



**Federal Development Bonds:
A Tool for Financing the Construction
of Affordable Rental Housing
in a Fiscally Responsible Manner**

SLIDE PRESENTATION

APRIL 2015





BACKGROUND:

- The Government's gross capital input into **leveraging** the construction of Affordable Rental Housing in major urban centres is a maximum of \$150,000 per unit (via a **non-repayable grant system** of funding) less the program's approximately 20% in overhead costs and fees, leaving \$120,000 net per unit towards new construction. This grant usually needs an additional construction loan to complete the project. The current grant approach **has been difficult to sustain** in any meaningful volume that will address the extent **of the growing need** for Affordable Rental Housing in our large cities and our industrial hotspots.
- **Current gross capital Funding Extension by the Government** is \$1.25 Billion for 6 years. This will, after the program's overhead and fees, leverage the construction of about 1,500 housing units per year nationally for a maximum of about 9,000 units throughout Canada over 6 years, only if all the funds were allocated into leveraging the construction of new Affordable Rental Housing, which is not the case. This **demonstrates the difficulty with the current Affordable Rental Housing Funding Model's ability**, to meet the existing and the growing rental housing needs in our major urban centres.





CURRENT AND FUTURE SITUATION:

- In **Toronto** there are 91,000 families on the waiting list for Affordable Rental Housing.
- **Toronto** is expected to grow by about 30,000 people yearly with about 1/3 of them being renters and 1/3 of those renters will need Affordable Rental Housing.
- In the **GTA**, many regions have long waiting lists for Affordable Rental Housing. Residents of Peel and York Region face the largest shortages of Affordable Rental Housing in addition to the City of Toronto.
- The **GTA outside of Toronto** is expected to grow by about 60,000 people yearly, up to 20% of them will be renters and about 20% of the renters will need Affordable Rental Housing.
- This means a yearly future need for about 3,000 new Affordable Rental Housing units in Toronto and about 2,400 new Affordable Rental Housing units in the GTA outside Toronto, without addressing the current waiting lists.
- With such needs, it is clear that the 1,500 housing units per year referred to previously do not even meet the needs of Toronto or of the GTA outside of Toronto and therefore cannot meet the national affordable rental housing needs.

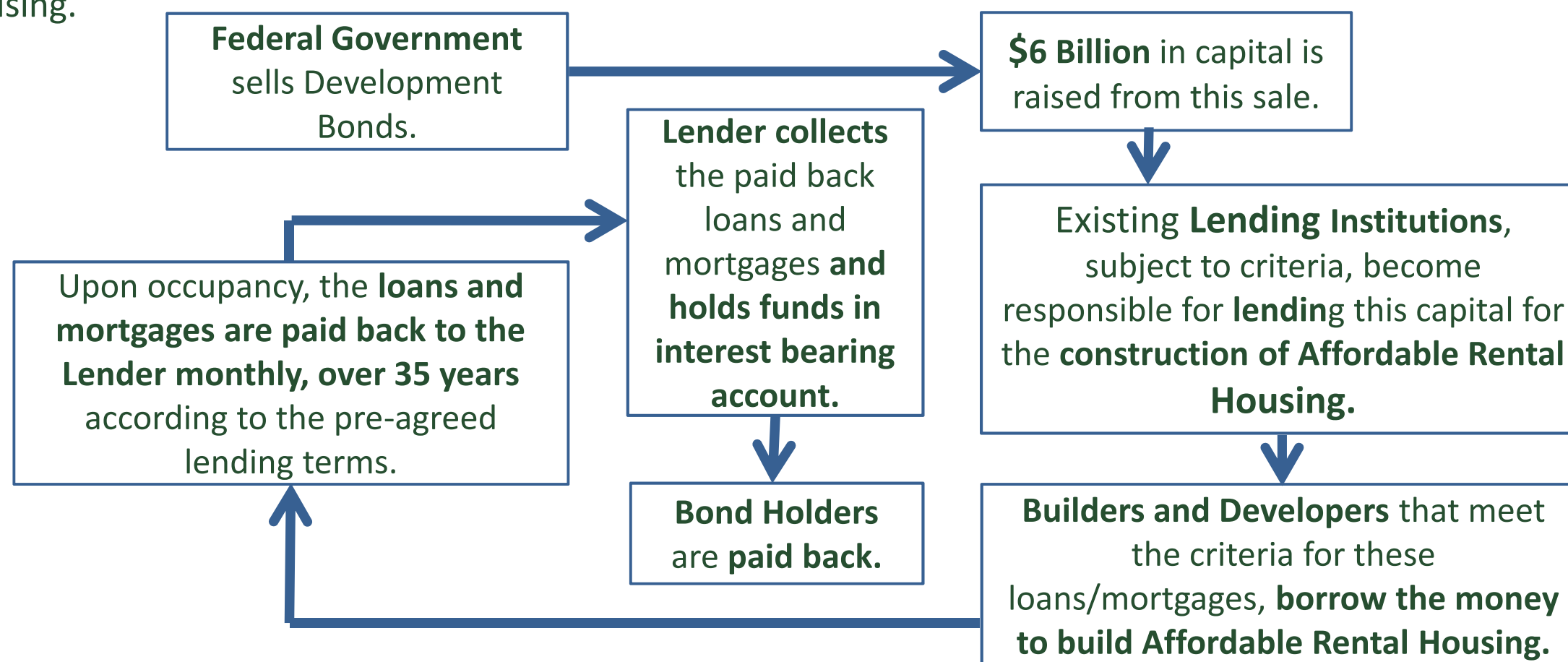




OUR PROPOSAL:

That the **Federal Government** be the facilitator to raise repayable construction capital via **35 Year Federal Development Bonds** at **2.5% interest** to be used for the construction of new **Affordable Rental Housing Units** in a ***Sustainable, Accountable and Efficient*** manner.

We propose that the **Government** facilitate the financing of this capital and that the **private sector** develop, build, lease and manage the new Affordable Rental Housing.









Our proposal will create **SUSTAINABLE, ACCOUNTABLE** and **EFFICIENT** construction of much needed Affordable Rental Housing. This will also generate more jobs and will create more wealth in the economy as a whole.

- **SUSTAINABLE** – With the capital from the Bonds being paid back via repayable loans/mortgages, this proposal becomes more sustainable than the current non repayable grant system.
- **ACCOUNTABLE** – It will continue to use CMHC’s yearly published rental rates for Affordable Rental Housing together with the household income limits for Affordable Rental Housing occupancy during the first 20 years of the loan/mortgage.
Our approach will continue to ensure that all the standards and all the local targeted needs are met as set by Provincial and Municipal Governments.
- **EFFICIENT** – Our proposal will bring reductions to the overhead costs and the administration fees that are currently applied to the non-repayable grant system for Affordable Rental Housing by using the existing processes of our lending institutions and thus, making a more efficient use of funds and a more efficient process.





EXISTING GRANT BASED PROGRAM	PROPOSED DEVELOPMENT BOND CAPITAL FINANCING INITIATIVE	PROPOSAL'S BENEFITS
<ul style="list-style-type: none"> • \$150,000 gross cost/unit including overhead and fees, to leverage the construction of Affordable Rental Housing. <p>\$</p>	<ul style="list-style-type: none"> • \$72,784 gross average cost to the Government under the proposed Development Bond initiative (including overhead and administration fees). This is on average a 51.48% saving over the current program costs to the Government. <p>\$\$\$\$\$\$\$\$\$\$\$\$\$</p>	<p>A. Our proposal will cost the Government (per unit) less than 50% of the current grant amount used to leverage one new unit.</p>
<p>Leveraging at best the construction of about 9,000 housing units for all of Canada over 6 years (at the rate of about 1,500 units per year), <u>if all money goes into construction, which is not the case.</u></p> <p></p>	<p>Proposed \$6 Billion Development Bond invested in repayable loans and mortgages to build new Affordable Rental Housing will generate 28,570 Affordable Housing units over the first 6 to 7 years of this initiative at an average of about 4,400 Affordable Rental Housing units per year.</p> <p></p>	<p>B. Our Development Bond proposal will generate more than triple the number of units compared to the current funding, at almost triple the number of units per year, all at the CMHC published rents for Affordable Housing.</p>
<p>Currently the \$1.250 Billion gross investment generates \$1 Billion for leveraging construction funds, due to current program's 20% overhead costs and administration fees.</p>	<p>Proposed \$6 Billion Development Bond Capital lent for Affordable Rental Construction through our existing lending institutions, will require only about 5% in administration and overhead fee out of the total gross capital investment.</p>	<p>C. Our proposal will reduce fees and charges close to 5% by using existing lending institutions. The current program costs 20% in overhead fees and charges.</p>
<p>10,750 jobs over 6 years in construction and related industries (at the rate of almost 1,800 full time jobs per year) can be created if all the funds go into leveraging new construction, <u>which is not the case.</u></p> <p></p>	<p>Proposed \$6 Billion Capital from Development Bonds to be invested in new Affordable Rental Housing Construction will generate 64,500 full time jobs in construction and related industries over the first 6 to 7 years of the proposed initiative. This means almost 10,000 full time jobs per year.</p> <p></p>	<p>D. Our proposal generates 6 times the number of full time jobs compared to the current program.</p>
<p>Current Federal Program provides forgivable non-repayable grants to leverage the capital construction cost needed for new Affordable Rental Housing. In addition to the grant, construction loans are required to finish the project.</p>	<p>Proposed Affordable Rental Housing Construction Capital via Development Bonds will be paid back to the Government as construction loans/mortgages payable back monthly over 35 years.</p>	<p>E. Our proposal is for repayable construction capital, not for non repayable grants that need another construction loan to complete the job, per the current situation.</p>
<p>Under the current program, the average Net Cost per year to the Government is \$60,378,800 to leverage construction of a maximum 9,000 Affordable Rental Housing units and the creation of 10,750 full time jobs, <u>if all the funds go into construction, which is not always the case.</u></p>	<p>Under the proposed initiative, the average Net Cost per year to the Government is \$59,412,500 to generate 28,570 Affordable Rental Housing units and 64,500 full time jobs. This is to create triple the number of units and 6 times the number of jobs.</p> <p>The gross cost per unit to the Government will be reduced by more than 50% to an average of \$72,784/unit (including the administration and overhead fees) compared to the current gross cost to the Government of \$150,000 to leverage the construction of one unit, which will still need construction financing to finish the job.</p>	<p>F. For the same current Annualized Average Net Cost to the Government, our proposal generates :</p> <ul style="list-style-type: none"> • triple the number of units, • 6 times the number of jobs and, • costs the Government (per unit) less than ½ of its current grant per unit.

LEGEND:  = 1,000 Units  = 1,000 Full time Jobs  = for every \$10,000 of gross average cost per unit to the Government

Proposed Federal Development Bonds to Finance Affordable Rental Housing via Repayable Loans/Mortgages



Our Proposal Details:

- That the **Federal Government raise capital via 35 Year Development Bonds**, over 3 to 4 years in three to four tranches of \$1.5 to \$2 Billion each, **for a minimum total of \$6 Billion**, to begin to address as fast as possible the current Affordable Rental Housing issues in Canada's major urban centres.
- These 35 Year **Bonds will be secured by** the fully developed and leased **rental housing properties** that will be built with these funds. This is like the security of a first mortgage on any new rental property.
- **Three to four such \$1.5 Billion to \$2 Billion tranches** raised over 3 to 4 years, for a total of \$6 Billion will be invested in the construction of new Affordable Rental Housing units and will, by the 6th to 7th year, have generated 28,570 rental housing units and will have created 64,500 jobs in housing construction and related in industries.
- We are suggesting that the raising and the investment of the **first \$1.5 Billion of Capital**, be considered as a **Pilot Project** to launch immediately this initiative. After the Pilot Project is launched, the Government will raise the rest of the \$6 Billion capital necessary for the construction of much needed Affordable Rental Housing in Canada.





Our Proposed Process:

1. The **capital** from each tranche will be **invested immediately and continuously** in the construction of Affordable Rental Housing in our urban centres.
2. This Affordable Rental Housing construction capital will be invested via **repayable construction loans/mortgages**.
3. These construction loans/mortgages will be paid back over 35 years.
4. The first **20 years of the 35 year term** of the loan/mortgage, will be covered by the **Affordable Housing Agreement**, currently applicable to Affordable Rental Housing buildings and will **follow the CMHC annually published rents**.
5. The loan/mortgage payback will start upon full occupancy of the rental units.
6. The construction loan/mortgage monies will be paid back monthly to the lender who will have to invest it in an interest bearing account so that the Bond Holders can be paid back at maturity.
7. The **loans/ mortgages will be interest free for the first 20 years** (principal payment only, with 2.5% of the principal being paid yearly). During the first 20 years (which is currently the Affordable Housing program's core affordability period) rents will be kept at the CMHC published yearly affordable rent levels. During the first 20 years, \$3 Billion of the principal will be paid back without interest.
8. For the **last 15 years the loan/mortgage payments will be principal plus interest** at the Bank of Canada prime rate, not to exceed 2.5% rate of interest. During the last 15 years another \$3 Billion will be paid back with interest.
9. All the paid back loans/mortgages over the term will be deposited into an Interest Bearing Account out of which the Bond Holders will be paid back their principal investment upon redemption.





Facts on Current Market Rental Housing

- Low interest rates are the foremost reason why new market rentals are making a temporary comeback at the present. New Market Purpose Built Rentals are definitely needed, however, they are not affordable rental housing.
- Without support from municipalities re: development charges and initiatives from higher levels of government regarding access to inexpensive capital to invest in new rental housing, the opportunity to build new residential rental housing may be very short lived and will come to a halt when interest rates rise.
- Rental Condos are generally not reliable for long term tenure. They generally fulfill a relatively short term need for the condo owner to get rental income until the owner either moves into it or sells it and they are also not affordable rentals.

Numerical Housing Facts

- Each dollar spent on housing Development and Construction equals a \$1.40 increase in the gross domestic product (GDP).
- For and new rental housing construction, an expenditure of \$1 million generates the equivalent of at least 11 jobs in a combination of direct construction employment and indirect jobs in related industries.
- New rental construction has accounted for just 10% of new residential construction over the past 15 years, compared to the fact that 1/3 of the population lives in rental housing.
- There is still a gap of almost 50,000 construction jobs nationally, since the economic downturn in 2008.
- 42% of young Canadians (20-29 years) lived with their parents in 2011 compared to 26% in 1981.





Important Numbers re: Affordable Rental Housing

- About 12% of hospital beds in Southern Ontario are filled not for health reasons but for shelter reasons.
- Cost to the Government for a hospital bed in Southern Ontario is about \$3,000/night.
- Cost to the Government for jail or prison/night per person is \$2,000 to \$3,000 (the higher amount is for prison).
- Cost of a homeless shelter is about \$100/night per person.
- Current Cost to the Government per the Affordable Rental Housing Program now in existence is about \$20/night/unit.
- Cost to the Government per our proposed Development Bond Initiative for Affordable Rental Housing will be about \$10 per unit/night.
- Nationally there are close to a total of 3,000,000 people that fall in one or more of these categories:
 - ✓ **Cannot afford** the rent or,
 - ✓ Live in **substandard housing** (unhealthy or crowded conditions) or,
 - ✓ Are on various **waiting lists** for affordable housing or,
 - ✓ Are **homeless** or,
 - ✓ Are on the verge of **becoming homeless**.





SUMMARY

- The implementation of our proposal will generate Affordable Rental Housing that **will cost the Government per unit less than half the current non-repayable grant amount per unit.**
- For the **same yearly annualized net average cost** to the Government as the current program funding costs, our proposal will generate **triple the new Affordable Rental Housing units** and **six times the number of full time jobs.**
- Implementation as soon as possible by the Federal Government of Affordable Rental Housing **Construction Capital via Development Bonds, will demonstrate** to the entire country **that:**
 - a. **the Government understands** the needs of **our major urban centres** and,
 - b. **the Government is committed** to the **economic health** and to the **social viability** of our major urban centres.





THANK YOU

APRIL 2015

