, which was approved by Council in 2002 (City of Calgary Affordable Housing, 2007). The City defines affordable housing as:

...housing [that] adequately suits the needs of low- and moderate-income households at costs below those generally found in the Calgary market. It may take a number of forms that exist along a continuum – from emergency shelters, to transitional housing, to non-market rental (also known as social or subsidized housing), to formal and informal rental, and ending with affordable home ownership.

Affordable housing projects are targeted to households with 65 percent or less of the area median income. In the City of Calgary, affordable housing initiatives would be targeted to those with a gross income below \$37,621. ...The highest priority for affordable housing are “core needs households” that spend more than 50 percent of their income on shelter costs.

According to the above definition, the City of Calgary has outlined each form of housing along the continuum shown below in Fig.1.3. For the purposes of this study, we will focus on the near market options of formal and informal rental and affordable homeownership that are most readily provided by private builders and developers.

Emergency Shelters	Transitional Housing	Social or Subsidized Housing	Formal and Informal Rental	Affordable Homeownership
Non-market			Near-market	

**Fig. 1.3.** The Affordable Housing Continuum  
Source: City of Calgary Affordable Housing, 2007

The issue with understanding what affordable housing means is demonstrated above with three different definitions. All three definitions have merit and certain advantages. CMHC’s definition is most widely accepted by linking affordable housing directly to income. The second definition, as defined by the Urban Land Institute is also valid as it targets housing more directly to different income groups that require different housing needs. The City of Calgary has attempted to combine both definitions to incorporate clarity regarding the intended user and the applicable housing form. However, multiple definitions can potentially increase uncertainty for industry professionals regarding their understanding of affordable housing.

### Government Funding

In Canada, the Federal Government historically was responsible for the provision of affordable housing through the Canada Housing and Mortgage Corporation (CMHC), the national housing agency. In 1978, it was decided to shift funding for housing to use more private financing (Pomeroy, 2004a). Lending by private institutions was encouraged by using CMHC to insure mortgages up to 100 percent in case of default as well as subsidy commitments to provide cash flows and ensure that mortgages were repaid (ibid). While this approach did engage the private sector, especially mortgage intermediaries that marketed the affordable housing product to investors, it was not cost effective (ibid). As a result, in 1988, CMHC began using a competitive bid process to pool and renew loans, which brought rates down, but was still more expensive than direct government lending (ibid). Therefore, in 1993, CMHC returned to direct financing by the Federal Government (ibid).

Dedicated funding for affordable housing was cancelled in 1994. The Federal Government cancelled all new funding, which eroded all loans to private lenders and subsidies. The lack of federal funding persisted until 2002. Between 1994 and 2002, the supply of affordable housing only marginally increased and new projects were only completed due to housing providers utilizing their own equity to acquire funding through multiple

sources (Pomeroy, 2004a). Lender interest, knowledge, and support waned to such an extent that very little affordable housing was built (ibid).

In November 2001, the Federal Government committed \$680 million towards rental housing over five years and in 2002 another \$320 million was added (Falvo, 2007a). In 2005, an additional \$1.6 billion was allocated for a total of \$2.6 billion (ibid). The funding was dispersed through the provinces, which were responsible for the design and program delivery of affordable housing and were also required to match federal contributions (CMHC, 2007).

The history of the Federal Government's role illustrates one of the main problems with government funding of affordable housing – the lack of a long-term focus. When the funding was cancelled in 1994, housing providers realized that government subsidies alone were not sufficient to build affordable housing as they fluctuate with different governments (Kowalchuk, 2004). Thus, innovative financing and development methods became necessary to increase the supply of affordable housing, including an increased role of the private sector in the provision of affordable housing.

On June 24, 2002, the Governments of Canada and Alberta signed the Affordable Housing Program Agreement which dedicated \$67.12 million over five years from the Federal Government and a matching amount from the Province to increase the supply of affordable housing (CMHC, 2007, AB Municipal Affairs, 2007). Phase II of the Canada-Alberta Affordable Housing Program Agreement was signed on August 15, 2005, which committed an additional \$63 million over two years, \$31.5 million from the Federal Government and \$31.5 million from the Province (ibid).

## Purpose and Objectives of the Report

### *Purpose*

The purpose of this report is to highlight promising practices of private sector provision of affordable housing and identify innovative opportunities for further non-governmental involvement in Alberta. Opportunities to increase homebuilding and development industry provision of affordable housing are presented that private sector representatives consider the most amenable to their business processes. The report examines how investors, developers and builders can most effectively engage in the provision of affordable housing from their own perspective.

The researchers recognize that involvement by the private sector is merely one method to increase the supply of affordable housing and that it does not replace or negate the role of governments or non-profit organizations. However, the private sector incorporates unique characteristics, such as the ability to leverage capital and financing that could contribute significantly to increasing the supply of affordable housing, and complement the efforts of other sectors.

### *Objectives*

The report has four main objectives:

1. To outline promising practices of private sector involvement in the provision of affordable near-market rental and homeownership housing;
2. To identify barriers to private sector involvement in affordable housing;
3. To investigate innovative opportunities to provide new affordable rental and homeownership units that utilize the unique capacity of the private sector through the use of various incentives, such as tax or financial incentives; and,
4. To provide recommendations regarding how to effectively engage the private sector in the provision of affordable housing.

## Methodology

The methodology for this report consisted of a comprehensive literature review, an environmental scan of affordable housing projects throughout Alberta, and key informant interviews of diverse industry professionals.

### *Literature Review*

The literature review consisted of examining promising practices in the United States, the United Kingdom, and Australia, as these three countries all have similar principles and development frameworks. Promising practices of private sector involvement in affordable housing in these countries, as well as Canadian practices, are examined based on effectiveness and transferability to the Alberta development system. A comprehensive list of the most promising incentives to leverage additional private sector involvement is produced.

### *Environmental Scan*

The environmental scan consists of 17 affordable housing developments in five municipalities throughout Alberta. These include six projects in Calgary, five in Edmonton, one in Fort McMurray, three in Medicine Hat and two in Red Deer. These projects were selected to illustrate a geographical range across Alberta as well as the diversity of private sector contributions to affordable housing that include managing and overseeing projects, financial and in-kind donations, building at-cost, and rent supplements.

### *Key Informant Interviews*

The 27 key informant interviews targeted industry professionals including real estate professionals, government personnel, and non-profit and for-profit housing providers and developers. These interviews focused on recognizing the barriers and opportunities for private sector involvement in affordable housing as well as better understanding the experiences of the private sector in providing affordable housing in Alberta. As the development industry in Alberta, and especially in Calgary, is quite small, key informants have not been named in order to maintain anonymity and confidentiality.

## Outline of Report

### *Literature Review*

This section of the report examines different incentives used in Canada, the U.S., the U.K. and Australia that can encourage additional private sector involvement in the provision of affordable housing by offsetting a potential loss in profit. In addition, incentives that support certain components of the development process, such as the acquisition of land, are presented. The incentives are categorized based on supply and demand-based initiatives as well as by the amount of time required to implement each incentive. Incentives that are considered short term could be implemented within two fiscal years whereas long term incentives could take many years to implement. Both short and long term incentives are necessary to produce a comprehensive and effective environment for private sector provision of affordable housing. The following table summarizes the most promising incentives:

**Table 1.2.** Possible incentives for greater private sector involvement in affordable housing

<b>Form of Incentives</b>	<b>Short Term</b> (within 2 years)	<b>Long Term</b> (greater than years)
Regulatory Measures	Density Bonusing Alternative Development Standards Inclusionary Zoning	
Fiscal Measures	Housing Allowances and Rent Supplements Tax Amendments Land Contributions	Tax Amendments Tax Credits

Direct Subsidies

Financial Measures	Reduction or Waiving of Municipal Fees	Lending & Borrowing Practices Socially Responsible Investment Philanthropy Labour-Sponsored Investment Funds
Institutional Measures	Streamlining the Planning Process	Housing Trusts Land Trusts
Complementary Measures	Rehabilitation of Existing Stock	Education & Awareness Social Enterprise

*Environmental Scan*

The environmental scan provides an overview of affordable housing projects in Alberta involving private sector participants. The projects were selected to illustrate the variety of methods undertaken by the private sector to participate in the provision of affordable housing throughout the province. The focus of the described projects is on private sector participation in affordable housing, not necessarily private sector leadership or ownership. Private sector participation in the projects ranges from initiating the project, including design and permit applications, to providing funding and expertise. Projects include rent supplements, affordable rental accommodations, and affordable homeownership options. Funding sources include government grants, donations and gifts-in-kind, fee reductions, and contributions of time and expertise that all contribute to increasing affordability. Moreover, most projects consist of a form of partnership or agreement between multiple parties. Below is a list of organizations that are currently working to provide affordable housing or have recently completed projects.

**Table 1.3.** Overview of Projects

Organization	Project Municipality	Housing Type	Number of Units
Artisan Homes	Calgary	Single Family	65
Boardwalk Rental Communities	Edmonton	Apartment	200
Calgary Real Estate Foundation	Calgary	Apartment	50
Centron	Fort McMurray	Single and Multi Family	300
Classic Construction	Medicine Hat	Row Housing	94
		Row Housing	219
		Row Housing	129
Communitas Group	Edmonton	Apartment	14
Horizon Housing	Calgary	Apartment	61
		Apartment & Townhouse	114
KANAS Corporation	Calgary	Apartment	9
P & S Investments	Red Deer	Apartment	39
		Apartment	95
Three Sisters Mountain Village	Calgary	Townhouse	17
Vinterra Properties Inc.	Edmonton	Four-plex	8
		Row Housing	7
		Row Housing	7
<b>Total:</b>			<b>1428</b>

### *Industry Representatives' Response*

This section will focus on the results from interviews with twenty six industry professionals throughout Alberta including for-profit and non-profit developers, public administrators, non-profit agency representatives involved in affordable housing issues, planners and real estate agents. The perspective of the private sector representatives are presented including their current role in the provision of affordable housing, their reaction to the downloading of government responsibilities to them, their definition of affordable housing, and the role of the market in their decision-making process. Furthermore, the challenges and barriers faced by the private sector are discussed and contrasted with the opportunities available to further engage the private sector in affordable housing.

### *Recommendations*

Through a combination of literature and interviews with industry professionals, this section of the report provides four recommendations that are the most effective methods to encourage private sector involvement in increasing the supply of affordable housing. These recommendations can be implemented individually, but are intended to compliment each other in order to produce maximum results.

## Limitations and Assumptions

The limitations and assumptions of this report include:

- The geographical scope is limited primarily to Calgary, although there is some reference to practices in other municipalities in Alberta and Canada.
- The focus of the report is primarily on the contributions of private builders and developers to affordable housing supply rather than the private sector as a whole.
- Due to the sporadic and modest number of private developers active in building affordable housing, the number of interviews based on past experience of these experts is limited.
- The report does not take into account economic effects on the private development and homebuilding industry and instead evaluates barriers and opportunities based on broad business practices.

## 2. LITERATURE REVIEW

The private sector, primarily the development and homebuilding industry, can potentially have a vital role in the provision of affordable housing. Development of additional affordable housing units would result from greater participation by the private sector as the development and homebuilding industry has the expertise and resources to build housing units at a scale not easily achievable by the public and non-profit sector (Poschmann, 2003). Since federal funding for affordable housing was reduced the responsibility of increasing the stock of affordable housing to has been downloaded to lower levels of government (Falvo, 2007; Pomeroy, 2004b). The result is that municipalities are ultimately left with this overwhelming responsibility and do not have the resources to address the growing need for affordable housing. Thus, there is a unique opportunity and need for the private sector to become more involved.

However, the current economic environment in Alberta is not conducive to private sector involvement in providing affordable housing. If market conditions alone were enough to provide affordable housing, the private sector would already supply a range of housing options for all income levels. It is simply very difficult for a developer or homebuilder to earn a satisfactory return on their investment for an affordable housing project. The primary barrier to private sector provision of affordable housing is that it is not a profitable venture. This particular barrier is unique to the private sector in providing affordable housing as the other sectors, both government and no-profits, do not rely on profits, nor do they utilize profit margins as a criteria for success, as the private sector often does.

This section of the report examines different incentives used in Canada, the U.S., the U.K. and Australia that can encourage additional private sector involvement in the provision of affordable housing by offsetting a potential loss in profit as well as incentives that make certain components of the development process, such as land, more available. The incentives are categorized based on supply and demand-based initiatives as well as by the amount of time required to implement each incentive. Incentives that are considered short term could be implemented within two fiscal years whereas long-term incentives could take many years to successfully put into practice. Both short and long-term incentives are necessary to produce a comprehensive and effective environment for private sector provision of affordable housing.

Each incentive is further broken down into four categories: regulatory measures, fiscal measures, financial measures, and institutional measures. Regulatory measures consist of incentives that are primarily the responsibility of municipal governments and can be implemented through bylaw changes. Fiscal measures refer to financial incentives, such as subsidies, that are a direct result of senior government legislation. Furthermore, financial measures are market-based monetary incentives directly related to investment and donations whereas institutional measures refer to organizational or process-based incentives. Additionally, two measures, the rehabilitation of the existing housing stock and education and awareness have been categorized as complementary measures. These measures are not incentives, but are still necessary to effectively engage the private sector in the provision of affordable housing. Each incentive is accompanied by an analysis of advantages and disadvantages.

The following table provides an outline of the incentives described in terms of the length of time for implementation.

**Table 2.1.** Possible incentives for greater private sector involvement in affordable housing

<b>Form of Incentives</b>	<b>Short Term</b> (within 2 years)	<b>Long Term</b> (greater than years)
Regulatory Measures	Density Bonusing Alternative Development Standards Inclusionary Zoning	

Fiscal Measures	Housing Allowances and Rent Supplements	Tax Amendments
	Tax Amendments	Tax Credits
	Land Contributions	
	Direct Subsidies	
Financial Measures	Reduction or Waiving of Municipal Fees	Lending & Borrowing Practices
		Socially Responsible Investment
		Philanthropy
Institutional Measures	Streamlining the Planning Process	Labour-Sponsored Investment Funds
		Housing Trusts
		Land Trusts
Complementary Measures	Rehabilitation of Existing Stock	Education & Awareness
		Social Enterprise

## Private Sector Perspective

To effectively examine the potential role of private sector participants, such as developers and homebuilders, it is imperative that their perspective is properly understood. The perspective of the private sector is based upon three fundamental business features: that the market is the basis for all decisions, the analysis of cost and risk are critical and are impacted by project timelines, as well as the ability of private builders and developers leverage capital (Myerson, 2005; Myerson, 2007; Pomeroy, 2005a). These points act as a foundation for decisions of private builders and developers and affect all developments, including affordable housing. What is unique for private builders and developers of affordable housing is the policy environment they function in as certain market-based decisions require incentives to maintain the ability of the private sector participant to earn a profit on an affordable housing development. May want to mention that the profit would ultimately be smaller than a market rate development, but profitable nonetheless. Additionally, the private sector has the ability to contribute to affordable housing based solely on monetary contributions or donations to non-profit housing providers.

The market is the foundation for all decisions made by private builders and developers for all projects, including affordable housing (Myerson, 2005). Builders and developers are in business to earn a profit and in order to continue operating must consistently generate revenue that satisfies investors and shareholders. The difficulty with basing decisions of an affordable housing project on the market is that rents of units in affordable housing developments are always below market levels. Thus, the difference in cost versus revenue is generally referred to as the funding gap (Manifest, 2000). For a private builder or developer to engage in affordable housing projects, this gap must be filled in order to break even or make a profit.

Private builders and developers also base their decisions on an analysis of the risk involved, which directly relates to costs (Myerson, 2005). Any development involves a relatively high amount of risk. Risk refers to the chance that the project will not make a significant enough return on the initial investment. As real estate developments require a considerable amount of investment and are affected by many different forces, many, which are beyond the control of the developer, risk for most developments are generally high. For affordable housing projects, the risk is even higher as the potential to receive a lower return on the investment is greater because sale and rent prices are generally fixed and cannot adjust to changing market conditions. This increased risk acts as another barrier to private sector involvement in affordable housing.

Costs also relate directly to the timeline of a project because as the timeline is extended, costs increase. Therefore, private builders and developers are very aware of the time required for a project to be designed, built and sold or rented (Myerson, 2005). In order to keep costs down, for-profit builders and developers will generally utilize significant amounts of resources in order to reduce the time necessary to construct a building. This does not necessarily result in a more efficient project. A for-profit developers' adherence to a strict timeline is an important reason why most do not apply for government grants or subsidies that could reduce the funding gap and make an affordable housing project feasible (ibid). Government grants and subsidies are disseminated based on specific requirements, which require additional time to secure; time that most private developers will forego or are unwilling to sacrifice.

Additionally, private builders and developers are in a better position to leverage properties to extract capital (Myerson, 2005). An ability to leverage other investments provides private builders with the capacity to secure funding for future projects through non-government sources such as financial institutions or Real Estate Investment Trusts (REITs). These characteristics provide the private sector advantages in building affordable housing not available to government and non-profits, if the barriers to their involvement are removed and the appropriate incentives are established. Additional private sector participation in affordable housing is contingent upon a supportive environment in terms of the development process, public policy, the ability to raise enough capital or achieve adequate financial return.

The private sector also has the opportunity to participate in the provision of affordable housing through philanthropy (Manifest, 2000). As the funding gap for affordable housing projects can increase as affordable housing projects are targeted for lower income individuals, the private sector can provide additional expertise or can contribute monetarily to non-profits that have the ability to combine enough sources of funding with the support system necessary for lower-income individuals. This type of contribution is no less worthy and can be just as significant to increasing the supply of affordable housing.

## Possible Incentives

The following are the possible incentives to encourage private sector involvement in the provision of affordable housing based on promising practices identified in Canada, the U.S., the U.K. and Australia. The incentives are broken down into demand- and supply-side initiatives as well as short term and long-term initiatives based on the length of time required to implement each incentive. The short-term incentives could be implemented within two fiscal years whereas the long-term incentives could require three or more fiscal years. The incentives are further divided into four sub-categories based on the nature of each incentive. Regulatory measures refer to incentives that would require a municipal bylaw change. Incentives classified as fiscal measures require legislation or senior government changes and are all forms of subsidies. Financial measures refer to market-based incentives related to investment and institutional measures consisting of organizational or process-based incentives. Additionally, the complimentary measures described are not incentives, but are methods noted in the literature that could significantly impact the involvement of the private sector in the provision of affordable housing.

### **SHORT TERM DEMAND-SIDE INITIATIVES**

As private builders and developers are predominantly concerned with the supply of housing, there are few demand-side incentives that could encourage private sector involvement in affordable housing. However, private builders and developers can rent units, which could relate directly to housing allowances and rent supplements, the two elements noted in the literature. There are other demand-side initiatives, particularly for homeownership options such as mortgage insurance, which are also important for private developers because this type of incentive allows for a greater number of people to afford what they build. However, these measures are not included in this report because they are already very prevalent in Canada. The table below highlights the advantages and disadvantages of housing allowances and rent supplements.

**Table 2.2.** Advantage and disadvantages of demand-side initiatives

	Advantages	Disadvantages
Housing Allowances and Rent Supplements	<ul style="list-style-type: none"> <li>• Can reach those in need quickly (Kowalchuk, Taylor, 2006)</li> <li>• Housing allowances are portable and can move with the tenant (Pomeroy, 2001; Falvo, 2007; Manifest, 2000)</li> <li>• Cost effective because less expensive on a per unit basis when compared to new construction (CHBA, 1999; TD, 2003)</li> </ul>	<ul style="list-style-type: none"> <li>• Does not address lack of supply (Pomeroy, 2001)</li> <li>• Has the potential to inflate the rental market if not used in conjunction with supply-boosting measures (Pomeroy, 1998; Falvo, 2007; Taylor, 2006; TD, 2003)</li> </ul>

### Fiscal Measures

Regulatory measures are the incentives that are primarily the responsibility of municipal governments and require some sort of bylaw to make them available. The highlighted incentives include housing allowances and rent supplements.

#### *Housing Allowances and Rent Supplements*

Housing (or shelter) allowances and rent supplements are quite similar in that both are meant to supplement a tenant's income in order to pay their rent. Rent supplements are paid directly to the landlord while housing allowances are paid directly to the tenant (Falvo, 2007; TD Economics, 2003; Pomeroy, 2001). Both are important strategies to increase access to housing for low and moderate-income individuals by directly and quickly increasing a tenant's ability to afford suitable housing (Kowalchuk, 2004; Pomeroy, 2001). Such a demand side intervention is considered a cost-effective measure as a rent supplement or housing allowance is less expensive on a per unit basis than producing new housing supply (Canadian Home Builder's Association, 1999 and 2007; TD, 2003). "Rather than building new subsidized housing, a more cost-effective alternative is a rent supplement or housing allowance program which provides tenants with the assistance they need in affording their existing rental accommodation" (CHBA, 2007, p.1). Moreover, waiting lists are limited as rent supplements or housing allowances are given to all eligible households, thus targeting households with the most need (Falvo, 2007; CHBA, 1999; Manifest, 2000; Taylor, 2006).

Rent supplements are feasible for both high and low vacancy rates, but tend to not be as effective with moderate vacancy rates. Rent supplements and housing allowances are generally regarded as most beneficial when vacancy rates are high as landlords typically view "any tenant (as) better than no tenant" (Pomeroy, 1998, p.12). Although in Alberta, where vacancy rates are quite low, rent supplements are also used because competition for housing is quite high, which increases the cost of housing and therefore, is needed for lower-income individuals to have access to housing (AB Municipal Affairs, 2007). Housing allowances and rent supplements provide a significant short-term solution by increasing an individual's ability to afford housing. However, this type of intervention in the market can have potential inflationary effects among low-end rental units if they are not combined with an increased supply of housing (Pomeroy, 1998; Falvo, 2007; Taylor, 2006; TD, 2003). Therefore, housing allowances or rent supplements are not

#### **Housing Allowances**

##### Advantages:

- Can reach those in need quickly (Kowalchuk, Taylor, 2006)
- Housing allowances are portable and can move with the tenant (Pomeroy, 2001; Falvo, 2007; Manifest, 2000)
- Cost effective because less expensive on a per unit basis when compared to new construction (CHBA, 1999; TD, 2003)

##### Disadvantages:

- Does not address lack of supply (Pomeroy, 2001)
- Has the potential to inflate the rental market if not used in conjunction with supply-boosting measures (Pomeroy, 1998; Falvo, 2007; Taylor, 2006; TD, 2003)

meant for use in isolation, but are equally as important as the measures required to also increase the supply of affordable housing (Kowalchuk, 2004; Taylor, 2006).

One particular benefit of using housing allowances instead of rent supplements is that landlords do not have to know that a tenant is receiving housing assistance, which can reduce the stigma associated with low-income tenants (Falvo, 2007). Furthermore, housing allowances are 'mobile' because they provide more choice in housing for low-income households (CHBA, 1999). In Alberta, the Direct to Household Rent Supplement Program is delivered directly to tenants, thereby acting as a housing allowance even though it is referred to as a rent supplement (AB Municipal Affairs, 2007). As housing allowances are more portable, advocates tend to argue for housing allowances over rent supplements, but most stakeholders agree that a demand-side approach is necessary as part of an overall housing strategy (Ottawa Chamber, 2005; CHBA, 2007; Kowalchuk, 2004; Falvo, 2007; Manifest, 2000; Taylor, 2006; Pomeroy, 2001).

For private developers and builders, demand-side initiatives, such as housing allowances, are important as they increase the number of people that can afford to live in units within market rate buildings. Moreover, property managers do not have to adjust their business practices to maintain lower rental rates for lower incomes because the rent supplements or housing allowances act as an income subsidy. Therefore, instead of lowering rents, incomes are raised.

### **SHORT TERM SUPPLY-SIDE INITIATIVES**

As compared to demand-side initiatives, many more supply-side incentives could facilitate additional private sector involvement in affordable housing as they relate directly to building new units. The short-term initiatives include regulatory measures such as density bonusing, alternative development standards, and inclusionary zoning; fiscal measures such as tax amendments, land contributions and direct subsidies; and institutional measures such as reduction or waiving of municipal fees and streamlining the development process. In addition to these incentives, a complimentary measure of utilizing the existing stock through renovation and rehabilitation is analyzed, as this method can be a significant method to engaging the private sector in the provision of affordable housing usually without the sizeable cost of new construction. Table 2.3 outlines the advantages and disadvantages of each incentive.

Municipalities can have a significant role in facilitating private sector involvement in increasing the supply of affordable housing by creating a positive planning and policy environment in which developers work.

There is a growing consensus that municipalities must move towards a new role of local partnerships with community groups and the private sector. Municipalities are no longer in a position to undertake housing development directly on their own, nor can they replace what has been lost due to the withdrawal of senior governments from the fields of social housing. However, municipalities can create a supportive planning and policy environment that facilitates the development of affordable housing by the private and non-profit sectors. Through the use of their regulatory, planning and fiscal powers, municipalities can be key partners in helping to create an equitable, healthy and balanced community (Tomatly et al., 2000, p.76).

Many of these incentives that a municipality can provide can be implemented within two fiscal years through thorough and comprehensive policy and regulatory changes. These initiatives include density bonusing, alternative development standards, inclusionary zoning, land contributions, streamlining the planning process and reducing or waiving municipal fees. The advantages and disadvantages are outlined in Table 2.3 and described in further detail in the following section.

**Table 2.3.** Advantages and disadvantages of short-term supply side initiatives

		Advantages	Disadvantages
Regulatory Measures	Density Bonusing	<ul style="list-style-type: none"> <li>The ability to provide substantial affordable units (CMHC, 2000)</li> <li>Create a social mix within buildings (CMHC, 2000)</li> <li>Minimal municipal involvement (CMHC, 2000)</li> </ul>	<ul style="list-style-type: none"> <li>Reliant on developer willingness to build higher density development (CMHC, 2000)</li> <li>Extensive community consultation is required due to potential community resistance of higher density housing (CMHC, 2000)</li> <li>Invites speculation into “deals” between developers and municipalities (CMHC, 2000)</li> </ul>
	Alternative Development Standards	<ul style="list-style-type: none"> <li>Alberta already has a positive regulatory environment for alternative development standards (CMHC, 2000; 2007)</li> <li>The concept of alternative standards is increasingly accepted in communities and professions (ibid)</li> </ul>	<ul style="list-style-type: none"> <li>No guarantee that cost savings will be passed on to the consumer and therefore, does not necessarily contribute to increased affordability (CMHC, 2000; 2007)</li> </ul>
	Inclusionary Zoning	<ul style="list-style-type: none"> <li>Can potentially produce significant amounts of affordable housing (CMHC, 2000; Wright, 2007; Lubell, 2006)</li> <li>Creates socially sustainable communities (Wright, 2007)</li> <li>Most effective in conjunction with other municipal ‘bonuses’ (ibid)</li> <li>Relatively inexpensive for municipalities to institute (CMHC, 2000).</li> </ul>	<ul style="list-style-type: none"> <li>It is unpopular with developers and builders as it can negatively impact profit margins (CMHC, 2000)</li> <li>Can be viewed as an barrier to growth and an interference in the market (Wright, 2007)</li> <li>The MGA does not explicitly allow inclusionary zoning (Taylor, 2006)</li> <li>Its effectiveness decreases in low-growth areas (CMHC, 2000)</li> </ul>
Fiscal Measures	Tax Amendments	<ul style="list-style-type: none"> <li>Targeted incentives to construct rental housing (TBOT, 2003; CHBA, 1999; Ottawa Chamber, 2005); and,</li> <li>Advantage would apply to all developers producing new rental housing.</li> </ul>	<ul style="list-style-type: none"> <li>Cost savings would occur only with the submission of a developer’s income tax and therefore, will not reduce initial costs.</li> </ul>
	Land Contributions	<ul style="list-style-type: none"> <li>Easier access to land (Myerson, 2005; Manifest, 2000)</li> <li>Reduced land costs could potentially lower project costs (CHBA, 2007; Ottawa Chamber, 2005)</li> <li>Political benefits without providing direct subsidies (Pomeroy, 2004b)</li> <li>Municipalities could retain ownership of the land while increasing their assets (ibid)</li> </ul>	<ul style="list-style-type: none"> <li>Strong competition for government-owned land (Pomeroy, 2004b)</li> <li>Land leases do not generate significant amounts of short-term revenue (ibid)</li> </ul>

	Direct Subsidies	<ul style="list-style-type: none"> <li>Subsidies help fill the funding gap and reduce the cost of each unit (Focus, 2006)</li> <li>Can potentially be used to leverage additional financing not available otherwise (Kowalchuk, 2004; Pomeroy, 2001)</li> </ul>	<ul style="list-style-type: none"> <li>Requirements for securing grants are often extensive and confusing, which acts as a deterrent to private developers (Focus, 2006; Pomeroy, 2001)</li> <li>Subsidies are dependant are typically short term due to their political nature (Ottawa Chamber, 2005)</li> </ul>
Financial Measures	Reducing or Waiving Municipal Fees	<ul style="list-style-type: none"> <li>Could increase the production of affordable housing in high growth areas (CMHC, 2000; Pomeroy, 2004b)</li> <li>Easy to implement (CMHC, 2000)</li> </ul>	<ul style="list-style-type: none"> <li>Cost savings are not guaranteed to be passed along to the consumer (CMHC, 2000; Pomeroy, 2004b)</li> <li>Savings would not necessarily be very significant</li> </ul>
Institutional Measures	Streamlining the Planning Process	<ul style="list-style-type: none"> <li>Can reduce time required for development permit approval (Pomeroy, 2004b; Lalsinge, 2003; Kowalchuk, 2004)</li> </ul>	<ul style="list-style-type: none"> <li>Consistency and flexibility are difficult to achieve</li> <li>No guarantee it will make the process faster (Pomeroy, 2004b; City of Austin, 2007)</li> </ul>
Complimentary Measures	Rehabilitation of Existing Stock	<ul style="list-style-type: none"> <li>Lower capital costs compared to new construction (Kowalchuk, 2004; CHBA, 1999; Manifest, 2000; Pomeroy, 1998; Lalsinge, 2003)</li> <li>Approvals process generally faster</li> <li>Reduces the number of condo-conversions</li> <li>Locations are usually good as they are in established areas close to services and amenities</li> </ul>	<p>Disadvantages:</p> <ul style="list-style-type: none"> <li>Does not necessarily increase the stock of affordable housing as units acquired for renovation are generally affordable due to their potential state of disrepair</li> </ul>

## Regulatory Measures

### *Density Bonusing*

A density bonusing policy allows developers to add more floor area or additional density in exchange for certain provisions that benefit the community, such as a certain percentage of affordable housing units (CMHC, 2000). Density bonus programs are typically successful in major downtown areas as well as along waterfronts or major highways, where higher density is generally more acceptable. In such areas, a density bonus allows developers to provide additional market rate units in sufficient quantity to offset the costs of the required provision of affordable housing units (ibid; Taylor, 2006). By increasing the density of a project, a developer is able to provide affordable housing units without negatively influencing their revenue as the land becomes cheaper per unit (Kowalchuk, 2004). Density bonusing also provides the opportunity to mix market and non-market units within the same building thereby creating a 'social mix', which is generally seen by planners as a positive undertaking (Wright, 2007; Taylor, 2006; Myerson, 2007; Grogan, 2000).

In the City of Calgary, the first density bonusing policy was passed within with Beltline Area Redevelopment Plan in 2006 (City of Calgary 2007b). The Beltline refers to the communities of Victoria Park and Connaught

### **Density Bonusing**

#### Advantages:

- The ability to provide substantial affordable units
- Create a social mix within buildings
- Minimal municipal involvement

#### Disadvantages:

- Reliant on developer willingness to build higher density development
- Extensive community consultation is required due to potential community resistance of higher density housing

south of downtown. This plan allows bonusing based on six categories: community amenity space, publicly accessibly private open space, provision of affordable housing units, heritage designation, incorporation of sustainable building features, and contributions to the Beltline Community Investment Fund (City of Calgary, 2007b). The plan provides the voluntary eligibility criteria to receive a density bonus as well as the amount of bonus that can be rewarded. This policy has yet to be tested in Calgary, as a developer has not yet accessed a density bonus for including affordable housing within a new project.

- Invites speculation into “deals” between developers and municipalities

### *Alternative Development Standards*

Alternative development standards refer to flexible planning and engineering requirements/regulations that allow for alternatives in design and construction (CMHC, 2000; 2007). Examples of alternative planning standards can include reduced setbacks, and narrower lot sizes whereas engineering standards can include reduced road allowances or reduced parking requirements (ibid). For a developer, alternative development standards can reduce construction costs and allow for a more efficient use of land. This can be applied directly to affordable housing projects, for example, by reducing the parking requirements. The result would be that more land can be utilized for housing units thereby increasing the economies of scale for construction and reducing per unit cost of development.

Alberta has a positive regulatory environment to implement alternative development standards as well as an increasing acceptance within municipalities. In Alberta, the Municipal Government Act (MGA) acts as enabling legislation for the planning process and also provides municipalities with a flexible regulatory environment to implement alternative development standards (MGA, 1999). Within municipalities, especially within planning departments, the idea of using alternative development standards is increasingly accepted, but the direct implication on affordability is not guaranteed (CMHC, 2000; 2007).

### **Alternative Standards**

#### Advantages:

- Alberta already has a positive regulatory environment for alternative development standards (CMHC, 2000; 2007)
- The concept of alternative standards is increasingly accepted in communities and professions (ibid)

#### Disadvantages:

- No guarantee that cost savings will be passed on to the consumer and therefore, does not necessarily contribute to increased affordability (CMHC, 2000; 2007)

### *Inclusionary Zoning*

Inclusionary zoning requires that a development project include a special component desired by the municipality, such as a certain percentage of affordable housing in every development, as a condition of approval (CMHC, 2000; Sullivan, 2004; Taylor, 2006; Lubell, 2006). These policies are implemented as either voluntary or mandatory regulations, depending on the goals of the municipality as well as the legal jurisdiction of the local government. As a mandatory policy, inclusionary zoning can potentially increase the supply of affordable housing significantly, provided there is a strong development environment (CMHC, 2000; Lubell, 2006). The City of Vancouver is the leading example of a Canadian municipality that has utilized an inclusionary zoning policy as it first required major developments to include 20 percent social housing in 1988 (City of Vancouver, 2007). Many municipalities in Ontario also adopted inclusionary zoning policies after it was encouraged through provincial policy (CMHC, 2000).

Since municipalities set inclusionary zoning policies, each municipality has the ability to establish certain requirements with little or no cost to the municipality. These requirements include the minimum number of units built applicable for an inclusionary zoning requirement, such as that for every ten units, one affordable unit will be provided. A municipality is also generally responsible for determining if cash can be received in lieu of building affordable units as well as the term of affordability for the units provided by the policy. Most municipalities in the U.S. opt for a term of affordability between ten and thirty years (Sullivan, 2004; Taylor, 2006). The Canada-Alberta Affordable Housing Partnership Initiative requires a unit to be affordable for no less than twenty years (AB Municipal Affairs, 2007). In Alberta, Canmore recently adopted a similar policy to ensure the provision of affordable housing in perpetuity (Town of Canmore, 2007; CCHC, 2007). Given the comparable inclusionary zoning policies, Canmore is unique and significant because it requires all affordable units to remain affordable in perpetuity. However, many municipalities in Alberta have not implemented an inclusionary zoning policy because the Municipal Government Act (MGA) does not explicitly allow for this type of policy (Taylor, 2006).

Inclusionary zoning policies are also significant because they have the ability to create socially sustainable communities (Wright, 2007). In other words, by mixing the market and non-market units within a community, perhaps even within a building, a mix of income levels is created. Thus, different individuals with different backgrounds and experiences have the opportunity to mingle in an environment that would not be available otherwise. Private developers can benefit from mixing incomes within communities and buildings by creating more opportunities to increase revenue and it may reduce community opposition to affordable housing projects. "Mixed income developments offer an effective approach as they generate better rent revenues and can support debt repayment [and] may also help to respond to neighbourhood opposition and Not-In-My-Backyard [NIMBY] issues" (Pomeroy, 2004b, p.12).

However, many private developers do not support inclusionary zoning policies, especially if they are mandatory as they tend to view inclusionary zoning as an underhanded way of forcing the private sector to pay for affordable housing (Taylor, 2006; Sullivan, 2004). Not only can an inclusionary zoning policy decrease profits for developers, but it can also act as a deterrent to growth by serving as a disincentive of future development (CMHC, 2000; Wright, 2007). As inclusionary zoning policies can add a significant cost to a developer, other incentives or 'bonuses' are required, especially for units targeted towards lower-income individuals. Moreover, the effectiveness of an inclusionary zoning policy decreases in low-growth areas with little large-scale development (CMHC, 2000).

### **Inclusionary Zoning**

#### **Advantages:**

- Can potentially produce significant amounts of affordable housing (CMHC, 2000; Wright, 2007; Lubell, 2006)
- Creates socially sustainable communities (Wright, 2007)
- Most effective in conjunction with other municipal 'bonuses' (ibid)
- Relatively inexpensive for municipalities to institute (CMHC, 2000)

#### **Disadvantages include:**

- It is unpopular with developers and builders as it can negatively impact profit margins (CMHC, 2000)
- Can be viewed as a barrier to growth and an interference in the market (Wright, 2007)
- The MGA does not explicitly allow inclusionary zoning (Taylor, 2006)
- Its effectiveness decreases in low-growth areas (CMHC, 2000)

## Fiscal Measures

### *Tax Amendments*

Tax incentives strongly affect a private developer's decision to build affordable housing and are particularly important to encourage private investment in rental properties. The current tax environment is not conducive for building new rental housing that could contribute to overall affordability by increasing the supply of 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 (Toronto Board of Trade, 2003, p.11). Therefore, it is necessary to amend the tax environment in order to act as an incentive to private developers to build affordable rental units. The Canadian Home Builder's Association states, "the real answer to the housing supply problem is comprehensive tax reform to address the systemic barriers to rental investment" (CHBA, 2007, p.1)

The following recommendations are national and could be implemented within one fiscal year. Recommendations include:

1. Lowering the GST on new rental housing (CHBA, 2007) or allowing a full GST rebate on new rental projects (Toronto Board of Trade (TBOT, 2003; CHBA, 1999; Ottawa Chamber, 2005). A GST modification would allow developers of new rental housing to increase their profit margins, which could promote more private developers to build rental housing as opposed to condominiums.
2. Increasing the Capital Cost Allowance (CCA) to 5% for new rental housing (TBOT, 2003; Ottawa Chamber, 2005; TD, 2003). The CCA is a tax deduction in Canadian tax laws that allow a business to claim the loss in value of capital assets due to wear and tear or obsolescence (CRA, 2007). Increasing the amount of CCA deductible could increase development of rental housing as it would reduce project risk.
3. Expanding the tax-deductible soft costs within the first year of operation of new rental properties (CRA, 2007; TD, 2003). Soft costs generally include architecture and design costs, development permits and fees, and legal fees; however, not all of these are considered soft costs and currently cannot be deducted. By expanding what is considered a 'soft cost' more costs are then deductible, thereby reducing the overall cost of the rental development.

It is estimated that if all three of these measures were introduced, the construction of 6,000 units would fully cover the costs to the Federal Government incurred by implementing these tax amendments (TBOT, 2003). As the Toronto Board of Trade states, "cost-benefit analyses suggest that [these] three measures will yield revenues to the federal government that more than offset revenue loss due to tax changes" (TBOT, 2003, p.11). Therefore, not only are these three amendments relatively easy to implement within a short time frame, they could encourage private sector investment in new rental construction.

### **Short-term Tax Amendments**

#### Advantages:

- Targeted incentives to construct rental housing (TBOT, 2003; CHBA, 1999; Ottawa Chamber, 2005)
- Advantage would apply to all developers producing new rental housing

#### Disadvantages:

- Cost savings would occur only with the submission of a developer's income tax and therefore, will not reduce initial costs

### *Land Contributions*

Identification and acquisition of land is the prerequisite for any development project. However, for a non-profit developer or builder the acquisition of a suitable site is typically more difficult than for a private company due to the inability of non-profits to compete for land at market rates. This is primarily because non-profits are reliant upon limited government subsidies and have difficulty leveraging the financing necessary to compete with for-profit companies over land (Ottawa Chamber, 2005; Manifest, 2000; Taylor, 2006; Pomeroy, 2001). However, all levels of government can play a role in reducing land costs for affordable housing. For the Federal government one recommended method is to give affordable projects priority in the competition process for the sale of government land. This prioritization does not necessarily have to be at below-market rates as the primary advantage to developers of affordable housing is to provide them with the opportunity to bid on the land first prior to market rate developers (TBOT, 2003). Moreover, governments could accept conditional offers of up to one year on affordable housing projects instead of the current six months (ibid). Thus, affordable projects would have a more reasonable timeframe to secure funding. Additionally, governments could accept a nominal deposit for the land below the standard 10% that is currently required. (ibid). A unique project in Calgary was in 2002 when Canada Lands Company (CLC), a Crown Corporation responsible for the dissemination of Federally-owned surplus land that is no longer required by the Federal Government, designed and built Garrison Woods and Garrison Greens, which has a significant component of affordable single family homes (CLC, 2007; Garrison Woods, 2007; Garrison Green, 2007

Municipalities have the opportunity to 'set the table' for land acquisition, which can significantly reduce the development costs of affordable housing projects (Myerson, 2005; Manifest, 2000). Municipalities can provide land for affordable housing developments through donations, land leases or deferred land payments (CHBA, 2007; Ottawa Chamber, 2005; Carter, 1997; Lubell, 2006). The City of Vancouver, for example, uses long-term land leases for affordable housing developments. In this model, the City retains ownership of the land while increasing their assets by allowing that land to have an active use that also provides a valuable service (Kowalchuk, 2004). In addition to providing political benefits by providing affordable housing, a benefit to the municipality is that a land lease can also serve as a revenue generating mechanism in addition to property taxes (Pomeroy, 2004b). However, land leases are long-term investments that do not provide significant amounts of revenue for municipalities in the short term.

### *Direct Subsidies*

Regardless of any tax credits or regulatory incentives to generate greater private sector provision of affordable housing, some form of direct subsidies are required to achieve the necessary supply of affordable housing in Canada as they help fill the funding gap between the cost of development and potential revenue generation (Kowalchuk, 2004; Pomeroy, 2001; Manifest, 2000). Direct subsidies could be either as capital grants, which are the most available kind in Alberta, but they could also be in the form of subsidized mortgages or loans, which are most

### **Land Contributions**

#### Advantages:

- Easier access to land (Myerson, 2005; Manifest, 2000)
- Reduced land costs could potentially lower project costs (CHBA, 2007; Ottawa Chamber, 2005)
- Political benefits without providing direct subsidies (Pomeroy, 2004b)
- Municipalities could retain ownership of the land while increasing their assets (ibid)

#### Disadvantages:

- Strong competition for government-owned land (Pomeroy, 2004b)
- Land leases do not generate significant amounts of short-term revenue (ibid)

effective for the private sector as they can facilitate upfront soft costs associated with development and can help keep rents affordable for the duration of the loan repayment. Either method would benefit from a more long-term focus. Long-term subsidies are ideal as they can leverage additional funding, primarily through supplementary financing methods, and are especially necessary for new rental construction (Kowalchuk, 2004; Pomeroy, 2001; Focus, 2006). Long-term subsidies are also recommended due to the predictability they ensure to the providers of affordable housing. The result of direct subsidies is the ability to use those funds to secure additional financing through banks, credit unions, and REITs. It takes time to acquire such supplementary resources prior to the start of construction, which makes short-term subsidies cumbersome and often ineffective because their term expires.

Government subsidies can also act as a deterrent to private sector involvement in affordable housing (Focus, 2006; Pomeroy, 2001). Many private developers find government subsidies unreliable as each successive government in power tends to rescind or change the previous governments' policies and funding requirements (Ottawa Chamber, 2005). Moreover, subsidies generally are accompanied by complex standards and rules, which are viewed as cumbersome and add delays to a project (Focus, 2006). Sometimes, different subsidies require conflicting standards, and thus act as a significant deterrent to private builders and developers (ibid). Moreover, it is also possible that subsidies can create unfair competition between private builders by infusing money into the market for targeted projects (Ottawa Chamber, 2005; Pomeroy, 2001).

In Alberta, the majority of direct subsidies for affordable housing are available through the Canada-Alberta Affordable Housing Partnership Initiative (APHI) first signed in 2002 (AB Municipal Affairs, 2007; CMHC, 2007). This partnership provided \$197.24 million for affordable housing projects throughout Alberta to date (ibid). This funding is still being disseminated through Alberta Municipal Affairs.

Some developers also view subsidies as a de facto rent control as affordability is required for a set period of time in order to receive the funding. For example, the Canada-Alberta AHPI funding requires affordability to be maintained for 20 years. This in itself can act as a deterrent to private developers applying for this type of funding and therefore may choose not to participate in building affordable housing. "Even with significant grants, the imposition of maximum rent criteria and de facto rent controls for 20 years has been a disincentive" (Focus, 2006, p.5). However, most sources agree that affordable housing cannot be built without subsidies and therefore, cannot be discounted (CHBA, 2007; Kowalchuk, 2004; Falvo, 2007).

## Financial Measures

### *Reduction or Waiving of Municipal Fees*

Municipalities use two main forms of fees to cover the administrative costs of processing a development application, called permit fees, and development levies, which developers pay in order to help cover the off-

### Direct Subsidies

#### Advantages:

- Subsidies help fill the funding gap and reduce the cost of each unit (Focus, 2006)
- Can potentially be used to leverage additional financing not available otherwise (Kowalchuk, 2004; Pomeroy, 2001)

#### Disadvantages:

- Requirements for securing grants are often extensive and confusing, which acts as a deterrent to private developers (Focus, 2006; Pomeroy, 2001)
- Subsidies are dependant are typically short term due to their political nature (Ottawa Chamber, 2005)

site capital costs association with urban growth (CMCH, 2000). All development projects are subject to both fees, but are relative to the size and location of the project (ibid). Municipalities typically implement development levies based on the size of the housing unit or lot being developed. The Municipal Government Act in Alberta allows municipalities to set their own charges and levies for development, therefore, any changes to those fees would require a bylaw amendment. In Calgary, the charge system is based on lot frontage (ibid).

Municipalities have two options to influence development: they could reduce or waive fees by the location in order to influence where development occurs, or they can reduce or waive fees by the type of development. Both could significantly affect affordable housing developments, but particularly the latter as this type of development has tight profit margins. A reduction of development levies on infill sites could promote affordable housing development in inner city areas and a reduction or waiving of permitting fees on affordable housing projects has been proposed by several affordable housing advocates (Pomeroy, 2004b; Lubell, 2006; Poverty Reduction Coalition, 2006). The result for developers would be reduced costs that could then be passed on to the consumer, thereby increasing affordability, although it is not guaranteed that the consumer would directly benefit from the developer's cost savings. Moreover, affordable housing developments tend to be small in scale in order to keep construction costs low and therefore, a reduction or waiving of the municipal fees would not necessarily be very significant.

### Lower Municipal Fees

#### Advantages:

- Could increase the production of affordable housing in high growth areas (CMHC, 2000; Pomeroy, 2004b)

#### Easy to implement (CMHC)

#### Disadvantages:

- Cost savings are not guaranteed to be passed along to the consumer (CMHC, 2000; Pomeroy, 2004b)
- Savings would not necessarily be very significant

## Complimentary Measures

### *Rehabilitation of Existing Stock*

Rehabilitating the existing housing stock and other public buildings, such as old schools, for affordable rental housing is an effective short-term solution to increase the stock of affordable housing as it may require significantly less money and time than new construction (Kowalchuk, 2004; CHBA, 1999; 2007; Manifest, 2000; Pomeroy, 1998; Lalsinge, 2003; Lubell, 2006). "Acquisition and rehabilitation of existing rental housing presents a cost-effective alternative to building new assisted housing projects" (CHBA, 1999, p.6). Adaptive reuse of existing buildings still requires a certain level of subsidy or other form of financing, which is best used for a down payment to purchase an existing property. The result is that the total cost per housing unit is significantly lower, usually 40-50% less, than new construction (Kowalchuk, 2004). Additionally, renovations lower future operating costs, which can increase affordability (ibid).

An innovative incentive to encourage private sector involvement in the rehabilitation of the existing affordable housing stock is through a particular type of public-private partnership. In this model, the ownership and management of the property is the responsibility of a non-profit group while a private builder completes the renovations in exchange for development rights on those properties or adjacent sites (CHBA, 1999). Typically, such a partnership agreement is attractive for the private sector

### Existing Stock

#### Advantages:

- Lower capital costs compared to new construction (Kowalchuk, 2004; CHBA, 1999; Manifest, 2000; Pomeroy, 1998; Lalsinge, 2003)
- Approvals process generally faster
- Reduces the number of condo-conversions
- Locations are usually good as they are in established areas close to services and amenities

#### Disadvantages:

- Does not necessarily increase the stock of affordable housing as units acquired for renovation are generally affordable due to

since rehabilitation projects are often in good locations. However, more incentives and subsidies are required for this type of affordable housing to reach a significant scale (City of Austin, 2007).

their potential state of  
disrepair

One method of acquiring affordable housing from the existing housing stock is referred to as the acquisition option. This method requires little or no public funding and can improve existing housing as well as provide low-income households with access to home ownership opportunities. The acquisition option model involves the purchase of an existing property by either an organization or by individuals as a condo-conversion with low-cost ownership (Pomeroy, 2004b). If purchased by a non-profit, the rental agreement is structured with a vendor 'take-back' mortgage that is repaid over ten years and assumes the existing financing. The rental income covers the debt repayment and operating costs. If purchased as a condo-conversion, the units are offered at \$25-35,000 above the carrying costs including a reserve fund. The condominium fees serve the same purpose as the rent to cover debt repayment (ibid). The primary challenge with this option is securing partners that are willing to operate the property or assist in identifying potential purchasers (ibid). This method has potential to provide affordable units in perpetuity in both purchase options. If units are purchased by a non-profit, the rent will likely remain affordable as long as the organization is operating them. Moreover, for the condo-conversion option, the units could have restrictive caveats put on them that would keep resale prices within affordable targets.

The overall benefit of this method is that it is applicable in various jurisdictions. All municipalities have buildings in need of repair that could function well as affordable housing. This method is not only available, but is also easy to encourage because many of the complications regarding new construction are removed. For example, a development permit is generally easier to acquire if already zoned accordingly. Moreover, many redevelopment projects can substantially reduce construction costs as the shell of the building already exists.

## Institutional Measures

### *Streamlining the Planning Process*

An expedited planning process can reduce the time to gain development approvals, which can result in reduced costs to developers as well as potential future consumer cost savings (Pomeroy, 2004b; City of Austin, 2007; Lalsinge, 2003; Kowalchuk, 2006; Lubell, 2006). "Streamlining the approval process can reduce the time and cost to developers and thus can help...to improve affordability" (Pomeroy, 2004b, p.9). A more efficient approvals process is a necessary component for private sector involvement in building affordable housing as it could potentially reduce the time required to get a development permit as well as create a more predictable and transparent process (Myerson, 2005; Lalsinge, 2003).

A practical method of expediting the planning process is to create streamlined processes that incorporate flexible, but predictable regulations in order to allow for unusual or innovative projects (City of

### **Streamlining the Process**

Advantages:

- Can reduce time required for development permit approval (Pomeroy, 2004b; Lalsinge, 2003; Kowalchuk, 2004)

Disadvantages:

- Consistency and flexibility are difficult to achieve
- No guarantee it will make the process faster (Pomeroy, 2004b; City of Austin, 2007)

Austin, 2007; Pomeroy, 2004b; Lubell, 2006). A streamlined process requires consistent and transparent application of planning regulations in order to remove political influence from the approvals process (City of Austin, 2007).

In Alberta, the Municipal Government Act outlines specific requirements regarding the planning process, such as notice of applications to the broader community (MGA, 1999, Federation of Calgary Communities, 2002). However, these act as guidelines that provide municipalities with flexibility regarding the overall planning process and thereby also provide significant opportunities to adapt processes in order to achieve greater efficiency. Overall, a more streamlined planning process could positively affect all development permit applications, but the effect of affordable housing projects would be even more significant due to the constraints on possible revenue.

### LONG TERM SUPPLY-SIDE INITIATIVES

Short-term initiatives must be combined with long-term incentives in order to create a comprehensive and sustainable environment to encourage private sector involvement in affordable housing. The incentives highlighted in the literature are divided into three main categories: fiscal, financial and institutional. There are no long-term regulatory measures as municipal bylaw changes are relatively easy to secure and can potentially be accomplished within two fiscal years. Comparatively, all financial measures listed are long-term due to the nature of investment as well as the time required to convince financial institutions to change business practices. However, once those changes occur, the impact on private sector involvement in affordable housing would be significant and swift. One particularly important long-term complimentary measure is also highlighted: the need for education and awareness regarding affordable housing. Like any development, the process and expertise required to build affordable housing, whether rental or homeownership, is extensive, complex and is accompanied by specific challenges. Moreover, affordable housing is part of a broader social issue that also requires additional awareness and support within communities and municipalities. This is an important measure that can begin immediately, but the impact would be long-term. Therefore, other long-term incentives would be most effective if combined with a far-reaching education and awareness campaign of all issues relative to affordable housing. Such a campaign could also promote the private sector to become more involved in affordable housing if the broader community supports and endorses it. This following table outlines the advantages and disadvantages of all long-term incentives listed below.

**Table 2.4.** Advantages and disadvantages of long-term supply side initiatives

		Advantages	Disadvantages
Fiscal Measures	Tax Amendments	<ul style="list-style-type: none"> <li>• Increase land available for rental construction (TBOT, 2003; Ottawa Chamber 2005)</li> <li>• Reduced operating costs (CHBA, 1999; TBOT, 2003; City of Austin, 2007)</li> <li>• Incentives for continual long-term investment in rental properties (TBOT, 2003; CHBA, 2007; Ottawa Chamber, 2005)</li> </ul>	<ul style="list-style-type: none"> <li>• Changes would take a significant amount of time to implement and come to fruition (Ottawa Chamber, 2005)</li> <li>• Cost savings would not affect initial costs of development, which are usually highest (TBOT, 2003; CHBA, 2007)</li> </ul>

	Tax Credits	<ul style="list-style-type: none"> <li>• The private sector would potentially support a U.S.-style tax credit program (Falvo, 2007a)</li> <li>• Potential perception of greater fiscal responsibility than cash grants (Falvo, 2007a)</li> <li>• Provincial housing agencies are more flexible than a national CMHC administered program (Falvo, 2007a)</li> <li>• Canada Revenue Agency's auditing system would make it more likely for participants to adhere to the rules (Falvo, 2007a)</li> </ul>	<ul style="list-style-type: none"> <li>• A tax credit system is potentially inefficient depending on how the administrative costs are compared to direct subsidies (CHBA, 2007; Falvo, 2007a; Focus, 2006)</li> <li>• Support by the private sector is debatable as it may be construed as a 'defacto' rent control, and therefore, could serve as a disincentive to new affordable rental construction (Focus, 2006)</li> </ul>
	Lending and Borrowing Practices	<ul style="list-style-type: none"> <li>• Can decrease reliance on government subsidies (Myerson, 2007; Pomeroy, 2004a)</li> <li>• Can be ideal for private developers if previous dealings are positive and can leverage portfolio (Myerson, 2005)</li> <li>• Potential for community-based lending extensive (Kowalchuk, 2004)</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to decrease risk without other forms of guarantees (Pomeroy, 2004b)</li> <li>• Requires a significant change in business practices</li> </ul>
Financial Measures	Socially Responsible Investment	<ul style="list-style-type: none"> <li>• Potential for significant long-term funding sources (McNevin, 2002)</li> </ul>	<ul style="list-style-type: none"> <li>• Affordable housing is currently not an identified screening criterion for SRI funds (McNevin, 2002)</li> <li>• Many investments are currently unable to invest directly in real estate (ibid)</li> </ul>
	Philanthropy	<ul style="list-style-type: none"> <li>• Increases the amount of funding available for affordable housing projects (Manifest, 2002)</li> <li>• Mutually beneficial for all parties involved (ibid)</li> </ul>	<ul style="list-style-type: none"> <li>• Must be filtered through a charitable organization, and therefore is not directly available to private developers</li> <li>• Requires a significant amount of time and relationship-building to produce substantial results (Manifest, 2002)</li> </ul>
	Labour-Sponsored Investment Funds	<ul style="list-style-type: none"> <li>• Can provide a unique, long-term funding source (Focus, 2006)</li> <li>• Allows individuals to contribute (ibid)</li> </ul>	<ul style="list-style-type: none"> <li>• Requires regulatory changes for affordable housing (Focus, 2006)</li> </ul>
Institutional Measures	Housing Trusts	<ul style="list-style-type: none"> <li>• More coordinated access to government funding (Manifest, 2000; Kowalchuk, 2004; Pomeroy, 1998; EHTF, 2007)</li> <li>• More efficient funding can attract private developers</li> <li>• Can use government funding to leverage additional financing (Lubell, 2006)</li> <li>• Creation of a low-interest lending arm (ibid)</li> </ul>	<ul style="list-style-type: none"> <li>• Decisions can potentially be political</li> <li>• Difficult to secure a dedicated funding source (Manifest, 2000; Kowalchuk, 2004; Pomeroy, 1998)</li> </ul>

Complimentary Measures	Land Trusts	<ul style="list-style-type: none"> <li>• Increase the amount of land available for affordable housing (Kowalchuk, 2004)</li> <li>• Makes land easier to acquire</li> <li>• Reduces development costs as land is cheaper for developers</li> </ul>	<ul style="list-style-type: none"> <li>• Significant tax barriers to donating land (Pomeroy, 2004b)</li> </ul>
	Education & Awareness	<ul style="list-style-type: none"> <li>• Decreases NIMBY attitudes and community resistance (Lalsinge, 2003; Myerson, 2005)</li> <li>• Enhance trust between all parties involved in the development of affordable housing (Pomeroy, 2004b)</li> <li>• Increases the amount of expertise on delivering affordable housing in particular (Pomeroy, 2004b)</li> <li>• Allows for more innovative solutions to providing affordable housing (ibid)</li> </ul>	<ul style="list-style-type: none"> <li>• Takes a significant amount of time to see the effects</li> <li>• Trust and knowledge can easily be lost if not maintained through ongoing relationship building and retention of industry professionals</li> </ul>
	Social Enterprise	<ul style="list-style-type: none"> <li>• Can provide long-term sustainability (FVCSE, 2007)</li> <li>• Lessen reliance on grants and government funding (ibid)</li> <li>• Returns are measured in terms of dollars and on societal impact (ibid)</li> <li>• Possible increase in market share and brand awareness (ibid)</li> </ul>	<ul style="list-style-type: none"> <li>• Not a quick fix (FVCSE, 2007)</li> <li>• Requires full decision-maker buy-in (ibid)</li> </ul>

## Fiscal Measures

### Tax Amendments

Tax incentives can often mean the difference of pursuing a project or not to a private developer. As private developers are hesitant to currently build new rental projects, a positive tax environment could effectively spur development in this sector. As mentioned in the short-term tax amendment section, most tax changes affect new rental construction, but not specifically affordable rental construction, with the exception of the second incentive listed below. If the overall supply of rental units can be increased, the impact on overall affordability will include lower rental costs that can target the informal and formal rental market for working individuals that cannot afford homeownership.

Some long-term tax incentives for new rental construction include:

1. Allow capital gains rollover provisions for small-scale investors to introduce greater flexibility into the small-scale residential investment sectors (BCREA, 2006; TBOT, 2003). Small-scale investors can potentially contribute a significant amount of rental units, but currently do not qualify for tax benefits on capital gains, which acts as a disincentive for small-scale investors.
2. Amend section 38 of the Income Tax Act to encourage gifts of land or land and buildings to public foundations established for the purpose of providing affordable housing (TBOT, 2003; Ottawa Chamber 2005; Taylor, 2006). This amendment would encourage

### Long-term Tax Amendments

#### Advantages:

- Increase land available for rental construction (TBOT, 2003; Ottawa Chamber 2005)
- Reduced operating costs (CHBA, 1999; TBOT, 2003; City of Austin, 2007)
- Incentives for continual long-term investment in rental properties (TBOT, 2003; CHBA, 2007; Ottawa Chamber, 2005)

#### Disadvantages:

- Changes would take a significant amount of time to implement and come to fruition (Ottawa Chamber, 2005)

donations of land similar to the provisions for Conservation Lands as outlined in the Municipal Government Act in Alberta except for affordable housing. Currently, a land donation for affordable housing results in significant income tax penalties making such a donation virtually non-existent. An amendment would make land much more available for affordable housing and would reduce the cost of development significantly.

3. The Province should ensure that the property tax burden is fairly balanced across property tax classes (TBOT, 2003; TD, 2003), reduce or cut property taxes on affordable rental housing (CHBA, 1999; Taylor, 2006), and protect affordable rental units from increases (City of Austin, 2007). Currently, property taxes, depending on the municipality, can also act as a disincentive to development if operating costs are too high. Additionally, increasing operating costs lowers affordability.
4. The Federal Government should allow all investors in new rental housing projects to deduct capital cost allowance losses against other income (TBOT, 2003; Ottawa Chamber, 2005; TD, 2003).

### *Tax Credits*

The potential of developing a U.S.-style tax credit program in Canada has gained momentum recently due to the platform of the current Conservative government (Focus, 2006). Based on the U.S. model, a Canadian tax credit system would allocate non-refundable tax credits by the Canada Revenue Agency on a per capita basis to the provinces, which would administer the program through the ministry responsible for housing. Each ministry would then outsource the marketing of the credits to ‘syndicators’ that would then market the credits to individual real estate investors and corporations. The provincial housing agency would oversee the competition process by both non-profit and for-profit developers according to specific affordability criteria established by the federal or provincial government. Developers would buy the credits from potential investors or syndicators. Non-profit and private sector bidders with the most appealing offers would be awarded the tax credits by the provincial housing ministry. When annually filing taxes, the developers receiving credits would use them to reduce their payable taxes by decreasing their net rental income and by using the capital cost allowance as a tax deduction (Falvo, 2007a).

However, it is important to note that a U.S.-style tax credit system would not adequately serve the lowest income groups that fall below 60% of the median family income in a region. “The Low Income Housing Tax Credit (LIHTC) is an extremely expensive program in the U.S. – and, it does not provide assistance to those most in need” (CHBA, 2007, p.1). This is because it is unlikely that enough credits could be secured to subsidize the cost of construction to sufficiently lower rents for low-income individuals (CHBA, 2007; Falvo, 2007a; Focus, 2006; Falvo, 2007b). Thus, additional government subsidies, or alternative financing, are still

### **Tax Credits**

#### Advantages:

- The private sector would potentially support a U.S.-style tax credit program (Falvo, 2007a)
- Potential perception of greater fiscal responsibility than cash grants (ibid)
- Provincial housing agencies are more flexible than a national CMHC administered program (Falvo, 2007a)
- Canada Revenue Agency’s auditing system would make it more likely for participants to adhere to the rules (Falvo, 2007a)

#### Disadvantages:

- A tax credit system is potentially inefficient depending on how the administrative costs are compared to direct subsidies (CHBA, 2007; Falvo, 2007a; Focus, 2006)

\* A syndicator is a U.S. term for someone who assembles a group of investors and acts as their representative. In the U.S., syndication of the tax credits occurs when developers sell their credits to a syndicator instead of directly selling to investors in order to raise equity capital for their housing project. This allows the developers to acquire significant financing immediately to pay for development costs while investors claim the credits annually over a ten-year period. Syndication is a complex and expensive process. Source: *United States Department of Housing and Urban Development Webpage, 2007.*

required to provide housing for the lowest income groups. In the U.S., additional subsidies usually involve state tax credits, rent supplements, financing from one or more lenders, tax credit sales or direct government contributions (Falvo, 2007a; Lampert, 2002). Few affordable housing public-private partnerships in the U.S. would succeed without additional direct and indirect federal funding as this funding is the leverage to encourage investment from the private sector (Kowalchuk, 2004; TBOT, 2003).

- Support by the private sector is debatable as it may be construed as a 'defacto' rent control, and therefore, could serve as a disincentive to new affordable rental construction (Focus, 2006)

Some observers consider direct subsidies more efficient than a U.S.-style tax credit system, but not necessarily more sustainable (CHBA, 2007; Focus, 2006). The rationale for this assertion is that the full amount of the subsidy is used to develop an affordable housing project whereas a tax credit includes all costs associated with providing that credit as well as the costs for the project. For example, a project may receive a \$500,000 grant or subsidy. The full \$500,000 would be used towards the development cost of the project. This is guaranteed through cost tracking and submission of receipts to the government. The costs related to public servant contributions are not usually accounted for with the result that subsidies are perceived to be incredibly efficient (Focus, 2006). Alternately, in a tax credit system, those administrative costs, including the costs of marketing the credits, are accounted for within the tax credit structure. The result is that only 60%-85% of the claim of the credit goes towards development costs (ibid). The comparison is between the cost of the bureaucratic work, which is not included in the direct subsidy, but is still paid by the government, and the syndicator, whose fees are taken out of the tax credit. As Falvo states, "it seems that the work done by the syndicator replaces, to a great extent, much of the bureaucratic work that would otherwise be done by CMHC and provincial housing ministries" (Falvo, 2007, p.26). However, that work is merely paid in different ways, which, for the tax credit, is more obvious. Unlike direct subsidies, which tend to change with each government, the Low Income Housing Tax Credit (LIHTC) in the United States has proven to be very sustainable in that the program has existed for over 20 years despite multiple federal and state governments (Focus, 2006).

## Financial Measures

### *Lending & Borrowing Practices*

When direct government subsidies decrease, affordable housing developments are compelled to rely on multiple layers of financing from a variety of sources, including financial institutions (Myerson, 2005; 2007). However, financing merely compliments the need for subsidies and grants combined with additional measures, such as equity financing, which are all necessary to build affordable housing. Pomeroy states, "the wide gap between cost and maximum financing show that significant levels of grant and equity are required to make financing for affordable development feasible" (Pomeroy, 2004b, p.5). Financial institutions can have a significant role in making affordable housing projects more affordable as mechanisms, such as mortgage insurance, enable lenders to manage risk and guarantee rental cash flows for debt service

### **Lending & Borrowing**

Advantages:

- Can decrease reliance on government subsidies (Myerson, 2007; Pomeroy, 2004a)
- Can be ideal for private developers if previous dealings are positive and can leverage portfolio (Myerson, 2005)

(Pomeroy, 2004a). Some standard financing methods to increase affordability are (Pomeroy, 2004a; 2004b; Myerson, 2007):

- Lower interest rates or interest-free loans;
- Larger loans;
- Longer amortization periods;
- Reduced premium fees;
- Deferred payments; and,
- More flexible or alternative underwriting practices.

However, it is important to remember that lenders are in business, and therefore, are concerned with managing risk primarily by assessing the capacity of the borrower to repay the loan (Pomeroy, 2004b). As affordable housing developments do not have the ability to raise the cost of individual units to cover budget increases, they are generally viewed as a higher risk than regular residential developments and much higher risk than commercial developments (Pomeroy, 2004b; Myerson, 2005). Additionally, affordable housing projects have a tendency to face community criticism, which increases risk to the lender. One potential method to help mitigate risk is to educate the community on the benefits of affordable housing (ULI, 2002; Lalsinge, 2003). Risk is also mitigated if borrowers have a good reputation with the lender or can leverage an existing affordable housing portfolio to obtain better financing rates (Myerson, 2005). As the Urban Land Institute states, “a longstanding relationship with a lender is part of a solid track record that helps developers manage risk and support future efforts” (Myerson, 2005, p.9). For borrowers, it is crucial to balance debt and equity financing to ensure cost effectiveness while also providing adequate financial flexibility to manage risk and growth (ibid).

Financial institutions can also contribute to the process of providing affordable housing by serving as community economic developers. In the U.S., the *Community Reinvestment Act* of 1977 requires banks to invest in community-based projects including affordable housing (Bostic, 2005). Comparatively, in Canada, credit unions and banks typically assume the role on a voluntary basis (Kowalchuk, 2004). For example, VanCity Credit Union created the VanCity Community Foundation that uses innovative investment policies and retention of some profits to offer loans, grants, and technical assistance for affordable housing projects and progressive real estate deals (ibid). To date, there are no known financial institutions operating in this fashion in Alberta.

Potential innovative mechanisms used by financial institutions include (Pomeroy, 2004b):

- Community Investment Deposits – a GIC-type investment marketed as socially responsible investments that receive a lower interest rate and used for loans on affordable housing developments; and,
- Ethical investment GIC within an RRSP structure that provides tax benefits to investors and is easier to collaborate with financial institutions and investment dealers.

- Potential for community-based lending extensive (Kowalchuk, 2004)

Disadvantages:

- Difficult to decrease risk without other forms of guarantees (Pomeroy, 2004b)
- Requires a significant change in business practices

### *Socially Responsible Investment (SRI)*

Socially Responsible Investment (SRI) funds are an innovative and feasible method to finance affordable housing, but require significant restructuring and government incentives to implement at a necessary scale (MacNevin, 2002). These funds are investment pools, such as mutual funds, pension funds, Real Estate Investment Trusts (REITS) and Real Estate Investment Companies (REICs), that contain stock in companies and organizations considered socially responsible. In order for a company to be considered socially responsible, certain screening criterion is observed. Currently, significant barriers exist in Canada to use SRI's as a funding tool for affordable housing as affordable housing is not an identified screening criterion for SRI funds in the U.S. or in Canada, but instead are usually listed under Community Development Investments. Even then, Community Development Investments only make up a small portion of total available funds (ibid). Additionally, many funding sources, such as mutual funds and pension funds, are restricted from investing directly in real estate, though most can invest through Real Estate Investment Trusts (REITs) or Real Estate Investment Corporations (REICs), which do invest directly in real estate, and their respective umbrella corporations and foundations (ibid).

The best solution to enhance or increase the feasibility of SRI's as an investment tool for affordable housing is to follow the U.K. approach, which requires mutual funds and pension funds to disclose ethical investment activities (MacNevin, 2002). Public disclosure of investments would provide an incentive to invest in important social issues, such as affordable housing, as investment would be dictated by public opinion. This would pressure financial institutions to create a screening criterion for affordable housing.

### *Philanthropy*

Philanthropy is potentially an effective method to leverage individual and corporate wealth for affordable housing projects. Donations to affordable housing projects can easily be targeted to individuals given a positive tax environment as corporations are not as affected by tax limitations regarding philanthropy (Manifest, 2002).

Although tax benefits are not the primary motivating factor for philanthropic donors, ...changes to Canada's tax laws may have a profound effect on most individual Canadians' attitudes towards giving [by increasing the] level of donations that an individual can claim, as a percentage of annual income" (Manifest, 2002, p.46).

However, successful philanthropy campaigns should only be operated by a charitable organization with a high profile and experience with affordable housing as well as enough community capacity and awareness to support donations. In order to capitalize on fundraising and philanthropic opportunities, many for-profit organizations create foundations (Calgary Regional Home Builder's Association, 2007; Calgary Real Estate Board, 2007) A few key requirements for a successful fundraising campaign include (Manifest, 2002):

- Employ quality and experienced fundraising professionals;

### **Responsible Investment**

Advantages:

- Potential for significant long-term funding sources (McNevin, 2002)

Disadvantages:

- Affordable housing is currently not an identified screening criterion for SRI funds (McNevin, 2002)
- Many investments are currently unable to invest directly in real estate (ibid)

### **Philanthropy**

Advantages:

- Increases the amount of funding available for affordable housing projects (Manifest, 2002)
- Mutually beneficial for all parties involved (ibid)

Disadvantages:

- Must be filtered through a charitable organization
- Requires a significant amount of time and relationship-building to produce substantial results (Manifest, 2002)

- Make affordable housing a priority for those who have means to donate (it is important to differentiate between social and affordable housing as people are more receptive to the latter); and,
- Focus on the long-term benefits of affordable housing, including economic impacts, as a marketing strategy.

Philanthropy is well established in Alberta and has already contributed significantly to affordable housing projects (EHTF, 2007; Horizon Housing, 2007). Moreover, the corporate principle of social responsibility provides a persuasive argument for contributing to socially responsible developments, such as affordable housing projects.

### *Labour-Sponsored Investment Funds (LSIF)*

Labour-Sponsored Investment Funds (LSIF) are commonly and effectively used for investment in Research and Development in Canada, but could easily be adapted for investment in affordable housing. LSIF's provide tax credits of 15%-20% on investments of up to \$5,000 in eligible funds (Focus, 2006). As LSIF's are marketed towards individuals rather than corporations, they could play a significant role in funding affordable rental development by creating a pool of capital (ibid). "Essentially, this would have a similar approach to the LIHTC in that it would be directed to passive investors generating their return as tax savings" (Focus, 2006, p.9). Another option is to use LSIF's as an RRSP eligible investment to create an additional incentive for individual contributions (ibid).

### **Labour-Sponsored Investing**

#### Advantages:

- Can provide a unique, long-term funding source (Focus, 2006)
- Allows individuals to contribute (ibid)

#### Disadvantages:

- Requires regulatory changes for affordable housing (Focus, 2006)

## **Institutional Measures**

### *Housing Trusts*

Housing trusts are a partnership of local non-profit groups, business and industry professionals, and government representatives that work together to increase and preserve affordable housing. They are considered the most productive and effective method to introduce new mechanisms that increase the stock of affordable housing (Kowalchuk, 2004; EHTF, 2007; Lubell, 2006).

Housing trusts are most effective if based locally, but are somewhat difficult to establish, as they require a dedicated funding source. Typically, local housing trusts rely on funding from the provincial government established through legislation, ordinance, or resolution (Manifest, 2000; Kowalchuk, 2004; Pomeroy, 1998; EHTF, 2007).

One example of a successful housing trust is the Edmonton Housing Trust Fund (EHTF) established in 1999. The EHTF acts as a conduit for multi-level government funds for homelessness and affordable housing initiatives (EHTF, 2007; Kowalchuk, 2004). As multi-layered funding and financing is the reality in Canada, Housing Trusts can coordinate funding for affordable housing most effectively and are continually researching new sources of funding with the main goal of maintaining and creating new affordable housing opportunities (ibid). Calgary has a similar

### **Housing Trusts**

#### Advantages:

- More coordinated access to government funding (Manifest, 2000; Kowalchuk, 2004; Pomeroy, 1998; EHTF, 2007)
- More efficient funding can attract private developers
- Can use government funding to leverage additional financing (Lubell, 2006)
- Creation of a low-interest lending arm (ibid)

#### Disadvantages:

- Decisions may be political
- Difficult to secure a dedicated funding source (Manifest, 2000; Kowalchuk, 2004)

organization, the Calgary Homeless Foundation established in 1998, which provides capital funding for affordable housing projects and acts as a medium for community consultation on issue related to homelessness and affordable housing.

### *Land Trusts*

A land trust is an organization that acts as a steward of any land they own on behalf of the community, generally for affordable housing (Kowalchuk, 2004; Calgary Community Land Trust, 2007). Land trusts allow others to develop land for specific purposes, such as affordable housing, through long-term lease agreements. Land trusts generally facilitate the acquisition of land as they can more easily collaborate with government to acquire land and are sometimes able to acquire land at a reduced cost (ibid). Land trusts are also able to receive donations of land, but the current federal tax situation acts a significant barrier to land donations for affordable housing because donations are still subject to income tax (Pomeroy, 2004b). Thus, federal tax changes would be required to increase the tax benefits of donations to land trusts, which would then enhance the capacity of land trusts to obtain land for affordable housing projects (ibid).

Currently, Calgary and Edmonton both have operating land trusts. In Calgary, the Calgary Community Land Trust (CCLT) was established in 2002 and received charitable status in 2004 (CCLT, 2007). To date, they have provided land for three projects: Sun Court in Dover, Leo & Goldie Sheftel Court in Capitol Hill, both in partnership with Habitat for Humanity, and Kootenay Lodge in Falconridge, in partnership with the Universal Rehabilitation Service Agency.

## **Complimentary Measures**

### *Education & Awareness*

Underlying all previously outlined measures is the knowledge and support necessary to successfully develop affordable housing. Affordable housing projects, whether new or existing, are generally more complicated than regular market rate housing developments in terms of financing as well as community support (Myerson, 2007; Lubell, 2006). Therefore, significant capacity is required to build a successful affordable housing project regardless if the builder is a non-profit or private sector developer. Moreover, knowledge and awareness by all involved in the development and homebuilding industry is important to spur creativity. "Cross-sectoral capacity building and education are prerequisites to innovation and collaboration" (Pomeroy, 2004b, p.25). Some key capacity issues identified for successful involvement of the private sector include (Kowalchuk, 2004):

- Assistance with innovative financing models, such as mortgage underwriting, and developing effective partnerships (Pomeroy, 2004b);
- Technical information regarding the planning and financing processes; and,

### **Land Trusts**

#### Advantages:

- Increase the amount of land available for affordable housing (Kowalchuk, 2004)
- Makes land easier to acquire
- Reduces development costs as land is cheaper for developers

#### Disadvantages:

- Significant tax barriers to donating land (Pomeroy, 2004b)

### **Education & Awareness**

#### Advantages:

- Decreases NIMBY attitudes and community resistance (Lalsinge, 2003; Myerson, 2005)
- Enhance trust between all parties involved in the development of affordable housing (Pomeroy, 2004b)
- Increases the amount of expertise on delivering affordable housing in particular (Pomeroy, 2004b)
- Allows for more innovative solutions to providing affordable housing (ibid)

- Guidance for strategies on how to produce affordable housing as well as tools, mechanisms and additional support available, such as CMHC.

Education and awareness is not only necessary for housing developers and builders, but also for tenants and owners of affordable housing (BCREA, 2006; Pomeroy, 2004b; TD, 2003; Lubell, 2006). For example, Edmonton's Home Program provides consumer education and mortgage pre-qualifying process, which can provide future clients to realtors. Due to the benefit the program has for the real estate industry, the program is sustained through referral fees to individual realtors rather than public dollars (Pomeroy, 2004b).

Additionally, capacity building is important to establish cross-sectoral trust as a prerequisite for any innovative process (ibid). Increased trust between the private, non-profit and public sector enhances the success of partnerships as well as increases the amount of financing available by encouraging greater confidence in affordable housing projects (ULI, 2002; Lubell, 2006). Trust is acquired through successful relationship building and experience, which can require significant amounts of time to establish, but is easily lost through unsuccessful projects or through employee turnover.

Another critical aspect for successful implementation to increase the private sector participation in affordable housing is public education regarding the benefits of affordable housing (Lalsinge, 2003; Myerson, 2005; Taylor, 2006). Currently, affordable housing has a negative stigma attached to it resulting from the infamous 'ghettos' developed in the mid-twentieth century. Improving public education, which can increase public support or reduce Not-In-My-Backyard (NIMBY) reactions, will potentially mitigate the risk of an affordable housing development and attract additional private lender investment (Pomeroy, 1998; Myerson, 2005; 2007).

### *Social Enterprise*

Social enterprise is defined as "a social economy enterprise operates like a business, produces goods and services for the market, but manages its operations and redirects its surpluses in pursuit of social and environmental goals" (Fraser Valley Centre for Social Enterprise, 2007). Typically social enterprises are initiated by non-profit organizations by establishing an independent for-profit arm or subsidiary geared towards a social mission. Any profits generated from the social enterprise are re-invested back into the non-profit organization to further the social causes of the organization. One well-known social enterprise is Habitat for Humanity, which continually re-invests any revenue from mortgage payments and their building supply 'Re-stores' into future projects (Habitat, 2003).

Social enterprises could potentially complement the efforts of private developers and homebuilders to provide affordable housing by increasing the ability of non-profit organizations to fund affordable housing projects. Non-profit organizations that operate viable social enterprises would have a greater capacity to partner with private developers to design and

### Disadvantages:

- Takes a significant amount of time to see the effects
- Trust and knowledge can easily be lost if not maintained through ongoing relationship building and retention of industry professionals

### **Social Enterprise**

#### Advantages:

- Can provide long-term sustainability (FVCSE, 2007)
- Lessen reliance on grants and government funding (ibid)
- Returns are measured in terms of dollars and on societal impact (ibid)
- Possible increase in market share and brand awareness (ibid)

#### Disadvantages:

- Not a quick fix (FVCSE, 2007)

physically build new affordable housing. Additionally, private developers can also assume a similar model for their own business practices, by creating an arm of their own organization that evaluates success both in terms of dollars, but also based on societal impact, such as jobs created (FVCSE, 2007). Not only would this increase the market share of the organization by diversifying the product, it would also bring public awareness to the organization and the social cause (ibid). The Ontario company, Options for Homes, operates as socially driven corporation to provide low-income individuals the ability to afford their own home. (Options for Homes, 2007). Options for Homes is a non-profit corporation, without charitable status, that sells its condominium units at cost before construction.

- Requires full decision-maker buy-in (ibid)
- Could only assist in raising funds for maintenance rather than capital costs

However, it is important to note that developing a social enterprise requires buy-in from all decision makers in order to make such a significant structural change to an organization and it can also take a longer period of time to see the results of a socially minded enterprise (Hill, 2006). Moreover, social enterprise would only contribute to raising funds for maintenance rather than capital costs.

## Conclusion

Based on the literature, in order to effectively encourage greater private sector involvement in affordable housing it is essential to use more than one incentive and to focus on both demand and supply mechanisms in short- and long-term situations (Falvo, 2007; Pomeroy, 2004a; 2004b, CHBA 1999; 2007; Kowalchuk, 2004; Taylor, 2006). Of the measures previously described, the following are the six incentives that are most likely to encourage private sector engagement in affordable housing as the benefits or advantages they provide outweigh the disadvantages for private developers and builders:

- Housing or shelter allowances;
- Both short and long term tax amendments;
- Density bonusing or inclusionary zoning;
- Land contributions, particularly land leases;
- Housing and land trusts; and,
- Philanthropy.

Housing or shelter allowances benefit the private sector indirectly by helping to guarantee that rental units are occupied, which can help secure financing for a new rental project. Moreover, housing allowances can respond quickly to affordability issues and are portable, and therefore can move with the tenant to any rental building, including those owned and operated by private developers and managers. As long as housing allowances are combined with measures to increase supply, such as those described below, they will not have a significant inflationary effect on the rental market. This method is also cost effective for governments as housing allowances are lower on a per unit basis than new construction.

The current tax environment acts a disincentive to private developers for new rental construction. Therefore, a significant opportunity exists for the previously outlined tax amendments to encourage private developers to invest in new rental construction, which would increase the overall supply of rental units. This increased supply would positively affect affordability for near market units and the corresponding individuals generally known as the 'working poor'. However, the most important tax amendment would be to Section 38 of the Income Tax Act, which would encourage gifts of land or land and buildings for the purpose of affordable housing.

Municipalities also have a role in encouraging private sector involvement. Policy changes such as density bonusing or inclusionary zoning could allow for significant amounts of new affordable housing development.

This method of encouraging supply would also have the added benefit of creating a mixed income environment, which is typically identified as a best practice and would facilitate community acceptance of affordable housing projects. Moreover, this type of regulatory change is relatively inexpensive for municipalities to implement, but would significantly affect the business practices of developers regarding the provision of affordable housing.

In addition, municipalities could contribute to affordable housing projects by donating land or providing land leases for affordable housing projects. This would act as an incentive to private developers to become involved in building affordable housing by lowering the capital costs of development.

Research indicates housing and land trusts can significantly increase the supply of affordable housing. A housing trust with access to a dedicated funding stream for affordable housing and that streamlines the multiple layers of government funding is critical to better engage the private sector in affordable housing. Land trusts also have a critical role in assisting with the acquisition of land, which is the pre-requisite for any affordable housing development. Coordinated with a housing and land trust, an organization that is focused on increasing awareness of affordable housing in the community could facilitate private sector involvement and serve as a focal point for private sector philanthropy.

These incentives are the most effective methods to encouraging private sector engagement in affordable housing according to the literature from Canada, the U.S., the U.K. and Australia. Each incentive is capable of exclusively increasing the supply of affordable housing, but is meant to work in collaboration and compliment one another in order to substantially increase local supply. Moreover, these incentives should be combined with the complimentary measures of utilizing the existing housing stock as well as fostering education and awareness within the development industry and the broader community regarding affordable housing issues. Following sections, specifically the Industry Representatives' Response Section will examine these incentives further and compare them with comments from industry professionals in order to provide recommendations regarding which incentives, based on practical experience, will have the greatest impact in Calgary.

### 3. ENVIRONMENTAL SCAN

The environmental scan provides an overview of affordable housing projects in Alberta involving private sector participants. The projects were selected to illustrate the variety of methods undertaken by the private sector to participate in the provision of affordable housing throughout the province. The focus of private sector participation in affordable housing ranges from initiating and owning the project, including design and permit applications, to providing funding and expertise. Projects include rent supplements, affordable rental accommodations, and affordable homeownership options. Funding sources include government grants, donations and gifts-in-kind, fee reductions, and contributions of time and expertise that all contribute to increasing affordability. Moreover, most projects consist of a form of partnership or agreement between multiple parties.

Below is a list of organizations that are currently working to provide affordable housing or have recently completed projects. This list is not exhaustive and only represents a sample of private sector involvement in affordable housing. The overview of each project includes company information, a project description with specific reference to the private sector involvement in the project, a project timeline, costs (if available), funding sources, partners (if applicable), the role of government, and a resident profile.

**Table 3.1.** Overview of projects

Organization	Project Municipality	Housing Type	Number of Units
Artisan Homes	Calgary	Single Family	65
Boardwalk Rental Communities	Edmonton	Apartment	200
Calgary Real Estate Foundation	Calgary	Apartment	50
Calgary Regional Homebuilder's Association	Calgary	Apartment	61
		Apartment & Townhouse	114
Centron	Fort McMurray	Single and Multi Family	300
Classic Construction	Medicine Hat	Row Housing	94
		Row Housing	219
		Row Housing	129
Communitas Group	Edmonton	Apartment	14
KANAS Corporation	Calgary	Apartment	9
P & S Investments	Red Deer	Apartment	39
		Apartment	95
Three Sisters Mountain Village	Calgary	Townhouse	17
Vinterra Properties Inc.	Edmonton	Four-plex	8
		Row Housing	7
		Row Housing	7
<b>Total:</b>			<b>1428</b>

## ARTISAN HOMES

### Private Sector Participant Information

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**Business Name:** Artisan Homes

Date of Establishment: 1963

### Contact Information

**Municipality:** Calgary

**Business Address:** 201, 2953 Battleford Ave SW

**Website:** [www.artisanhomes.ca](http://www.artisanhomes.ca)

### Project Description

---

#### Project Location

**Municipality:** Calgary

Neighborhood: Cyprus Greens in Garrison Greens

Description: Cyprus Greens was a subsidized housing project initiated by Canada Lands Corporation in the redevelopment process of the former Currie Barracks land. The City of Calgary funded the project as well as agreed to take on ownership and management of the project once completed through the Calgary Housing Company. Canada Lands Corporation donated that land, planned and serviced the community, and provided old military housing. Artisan Homes then moved and refurbished the units as well as added garages for each home.

Private Sector Contribution: Built a sample unit at their own cost for the City of Calgary to see before they approved the project. Artisan then dismantled the sample and moved it to Cyprus Greens with the other units. Refurbished 65 military homes, adding garages for each one, at cost with no profit.

#### Building Type

Housing Form	Number of Units	Number of Beds
Single Family	65	varies

#### Project Timeline

Start Date - End Date: 2001 – 2002

#### Project Cost

Development Costs	Amount
Land:	N/A
Construction	Undisclosed
GST	Undisclosed
<b>Total Costs</b>	<b>\$ 4,700,000</b>

## Funding Sources

Name	Contribution
Canada Lands Corporation	Land donation, planned and serviced community, provided units
City of Calgary	\$ 4,700,000

## Partners

Partner Name	Role
Canada Lands Corporation	Land donation, planned community, serviced community, provided units for refurbishment
City of Calgary	Funder, Owner, Manager

## Role of Government

Level of Government	Role
Federal	Land donation
Provincial	Unknown
Municipal	Funder, Owner, Manager

## Resident Profile

Targeted Income Range: Low income based on CMHC  
 Estimated Monthly Rent of Units: N/A – Low mortgage homeownership

## BOARDWALK - CORNERSTONE'S PLAN

### Private Sector Participant Information

---

**Business Name:** Boardwalk Rental Communities

Date of Establishment: 1984

### Contact Information

**Municipality:** Headquarters in Calgary

**Website:** [www.bwalk.com](http://www.bwalk.com)

### Project Description

---

#### Project Location

**Municipality:** Edmonton

Neighborhood: Dispersed throughout Edmonton

Description: Edmonton's Cornerstone's Initiative is a five-year plan adopted by Edmonton City Council in 2004 that is aimed at increasing affordable housing. All three levels of government fund the Initiative with 50% from the City of Edmonton, and 25% from both the Province of Alberta and the Government of Canada through the Canadian Mortgage and Housing Company. One aspect of this plan is to provide rent supplement for 400 rental units throughout Edmonton under the Fixed Rate Rental Supplement Pilot Project, which received \$5 million in funding from the combined levels of government.

Private Sector Contribution: Boardwalk Rental Communities was the first private landlord to partner with the City of Edmonton's Cornerstone's Initiative by providing 200 units. Boardwalk contributes to affordability by reducing the rent of their units by \$75/unit if a tenant cannot afford the market rent. The Cornerstone's Initiative in Edmonton makes those 200 units managed by Boardwalk even more affordable.

#### Building Type

Housing Form	Number of Units	Number of Beds
Apartment	200	varies

#### Project Timeline

Start Date - End Date: Occupancy filled by February 2007

#### Funding Sources

Name	Contribution
City of Edmonton	50% Funding
Province of Alberta	25% Funding
CMHC	25% Funding

## Partners

No Partners.

## Role of Government

Level of Government	Role
Federal	25% Funding
Provincial	25% Funding
Municipal	50% Funding

## Resident Profile

Targeted Household Types: Support services not needed  
Targeted Income Range: Under median incomes  
Estimated Monthly Rent of Units: Average of \$200 below market rates

## CALGARY REAL ESTATE FOUNDATION

### Private Sector Participant Information

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**Business Name:** Calgary Real Estate Foundation

Date of Establishment: 1987

### Contact Information

**Municipality:** Calgary

**Business Address:** 300 Manning Road NE

**Website:** [www.hearttohome.org](http://www.hearttohome.org)

### Project Description

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#### Project Location

**Municipality:** Calgary

Neighborhood: Milican-Ogden

**Description:** The Mayor of Calgary held a round table on affordable housing in 2004 in which the Calgary Real Estate Board participated. As a result, they decided to build an affordable housing development, financed through their Foundation, and supported by the City of Calgary who donated the land for the project. The Foundation received some Provincial and Federal funding through the Affordable Housing Partnership Initiative (AHPI) and privately fundraised the remainder. The project includes long-term funding for maintenance, which is low due to the quality of the building. Calgary Housing Company will own and manage the units.

**Private Sector Contribution:** The Calgary Real Estate Foundation spearheaded this project, arranging funding from the different levels of government through grants as well as fundraising \$1.5 million for the project. With the City's aid, they planned the project with significant amounts of community input.

#### Building Type

Housing Form	Number of Units	Number of Beds
Apartment	10 market	8 – 1 bedroom
	50 non-market	52 – 2 bedroom

#### Project Timeline

Start Date - End Date: 2004 – December 2007

#### Project Cost (approximately)

Development Costs	Amount
Land:	\$ 800,000
Construction	Undisclosed
GST	Undisclosed
<b>Total Costs</b>	<b>\$ 14,500,000</b>

## Funding Sources

Name	Contribution
Affordable Housing Partnership Initiative (AHPI)	\$ 6,000,000
Calgary Real Estate Board Foundation	\$ 1,500,000

## Role of Government

Level of Government	Role
Federal	50% AHPI funding (\$ 3,000,000)
Provincial	50% AHPI funding (\$ 3,000,000)
Municipal	Land donation, in-kind grants (\$ 7,000,000)

## Resident Profile

Targeted Household Types:	Low-income primarily, but 10 units are wheelchair equipped
Targeted Income Range:	Varies – will be decided by the Calgary Housing Company based on need and income
Estimated Monthly Rent of Units:	\$ 295 + / month – never over 30% of a tenants income

## CALGARY REGIONAL HOME BUILDER'S FOUNDATION

### Private Sector Participant Information

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**Business Name:** Calgary Regional Home Builder's Foundation

Date of Establishment: Unknown

### Contact Information

**Municipality:** Calgary

**Business Address:** 100, 7326 – 10 Street NE

**Website:** www.crhba.com

### Project Description

---

#### Project Location

**Municipality:** Calgary

Neighborhood: Glamorgan – Bob Ward Residence

Description: The Bob Ward Residence was planned by Horizon Housing, a not-for-profit organization dedicated to providing housing primarily for persons with mental disabilities. The 61-unit building was funded by a myriad of sources, both public and private, and had significant support from the City of Calgary. The units are owned and managed by Horizon Housing with tenant outreach and support provided by the Canadian Mental Health Association (CMHA).

Private Sector Contribution: Different companies provided significant amounts of funding (see list below). Additionally, the Calgary Regional Home Builders Association provided \$800,000 in funding through their Foundation as well as gifts in-kind of building materials from their members. Moreover, they contributed their expertise to the design and build of the project in order to reduce costs and increase quality.

#### Building Type

Housing Form	Number of Units	Number of Beds
Apartment	61	69

#### Project Timeline

Start Date - End Date: December 2001 – October 2004

#### Project Cost

Development Costs	Amount
Land:	\$ 800,000
Construction	\$ 3,700,000
Soft Costs	\$ 306,000
GST	\$ 175,000
<b>Total Costs</b>	<b>\$ 5,000,000</b>

## Partners

Partner Name	Role
CRHBA	Funder, in-kind gifts, expertise
Calgary Homeless Foundation	Funder, expertise
Canadian Mental Health Association (CMHA)	Outreach and tenant support

## Funding Sources

Name	Contribution
City of Calgary	\$ 800,000 – land donation
Calgary Regional Home Builders Foundation	\$ 800,000
Calgary Homeless Foundation	\$ 771,000
Calgary Interfaith Housing	\$ 500,000
HRSCB	\$ 1,000,000
Alberta Real Estate Foundation	\$ 100,000
TransAlta	\$ 750,000
Canadian Pacific Charitable Foundation	\$ 150,000
Imperial Oil Charitable Foundation	\$ 200,000
Horizon Housing	\$ 100,000
Canadian Oil Sands	\$ 50,000
Nexen	\$ 50,000
Community Facility Enhancement Program	\$ 125,000

## Role of Government

Level of Government	Role
Federal	\$ 1 million funding through HRSCB
Provincial	Some funding through Calgary Homeless Foundation
Municipal	Land donation

## Resident Profile

Targeted Household Types:

- Persons with mental illness supported by CMHA
- Physically disabled or brain injured supported by Universal Rehabilitation Service Agency
- Person below the poverty line

Targeted Income Range: Unspecified

Estimated Monthly Rent of Units: 30% of income or shelter portion of Assured Income for the Severely Handicapped (AISH)

## CALGARY REGIONAL HOME BUILDER'S FOUNDATION

### Private Sector Participant Information

---

**Business Name:** Calgary Regional Home Builder's Foundation

Date of Establishment: Unknown

### Contact Information

**Municipality:** Calgary

**Business Address:** 100, 7326 – 10 Street NE

**Website:** www.crhba.com

### Project Description

---

#### Project Location

**Municipality:** Calgary

Neighborhood: Inglewood Residence (name could change)

Description: The Inglewood Residence was planned by Horizon Housing, a not-for-profit organization dedicated to providing housing primarily for persons with mental disabilities, with aid from the Calgary Homeless Foundation. The 104-unit apartment building and 10 townhomes were funded by a myriad of sources, both public and private, and had significant support from the City of Calgary. The units are owned and managed by Horizon Housing with tenant outreach and support provided by the Canadian Mental Health Association (CMHA).

Private Sector Contribution: The Calgary Regional Home Builders Association provided \$1,000,000 in funding through their Foundation as well as gifts in-kind of building materials from their members. Moreover, they contributed their expertise to the design and build of the project in order to reduce costs and increase quality.

#### Building Type

Housing Form	Number of Units	Number of Beds
Apartment	104	109
Semi-detached Townhomes	10	varies

#### Project Timeline

Start Date - End Date: October 2004 – December 2008

#### Project Cost

Development Costs	Amount
Land:	\$ 2,000,000
Construction	\$ 17,550,000
GST	\$ 1,173,000
<b>Total Costs</b>	<b>\$ 20,723,000</b>

## Funding Sources

Name	Contribution
City of Calgary	\$ 800,000 – land donation
Calgary Regional Home Builders Foundation	\$ 1,000,000
Calgary Homeless Foundation	\$ 930,000
Horizon Housing	\$ 200,000
Community Facility Enhancement Program	\$ 125,000
Affordable Housing Partnership Initiative (AHPI)	\$12,282,918

## Partners

Partner Name	Role
CRHBA	Funder, in-kind gifts, expertise
Calgary Homeless Foundation	Funder, expertise
Canadian Mental Health Association	Outreach and tenant support

## Role of Government

Level of Government	Role
Federal	50% AHPI funding + \$205,000 through Calgary Homeless Foundation
Provincial	50% AHPI funding
Municipal	Land donation

## Resident Profile

Targeted Household Types:

- Persons with mental illness supported by CMHA
- Physically disabled or brain injured supported by Universal Rehabilitation Service Agency
- Person below the poverty line
- Seniors
- Low-income families

Targeted Income Range: Unspecified

Estimated Monthly Rent of Units: 30% of income or shelter portion of Assured Income for the Severely Handicapped (AISH)

## CENTRON RESIDENTIAL CORPORATION

### Private Sector Participant Information

---

**Business Name:** Centron Residential Corporation

Date of Establishment: 1987

### Contact Information

**Municipality:** Calgary

**Business Address:** 175, 4639 Manhattan Road SE

**Website:** [www.centrongroup.com](http://www.centrongroup.com)

### Project Description

---

#### Project Location

**Municipality:** Fort McMurray

Neighborhood: Eagle Ridge

Description: In response to a Request For Proposals by the Alberta Ministry for Seniors and Community Supports, Centron was granted the ability to develop a 371-acre parcel of land in Fort McMurray at a set land sale price of \$18.5 million with a significant affordable housing component. The affordable housing units are split into four categories based on tenants and have significant income restrictions. They are:

1. Need-to-Reside: for tenants that live and work in Fort McMurray and do not currently own;
2. Government Employees: nurses, police, etc.;
3. Oil Sands Employees of CNRL, a partner in the project; and,
4. Oil Sands Employees of other companies.

All units must be kept affordable for five years in order to discourage flipping. If units are sold before the five years, restrictions are placed on the price of the unit and eligible purchasers.

Private Sector Contribution: In response to the Request for Proposals, Centron compiled the affordability criteria listed above and was therefore, awarded the land. They have maintained affordability primarily through the fixed land cost, strict timelines and their ability to leverage their reputation, contacts and knowledge. No additional subsidies were used.

#### Building Type

Housing Form	Number of Units	Number of Beds
Single Family Multi Family Semi-detached Low Rise Condominiums	300 total	Varies

#### Project Timeline

Start Date - End Date: Fall 2005 - 2009

## Project Cost (approximately)

Development Costs	Amount
Land:	\$ 18,500,000
Construction	Undisclosed
GST	Undisclosed
<b>Total Costs</b>	Undisclosed

## Funding Sources

None

## Role of Government

Level of Government	Role
Federal	None
Provincial	Offered land at a fixed rate, organized the Request for Proposals
Municipal	None

## Resident Profile

Targeted Household Types:

1. Need-to-Reside: for tenants that live and work in Fort McMurray and do not currently own;
2. Government Employees: nurses, police, etc.;
3. Oil Sands Employees of CNRL, a partner in the project; and,
4. Oil Sands Employees of other companies.

Targeted Income Range: Unknown

Estimated Cost of Units: Unknown

## CLASSIC CONSTRUCTION

### Private Sector Participant Information

---

**Business Name:** Classic Construction

Date of Establishment: 2002

### Contact Information

**Municipality:** Medicine Hat

**Business Address:** 671B Industrial Avenue

**Website:** [www.cclhomes.com](http://www.cclhomes.com)

### Project Description

---

#### Project Location

**Municipality:** Medicine Hat

Neighborhood: Crescent Heights – Northland Villas

Description: Classic Construction created an affordable homeownership model in conjunction with the Canada Mortgage and Housing Company and the Medicine Hat Community Housing Society that must remain affordable for 20 years. Units are sold at 70% of the average home price with longer-term mortgages and down payment installment options.

Private Sector Contribution: Classic Construction designs and builds affordable condos to own at 70% of the average home price. They offer \$23,000 in assistance to potential buyers through \$5,000 for the initial down payment and another \$18,000 over the first seven years of ownership.

#### Building Type

Housing Form	Number of Units	Number of Beds
Bungalow-style Condos	94	188
2-storey Style Condos	219	Varies with 2 and 3 bedroom units
2-storey Style Condos	129	Varies with 2 and 3 bedroom units

#### Project Timeline

Unknown

#### Project Cost

Unknown

## Funding Sources

Model is self-sustaining and does not require additional funding.

## Partners

Partner Name	Role
Canada Mortgage and Housing Company	Provides 35-year mortgages
Medicine Hat Community Housing Society	Administer funds for the monthly assistance payments

## Role of Government

Level of Government	Role
Federal	Longer mortgages
Provincial	
Municipal	

## Resident Profile

Targeted Income Range: \$24,000 gross/year

Estimated Monthly Mortgage: As low as \$675.00 including condo fees, taxes, gas and water. Units cost 70% of the average Medicine Hat home price. \$3,350 required for down payment through monthly installments with a \$500 initial deposit.

## COMMUNITAS GROUP LTD.

### Private Sector Participant Information

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**Business Name:** Communitas Group Ltd.

Date of Establishment: 1972

### Contact Information

**Municipality:** Edmonton

**Business Address:** 200, 12120 – 106 Avenue

**Website:** www.communitas.ca

### Project Description

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#### Project Location

**Municipality:** Edmonton

Neighborhood: Cameron Manor Cohousing Cooperative

Description: Cameron Manor was a renovation project initiated by Communitas Group. In addition to the 14 units, this building has a large community facility consisting of a social and meeting area, a kitchen, and recreational spaces for adults and children. The idea behind the cohousing arrangement is that tenants pool their resources, both human and financial, in order to provide resources that they would not have access to on their own.

Private Sector Contribution: Communitas Group initiated the project and arranged funding.

#### Building Type

Housing Form	Number of Units	Number of Beds
Apartment	14	24 11 – 2 bedroom 3 – 1 bedroom

#### Project Timeline

Start Date - End Date: Completed Winter 2006

#### Project Cost

Development Costs	Amount
Land:	Unknown
Construction	Unknown
GST	Unknown
<b>Total Costs</b>	<b>\$ 2,500,000</b>

## Funding Sources

Name	Contribution
Edmonton Housing Trust Fund through the National Homeless Initiative (NHI)	\$ 1,500,000
CMHC's Residential Rehabilitation Assistance Program (RRAP)	\$ 240,000

## Partners

Unknown

## Role of Government

Level of Government	Role
Federal	Funder
Provincial	None
Municipal	None

## Resident Profile

Targeted Income Range: Low income working families

Estimated Monthly Rent of Units:

1 Bedroom: \$480

2 Bedroom: \$575

## KANAS CORPORATION

### Private Sector Participant Information

---

**Business Name:** Kanas Corporation

Date of Establishment: 1996

### Contact Information

**Municipality:** Calgary

**Business Address:** 544 – 38A /avenue

**Website:** [www.kanas.ca](http://www.kanas.ca)

### Project Description

---

#### Project Location

**Municipality:** Calgary

Neighborhood: Park Hill

**Description:** Kanas Corporation elected to build an affordable rental complex on a parcel of land owned by its founder. They arranged all funding including CMHC seed funding and a grant from the Affordable Housing Partnership Initiative (AHPI). Kanas provided the remainder including staff time and a loss of profit. This 9-unit building is owned and managed by Kanas based on the affordability requirements of the AHPI funding (it must be affordable for at least 20 years).

**Private Sector Contribution:** This entire project was funded, planned and built by Kanas Corporation.

#### Building Type

Housing Form	Number of Units	Number of Beds
Apartment	9	18

#### Project Timeline

**Start Date - End Date:** August 2006 – October 2007

#### Project Cost

Development Costs	Amount
Land:	Undisclosed
Construction	\$ 1,350,000
GST	\$ 81,000
<b>Total Costs</b>	<b>\$ 1,431,000</b>

## Funding Sources

Name	Contribution
CMHC – Seed Funding	\$ 10,000
AHPI	\$ 450,000

## Partners

No partners

## Role of Government

Level of Government	Role
Federal	50% APHI funding + CMHC funding
Provincial	50% APHI funding
Municipal	Permit retroactive due to green building

## Resident Profile

Targeted Household Types: 'Working poor'

Targeted Income Range: Moderate income based on CMHC

Estimated Monthly Rent of Units

Bachelor: N/A

1 Bedroom: N/A

2 Bedroom: 10% below average

## P & S INVESTMENTS

### Private Sector Participant Information

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**Business Name:** P & S Investments

Date of Establishment: Unknown

### Contact Information

**Municipality:** Red Deer

### Project Description

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#### Project Location

**Municipality:** Red Deer

Neighborhood: Riverside Meadows

Description: Riverside Meadows was P & S Investments' first affordable housing project. P & S Investments arranged all funding, planned and built the development themselves. As the rental units are primarily for persons with mental illness, they partnered with the Canadian Mental Health Association for tenant outreach and support. The only government support was through the Affordable Housing Partnership Initiative (AHPI), which provided some funding. P & S maintains ownership and management of the units.

Private Sector Contribution: P & S Investments was the sole organization involved in this development. They arranged government funding, in addition to their own financial contribution, received development approval through the City of Red Deer's planning process, including community outreach, and built the project themselves.

### Building Type

Housing Form	Number of Units	Number of Beds
Apartment	39	48 16 bachelor 14 – 1 bedroom 9 – 2 bedroom

### Project Timeline

Start Date - End Date: May 2003 – May 2004 for construction  
Development Process took 1 year to this

### Project Cost (approximately)

Development Costs	Amount
Land:	\$ 500,000
Construction	\$ 2,050,000
GST	\$ 124,000
<b>Total Costs</b>	<b>\$ 2,674,000</b>

## Funding Sources

Name	Contribution
Affordable Housing Partnership Initiative (AHPI)	\$ 1,975,000

## Partners

Partner Name	Role
Canadian Mental Health Association	Community outreach and tenant support

## Role of Government

Level of Government	Role
Federal	50% AHPI Funding plus \$ 487,000 towards capital costs
Provincial	50% AHPI Funding
Municipal	

## Resident Profile

Targeted Household Types:                      Some tenants with mental illness or on AISH

Targeted Income Range:                         Maximum of \$13,000 per annum

Estimated Monthly Rent of Units:            20% below CMHC average



## P & S INVESTMENTS

### Private Sector Participant Information

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**Business Name:** P & S Investments

Date of Establishment: Unknown

### Contact Information

**Municipality:** Red Deer

### Project Description

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#### Project Location

**Municipality:** Red Deer

Neighborhood: Potters Hands Housing – Convent Park

Description: Potters Hands Housing – Convent Park was P & S Investments' second affordable housing project. P & S Investments arranged all funding, planned and built the development themselves. As the rental units are primarily for persons with mental illness, they partnered with the David Thompson Health Authority for tenant outreach and support. The only government support was through the Affordable Housing Partnership Initiative (AHPI), which provided some funding and the City of Red Deer that provided \$250,00 in lieu through levy reductions and in-kind donations. P & S maintains ownership and management of the units.

Private Sector Contribution: P & S Investments was the sole organization involved in this development. They arranged government funding, in addition to their own financial contribution, received development approval through the City of Red Deer's planning process, including community outreach, and built the project themselves.

#### Building Type

Housing Form	Number of Units	Number of Beds
Apartment	95	118 27 bachelor 45 – 1 bedroom 23 – 2 bedroom

#### Project Timeline

Start Date - End Date: October 2005 – November 2006 for construction

Development Planning began June 2003

#### Project Cost (approximately)

Development Costs	Amount
Land:	\$ 900,000
Construction	\$ 5,750,000
GST	350,000
<b>Total Costs</b>	<b>\$ 7,000,000</b>

## Funding Sources

Name	Contribution
Affordable Housing Partnership Initiative (AHPI)	\$ 4,000,000
City of Red Deer (in lieu)	\$ 250,000

## Partners

Partner Name	Role
David Thompson Health Authority	Tenant outreach and support

## Role of Government

Level of Government	Role
Federal	50% AHPI Funding
Provincial	50% AHPI Funding
Municipal	In lieu contributions include levy reduction and in-kind grants

## Resident Profile

Targeted Household Types: Some tenants with mental illness or on AISH

Targeted Income Range: Maximum \$ 25,000 per annum

Estimated Monthly Rent of Units: 20% below CMHC average

## THREE SISTERS MOUNTAIN VILLAGE

### Private Sector Participant Information

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**Business Name:** Three Sisters Mountain Village

Date of Establishment: Unknown

### Contact Information

**Municipality:** Calgary

### Project Description

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#### Project Location

**Municipality:** Canmore

Project Address: Rundle Drive

Description: Due to Canmore's Perpetual Affordable Housing Policy, Three Sisters Mountain Village decided to use the land they owed the Town to develop an affordable housing complex. With help from the newly established Canmore Community Housing Association, they created the necessary agreements to plan restrictive covenants on the titles of each unit in order to maintain perpetual affordable homeownership of 17 of the 32 units in the townhouse complex located in downtown Canmore. The cost of the market units helped subsidize the non-market units and make them more affordable.

Private Sector Contribution: Three Sisters purchased the land at full market value, provided all services at no cost, contributed \$ 2 million to the project and received no profits.

### Building Type

Housing Form	Number of Units	Number of Beds
Townhouse	32 15 Market 17 Affordable	Varies

### Project Timeline

Start Date - End Date: October 2005 – October 2007

### Project Cost (for entire project)

Development Costs	Amount
Land:	\$ 1,700,000
Construction	\$ 7,700,000
GST	N/A
<b>Total Costs</b>	<b>\$ 9,400,000</b>

### Funding Sources

No Funding Sources.

## Partners

No Partners beyond common business practices.

## Role of Government

Level of Government	Role
Federal	
Provincial	
Municipal	Canmore Community Housing Association aided in developing the necessary documentation and agreements with restrictive covenants to retain affordable homeownership units

## Resident Profile

Targeted Household Types: N/A  
 Targeted Income Range: \$ 70,000 per annum  
 Unit Sale Price: \$ 195,900 - \$ 289,900

## VINTERRA PROPERTIES INC.

### Private Sector Participant Information

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**Business Name:** Vinterra Properties Inc.

Date of Establishment: 1993

### Contact Information

**Municipality:** Edmonton

**Business Address:** 7011 Calgary Trail

**Website:** [www.vinterraproperties.com](http://www.vinterraproperties.com)

### Project Description

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#### Project Location

**Municipality:** Edmonton

Neighborhood: Norwood

Description: This project was organized by the Edmonton Inner City Housing Society with funding from the Allen Family Foundation through the Edmonton Community Foundation, The Affordable Housing Partnership Initiative and the Low Income Housing Capital Assistance Program.

Private Sector Contribution: Vinterra Properties, as a design and build company, designed the project for free and built it at cost.

#### Building Type

Housing Form	Number of Units	Number of Beds
Four-plex Buildings	8	24

#### Project Timeline

Start Date - End Date: Occupancy March 2004

#### Project Cost (approximately)

Development Costs	Amount
Land:	Undisclosed
Construction	Undisclosed
GST	Undisclosed
<b>Total Costs</b>	<b>\$ 892,000</b>

## Funding Sources

Name	Contribution
Affordable Housing Partnership Initiative (AHPI)	\$ 400,000
Edmonton Inner City Housing Society (EICHS)	\$ 250,000
Allen Family Foundation	Unknown

## Partners

Partner Name	Role
Allen Family Foundation (through the Edmonton Community Foundation)	Funder
Community Initiative Program	Unknown
Low Income Capital Assistance Program (LIHCAP) through the City of Edmonton	Unknown

## Role of Government

Level of Government	Role
Federal	50% AHPI funding
Provincial	50% AHPI funding
Municipal	Unknown

## Resident Profile

Targeted Household Types:	Disadvantaged inner-city families at risk of becoming homeless
Targeted Income Range:	Low-income
Estimated Monthly Rent of Units:	Unknown

## VINTERRA PROPERTIES INC.

### Private Sector Participant Information

---

**Business Name:** Vinterra Properties Inc.

Date of Establishment: 1993

### Contact Information

**Municipality:** Edmonton

**Business Address:** 7011 Calgary Trail

**Website:** [www.vinterraproperties.com](http://www.vinterraproperties.com)

### Project Description

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#### Project Location

**Municipality:** Edmonton

Neighborhood: Eastwood

**Description:** This project was organized by the Edmonton Inner City Housing Society, in partnership with the Edmonton Housing Trust Fund, the Government of Canada, the City of Edmonton, the Stollery Foundation, the Strathcona Rotary Club, the Allen Family Fund and Vinterra Properties Inc.

**Private Sector Contribution:** Vinterra Properties, as a design and build company, designed the project for free and built it at cost.

#### Building Type

Housing Form	Number of Units	Number of Beds
Row Housing	7	17 4 – 2 bedroom 3 – 3 bedroom

#### Project Timeline

Start Date - End Date: Occupancy April 2006

#### Project Cost (approximately)

Development Costs	Amount
Land:	Undisclosed
Construction	Undisclosed
GST	Undisclosed
<b>Total Costs</b>	Over \$ 900,000

## Funding Sources

Name	Contribution
Edmonton Housing Trust Fund	\$ 650,000

## Partners

Partner Name	Role
Edmonton Inner City Housing Society	Owner, Manager
Edmonton Housing Trust Fund	Funder
The Stollery Foundation	Funder
The Strathcona Rotary Club	Funder
The Allen Family Fund	Funder

## Role of Government

Level of Government	Role
Federal	Unknown
Provincial	None
Municipal	Funding through the Edmonton Housing Trust Fund

## Resident Profile

Targeted Household Types:	Disadvantaged inner-city families at risk of becoming homeless
Targeted Income Range:	Low-income
Estimated Monthly Rent of Units:	Unknown

## VINTERRA PROPERTIES INC.

### Private Sector Participant Information

---

**Business Name:** Vinterra Properties Inc.

Date of Establishment: 1993

### Contact Information

**Municipality:** Edmonton

**Business Address:** 7011 Calgary Trail

**Website:** [www.vinterraproperties.com](http://www.vinterraproperties.com)

### Project Description

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#### Project Location

**Municipality:** Edmonton

Neighborhood: Parkdale

**Description:** This project was organized by the Edmonton Inner City Housing Society, in partnership with the Edmonton Housing Trust Fund, the Government of Canada, the City of Edmonton, the Stollery Foundation, the Strathcona Rotary Club, the Allen Family Fund and Vinterra Properties Inc.

**Private Sector Contribution:** Vinterra Properties, as a design and build company, designed the project for free and built it at cost.

#### Building Type

Housing Form	Number of Units	Number of Beds
Row Housing	7	17 4 – 2 bedroom 3 – 3 bedroom

#### Project Timeline

Start Date - End Date: Occupancy December 2005

#### Project Cost (approximately)

Development Costs	Amount
Land:	Undisclosed
Construction	Undisclosed
GST	Undisclosed
<b>Total Costs</b>	<b>\$ 940,000</b>

## Funding Sources

Name	Contribution
Edmonton Housing Trust Fund	\$ 450,663

## Partners

Partner Name	Role
Edmonton Inner City Housing Society	Owner, Manager
Edmonton Housing Trust Fund	Funder
The Stollery Foundation	Funder
The Strathcona Rotary Club	Funder
The Allen Family Fund	Funder

## Role of Government

Level of Government	Role
Federal	Funding through the National Homelessness Initiative
Provincial	None
Municipal	Funding through the Edmonton Housing Trust Fund

## Resident Profile

Targeted Household Types:	Disadvantaged inner-city families at risk of becoming homeless
Targeted Income Range:	Low-income
Estimated Monthly Rent of Units:	Unknown

## Conclusion

The purpose of the environmental scan was to provide examples of how the private sector have been involved in providing affordable housing throughout Alberta. These projects illustrate the private sector as leaders and owners of projects, funders and fundraisers, designers and experts. Each project is somewhat unique as one particular model cannot and has not been replicated, however, many of the challenges and barriers experienced by the private sector in developing these projects are common to all. These challenges, as well as the opportunities, identified by the players involved are highlighted in the following section, Industry Representatives' Response.

## 4. INDUSTRY REPRESENTATIVES' RESPONSE

This section focuses on the results from interviews with twenty-six industry professionals throughout Alberta including for-profit and non-profit developers, public administrators, and representatives from non-profit agencies involved in affordable housing issues, planners and real estate agents. Specific perspectives of the private sector are presented including their current role in the provision of affordable housing, their reaction to the downloading of government responsibilities, their definition of affordable housing, and the role of the market in their decision-making process. Furthermore, the challenges and barriers faced by the private sector are discussed and contrasted with the opportunities available to further engage the private sector in the provision of affordable housing. Material in this section is based entirely on input from key informant interviews, therefore only direct quotations are referenced.

### Private Sector Perspective

In order to explore potential roles of private sector involvement in affordable housing it is imperative to understand how the industry views affordable housing. Private developers generally fall within two groups with regards to the definition of affordable housing: one who defines affordable housing as any unit that sells, no matter the cost, and another group who generally follows the Canada Mortgage and Housing Company (CMHC) definition of affordable housing (see Introduction Section). The former market-oriented group refers to housing for low- and moderate-income groups as social housing and generally views this type of housing as being outside of their responsibility. The latter group generally consists of for-profit developers that have built or tried to build housing for low- and moderate-income groups and feel that providing affordable housing is a responsibility of the homebuilding and development industry and a necessary contribution to their community. However, some industry professionals in the latter group believe the CMHC definition is arbitrary and unclear as to how it translates into housing developed through government grants. One developer says, "if it could be better defined, what affordable or social housing is, it could be clear for developers what to build [sic]" (private developer, 12 July 2007). An increase in clarity towards affordable housing, through a well-defined explanation of what affordable housing is and who it is for, could eliminate a lot of uncertainty for private developers interested in building affordable housing.

Moreover, there is disagreement among for-profit developers regarding whether or not they should be involved in the provision of affordable housing. For many industry representatives we spoke to, this disagreement is a direct response to the downloading of government responsibilities to municipalities, and therefore, themselves. For some industry professionals, affordable housing, or social housing, is built beyond the market and therefore, should not be the responsibility of private developers. For other industry professionals, affordable housing is viewed in a broader social context in which they affirm that every person has a right to adequate housing and the reality is that some people, no matter how hard they work, can still not afford housing provided by the market. However, it is necessary to highlight that although industry professionals assert that everyone deserves adequate housing, the private sector can only contribute towards producing affordable housing towards moderate-income individuals, or the 'working poor'. They assert that the government must still be involved to build housing for lower-income individuals and those that need support services such as persons with addictions or disabilities. The private sector representatives that were most interested or willing to provide affordable housing preferred targeting low-income individuals without high needs in near-market rental or homeownership projects as opposed to non-market housing. Moreover, many industry professionals stated that their role in producing affordable housing for higher needs individuals is primarily a monetary one through donations, and perhaps as an expert consultant that can advise on construction methods to reduce time, costs and enhance design and construction quality.

The most important factor impacting private sector participation in the production of affordable housing is the market. The market is central to cost estimations and their decisions regarding the feasibility of a project. For private sector developers interviewed, one of the largest uncertainties is government involvement. Governments have a role to play in governing all new development including affordable housing, which is

understood and accepted by private sector representatives. However, many private sector developers interviewed generally object to significant government influence in the development process. According to many key informants, government's role can overly influence the housing market, such as when municipal planners do not reflect on the market impacts of certain policies and regulations. For example, government influence can include development controls and fees that affect developments by increasing parking requirements, design and material restrictions that ultimately increase project costs. Certain developers state that ideally, regulations are implemented only when necessary and are then placed evenly across the market so that any policy change affects all stakeholders, thereby altering the market equitably.

Most developers interviewed that have built affordable housing, both for-profit and non-profit, are proud and satisfied with their project despite the many challenges they had to overcome. One for-profit developer states, "I'm not going to say it's a wonderful experience, but when its all said and done you look back and say 'yeah, I'm sure glad I did it', but it was hard to do" (private developer, 2 June 2007). The rewards of affordable housing, at the end of the day, are not generally monetary as the intrinsic value of public service provided by affordable housing is the primary reason many private developers were involved in various projects. This value extends to increase employee satisfaction in organizations that provide a public service, but can also reflect corporate social responsibility. The satisfaction inherent in such an achievement cannot be understated despite a reduction in profits.

## Current Situation

Many private developers are currently involved in building affordable housing in Alberta in a variety of ways. The few projects and organizations highlighted in the Environmental Scan do not signify an exhaustive list. Despite the many barriers to private sector participation in affordable housing, many developers and builders both understand the current need for affordable housing in Alberta, primarily in economic terms of labour shortages, which can have significant negative spin-off effects for their own organizations, and therefore want to contribute to alleviating some of that need. Yet, there is a lack of communication between industry professionals that acts as a barrier to private sector engagement by not sharing experiences or knowledge regarding affordable housing.

For many private developers, the issue of affordable housing has directly affected them both personally and as an organization. As developers, most realize the significance of the increase in the cost of housing for consumers, including lower-income individuals. As such, many industry professionals are very aware of the social and economic need or rationale for an increase in the supply of affordable housing in Calgary and Alberta. Most also understand the broader implications to their industry and Alberta's economy, including their own organizations, if more affordable housing is not produced. This awareness is a significant contributing factor for why many for-profit developers have attempted to build affordable housing projects.

However, two problems were revealed regarding the current condition of private sector involvement in affordable housing. First, an awareness of affordable housing projects completed by, or with the aid of, the private sector within Alberta was insufficient. When asked about other affordable housing projects in Alberta that the private sector have contributed to, most industry professionals interviewed did not know of any current or previous developments. The lack of awareness demonstrates that, despite media attention, there is no sufficient method to share information, and therefore, learn from other experiences. Second, it is uncommon for a private developer to build more than one affordable housing project, as repeated industry involvement is rare in Alberta. In fact, only one private developer and one private organization out of all interview subjects participated in more than one affordable housing project. The lack of ongoing involvement in affordable housing by individual organizations illustrates that the barriers are often too difficult to overcome and that a public-private partnership model has not been produced that effectively encourages continual private sector involvement. These one-off projects also result in lost knowledge of how best to overcome the barriers associated with private sector participation. Despite this, developers that have managed to build

affordable housing projects claim that it was one of their most worthwhile projects in terms of personal satisfaction

Another significant barrier for the overall development and homebuilding industry is the difficult funding and tax environment for non-profit developers. Many non-profit developers are acutely aware of the funding gap caused by high development costs and lower amounts of available funding, both from government, philanthropy and financial institutions, the latter being the most difficult for non-profit developers to utilize fully. With little financing from financial institutions and maximum amounts of government subsidies, non-profit organizations are more reliant upon fundraising to fill the funding gap of increased development costs. Some non-profits have attempted to do this by mixing market and non-market units within affordable buildings that they own. However, the charitable status of the organization significantly limits this model by only allowing a prescribed percentage of the organization to consist of market-rate units as this could potentially produce profits. The result of these restrictions for private developers is that overall, non-profit organizations are not as able to contribute to the supply of affordable housing, which puts more pressure on private developers to fill the demand by building affordable housing themselves. Moreover, fewer partnership opportunities between the sectors are available to private developers.

However, private developers face a myriad of barriers to building affordable housing directly. Many are common to the entire development and homebuilding industry, but acutely affect the business practices of the private sector. These barriers consist of fiscal barriers, or barriers relating to senior government fiscal policy; financial barriers, specifically obstacles related to financial institutions and the access or regulations for loans and investment; and institutional barriers concerning the planning process and community opposition.

## **Fiscal Barriers**

### *Tax Barriers*

The current tax environment acts as a disincentive to build affordable rental accommodations. Affordable rental units are not desirable to for-profit developers because they cannot adequately adjust rental rates to reflect increased development costs. For example, a building usually takes two to three years to gain approvals, complete construction and become occupied. By that time, construction costs can increase significantly, and timelines often require extensions, which also increase the overall project cost. By the time the building is occupied, the costs can increase beyond what was initially projected. However, as an affordable rental building, rents are usually set to reflect incomes and not the project costs, which can result in a significant loss for the developer. The current tax laws do not allow the developers to recoup any of those losses. However, one limitation of using tax incentives to assist affordable housing projects is that they do not provide upfront project funding, but instead are redeemable only once per year. One developer stated that developers “use cash up front so some type of tax incentive...has to be at the beginning of the cycle when their cash is going out the door” (private developer, 16 July 2007). Thus, tax amendments would not address a possible funding gap that could hinder a project from even starting. The potential impact of tax rebates is limited if not combined with upfront funding sources.

### *Land Barriers*

As mentioned in the Literature Review Section, the acquisition of suitable land is the first critical component in the development process of any affordable housing development. However, affordable sites are increasingly difficult to secure as land costs increase throughout Alberta. Land is acquired either through purchase, donation or lease. Due to the high costs of purchasing land, developers of affordable housing are requesting that governments and municipalities offer land leases or that the federal government change the tax laws regarding land donations for affordable housing. These two options could contribute significantly to affordability, as they would significantly reduce the cost of land for any affordable housing project. However, both methods have significant restrictions, as the land available from any one source, is not abundant.

Moreover, one development consultant states, that while land contributions are important for affordable housing projects, it is somewhat risky because it can change the value of the land and therefore, the long-term affects on the project. He states, “if you get a deal on affordable housing, they are reducing the value of the land” (non-profit development consultant, 25 June 2007). This is an issue primarily for negotiated land deals at below-market rates and can possible affect land leases, but is not the case for land donations as the donation remains the same regardless of value.

Despite the potential decrease in land value, land leases are ideal because the costs of an affordable housing project are significantly reduced, which increases the affordability of the project. Municipalities also benefit as land leased for an affordable housing project provides a public service. Leasing land for affordable housing projects can potentially serve as a win-win situation for all involved stakeholders as developers would be able to reduce costs, municipalities would provide a public service while increasing their assets in the long term, and low income residents would gain greater access to affordable housing. Most developers interviewed assert that the municipality is the only solution to acquiring land for affordable housing as most municipalities bank land, and therefore, often have a significant supply as well as the ability to offer long-term leases on that land. The drawback of using municipal land for affordable housing is that the land is subject to competition for many different uses, such as parks, utilities, or parking. Affordable housing is not necessarily a high priority for land designation. However, the City of Calgary has provided land through donations for some affordable housing developments, including the Horizon Housing project currently under construction in Inglewood, though many observers consider these contributions to be limited compared to the need. Many developers have contacted the City to negotiate a land deal for affordable housing only to discover, in retrospect, that they have wasted time and money as negotiations were lengthy and confusing and the land was not provided.

Private donations of land for affordable housing are even more difficult to secure due to substantial tax barriers. As mentioned in the Literature Review, land donations for affordable housing are treated as a capital gain under Canadian tax law. The result is that individuals or organizations that donate land for affordable housing are penalized on their income tax. This tax policy is a noteworthy disincentive for a method of acquiring land that could potentially have a significant impact on the ability to build affordable housing. Even though private donations are limited, land trusts can currently serve as a recipient of land donations.

### *Direct Subsidies*

Government grants or subsidies play a significant role in providing affordable housing when they are available, but they are seldom accessed by the private sector. Many industry professionals stated that they generally do not have the time to do the research necessary to understand the funding application guidelines or the strict timelines set to receive the funding with the result that many for-profit developers have decided not to build affordable housing despite expressing a desire to become more involved. Since government grants or subsidies are short term in nature, the time to apply is restricted and unless an organization keeps track of what is available on a regular basis, it is often difficult to develop a project that aligns to the funding timeframe. For those organizations that have applied for government grants, rarely is the maximum amount granted, which is usually insufficient to support private sector participation. Thus, most private development representatives state that, based on the funding available, it is not worth their efforts to pursue government funding since the provision of affordable housing is not the primary mandate of their organization. Non-profits, on the other hand, are usually much more reliant on these subsidies because they do not have the resources to leverage funding from other sources. However, both non-profits and for-profits recognize that subsidies are generally not sufficient to close the funding gap between the development costs of the affordable housing project and the estimated revenue. This is especially true for affordable rental projects.

Moreover, some developers stated that the lack of clarity from senior government subsidies regarding the need for affordable housing also acts as a deterrent. In other words, there is no clear direction on what type of housing or what income groups funding is dedicated for, as it is not delivered directly to address the need of specific individuals. For example, the millions promised by the governments are not divided into portions

depending on the type of housing desired or the income groups they would like to target, such as transitional housing for the homeless or affordable rental units for the working poor. For developers, this can result in a lack of clarity with the result that they will not apply for the funding and therefore, are less likely to produce an affordable product.

## Financial Barriers

### *Lending and Borrowing Practices*

Financial institutions play a significant role in making affordable housing projects possible because they are the primary source of financing for private developers. Most private developers interviewed do not have the capital to independently finance their own projects, which forces them to rely heavily on loans. According to literature and the experiences of the interview subjects, financial institutions view affordable housing projects as high risk and so are unlikely to lend money to developers of these projects and if they do choose to provide funding, the interest rates are usually higher. The result of higher interest rates is increased project costs and decreased affordability. Some private developers interviewed have managed to secure reasonable interest rates by relying extensively on their reputation and previous business interactions with specific financial institutions. As a result, loans for affordable housing projects are difficult to secure, which ultimately acts as another barrier to private sector involvement in building affordable housing. However, many industry professionals stated that most organizations will not put in the time and effort necessary to convince financial institutions to provide financing when loans for projects that do not include affordable housing are readily available.

## Institutional Barriers

### *Development Process*

The Municipal Government Act (MGA) in Alberta establishes the required procedures for making planning decisions, but enables the Land Use Bylaw of each municipality to determine specific development approval procedures (Federation of Calgary Communities, 2002). Approval of all new development projects is done on a case-by-case basis, which increases the uncertainty for the developer, as negotiations and compromise are common aspects of the development process. Negotiations between municipalities and developers can extend the project timeline, as construction cannot begin until development and building permits are issued. Any increased amount of time to complete a development permit results in increased project costs. Municipalities are limited to certain timelines stated within the MGA, but still have the ability to respond to the development challenges of affordable housing through a more efficient process including predictable requirements. Developers, both for-profit and non-profit, would like to see an expedited process for affordable housing applications, or at least a predictable streamlined process that reduces the amount of negotiation and compromise between city departments and developers. One developer stated, “there are abilities [sic] for the private sector to work together with municipalities and cities to create affordable housing projects - to create projects that are positive for both entities” (private developer, 3 July, 2007).

The City of Calgary has responded by creating a specific position within the approvals process to handle affordable housing applications. The Affordable Housing Coordinator is charged with trying to expedite the approvals process and provide information to applicants early on in the process, but only to applicants with Affordable Housing Partnership Initiative (AHPI) funding. This restriction is due to the inability to adequately define affordable housing within the restrictions of the Land Use Bylaw. The Bylaw defines the use of a parcel of land and is not allowed to place restrictions based on possible users. For example, a multi-family apartment building is classified as an apartment building under the Land Use Bylaw regardless of whether it is intended for up-scale homeowners or for lower income renters and is therefore subject to the same land use regulations. In 1997, the City of Calgary attempted to define housing for seniors, but was taken to court over the issue and lost.

However, there is a general sense of urgency within the approvals department at the City of Calgary regarding affordable housing applications regardless of funding sources (INT#15, Public Administrator, 5 July 2007). The result is that affordable housing applications that do not have AHPI funding, which are usually from private developers, are not excluded from the benefits of the Affordable Housing Coordinator. These applications are still processed in the same way as AHPI funded applications, but not formally.

The results of the addition of the Affordable Housing Coordinator position are debatable. The City believes the addition of this position has resulted in affordable housing applications being processed 20 percent faster (INT#15, 5 July 2007). For example, the review portion of the process is regularly reduced from five weeks to one week (ibid). However, non-profit development representatives involved in affordable housing developments, both before and after the creation of this position and have considerable experience navigating City processes, stated that it has had little impact on affordable housing application timelines.

## **Other Barriers**

### *Education and Awareness*

As mentioned previously, a clear lack of awareness of affordable housing projects was obvious. Few industry professionals interviewed, no matter their background, were able to name other private sector organizations, beside themselves, involved in any affordable housing projects. This lack of awareness displays a significant gap between all players involved in producing and maintaining the supply of affordable housing that acts as a barrier to producing affordable housing because experience and knowledge cannot be shared. If industry professionals involved in producing affordable housing were to communicate more and discuss strategies, success and failures, the capacity within the Alberta homebuilding and development industry would increase significantly. Currently in Calgary, the Calgary Homeless Foundation has created an organization called HomeCo that aids non-profit organizations attempting to build affordable housing with the development process. This organization is critical to increasing the capacity of the non-profit developers, but unfortunately does not address the lack of awareness of the industry in general, including private developers who are interested in building affordable housing and are looking to gain that experience without too many difficulties.

### *Community Opposition*

Another aspect of the development process that can easily increase the timeline of an affordable housing project is community opposition, or the Not-In-My-Backyard (NIMBY) syndrome. The regulated procedure for public notification in Calgary is that applications are sent to the Community Association of the community in which the development is proposed as well as posted on notice boards on the property and advertised in public newspaper announcements. (Calgary LUB, 1980). This allows residents to comment on, or oppose, the proposed project. Developers, both for-profit and non-profit, have two options to receive public input: they can involve the community at the outset and receive their opinions and suggestions early on in the development permit process, which gives the project more credence in the eyes of the municipality and can offset any objections later on; or developers can apply for the development permit and hope there is limited community opposition. The latter is unlikely due to the nature of affordable housing projects and the stigma of unsuccessful past projects. Either way, many developers interviewed stated the community could be a hurdle in their effort to successfully complete development projects, especially affordable housing.

Community opposition can add significant delays to a project and can result in the refusal of a development application. One developer experienced significant community opposition to an affordable housing project, and although the project was approved, over one year was spent altering the plans enough to placate the community. The developer stated that “people didn’t want to see affordable housing in their community. The process took over a year before we could even get a permit” (private developer, 2 June 2007). If an application is rejected, the developer can either re-apply with changes that will satisfy the Development Authority or they can appeal the decision to refuse the development permit. If they choose the latter, the decision-making authority is transferred to the Subdivision Development and Appeal Board (SDAB) and the

Municipality no longer has control over the process (FCC, 2002). The SDAB is quasi-judicial and makes the final ruling on whether a development application is approved, but can take a considerable amount of time and money, as well as adding uncertainty and costs to the project.

## Opportunities

Many opportunities exist to address the described barriers and increase private sector involvement in affordable housing. In response to the barriers, certain scenarios are described that would potentially reduce or remove the challenges private developers experience in participating in the provision of affordable housing. These opportunities include regulatory changes, fiscal modifications including tax incentives, the development of new forms of financing, institutional improvements related to the development process as well as other opportunities highlighted by industry representatives that would facilitate greater private sector contributions. Potential opportunities presented in the literature that the development and homebuilding industry representatives generally did not believe would enhance private sector involvement are also examined.

### Regulatory Opportunities

#### *Density Bonusing or Inclusionary Zoning*

The effectiveness of density bonusing in the Calgary context as a method for encouraging greater private sector involvement is contentious among industry professionals. Some developers stated that a density bonusing policy would discourage development by increasing development costs and regulations, thereby making affordable housing projects even more difficult to build. Other developers stated a density bonusing policy would encourage affordable housing if the correct formula was used that could provide enough density to offset increased costs.

Many developers also mentioned that in order to effectively attain maximum results a density bonus policy would require mandatory and citywide implementation, thereby becoming a defacto inclusionary zoning policy. Citywide use is contrary to several key sources of literature, which promotes the use of density bonusing only in denser areas such as downtown or along major transit routes (CMHC, 2000; Taylor, 2006). A potential benefit of a mandatory citywide policy according to many industry representatives is that it would not create inequalities and unfair competition in the marketplace, as all developments would become subject to the same standards and restrictions. Mandatory implementation of density bonusing would result in an adjusted market producing mixed developments that rely on the market-priced units to subsidize the affordable or non-market units.

A limitation of density bonusing expressed by several key informants is that it would take time for a municipality to determine the most effective formula for the bonus to adequately compensate for the provision of affordable units through increased market-rate units. Currently, the City of Calgary has implemented an Area Redevelopment Plan for the Beltline area that includes density bonusing for affordable housing (see the Literature Review Section for a more detailed description of the Beltline Area Redevelopment Plan). The density bonusing incentive included in the ARP has not yet to be tested on a development so it is unknown if the formula is adequate. As the plan provides developers with the flexibility to choose how they achieve a density bonus it is unlikely that developers will provide affordable units as the bonus can also be achieved through the incorporation of green building technology or maintaining heritage components instead of affordable units. A building with green technology is more likely to sell at a market rate whereas a development with affordable units may be accompanied by a negative stigma potentially making the market-rate units more difficult to sell. If developers struggle to sell the market-rate units within a new mixed income development they will be less likely to access a density bonus for affordable housing if other bonuses are also available. Consequently, for a density bonusing policy to effectively produce greater amounts of affordable housing units and engage the private sector in the provision of those units, an

affordable housing density bonus needs to be a separate policy and must effectively incorporate market factors in order to facilitate the voluntary inclusion of affordable units by private developers. One development consultant has stated that an effective method to do this would be through trading certain development requirements, such as open space or landscaping, thereby reducing the cost of certain aspects of development, in exchange for affordable units. He stated, "The City's approach is to force the developer to [include units] as a condition of approval. This isn't very fair, but perhaps trades could be made in the amount of open space provided or some requirements for infrastructure improvements" (development consultant, 25 June, 2007).

## Fiscal Opportunities

### *Tax Incentives*

Opportunities exist for the Federal Government to change federal tax laws to encourage private developers to build affordable rental units. Several of the specific measures are outlined in the literature review. Some industry professionals stated their desire for a more conducive tax environment for all development, but particularly for affordable housing. Most industry professionals did not mention specific changes desired for implementation as many acknowledged their lack of expertise in tax law, however, one professional did mention that a reduction in the GST or a GST rebate on new rental construction could contribute to making affordable rental units more attractive to private builders. However, most industry professionals interviewed did clearly state that the current tax environment does not encourage new construction of affordable housing.

### *Land*

Two key opportunities were highlighted by the key informant interviews to provide land for affordable housing. First, many industry professionals stress the need for municipalities to have a strong policy regarding land for affordable housing that would encourage the designation and provision of land for various forms of affordable housing projects<sup>1</sup>. Moreover, developers of affordable housing would also benefit if the City of Calgary outlined the type of affordable housing projects able to receive land donations or land leases. For example, there is competition between Calgary Housing Company, the Calgary Land Trust, non-profit housing providers and for-profit housing developers for land to develop different forms of affordable housing. Greater clarity and commitment by municipal government for the provision of land is a short-term solution that could have a significant impact on the supply of affordable housing. Additionally, long-term land leases would promote collaboration between private and non-profit housing organizations because many private developers are not interested in managing affordable housing for long periods of time and therefore, are more likely to sell the units to a non-profit housing provider, which could then maintain the affordability of the units for a longer time period.

The second opportunity is for the Federal Government to amend tax laws regarding the donation of land for affordable housing. Encouraging the private donation of land could also have significant implications for affordable housing projects, but may take some time to implement as different groups, such as the Calgary Land Trust, have been lobbying for these changes for five years to no avail.

### *Direct Subsidies*

Greater targeting of government subsidies to well-defined income groups along the entire housing continuum could present greater opportunities for private sector involvement. A targeted approach to the needs of low- and moderate- income individuals will increase the clarity for private developers and help them know if a proposed project is suitable for the available funding. This will also provide a better understanding of the

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<sup>1</sup> It is important to note that all levels of government have surplus land that could be used for affordable housing. However, the interview subjects were particularly interested in the role of municipalities because industry professionals are more informed about local issues and responses to development.

needs of low- and moderate-income individuals and the demands that must be addressed including a better defined role of the private sector in the solution.

## Financial Opportunities

### *Investment Practices*

Financial institutions have the opportunity to relax their lending practices for affordable housing projects without the need for federal legislation. Some Canadian financial institutions, such as VanCity in Vancouver, already contribute significantly to community investment projects, such as affordable housing (see literature review for more details). Comparatively, the *Community Reinvestment Act* in the U.S. compels financial institutions to become involved in community revitalization projects as well as regulates how affordable housing projects are to be evaluated for financing (Bostic, 2005; Grogan, 2000). Many industry professionals interviewed indicated the difficulty in accessing funding for capital projects, such as new affordable housing developments. This difficulty is due primarily to how affordable housing is viewed by financial institutions as a high-risk project. However, by increasing education and awareness of the need for affordable housing, many financial institutions could perhaps be convinced to change some of their loan underwriting practices in order to become more flexible on loans for affordable housing. Moreover, some solutions presented by industry professionals include tax-exempt financing or a tax-exempt line of credit as well as an interest free line of credit. These solutions would allow for more flexible financing as well as increasing the potential profitability of affordable housing projects as it would minimize or eliminate financing interest rates for capital projects.

Additionally, Real Estate Investment Trusts (REITs) and Real Estate Investment Corporations (REICs) are an excellent potential source of funding for affordable housing projects that is currently underutilized (see literature review for more details about how these funds are used for affordable housing). These mediums invest in real estate opportunities and can provide long-term investments with attractive capitalization rates<sup>2</sup> that would make economical sense to developers and investors. Unlike tax incentives, funding can be provided upfront, which benefits developers, and the investment is long-term, thereby benefiting investors. An opportunity exists to explore the potential of allowing mutual funds and pension funds to invest in real estate directly or increase the ability of these investment conduits to invest in REITs and REICs.

### *Philanthropy*

Most private developers interviewed also indicated their willingness to provide financial contributions and expertise to affordable housing projects that they do not directly oversee or projects that target lower income groups. This is an extensive opportunity to involve the private development and homebuilding industry in effective partnerships or collaborative relationships that can significantly increase the housing affordability. Every project described in the Environmental Scan consisted of some type of philanthropy from the private sector. Many developers provided services at cost, or even built the entire development with zero profits. These organizations included Artisan Homes, Boardwalk Rental Properties, Classic Construction, Three Sisters Mountain Village and Vinterra Properties Ltd. Moreover, many other organizations contributed financially or provided gifts-in-kind of construction components and expertise. The organizations included the Calgary Regional Homebuilders Foundation towards projects for Horizon Housing, the Calgary Real Estate Foundation, Classic Construction, Kanas Corporation, and P&S Investments. Many of these organizations contributed to the various projects because they understand the need for affordable housing and its connection to continued economic growth in Alberta. However, these developments are a small contribution

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<sup>2</sup> A capitalization rate is a ratio used to estimate the value of income producing properties. Put simply, the cap rate is the net operating income divided by the sales price or value of a property expressed as a percentage. Investors, lenders and appraisers use the cap rate to estimate the purchase price for different types of income producing properties. A market cap rate is determined by evaluating the financial data of similar properties, which have recently sold in a specific market. The Cap Rate calculation incorporates a property's selling price, gross rents, non-rental income, vacancy amount and operating expenses thus providing a more reliable estimate of value.

compared to the amount of affordable housing, both rental and homeownership, that could be built if more of the private sector were actively involved.

## **Institutional Opportunities**

### *Process*

As previously mentioned, the most private development and building industry representatives interviewed would prefer an expedited approvals process or a clear and transparent streamlined approach. An enhanced approval process could be accomplished partially by outlining a clear definition of affordable housing. A clear definition could potentially reduce misconceptions and confusion within the development applications process, thereby increasing efficiency and clarity for developers of affordable housing. Once this was accomplished, more private developers would likely become involved in affordable housing because they would appreciate the efficiency of the development approvals process, which would no longer act as a barrier by increasing the time, and therefore, the cost of affordable housing projects.

However, a more efficient process, particularly for affordable housing applications, would not necessarily result in a shorter timeline, as municipalities are somewhat restricted in their ability to expedite the approval process. Restrictions to effectively streamline the process include the requirement for public notices and necessary collaboration between municipal departments. Regardless of the limitation the private sector would benefit as a result of any enhanced transparency and predictability. If a developer is aware of the time required for the development approvals process, the associated costs could be better projected in the initial budget. A completion of the approvals process on schedule would mean that any cost increases would already be accounted for. While municipalities cannot guarantee development approvals timelines due to unforeseen circumstances such as community opposition, a more predictable and efficient process would reduce the approval process disincentive currently experienced by private developers of affordable housing.

## **Other Opportunities**

### *Leadership*

Many industry professionals interviewed consider affordable housing an important issue, but that as a concept it lacks definition and clarity. Affordable housing is important because it has broader economic and societal consequences such as the availability of skilled workers, but unfortunately, there is a great deal of confusion regarding the appropriate definition of affordable housing. For example, is affordable housing merely near-market housing or does it refer also to housing for the homeless? This lack of clarity regarding affordable housing reflects the debate regarding how best to address the need for affordable housing, which applies to all industries and organizations that are involved. Until affordable housing is better understood, organizations, including governments, non-profit and for-profit developers, will continue to sporadically attempt to build new projects. One way to effectively increase the clarity and awareness of the issues related to affordable housing is to have a strong leader that can champion these issues and work towards a solution. Many industry professionals stated that a leader could significantly advance the issue of affordable housing.

An opportunity exists for an influential organization or group of important individuals in the community to fulfill a leadership role to promote affordable housing to the general public and elected officials. This leadership role would also ensure that comprehensive long-term targets to meet the need for affordable housing are established and maintain community accountability for meeting the necessary targets. Some industry professionals suggested that this organization should include members of the private sector in order to provide an economical approach to any solutions proposed and implemented in the future.

### *Pre-purchasing Units in New Developments*

Several industry professionals recommended a particular partnership between a private multi-family builder and a non-profit housing provider or government housing provider, such as Calgary Housing Company or Norfolk Housing Association that would effectively provide new affordable housing units within market rate developments. This particular form of a public-private partnership would involve the purchase of a set number of units by an affordable housing provider within a market development for a specified price. In this model, an affordable housing provider would purchase units from the multi-family builder as early as possible within the development process potentially at a reduced cost based on a bulk purchase discount. A benefit for the multi-family builder from such an agreement is that it allows the private developer to receive some up-front capital funding for the project, which increases their ability to leverage additional financing. The housing provider benefits by attaining units at a lower cost than if they were to purchase them through the open market, especially if the builder is able to provide the units close to an at-cost rate.

Such a partnership would allow each party to 'do what they do best'. The private homebuilder develops the building similar to any standard market rate development, but gains an ability to build a project knowing that a selection of units are already sold while also significantly contributing to the provision of affordable housing without having to apply for government grants or loans. The affordable housing provider gains the ability to acquire additional units and utilize their expertise of managing affordable housing. The model is potentially beneficial for all stakeholders, including the future tenants, as it would also produce buildings with a 'social mix', which is commonly considered best practice.

The current funding agreement between the Government of Canada and the Province of Alberta does allow for the purchase of units dedicated for affordable housing within a new market-rate building (INT#10, 31 August 2007; INT#27, 31 August 2007). In order to apply for funding from either the provincial or federal government an agreement between the private builder and the affordable housing provider must be reached prior to submitting an application. (INT#10, 31 August 2007). If approved, the funding could provide some contribution towards an initial down payment, but the majority of funding would not be conferred until completion of the project (ibid). The lack of upfront funding could act as a constraint on this type of agreement because it limits the amount of capital funding available for the project.

### *Education and Awareness*

There is an opportunity to educate both the development industry and the broader community on issues related to affordable housing. For the development industry, this could relate to specific strategies for design, construction, and managing the funding and development approvals processes for affordable housing projects. For the broader community, the issues addressed could relate to the economic impacts associated with the lack of affordable housing for skilled workers in Alberta. Both aspects are important to provide a greater understanding of the need for affordable housing and enhanced capacity to effectively develop new projects. This knowledge and understanding could lead to an increase in funding from government sources due to enhanced public pressure or an increase in private donations from concerned citizens. Furthermore, more private organizations would become involved in the provision of affordable housing, either as direct funders or by providing development expertise of gifts-in-kind. In Calgary, the organization best placed to undertake this mandate is HomeCo, which is affiliated with the Calgary Homeless Foundation.

### *Social Enterprise*

Social enterprises are typically geared toward non-profit organizations, as described in the Literature Review Section. However, there is an opportunity for private developers to create a similar model with an extension of their organization geared towards a social purpose, such as affordable housing. Not only could this organization define success based on dollars and societal impact, it could also significantly contribute to an increased market share for the organization as well as increasing awareness of the organization and affordable housing. The concept of a social enterprise was not discussed by industry professionals interviewed, but is a noteworthy possibility for private developers to be able to successfully build affordable housing without significantly impacting the business practices and profits of the original organization.

## Opportunities Not Desired

### *Alternative Development Standards*

Employing alternative development standards to address affordable housing are not desirable option for many of the industry representatives. Alternative developments standards are not a necessary method to enhance private sector involvement in affordable housing, as new standards are not able to guarantee a reduction in project costs, and therefore, the affordability of the product for the consumer (CMHC, 2000; Pomeroy, 2004b). While some industry professionals interviewed would like alternative development standards in general to create more innovative, and potentially cost effective developments, most professionals recognize that it would not address the need for affordable housing in a sufficient manner to pursue the implementation of new standards in an effort to promote greater private sector involvement in affordable housing.

### *Tax Credits*

The benefits of tax credits are debatable among industry professionals. Several industry representatives indicated that the development of tax credits may potentially stimulate greater production of affordable housing units through private sector involvement, while many others recognize the difficulties in creating such a systematic change may limit the impact of a tax credit system. As outlined in the literature review, a tax credit system would require implementation at the national level thereby involving significant lobbying of the Federal Government. Moreover, an entirely new credit-based system is necessary, which would require an exceptional learning curve for governments as well as developers and investors in order for the various stakeholders to understand the process and effectively access available tax credits. The incentive for such an overhaul is lacking because the success of the Low Income Housing Tax Credit (LIHTC) program in the United States is debatable, as is the efficiency of this type of program over direct subsidies (CHBA, 2007; Falvo, 2007a; Focus, 2006, Falvo, 2007b). Overall, the costs involved in producing a tax credit system currently outweigh the benefits of this type of program.

### *Reduction or Waiving of Municipal Fees*

According to industry representatives, the municipal fees for an affordable housing project, in terms of development and building permits, are generally nominal compared to the overall development costs. Some industry professionals stated that any reduction of those fees would be desirable because 'every little bit counts'. However, many other for-profit developers interviewed indicated that the amount of money saved from a reduction in fees is not enough to make a significant difference in the overall cost of a project. Considering the time and effort required to incorporate this type of policy for affordable housing, it would not provide enough of a benefit for affordable housing projects. Moreover, municipalities such as the City of Calgary want to promote fairness within the development approvals process, which would result in the need to provide fee reductions for other incentives, such as sustainable building practices or heritage preservation. Therefore, if the City of Calgary were to implement a policy to reduce the fees for affordable housing, they would also have to do so for other developments that provide a public service.

## Conclusion

Industry professionals were quite clear regarding the numerous challenges and barriers that limit private sector participation in affordable housing. Many private developers and builders indicated a desire to build affordable housing and a willingness to accept a reduced profit margin to do so, but also expressed that the current environment for producing affordable housing results in a cost to developers beyond simply a reduction in profits. Disincentives to participation include:

- Time constraints resulting from a negative lending atmosphere and the development process. Private developers generally find government grants and subsidies too onerous and time consuming. In addition, the time typically necessary to obtain a development permit for an affordable housing project, often due to community opposition, diverts attention from core business practices.

- Increasing land and construction costs. The high cost of land and increasing cost of construction is a significant barrier to maintaining affordability within any new housing development much less a project intended for lower income tenants or owners.
- Lack of clarity regarding the appropriate definition of affordable housing and the potential role of the private sector. A lack of common understanding has direct implications for private builders and developers who want to access government funding for affordable housing projects. Many private developers rarely even attempt to apply for government funding as the needs and income levels of potential tenants the funding is designed for is often unclear to industry representatives.

Opportunities for a larger role for the private sector in affordable housing include:

- Increasing the transparency and predictability of the development approvals process. A more streamlined process could encourage a greater willingness to pursue innovative or higher risk projects if the approval process was enhanced for all new development.
- Providing better access to land at lower costs. The most effective method to make land more available for affordable housing is through long-term land leases that could provide the municipality with an asset while allowing for greater levels of long-term affordability. Using a land lease model, development costs are reduced and private developers typically sell affordable units to non-profit housing organizations.
- Utilizing innovative and unique financing options. Potential options include utilizing Real Estate Investment Trusts (REITs) and Real Estate Investment Companies (REICs) to fund affordable housing on a greater scale. More diverse financing could be accomplished through mutual funds and pensions funds, which are allowed to invest in REITs and REICs even though they are not permitted to invest directly in real estate. Moreover, financial institutions should be encouraged to invest in community projects, such as affordable housing, by providing tax-exempt or low-interest loans and flexible lines of credit.
- Purchasing affordable units within market-rate buildings. Government funding enables applicants to utilize funds towards purchasing dedicated affordable units within market developments. The purchase of units within market developments allows private developers to pursue their standard business practice by building market-rate units and provides an ideal mixed income form of housing. Non-profit housing agencies could purchase units in bulk, thereby reducing the cost, and then utilize their strengths to manage the units and ensure that long-term affordability is maintained.
- Increased role of philanthropy. Increased awareness of the challenges associated with developing affordable housing would encourage greater private sector contribution of funds for specific projects. Time contributed by the development and homebuilding industry to assist with the development of affordable housing through the provision of expertise can significantly contribute to increasing the supply of affordable housing.

Industry professionals also asserted that alternative development standards, the reduction or waiving of municipal fees, as well as a tax credit system would not cost-effectively provide an incentive to encourage private sector involvement in affordable housing. Alternative development standards would not increase the supply of affordable housing, as they are unlikely to reduce project costs. Reducing municipal fees for affordable housing projects would not lower overall project costs enough to impact overall affordability of a project. A tax credit system, based on the U.S. model, is also not desirable due to the extensive systemic changes necessary to implement a funding model so different from the current subsidy system.

## 5. RECOMMENDATIONS

Based on an analysis of literature and interviews with industry professionals, four key recommendations are presented that represent the most effective methods to encourage private sector participation in the provision of affordable housing. These recommendations could be implemented individually, but would be most effective if there were considered collectively as they are intended to compliment each other to leverage the greatest level of private sector involvement to increase the supply of affordable housing in Alberta.

### Regulatory, Fiscal, Financial and Institutional Recommendations

#### SHORT TERM SOLUTIONS

*1. Create a one-stop-shop to locally co-ordinate funds, land and expertise to increase the supply of affordable housing.*

A local organization that combined the roles of a housing trust and a land trust with the ability to increase education and awareness of affordable housing could significantly impact the supply of affordable housing. This 'one-stop-shop' could effectively ensure certainty regarding funding, land and expertise in order to facilitate greater private sector involvement in the development of affordable housing. As a coordinated organization evolves, new and innovative methods for providing affordable housing will emerge in response to the needs of the local community.

Housing trusts are a powerful tool in producing affordable housing as they have the ability to harness significant funding, preferably from a secure government source as well as from private donations and foundation grants. Conflicting requirements for funding would be removed as this organization would have the ability to streamline the funding process. Streamlining the funding application process reduces the amount of time and effort each developer, both for-profit and non-profit, would normally dedicate to securing funding. The result of an enhanced process is that those for-profit and non-profit organizations could then, in turn, focus more exclusively on building affordable housing units. The Calgary Homeless Foundation is ideally placed to undertake such an expanded mandate in the local Calgary context.

Moreover, an effective housing trust could potentially attract many more private developers interested in building affordable housing as the guesswork, uncertainty and increased time required to apply directly to the government for subsidies would be reduced or removed. A housing trust would also have an increased capacity to approach private developers to propose certain projects through a request-for-proposals format, but can also include purchasing units within a market development. To ensure effectiveness the housing trust would need a secure and sustainable funding source from the Provincial Government. Secure funding for a housing trust typically is generated by a specific tax that is dedicated for affordable housing through an organization like a housing trust.

A land trust, such as the Calgary Community Land Trust, is also critical since securing land is a key barrier for any affordable housing project. Ideally, a land trust is closely connected to municipal government, in order to effectively negotiate land contributions for affordable housing projects on behalf of both private and non-profit builders. If combined with a housing trust, the organization would also be able to use funds to purchase land that it is unable to acquire solely through donations. A key role of a land trust is that it is able to hold ownership of the land in order to ensure that affordable housing is maintained in perpetuity through land leases to the operator of the affordable housing.

A key role of a coordinated organization combining the roles of a housing and land trust is that it could also increase the awareness of affordable housing in the general public and act as an education center for

development and homebuilding industry. Through an expanded version of HomeCo, the knowledge and lessons learned from previous projects could be shared increasing the capacity of both for-profit and non-profit developers of affordable housing. As a result of a decrease in government funding of affordable housing in the 1990's the production of affordable housing was drastically reduced and the knowledge and skills necessary to produce affordable housing was reduced in both the non-profit and for-profit sectors. Now that government funding is starting to increase, affordable housing industry professionals are re-learning lessons that were lost from previous experience. If a combined housing and land trust organization was able to act as a cornerstone for affordable housing development the knowledge gained from various project experiences could be retained and communicated throughout the industry. Such an organization would promote an atmosphere of trust and cooperation between all industry professionals including for-profit and non-profit developers, government officials, and lenders.

Calgary currently has two strong organizations that could potentially combine and expand to fulfill the roles of a coordinated, 'one-stop shop' organization: the Calgary Homeless Foundation (CHF) and the Calgary Community Land Trust (CCLT). The CHF could potentially expand to become a housing trust, act as an advocate for affordable housing issues to the broader community, and coordinate activities with the CCLT. The CHF also created HomeCo, an organization to provide development expertise to non-profit organizations. HomeCo should also expand to provide specific development expertise of affordable housing to for-profit developers as well supporting non-profits, which would increase communication and knowledge within the development and homebuilding industry. A coordinated organization would operated most effectively if removed from the local political process as projects and processes could then be evaluated based upon merit rather than influence.

*2. Create a comprehensive municipal affordable housing policy to guide local government in facilitating greater private sector involvement in affordable housing.*

A comprehensive affordable housing policy would require three distinct components: a clear density bonusing program which may or may not take the form of an inclusionary zoning policy; a focused direction on the use of municipal land for affordable housing as well as a transparent process of how that land is allocated; and a comprehensive and explicit system to coordinate all municipal departments in order to streamline the approvals process for affordable housing projects.

Municipalities have a critical role in facilitating more involvement of the private sector in the provision of affordable housing. In order to most effectively encourage this private sector participation, municipalities require a clear and comprehensive policy on affordable housing. Policy must incorporate a specific definition of affordable housing that is applicable for various forms of projects and accepted by a variety of stakeholders. Once a policy is developed, it should be communicated to the pertinent municipal departments and adopted to provide an explicit direction for the municipalities' role in attracting greater private sector involvement in affordable housing. Development of an affordable housing policy differs from the existing Affordable Housing Strategy because a policy would be a direct order from Council and as such, would contain more of an incentive to implement changes within and among municipal departments.

The immediate implications of a comprehensive affordable housing policy would include greater clarity for development applications involving affordable housing projects and the development of research into targeted new solutions to increase the supply of affordable housing. For The City of Calgary, three primary components (or outcomes) that a new comprehensive policy would address in the short-term include:

1. Research the requirements of a density bonusing program in Calgary, which may or may not be in the form of an inclusionary zoning policy. There is debate among industry professionals of the desirability of a density bonusing program as well as the size and scope of such a program. For example, should a density bonus be implemented as mandatory or voluntary program? Should it be implemented citywide or targeted exclusively to denser areas in the inner city or along transit routes? How much of a density bonus would be required to encourage the provision of affordable housing units within a

market rate development to offset increases in costs? How will land use bylaw requirements, such as parking, be addressed? Despite uncertainties related to the application of a density bonus program, literature and input from industry professionals indicate that a density bonus is an effective tool if used and applied appropriately. Therefore, the City of Calgary should explore the needs of the development industry specifically regarding density bonusing for affordable housing. This research could begin with exploring the effectiveness and outcomes of the density bonusing policies within the Beltline Area Redevelopment Plan.

2. Corporate Properties should outline guidelines for the use and dissemination of land for affordable housing projects. These guidelines should include which parcels of land are available for affordable housing developments as well as how land is appropriately allocated through donations, gift-in-kinds or as a land lease. Literature demonstrates the effectiveness of land-lease programs in particular and the development industry has specified the need for land contributions from municipalities. Any information regarding municipal land for affordable housing should also explain the differences of treatment between non-profit and for-profit housing developers. In the past, the City of Calgary has primarily donated land to projects that will be owned and operated by the Calgary Housing Company or another long-standing non-profit organization, such as Horizon Housing or Habitat for Humanity. As there is a distinct difference between non-profit and for-profit housing developers regarding long-term ownership, the terms of the municipality must be clear. For example, if land is leased to a for-profit to develop and build an affordable housing project, those units, including the responsibility of the lease, must be sold to a non-profit housing management organization after a specific period of time. This would ensure clarity for both for-profit and non-profit developers and minimize partiality.
3. Remove inefficiencies and ambiguous practices within the development approvals process, specifically regarding co-ordination between municipal departments, for affordable housing applications. The development industry continually stated the opportunity for a more streamlined process as well as predictability of requirements that could potentially reduce or at least provide a predictable timeline for development permits. A strong policy on affordable housing could potentially address staffing issues by creating or expanding positions, such as the Affordable Housing Coordinator position, as well as provide an effective method of communication and coordination between municipal departments.

## LONG TERM SOLUTIONS

### *3. Amend Federal tax laws to encourage new construction of affordable rental units.*

The current tax situation does not facilitate construction of new affordable rental units. In fact, a significant number of affordable units are lost to condo-conversions, which reduces the supply, especially if new rental stock is not built to replace the converted units. Tax incentives are a concept private developers understand and are familiar utilizing, which could encourage a significant amount of private sector involvement in the development of affordable rental units. The following are specific tax recommendations that are the most likely to achieve impact based on long-term cost effectiveness and implementation feasibility:

1. Lower the GST or allow a full GST rebate on new rental projects. A GST reduction could significantly lower the development costs of an affordable housing project.
2. Expand the tax-deductible soft costs of new rental properties. As soft costs contribute a large proportion of development costs, increasing the allowable deductible would reduce overall costs considerably.
3. Allow the deferral of the capital gains tax on the sale of a rental property if proceeds are reinvested in another rental building within a reasonable amount of time. Such a tax deferral would promote individual developers to continue building affordable rental units thereby maintaining the knowledge of the process as well as increasing the supply of affordable rental units.

4. Amend section 38 of the Income Tax Act to encourage gifts of land or land and building to public foundations established for the purpose of providing affordable housing. This amendment would contribute significantly to the supply of economical land for affordable housing and decrease a major barrier to affordable housing projects.

## Recommendations Requiring Further Investigation

*Explore innovative financing methods to complement traditional funding sources for affordable housing.*

There are three innovative financing options that were outlined in literature, but not discussed in the interviews, as industry professionals were largely unfamiliar with the potential opportunity. These innovative options include Socially Responsible Investment Funds, Labour-Sponsored Investment Trusts (LSIFs), and social enterprises. Initial research has noted the possible role these methods could have regarding private sector involvement in affordable housing. However, further study of these methods is needed in order to illuminate how these funds and organizational structures could specifically affect and possibly encourage private sector involvement in affordable housing. The following is a description of preliminary research findings each method:

- Socially Responsible Investment Funds, such as Real Estate Investment Trusts (REITs), Real Estate Investment Companies (REICs), pension funds and mutual funds, are an innovative and feasible method to potentially finance the upfront capital for affordable housing projects. However, restructuring the funds is necessary to utilize socially responsible investment for affordable housing. In order to make these funds more effective, affordable housing must first become an identified screening criterion, which is the condition by which socially responsible investments are selected. Encouragement of these funds as financial sources for affordable housing would add another layer of financing and promote private sector involvement by reducing the amount of funds required from relatively insecure government sources.
- Labour-Sponsored Investment Funds (LSIF) are typically used for Research and Development, but could possibly be used for social issues, such as affordable housing. LSIF's are marketed towards individuals rather than corporations and could also potentially function as RRSP eligible investments as an additional incentive for investors.
- Social enterprises may have a role in increasing the supply of affordable housing and requires further examination. Social enterprises are typically a for-profit arm of a non-profit organization that can generate income to supplement the operational and project budgets of the original organization. In addition, private companies could also create independently operated subsidiaries of their organizations that target social issues, such as affordable housing, but do not impede their primary business practices. However, social enterprises could only contribute to raising funds for maintenance of affordable housing rather than provide capital funding.

## Conclusion

This report, while examining affordable housing issues and methods throughout Alberta, has focused on recommendations for the City of Calgary. Recommendations presented are based on extensive literature review and an analysis of key informant interviews with industry professionals. The recommendations proposed also attempt to build upon existing institutions and organizations in Calgary in order to encourage the private sector to become more involved in affordable housing. Three short-term recommendations were presented that would create a positive policy environment to encourage the increase of funding, available land, and expertise to build affordable housing. Additionally, a long-term tax incentive recommendation and an innovative financing recommendation for further investigation was presented that both provide alternative methods of funding that would encourage private sector involvement with less government involvement.



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## Personal Communications

- Interview #1: Non-Profit Housing Provider, Personal interview, 12 June 2007.
- Interview #2: City Planner, Personal interview, 14 June 2007
- Interview #3: For-profit Developer, Telephone conversation, 20 June 2007 and Personal interview, 27 June 2007.
- Interview #4: For-profit Developer, Personal interview, 21 June 2007.
- Interview #5: Former Non-profit Administrator, Telephone conversation, 21 June 2007.
- Interview #6: For-profit Developer, Telephone interview, 21 June 2007.

- Interview #7: For-profit Developer, Personal interview, 22 June 2007.
- Interview #8: Landlord, Telephone interview, 22 June 2007.
- Interview #9: Non-profit Development Contractor and Planner, Personal interview, 25 June 2007.
- Interview #10: Public Administrator, Personal interview, 25 June 2007 and Telephone conversation, 31 August 2007.
- Interview #11: For-profit Developer, Personal interview, 27 June 2007.
- Interview #12: For-profit Developer, Personal interview, 27 June 2007.
- Interview #13: For-profit Development Agency Administrator, Personal interview, 28 June 2007.
- Interview #14: For-profit Developer, Telephone interview, 3 July 2007.
- Interview #15: City Planner, Telephone interview, 5 July 2007.
- Interview #16: Real Estate Agency Administrator, Telephone interview, 6 July 2007.
- Interview #17: Non-profit Housing Provider and Developer, Telephone interview, 10 July 2007.
- Interview #18: For-profit Developer, Personal interview, 12 July 2007.
- Interview #19: Non-profit Housing Administrator, Personal interview, 13 July 2007.
- Interview #20: For-profit Developer, Personal interview, 16 July 2007.
- Interview #21: For-profit Developer, Planner, Personal interview, 17 July 2007.
- Interview #22: For-profit Developer, Personal interview, 31 July 2007.
- Interview #23: For-profit Developer, Personal interview, 31 July 2007.
- Interview #24: Architect, Personal interview, 31 July 2007.
- Interview #25: Architect, Personal interview, 31 July 2007.
- Interview #26: Non-profit Funding Administrator, Telephone interview, 1 August 2007.
- Interview #27: Public Administrator, Telephone interview, 31 August 2007.

## APPENDIX A: ANNOTATED BIBLIOGRAPHY

This bibliography is to provide a description of sources in the literature review for further examination. The sources are based on national and international experiences from Canada, and primarily the United States, the United Kingdom and Australia.

### Canadian Sources

Canadian Home Builders' Association. (December 1999). *Developing a Strategy for Housing Assistance in Canada*. Canadian Home Builders' Association.

The paper presents the views of the housing industry on issues related to the development of a strategy for the provision of housing assistance in Canada. The Canadian Home Builders Association (CHBA) believes that the long-standing focus of government on non-profit and cooperative housing as the primary means for addressing the housing needs of low-income people has had a tendency to narrow the consideration of options to variations of this approach. Recommendations outlined in the paper include a focus on intergovernmental cooperation, increasing access to units within the existing private rental stock for affordable rental accommodation, changes to taxation policy, establishing greater clarity between low-income affordable housing and special need supportive housing, and increasing the emphasis on public-private partnerships. This report provided important suggestions to address the affordable housing need, but provided limited concrete actions to deal with the unmet demand for affordable housing in Canada.

Canadian Home Builders' Association. (January 5, 2007). *Housing Affordability and Choice for Canadians: Capturing the Benefits of Growth*. Canadian Home Builders' Association: Ottawa.

This short policy statement produced by the Canadian Home Builders' Association describes housing affordability issues from both the supply and demand perspective. Potential solutions discussed in the paper are either based on building new rental units or increasing tenant incomes. The primary conclusion presented in the policy statement most applicable to the supply of affordable housing is that the Low Income Housing Tax Credit (LIHTC) program used in the United States is not necessarily an amenable solution in the Canadian context as it is very expensive and does not provide housing assistance to those most in need. The paper cautions that a tax credit program can be inefficient, would not address the systemic barriers restricting new rental supply in Canada and would inadequately provide assistance to very low-income individuals.

Falvo, Nick. (2007). *Addressing Canada's Lack of Affordable Housing*. Canadian Economics Association Annual Meetings, June 1.

Falvo presents four alternatives to addressing the lack of affordable housing in Canada: building non-profit or co-op housing; providing housing allowances or rent supplements; implementing a U.S.-style tax-credit system for developers of rental housing; and an income security approach. The analysis describes the approaches most suitable depending on the specific context. This paper also includes an exercise in which a possible \$100 million Federal expenditure is applied to all four models and demonstrates the impact of each investment option. A literature review of relevant Canadian and U.S. literature as well as an analysis of statistical data is the primary methodology used in the report. Falvo concludes that finding the right mix of policy measures is the key as some methods are better in the short term and others take many years to produce significant results. The four described methods need to be viewed as complimentary approaches to solving the affordability problem. The final exercise in this paper is an excellent way to display the effects of federal subsidies by referencing the amount of produced units using each method; however, reservations are necessary as many factors not included in the model could influence the number of units produced with a given amount of money.

Focus Consulting Inc. (2006). *Suggestions on the Design of a Low Income Housing Tax Credit for Canada*. A policy paper prepared for the Ontario Non-Profit Housing Association. March 2006.

The authors provide a description of the characteristics and experiences in the U.S. regarding their Low Income Housing Tax Credit, including benefits and shortcomings associated with the tax credit model of supplying affordable housing. Ultimately, the report outlines the aspects of the program that Canada should adopt based on Canada's current national political environment. Methodology includes a literature review primarily of previous sources written and researched by Steve Pomeroy as well as statistical data for incomes and rents in cities across Canada. Some suggestions include: directing the credit to passive equity investors so that developers and non-profits can benefit; using incentives to transfer ownership to non-profit and community groups as this provides long-term stability; not using rent criteria or rent controls as they act as a disincentive to builders; and eliminating taxes on capital gains for individuals and companies that reinvest the money within six months. The suggestions are very specific and represent significant reforms to encourage private engagement in affordable housing. Furthermore, these recommendations can immediately be utilized by the Federal government in designing a similar Tax Credit program.

Lalsinge, Lisa. (2003). *Public-Private Partnerships: A Collaborative Approach to Providing Affordable Rental Housing in Calgary*. Master's Degree Project, Faculty of Environmental Design, University of Calgary.

The report, completed as a Master's Thesis, examines the affordable rental housing market and the key forces impacting the supply of and demand for such housing in the Calgary context. An overview of affordable housing policies and programs are presented and public-private partnership (PPP's) models are reviewed to identify defining characteristics, opportunities, advantages and disadvantages. The project's methodology included a literature review of PPP's, a primary analysis of the rental market in Calgary and a detailed examination of two case studies of affordable rental housing PPP's in Calgary using a series of key informant interviews with public, non-profit and private sector representatives. Nine key recommendations were outlined, including a focus on purchasing and rehabilitating existing rental buildings rather than new construction, fast tracking applications for affordable rental projects and facilitating greater involvement of the private sector in the provision of affordable rental housing. The critical analysis of PPP's in Calgary, with a particular emphasis on the evaluation of two specific Calgary projects, highlights the opportunities and barriers of utilizing PPPs in the Calgary context and provides a basis for further research and future partnership projects.

Karpat, Jessica. (2007). *The Use of Public-Private Partnerships to Attain Affordable Rental Accommodation in the City of Airdrie*. Master's Degree Project, Faculty of Environmental Design, University of Calgary.

Karpat examines public-private partnerships as a model for building affordable housing in smaller communities in Southern Alberta and provides recommendations for a partnership framework for the City of Airdrie. The thesis incorporates a series of key informant interviews with representatives of municipalities, non-profits, private companies involved in affordable housing to analyze key PPP affordable housing case studies in southern Alberta. Two key recommendations offered are to ensure PPP's aid the target population and household income level by completing accurate needs assessments prior to construction and to identify the appropriate individuals necessary for the partnership as an effective partnership is only as strong as the available resources. Another key finding is that PPP's should develop an organizational structure that is suited to the complexity of the project and develop a centralized committee that can work with City Council. A grant fund specific for PPPs is recommended that can retain access to professional resources. This project provides an effective overview of the PPPs and how partnerships can specifically be adapted to an Albertan community as well as providing an overview of successful projects that have used this model.

Kowalchuk, Joanne. (2004). *Making Partnerships Happen: Creating a Long-Term Affordable Housing Partnership for Regina*. University of Regina.

This extensive report, published by the Social Policy Research Unit at the University of Regina, is a review of partnerships that provide affordable housing and an analysis of their effectiveness. The report includes a literature review to outline practices, an assessment of long-term housing partnerships throughout Canada and case studies of significant projects undertaken by these partnerships. Though this report finds that well-resourced, long-term partnership structures are the best strategy for meeting the needs of a community to produce and preserve affordable housing, a strong caution accompanies the recommendation. The type of ideal partnership described is incredibly difficult to achieve and requires significant amounts of time and resources in order to produce significant supply of new affordable housing. This report provides a model of an ideal partnership and claims that in reality most partnerships are generally limited to fragmented attempts to replicate parts of the ideal partnership model. While this research is an important study, it must be used within an understanding of regional issues and adapted to apply in a local context.

Lampert, Greg & Pomeroy, Steve. (2002) *The Context for Private Rental Housing Production in the U.S.* Prepared for the Housing Supply Working Group, Ontario Ministry of Municipal Affairs and Housing.

This report includes: options for changes in Federal taxes to encourage new rental construction; the context for private rental housing production in the U.S.; and a way to promote a positive mortgage insurance environment for new rental construction. The report includes a combination of extensive previous research by the authors as well as recent statistical data. Some overall conclusions and lessons for Canada include: it is only possible to address affordable housing production with substantial levels of subsidy; the cost-value equation is fundamental to a viable and healthy production system; and that tax treatment of rental investment is more favourable in the U.S., particularly with respect to pooling, rollover provisions and depreciation. This report provides important characteristics of the U.S. system that should not be ignored in a similar Canadian system if affordable rental accommodation is to be produced.

MacNevin, Alex. (2002) *Ethical and Social Fund Investments in Lower-to-Moderate Income Affordable Rental Housing in Canada: An Assessment.* Canada Mortgage and Housing Corporation.

This study assesses the feasibility of encouraging equity investment in affordable income rental housing in Canada within the framework of a public-private partnership model, via ethical or socially responsible investment funds and pension funds. The U.S. model for this type of investment is examined and the structure of the ethical investment industries in both the U.S. and Canada are presented in detail. A number of specific reviews of fund investment structures in the U.S. are undertaken and a survey of funds in Canada is presented. The study proceeds to examine a number of potential options for structuring these funds in Canada. The primary conclusion of the study is that such investments are feasible, but that Canada has significant capacity issues in developing a similar investment framework and incentive structure to facilitate such investments. This study is important because it demonstrates a unique method of funding affordable housing that can be more stable than direct subsidies.

Manifest Communications Inc. (2000) *Philanthropic Support for Affordable Housing: Final Report.* Canada Mortgage and Housing Corporation.

This report provides sponsors of affordable housing with a general understanding of the philanthropic sector and how to obtain philanthropic contributions. The purpose of the report was to share a selection of 'best practices' from across Canada and to identify other initiatives that could be undertaken to encourage philanthropic support of affordable housing. The methodology involved three interrelated activities: a review and analysis of relevant literature and secondary data; sixteen case studies illustrating how affordable housing sponsors were successful in securing funding; and interviews with three of Canada's leading fundraising professionals. The report found that although many regional variations prevent a single prescription for success, the research and case studies indicate that there are a number

of essential and interrelated elements that sponsors require in order to secure funding. These elements include a high profile in the community, demonstrating the connection to a relevant social issue and to the community, involving motivated staff and community volunteers, building corporate partnerships, and targeting a variety of funding sources. Overall, perseverance is essential and sponsors need to be realistic in their expectations. This report demonstrates a unique process to harness additional funding to build affordable housing and could be an important step towards reducing reliance on direct government subsidies.

Ottawa Chamber of Commerce & the Toronto Board of Trade. (2005). *Affordable Housing and Portable Housing Allowances*. Joint Submission to the Canadian Chamber AGM on Policy Resolution.

In this policy report an overview of housing allowances in Canada including important principles, benefits and disadvantages are presented. The report also describes the importance of private sector involvement in affordable housing primarily through tax incentives. An environmental scan of major policy documents across Canada, including both Federal and Provincial regulations, was the primary methodology used for the report. Some recommendations to the federal government include: creating a tax and regulatory environment that promotes building new affordable housing and reviewing best practices in other jurisdictions to identify innovative ways of increasing the supply of rental housing stock. While this report identifies barriers that exist to provide affordable housing, its recommendations are not specific enough to promote direct action. For example, further research is needed to understand the appropriate structure of the federal tax and regulatory environment to increase the supply of new affordable housing.

Pomeroy, Steve, et al. (1998). *The Role of Public-Private Partnerships in Producing Affordable Housing: Assessment of the U.S. Experience and Lessons for Canada*. Canada Mortgage and Housing Corporation.

The purpose of this research was to critically examine the American experience with PPPs and their role in the production of affordable housing with the goal of identifying possible lessons for Canada. The paper consists of a detailed review of measures and mechanisms that support the creation of affordable housing public-private partnerships in the U.S., a regulatory analysis of Canada's affordable housing policies, and extensive case studies of public-private partnerships in Canada and the U.S. A primary finding is that PPPs can be successful in producing affordable housing, but that significant levels of upfront public financial assistance provide the impetus for private sector involvement through various grant and tax credit programs. Policy support is also needed to leverage additional private sector financing. The authors conclude that the PPP approach is only as good as the tools and funding mechanisms that the partnerships have at their disposal and that an intermediary network is also critical for success. Ultimately, this report recommends establishing local housing trust funds as the most effective way to stimulate the creation of local housing partnerships and to fuel development of locally designed affordable housing initiatives. This work is significant in that it demonstrates that, contrary to a majority of literature, public-private partnerships may not be the most effective mechanism to providing affordable housing. Instead, it recommends that Canada should focus more on local housing trust funds.

Pomeroy, Steve. (2001). *Toward a Comprehensive Affordable Housing Strategy for Canada*. Caledon Institute of Social Policy, October.

Pomeroy examines housing need in Canada and the advantages and weaknesses of several supply and demand measures in this article. Strategies examined include incentives for private development, pooling provisions, reducing development costs, encouraging lower cost forms of development, shifting patterns of ownership, rent supplements and shelter allowances. Methodology utilized in the report consists of a combination of statistical information as well as a scan of relevant literature and government documents. Pomeroy's conclusions emphasize that the identified options, used individually, are not sufficient to address housing issues in Canada. Local market solutions are required that utilize a unique combination of these methods. The report also recommends more research regarding improving income with some conditional link to housing consumption, such as reforming the shelter component of welfare.

Additionally, both supply and demand need to be addressed to effectively address affordable housing shortages. The report is one of the only documents that presents the case for both demand- and supply-side measures to be undertaken simultaneously on the basis that a coordinated approach will not negatively impact the housing market to same extent as utilizing the different measures in isolation.

Pomeroy, Steve. (2004). *Attracting Private Sector Financing in Affordable Housing*. Presentation at the Tri-County Conference.

In this paper, Pomeroy provides an overview of private financing in Canada since 1978 and outlines previous efforts to attract private financing to affordable housing. The role of private financing in providing affordable housing in Canada, the U.K. and the U.S. is also compared in the paper through a fairly comprehensive literature review of current and previous practices in the three jurisdictions. Key factors necessary to actively engage the private financial sector identified in the paper are: mechanisms that enable lenders to manage risk, sufficient volumes of business, transaction based vehicles, a culture of creativity and innovation and sustained involvement by the private sector. One significant issue identified from a private developer's point of view are mechanisms needed to manage risk. However, other factors to attract private sector financing, such as a culture of creativity, are much harder to achieve as well as maintain and are dependent on the individuals involved rather than systemic changes.

Pomeroy, Steve. (2004). *Building a Nation: Innovations in Financing Affordable Housing*. Summary Report presented at the Western Regional Symposium, Saskatoon.

Pomeroy produced this report as a summary of a Canadian Housing Renewal Association symposium in 2004 with delegates from across Canada examining innovative methods to finance affordable housing. The report summarizes the discussion at the symposium of innovative financing techniques as well as the delegate experiences utilizing those techniques. Innovative financing measures were discussed as they have potential to: stretch limited public subsidies; improve access to financing; and create opportunities for private sector participation. Key observations outlined in the paper are that risk management of the private sector must be taken into account by affordable housing providers as well as the need to create transaction-based products. The paper also presents emerging and potential innovations, the potential impacts of innovative financing and challenges and disincentives associated with private sector financing. Several of the identified innovations include land trusts, community investment funds, and housing trust funds. The paper provides an understanding of the needs of the private sector and the methods that can be effectively used, as well as an examination of how they currently are being implemented, to produce affordable housing. Conclusions identified in the paper corroborate the findings of other reports that demonstrate the efficacy of local funds and trusts in providing affordable housing.

Poschmann, Finn. (2003). *Private Means to Public Ends: The Future of Public-Private Partnerships*. C.D. Howe Institute: Toronto, no. 183.

This paper by Poschmann, the Director of Research at the C.D. Howe Institute, summarizes the rationale for PPP's and highlights their potential benefits. Public-Private Partnerships are analysed beyond the affordable housing context as PPP's are examined in the paper as a method of implementation for a variety of public sector projects, such as the construction of new schools and infrastructure. The paper's methodology included a review of policy and academic research regarding PPP's in Canada as well as a case study analysis of three distinct projects that utilized PPP's in the late 1980's and early 1990's. Poschmann concludes that successful PPP projects require a proper allocation of risk and reward in the design and structure of the partnership. A successful PPP also relies on good faith participation and early results to avoid losing political capital. This work is significant in that it highlights broad, necessary characteristics of PPP's in Canada and recognizes some of the finer details required for successful partnerships.

Toronto Board of Trade. (2003). *Affordable, Available, Achievable: Practical Solutions to Affordable Housing Challenges*. The Toronto Board of Trade, April.

In this report, the Toronto Board of Trade presents rationale regarding the important role affordable rental and ownership housing has in ensuring that Toronto is competitive with other North American centres and offers a compelling quality of life. The report is the culmination of the Toronto Board of Trade's Affordable Housing Task Force, which interviewed many key government and research individuals as well as utilized an extensive literature review of policy documents in Ontario, Canada and the U.S. The conclusion is presented that the supply of affordable housing affects the success of all businesses and recommendations are provided to the federal government based on short and long-term implementation timelines. Most of the recommendations concern potential changes to the tax system to remove barriers and implementation incentives. The report shifts the focus of affordable housing from merely a social issue to an economic concern and effectively argues for the competitive advantage gained by a municipality with an adequate supply of affordable housing. Additionally, the presentation of short and long-term implementation strategies is effective in illustrating that policy change needs to occur promptly and that government needs to plan for both timeframes.

TD Bank Financial Group. (2003). *Affordable Housing in Canada: In Search of a New Paradigm*. TD Economics Special Report, June 17.

This report presents potential solutions to increase affordable housing in Canada on the basis of an economic and business argument. A literature review and an analysis of statistical data from the 2001 census regarding housing and income trends in Canada were the author's primary methodological procedures. The primary recommendation from this report is to raise market incomes and develop a more effective and equitable income transfer regime to help lower-income households avoid the perils of the low-income trap. In the short term, the report recommends improving supports for lower-income individuals, addressing the current housing shortage and removing market imperfections that contribute to the lack of affordable housing supply. The report is significant because it addresses demand-side solutions from an economic perspective. While this does not directly affect the private sector in providing affordable housing, it has an indirect affect of possibly reducing the need and amount of affordable units.

## International Sources

Ball, Michael & Maginn, Paul. (2004) "Urban Change and Conflict: Evaluating the Role of Partnerships in Urban Regeneration in the U.K." *Housing Studies*, 20(1), 9-28.

This article evaluates the policy guidance required for the U.K. partnership model. To date, there is little interest in the managerial effectiveness of partnerships and the broader implications of this approach. A survey of contemporary literature was undertaken to highlight the partial and inconclusive nature of most existing evaluations of partnerships. Additionally, some wider issues of the 'political economy' of urban policy are considered in the context of the partnership approach. A juxtaposition of trends in property development in general is also presented. It is concluded that a partnership ideal is a useful policy device but that it has to be thought through more clearly and applied in specific contexts, rather than seen as the best and universally applicable model. This is important to take into account for affordable housing partnerships in Canada as partnerships play a significant role, but more opportunities exist and could be more effective depending upon the specific context.

Benítez, Lymari & Saegert, Susan. (2005) "Limited Equity Housing Cooperatives: Defining a Niche in the Low-income Housing Market." *Journal of Planning Literature*, 19, 427-441.

This article examines the concept of limited equity housing cooperatives (LECs) and their potential niche in the housing stock of the United States. The article discusses problems related to success of cooperatives, policy implications, and opportunities for development. The evidence shows the LECs

have a strong record of providing high-quality, safe, affordable housing for low- and moderate-income populations. The article concludes that LECs constitute a valuable, if underused, form of housing ownership with the potential to improve the quality of life for certain low-and moderate-income households and to contribute to the physical and social quality of the larger community. This article could have lasting implications for housing affordability in Canada as it presents a little known model that could be expanded in certain situations.

Berry, Mike. (2001). *New Approaches to Expanding the Supply of Affordable Housing in Australia: An Increasing Role for the Private Sector*. Australian Housing and Urban Research Institute: Sydney, May.

Mike Berry, Professor at RMIT University in Australia, discusses in this paper the potential increases in private investment in the provision of affordable housing as well as possible barriers of investment in affordable housing in Australia. Traditionally, investment in affordable housing in Australia was provided primarily through public funding, though similarly to Canada direct government funding for housing is declining. An extensive literature review of a range of recent research on the nature and impact of housing investment in Australia and several other countries where national governments have attempted to attract more private investment to the housing system is the primary methodology used in the paper. Barriers of attracting increased private investment identified include: low net returns, illiquidity, lack of scale, high management costs, inadequate market information on asset performance and, a lack of track record for affordable housing investments. Berry also identifies a need in Australia for government to bridge the gap between required and actual rates of returns for investors. Several joint ventures between by housing agencies and large investors are highlighted, but the author concludes that these are limited and too small in scale to have a major impact on the housing system. The article provides a helpful outline of the barriers to private investment, but further research is needed in Australia to provide effective recommendations to overcome those barriers. Many of the issues discussed in the paper are not dependant on a particular housing system and, therefore, the issues could be useful for the private investors and developers in the Canadian context.

Berry, Mike, et al. (2006). *Financing Affordable Housing: A Critical Comparative Review of the United Kingdom and Australia*. Australian Housing and Urban Research Institute: Sydney, October.

This paper demonstrates that private investment in social and affordable housing has increased significantly in the U.K., but that the reverse has occurred in Australia. The authors comparatively analyze the reasons for the divergence in the UK and Australian system over the past 30 years. Methodology used for the paper focused on a selective review of relevant existing studies focusing on the role, presence, and impact of private investment on affordable housing provision in the two countries as well as a review of relevant policy documents (mostly unpublished) and government statements. The authors also conducted targeted interviews with key stakeholders in the U.K. and Australia representing the government, community, and financial sectors who have had, or were likely to have, an influence on policy interventions. Practices identified in the U.K. include a large private finance market that comprise building societies and housing associations, a focus on mortgage lending, shared equity/ownership schemes and targeted grants to 'key workers'. A barrier that exists in the U.K. is an urban disparity in the supply of affordable housing due to high-risk areas. In Australia the primary barrier identified in the paper is that lenders are unwilling to be exposed to the low-return investment market. The paper outlines many effective tools that Canada could possibly implement and demonstrates potential similarities of the hesitancy for private investment in Canada.

Berry, Mike, et al. (2006). "Involving the Private Sector in Affordable Housing Provision: Can Australia Learn from the United Kingdom?" *Urban Policy and Research*, (24)3, 307-323.

The focus of this article is to clarify the preconditions necessary to successfully leverage private investment to help maintain and expand the affordable housing stock in Australia. The authors examine a range of initiatives in the U.K. from the 1980's to the present. A literature review of current research and

policy documents regarding affordable housing provision in Australia and the United Kingdom is the primary research method used in the paper. The primary conclusion is that public initiatives were essential to leveraging private investment in the U.K. Public initiatives used in the UK. Given institutional and regulatory differences, it is recommended that Australia should create an innovative institutional framework to promote public-private partnerships, provide demand-side subsidies and utilize the land use planning system to enhance capacity of the housing system. According to the authors, the U.K. is a good example of private involvement in affordable housing, but this involvement is reliant on a strong regulatory framework. It may be possible for Canadian policy makers to use the paper to better understand the U.K. system in order to effectively leverage additional private investment.

Bostic, Raphael & Robinson, Breck. (2005). "What Makes Community Reinvestment Act Agreements Work: A Study of Lender Responses." *Housing Policy Debate*, 16(3/4), 513-527. Fannie Mae Foundation.

One response to the incentives provided by the Community Reinvestment Act of 1977 (CRA) in the U.S. has been for lenders and community groups to enter into CRA agreements, which involve pledges to provide prescribed levels of services to targeted neighbourhoods. This article examines whether lenders actually change their behaviour after entering into these agreements. Using data on CRA agreements and mortgage lending, the article finds that institutions increase their lending activity with each year an agreement is in place and persists after an agreement expires. Additional analysis shows that agreements that include provisions for mortgage counselling and technical assistance are associated with increased targeted lending. This analysis has serious implications for private sector development, especially within a public-private partnership model, as a key constraint to provide affordable housing is the ability to secure funding. In Canada, we have no incentives for lenders to significantly get involved in affordable housing, but this article describes one possible policy measure that could have a significant impact.

Frank, Daphne. (2004) "A Market-based Housing Improvement System for Low-income Families" *Environment and Urbanization*, 16, 171-184.

This paper describes a successful housing finance programme in Ecuador through which low-income families can receive technical and financial support to improve their housing. Eligible families are awarded a subsidy that can be supplemented by loans at the usual local interest rate. A state agency facilitates the programme, which is implemented through small construction firms working within the programme on a market basis. The research paper included an extensive study of the system in Ecuador as well as examination of relevant primary and statistical data. The programme has demonstrated the potential for successful cooperation between the private building sector, financial institutions, and government. International funding for the programme will end in 2005, and, despite its success, its future is uncertain. The sustainability of programmes such as these is just as important as having a successful program in the first place, thus long-term viability must also be taken into account if designing a similar program in Canada.

Frank, Knight. (2004). *Private Investment in Affordable Housing*. Report for the Surrey Local Authorities, Leeds, August.

This report is an assessment of alternative methods for affordable housing and the recommended government actions necessary to increase private sector investment. The report identifies that recent trends demonstrate a cultural shift towards an increasing willingness of developers to consider alternatives in the market. Knight's report is an extension from a previous study entitled "The Economics of Affordable Housing" completed in 2003. A literature review of case studies and the techniques they have utilized to attract private investment is the primary research method of the report. Investment options are explored such as development densities, long-term investment, and capitalizing on the rental market. The most innovative U.K. contribution to private sector engagement identified in the report is Property Investment Funds, which are similar to Real Estate Investment Trusts (REIT's), but are a

relatively new strategy in the U.K. The report provides an excellent overview of different techniques to engage the private sector ranging from investment options, development processes, employer-based housing and planning options. However, given the significant differences between the U.K. and Canada, many of the options listed would require needed alteration to fit the Canadian context. Additional research is required to determine the necessary adjustments.

Kemp, Peter, Hugo, Priemus & Varady, David. (2005). "Housing Vouchers in the United States, Great Britain, and the Netherlands: Current Issues and Future Perspectives." *Housing Policy Debate*, 16(3/4), 575-609. Fannie Mae Foundation.

This article compares the U.S. housing voucher program with the British housing benefit and the Dutch housing allowance programs. It presents the theory of income-related housing, which underpins the U.S. and European systems, and compares three programs with respect to their scope, the relationship between housing support and rent levels, the poverty trap, moral hazards, and administrative problems. The authors primarily used an extensive literature review for the article's methodology. The report concludes that the U.S. can learn from the other countries in that a full entitlement program can best promote equity, but given the present political and economic climate, it is unlikely to be adopted. Moreover, Great Britain and the Netherlands can learn how to design a more efficient tenant subsidy program that provides incentives to find less expensive units and promotes family self-sufficiency through enhanced job-seeking behaviour. Canada can learn from all of the countries studied in the paper with their different methods of providing an equitable, efficient housing system with long-term benefits for affordability.

Listokin, David & Crossney, Kristen. (2006). *Best Practices for Effecting the Rehabilitation of Affordable Housing*. U.S. Department of Housing and Urban Development, New Jersey.

Listokin and Crossney provide an extensive report on the role, framework, and best practices of the rehabilitation of existing affordable housing. The report focuses on best practices of the development, construction and occupancy stages including acquisition, financing, building codes and standards, technology, accessibility, rent control, and tax incentives. Different policy and tax structures in the U.S. that impact rehabilitation are also reviewed. The report methodology consisted of a review of literature on housing rehab, an examination of 14 case studies across the U.S., a study resource group that provided insight into the 'real world' of housing rehab, and a technical analysis on building codes and tax credits. A primary finding was that significant economic constraints limit housing rehabilitation in the U.S. as tenants cannot afford costly renovations and state level subsidies focus on new construction. Other development, construction, and occupancy barriers identified in the report include professional inadequacy, regulatory problems, ownership acquisition, scale, and variable building codes. A collaborative and holistic framework for affordable housing rehabilitation is recommended with specific reference to cooperation from government, community (non-profit and for-profit) and lenders. The report provides a unique assessment of how to revamp the existing housing stock for affordable housing with a practical approach. However, little analysis of the role for the private sector as a potential financial investor of such projects is provided as the study focuses instead on potential changes to the Low Income Housing Tax Credit (LIHTC).

MacDonald, Heather. (2005). "Reforming Private Housing Finance: Evaluating the Achievements of the Clinton Administration" *Housing Studies*, 20(4), 665-678.

MacDonald investigates in this paper the financial infrastructure of guarantees, insurance, and regulation that underpin U.S. housing markets as an important federal policy tool. The Clinton administration's efforts to reform the U.S. financial infrastructure illustrate an attempt to address the dilemma of regulating private market actors to achieve public policy goals rather than using direct expenditures. The study uses an extensive literature review of pertinent research and case studies as well as analyzing statistical data to summarize the impact resulting from federal policy amendments. The administration's achievements

were primarily related to housing finance reform so that less emphasis was placed on direct housing subsidies and these changes will be difficult to remove. However, the administration failed to capitalize on an ever-changing industry and focused primarily on regulatory changes that were limited in their impact to generate increased housing supply. As a result of the reform to housing finance there is still considerable uncertainty about homeownership and multi-family credits. The paper provides an effective overview of how the Clinton administration strengthened the private sector involvement in affordable housing as well as presenting opportunities that were not utilized to their full potential, such as a more effective role of lenders and innovative financial tools.

Myerson, Deborah, Etienne, Michael & Kelly, George. (2007). *The Business of Affordable Housing: Ten Developers' Perspectives*. Urban Land Institute and Fannie Mae Foundation.

This publication highlights ten affordable housing best practices developments in the United States, five by for-profit developers and five by non-profit developers. The broad spectrum of skills required to provide affordable housing is illustrated as well as the numerous public and private funding sources required. The publication is geared towards non-industry professionals and is therefore easy to read and comprehensive and is meant to be a learning tool. The research for this publication began in 2005 with a series of forums with non-profit and for-profit developers of affordable housing. The ten companies profiled were interviewed extensively. This publication discovered that despite many differences, these companies all had similar characteristics that contributed to their success. They all view themselves as community builders rather than developers; they are vertically integrated with a significant property management component; most focused on mixed-income developments which allows cross subsidies to underwrite below market-rate units; and nearly all take advantage of a common core of financing option, especially the low-income housing tax credit (LIHTC). The discovery of these similarities demonstrates that despite the complexity of building affordable housing, it is very possible for the private sector to be involved with the required organization and financial structures.

Myerson, Deborah. (2005). *Best Practices in the Production of Affordable Housing*. Presented at a ULI/Fannie Mae Foundation Policy Forum, March 29-30.

This report identifies and explores current best practices of providing affordable housing in the U.S with a particular focus of highlighting the experiences of profit and non-profit companies. The analysis also presents significant barriers to the production of affordable housing based on the experiences of companies and organizations actively engaged in providing affordable housing. Three particular aspects are highlighted in the report concerning best practices: predevelopment, financing and future sustainability/growth. Best practices were identified through a forum with both for profit and non-profit companies that are currently providing affordable housing. A significant difference between the perspectives of non-profit and for-profit developers identified is the focus purely on a social agenda versus a balance between a social and economic agenda for market-oriented companies. Non-profit developers tend to also work within a much longer timeframe based on government funding regulations and are less likely to leverage resources to extract capital investment. Non-profits are driven by the availability of funds resources whereas for-profit developers presume the resources are available and make decisions on their ability to successfully secure financing. This report is significant and unique in the literature as it compares the perspectives of non-profit and for-profit developers on all development issues, such as time frame, capital financing, governance, leadership, project selection, and risk assessment.

Sullivan, Tim. (2004). "Putting the Force In" *Planning*, November 2004. American Planning Association.

Sullivan focuses on workforce housing in this article and presents various instruments that different jurisdictions, including Santa Clara County, San Francisco and Park Fairfax in Virginia, use to implement workforce housing as an essential component of a housing continuum. The article provides an analysis of specific case studies primarily using key informant interviews. NIMBYism is identified as a primary

characteristic affecting the efficiency of most (if not all) of the various case studies. This article is rather disjointed in its analysis of different methods used to provide workforce housing, but it provides a good overview of the innovative techniques implemented in certain areas to produce new affordable housing as well as the presenting barriers particular to each jurisdiction.

Urban Land Institute. (2002). *Engaging the Private Sector in Hope VI*. Urban Land Institute: Washington, D.C.

This report presents an overview of the HOPE VI program in the United States aimed at redeveloping former public housing projects and highlights of several projects built under the program. A detailed description and analysis of six case studies of the Hope VI program is presented including project descriptions, building components, funding sources, financial structure and lessons learned. The case studies were selected to show a range of private sector development entities, housing authorities, and community contexts. The report focused on highlighting lessons learned regarding issues and solutions found by both the private and public sector Hope VI partners. Hope VI is presented as a unique program since it is far more than simply a building program as it is about community rehabilitation and support. This program emphasizes the use of federal funds as the catalyst for leveraging private investment. However, the paper stresses that the limitation of Hope VI is its encompassing mandate that makes the program slow and time consuming. The paper concludes that Hope VI is noteworthy as it successfully leveraged public funds to gain private financing through many different means such as such as other government programs and private financing options. Overall, the lessons learned from Hope VI in the paper focus primarily on creating a streamlined process to reduce timelines rather than significant alterations to the model.

Wright, Steve. (2007). "Pros vs. Cons: Smart Growth Experts Debate Inclusionary Zoning Strategies in an Effort to Win Diverse Affordable Neighbourhoods". *On Common Ground*, Winter 2007.

Wright presents several of the issues associated with inclusionary zoning in the U.S. and provides specific examples from the experiences of several American cities. Another important aspect of this article is the presentation of the barriers to implement inclusionary zoning as municipal policy. The primary methodology used in the article is key informant interviews with community and government stakeholders in the selected cities that are actively involved in affordable housing in conjunction with statistical analysis. Benefits of inclusionary zoning to communities and cities identified in the article are the promotion of greater diversity and a viable middle class population base. A reservation concerning inclusionary zoning discussed by some housing providers was its possible impact on the free market. It is possible to infer from the article, the potential opportunities and challenges that Canadian cities could expect with the utilization of an inclusionary zoning policy.

## APPENDIX B: HOUSING STATISTICS

### The Issue

Homelessness and a lack of affordable housing is an increasing problem. Calgary is a national leader in terms of economic growth, yet our prosperity is being threatened by an affordable housing shortage.

### Erosion of Housing Affordability

Increasing migration, low mortgage rates and economic growth coupled with increased labour and construction costs are sharply increasing the cost of housing.

- In 2006, net migration totalled 25,794; in 2007, net migration is expected to reach 26,000 people (CMHC Rental Market Report 2006).
- The average year-to-date residential sale price in 2006 was \$346,673, an increase of 38.17% over the course of the year. The average price of housing in December 2006 reached \$361,600 and has since continued to climb at a rate of approximately \$500 per day (Calgary Real Estate Board [CHRA] 2007 Housing Statistics).
- With the rising cost pressures of labour, land and materials, Canada Mortgage and Housing Corporation (CMHC) expects the average absorbed price to soar to just under \$488,000 in 2007. At 37%, this will represent the highest rate of price growth on record.
- Despite skyrocketing prices, incomes only grew by 5% in 2006 (Royal Bank of Canada [RBC] Economics Housing Affordability Index December 2006).
- To be able to afford a 1 bedroom apartment in Calgary, a single person must earn at least \$15 per hour (CHRA Minimum Housing Wage 2006), yet 103,500 Calgarians, 25 yrs or older, were earning \$15 or below in July 2006 (Statistics Canada, Labour Statistics Division, Labour Force Survey 2006).

### Depleting Rental Stock

The lack of supply is driving rents up and dramatically decreasing affordability.

- Calgary's apartment vacancy rates dropped from 1.6% in October 2005 to 0.5% in October 2006; it remained at 0.5% in April 2007 (CMHC Rental Market Report 2006, 2007).
- Calgary's apartment availability rates shows that approximately 645 apartment units were available for rent in October 2006 (CMHC Rental Market Report 2006).
- As result of condo conversions, Calgary's rental apartment stock fell by 1,083 units in 2006, reducing the apartment universe by 2.6% to 40,333 units (CMHC Rental Market Report 2006).
- New rental construction in Calgary in 2006 only amounted to two projects totalling 148 units (CMHC Rental Market Report 2006).

### Increasing Homelessness

The erosion of housing affordability and the inability of lower-skilled wage earners to keep up with skyrocketing costs has led to increasing homelessness in Calgary.

- Approximately 58,555 Calgarian households are in need of affordable housing based on Census 2001 data. 14,700 of these households are earning less than \$30,000 and spending over half of their income on housing, leaving the at very high risk for homelessness (City of Calgary Socio-Economic Outlook 2006).
- Between 2,000 and 2,500 people are on a Calgary Housing Company waiting list for subsidized rental units. Some have to wait as long as 2 years for a unit depending on the type of housing required (City of Calgary 2005).
- The 2006 City of Calgary Homeless Count enumerated 3,436 homeless people – an increase of 32% from the 2004 count. Also from 2004 to 2006:

- the number of homeless persons on the street increased by 238%;
  - the number of homeless families increased by 39%; and
  - the number of homeless children increased by 40%.
- A 2002 Calgary Homeless Foundation study found that 50.2% of the absolute homeless were working full time, part time or occasionally.

### **A Public Interest Issue**

There were 1,900 print articles in Calgary papers alone covering the affordable housing and homelessness crisis in 2005 and 2006.

# APPENDIX C: YEAR 1 GOVERNMENT ASKS

## Funds, Land, Incentives

### Issue

Homelessness and a lack of affordable housing is an increasing problem across Alberta. This province is at the heart of Canada's economic growth, yet our prosperity is being threatened by an affordable housing shortage.

### Key Facts

#### **Erosion of Housing Affordability**

- In September 2006, RBC Economics reported another sharp affordability slide in Alberta driven by higher house prices and mortgage rates.
- Though incomes are growing at a 5% pace, home prices have surged dramatically with prices up roughly 30% year-over-year in all classes of homes (RBC Economics 2006).
- An estimated 58,555 households are in need of affordable housing in Calgary alone (City of Calgary 2005).

#### **Increasing Homelessness**

- Calgary, Edmonton, Fort McMurray, Grande Prairie, and Lethbridge homeless counts have all shown increases in the number of homeless.
- The 2006 Calgary Homeless Count enumerated 3,436 people – an increase of 32% from the 2004 count.
- The 2004 Edmonton Homeless Count showed an increase of 14.5% since 2002, bringing the total to 2,192 people.

### All Orders of Government

Assume leadership in declaring roles, responsibilities, and resources required to address affordable, appropriate, and supported housing needs.

Agree on a population based upon ratio to determine ongoing fund allocations for affordable housing and homelessness. Funding adjustments should be made to meet local needs and building costs on an ongoing basis.

Commit to better integration and coordination of housing policies, programs, Ministries and Departments with other sectors such as health, education, social services and community economic development.

Contribute surplus or underutilized government properties (lands & buildings) to create perpetually affordable, appropriate, and supported housing initiatives.

### NOTE: Defining Affordable Housing

We are employing the City of Calgary's definition of housing as affordable when it meets the needs of households earning less than \$37,621 per year (65% of 2000 median income) whose shelter costs do not exceed more than 30% of before tax income.

### Government of Canada

#### **Funds**

Maintain current levels of funding and implement sustainable and predictable funding for perpetually affordable, appropriate, and supported housing initiatives. Funding adjustments should be made to meet local needs and building costs on an ongoing basis.

## Land

Continue and expand the Surplus Federal Real Property for Homelessness Initiative (SFRPHI) to contribute surplus or underutilized federal properties (lands & buildings) for development as protected affordable, appropriate, and supported housing initiatives.

## Incentives

Commit \$200 million annually to tax credits to encourage building and/or refurbishing affordable rental units.

Establish tax amendments favouring affordable housing including but not limited to:

- elimination of capital gains on donations of real estate to registered charities that provide perpetually affordable and supported housing;
- encouraging registered charities to participate in mixed income housing projects where up to a maximum 50% of units can be market units to promote sustainability in mixed housing;
- elimination of GST on construction materials associated with affordable housing.

## Government of Alberta

### Funds

Assume leadership and appoint an Alberta Commission on Affordable Housing & Homelessness to develop, implement, and commit to long-term strategic planning and provincial funding for affordable housing and homelessness.

Match the \$129.5 Million in federal funding through the Affordable Housing Trust and Off Reserve Aboriginal Housing Trusts dollar for dollar over the next three years.

### Land

Develop a policy and program similar to the Surplus Federal Real Property for Homelessness Initiative (SFRPHI) to contribute surplus or underutilized provincial properties (land & buildings) for development as protected affordable, appropriate, and supported housing initiatives.

Amend the MGA to allow municipalities to use municipal and surplus school reserve lands for perpetually affordable, appropriate, and supported housing initiatives.

Work with municipalities to amend the MGA to allow municipalities to increase the amount of municipal reserve required from new land developments from the existing 10% to 12%, if the additional 2% is dedicated to perpetually affordable, appropriate, and supported housing initiatives.

### Incentives

Enable municipalities to create tax and financial incentives to engage the private sector in affordable housing development. For example, affordable, appropriate, and supported housing initiatives can be facilitated by:

- elimination of development fee levies;
- fast tracking permits;
- waiving permit fees.

Clarify whether the MGA enables municipalities to use inclusionary zoning, both mandatory and voluntary, as an affordable housing tool, and amend if necessary.

Accept the MLA Task Force on Secondary Suites recommendations on legalizing secondary suites, creating building and safety standards. Amend the Alberta Fire and Building Code legislation to incorporate these recommendations.

In collaboration with municipalities, create incentives, loans, and subsidies for homeowners who want to bring existing secondary suites to new standards and/or develop new secondary suites to rent them at affordable rates.

## Alberta Municipalities

### Funds

Continue to commit funds to affordable, appropriate, and supported housing initiatives.

## Land

Work with the Province and Alberta municipalities to amend the MGA to allow municipalities to use municipal and surplus school reserve lands for perpetually affordable, appropriate, and supported housing initiatives.

Develop a policy and program similar to the Surplus Federal Real Property for Homelessness Initiative (SFRPHI) to contribute surplus or underutilized municipal properties (land & buildings) for development as protected affordable, appropriate, and supported housing initiatives.

Work with the Province and Alberta municipalities to amend the MGA to allow municipalities to increase the amount of municipal reserve required from new land developments from the existing 10% to 12%, if the additional 2% is dedicated to perpetually affordable, appropriate, and supported housing initiatives.

## Incentives

Work with the Province, Alberta municipalities, private and non-profit sectors to create tax and financial incentives to engage the private sector in affordable housing development. For example, affordable, appropriate, and supported housing initiatives can be facilitated by:

- elimination of development fee levies;
- fast tracking permits;
- waiving permit fees.

Work with the Province, Alberta municipalities, private & non-profit sectors to clarify whether the MGA enables municipalities to use inclusionary zoning, both mandatory and voluntary, as an affordable housing tool, and amend if necessary.

Create guidelines in local land use regulations that require or encourage residential developments to include a certain percentage of affordable housing.

Make best efforts to strategically and flexibly implement these in collaboration with the private sector to create win-win solutions. Density bonuses and fast-tracked approvals are strongly recommended.

Amend the Land Use Bylaw to allow for secondary suites and create guidelines for implementation that promote these as a tool to create affordable housing.

- Work with the Province to provide incentives or subsidies to homeowners to develop secondary suites as affordable housing units.
- Offer a density bonus to developers who incorporate secondary suites in new developments.



Sustainable Calgary's mission is to promote, encourage and support community level actions and initiatives that move Calgary towards a sustainable future.



The Alberta Housing Coalition is a broad-based, provincial group using a unified voice to promote change, increase community knowledge and share information on affordable housing.



*Governors for Children*

The Governors for Children (formerly Governors' Council) is a volunteer advocacy organization comprised of community leaders, business people and professionals who are concerned about the well-being of children and whose mission is to improve the life of each child in our community.



The Ethno-Cultural Council of Calgary (ECCC) is a community-based organization that facilitates the collective voice of Calgary's visible minority communities, in order to influence social, economic, and political change through collaborative action.