

A business case for a

HOUSING DEVELOPMENT CORPORATION

for the City of London

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This report highlights the case for a housing development corporation (HDC) in the London community. It identifies why an HDC for the City of London is needed, what it looks like, and how the approach is innovative and sustainable.

Most specifically, the business case identifies what the City of London can do through an HDC that wouldn't happen with the status quo. It includes rethinking how we create more affordable housing, the regeneration of the public housing stock, access to sustainable funding, and economic and social benefits to the community.

May 2014



EXECUTIVE SUMMARY

The Corporation of the City of London's (City of London or City) interest in housing development is based on the growing need for affordable housing in the London and Middlesex communities and on the findings of studies such as the Federation of Canadian Municipalities report, "The Housing Market and Canada's Economic Recovery" (January 2012). This report concluded that housing development is the activity with the highest financial multiplier effect and impact on Gross Domestic Product (GDP) recovery of any activity, especially when fiscal measures are directed to lower-income households where any assistance typically results in immediate consumption rather than savings. Housing development can also help achieve important social, community development, and environmental goals. While these benefits are critical to the wellbeing of the community, the City currently has little direct control over housing development activity other than its traditional roles in regulating land use, administering housing programs and other long-standing municipal functions.

In December 2012, the City of London's Council Housing Leadership Committee recommended that staff engage a consultant to explore options associated with the potential creation of a local **housing development corporation** (HDC) to advance affordable housing in the London community. In July 2013, staff retained the Consulting Team of SHS Consulting, in association with Purpose Capital, MaRS Centre for Impact Investing and Robins Appleby to assist with the exploration of an HDC for the City of London.

This document is the culmination of the Consulting Team's work and outlines the proposed business model and case for a London HDC. The business model provides a framework for what the HDC will offer, to whom, and options for how it will be financially sustainable. It also provides key components of the business case including descriptions of the **need and opportunity**, the **core elements of the business model**, the **approach** the HDC will take, the **financial model** for sustainability, **governance** and **corporate structure**, and the Consulting Team's **recommendations** for moving forward. Supporting documentation can be found in the appendices and include the overall project approach, summary of the community consultations, the details of the business model, best practices in housing development models, overview of municipal tools and incentives, financial model assumptions, detailed legal memorandum on HDC structuring, and an overview of the Resilient Communities Fund.

Need and Opportunity

When building an effective business model, it is vital to understand the need and related set of problems that are faced in the market. The problem is clear: **there is a tremendous need for more affordable housing in the City of London**. However, it is costly and complex to develop and acquire new units and there are limited financial resources to sustainably finance the creation of new affordable housing, let alone regeneration of existing public housing stock. There is no actor in the marketplace with the financial and technical expertise or mandate to increase the size of the city's affordable housing portfolio.

The City itself does not have the internal capacity to develop housing directly, nor is it structured to take on real time market obligations. However, there are significant resources available in the London community, in terms of land, housing, financial capital, existing and new incentives, technical expertise, and willing stakeholders, which if effectively deployed, can generate tremendous economic and social benefits for the City of London and Middlesex County, and their citizens, through new housing development and regeneration activities.

With a focused mandate on affordable housing development, a structure that allows real time decision making, a Board of experts in development, and the resulting multiplier effect for economic and social benefits, a housing development corporation can play a pivotal role in capitalizing on these opportunities. Notwithstanding the role an HDC could play, it is only one of a range of strategies that the City can use to meet the objectives and targets of its Homelessness Prevention and Housing Plan.

Given these key objectives, the Consulting Team conducted research and extensive community consultation to develop a business model for the HDC. The core elements of this model are described in the **Business Model Canvas** below.





The Business Model Canvas

CORE MANDATE

- The HDC stimulates the development and sustainability of affordable housing throughout the London and Middlesex communities.

SUPPORTING MANDATES

- The HDC supports the local need for revitalized and strengthened neighbourhoods, and diverse and inclusive communities.
- The HDC collaborates with all three sectors (private, non-profit, and public) to create and sustain affordable housing and stimulate economic growth.

 Collaborators	 Key Activities	 Value Proposition	 The Customer
<ul style="list-style-type: none"> ▪ Private realtors, developers, and builders ▪ Non-profit developers and property managers ▪ Financial institutions and credit unions ▪ Federal, provincial and municipal government ▪ Employment and training providers ▪ Other community players and thought leaders 	<ul style="list-style-type: none"> ▪ Coordinate deployment of government funding ▪ Enhance and better utilize municipal incentives ▪ Regenerate public housing stock ▪ Establish revenue generating activities ▪ Explore and initiate innovative financing and investment tools (i.e. Resilient Communities Fund) ▪ Unite collaborators 	<p>The HDC is the optimal vehicle to directly achieve affordable housing goals and to increase local capacity to develop affordable housing.</p>	<ul style="list-style-type: none"> ▪ City of London ▪ Middlesex County ▪ Property owners ▪ Private developers ▪ Non-profit community organizations ▪ Investors ▪ London and Middlesex residents, including individuals and families in identified need

The development of the business model for a London housing development corporation is a foundational step towards achieving the City's goals and objectives. The recommendations outlined below are important next steps.

Recommendations

Based on the findings outlined in this report, the Consulting Team offers the following recommendations to the City of London:

Corporate Structure and Governance

The Consulting Team's 11 recommendations establish the corporate structure and governance of the housing development corporation as an independently incorporated entity positioned to work with the London and Middlesex communities, and all orders of government to advance the City's affordable housing goals and objectives in a sustainable way.

1. Approve the establishment of a housing development corporation for the City of London.
2. Incorporate the housing development corporation under the *Business Corporations Act* with the City of London as the sole shareholder.
3. Put in place a "Shareholder Direction" from the City of London to the housing development corporation setting out its mandate and powers. The Shareholder Direction may include the following: the City's expectations and objectives of the housing development corporation; Board responsibilities, term, compensation and composition, reporting protocols to the City, decisions requiring the consent of the City, requirement to submit an annual business plan and the parameters of the plan, and the HDC's relationship to City departments.

Core and Supporting Mandates

The following recommendation supports the community's clear feedback that the HDC needs to have a broad mandate focusing on multiple policy objectives, with affordable housing as its essential focus.

4. Adopt the following core and supporting mandates for the housing development corporation:

CORE MANDATE

- The HDC stimulates the development and sustainability of affordable housing throughout the London and Middlesex communities.

SUPPORTING MANDATES

- The HDC supports the local need for revitalized and strengthened neighbourhoods, and diverse and inclusive communities.
- The HDC collaborates with all three sectors (private, non-profit and public) to create and sustain affordable housing and stimulate economic growth.

Goals and Strategic Directions

The recommended goals and strategic directions for the HDC support its core and supporting mandates. Specific targets and outcomes for the HDC will need to be identified at the outset and incorporated in the shareholder direction and/or business plan.

5. Adopt the following overarching goals and strategic directions for the housing development corporation:

Goal 1: Improve and enhance current programs

The HDC will build upon and improve on the City's range of incentives and access to senior government grants during its initial pilot period of operation which aligns with the renewal of the federal/provincial Investment in Affordable Housing Program (2015-2019).

STRATEGIC DIRECTION #1

Coordinate and leverage the deployment of federal, provincial and municipal funding

STRATEGIC DIRECTION #2

Enhance and better utilize municipal incentives

Goal 2: Build new business lines

To ensure the long term sustainability and continued achievement of affordable housing targets, the HDC will develop and test new business lines including being a developer of new housing and the regeneration of the City's public housing stock. The HDC will also investigate innovative financing and investment tools such as the Resilient Communities Fund.

STRATEGIC DIRECTION #3

Be a developer of affordable housing and establish revenue-generating activities

STRATEGIC DIRECTION #4

Explore and initiate innovative financing and investment tools

Key Activities of the Housing Development Corporation

A range of potential key activities of the HDC, related to the creation of new affordable housing units and the rehabilitation of the public housing stock, are identified in this report.

6. Direct the housing development corporation to thoroughly review the proposed key activities outlined in this document and report back to the City with its short and long term plan for meeting the approved goals and directions.
7. Direct the housing development corporation to partner with the City of London and the London & Middlesex Housing Corporation (LMHC) regarding redevelopment opportunities.

Financial Model

A financial model is proposed in this document for the ongoing sustainability of the HDC and its goal of addressing the City's affordable housing needs.

8. Direct the housing development corporation to thoroughly review the proposed financial model for the operation of the housing development corporation, and the plan for sustainable funding and financing of affordable housing development and regeneration.

Implementation Plan

The approval of the preceding recommendations is critical for establishing the housing development corporation framework which will ultimately help the London and Middlesex communities achieve the City's goals and objectives as identified in its Homeless Prevention and Housing Plan (2014). An equally important next step is to put in place an implementation plan for moving forward.

9. Put in place an implementation team to continue the work started through the HDC business case process to ensure that the HDC is operational by December 31, 2015. It will be the implementation team's responsibility to develop a detailed work plan, including tasks, timelines, and costs to carry out the work. These tasks will include the following actions related to establishing the HDC:
 - Prepare and obtain letters patent, including required bylaws
 - Prepare and execute the shareholder direction
 - Delegate Service Manager authority as required
 - Recruit board members and staff
 - Other start-up activities as appropriate
10. Direct the housing development corporation to prepare a business plan for the period 2016 to 2020 (and in five year increments thereafter). The plan will include details on how the HDC will proportionately allocate available government funds to the housing development corporation and community partners. It will also include a detailed statement of pro-forma operations and anticipated cash flow and any plans related to specific initiatives requiring shareholder approval.
11. Direct the HDC to further explore, define, and assess the feasibility of the Resilient Communities Fund including identifying the structure of the fund, services to be provided by the HDC, accountability, and compliance framework.

Why an HDC for the City of London? THE NEED & OPPORTUNITY

When building an effective business model, it is vital to understand the need and related set of problems that are faced in the market. The problem is clear: **there is a tremendous need for more affordable housing¹ in the London and Middlesex communities.** However, it is costly and complex to develop and acquire new units, and there are limited financial resources to sustainably finance affordable housing. There is currently no actor in the marketplace with the financial and technical expertise or mandate to increase the size of the affordable housing portfolio, and the City's capacity and structure limits its ability to respond to complex and often time-sensitive market realities.

The Need and Problem

Tremendous Need for Affordable Housing in the City of London

Indicators of need: About 45% of tenant households in the City of London spend 30% or more of their gross income on rent and 9% spend 50% or more of their gross income on rent (London Community Housing Strategy, 2010). Over 3,500 families and 9,000 individuals visit a food bank in the city every month (London Community Housing Strategy, 2010). Too many households have to make tough choices about putting food on the table or paying rent. There are thousands of families on the waiting list for affordable housing in London. Although many of these families and individuals may currently have a place to sleep, this is still an indicator that many Londoners are inadequately housed, or their housing costs consume an overwhelming proportion of their income. The current supply of affordable housing is not meeting market demand or need.

Economic indicator: Although the unemployment rate in the City of London has declined over the past six months (8% in February 2014), it is among the highest across large cities in Canada. Many individuals have dropped out of the labour market altogether.

Acute need for some: The overall poverty rate in the London CMA was 12.3% in 2010. 17% of families lived below the low-income cut-off, 46% of single parents and 20% of children lived in poverty, and one in two immigrants lived below the poverty line (London Community Foundation, 2012 Vital Signs Report).

Need is growing: As the local population grows, the number households experiencing housing affordability issues will continue to grow beyond the supply of affordable units in London and Middlesex. Growth in need for housing is especially prominent in youth, older adult, and Aboriginal populations.

¹ Affordable housing refers to housing that is affordable to low and moderate income households in the bottom 60% of the income distribution in London, with a focus on incomes well below this threshold. This does not limit the potential for a broader context of affordability as it applies to specific neighbourhoods and communities. The financial modelling assumptions in this document use target rents of between 70% and 80% of average market rent for the London community.

The recently released City of London **Homeless Prevention and Housing Plan** (November 2013) identified a continued and growing need for affordable housing for key target populations beyond the current capacity of available market vacancies and new market developments.

The growing need for affordable housing is illustrated by examining five variables as reported in CMHC's London Housing Market Outlook presentation of February 24, 2014:

- **A growing population** (over 12,000 new residents added between 2006 and 2011), especially in groups likely to require single bedroom units such as youth and seniors
- **Flattening income levels** (around \$70,000 since 2004) thus a growing population among those requiring rental housing at or below average market rent (AMR)
- **Decrease in vacancy rates** from 5% in 2009 to below 3% in 2015 (projected by CMHC)
- **Little development in the related market segment**, with most development at or above AMR and the supply falling well below of the identified demand
- **Static available stock of rental housing** at or below AMR

Increased pressure to respond:

The City approved a target to create 1,200 new affordable units in the next decade. These units are to be created through a mix of rent supplements, existing stock, new, and specialized units. In the future, it will be a challenge to meet this target given rising construction costs, limited senior government funding, and the City's shift in priority from creating units with rents at AMR to units at 70% of AMR.

Developing and Acquiring Affordable Housing Units is Costly and Complex

Sustainable revenue model a challenge when addressing low incomes: Rental income is the most significant challenge to the basic business model of any affordable housing project: monthly rents do not typically cover operating costs and debt service coverage. The operating cost of a one bedroom unit may be \$900 per month, but the maximum rental charge based on rent-gear-to-income could be \$475 or lower for households on social assistance. Maintaining a sustainable revenue model is challenging when tenants are only paying a portion of the costs.

Complex relationships: There are often multiple stakeholders involved in affordable housing projects, including all three orders of government, local residents, community organizations, and other funders. Decisions impacting housing have direct and personal consequences for tenants and neighbours. As a result, the relationships across players and stakeholders are not only complex, but deeply passionate. Balancing the interests of all parties can be challenging.

Policy and approvals process: Gaining approval for a housing development is not a short and simple undertaking; it requires an appropriate policy and approval process. Regulatory and approval hurdles at a municipal level can add time, and thus, associated costs for development.

Public and Social Housing Stock is in Need of Funding for Regeneration

LMHC is comprised of older, not well integrated housing stock. Although the LMHC portfolio is generally considered in good repair, the design and lack of integration into the broader community results in many tenants feeling isolated. As noted in a LMHC board report, the viability and long term sustainability of the LMHC portfolio is dependent on the regeneration of its properties, especially the family townhouse sites.

Preserving existing social housing stock. To preserve its existing affordable housing stock, the City will also need to turn its attention to reinvesting in and extending agreements with its social housing providers as their existing operating agreements come to an end. Some of these properties may also be in need of rehabilitation.

Limited Financial Resources to Sustainably Finance Affordable Housing

Federal government support: Although the federal government will continue to play a role in funding affordable housing, its level of support is projected to decrease significantly over the next decade. Federal expenditures on social housing are expected to decline from \$1.7 billion in 2010 to \$500 million by 2020.

Provincial and municipal government support: There are limited financial resources for capital and operating grant support to develop and/or acquire new units of affordable housing in London and Middlesex County.

City of London support: Although the City of London has been a leader in providing direct municipal investment into affordable housing development, its funding is often tied to other orders of government. Where this is not the case (e.g. conversions to rental, which is 100% funded by the municipality), the City has been successful in advancing housing development, albeit, in a limited capacity. However, the City's capital reserves are depleted and there is a need for new sources of financial capital for the creation of affordable units, as well as the regeneration of LMHC's housing portfolio.

Lack of Coordinated Financial and Technical Expertise and Capacity in Marketplace

Current market players: Individuals, organizations, and enterprises develop market housing, manage affordable housing, and manage market housing that targets low and modest income households. There are only a small number of players developing affordable housing and they tend to be focused primarily on one project as opposed to community building.

Financial expertise and capacity: Although available, knowledge and expertise related to the provision of grants and loans for housing and other development financing model options is not well coordinated. Innovative financing models, if leveraged, can reduce financing costs by blending grants, government support, and debt financing. Few housing providers have the financial capacity or balance sheets to acquire or develop new units.

Technical expertise and capacity: Although available, technical expertise and capacity is relatively generalized. There are few individuals and organizations that have knowledge of how to navigate the development process. Similar to the challenge of financial capacity, the challenge of specialized technical expertise is particularly acute for smaller housing providers. There are very few dedicated service providers or local technical experts who have experience in alternative financing for social housing providers. If available, accessing technical expertise can be cost prohibitive for housing providers.

Support and market knowledge: There is no central repository or base of knowledge of existing supports, programs, market need, and the diverse array of service providers.

The City's Capacity and Structure Limits its Opportunity to Respond

Responding to emerging opportunities: In recent years, the City experienced challenges responding to emerging opportunities due to limited internal capacity and expertise, required internal approvals, time constraints, lack of focus on outcome across City departments, and other limitations. For example, undertaking the required due diligence to acquire school sites for potential affordable housing and other complementary uses has proven difficult in the past.

Enhancing existing municipal tools: A range of municipal tools exist and others could be put in place to provide incentives for affordable housing development. However, the City found it difficult to make it a priority to put in place a comprehensive tool kit of incentives, given other competing priorities.

The Opportunity

There are a number of related challenges facing the London and Middlesex communities, but there are also a number of opportunities and a potential to meet the identified need. There are significant resources available in the city: land, housing, financial capital, existing and new incentives, technical expertise, and willing stakeholders. If effectively deployed, these resources could generate tremendous economic and social benefits for the City of London and Middlesex County and their citizens. A housing development corporation could play a pivotal role in capitalizing on the identified opportunities.

Available Supply of Housing and Land in London

Re-sale housing: As a mature city, there is a significant supply of resale housing in London, providing an opportunity for smaller scale acquisitions and renovation of existing stock for affordable rental housing.

Municipal land: There is a supply of land owned or under the regulatory auspices of the City of London that could be developed or re-developed for mixed or affordable housing projects. The supply includes greenfield, brownfield, bluefield (government and institutional), greyfield (vacant commercial and retail lands), as well as public housing and social housing lands that have the potential to be redeveloped and intensified².

Mixed uses: New developments could incorporate mixed tenure, type and use, increasing overall sustainability of the model (with appropriate incentives for developers) throughout London and Middlesex in areas not currently being sought or viewed for their development opportunity.

Maximize community opportunity: There is an opportunity to maximize opportunities presented by existing public/not-for-profit controlled lands. This would require working alongside key community partners such as LMHC, school boards, housing providers, community agencies and the City and County to co-develop surplus properties, land bank, and take on other similar initiatives.

Rehabilitation and Development Opportunities

London & Middlesex Housing Corporation has identified that priority consideration should be given on the long term staged rehabilitation of the over 800 aging family townhouse units in its portfolio. The board recently confirmed its commitment to revitalize its portfolio. Specifically, the board approved the following recommendation: “That a strategic project be undertaken by LMHC, in alignment with the LMHC Strategic Map (2013-2016), to consider the long-term and staged development of LMHC properties, with priority consideration given to family site locations, it being noted that the Executive Director is engaged in preliminary discussions with the Service Manager/Shareholder, given the associated legislative and potential resource requirements.” As such, LMHC staff and Board members have participated in discussions related to how LMHC rehabilitation plans may be linked to the key activities of an HDC.

Social Housing Providers identified that some of their properties are suitable for redevelopment and/or require rehabilitation and that they may be interested in acquiring the services of an HDC to assist them with these activities.

² Brownfields are abandoned or under-used industrial and commercial land, greyfields are older commercial lands such as shopping malls or parking lots, and bluefields are older, unused institutional lands or buildings.

Available Supply of Capital

There is a potential supply of capital in the London community and beyond that could be directed towards sustainable housing.

Local wealth: There are \$40 billion in assets in the community (Investor Economics & Social Finance London). In addition, 37,000 London residents hold assets of \$1 million or more (London Free Press & Social Finance London). There are a number of local institutions with interest and assets invested in the London Community Foundation and the Sisters of St. Joseph.

Local financial institutions: Mainstream players like RBC and TD as well as Libro Financial Group have financial resources, services, and clients/customers with potential interest in housing.

Market activity and alignment: In Canada, there are \$5.3 billion in assets directed towards impact investments: investments that generate both social and/or environmental impact and the potential for financial return. The most significant investments that have been made amongst this pool of assets have been in affordable housing. There is strong interest in affordable housing given its track record, scale, and associated features as a real estate investment opportunity (e.g. easily understood risk-return profile). There are also many potential sources of financing for housing projects, such as Infrastructure Ontario (IO) and the Canadian Alternative Investment Co-operative (CAIC).

Existing and New Tools and Resources

Existing tools: The City of London has various existing tools, levers, and resources at its disposal to support the efficient and effective development of new housing. For example, the City of London:

- **Sets regulations** (e.g. Design Guidelines) and manages the approvals process for new developments
- **Sets development charges and taxes** for new and existing housing
- **Has a standing commitment to affordable housing** with a \$2 million annual allocation
- **Has staff resources with unparalleled knowledge** of the city and decades of expertise in supporting the development of housing.

These tools, levers, and resources could be effectively marshalled at no or limited additional cost to the City. In the right combination, they could reduce the cost of housing development and acquisition and increase London's capacity to develop or acquire more affordable housing units. There is also an opportunity, through the establishment of the HDC, to build expertise and capacity in the housing sector and facilitate succession planning.

Enhanced tools: Other jurisdictions have implemented incentives that could be used in London to further enhance the comprehensive tool kit for affordable housing (e.g. grants in-lieu of planning and building permit fees, property tax grants).

Existing Stakeholder Interest, Expertise, and Involvement

There is a strong, cross-sectoral group of stakeholders with demonstrated interest, expertise, and existing involvement in affordable housing.

Support for an HDC was expressed by the community through the community engagement and consultation process outlined in Appendix 2.

There is strong potential for partnerships with private and non-profit property owners, developers, builders, renovators and property managers; investors and funders (government, foundations); and community organizations. These players have a track record of effective and efficient development and re-development projects in London and beyond. An HDC could take on the role of bringing together these groups in a unified manner to collaboratively solve the affordable housing problem.

London Community Foundation (LCF) and other community based funders have identified affordable housing as one of their priorities. For example, the LCF recently kick-started a social finance fund supporting housing in London. The interest to collaborate with the HDC will need to be explored with potential funders in greater depth in the future.

More Effective Response to Emerging Opportunities

Unlike a municipality, an HDC does not have to rely strictly on property taxes, user fees and licensing charges to raise the financing required to play an active role in housing development. The HDC could, for example, generate revenue through market activity, build capital reserves, and partner with other entities and convert profits into sustainable funding and reinvestment. It can direct profits to future affordable housing and to organizational sustainability. The HDC could act more expeditiously than a municipality on time-sensitive matters and diversify its activities. An HDC could directly develop various forms of housing on its own, partner with local non-profit and private sector developers in development initiatives, and help community partners gain access to surplus municipal lands and available federal and provincial housing programs.

Housing Development has Economic and Social Benefits for the City

Meet the housing supply gap: The HDC could increase the number of affordable housing units constructed or regenerated by about two times more than the status quo (reference the Financial Model section for details). Further, the units created by the HDC would target rents at 70% to 80% of AMR, well below what the private market provides. Rent supplements could be layered on top of the newly created affordable units to ensure affordability for the lowest income levels and for those in greatest need.

Cost effectiveness: Affordable housing is a more cost-effective, healthy, and sustainable option than housing vulnerable London and Middlesex residents in hospitals, nursing homes, prisons, shelters or hostels. By increasing the portfolio of affordable housing, over time, London could save millions of dollars in remedial costs of poverty and re-direct funds to other programs and services.

Employment: For every new home built, approximately 1.2 person years of employment are generated on site, with an additional 1.8 person years generated off site in indirect employment (Pomeroy, 2009).

Growth: According to the Canadian Federation of Municipalities (FCM), every dollar invested in affordable housing generates a \$1.40 increase in GDP. Thus, an additional \$10 million in financing projects could generate roughly \$14 million in local GDP growth.

Leverage: By leveraging government financing with other sources, every dollar invested in affordable housing by government may generate three or four dollars in construction activity due to the additional contributions made by owners and investors in mortgage financing and equity (CHRA, 2009).

The Time is Now

Growth in the affordable housing supply continues to lag behind the demonstrated need. The projected population growth is expected to widen the affordable housing supply gap. Coupled with the need for substantial investments in the maintenance of the existing social housing stock (in particular LMHC's portfolio), the affordable housing situation in the London and Middlesex communities is reaching a critical stage. An adequate supply of affordable housing is vital to the success of the local economy as it provides housing for residents in the community's lower paying service jobs. Housing development activity has the highest multiplier effect in terms of job creation and impact on GDP. Recognizing the importance of an adequate supply of affordable housing, the City of London set an aggressive target to create an additional 1,200 units over the next 10 years.

However, meeting these targets will be a challenge for the London community. There are limited government resources to sustainably finance affordable housing and there are indications that some of these resources will drastically decrease over the next 10 years or so. **The City of London needs to find a new way to sustainably expand the supply of affordable housing. The establishment of a housing development corporation can help achieve this goal.**

An HDC can play a pivotal role in capitalizing on the identified opportunities including available land, housing, financial capital, existing and new incentives, technical expertise, and willing stakeholders. Effectively deployed, these resources can generate tremendous economic and social benefits for the City and its citizens. LMHC has recognized the need to regenerate its portfolio and has endorsed working collaboratively with an HDC.

With a focused mandate on affordable housing development, a structure that allows real-time decision making, a Board of experts in development, and the resulting multiplier effect generating economic and social benefits, the housing development corporation is the best framework to apply existing and new resources to meet the need for affordable housing in the London community.

The next section identifies a business model for the HDC and presents a new and innovative investment vehicle to help fund the affordable housing supply gap.

THE BUSINESS MODEL





The Business Model Canvas

CORE MANDATE

- The HDC stimulates the development and sustainability of affordable housing throughout the London and Middlesex communities.

SUPPORTING MANDATES

- The HDC supports the local need for revitalized and strengthened neighbourhoods, and diverse and inclusive communities.
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Further details on the business model of the HDC can be found in Appendix 3. The key activities form the HDC's goals and strategic directions and are explained in the next section.

What makes the HDC's business model **innovative**?

THE APPROACH

Mandate

There are a number of existing and successful models for housing development corporations in Canada, the United States and around the world which vary from very narrow mandates (Hong Kong Housing Authority) to broad mandates (Boston Redevelopment Authority).

Feedback from the London community consultations is clear: an HDC for the City of London should have a broad mandate focusing on multiple policy objectives. However, its core mandate needs to focus on affordable housing with direct links to the **London Homeless Prevention and Housing Plan**. The Plan's housing vision is that all members of the community have access to housing that is safe, secure, and suitable to their needs and ability to pay. With this vision in mind, the proposed HDC core mandate and supporting mandates are as follows:

CORE MANDATE

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SUPPORTING MANDATES

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- The HDC collaborates with all three sectors (private, non-profit and public) to create and sustain affordable housing and stimulate economic growth.

Goals and Strategic Directions

In support of the HDC's mandate, **two overarching goals** and **four strategic directions** have been identified:

Goal 1: Improve and enhance current programs

The HDC will build upon and improve on the City's range of incentives and access to senior government grants during its initial pilot period of operation which aligns with the renewal of the federal/provincial Investment in Affordable Housing Program (2015-2019).



STRATEGIC DIRECTION #1

Coordinate and leverage the deployment of federal, provincial, and municipal funding



STRATEGIC DIRECTION #2

Enhance and better utilize municipal incentives



STRATEGIC DIRECTION #3

Be a developer of affordable housing and establish revenue-generating activities



STRATEGIC DIRECTION #4

Explore and initiate innovative financing and investment tools

Goal 2: Build new business lines

To ensure the long term sustainability and continued achievement of affordable housing targets, the HDC will develop and test new business lines including being a developer of new housing and the regeneration of the City's public housing stock. The HDC will also investigate innovative financing and investment tools such as the Resilient Communities Fund.

In the following section, specific activities associated with each strategic direction are identified, as well as the roles of the City and HDC and the anticipated impact of the action on the creation of affordable housing.



Goal 1: Improve and Enhance Current Programs

The City will delegate the responsibility for coordinating the administration of federal, provincial and municipal funding to the HDC with the expectation that the HDC will leverage this funding with its other activities to create enhanced opportunities for the creation of affordable housing and rejuvenation of LMHC's housing stock. While some of these grants will be utilized directly by the HDC, a portion of these grants will be made available to the community through a request for proposals (RFP) process. On an ongoing basis, non-profit organizations and private sector companies will be invited to submit proposals for the development of new affordable housing that they will own and operate. Every five years the HDC will submit a business plan to the City outlining the allocation of government funds to be utilized by the HDC and the community.

Start-Up and Entry Point for the HDC

Key Activities

1. Confirm resources, including skills, needed to develop housing
2. Establish a clear and transparent decision-making process for deciding when the HDC develops versus issuing of an RFP for community developments
3. Establish the RFP process and criteria for decision-making on funding allocations
4. Create a detailed inventory of existing government grant programs, including start-up grant for the HDC, and a process for updating the inventory,
5. Work with LMHC and other interested social housing providers to identify regeneration opportunities
6. Establish how the existing reserve fund will be used and allocated
7. Identify a range of in-kind potential leverages (i.e. surplus lands)

Sustainable Operation of the HDC

Key Activities

1. Administer federal and/or provincial affordable housing capital grant programs (i.e. Investment in Affordable Housing) on behalf of the City
2. Identify, secure or inform community partners about funding programs (i.e. CMHC Seed, Program Development Fund)
3. Explore and administer other complementary senior government funding initiatives such as energy efficiency grants, rehabilitation grants, etc.
 - Identify and coordinate with provincial ministries
4. Administer municipal grants, such as housing partnership policy and convert-to-rent or rehabilitation program

Roles

- The City identifies performance measures and outcomes and delegates affordable housing development to the HDC

- The HDC reports back to the City with an assessment of outcomes

Increase in Capacity to Develop Affordable Housing

- This is considered the status quo with potential marginal improvements to outcomes through improved coordination of available government funding and information for community partners
- Based on the financial model identified in a subsequent section of the report, it is estimated that approximately \$45 million in grants will be generated from these activities over the 10 year period (2016-2025) resulting in the **creation of 450 new affordable housing units**



The HDC and City will work collaboratively to identify a comprehensive tool box of existing, enhanced and new incentives for the creation of affordable housing units. The City of London will continue to be responsible for approving municipal incentives. The HDC will promote these incentives and act as a knowledge portal for information regarding these incentives and other available grants and funding opportunities.

Start-Up and Entry Point for the HDC

Key Activities

1. Research and recommend to the City enhanced incentives and new tools for affordable housing, for example:
 - Surplus municipal lands policy
 - City-wide CIP for affordable housing offering a range of incentives (e.g. grants-in-lieu of development charges, planning and building permit fees, property tax grants, and zoning flexibility)
 - Second unit incentive program
2. Establish ongoing process for identifying new tools and incentives
3. Explore a role and approach for the HDC to encourage faith communities to use their surplus lands for housing
4. Compile an inventory of surplus lands (municipal, schools, hospitals, etc.) and confirm interest by owner to provide land for affordable housing

Sustainable Operation of the HDC

Key Activities

1. Promote the comprehensive toolbox of incentives to customers and collaborates of the HDC
2. Develop material which identifies the tools available and how to apply for the incentives
3. Act as a local knowledge portal for market data and available grants, loans, and development supports for affordable housing
4. Identify opportunities to leverage existing municipal assets such as municipally owned land and the public housing stock
5. Act as a “facilitator” that works directly with proponents who are trying to navigate the system, including identifying grants, assisting with permit approval systems, financing, etc.

Roles

- The HDC conducts research and makes recommendations on enhanced and new municipal incentives and tools
- The City considers the HDC's recommendations and works with the HDC to establish the comprehensive tool box of incentives
- The HDC reports back to the City with an assessment of outcomes of the implementation of the enhanced tools and incentives

Increase in Capacity to Develop Affordable Housing

- Should the enhanced and new incentives identified above be approved by the City, it is estimated that approximately \$45 million of grants could be accessed by developers of affordable housing over the 10 year period (2016-2025) resulting in the **creation of 450 new affordable housing units**

Goal 2: Build New Business Lines



The HDC's role in affordable housing development will be strategic, neighbourhood-based where appropriate, and primarily focused on properties owned by the City, other orders of government, and publically funded bodies such as schools, hospitals and joint ventures with community partners. In addition, a number of other profit generating activities will be identified, investigated and undertaken by the HDC to contribute towards the creation of additional affordable housing units and the regeneration of public housing, and where appropriate, other social housing providers.

Start-Up and Entry Point for the HDC

Key Activities

1. Identify potential collaborators, including landowners, developers, organizations that have equity, and develop engagement approach
2. Lead a study on evaluating the public housing stock and identify a short list of eligible sites
3. Explore feasibility of offering revenue-generating services such as:
 - Providing development consultant services
 - Obtaining profits and feeds through land acquisition and disposition
 - Providing market and community information to interested developers, builders, property managers
 - Providing market and community and neighbourhood engagement services for planning approvals
 - Building community capacity through education, training, mentoring
 - Conducting accessibility audits
 - Facilitating support service delivery collaboration in affordable housing

Sustainable Operation of the HDC

Key Activities

1. Be a developer of affordable housing in the community focusing on publically owned properties and joint ventures, although not exclusively
2. Build relationships and broker partnerships with landowners and developers
3. Build relationships and broker partnerships with organizations that may contribute equity to a development
4. Provide development and project management services for the regeneration of properties owned by LMHC and interested co-operatives and non-profits
5. Act as a development facilitator and navigator of municipal departments and funding for the private and not-for-profit sector
6. Work strategically with other government partners to acquire surplus government lands
7. Undertake revenue-generating activities based on demonstrated feasibility

Roles

- The HDC prepares a business plan which outlines its proposed affordable housing development and revenue generating activities in the short and long term
- The City approves and monitors the business plan
- The City identifies municipally owned properties where the services of the HDC are required; an agreement is put in place which outlines the services and associated fees and other terms of the agreement, including the City's expected outcomes

Increase in Capacity to Develop Affordable Housing

- It is estimated that revenue-generating activities, including profit generated through development, could equate to approximately \$10 million over the 10 year period (2016-2025) resulting in the creation of **100 new affordable housing units**.



As part of the review and recommendations put forward in this document, the Consulting Team explored a range of investment and financial tools to extend stability and funding of affordable housing development. This report envisioned a hybrid of integrated financial instruments to support housing development. The “Resilient Communities Fund” (RCF) is a new and innovative investment tool that moves the overall London housing model from a financial receiver to a generator of funding for housing. As noted in the Governance & Corporate Structure section, the RCF may be established as a separate entity from the HDC. The RCF concept is being advanced within the recommendations of this report, however, it will need further testing and refinement as part of the specialized focus and intent of the HDC.

The Resilient Communities Fund is a program that allows real estate investors to act as affordable housing providers. The fund is made up of two components: a **mortgage investment fund** linked to an **affordable housing endowment fund**. The target customer of the Resilient Communities Fund is an investor looking to purchase condominium or townhouse units as investment properties.

The linking of a mortgage product to an endowment fund will fundamentally change the way housing affordability is understood and created. The RCF is designed to avail market-rate units in **any** building/development (not just those designated as affordable properties) to someone in need of affordable housing, generating a market-rate rental stream to the investor without negatively affecting the appreciated value of the property --- a key considerations for the unit owner looking to generate a return on their investment. The investor can also sell the units at any time.

The RCF works by creating a number of incentives for investors to rent to people in need of an affordable housing unit. Non-profit agencies could provide several key incentives, including the pre-qualification and screening of tenants and property management of units on behalf of the property owner. The mortgage product offered by the RCF will be competitive in the marketplace, and involvement by non-profit agencies ensures consistent tenancy and regular rental payments (thereby reducing key risks to the investor).

Affordable housing units created by the RCF are considered a bonus to the units generated through strategic directions 1 to 3. Once established, the RCF has the potential to heighten the sustainability and predictability of funding for affordable housing in the London and Middlesex communities. See Appendix 8 for more information on how the Resilient Communities Fund works.

Start-Up and Entry Point for the HDC

Key Activities

1. Further explore new and innovative funding options, such as the Resilient Communities Fund (RCF), including:
 - Establishing a marketing plan
 - Identifying required services to be provided by the HDC
 - Investigating rent-to-own component
 - Developing an accountability and compliance framework
2. Test the mortgage fund component of the RCF

3. Test the endowment fund of RCF
4. Explore potential role in soliciting financial institutions to provide mortgages

Sustainable Operation of the HDC

Key Activities

1. Once tested, establish and operate the mortgage investment fund, possibly through a separate entity
2. Once tested, establish and operate the affordable endowment fund
3. Explore and initiate other innovative financing and investment tools

Roles

- The HDC prepares a business case for the Resilient Communities Fund for approval of the City, including investigating the need of a separate entity to operate the RCF
- The City reviews and approves the Resilient Communities Fund

Increase in Capacity to Develop Affordable Housing

- This revenue generating activity has the potential to generate \$50 million of revenue over the 10 year period (2016-2025) or about **500 new units of affordable housing**.

Impact of the HDC

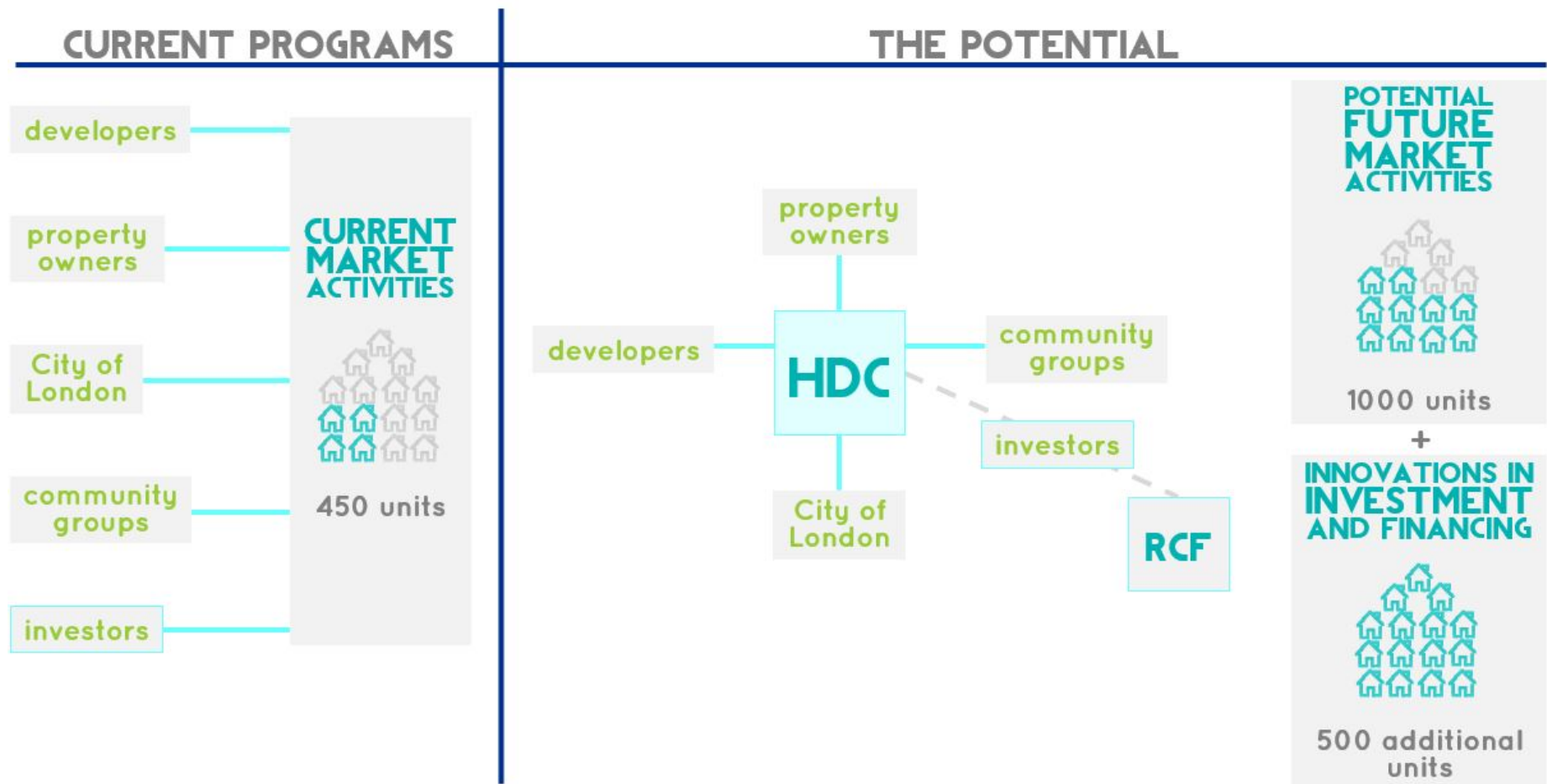
The HDC has the potential to address the affordable housing supply gap by being the catalyst to create and regenerate at least 1000 affordable housing units over the next 10 years. It will work in partnership with the community, enabling collective action to create more jobs, increase investment into the local economy, and house more people.

 = 100 affordable units

THE POTENTIAL (2016-2025)					POTENTIAL SOURCES OF FUNDS
STATUS QUO in London	STRATEGIC DIRECTION #1	Coordinate and Leverage the Deployment of Federal, Provincial, and Municipal Funding	450 units		<ul style="list-style-type: none"> Federal/provincial funding City of London capital grant
	STRATEGIC DIRECTION #2	Enhance and Better Utilized Municipal Incentives	450 units		<ul style="list-style-type: none"> Surplus municipal lands policy CIP for affordable housing Development consulting services Fees for strategically acquiring public land Proceeds from sale of surplus lands Net profit from land acquisition and disposition Profit from large-scale development
	STRATEGIC DIRECTION #3	Be a Developer of Affordable Housing and Establish Revenue-Generating Activities	100 units		
			= 1000 total units		
with the HDC and including the RCF	STRATEGIC DIRECTION #4	Explore and Initiate Innovative Financing and Investment Tools	up to 500 additional units		<ul style="list-style-type: none"> Resilient Communities mortgage fund Resilient Communities endowment fund

How is it Innovative?

The HDC will rejuvenate or build new units more efficiently, and in partnership with the London and Middlesex communities. It will provide a new, flexible, innovative and sustainable approach to fully meet (if not exceed) London's affordability target, one that does so in collaboration with all players in the affordable housing market.



What makes the HDC's business model **sustainable**?

FINANCIAL MODEL

Financial Impact of HDC Activities

The key activities identified for the HDC are estimated to generate about \$100 million of funds for the creation and regeneration of approximately 1000 units of affordable housing over ten years. The financial model included in this report is an indicative model of a range of housing needs that could be met through the activities of the HDC. One of the first tasks of the HDC will be the completion of a thorough review of the key financial assumptions, and the preparation of a financial plan for carrying out its approved activities.

A pro forma was developed to identify the funding gap for the creation or regeneration of a typical affordable rental housing unit in the London community. Rental revenue based on rents set at about 77% of average market rents (one-third at 70% of AMR and two-thirds at 80% of AMR) can support a mortgage equivalent to about 40% of the cost to build an affordable housing unit. The model assumes that 10% of the costs are covered by equity provided by the housing developer. The balance (the funding gap) represents about 50% of the cost to build an affordable housing unit, or about \$100,000. The potential financial impact of the HDC activities are outlined in Appendix 6.

Funding of an Affordable Rental Housing Unit



Operating the HDC

A **preliminary** operating budget has been established for the HDC as outlined below. The purpose of the preliminary operating budget is to demonstrate how the HDC could be sustainable and generate the targeted number of housing units. The estimates will be subject to internal civic administration discussions, including apportioning existing work, identifying new required competencies, etc. One of the first tasks of the HDC is to validate these revenue and expense estimates. The pro forma does not include the transition budget for the period 2014 to 2015. Reference notes 1 and 2 in the table can be found in Appendix 6.

CONCEPT PROFORMA FOR OPERATIONS AND CASH FLOW FOR PERIOD (2016-2020)

INCOME STATEMENT

	2016	2017	2018	2019	2020
REVENUE					
AH Development Program - Administrative Fees	\$69,000	\$103,500	\$138,000	\$172,500	\$207,000
Secondary Suite Incentives - Administrative Fees	\$0	\$6,250	\$12,500	\$18,750	\$25,000
Development Consulting Services	\$107,440	\$161,160	\$214,880	\$268,600	\$322,320
Fee for Strategically acquiring government surplus property	\$2,200	\$3,300	\$4,400	\$5,500	\$6,600
Proceeds from Sale of Surplus Property	\$0	\$0	\$150,000	\$300,000	\$300,000
Net Profit From Land Acquisition & Disposition Activities	\$0	\$0	\$16,500	\$33,000	\$33,000
Profit From Large Scale Development	\$0	\$0	\$0	\$0	\$70,000
Appropriation from Housing Services budget for administration costs	\$190,000	\$193,800	\$197,676	\$201,630	\$205,662
Total Revenue	\$368,640	\$468,010	\$733,956	\$999,980	\$1,169,582
EXPENSES					
Administration (i.e. HR resources, overhead) ¹	\$350,000	\$370,974	\$497,070	\$507,011	\$517,152
External Consultants (e.g. LMHC regeneration, legal, other services)	\$90,000	\$65,000	\$40,000	\$35,000	\$30,000
Total Expenses	\$440,000	\$435,974	\$537,070	\$542,011	\$547,152
Net Income	-\$71,360	\$32,036	\$196,886	\$457,969	\$622,430

POTENTIAL SOURCE/USE OF FUNDS FOR AFFORDABLE HOUSING DEVELOPMENT

Proceeds From Federal/Provincial Affordable Housing Grant	\$1,300,000	\$1,950,000	\$2,600,000	\$3,250,000	\$3,900,000
Proceeds From Municipal Capital Grant	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Proceeds from Incentives from QIP for Affordable Housing ²	\$2,023,500	\$3,035,250	\$4,047,000	\$5,058,750	\$6,070,500
Capital Grant for Affordable Housing Development	-\$3,750,000	-\$5,625,000	-\$7,500,000	-\$9,375,000	-\$11,250,000
Net Cash Flow	\$1,502,140	\$1,392,286	\$1,343,886	\$1,391,719	\$1,342,930
Cumulative Cash Flow - Working Capital	\$1,502,140	\$2,894,426	\$4,238,312	\$5,630,031	\$6,972,961

GOVERNANCE & CORPORATE STRUCTURE

Municipal governments often establish separate arm's length agencies or corporations for activities that involve market-based transactions (similar to those proposed for the HDC) rather than those which focus on public service administration or direct delivery (similar to the system service manager's role in affordable housing). While the decision making process within a public arm's length corporation has similar transparency requirements as the expenditure of public money, once a decision is made, the arm's length corporation can take advantage of a corporate governance structure led by a CEO to execute its decisions in a more efficient way. The municipal authority to set up a business is outlined in Appendix 7.

Keeping this in mind, key objectives of the structure of the HDC were identified by the Consulting Team and validated by the Corporate Resource Committee. These objectives build on the mandate and expected activities of the HDC and are as follows:

Objectives of the Structure of the HDC

- Have the expertise necessary to govern a sophisticated development and financial organization
- Be able to attract money, land, people, and credibility
- Isolate development and financial risk from the City
- Be able to retain earnings as "development equity" to seed projects
- Be capable of decision making on development and financial industry timelines
- Be able to partner and contract with confidence (can withstand some political turbulence)
- Balance accountability, transparency, and value for money
- Be responsive to other City development goals
- Achieve the City's policy objectives with respect to affordable housing
- Not to be engaged directly in construction lending
- Not to take on the role of housing operator

Models

Three general models were identified in consultation with the Corporate Resources Committee and tested against the objectives identified above. The three models examined were:

1. A City department
2. London & Middlesex Housing Corporation (LMHC) as a platform for the HDC
3. Creating a separate entity, under the *Business Corporations Act* (i.e. for profit) or under the *Corporations Act* (Not-for-Profit)

The results of our analyses are included in Appendix 7, as well as the complete report prepared by Consulting Team member Robins Appleby LLP.

Based on key City objectives, the use of a City department and the use of other existing special purpose bodies, including LMHC were eliminated as models as these entities should not take on any development or financial risk. As real estate development is almost always financed with debt, and has its own range of risks, neither of these entities was an appropriate choice. The Consulting Team's recommendation is therefore that the HDC take a corporate form for two principal reasons: first, it allows for risk associated with the HDC's activities to be isolated from the City; and second, it allows the City to tailor the governance and reporting structure to the mission of the HDC.

Business Corporations Act versus Corporations Act (Not for Profit)

The Consulting Team recommends that the HDC be incorporated under the *Business Corporations Act* (Ontario). On balance, the *Business Corporations Act* (the "BCA") is preferred for two principal reasons. Firstly, it provides a known and transparent accountability framework in which the City would act as sole shareholder, appoint a Board of Directors, and set reporting mechanisms. A not-for-profit tends to have a more circular structure in which directors appoint members, and members appoint directors. Secondly, it provides flexibility should the City ever wish to repatriate funds from the HDC to the City through a shareholder dividend. A not-for-profit cannot distribute proceeds to its members.

Most municipal subsidiaries with development mandates identified over the course of the study research are incorporated under the *Business Corporations Act*, including Build Toronto, Toronto Community Housing, and (while not a municipal subsidiary) the Toronto Lands Company which performs a land development function for the Toronto District School Board.

This report does not suggest that a not-for-profit is not a possible option. For example, the Greater Toronto Airport Authority is a not-for-profit. Its board is chosen through a process in which various entities (such as the Board of Trade) pick a certain number of directors.

Income Tax Considerations

The Consulting Team has not considered the tax consequences of incorporating under the different statutes beyond our reading of Section 149(1) of the *Income Tax Act* (Canada) ("ITA"), which states that a municipal corporation and its subsidiaries are exempt from income taxes. As a result, taxation should not be a determining factor. The City of London legal department will need to confirm this view.

Governance

In general, corporations are governed by a Board of Directors. Shareholders meet annually, elect directors, and approve financial statements. Otherwise the directors are mandated by the BCA to make decisions in the best interests of the Corporation. Section 108(3) of the BCA allows a sole shareholder to issue a "Shareholder Declaration" which takes back the powers of the board and vests them in the shareholder. Along with the responsibility, the shareholder assumes the liabilities of the directors in respect to the authorities which are reallocated to the shareholder.

In the absence of a Shareholder Declaration (or unanimous shareholder agreement where there is more than one shareholder), the Corporation may do anything a natural person may do. The Board's only limits are (1) any restrictions in the articles, (2) the by-laws (though directors may amend these), and (3) the directors' obligation to act in the best interests of the Corporation. A municipally owned corporation has some additional limitations, which are outlined in Appendix 7, but these do not impact the analysis.

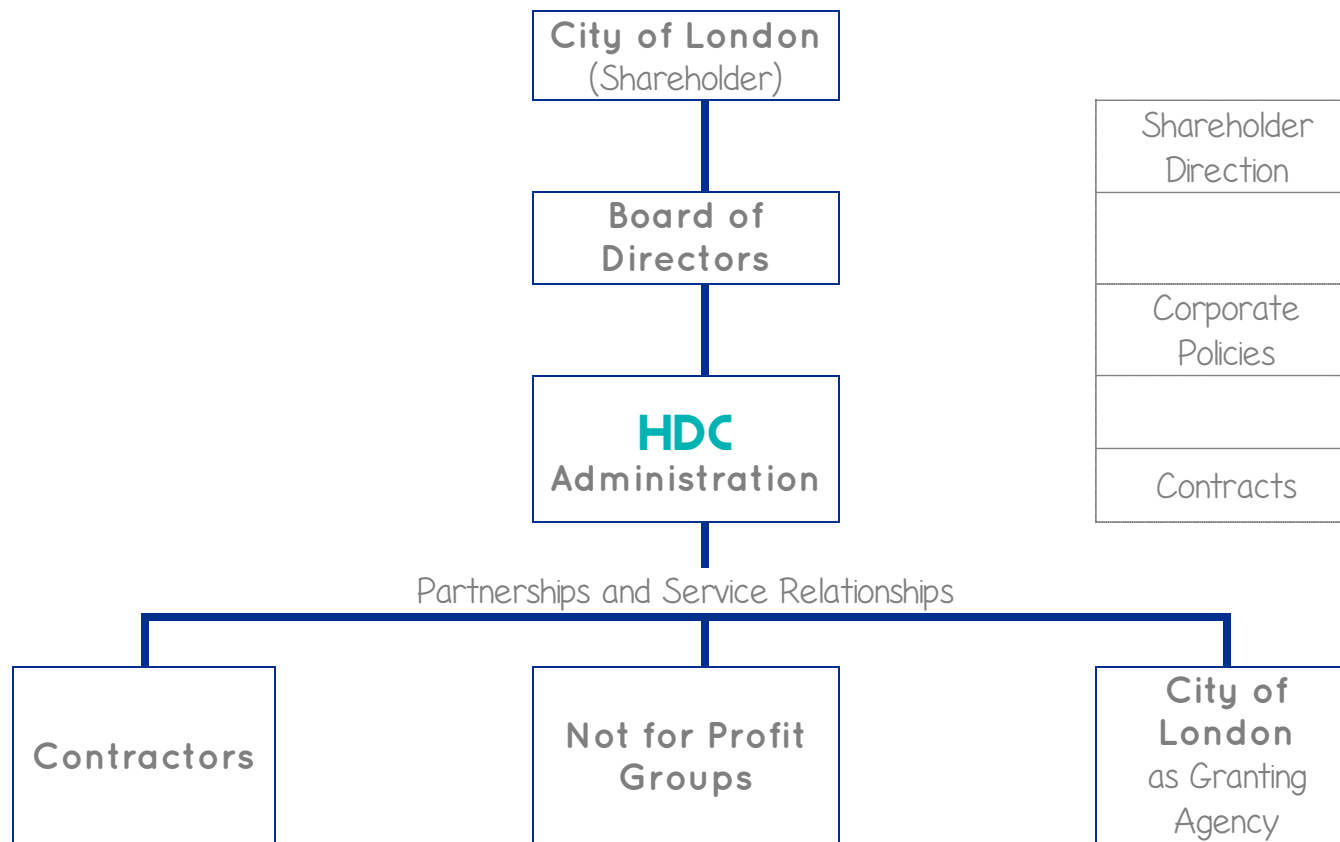
Two governance models for the operation of the HDC have been identified. The first is based on a board governance model, similar to that used by Build Toronto. The second is based on a "Management Committee" structure. Appendix 7 describes both governance models in detail. The Consulting Team is recommending the board governance model as it is better understood and more widely used. It is also supported by the City of London legal department. The following describes the structure and accountability, shareholder direction, and suggested composition of the directors for the board governance model.

Structure and Accountability

The Corporation is set up in a traditional way, but a "Shareholder Direction" from the City of London to the HDC sets out the mandate and powers of the Corporation. This model is used by Build Toronto and Toronto Community Housing. The diagram on the next page illustrates the proposed structure and control mechanisms.

There are two key accountability mechanisms that govern the HDC: firstly, the Shareholder Direction governs the relationship between the Board and the City (as Shareholder), and secondly a set of corporate policies governs the relationship between the Board and the operations staff led by a Chief Executive Officer. The relationship between the HDC and third parties is primarily contractual and some potential contractual relationships are shown in the diagram. In addition, the HDC will function in the community on many non-contractual levels (such as community engagement) but this relationship is not shown in this report.

Housing Development Corporation Structure and Control Mechanisms



Shareholder Direction

The Shareholder Direction could include direction with respect to the following:

- Establish the City's expectations and objectives of the HDC
- Identify the HDC's relationship to City departments engaged in housing and real estate related activities (if desired)
- Set out the board responsibilities, term, compensation and composition
- Define which, if any, decisions require the consent of the City (example: amalgamate with another corporation or sell all of its assets, change the relationship of the HDC to the City)
- Set out the parameters of the HDC's business plan, including performance measures and expected outcomes
- Establish reporting protocols to the City.

In addition to any special measures created in the Shareholder Direction, the HDC would be subject to regular corporate accountability – such as an annual shareholder meeting. Reference Appendix 7 for further explanation of the shareholder direction.

Board Composition

The following is a suggested board composition for the HDC. While this is entirely at the discretion of the City, based on the feedback we have received from the City, the following composition would meet the City's goals.

Number of Directors:7

Composition:

- City Manager or designate
- 6 members of the community

Expertise of Community Members:

- Real estate development
- Real estate finance
- Investment finance
- Planning and Urban Design
- Housing (affordable or social)
- Governance/legal

Once the HDC is established, it is recommended that the shareholder invite the HDC to identify its Board needs, whether in terms of expertise sought or individual candidates for the Board. This process will allow the HDC itself to help inform the City's choices. However, the City will always have the final power to appoint the directors it chooses.

Resilient Communities Fund

The notion of the Resilient Communities Fund emerged from the research and studies conducted in the London HDC business model development process. While recommendations regarding the RCF's corporate structure are beyond the scope of this study, preliminary research suggests that the RCF be set up as a separate entity from the HDC, giving it the capacity to analyze investments independently. This structure would also allow the RCF to offer funding to not-for-profits without conflict. The RCF would not maintain the same relationship to the City as the HDC would. The RCF is not developing property, administering public funds, or receiving public property for development. As a result, the City would not need to be the RCF's shareholder. The development risks of the HDC should not put the fund capital at risk. Rather, only funds placed into an HDC project should be at risk for that project.

Further research and work on the RCF will be required, namely in terms of: functions and services provided, and a review of the regulatory implications of lending to third parties or of being a fiduciary for the purposes of receiving funds for investment. Initial findings indicate that the RCF might benefit from incorporation as a Not-for-Profit Corporation. This concept would need to be revisited for optimal integration with the HDC, as its development continues and implementation process is carried out.

Challenges

Accountability, Transparency and Value for Money

The test for any organization carrying out a public purpose is its ability to be accountable, transparent and deliver value for money. The proposed structure is capable of achieving these ends through its reporting and policy framework. However, in real estate, particularly where partnering is sought, the question becomes *to whom* is the organization transparent and accountable? Corporations are intended to be accountable and transparent to their Board, not necessarily to the public. This is a question of debate as to whether public accountability would impact the ability of the HDC to deliver value for money. The City should consult the industry on this point before setting its policies.

Conflict of Interest

During the study process, concern was expressed that the HDC would replace not-for-profit housing providers. One of the proposed powers of the HDC is that it would assume a grant- or loan-making role. The federal/provincial affordable housing program rules were not reviewed in this respect. However, should the HDC be both the grantor and a potential grantee, there is a conflict of interest. The City may mitigate this by assigning grants in such a manner that a set proportion cannot be used by the HDC, or simply by awarding all capital funding to the HDC. This should be reviewed in the context of the City's own conflict of interest rules.

City as Regulator

Care will need to be taken to ensure that the City's role as regulator is not vested in the HDC. The HDC will have to interface with the City for approvals, as will everyone else. Whether, as a matter of law, the HDC would be an exempt entity for *Planning Act* purposes (that is, it could sever property without consent), was not reviewed. However, in the Consulting Team's view, it should not be so empowered in any event.

CONCLUSIONS & RECOMMENDATIONS

Conclusions

The affordable housing situation in the London and Middlesex communities has reached a critical stage: affordable housing supply lags behind the demonstrated and growing demand and there is an increasing need for significant investment in LMHC's housing stock. The City of London's target to create new affordable housing units over the next 10 years will be a challenge for the community to meet, especially given the limited and decreasing government resources available to finance affordable housing. The City needs to find a new way to sustainably add to the supply of affordable housing. The establishment of a housing development corporation can help achieve this goal.

An HDC can play a pivotal role in capitalizing on the identified opportunities including available land, financial capital, existing and new incentives, technical expertise, and willing stakeholders. Effectively deployed, these resources can generate tremendous economic and social benefits for the City of London and Middlesex County and their citizens. London & Middlesex Housing Corporation has recognized the need to regenerate its portfolio and has endorsed working collaboratively with an HDC.

With a focused mandate on affordable housing development, a structure that allows real time decision making, a Board of experts in development, and the resulting multiplier effect for economic and social benefits, the housing development corporation is the best framework to apply existing and new resources to meet the need for affordable housing in the City of London and Middlesex County.

The business model for the HDC was developed with the primary goal to give the City a vehicle to directly achieve key local goals and objectives, including contributing to the achievement of outcomes of the City of London's **Homeless Prevention and Housing Plan** (2013). The resulting core and supporting mandates of the HDC are congruent with these municipal objectives. Specific objectives that will be met through the housing development corporation range from developing new affordable units to enhancing system capacity to creating mixed income neighbourhoods, including secondary suites.

Recommendations

Based on the findings outlined in this report, the Consulting Team offers the following recommendations to the City of London:

Corporate Structure and Governance

The Consulting Team's 11 recommendations establish the corporate structure and governance of the housing development corporation as an independently incorporated entity positioned to work with the London and Middlesex communities, and all orders of government to advance the City's affordable housing goals and objectives in a sustainable way.

1. Approve the establishment of a housing development corporation for the City of London.
2. Incorporate the housing development corporation under the *Business Corporations Act* with the City of London as the sole shareholder.
3. Put in place a "Shareholder Direction" from the City of London to the housing development corporation setting out its mandate and powers. The Shareholder Direction may include the following: the City's expectations and objectives of the housing development corporation; Board responsibilities, term, compensation and composition, reporting protocols to the City, decisions requiring the consent of the City, requirement to submit an annual business plan and the parameters of the plan, and the HDC's relationship to City departments.

Core and Supporting Mandates

The following recommendation supports the community's clear feedback that the HDC needs to have a broad mandate focusing on multiple policy objectives, with affordable housing as its essential focus.

4. Adopt the following core and supporting mandates for the housing development corporation:

CORE MANDATE

- The HDC stimulates the development and sustainability of affordable housing throughout the London and Middlesex communities.

SUPPORTING MANDATES

- The HDC supports the local need for revitalized and strengthened neighbourhoods, and diverse and inclusive communities.
- The HDC collaborates with all three sectors (private, non-profit and public) to create and sustain affordable housing and stimulate economic growth.

Goals and Strategic Directions

The recommended goals and strategic directions for the HDC support its core and supporting mandates. Specific targets and outcomes for the HDC will need to be identified at the outset and incorporated in the shareholder direction and/or business plan.

5. Adopt the following overarching goals and strategic directions for the housing development corporation:

Goal 1: Improve and enhance current programs

The HDC will build upon and improve on the City's range of incentives and access to senior government grants during its initial pilot period of operation which aligns with the renewal of the federal/provincial Investment in Affordable Housing Program (2015-2019).

STRATEGIC DIRECTION #1

Coordinate and leverage the deployment of federal, provincial and municipal funding

STRATEGIC DIRECTION #2

Enhance and better utilize municipal incentives

Goal 2: Build new business lines

To ensure the long term sustainability and continued achievement of affordable housing targets, the HDC will develop and test new business lines including being a developer of new housing and the regeneration of the City's public housing stock. The HDC will also investigate innovative financing and investment tools such as the Resilient Communities Fund.

STRATEGIC DIRECTION #3

Be a developer of affordable housing and establish revenue-generating activities

STRATEGIC DIRECTION #4

Explore and initiate innovative financing and investment tools

Key Activities of the Housing Development Corporation

A range of potential key activities of the HDC, related to the creation of new affordable housing units and the rehabilitation of the public housing stock, are identified in this report.

6. Direct the housing development corporation to thoroughly review the proposed key activities outlined in this document and report back to the City with its short and long term plan for meeting the approved goals and directions.
7. Direct the housing development corporation to partner with the City of London and the London & Middlesex Housing Corporation (LMHC) regarding redevelopment opportunities.

Financial Model

A financial model is proposed in this document for the ongoing sustainability of the HDC and its goal of addressing the City's affordable housing needs.

8. Direct the housing development corporation to thoroughly review the proposed financial model for the operation of the housing development corporation, and the plan for sustainable funding and financing of affordable housing development and regeneration.

Implementation Plan

The approval of the preceding recommendations is critical for establishing the housing development corporation framework which will ultimately help the London and Middlesex communities achieve the City's goals and objectives as identified in its Homeless Prevention and Housing Plan (2014). An equally important next step is to put in place an implementation plan for moving forward.

9. Put in place an implementation team to continue the work started through the HDC business case process to ensure that the HDC is operational by December 31, 2015. It will be the implementation team's responsibility to develop a detailed work plan, including tasks, timelines, and costs to carry out the work. These tasks will include the following actions related to establishing the HDC:
 - Prepare and obtain letters patent, including required bylaws
 - Prepare and execute the shareholder direction
 - Delegate Service Manager authority as required
 - Recruit board members and staff
 - Other start-up activities as appropriate
10. Direct the housing development corporation to prepare a business plan for the period 2016 to 2020 (and in five year increments thereafter). The plan will include details on how the HDC will proportionately allocate available government funds to the housing development corporation and community partners. It will also include a detailed statement of pro-forma operations and anticipated cash flow and any plans related to specific initiatives requiring shareholder approval.
11. Direct the HDC to further explore, define, and assess the feasibility of the Resilient Communities Fund including identifying the structure of the fund, services to be provided by the HDC, accountability, and compliance framework.

APPENDICES

Appendix 1: Project Approach

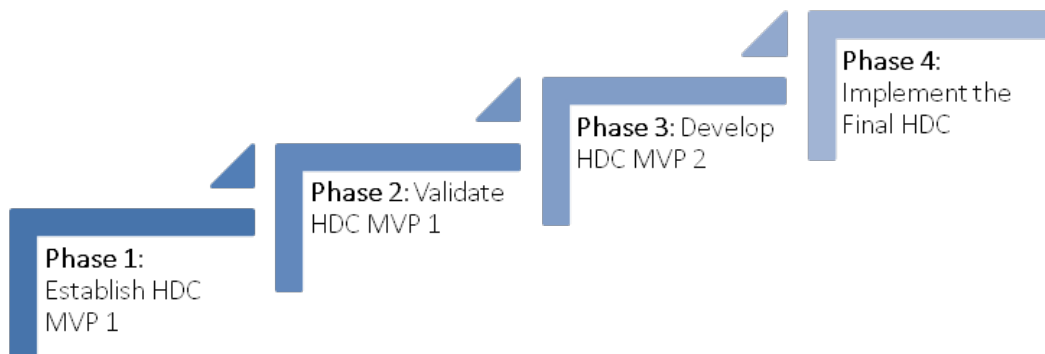
Project Approach

Project Goal

The overall goal of the project is to conduct research into best practices, document the related local environment and establish the business case and implementable work plan supporting a new housing development corporation. The intended HDC would consolidate the necessary tools and services to advance housing development within Council's policies and interests, inclusive of affordable housing.

Methodology and Work Plan

The Consulting Team formulated an approach for carrying out the work consisting of **four Project Phases**:



During Phase 1, the Consulting Team conducted research of pertinent case studies of housing development corporations in other jurisdictions, potential development tools and mechanisms at the local level, and innovative financing mechanisms. The research led the team to establish the HDC's first pass "minimum viable product", or business model, which briefly identified the possible value proposition, key activities, key partners, resources, channels, customer segments, revenue streams, and cost structure of the HDC.

The Consulting Team then expanded on "MVP 1" based on feedback received in Phase 2 from internal and external advisors and City staff to produce a more detailed "MVP 2" (Phase 3). Further research into legislative rules and tools, innovative funding models, and private and public sector opportunities and constraints for housing development also helped build the MVP model. This interim report released in November 2013 represented the culmination of this work and was presented to the Council Housing Leadership Committee on November 18, 2013. During the balance of Phase 3, the Consulting Team prepared the business case for the HDC was developed based on the information presented in the interim report and additional research and feedback received through the community engagement process.

The next phase of work would involve developing a detailed **implementation plan** for the creation of the housing development corporation. It is recommended that an HDC implementation team be established to lead the Phase 4 work.

An internal and external advisory committee provided valuable feedback in the development of the Consulting Team’s business case and model for London’s proposed housing development corporation. The advisors attended one or more discussion sessions, and corresponded with the Consulting Team to fine-tune this report. The Committee consisted of the following industry experts in real estate development, finance, housing policy, social enterprise, and impact investing:

- **Ted Anderson**, MaRS Centre of Impact Investing
- **Andy Broderick**, VanCity
- **Hanita Braun**, Verdiroc Developments
- **Sean Holt**, Purpose Capital
- **Stewart Hardacre**, SAH Consulting
- **Josh Kaufman**, Dundee Realty Corporation
- **Stewart Pearson**, Strategic Mortgage
- **Ed Starr**, SHS Consulting

Appendix 2: Community Engagement and Consultation

Community Engagement and Consultation

Over the course of the development of the HDC's business case, various tactics were employed to engage and consult with the local community. The engagement and consultation activities are summarized in the table below.

KEY FEEDBACK RECEIVED FROM THE COMMUNITY

Strong Sentiment of Market Need for an HDC

- Strong sentiment in the London community on market need for an HDC
 - Survey results revealed that 80% of respondents agreed, with 52% of respondents strongly agreeing

Interest in Being a Customer and/or Resource of HDC

- 33% of survey respondents indicated that they would be a customer and/or resource of the HDC

Support for Proposed Mandate

- Positive support for the proposed core and supportive HDC mandates
 - Survey results revealed that 89% agreed or strongly agreed, with 37% of respondents strongly agreeing
- Positive support for the stated value proposition of the HDC
 - Survey results revealed that 78% agreed or strongly agreed with the core business model

Need for Differentiation and Added Value

There was a clear need amongst the community to demonstrate how the HDC would be different from other actors in the housing market, complementing existing actors and filling market gaps. The HDC should not duplicate the work of existing enterprises or City programs. The business case must also demonstrate how the HDC would add value to the marketplace by more effectively developing a greater volume of affordable housing.





High Level of Engagement in Housing and Affordable Housing

Community members and organizations have a strong interest in housing and affordable housing in London. Accordingly, they were universally interested in the potential work of the HDC in affordable housing acquisition and development. Stakeholders wanted an opportunity to provide input and feedback on a regular basis so they could be engaged in the development process.

Strong Interest in Collaboration to Support HDC Development

Many leading community organizations stated an interest in collaborating with the City to support the development and operations of the HDC. Stakeholders have tremendous assets and expertise that could be brought to bear. For example, a number of stakeholders indicated an interest in helping to identify market opportunities, as well as reviewing potential projects and financial models.

OVERVIEW OF COMMUNITY ENGAGEMENT ACTIVITIES

 Project Status Updates	SHS Consulting and City of London staff participated in weekly or bi-weekly project status update meetings to share information on City of London relevant happenings, community engagement, research and MVP development activities, and work progress.
 Corporate Resource Committee	The Consulting Team met with the Corporate Resource Committee of City staff from various departments to update them on project progress and get their input into the business model. Meeting dates took place on August 28, 2013, October 16, 2013, December 13, 2013, January 20, 2014, February 14, 2014, March 21, 2014, and April 28, 2014.
 Key Stakeholder Interviews and Consultations	Interviews were conducted with key stakeholders representing the London Chamber of Commerce, the London Community Foundation, London Home Builder's Association, Old East Village BIA, Urban League, London Development Institute (LDI), and Pillar Non-Profit Network.
 Council Housing Leadership Committee	The Consulting Team attended the City of London's Council Housing Leadership Committee meetings on September 23, 2013, November 18, 2013, April 3, 2014, and May 12, 2014.



Webinars

An informative webinar was offered to London staff and key stakeholders on September 27, 2013, featuring speakers from Enterprise and BRIDGE Housing. A second webinar took place on November 4, 2013, featuring speakers from Ottawa Housing Corporation, Centretown Citizens Ottawa Corporation, and District of Cochrane Social Services Administration Board.



Community Roundtable Discussion

The Consulting Team participated in a Community Roundtable Discussion on September 23, 2013 hosted by the CMHC and the City of London. The event was attended by key local stakeholders and provided an opportunity for the Consulting Team to present project progress, feature other housing development corporation models, and brainstorm on business model ideas for the proposed HDC.



National Housing Day and Stakeholder Survey

National Housing Day events took place on November 18, 2014 in the City of London. The HDC project team presented project progress to the community, received feedback, and answered questions. Following the National Housing Day presentation, key stakeholders were asked to complete a brief survey on their overall satisfaction with the draft business model, the clarity of the need and opportunity, their support of the mandate and value proposition, and their level of interest in the potential HDC activities identified in the interim report.



Focused Discussion with Key Stakeholders

The Consulting Team held a key stakeholder consultation session with select number of organizations that will be directly impacted by the activities of the HDC. The consultation session took place on April 14, 2014 and involved facilitated discussions on specific aspects of the draft business case and proposed implementation. Approximately 40 community leaders attended, representing the non-profit and private sectors, developer partners, academia, and the municipality.

Appendix 3: The Business Model Canvas in Detail

CORE MANDATE

- The HDC stimulates the development and sustainability of affordable housing throughout London and Middlesex communities.

SUPPORTING MANDATES

- The HDC supports the local need for revitalized and strengthened neighbourhoods, and diverse and inclusive communities.
- The HDC collaborates with all three sectors (private, non-profit and public) to create and sustain affordable housing and stimulate economic growth.



VALUE PROPOSITION

A core concept underpinning a business model is the need for an exchange of value. The HDC must offer value to its customers, known as the **value proposition**, and those customers provide value back to the HDC. This transaction is referred to as a **two-way exchange of value**.

Every value proposition the HDC offers should be tailored to the specific customer group it wishes to serve. One of the primary customer groups for the HDC is the City of London itself. For the City of London, the HDC's value proposition is that it is the **optimal vehicle to directly achieve the City of London's affordable housing goals and to increase the City's capacity to develop affordable housing**. As such, the role of the HDC will extend beyond the City's role as land use regulator and as system service manager responsible for housing and homelessness.

Optimal Vehicle to Achieve City's Goals

An HDC provides the City the ability to bridge the gap between what can be built today, and what the City needs built to achieve and/or exceed its affordable housing targets. The City could direct an HDC to focus on specific goals or initiatives that could help clean up and redevelop brownfields, provide infill housing, support downtown revitalization, create skills training opportunities, and contribute to other such municipal initiatives. An HDC will complement what the community is already doing and improve collaboration opportunities for private, non-profit and public sectors to create and sustain affordable housing in London. An HDC provides a new, flexible and innovative approach to fully meet (if not exceed) London's affordability target, one that does so in collaboration with all actors in the affordable housing market.

An HDC could facilitate a number of improved outcomes, efficiencies and other capacities of the current model of housing development as outlined below.

Planning and Development Objectives

Advancing Official Plan Interests and Directions: While advancing the City's official plan policies is driven by governing local policies, private market interests, and generally larger development opportunities, an HDC could advance developments outside market interests. These might include mixed-density or mixed-form developments within existing communities.

Focus on Affordable Housing in all Communities: An HDC can have more influence on where affordable housing is located, thereby meeting the City's objective to locate affordable housing in all communities. Affordable housing interests can be pursued by the HDC either independently or within mixed use (e.g. commercial and residential) projects.

Project Planning and Development: Project planning and scheduling is based on funding schedules and program parameters. An HDC can generate sufficient and sustained development and support ongoing internal specialized professional project and development roles.

Sustainable Funding Objectives

Investment: An HDC can create an investment conduit for investors seeking social and financial returns. It can also generate profit that can be invested in affordable housing development.

Debt and Financial Recoveries: An HDC may take on debt separate from the City based on conventional lending measures. It can engage in shorter and longer term agreements while still incorporating government funding initiatives. An HDC may obtain more favourable terms in risk and profit sharing arrangements with the private sector than a municipality. Separate financial liability of the corporation from the municipality may reduce liability and risk exposure.

Revenue Generation: The HDC would have the capacity to develop sustainable revenue generation and capture value and benefits through profit making activities such as mixed-use developments. The HDC can leverage the assets from its housing developments within the HDC mandate. The HDC would still to rely on funding from all orders of government, but it would also benefit from other funding sources associated with its key activities. The HDC model can foster the certainty needed to attract private sector investment and funding outside of government program funding time periods.

Local Economic Factors: An HDC could create sustained and strategic collaborations to link its operations to training and development opportunities with trades groups and organizations.

Land Tools

Acquisition and Sale: As a revenue generator, an HDC could have a component specific to fair market value land sale and acquisition.

Land Assessment and Pre-Approval: An HDC can work with prospective developers earlier in process and work with other orders of government to establish mutual agreements on land acquisition and sales within their portfolios. For example, an HDC could begin strategic investigation of potential disposal of school board sites prior to notice of disposition. As such, a more tactical approach to land development could be implemented.

Environment and Community Impact: An HDC can work with developers and builders on new environmental design elements that include use of brownfields, institutional lands, and infill.

Governance and Operating Tools

Risk Management: The arms' length HDC can isolate development risk away from the City through the creation of an independent Board of Directors with some municipal representation.

Business Development: The core business of the HDC is development, so it is more likely to be seen as a centre of expertise and can more easily establish a track record of delivery.

Board Expertise: An HDC can attract professionals willing to sit on its board and committees who have the focussed experience necessary to govern a development company. While likely to be more formal than private developers, the HDC will not be making development decisions as simply one piece of City business, but as the central part of its mandate.

Decision Making: Decision making is streamlined and focused. Once a budget is set, authority to make adjustments is delegated to the HDC's expert staff. There is no need to go back for municipal approvals, increasing the pace of the City's response to investors/developers. The HDC will have a governance structure that includes approvals to proceed, but the nature of the board and committees allows for quick meetings and informed decisions.

Strategic Direction: The HDC would be nimble and have the ability to change direction or increase the scale of implementation quickly by being able to commission additional resources quickly.



THE CUSTOMER

Like any corporation, an HDC will need to clearly define its customer base and the needs and pain points that these customers experience. A key focus of the HDC will therefore be to offer a clearly defined set of value propositions to each of its customers and receive value (in the form of both revenue and social outcomes) in return.

Potential Customer Groups for the HDC

City of London: The City could direct land, funding and financing instruments, tools, and incentives to the HDC. The HDC would leverage these mechanisms to help meet the City's affordable housing targets, revitalize and strengthen diverse and inclusive communities, and stimulate economic growth. These arrangements could be established within the context of the HDC's governance model and within its service agreement with the City.

Property Owners: A two-way exchange could take place with private, public and not-for-profit land owners interested in doing business with the HDC or entities interested in becoming property owners. It could also include owners of older buildings interested in rehabilitation or redevelopment of their site with a view to incorporate some affordable housing and/or revitalize and strengthen the neighbourhood. Alternatively, it could be owners of older buildings or land that are interested in selling their property to the HDC for a profit and/or public good.

Private Developers: This could include private developers and builders interested in participating in the development of affordable housing, mixed use developments and other development initiatives undertaken by the HDC.

Non-Profit Community Organizations: This could include housing providers interested in building and/or managing affordable housing, housing providers with expiring housing agreements interested in redevelopment or other potential initiatives, faith groups, First Nations, social services, community health sector, and other community based organizations. These organizations might be attracted to a number of the key activities the HDC undertakes from technical advice on a range of development options, including rationalization of their housing stock, to a turnkey approach to redevelopment.

Investors: These customers could include businesses and individuals interested in investing in property owned by the HDC or innovative financial products and services. They include both mainstream financial institutions and social finance intermediaries and funders (e.g. local foundations), as well as private individuals interested in generating both financial and social (i.e. "blended") returns. The HDC offers these customers a mechanism that increases the attractiveness of affordable housing as a viable investment opportunity.

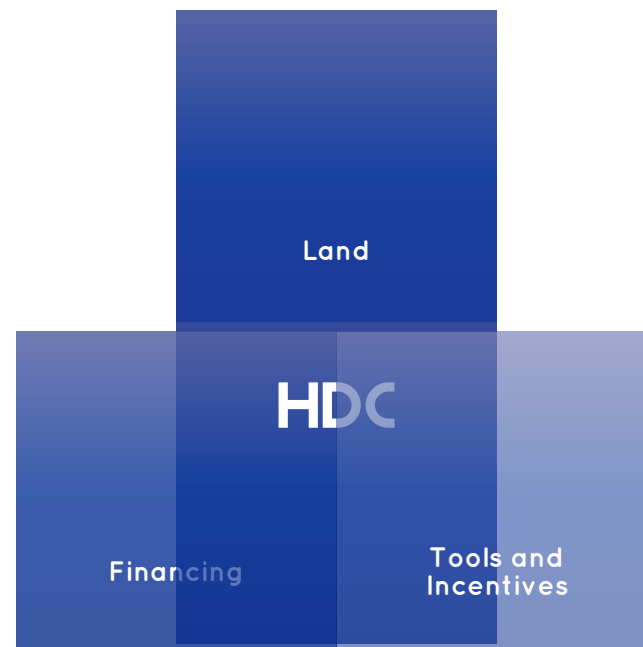
London and Middlesex Residents: All residents of London and Middlesex are potential customers of the HDC. In particular, individuals and families in need of housing, especially low and moderate income earners are key customers as the HDC provides or facilitates the development of affordable and market housing, both rental and ownership housing. Residents may also be directly involved in employment opportunities generated by the HDC through its development activities.

KEY ACTIVITIES

The preliminary research identified three interconnected pillars that underpin the real estate industry (and by extension, the housing and affordable housing sectors). The first pillar, **land**, refers to the quality and starting value of the physical land asset to be developed. **Financing**, the second pillar, represents the investment needed to turn the land into a productive/profitable asset (rental property, retail/commercial property, etc.). The third, **tools and incentives**, represent the initiatives offered by a government authority to the asset owner which allow or help the development of the land to proceed.

All housing developments are dependent on the interplay between the three pillars of land, financing and tools/incentives. The design consideration that emerged from this finding therefore centres on the degree to which the HDC's business model integrates one, two or all three of these pillars. In addition to these three pillars, stakeholder consultations highlighted a strong desire to have the HDC act as a community advisor or broker, complementing and supporting the work of those already working in the development sector.

With these pillars in mind, the HDC may be involved in a range of activities related to land, financing and tools and incentives. Keeping the three pillars in mind, the activities of the HDC have been identified as shown in the following table.



Key Activities	Land	Financing	Tools & Incentives
Goal 1: Improve and enhance current programs			
STRATEGIC DIRECTION #1: Coordinate and leverage the deployment of federal, provincial, and municipal funds			
1. Administer federal/provincial affordable housing capital grant programs (i.e. Investment in Affordable Housing) on behalf of the City		✓	
2. Identify, secure or inform community partners about funding programs (i.e. CMHC Seed, Program Development Fund)		✓	
3. Explore and administer other complementary senior government funding initiatives such as energy efficient grants, rehabilitation grants, etc.		✓	
4. Administer municipal grants, such as housing partnership policy and convert-to-rent or rehabilitation program		✓	
STRATEGIC DIRECTION #2: Enhance and better utilize municipal incentives			
1. Promote the comprehensive toolbox of incentives to customers and collaborates of the HDC			✓
2. Act as a local knowledge portal for market data and available grants, loans, and development supports for affordable housing	✓	✓	✓
3. Identify opportunities to leverage existing municipal assets such as municipally owned land and the public housing stock		✓	✓
4. Act as a “facilitator” that works directly with proponents who are trying to navigate the system, including identifying grants, assisting with permit approval systems, financing, etc.		✓	✓

Key Activities	Land	Financing	Tools & Incentives
Goal 2: Build new business lines			
STRATEGIC DIRECTION #3: Be a developer of affordable housing and establish other revenue generating activities			
1. Be a developer of affordable housing in the City of London focusing on publically owned properties and joint ventures, although not exclusively		✓	
2. Build relationships and broker partnerships with landowners and developers			
3. Build relationships and broker partnerships with organizations that may contribute equity to a development		✓	
4. Provide development and project management services for the regeneration of LMHC properties and interested co-operatives and non-profits		✓	
5. Act as a development facilitator or conduit/navigator of municipal departments and funding for the private and not-for-profit sector		✓	
6. Work strategically with other government partners to acquire surplus government lands	✓		
7. Undertake revenue-generating activities based on demonstrated feasibility		✓	
STRATEGIC DIRECTION #4: Build the Resilient Communities Fund			
1. Once tested, establish and operate the mortgage investment fund, possibly through a separate entity		✓	
2. Once tested, establish and operate the affordable endowment fund		✓	
3. Explore and initiate other innovative financing and investment tools		✓	



COLLABORATORS

The community consultation identified a range of possible collaborator types. These collaborators may be involved at multiple stages of the development process:

- Private realtors, developers, builders and others involved in the development industry: May be involved in acquisition and disposition of land, (re)development and operation of the properties, and contribute equity
- Not-for-profit developers and property managers: Non-profit developers and housing corporations may be involved in (re)development and operation of the properties and contribute equity

- **Financial institutions and credit unions:** Includes both mainstream financial institutions and social finance intermediaries and funders (e.g. local foundations) to provide or foster the provision of financial products or equity investments
- **Government:** Federal, provincial and municipal governments could provide funding, surplus land, incentives, and provide or foster the provision of financial products
- **Employment and Training Providers:** Local skills development and employment support providers, trades colleges, and apprenticeship programs could be directly involved through alliances with developers and builders.
- **Other community players and thought leaders:** Includes the academic community, labour unions, health community, who may be involved in areas such as research, contributions/donations, or the provision of services to residents

Appendix 4: Best Practices in Housing Development Models

There are many existing and successful models for housing development corporations in Canada, the United States, and around the world that help inform London's interests. The mandates of HDCs in other jurisdictions vary, though typically fall within a range from narrow to broad, as illustrated in the image on the following page. The following provides an overview of some examples of the mandates and scope of activities of other HDCs.



BC Housing

Mandate

- To fulfill the government's commitment to the development, management and administration of subsidized housing

Key Partners

- Canada Mortgage and Housing Corporation (CMHC)
- Non-profit societies

Scope of Activity

- **Concept Phase:** Affordable non-profit rental housing and affordable homeownership; self-sustaining affordable housing; identify low to moderate income households
- **Pre-Development Phase:** Form relationships with non-profit societies and private lenders for equity contribution
- **Construction Phase:** Develop affordable housing through construction or purchase and renovation of existing buildings; Community Partnership Initiative- Interim construction financing (up to 100%) and/or long term financing at a competitive interest rate; units priced at or below 90% of fair market value
- **Operations Phase:** No ongoing subsidies or grants to make housing self-sustaining; sale proceeds are used to pay down interim construction loans; simple Affordability and 2nd Mortgage arrangements; take out financing has inexpensive loan insurance, preserving housing availability

BRIDGE Housing Development Corporation

Mandate

- To strengthen communities by developing, owning and managing high-quality, affordable homes for working families and seniors

Key Partners

- State of California
- Local municipalities where development is taking place
- Private and organizational partners

Scope of Activity

- **Concept Phase:** Create affordable housing to strengthen communities; offer programs for social growth to become a financial intermediary and allow for efficient access to capital
- **Pre-Development Phase:** Form partnerships with private and organizational donors

- **Construction Phase:** Affordable housing construction financed by major donors; variety of housing developments to serve different needs (family, senior, supportive, assisted living, 1st time ownership)
- **Operations Phase:** Asset management (portfolio management, capital market, regulatory compliance, financial and insurance; housing developments paired with on-site social services)

Boston Redevelopment Authority

Mandate

- An urban planning and economic development agency for the City of Boston
- To guide social, physical, and economic developments in Boston

Key Partners

- City of Boston
- Local community
- Development and construction industry partners

Scope of Activity

- **Concept Phase**
 - Preserves, develops, and revitalizes neighbourhoods
 - Develops affordable housing, market-rate residential dwellings, and mixed-use projects
 - Creates live-work environments, especially for artists and small businesses
- **Construction Phase**
 - Ongoing building maintenance
 - Preserves existing historic buildings
- **Operations Phase**
 - Provides industry expertise and economic development strategies

City of Calgary

The City of Calgary has established three corporations which are involved in various aspects of affordable housing: Calgary Housing Corporation, Calgary Municipal Lands Corporation and Calgary Homes Corporation/Attainable Homes Calgary Corporation. Their mandates, key partners and activities are summarized below.

CALGARY HOUSING CORPORATION

Mandate

- To ensure the availability of safe affordable housing in the City of Calgary
- To develop, provide, operate, and maintain non-profit housing and accommodation in the City of Calgary

Key Partners

- City of Calgary Land Servicing and Housing Division
- Development and property management community
- Calgary City Council

Scope of Activity

- Operates and manages over 10,000 subsidized and affordable housing units
- Offers a variety of housing options for low-income households, including duplexes, townhouses, and high-rise apartments
- Community building
- Service coordination

CALGARY MUNICIPAL LANDS CORPORATION

Mandate

- To lead in the rejuvenation of specific Calgary districts
- To bring back to life some of the city's fading neighbourhoods

Key Partners

- City of Calgary
- Calgary Public Library
- Calgary Police Service
- Bow Valley College
- Urban Campus Group

Scope of Activity

- Consulting and coordination
- Land sale and acquisition for revitalization and reuse
- Coordination of all activities required to execute public infrastructure projects, including utility installation, road construction, park development, public art, environmental remediation, municipal facility relocation, and affordable housing

CALGARY HOMES CORPORATION ATTAINABLE HOMES CALGARY CORPORATION

Mandate

- To address the housing affordability gap
- Home ownership solutions for moderate-income Calgarians
- To create value-driven developments using innovative financing solutions with partners and communities
- Providing quality entry-level homes and attainable prices

Key Partners

- Truman Homes
- Lexington Development Management Inc.
- Partners Development Group
- Cidex Developments

Scope of Activity

- Created 1,000 housing units for eligible, working Calgarians living in market rental or subsidized housing accommodations
- Catalyst for other public and private-sector development to meet the need of 3,750 units of home ownership identified in Calgary's 10-Year Plan to End Homelessness
- Creating vacancies in the current supply of subsidized housing

Cochrane District Local Housing Corporation

Mandate

- The CDLHC is involved in any activities related to the creation of affordable housing and/or the generation of funds to be invested for the creation of affordable housing

Key Partners

- Non-profit groups
- Co-operative housing providers
- Cochrane District Housing Services
- Local municipalities, including the City of Timmins
- Ministry of Municipal Affairs and Housing
- Local lenders

- School boards
- Timmins 20/20 Housing Committee

Scope of Activity

- **Concept**
 - Administers the Social Housing Reform Act (2000) for non-profits and co-operative housing providers
 - Developing housing stock solutions
 - Moving the 10-year Housing and Homelessness Plan forward
- **Construction**
 - Building market and affordable ownership housing
 - Building market and affordable rental and transitional housing
- **Operations**
 - Manages 1289 units and 106 rent-supplement units in Cochrane District
 - Protection and maintenance of current assets

Edmonton Capital Region Housing Corporation (CRHC)

Mandate

- Through a continuum of housing options, to empower families of modest means to become more independent and improve their quality of life neighbourhoods

Key Partners

- YMCA of Northern Alberta
- Pembina Housing Authority
- Greater Edmonton Foundation
- Boyle Renaissance Development Association

Scope of Activity

- **Pre-Development Phase:** Maintain an affordable housing portfolio, develop new housing and redevelop existing properties
- **Construction Phase:** Rental units with rents 10-20% below market price
- **Operations Phase:** Leases affordable housing buildings to agencies that provide supportive housing services; portfolio consists of 23 sites, 33 buildings and over 400 rentable housing units; 6 of the buildings currently leased to partner community agencies

Enterprise Housing Development Corporation

Mandate

- To create opportunity for low- and moderate- income people through affordable housing in diverse thriving communities

Key Partners

- Local non-profits
- Local community and housing developers
- Private investors

Scope of Activity

- **Concept Phase:** Mobilize capital to meet critical financing needs of affordable housing and community developers; varying projects in different areas of the U.S. based on local needs
- **Pre-Development Phase:** Build relationships with developers, investors, government and community-based non-profits; research communities in need of support and their local challenges
- **Construction Phase:** Preserve and create of affordable housing across the country; In 2011, Enterprise helped create or preserve 16,800 homes while investing \$2.4 billion in communities across the U.S
- **Operations Phase:** Offer expertise and financing to governments and non-profit housing providers through programs and services; low income housing tax credit, community loan funds, new markets tax credit, home development and consulting, grants

Hong Kong Housing Authority

Mandate

- Statutory body established to develop and implement Hong Kong's public housing program to help low-income families gain access to affordable housing

Key Partners

- Government of Hong Kong
- Contractors, suppliers, and service providers
- Collaborations with the Hong Kong business community

Scope of Activity

- **Concept Phase**
 - Provide a portal for citizens to apply for public rental housing

- Evaluate eligibility for public housing
- Provide a rent assistance scheme
- **Pre-Development Phase**
 - Create plans for public housing developments
 - Determine the financial feasibility of projects (Finance Committee)
- **Construction Phase**
 - Build affordable housing developments
 - Oversee construction (Building Committee)
- **Operations Phase**
 - Manage and maintains public housing units, including rental housing estates, interim housing estates
 - Manage and maintains transit centres
 - Own and operate other factories and commercial non-domestic facilities
 - Assist business owners in finding shops and stalls for lease
 - Assist business owners in finding tender notices

Manitoba Housing

Mandate

- Providing a wide array of affordable and subsidized rental housing options for individuals, seniors, and families who are living on low to moderate income

Key Partners

- Community partners
- Non-profit housing co-operatives
- Private and non-profit landlords
- Property management agencies
- Urban native non-profit organizations

Scope of Activity

- **Concept**
 - Produce the Manitoba Housing and Community Development “Strong Communities: An Action Plan” report
 - Provide program application guides for residents eligible for programs such as the co-operative housing program, private non-profit housing program, rent supplement program, and sponsor-managed social housing
- **Operations**
 - Offer a housing repair program

New York City Housing Development Corporation

Mandate

- To increase the supply of multi-family housing, stimulate economic growth and revitalize neighbourhoods by financing the creation and preservation of affordable housing for low, moderate, and middle-income New Yorkers

Key Partners

- Residential Mortgage Insurance Corporation (REMIC)
- Housing Assistance Corporation (HAC)
- New York City's Department of Housing Preservation and Development (HPD)
- Property developers and managers

Scope of Activity

- **Concept Phase:** Increase and finance the creation and preservation of affordable housing
- **Pre-Development Phase:** Build relationships with property developers/managers; implementation of the New Housing Marketplace Plan (NHMP).
- **Construction Phase:** Issue "Capital Fund Grant Program Revenue Bonds" ; sells variable or fixed rate tax-exempt private activity bonds; 50/30/20 Program; 20% of the apartments in a multi-family rental building are restricted for low-income tenants, 30% are reserved
- **Operations Phase:** Rent out affordable housing units at 20-30% below market rate; LAMP (Low Income Affordable Marketplace Program) funding packages which include 2 mortgages

Nova Scotia Housing Development Corporation

Mandate

- To improve the health, diversity and sustainability of affordable, public and social housing

Key Partners

- Community Services and Department of Health
- Qualified agencies/developers for housing
- Local housing authorities

Scope of Activity

- **Concept Phase:** Develop mixed market housing and mixed-tenure communities

- **Pre-Development Phase:** Form partnerships with public or private sector developers, social enterprises and landlords; grants for private and non-profit housing developments, to include smaller and modest, affordable homes in their plans; acquiring and disposing real estate).
- **Construction Phase:** Provide mortgage guarantees and loans to qualifying housing projects; agencies given preferred interest rates for long term periods than private lenders; financing to qualified agencies to purchase, lease or upgrade housing facilities.
- **Operational Phase:** Rental subsidies paid to landlords or cooperative/non-profit housing project based on how much tenant can afford

Ottawa Community Lands Development Corporation (OCLDC)

Mandate

- To promote responsible and innovative developments that enhance the City's ability to respond to changing market demands and further the City's public policy objectives by building strong neighbourhoods

Key Partners

- Real estate partners
- Development Office

Scope of Activity

- **Concept Phase:** Focus on the due diligence and transfer processes in order to acquire these assets
- **Pre-Development Phase:** Refine approach for the transfer of land; pre-plan and implement development strategies for lands; determine 'surplus' land to be transferred to the OCLDC; continue zoning amendments necessary to position sites for marketing
- **Construction Phase:** Land acquisition from the City of Ottawa; professional consulting services to prepare land for development
- **Operations Phase:** Revenue from the sale of land wrote off legacy costs through real estate profits; opportunities for small homebuilders

Wood Buffalo Housing Development Corporation

Mandate

- To provide affordable housing and related services to senior citizens and low and middle-income individuals and families

Key Partners

- Canada Mortgage and Housing Corporation (CHMC)
- Regional Municipality of Wood Buffalo
- Fort McMurray Public School District
- Fort McMurray Catholic School District
- Northern Lights Health Region

- Fort McMurray RCMP Detachment
- Public sector employees

Scope of Activity

- **Concept Phase:** Identify moderate income individuals/ families looking to buy/rent first home
- **Pre-Development Phase:** Land acquisition and development; co-invest with public sector to create housing for public sector workers (Public Sector Partnership Program); create partnerships with employers to provide affordable housing for essential workers
- **Construction Phase:** Sell lots to small business owners who wish to build, sell or lease a home to an employee; HDC develops and sells industrial property. Uses proceeds of this sale to build new affordable housing
- **Operations Phase:** Rent out affordable housing units at 20-30% below market rate 0% interest 2nd mortgages to homeowners. (25% equity increase at sale); home mortgage program where rental rate is based on income

Appendix 5: Overview of Municipal Tools and Incentives

The ongoing role of the HDC will be to work with the City of London civic administration to determine the most appropriate opportunities and impact related to the use of these potential municipal tools and incentives as new development opportunities arise.

Research on best practices from other jurisdictions revealed that there is a range of municipal tools and incentives used to support housing development, inclusive of affordable housing, including municipal financial policies, zoning policies, development charge policies, land acquisition and land sale/disposal policies and other relevant tools and approaches. Municipalities in Ontario have a number of important levers that allow them to use various tools to promote affordable housing:

STATUTE	POTENTIAL IMPACT
Planning Act <ul style="list-style-type: none"> Community Improvement Areas 	Part IV of the Planning Act provides a municipality with additional authority where it has designated a particular area to be subject to a Community Improvement Plan. The section permits the municipality to make grants and loans for eligible costs, which include remediation, construction and development.
Municipal Act <ul style="list-style-type: none"> Tax Financing 	Section 365.1 of the Municipal Act allows a municipality to cancel or defer taxes on eligible properties within a Community Improvement Plan in order to assist in the rehabilitation and remediation of such a property.
Municipal Act <ul style="list-style-type: none"> Municipal Capital Facilities 	Section 110 of the Municipal Act allows the Municipality to offer certain concessions to Municipal Capital Facilities. Ontario Regulation 603/06 provides that housing facilities are municipal capital facilities provided the municipality has passed a Municipal Capital Facilities By-Law, which includes a definition of “affordable housing”. Among the concessions expressly permitted by the Act: <ul style="list-style-type: none"> Relief from Property Taxes Relief from Development Charges. Guaranteeing debt Leasing or selling land
Housing Services Act	The Housing Services Act focuses on the operation and management of social housing. The HDC will not be a “Local Housing Corporation” under Part IV of the Act since it was not incorporated for the purpose of operating Housing. The Housing Service Act will impact the HDC in the context of any redevelopment of land owned by a housing provider or “Local Housing Corporation” (in this case, the London and Middlesex Housing Corporation. In that case, approvals for sale and redevelopment will be required. In the event that social housing units are demolished, they will have to be replaced and built to unit standards.

Grants and Incentives Currently Provided by City of London

On the whole, the City of London uses the main tools available to it, offering:

- Grants and loans for affordable housing developments to create deeper levels of affordability
- Grants to reduce property taxes in specific areas of the City and for affordable housing projects
- Rebates for development charges in specific areas of the City
- Sale of surplus municipal land on an ad hoc basis

Incentives currently offered by the City that could be applied to affordable housing developments, either throughout the city or in specific areas, are listed below. The estimated contribution that these incentives could provide to new affordable housing development, as a percentage of capital costs, has also been noted based on the pro forma prepared for the financial model described in Appendix 6.

INCENTIVE	ESTIMATED CONTRIBUTION (as a percentage of capital costs)	QUALIFIERS TO THE ESTIMATES
Development Charge Rebate under the Downtown or Old East Village Community Improvement Project Areas	Approximately 8%	
Downtown Rehabilitation and Redevelopment (Tax) Grant Program	Up to 4%	Depends on which level the property qualifies for
Bonusing	Likely less than 5% and may be much less	Amount depends on number of affordable units and number of additional units resulting from the bonusing
Innovative Design and Servicing Standards	Likely less than 5% and may be much less	Will vary depending on the concessions
Facade Improvement Loan Program	Less than 1%	Assuming 10 or more units in development
Upgrade to Building Code Loan Program	Less than 1%	Assuming 10 or more units in development
Priority in Approval Processes	Less than 1%	
Brownfield Incentives Program	Less than 6.5%, impact may be 0% after factoring in clean-up costs	Will work towards offsetting the additional costs of brownfield cleanup, overall costs of development after incentives may be more or less than the a clean property
Surplus Municipal Lands	Less than 6%, and 0% if provided a fair market value	Up to 6% if provided at no charge

Best Practices from Other Jurisdictions

There may be opportunities for the City of London to expand the use of its tools, or improve the terms of the tools, if it so chooses to provide greater contributions for affordable housing. For example, it could expand the provision of rebates for development charges and/or grants for increases in taxes to affordable housing developments in all areas of the city. It could also extend the period for which it offers grants related to increases in taxes. Another option is to make it a practice to collect development charge monies for social and affordable housing. The following are examples of best practices in affordable housing incentives.

- **Alternative Development Standards/Community Design Solutions:** Flexible design, planning, and engineering standards that can reduce the cost of housing, while ensuring public health and safety (e.g. smaller setbacks, narrower lots, reduced road allowances and requirements for on-street parking, etc.); reduces the infrastructure and land area required for a dwelling unit (e.g. Town of Markham's Cornell Development; City of Mississauga).
- **Bluefields, Brownfields, and Greyfields:** Intensifying and redeveloping land by developing brownfields (abandoned or under-used industrial and commercial land), greyfields (older commercial lands such as shopping malls or parking lots), and bluefields (older, unused institutional lands or buildings) (e.g. Municipality of Chatham-Kent, City of Mississauga).
- **Community Land Trusts:** (e.g. Burlington Land Trust) locally-based private non-profit organizations created to acquire and hold land for the specific purpose of making it available for affordable housing (they hold permanent title to land for the benefit of the community).
- **Development Charges, Grants:** Municipalities often impose development charges on new housing developments to pay for increased infrastructure and related costs resulting from residential growth, increasing the cost to construct new housing. Provision of grants to eliminate or reduce development charges for specified forms of affordable housing can be an incentive to attract affordable housing investment (e.g. Region of York, City of Toronto, and City of Saskatoon).
- **Development Permit System:** The Development Permit System can integrate zoning, site plan, and minor variance approvals into one application and improvement process; help to significantly improve review and approval timelines; provide more certainty and cost savings through early community participation, upfront development rules and, once the system is in place, eliminate third party appeals to the Ontario Municipal Board; provides a more flexible approval process whereby municipalities can incorporate a specified range of variation for development standards (e.g. Town of Carleton Place & Township of Lake of Bays).
- **Land Banking:** Acquisition of land by a municipality prior to expanding urbanization (before land values increase); the municipality could reserve that land for a use that it deemed best in meeting the objectives of the municipality (e.g. City of Saskatoon).
- **Land Supply Incentives:** Some municipalities make land available at reduced costs to stimulate development of rental, affordable, and ownership housing supply (e.g. City of Regina, City of Saskatoon).

- **Leveraging Philanthropic Contributions:** To leverage philanthropic contributions for development (e.g. Calgary Homelessness Foundation's Bob Ward Residence; Centretown Citizens Ottawa Corporation's Beaver Barracks).
- **Multi-Unit Acquisition Strategies:** Stella's Circle in St. John's Newfoundland acquired seven houses through the Surplus Federal Real Property for Homelessness Initiative and then mortgaged these properties to purchase other properties.
- **Parkland Dedication, Grants:** Municipalities can tailor their parkland dedication and cash-in-lieu requirements to facilitate the development of affordable housing (e.g. by providing a reduction in parkland requirements in specific geographic areas (downtown/transit nodes) to help reduce the cost of affordable housing developments (e.g. City of Orillia).
- **Planning and Building Permit Fee, Grants:** Some municipalities in Ontario waive or provide grants-in-lieu of planning and building permit fees as incentives for affordable housing development (e.g. City of Toronto).
- **Prohibiting Downzoning:** Prohibit the reduction of density allowed for a certain property under zoning bylaws (such as: downzoning from high to medium density) (e.g. City of Ottawa).
- **Property Tax Reductions:** Impose lower municipal tax rates on new multi-residential buildings is an extremely effective way of reducing the costs of affordable housing (e.g. Cities of Toronto, Ottawa, Kingston, Guelph, Hamilton, Orillia, Sudbury, and Timmins, Town of Parry Sound, Region of Waterloo).
- **Refinancing of Social Housing:** To leverage the equity in existing assets to fund capital repairs or to construct new developments (e.g. Ottawa Community Housing's "Blend and Extend").
- **Second Unit Incentive Program:** Some municipalities in Ontario (e.g. Guelph, Waterloo) provide grants to upgrade second units to ensure they are safe. This is an effective way to increase the supply of affordable rental units in a community by building on existing infrastructure.
- **Social Impact Bonds and Community Bonds:** A bond bought by investors who are interested in both a social and financial return; the investment capital is used to fund service providers (usually non-profit organizations) and the return on the bonds depends on how successful the project is and is paid out by the government based on what they save due to the project or program (e.g. Regent Park, Toronto Community Housing Corporation); Elm Centre, YWCA Toronto)).
- **Surplus Government Lands Policy for Affordable Housing:** Where surplus land is to be used for housing purposes first, namely those owned by all levels of government (e.g. City of Saskatoon, City of Pembroke). The City of Ottawa is looking to update the policy in order to transfer 100% revenue from specific residential properties to development of new affordable housing.

Appendix 6: Financial Model Assumptions

There are three components to our financial model:

1. Pro Forma identifying the funding gap for the creation or regeneration of an affordable rental unit
2. Concept Pro Forma of Operations and Cash Flow for the first five years of operation
3. Overall model assumptions

The assumptions on these three components of our financial model are described below.

Assumptions: Pro Forma Which Identifies the Funding Gap

- Capital cost to build one unit of affordable housing is estimated to be \$148,000/unit (after PST and GST rebates)
- Based on a blended costs that takes into account new builds and rehabilitation of existing stock
- Based on a blend of one (80%) and two bedroom (20%) units
- Based on rents at 70% (1/3) to 80% (2/3) of average market rent
- The rental stream will support a mortgage of about \$48,000
- Therefore, there is a funding gap of about \$100,000/unit

Assumptions: Concept Pro Forma of Operations and Cash Flow

Note 1: Administration Cost Assumptions

- Existing senior housing staff will carry out duties in first two years of operation
- Existing arrangement with Development Consultant will continue
- Hiring a new Financial Analyst partway through first year of operation
- Hiring a new office manager in the third year of operation
- Existing affordable housing administration costs for first two years of operation
- Incorporation will take place in 2015
- Series of studies will be required for HDC readiness
- External legal services excludes specific affordable housing projects, the RCF, etc.
- Contingency represents rounding

Note 2: Proceeds of Incentives From CIP for Affordable Housing

- It should be noted that there is a potential requirement for the City of London to provide funding for these proceeds to be realized. A business case will be prepared by City of London staff and source of financing identified for policy changes required to enhance existing incentives or add new ones. The business case will require Council approval.

Overall Model Assumptions

- For every \$100,000 generated or saved, one (1) affordable housing unit can be created or renovated
- Affordable housing target goals are as follows:
 - 500 units in first five years with 400 new units created and 100 units regenerated
 - 500 units in second five years with 300 new units created and 200 units regenerated

COORDINATE AND LEVERAGE THE DEPLOYMENT OF FEDERAL, PROVINCIAL AND MUNICIPAL FUNDS

- Federal/Provincial capital grant funding anticipated to be \$26 million over the 10 year period
- Municipal grant funding is anticipated to be \$20 million over the 10 year period
- Administration fee for the HDC is set at 3% and equates to \$1.390 million over the 10 year period

ENHANCE AND BETTER UTILIZE MUNICIPAL INCENTIVES

- Savings to affordable housing development from implementing a surplus municipal lands policy for affordable units is estimated to be \$3.3 million in the first five years and \$3.85 million in the second 10 years based on estimated land value of \$11,000 per unit and assuming about 50% of all new affordable housing units and all the public housing regeneration units will utilize surplus lands
- City-Wide Community Improvement Plan (CIP) for Affordable Housing could offer a range of incentives, some of which are currently offered in specific locations such as the Downtown or Old East Village:
 - Capital grants related to development charges for all affordable housing are estimated to be \$4.2 million in the first five years and \$3.15 million in the second five years and would only apply to newly created units based on blended charges of \$10,500 per unit
 - Capital grants for planning and building permit fees for all affordable housing both new and regenerated are estimated to be about \$0.27 million in the first five years and \$0.27 million in the second five years based on per unit fees of about \$535
 - A property tax grant for affordable housing units has an estimated net present value of \$17,500 per unit. The impact of this incentive is estimated to be \$8.78 million in the first five years and \$8.78 million in the second five years

- A second unit incentive program of \$25,000 per affordable unit would mean that one unit of affordable housing could be produced at 25% of the estimated \$100,000 per unit, thereby reducing the cost to create an affordable housing unit by \$3.75 million in the first year (50 units created) and \$7.5 million in the second year (100 units created)
- Administration fee for the HDC for the second unit program only is set at 5% and equates to about \$62,500 in the first five years and \$125,000 in the second five years of operation

Be a Developer of Affordable Housing and Establish Revenue Generating Activities

- Estimated fees associated with development consulting/project management/technical services are estimated to be \$1.074 million in the first five years and \$1.2 million in the second five years of operation based on a fee of approximately 2% of capital costs, assuming fees could be secured from about 60% of new builds and all regenerated LMHC units
- Fees for strategically acquiring government surplus properties are estimated to be \$22,000 in the first five years of operation and \$44,000 in the second five years of operation based on an estimated fee of \$220 per unit (2% of \$11,000) for 300 units
- Proceeds from sale of surplus/residential properties is estimated to generate \$.75 million in the first five years and \$1.5 million in second five years based on sale price of \$30,000 per single detached unit with 25 units sold in first five years and 50 units sold in second five year
- Net proceeds for land acquisition and disposition activities is estimated to be \$82,500 in the first five years and \$165,000 in the second five years of operation based on an appreciated value of \$3,300 per unit and 25 and 50 units acquired and sold in each five year period respectively
- Estimated surpluses/profits from large scale developments are estimated to be \$.7 million in the first five years based on the development of a \$7 million project and \$3.5 million in the second year based on a large development of \$35 million. Development consulting fees of 2% and profits of 8% are assumed

Explore and Initiate Innovative Financing and Investment Tools

- To ensure the long term sustainability and continued achievement of affordable housing targets, the HDC will investigate innovative financing and investment tools such as the Resilient Communities Fund
- For details on how the Resilient Communities Fund works, see Appendix 8

Appendix 7: HDC Structuring Considerations and Recommendations

The following sets out the rationale and recommendations for structuring the proposed London Housing Development Corporation. This paper was prepared by Robins Appleby LLP in consultation with the other Consulting Team members and with input with City of London Legal and Housing Division staff.

This Memorandum sets out our recommendations for structuring the London Housing Development Corporation (HDC). We are recommending the establishment of a subsidiary corporation of the City of London, incorporated under the *Business Corporations Act* (Ontario). The structure is capable of achieving the mandate of the HDC and meeting the governance objectives of the City of London.

Mandate of the HDC

To stimulate the development and sustainability of affordable housing throughout London and Middlesex communities. The activities of the HDC may include:

- Development of excess land owned by the City of London
- Administering certain grants and loans
- Co-developing property
- Providing consulting services to other affordable housing developers

Objectives of the Structure of the HDC

City representatives have identified the following objectives for the structure:

- Have the expertise necessary to govern a sophisticated development and financial organization
- Be able to attract money, land, people, and credibility
- Isolate development and financial risk from the City
- Be able to retain earnings as “development equity” to seed projects
- Capable of decision making on development and financial industry timelines
- Able to partner and contract with confidence (can withstand some political turbulence)

- Balance of accountability, transparency, and value for money
- Be responsive to other City development goals
- Achieve City's policy objectives with respect to affordable housing
- Not to take on role as housing operator
- London & Middlesex Housing Corporation (LMHC) will not take on development and will remain a housing operator
- Not to be engaged directly in development or construction lending

Structural Options and Recommendations

We have canvassed several general models with the Corporate Resources Committee and tested them against the objectives articulated by the Committee. The three models we canvassed were: (1) A City department; (2) using the London & Middlesex Housing Corporation (LMHC) as a platform form the HDC and (3) creating a separate entity, under the *Business Corporations Act* (i.e. for profit) or under the *Corporations Act* (Not-for-Profit). We set out these options when we met with the City in December, 2013. We have included the results of our analyses in table form in Schedule A to this memo.

Based on key City objectives, we were able to eliminate the use of a City department and the LMHC. Essentially, there is no appetite to have either of these entities take on any development or financial risk. As real estate development is almost always financed with debt, and has its own universe of risks, neither of these entities was an appropriate choice.

Our recommendation is therefore that the HDC take a corporate form for two principal reasons: it allows for risk associated with the HDC's activities to be alienated from the City; and it allows the City to tailor the governance and reporting structure to the mission of the HDC.

Business Corporations Act versus *Corporations Act* (Not for Profit)

We are recommending that the HDC be incorporated under the *Business Corporations Act* (Ontario). We have included a chart comparing incorporation under the two Acts. On balance, we prefer the *Business Corporations Act* for two principal reasons. Firstly, it provides a known and transparent accountability framework in which the City would act as sole shareholder, appoint a board, and set reporting mechanisms. A not for profit tends to have a more circular structure in which directors appoint members, and members appoint directors. Secondly, it provides flexibility should the City ever wish to repatriate funds from the HDC to the City through a shareholder dividend. A not for profit cannot distribute proceeds to its members.

Most municipal subsidiaries we have found in the course of our research are incorporated under the *Business Corporations Act*, including Build Toronto, Toronto Community Housing, and (while not a municipal subsidiary) the Toronto Lands Company which performs a land development function for the Toronto District School Board.

To be clear, this is not to say that a not for profit is not a possible option. For example, the Greater Toronto Airport Authority is a Not for Profit. Its board is chosen through a process in which certain entities (such as the Board of Trade) pick a certain number of directors.

Income Tax Considerations

We have not considered the tax consequences of incorporating under the different statutes beyond our reading of Section 149(1) of the *Income Tax Act* (Canada) ("ITA"), which states that a municipal corporation and its subsidiaries are exempt from income taxes. As a result, taxation should not be a determining factor. We have asked the City of London legal department to confirm this view. If a full opinion is sought on this point, please let us know.

Recommendation: in summary, we recommend that the HDC be incorporated under the *Business Corporations Act* (Ontario).

Governance

We have set out two governance models for the operation of the HDC. The first is based on a board governance model, similar to that used by Build Toronto. The second is based on a "Management Committee" structure. Before describing the two models, we have set out some basic principles of corporate governance under the *Business Corporations Act* (the "BCA"), which impact the two models.

Business Corporations Act and Governance

In general, corporations are governed by a Board of Directors. Shareholders meet annually, elect directors, and approve financial statements. Otherwise the directors are mandated by the BCA to make decisions in the best interests of the Corporation. Section 108(3) of the BCA allows a sole shareholder to issue a "Shareholder Declaration" which takes back the powers of the board and vests them in the shareholder. Along with the responsibility, the shareholder assumes the liabilities of the directors in respect to the authorities which are reallocated to the shareholder.

Absent a Shareholder Declaration (or unanimous shareholder agreement where there is more than one shareholder), the Corporation may do anything a natural person may do. The board's only limits are (1) any restrictions in the articles, (2) the by-laws (though directors may amend these), and (3) the directors' obligation to act in the best interests of the Corporation. A municipally owned corporation has some additional limitations, which we discuss below, but these do not impact our analysis.

BOARD GOVERNANCE MODEL

Structure and Accountability

The first model is a board governance model constrained by a "Shareholder Direction". This model used by Build Toronto and Toronto Community Housing. The Corporation is set up in a traditional way, but a "Shareholder Direction" from the City to the HDC sets out the mandate and powers of the Corporation (see below for more detail).

We have attached a diagram of the structure and control mechanisms as Schedule C to this memorandum. There are two key accountability mechanisms that govern the HDC: Firstly, the Shareholder Direction governs the relationship between the board and the City (as Shareholder), and secondly a set of

corporate policies governs the relationship between the board and the operations staff led by a Chief Executive Officer. The relationship between the HDC and third parties is primarily contractual and we have shown some potential contractual relationships. Of course, the HDC will function in the community on many non-contractual levels (such as community engagement) but we have not shown this relationship for the purposes of this memo.

Shareholder Direction

The Shareholder Direction could include direction with respect to the following:

- Establish the City's expectations and objectives of the HDC
- Identify the HDC's relationship to City departments engaged in housing and real estate related activities (if desired)
- Set out the board responsibilities, term, compensation and composition
- Define which, if any, decisions require the consent of the City (example: Amalgamate with another corporation or sell all of its assets, change the relationship of the HDC to the City)
- Set out the parameters of the HDC's business plan
- Establish reporting protocols to the City

In addition to any special measures created in the Shareholder Direction, the HDC would be subject to regular corporate accountability – such as an annual shareholder meeting.

Directors

We have been asked to provide some suggestions relating to board composition. While this is entirely at the discretion of the City, based on the feedback we have received from the City, the following expertise of the board of directors would meet the City's goals.

Expertise of Directors

- Real estate development
- Real estate finance
- Planning and Urban Design
- Housing (affordable or social)
- Governance

Once the HDC is established, we recommend the shareholder invite the HDC to identify its board needs, whether in terms of expertise sought or individual candidates for the board. This process will allow the HDC itself to help inform the City's choices. However, the City will always have the final power to appoint the directors it chooses.

Like all corporate directors, except to the extent of direction responsibilities are allocated to the shareholder, the HDC directors will have personal director liability. This includes liability for source deductions, contamination, and certain other matters. This memorandum does not go into detail on the extent of director liability. However, it is reasonable to expect that any director will want to be indemnified by the City of London and will insist on a Director's and Officer's insurance policy.

Comments

The Shareholder Direction goes considerably farther than a true Shareholder Declaration by providing positive guidance to the corporation. A true Shareholder Declaration simply transfers certain authority from the board to the shareholder. The relevance of this distinction is that forced to choose between a course of action that is mandated in the Shareholder Direction and one that the directors feel is in the best interest of the Corporation, they **must** choose the latter. The Shareholder Direction is not a binding instrument as a matter of corporate law.

While it is important to bring this matter to the surface, it is mitigated by the fact that the Shareholder Direction itself will help determine the best interests of the corporation. In addition directors may be replaced by the Shareholder in the event the Shareholder is dissatisfied with their performance or direction. Though the Shareholder Direction itself may not be "enforceable" in the legal sense, practically speaking, it would be exceptional for the Corporation not to abide by it. We are not aware of any instance where a Shareholder Direction has been challenged in the courts.

THE MANAGEMENT COMMITTEE MODEL

Structure and Accountability

The Management Committee Model also establishes a separate corporation to manage the affairs of the HDC. However, it uses a true Shareholder Declaration to remove all the powers of the board and vest them entirely in the Shareholder – the City of London. The City, in turn, delegates management responsibility to a "management committee" to which the Corporation, through its CEO would report.

While there is still a board of directors in this model, it is a formality. Management authority resides in the management committee which has delegated authority to make the same decisions as board of directors. However, director liability remains with the shareholder.

In some ways the two models are similar:

- They are both governed by the same individuals. In one case convened as a board and in the other as a management committee
- The City as shareholder benefits by isolating management and financial risk (legally) in the HDC, except to the extent of director liability. It is important to note that this is the case in both models, as we expect the City to have to indemnify the directors
- There are still corporate policies which govern the relationship between the board/management committee and the CEO, and guide the CEO in the execution of his or her duties

There are key differences:

- Director liability is vested in the Shareholder. The management committee has no personal directors' liability
- Unlike the Shareholder Direction, the terms of reference for the management committee are enforceable
- The City would need to establish the terms of reference in such a way that that it cannot interfere with the work of the management committee, in a similar way to the creation of an Ombudsman's office

Comments

The greatest advantage of the committee model is the ability to recruit members without personal liability. While a recruiting advantage, the separation of liability from management is risk that is borne by the City and the terms of reference would have to consider what decisions require City consent.

We are not aware of an organization with a similar mandate that have used this model. We understand that the City presently uses board model for its other subsidiaries. The City's familiarity with this model will make it the easier of the two models to implement.

CHALLENGES

Accountability, Transparency and Value for Money

The test for any organization carrying out a public purpose is its ability to be accountable, transparent and deliver value for money. The structure we are proposing is capable of achieving these ends through its reporting and policy framework.

However, in real estate, particularly where partnering is sought, the question becomes to whom is the organization transparent and accountable? Corporations are intended to be accountable and transparent to their board, not necessarily to the public. It is a question of debate as to whether public accountability would impact the ability of the HDC to deliver value for money. The City should consult the industry on this point before setting its policies.

Conflict of Interest

During the course of our work, concern was expressed that the HDC would replace not for profit housing providers. One of the proposed powers of the HDC is that it assumes a grant or loan making role. We have not reviewed the IAH program rules in this respect. However, should the HDC be both the grantor and a potential grantee, there is a conflict of interest. The City may mitigate this by assigning grants in such a manner that a set proportion cannot be used by the HDC, or by simply awarding all capital funding to the HDC. This should be reviewed in the context of the City's own conflict of interest rules.

City as Regulator

Care will need to be taken to ensure that the City's role as regulator is not vested in the HDC. The HDC will have to interface with the City for approvals as will everyone else. We have not reviewed whether, as a matter of law, the HDC would be an exempt entity for Planning Act purposes (that is, it could sever property without consent). However, in our view it should not be so empowered in any event.

MUNICIPAL AUTHORITY TO SET UP A BUSINESS

Powers of Municipality to Create Corporations

Section 203 (1) of the Ontario *Municipal Act, 2001* (the “**Act**”) gives municipalities the power to establish corporations:

203. (1) Without limiting sections 9, 10 and 11, those sections authorize a municipality to do the following things in accordance with such conditions and restrictions as may be prescribed:

1. To establish corporations
2. To nominate or authorize a person to act as an incorporator, director, officer or member of a corporation
3. To exercise any power as a member of a corporation
4. To acquire an interest in or to guarantee such securities issued by a corporation as may be prescribed
5. To exercise any power as the holder of such securities issued by a corporation as may be prescribed. 2006, c. 32, Sched. A, s. 88

When a municipality exercises its powers referred to above it must do so in accordance with Regulation O. Reg. 599/06 (the “**Regulation**”). Under this Regulation, the municipality can establish a corporation if the municipality by itself or with another public sector entity establishes the corporation and the corporation’s purpose is to provide a system, service or thing that the municipality itself could provide. That is, a subsidiary of a municipality cannot carry out an activity that would be beyond the power of a municipality to do.

The Regulation provides that a municipality may establish a corporation to carry out “economic development services” including (among other things):

- s.9(4)(b): the acquisition, development and disposal of sites in the municipality for residential, industrial, commercial and institutional uses.
- S.9(4)(d): the provision of residential housing.
- s.9(s)(g) undertaking community improvement consistent with a community improvement plan approved by the municipality under subsection 28(4) of the *Planning Act*.

There is no noteworthy judicial consideration of the Regulation. Accordingly, we are proceeding under the assumption that the objects of the HDC are not beyond the capacity of the City. If you would like a reasoned opinion in this regard, please let us know.

Limitations contained in the Regulation

It is important to be mindful of any limitations that are present in the Regulation. Those limitations are in various sections of the Regulation. We have listed the principal limitations in Schedule D to this memorandum. The most important ones for the City to deal with are:

- Business case study must first be made before exercising the powers allotted to the municipality: S.6
- Prior to any asset transfers from a municipality to the municipal corporation the municipality must adopt and maintain asset transfer policies: S.7

- Before establishing a corporation, a municipality shall consult with the public about the proposal to establish the corporation: S.8
- If a municipality proposes to transfer an asset to a corporation and the Province of Ontario has contributed funds for the purchase or improvement of the asset, the municipality shall give notice of the proposal to every Minister that made all or part of the contribution on behalf of the Province: S. 12(1)

Resilient Communities Fund

The creation of a Resilient Communities fund is a product of the process we have engaged in. It has moved the overall London housing model from a financial receiver to a generator of funding for housing.

The creation of its corporate structure is beyond the scope of our mandate. For example, we have not allocated time to review the regulatory implications of lending to third parties, or of being a fiduciary for the purposes of receiving funds for investment. This is a significant body of work.

Pending further work on the function and services of the Resilient Communities Fund, we are initially of the view that the Fund should be set up as a separate entity from the HDC so that it is capable of analyzing investments independently of the HDC, and so that it can offer funding to not for profits without conflict. In addition, the development risks of the HDC should not put the fund capital at risk. Rather, only funds placed into an HDC project should be at risk for that project.

Initially, the Fund might be run off the platform of an existing foundation. However, in the long term, it would need to be its own structure. The Fund does not have the same relationship to the City as the HDC. It is not developing property and it is not administering public funds or receiving public property for development. As a result, the City does not have to be its shareholder and a Not-for-Profit Corporation may be the best way to proceed. We can revisit this – and integration with the HDC – as the concept is developed.

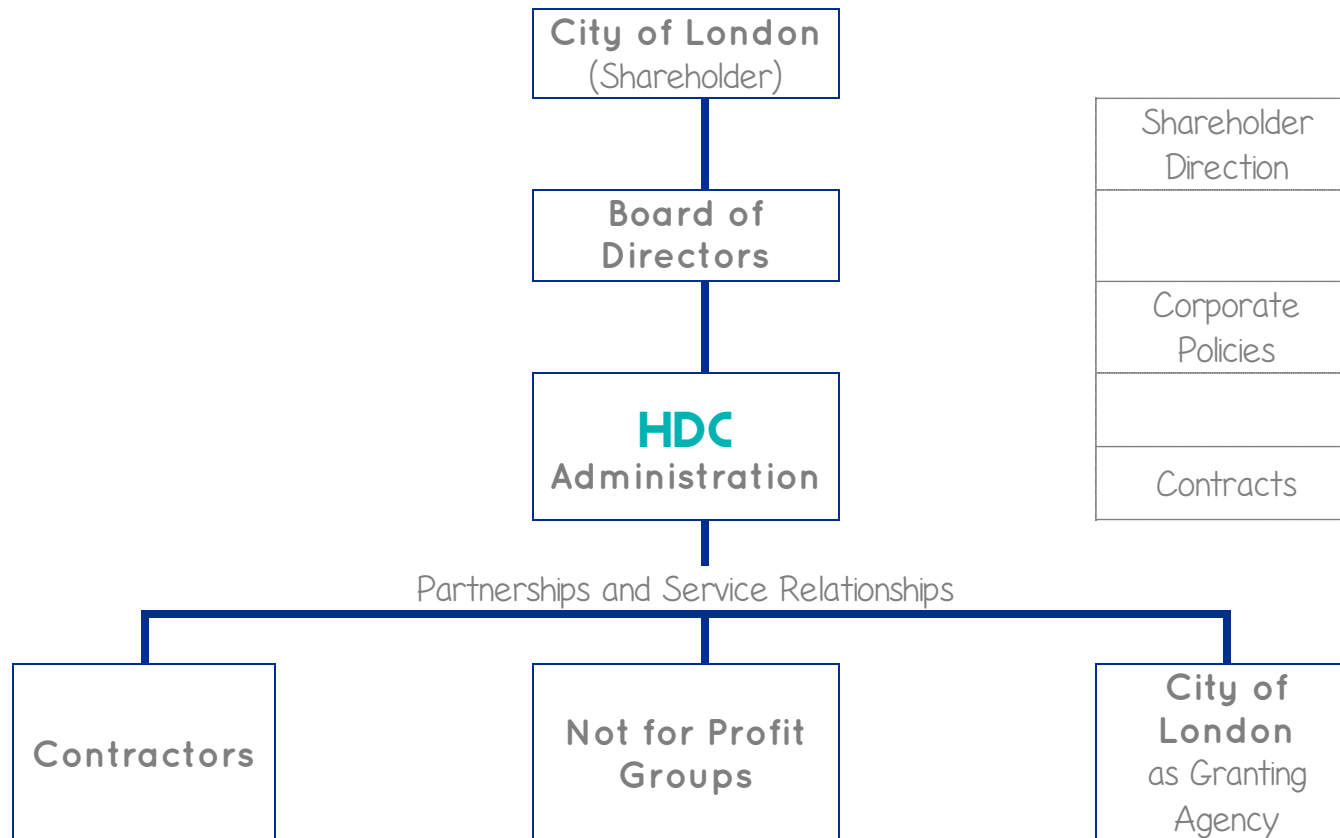
Schedule A: Governance Options

DEVELOPER	GOVERNANCE	MARKET CONFIDENCE	DECISION-MAKING	ACCOUNTABILITY
City-Based Entity	Governed by Council mandate No outside input with authority	As it is now	Market views as slow	Accountable to Council Follows Council rules
LHC	Board must deal with operations and development Some external expertise	Not used to LHC as a business	Would have to revamp to create a development committee	Accountable through its Board
Separate Entity	Governed by Board recruited for this purpose	Depends on board and staff	Designed for development	Accountable to shareholder through its Board Alternatively, Accountable to shareholder through management committee
City-Based Entity	None	(to be discussed)	Direct control	City regime
LHC	Yes, from the City Assuming the LHC is separate from the City Development risk taints operations	(To be discussed)	Unanimous shareholder declaration to limit Board powers	(To be determined)
Separate Entity	Yes	(To be discussed)	Unanimous shareholder declaration to limit Board powers	Can take on debt (including impact) subject to any imposed restrictions

Schedule B: Business Corporations Act versus Corporations Act

	BUSINESS CORPORATIONS ACT	CORPORATIONS ACT (not for profit)
Mission	<ul style="list-style-type: none"> For Profit 	<ul style="list-style-type: none"> If any of the purposes of the corporation are of a commercial nature, the articles must state that the commercial purpose is intended only to advance or support one or more of the non-profit purposes of the corporation S. 8(3) Not-For-Profit Corporations Act, 2010
Flexibility with Profit	<ul style="list-style-type: none"> May be reinvested in corporation or paid to shareholder as dividend 	<ul style="list-style-type: none"> Must be reinvested in the corporation to further the objects of the corporation. [If applicable: For income tax purposes: corporation can take reasonable reserves for future liabilities, but cannot have any profit at the end of the tax year.] Distributions Prohibited to Members
“Ownership” and Control	<ul style="list-style-type: none"> Shareholders – vote in accordance with their shareholdings 	<ul style="list-style-type: none"> Members are people (or corporations) who support or benefit from the goals and objectives of the corporation. – Each member has one vote. The by-laws set out membership conditions that determine who is eligible to become a member. Often appointed by the board.
Governance	<ul style="list-style-type: none"> Board of Directors elected by the Shareholders Alternatively, pursuant to a Shareholder Declaration, the Shareholders can assume all the authority of the Board of Directors and delegate this authority to an executive committee 	<ul style="list-style-type: none"> Board of Directors Elected by the Members
Share Capital	<ul style="list-style-type: none"> Yes 	<ul style="list-style-type: none"> No
Examples of municipally owned or “Public Purpose” Corporations	<ul style="list-style-type: none"> Toronto Community Housing Build Toronto Toronto Lands Corporation (owned by Toronto District School Board) 	<ul style="list-style-type: none"> Greater Toronto Airport Authority.

Schedule C: Corporate Structure – Board Model



Schedule D: Limitations on a Municipal Subsidiary (Regulation O.Reg. 599/06)

- A business case study must first be made before exercising the powers allotted to the municipality: S.6
- Before establishing a corporation, a municipality shall consult with the public about the proposal to establish the corporation: S.8
- If a municipality proposes to transfer an asset to a corporation and the Province of Ontario has contributed funds for the purchase or improvement of the asset, the municipality shall give notice of the proposal to every Minister that made all or part of the contribution on behalf of the Province: S. 12(1)
- Specific notice requirements for transferring assets to corporation: S.12(3)
- A municipality shall not assign or transfer any right granted to it in any agreement between the municipality and the Province of Ontario to a corporation without first obtaining the consent of the Minister responsible for the agreement: S. 13
- A corporation may only operate within the boundaries of a municipality with the agreement of the municipality. Although certain territorial exemptions allow for the boundaries to expand : S. 16(1)
- Strict requirements for any amendment to the Articles. Municipality must first adopt business case study in relation to proposed amendment: S. 17(2)
- Corporation shall not act as an incorporator of another corporate body incorporated under any act: S. 18(1)

Appendix 8: The Resilient Communities Fund

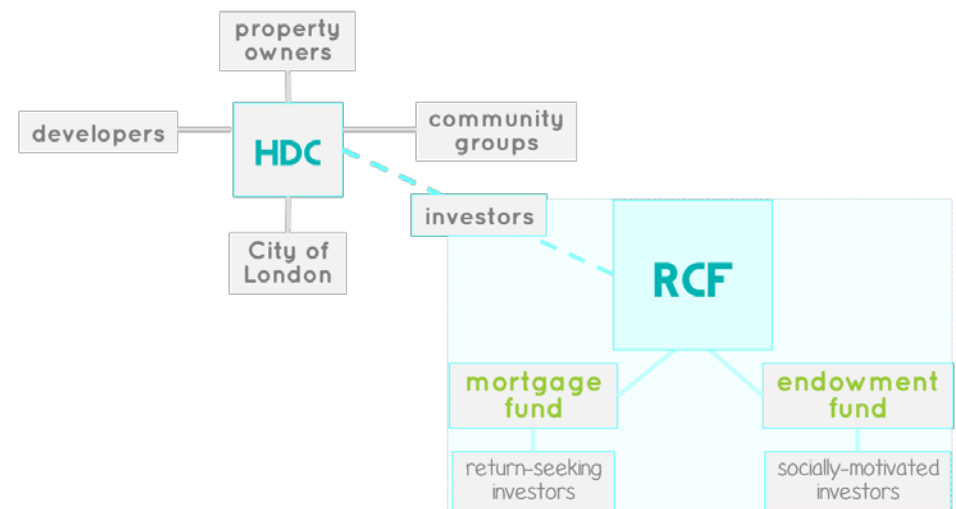
Affordable Housing and the Need for “Catalytic” Capital

Current revenue streams available to the City can only go so far in creating a sufficient and stable pool of funds to build and maintain affordable housing. The HDC can offer a conduit through which **new capital** (i.e. capital that otherwise would not flow into affordable housing) can be injected.

The challenge is to design the investment opportunity in a way that attracts **new investors**. To do this, the investment opportunity must satisfy the terms these new investors require. The investors the HDC will be interested in attracting fall into two general categories:

- Investors that are primarily seeking competitive financial returns: These investors typically invest if there is a proper balance between risk and return
- Investors that are primarily seeking social impact: These investors are willing to accept below-market returns so long as a measurable social outcome is generated

The HDC must be creative in identifying and attracting a diverse range of investor types, and design a mechanism that can bring all of these investors together in a collaborative and mutually strengthening manner.



Catalytic Capital is a mechanism that can be used to bring these two investor groups together. In the traditional investment world, an investment opportunity is typically targeted to only one specific category of investors that have one singular investment goal. Catalytic Capital, on the other hand, brings together *multiple investor categories*, each of whom has different investment goals.

HOW CATALYTIC CAPITAL WORKS

- One investor group (typically the “social impact seeking” investor) invests its capital and agrees to absorb a certain pre-set level of investment loss. In doing so, this investor group reduces the risk associated with the overall investment opportunity
- The second group of investors (typically the “financial return seeking” investor) invests its capital, typically a much larger amount than the first investor group. Due to the reduced risk, this investor group receives a return that is more in line with their risk-return expectations and requirements (i.e. typically market-rate returns)

The first investor group therefore acts as a “*catalyst*” to **stimulate the injection of new and significantly larger amounts of capital**. An investment like affordable housing, which may otherwise be considered “too risky” to the more traditional investor, now becomes attractive and in line with other investments in the real estate market.

The amount of Catalytic Capital needed varies, though typically represents anywhere from 10-20% of the total capital sought.

VALUE PROPOSITION

For the First-Loss Investor

- **Impact Acceleration:** The first-loss provider is typically a group with a mandate to advance social or environmental impact. This group would already allocate capital to this endeavour, though its ability to accelerate impact would be typically limited. The ability to leverage new sources of capital can create a multiplier effect in the impact generated.
- **Resource Optimization:** When commercial investors begin to engage in new markets that were previously out of scope (e.g. affordable housing), there is the potential that the market will begin to be seen as commercially viable in the long term. This can potentially stimulate market growth and continued investment in the future without the need for first-loss capital.
- **Better Terms for Investees:** The reduction in risk for those investors that benefit from the first loss and the increase in competition for capital in the new market, will also lead to better financing terms and conditions (e.g. lower costs of capital). This enhances the ability of the affordable housing projects undertaken by the investees to create both financial return and social/environmental impact.

For the Market-Rate Seeking Investor

- **Satisfaction of Investment Parameters:** Many investor types are subject to specific risk-return parameters, some of which are imposed by fiduciary constraints. For instance, an investor of this type may be required to invest according to a specific level of risk for an expected rate of return. Without the enhancement that catalytic capital provides, investment opportunities like affordable housing may simply fall outside of these parameters, despite a desire or qualitative motivation to invest for social reasons.
- **Competitive Advantage:** Investors that understand catalytic capital and decide to invest may benefit from the “first mover advantage” that comes with wading into a new market. The investor may gain a new expertise and will be able to make stronger and more strategic investment decisions, further enhancing its portfolio.

The nature of the Catalytic Capital can also vary, and can often be tailored to satisfy specific investment requirements.

Catalytic Capital can take form as:

- **Loan guarantees** that guarantee a specific level of return to the investor

- A **reserve fund** comprised mainly of grants that cover an agreed-upon level of first loss, should one occur
- **The most junior debt or equity positions in an overall capital stack**
 - This could include common equity in a structure that includes preferred equity classes, or junior debt within a distribution waterfall

The use of Catalytic Capital is not new – in fact it has been used around the world and in multiple industries that otherwise have difficulty attracting market capital, including affordable housing.

Overview of the Resilient Communities Fund

The goal of the Resilient Communities Fund (RCF) is to create an opportunity for any property owner to rent to someone in need of an affordable unit, while maintaining a market rate rental stream. The program has two components: a **mortgage investment fund** (from which mortgages are issued to the property owner) and an **affordable housing endowment fund** (from which the rent of the person in affordability need is brought up to market-rate levels).

The target “customer” for the RCF is an investor looking to purchase a townhouse or condominium unit as an investment property. This individual has capital to invest, but still requires financing to secure a property. The investor is seeking to rent the unit to improve her/his return on investment, and therefore requires a market-rate rental stream. The investor may not have ever considered renting to someone in affordability need, but would be interested in doing so if the economics of the program make sense for them.

The RCF offers two products:

1. A mortgage product (debt-based)
2. A rent supplement (philanthropic funds).

The linking of a mortgage product to an endowment fund will fundamentally change the way housing affordability is understood and created. The RCF is designed to avail market-rate units in **any** building/development (not simply those designated as affordable properties) to someone in affordability need, generating a market-rate rental stream to the investor without negatively affecting the appreciated value of the property – key considerations for the unit owner looking to generate a return on their investment. The investor can also sell the units at any time.

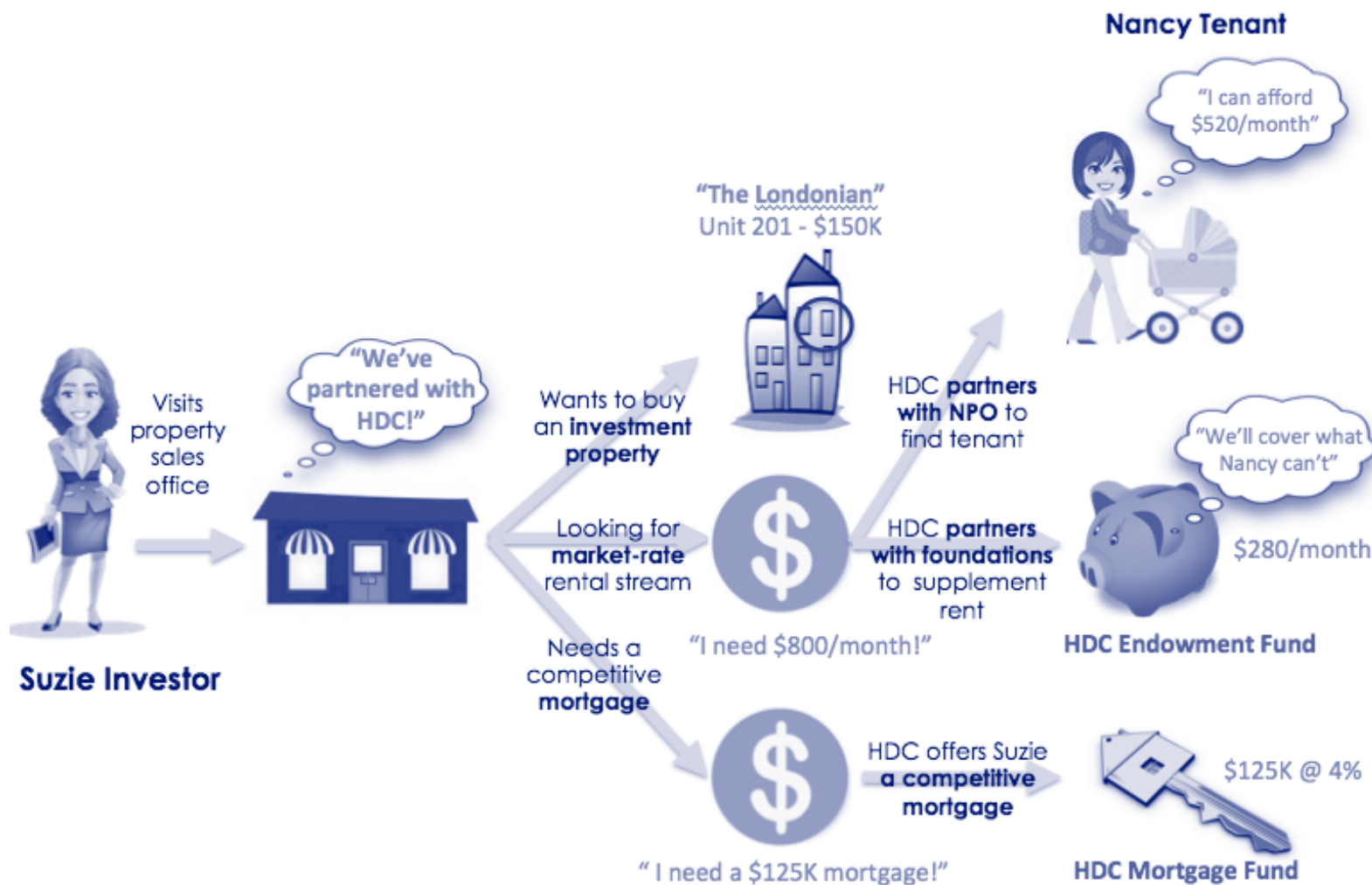
How it Works

The RCF works by creating incentives for investors to rent to people in affordability need. Non-profit agencies provide several key incentives, including the pre-qualification and screening of tenants and property management of units on behalf of the property owner. The mortgage product offered by the RCF will be competitive to the market, and its program will ensure consistent tenancy and regular rental payments (thereby reducing key risks to the investor).

The following illustrations demonstrate how the RCF could work from the perspectives of both the tenant and the investor.

How the RCF Could Work

FROM THE PROPERTY INVESTOR'S PERSPECTIVE



How the RCF Could Work FROM THE TENANT'S PERSPECTIVE



Financial Model Assumptions

The Consulting Team prepared an exploratory financial model for the RCF to determine, in a broad sense, the feasibility of such a fund. The model is based on the extrapolation of the following scenario:

- A 2 bedroom condo unit priced at \$150,000 (market rate) is available for purchase
 - A property investor has \$25,000 equity available to invest, but requires a \$125,000 mortgage to complete the transaction
 - The minimum rent the investor requires to maintain a positive ROI: \$804 (\$604 mortgage @ 4% + \$200 fees + taxes)

Step 1: The investor purchases the unit

- The investor agrees to rent to person with affordability need and receives a mortgage managed by the RCF mortgage fund
- A nonprofit partner screens potential tenants and helps the investor select a tenant for their unit. The non-profit partner may also act as the property manager for this unit on behalf of the investor
- The RCF endowment fund agrees to guarantee the rental stream by providing a monthly rent supplement to bring the unit to market level
- Mortgage issued: \$125,000

Step 2: Tenant occupies unit

- Condo buyer selects tenant from a pre-screened list (maintained by an HDC non-profit partner)
- Tenant pays condo buyer @ 70% AMR (\$528/month)
- RCF endowment fund provides rent supplement to condo buyer (via RCF endowment fund, \$278/month)
- The unit is managed by 3rd party on behalf of condo buyer (HDC non-profit partner)

Step 3: Condo buyer has option to sell unit

- The investor may sell the unit in future at any time
- Covenant on unit ensures unit will remain rented to tenant with affordability need

Benefits of the RCF

There are a number of benefits the RCF provides to a range of stakeholders:

- The City:
 - This is a “made in London” solution
 - The RCF creates new affordable units, *above and beyond what is currently built*, that don't "step on the toes" of the property development community, non-profit community, etc.
- Property developers:
 - They have a "new product" that they can take to market.
 - They can participate in affordable housing without changing the way they build/finance projects
- Investors (i.e. unit buyers):
 - There is a way for a real estate investor to become an affordable housing provider extremely easily, and without compromising returns
- Affordable unit seekers:
 - “I can live in a quality unit at a rate I can afford, and the landlord won't perceive me as a risk; rather, I'm treated like everybody else”