

**HOME OWNERSHIP ALTERNATIVES NON-PROFIT CORPORATION**

**Submission to the Province of Ontario**

**Re: Affordable Housing Strategy**

**November 2009**

# **Home Ownership Alternatives submission to the Ontario Affordable Housing Strategy**

## **Executive Summary**

Home Ownership Alternatives (“HOA”) is a non-profit organization dedicated to enabling affordable ownership housing. We believe that enabling families to own their home can help them to build family equity and strong communities. Our model invests in families, not in units, with a focus on assisting low and moderate income families.

We achieve our goals by providing high risk, early stage financing for affordable ownership housing developments and by directly reducing families’ housing carrying cost through our shared appreciation 2<sup>nd</sup> mortgage.

HOA has focused its recommendations on how the province can improve the availability of affordable ownership housing. The goal of our recommendations is to support the housing sector in creating affordable housing for families earning \$20,000 to \$60,000 a year.

To assist the Province in achieving its goals with respect Affordable Housing, we propose the following recommendations.

- 1. Leveraging Ontario’s Financial Strength**
- 2. Target the sale of surplus government land**
- 3. Low income home purchaser tax credit**
- 4. Renew and refocus the Affordable Housing Program (AHP)**
- 5. Capacity Building**
- 6. Inclusionary zoning**

**Easily implemented and cost effective, our recommendations can stimulate development of new affordable housing and also create new incentives to re-engage the housing sector in the provision of affordable housing for low and moderate income Ontarians.**

## **Submission to Ontario Affordable Housing strategy**

### ***Introduction***

The Provincial commitment to put in place a new affordable housing strategy is an important step in ensuring that all Ontarians have a quality of life appropriate to the Province's great potential. Part of the dream of many Ontario families is home ownership, but today, this dream is out of reach for many hard working families. Equally true, a home is many families' most important asset and a critical asset in moving families out of poverty.

Drawing upon HOA's 10 year history of success in financing the creation of affordable housing, implementation of our recommendations by the Province could result in the annual creation of over 5,000 new units of affordable homes for Ontario's low and moderate income families.

We acknowledge that our recommendations do not address many important housing issues related to homelessness, rental housing and supportive housing. We sincerely encourage the efforts of those who are working on those important parts of the range of housing options.

In July 2008, HOA provided a submission to the province's Poverty Reduction Strategy development process. This submission builds on the recommendations and information provided in that 2008 submission. We refer the reader to that previous submission for additional background information and recommendations.

The solutions will not come from the province alone. Only through a partnership between governments, builders, non-profit agencies and families can the large investments successfully blend with the creativity and innovation needed to respond to

the province's diverse housing needs. We hope our recommendations will provide a start to the dialogue needed to bring the disparate players in Ontario's housing industry together.

In order to determine if housing is affordable, household incomes, family size and the cost of housing need to be examined. Clearly, establishing one inflexible target "price" for housing across Ontario and defining this as affordable will not meet the needs of specific communities. Each area in Ontario has a different breakdown of incomes and types of housing. The province needs to establish baseline criteria against which success at providing affordable housing can be measured in all communities and with enough flexibility to ensure that communities in need of improving access to affordable housing have the means to do so.

### **People Support**

For most families in Ontario, the investment in their home will be their most important asset throughout their life. Indeed, for many families the equity they build in their home is often their only means to achieve higher education expenses, new business launch costs and retirement income. For many seniors with low fixed incomes, ownership of their home can reduce their living costs and permit them to enjoy a comfortable standard of living and peace of mind.

We believe that enabling home ownership and the growth in family equity that it facilitates must be an important part of any strategy to break the cycle of poverty. With increased access to affordable ownership housing, families currently renting but prepared for the transition to home ownership will have the opportunity to own their home and thereby help reduce the pressure on affordable rental housing.

Home Ownership Alternatives Non-Profit Corporation ("HOA") is dedicated to the creation of affordable home ownership for low and moderate income families. We share the vision of Ontario as a province of prosperity and opportunity. There is a substantial body of evidence that demonstrates the positive effects on society that **home ownership** can have with respect to quality of life, health, education outcomes for children, community pride and the reduction of poverty.

Home Ownership Alternatives believes that the Province has several powerful tools which, if fully utilized, could foster the development of housing that would be affordable to the millions of Ontario households with incomes between \$20,000 and \$60,000 per year - families who currently cannot afford to own a home in much of Ontario.

**Key workers cannot afford a home in Ontario**

Many key workers essential to the well-being of Ontario cannot afford a home at today’s average Ontario MLS house price of \$320,000. These families are our priority for the recommendations that follow.

It is important to the success of our cities that key workers are able to live near their workplace, limiting the financial and environmental costs of commuting and realizing the advantages of mixed income communities.

The chart below lists incomes of some key workers and what they could afford if they were to dedicate the maximum recommended 32% of their gross income to housing costs.

<b>Occupation</b>	<b>Annual Salary</b>	<b>32% of Income on a Monthly Basis</b>	<b>Maximum Affordable House Price</b>
<b>Firefighter 1<sup>st</sup> Class –Toronto</b>	\$76,052	\$2,028	\$300,000
<b>Elementary Teacher</b>	\$68,256	\$1,820	\$280,000
<b>Mfg: Motor Vehicle</b>	\$64,941	\$1,731	\$260,000
<b>Nurse (starting)</b>	\$52,260	\$1,394	\$200,000
<b>Transit Driver (starting)</b>	\$39,000	\$1,040	\$150,000
<b>Taxi and Limo</b>	\$33,633	\$897	\$122,000
<b>Child Care</b>	\$27,106	\$723	\$100,000
<b>Mfg. clothing</b>	\$24,700	\$660	\$90,000
<b>Admin &amp; Support Services</b>	\$23,917	\$638	\$85,000
<b>Employment Services</b>	\$23,686	\$631	\$80,000
<b>Accommodation &amp; Food Services</b>	\$15,039	\$400	\$50,000

Salary data from agency web sites and “Work isn’t Working for Ontario Families” published by Campaign 2000.

Home price assumes \$350 monthly taxes and charges, 6% mortgage over 25 years, \$30,000 down payment.



**HOA commitment to Ontario** – Home Ownership Alternatives is committed to Ontario and its families. With the Province’s help through implementation of our recommendations,

- HOA commits to develop new affordable ownership housing in Ontario.
- HOA commits to the revitalization of healthy, sustainable neighbourhoods.
- HOA commits to use any Ontario funding to support a growing number of families in Ontario through the HOA permanent revolving fund.
- HOA commits to make home ownership available to low and moderate income families.

## **Policy Support**

### **Policy should support people, not units.**

People are at the center of Ontario’s affordable housing problems – and at the centre of the solution. Many past programs designed to deliver affordable housing were narrowly focused on subsidizing, in one manner or another, the availability of a housing unit. Today, the ultimate goal of policies regarding housing and poverty are much more holistic, having evolved into developing mechanisms by which families are not only suitably housed but also live in a supportive community and emerge from the cycle of poverty.

We recommend that the Province review its many policies, programs, fees and charges to ensure that they work together to foster the policy outcomes Ontario desires, in this case, the provision of affordable housing for low and moderate income families.

We propose that Ontario support for affordable **home ownership** can most cost-effectively deliver large numbers of affordable housing units and also assist families to build family equity and **break the cycle of poverty**.

Support needs to be targeted to families, not to buildings or housing units. Within this principle, the key driver for Provincial policies regarding affordability should be the

household incomes of the low and moderate income households in need, not less direct criteria such as rental rates or unit price ceilings derived from the marketplace.

Today in Ontario, the median family income is \$66,600. Policies need to not only deliver housing that is affordable, but also ensure that those most in need benefit from the Province’s support. We recommend that as a matter of policy the changes recommended in this submission only be available to new developments that deliver housing to families with household incomes below each Ontario region’s median income. The table below is a guide and the targets below the local median income for each household size would need to be adjusted to reflect the cost of housing in particular communities. Since larger families need larger incomes, rather than applying a “one size fits all” income criteria, we recommend that larger families qualify for assistance at higher household income limits than smaller families:

**Example of Province-wide Household Income Thresholds for eligibility to receive housing support.**

<b>Household Size</b>	<b>% Below Median To Qualify for Assistance</b>	<b>Ontario Household Income Threshold (Based on 2006 Median of \$66,600)</b>
<b>4+ persons</b>	0%	\$66,600
<b>3 persons</b>	15%	\$56,610
<b>2 persons</b>	30%	\$46,620
<b>1 person</b>	40%	\$39,960

The availability of affordable housing is most effective when included in mixed income developments. Such developments ensure that neighborhoods have vibrant mixes of families and that no neighborhood carries too heavy a load of higher needs citizens.



## **Leveraging Ontario's financial strength - Affordability loans**

Building on the success of the Affordable Housing Program Ownership program, and the successful track record of organizations such as HOA and Habitat for Humanity, HOA proposes that Infrastructure Ontario provide financing loans to non-profit organizations providing shared appreciation 2<sup>nd</sup> mortgages to home buyers.

This new Infrastructure Ontario financing would utilize much of the existing AHP Ownership program criteria, including assisting home purchasers with incomes below the local median to purchase newly built homes of a value below the local median. Both income levels and house price criteria would be scaled to reflect household size.

The Infrastructure Ontario loans would be provided only to non-profit agencies that are also providing financial assistance to families meeting program criteria. These agencies or their partners would be required to provide financial assistance to purchasers of at least 50% of the Infrastructure Ontario assistance. This would reduce Infrastructure Ontario risk exposure and further strengthen the agencies' dedication to effective program administration.

Infrastructure Ontario and agency assistance would be secured by one, simple consolidated 2<sup>nd</sup> mortgage on the homebuyer's property. Infrastructure Ontario would not be required to administer any 2<sup>nd</sup> mortgages.

To deliver true affordability, the consolidated 2<sup>nd</sup> mortgage would be a shared appreciation mortgage with no payments of interest or principal until resale, the end of occupancy of the unit by the purchaser or voluntary repayment, for example refinancing by the homeowner. Infrastructure Ontario would provide their loan at a rate of interest equivalent to the increase in value of the unit, effectively sharing the risk and the reward with the home purchaser.

As 2<sup>nd</sup> mortgages are discharged, repayment of the principal and the shared appreciation would be made to Infrastructure Ontario. HOA acknowledges that the unspecified repayment structure of the 2<sup>nd</sup> mortgages could make cash flow planning difficult.

Based on the success of the HOA model to date, 2<sup>nd</sup> mortgage support would be designed to bring household housing costs down to 32% of gross household income - the same ratio that the banks use when determining eligibility for 1<sup>st</sup> mortgages.

The non-profit agency would provide long term mortgage administration, meaning that the province would take on no new operating expenditures. In order to be prudent one might choose to account for a potential cost of this program if the province's cost of funds exceeded the long term increase in value of 2<sup>nd</sup> mortgages. However, there is also the possibility of a program surplus if the value of real estate increases at a rate greater than cost of funds.

This program would provide the Province with a low risk means of extending the AHP Ownership program, without increased operating costs and administration. It would help to augment the number of modest income Ontarians who could afford to purchase a first home (and a subsequent "echo" benefit as most homeowners will buy several times over the years once they have entered the housing market). It would provide an expanded market for new home sales and it would help free up existing rental stock.

**Impacts** - If 10% of new home purchasers received assistance through the affordability loans, Infrastructure Ontario could be required to provide up to \$75 million in 2<sup>nd</sup> mortgage support annually to non-profit housing delivery agencies. While incurring relatively small operating costs, the Province can utilize its financial strength to foster the development of thousands of new affordable housing units.

## **Recommendation 2**

## **Target the sale of surplus government land**

*The Province's access to land assets should be used to deliver affordable housing, by placing a priority on the sale of surplus land to non-profit developers building affordable housing. The mechanism necessary would mirror the system currently used to transfer land between governments.*

The Province has extensive land assets held either directly by Ontario Realty Corporation ("ORC") or through provincial agencies (Metrolinx, Hydro, LCBO, etc). Further the Province has priority access to surplus land from other governments and school boards. The Province should prioritize access to all surplus land at its disposal to non-profit developers of affordable housing.

The mechanism to implement the system already exists. ORC/MMAH would pre-approve non-profit providers of affordable housing for access to surplus land. ORC would circulate available land profiles to all registered non-profit developers, subsequent to ORC's circulation process to government ministries.

Once a match between a surplus site and non-profit developer is identified, the value of each surplus land parcel would be market value as established by third party assessors. The land would be sold to non-profit developers in a fashion similar to inter-government sales. However, in recognition of restricted cash flow, non-profits would be provided a lengthy period until sales closing to allow a reasonable time to obtain planning and other approvals, secure construction financing.

To further improve affordability and access to land by non-profit developers of affordable housing, the sale would be structured so that the Province would receive a small deposit on the land sale closing and would receive full payment once the project had achieved certain milestones (such as the first construction financing draw).

A further Ontario contribution to affordability could be provided by deferring final payment for the land for a 10 year period. This deferral would reduce development interest costs and would provide an additional pool of funds to further improve affordability.

**Impacts** – Priority use of surplus land for affordable housing would have a huge and immediate increase in the availability of affordable housing, which is one of the most critical barriers to the development of affordable housing. A modest target would be the sale of five sites a year to generate a total of 800 additional units each year. At current land values, this could generate over \$8 million annually. The sale of these assets will not only deliver positive housing policy outcomes but also improve the Province’s financial position.

### **Recommendation 3**

### **Low income home purchaser tax credit**

*HOA proposes that a percentage of any government charges included in the development of a new home, including development charges, land transfer tax, HST, building permits, land dedications, parks levies, etc. should be rebated through a tax credit for low income, first time home buyers. The credit would be scaled to take into consideration family size and local criteria for household income and home cost.*

There are many charges and taxes built into the price of all new homes in Ontario, many of which are applied in a “one charge fits all” system. As an example, a development charge is the same for any unit developed, regardless of unit size, price or the income of the purchaser.

HOA considered recommending to the Province a revision of all charges and fees for new homes to eliminate their regressive nature. However the complexity of the regulatory and charges landscapes led to the conclusion that direct support of low and modest income home buyers would be more effective. Changing the systems of all taxes and charges impacting the affordability of housing would be a daunting and futile task. In the end, it is not clear the changes would support low and modest income families.

A more direct approach would be to provide a new tax credit for low and moderate income families purchasing a home. Calculation of eligible expenses for the tax credit could include all government charges or taxes applied to the development of a new home. To ensure this new tax credit was well targeted, eligibility would be limited to low and modest income households and first time purchasers of new units.

This new tax credit would provide an economic stimulus for new home construction. As the credit would be payable to the home purchaser, it is not likely to be “captured” by new home developers.

By establishing a new home threshold price, the tax credit will stimulate the construction of new ownership housing at the entry level of the market. This new tax credit would provide a one time boost for low and moderate income families to purchase a home.

The new tax credit could replace more administratively cumbersome and less focused programs such as the Land Transfer tax rebate. This would also reduce the new tax credits’ overall cost.

A tax credit of this nature is aptly suited for national administration and support. By taking a leadership role in developing a new Home Ownership Tax Credit, Ontario will be in a strong position to influence the federal government to adopt a similar program nationally thus enabling the Federal government to provide a further permanent contribution to solving Canada’s housing affordability and poverty challenges.

As the Province continues to support the incomes of low income renters through programs such as Housing allowances, ROOF and Rent-Geared-To-Income and has been asked by many stakeholders to consider a new Rental Housing Benefit, HOA proposes that a one-time tax credit to lift the same Ontarians into the ranks of home owners makes good sense for the Ontario economy and good sense for the provincial budget.

## Recommendation 4

## Affordable Housing Program (AHP)

*We join others in calling for the Federal government and Ontario to make a permanent commitment to support the AHP program. We further recommend that careful cost benefit analysis be undertaken to ensure that AHP funding is used to provide maximum housing support regardless of tenure type.*

The Federal/Provincial AHP program has recently been renewed for another 5 years. At this juncture it would be prudent for the Province to assess the current AHP programs and determine what is the most effective and economical manner to address the housing needs for families of differing sizes and incomes and prioritize the use of funds accordingly.

We further encourage the Province to adopt program thresholds which flexibly accommodate different family size.

## Recommendation 5

## Capacity Building

*In order to maximize the benefits of new policy to support affordable housing, Ontario should support capacity building to help launch new developments.*

Much of the creation of affordable housing in the past has come from a highly motivated, non-profit housing sector. Unfortunately, over the past decade the number of experienced staff in the non-profit sector has dwindled. HOA proposes a launch program that would last 5 years and would be targeted to produce a cluster of new non-profit development players.

A new sector capacity building program could build upon existing CMHC programs. CMHC already makes available to eligible developments SEED grants of \$10,000 and Proposal Development Funding loans of up to \$100,000. This funding is critical to take new concepts and turn them into real developments. We recommend that the Province support projects by providing matching funding to the CMHC program. The province should consider expanding the definition of eligible costs to include such costs as staff salaries and training. Annual outlays would be small and CMHC cooperation with administration would be likely.

*HOA recommends that the Province expand municipal policy tools to include inclusionary zoning, but in a manner that will not restrict the innovation and flexibility that is needed to respond to Ontario's diverse housing needs.*

Inclusionary zoning provides municipalities with the ability to require a certain amount of affordable housing be included in each development it approves. The new Planning Act provides municipalities with new authority to “zone with conditions”, which currently still requires further regulatory definition.

Inclusionary zoning policies should not be supported solely on the back of the development industry but should include planning or other incentives such as density bonuses that offset additional costs or revenue shortfalls. Inclusionary zoning should ensure that each development contributes positively to a city's overall fabric and the inclusion of families with diverse incomes. As indicated earlier, it is important to stress that policies focus on the delivery of support to families, regardless of type of tenure.

Furthermore, Inclusionary zoning should NOT permit municipalities to place permanent restrictions on the future use, value or disposal of individual properties. Inclusionary zoning should NOT restrict low income homeowners from realizing normal growth in family equity through home ownership.

**Impacts** – The potential of creating mixed, inclusive communities will be increased through the careful application of inclusionary zoning and can lead to a stronger Ontario in the long run. While the imposition of inclusionary zoning has the potential to force the provision of more affordable housing on all developers, care must be taken not to be heavy handed and thereby dampen housing development activity and inadvertently increase housing costs.

Inclusionary zoning should ensure the capture of social equity without empowering municipalities to impose specific means of doing so, such as restrictions on title with regards to resale price.

## ***Conclusion***

**Many thousands of affordable housing can be delivered each year to Ontarians through the combination of a variety of housing forms and programs, to meet diverse needs and to provide for housing choice.**

There is a role in the overall housing solution for shelters, for supportive housing, for rental housing and for ownership housing. During the past 10 years, HOA has assisted over 2,300 families to achieve homeownership and to create a new level of prosperity and engagement in their communities. The 6 recommendations provided by HOA can be the framework to give real hope to the hundreds of thousands of Ontario families who cannot currently enjoy the benefits of sustainable, cost-effective housing.

Home Ownership Alternatives believes that our recommendations present low cost, high outcome choices for Ontario to dramatically increase the supply of affordable housing on a permanent and sustainable basis. The recommendations are based on a premise of partnership between governments, builders, communities and families.

Thank you for the opportunity to consult on this vital initiative. Home Ownership Alternatives stands committed to partnering with the Province, and any other interested parties, to increase the degree of affordability of new housing and to accelerate the time frame in which affordable housing can be delivered to deserving citizens in Ontario.