

Strengthening Social Housing in the Continuum

National Housing Collaborative

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Context

The National Housing Strategy (NHS) formation has emphasized the need for social housing transformation. Federal budget 2017 underscored the federal government's commitment to supporting a transition to a more entrepreneurial, economically viable model of not-for-profit housing delivery. The following pages outline a vision for a transformed social housing sector, which we characterize as being resilient and adapted to the changes resulting from the expiry of operating agreements, and able to utilize assets that have been built over time to renew and expand the inventory of affordable housing. This vision is grounded in a firm conception of the role of social housing within the broader housing continuum.

The expiry of operating agreements is a significant and immediate challenge for the sector. There is an urgent need to address the complex issues stemming from expiry, which are both financial and about the long-term position of this housing inventory. Some of these issues are addressed in this report. The Collaborative's detailed proposal for addressing the expiry of operation agreements is included in its 2016 submission to the National Housing Strategy.

While the immediate concerns of social housing providers and tenants are significant, the National Housing Strategy aims to set a course for housing development for a generation. This report envisions the next generation of social housing, and outlines proposals to strengthen the sector as it pursues that course. Achieving these changes should be progressive and incremental, as capacity for change is increased in the system over time.

In keeping with the tone of the NHS, these proposals are ambitious, but achievable. They represent in many ways, the only path forward to viability of the sector in the absence of ongoing project-based subsidies. They do represent a transformation, but also build on the directions already set by leading not-for-profit housing organizations. The task for the National Housing Strategy is to remove barriers and provide incentives to more entrepreneurial behaviour by all providers, and to offer the support required to embed these practices across the social housing sector.

We are recommending an outcomes-based approach whereby government spending should lead to housing for a wider range of tenants, including meeting the needs of those who require ongoing support and those who require a respite from full market rents as they rebuild their lives.

For ease of reference, we will refer to "community housing", not-for-profit housing, public housing, co-operative and social housing all within the umbrella term "social housing", unless otherwise specified. While there can be considerable differences across and within these distinctions, we are considering them as a group because they fill approximately the same function along the housing continuum.

Social housing serves two distinct roles within the housing system

Social housing serves two distinct roles along the continuum of housing:

- **It maintains an inventory of residential assets set apart from market forces in establishing rents** – Social housing has a mission to promote long-term housing affordability, with affordable rents geared to tenant income. Viability in this context is based on economic rents alone, rather than rents plus profits plus the hope of future gains upon sale. Social housing provides ready inventory in place to offer a supply of affordable housing where people need it over time. Depending on the market situation, this might address either ongoing market failure (with some northern housing as a major example) or facilitate increased social inclusion in situations of rapid rent inflation (e.g., in cities with ongoing affordability challenges, low vacancy rates, and extreme gentrification pressures).
- **It can offer housing options that ensure adequate housing as a matter of right** – Social housing has a mission to provide housing to low- and moderate-income households, the hard-to-house, and those requiring supportive housing. It serves to address housing needs the private sector either cannot or will not meet and also that other housing providers may have attempted to supply, but for various reasons failed in the attempt. It is housing of last resort.

Social housing can also contribute to social inclusion, safety, and quality of life for tenants. While these, and other, benefits can be derived from social housing, these are not unique to this part of the housing system. All parts of the system can and should contribute to broader goals of environmental and social sustainability.

The National Housing Strategy presents the opportunity to realize a more enterprising, economically viable and stronger social housing sector.

Transformation will entail changes to the operating environment for social housing providers, to create incentives for and remove barriers to new patterns of behaviour. It will mark a departure from the former model of successive versions of government subsidy programs based on control-oriented rules and conditions, to a model of standard but flexible market-oriented tools that can be deployed when essential underwriting conditions are met.

Transforming the structure of social housing funding, focusing on outcomes such as the delivery of affordable units and not on the enforcement of rules and regulations governing how providers operate, will increase both autonomy and risk for housing providers.

Current systems of program administration focus on enforcement of rules, ensuring compliance with policies that do not always apply to actual circumstances, and

minimize the incentive for efficiency by clawing back any net income that could be used for housing improvement and affordability.

Restructuring the environment to turn service providers into asset managers

Shifting the mix and structure of tools available to social housing providers can build capacity and encourage culture change along the lines laid out below.

Service providers –

Fulfill mission by deploying government support to sustain tenancies for low-income and/or high-needs people.

Receive complete de-risking from government in exchange for meeting subsidy requirements.

Asset managers –

Fulfill mission by managing inventory of housing stock efficiently.

Deploy equity and other market mechanisms in exchange for meeting underwriting criteria and achieving policy and client outcomes.

Partner with social agencies in providing income support and social inclusion in program delivery.

A successful transition to a new model along the above lines will hinge upon these simple but radical approaches:

- ✦ Unbundling ‘services and supports’ from ‘bricks and mortar’
- ✦ A measured outcomes-based approach
- ✦ Creating a clear path for capital to flow into the sector via underwriting, not operating agreements
- ✦ Introducing risk into the system: the system is organized around tenants, with providers competing with others and adapting to meet tenant needs

In contrast to the “stop-go” nature of many previous government program initiatives, creating a consistent and long-term toolkit of available mechanisms will develop capacities through practice. Shifting the balance of mechanisms towards investing equity coupled with repayable financing will develop capacities in operational viability and risk-taking venture development. Redistributing the balance of funding in equity and financing mechanisms, as opposed to one-time grants, will produce a natural recycling of funds into the system, producing a ‘pipeline’ effect where providers plan on returns to be reinvested in further

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development. This kind of long-term planning will produce the transformation to the asset management approach. It will also serve to simplify applications and reporting by applying market criteria to recipient projects.

Comparing the relative strengths and influence of funding mechanisms illustrates the impact a shift to greater reliance on equity and financing mechanisms can have on social housing sector providers.

Equity investment in social housing:

- Promotes the use of more innovative project financial structures
- Providers plan on returns to be reinvested in further development
- Has leveraging effect to attract non-government capital to a project and assists in the development of new capital mechanisms and intermediaries
- Responds to differences across markets

Financing:

- Introduces a neutral discipline in the asset management approach to housing
- Produces returns to government over time that can be reinvested in the system
- Applies market-based criteria to assess applicants for project financing
- Provides a system for risk management

Grants:

- Effective for targeted purposes and to bridge limited capital shortfalls
- Funds do not produce returns or recycle through system
- No leveraging effect (unless matched by other orders of government, or by housing providers on a one-time basis)

An independent sector ratings agency or system can produce the effect of risk management without regulation. Contracts for housing improvement, new development and rental affordability support can be directed to providers that are cost effective or that can demonstrate outcomes for target tenant groups, collateral services, etc.

An independent and knowledgeable rating service can provide assurance to funders and financiers of the value in their investment and create the instrument by which a rebalanced toolkit can be impartially deployed. The ratings entity would evaluate individual projects within the context of the provider's portfolio in order to assess viability for equity and loans, contributing to overall sector credibility.

Elements of this approach could be modelled after The Agency for Co-operative Housing's risk-rating model, which incorporates both financial data and property evaluations.

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The function of risk assessor and independent evaluator should remain separate from the technical resource centre for social housing envisioned in Budget 2017, which is focused on capacity building. The functions of evaluating and training should be kept separate.

The asset management approach would facilitate achievement of key goals to strengthen and expand the sector. This approach would positively impact four objectives:

- ✦ Preserve affordability in the system through inventory management
- ✦ Optimize inventory
- ✦ Transition the current Rent-Geared-to-Income structure to a portable housing benefit
- ✦ Extend a more venturesome culture from sector leaders to become the sector norm

Preserve affordability in the system through effective inventory management

Increased supply of well-situated housing that is affordable is needed to meet the housing needs of Canadians. In keeping with the dual purpose of social housing, an asset management approach would see the sector develop capacities and tools to seek opportunities to maintain an inventory outside of the speculative market. Adopting an asset management approach to inventory entails portfolio-wide planning. Mechanisms should be developed and available to social housing providers to pursue all three methods for increasing inventory as appropriate:

Acquisition of already affordable private sector rental stock – The benefit of expanding inventory is not always in new building, but in long-term ownership to preserve affordability. There are approximately 400,000-500,000 units of existing affordable rental inventory in the private market available for potential sale to social housing providers.

The federal government can establish equity and financing tools for social housing providers to purchase this stock, as well as incentives for private landlords – such as tax credits equal to Capital Cost Allowance recapture, tax deferral or relief – to sell this stock to them.

Strategic asset management would also entail purchasing during cycles of higher vacancy rates, and in mid-market situations where the price-rent ratio is compressed.

Intensification of existing social housing development sites – Encourage the creation of regional inventories of available sites, through continued funding. Large

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providers are already exploring opportunities for intensification; incentives could spread this practice to smaller providers. Governments can create the incentive for combining sites by setting a minimum capacity requirement to access IAH funding. By setting criteria to access IAH funding, amalgamating portfolios can be encouraged, but not forced.

New development – Focus new development where there is concurrent public investment occurring, such as transit development. New development should ensure an availability of affordable housing in proximity to transportation links, public facilities, hubs and commercial links. Individual government agencies can pursue vertically aligned strategies with other orders of government and private sector industry to maximize the potential for mixed-use, connected, inclusive communities. As the majority of new development is conducted by the private sector, encouraging venture partnerships across the profit and not-for-profit segments of the housing sector will be critical to fully realizing the potential for social inclusion in new developments.

Optimizing inventory

There is approximately \$67 billion in existing social housing assets. The National Housing Strategy should aim to release \$2 billion of that value back into the production of housing in each of the ten years of the Strategy. Optimization should be pursued with the same market-based underwriting criteria as the asset management approach. Projects that can be leveraged to improve quality should have access to appropriate financing. Providers should also be encouraged to adjust their inventory over time, occasionally both purchasing and selling property in order to respond to changing client population needs.

In a transformed model, projects or providers that are not viable, and do not meet underwriting criteria for financing, would seek partnerships, consolidation, outsourcing project management and other delivery models to remain viable. They may also choose to remain unchanged – but this may have an impact on their ability to attract rental support (directly or through tenants who benefit from rent supplements or housing allowances).

The priority should not be on preventing providers from failure at all costs, but rather on increasing tenant protection and choice, to shift the risk of failure from the tenant to the provider. Transitioning rent support from an RGI to a portable housing benefit is a key component of providing tenants with choice and opportunity to find housing which suits their needs and which they can afford.

Transitioning RGI to a portable housing benefit

A portable housing benefit (PHB) paid directly to tenants will enable the adoption of conventional project financial structures across the social housing sector, by separating the development economics of housing from the provision of funds to support affordability for low-income households. A universal housing benefit will ensure tenants are protected in the market, transferring the risk of project failure from the tenant to the provider.

A portable housing benefit will enable social housing providers to create mixed-income projects. By connecting rent support to the household and not the unit, tenants will be empowered to choose the housing situation that is best for them, providing critical feedback for providers as landlords. Ultimately, the transition to a portable housing benefit will help achieve harmonization and fluidity across the assistance spectrum.

For such a transition to be successful for both tenants and the social housing sector, certain principles will be essential in planning and implementation:

- ✦ Tenants currently paying an RGI rent continue to do so until they exit or voluntarily change to a PHB.
- ✦ Where existing RGI tenants choose, or are moved to a PHB, they do not pay a higher contribution to rent than they would under RGI.
- ✦ Transition is seamless for the tenant.
- ✦ The transition to PHB is contingent on an ability by a housing provider to access capital for refurbishment, and achieve a good state of repair.

Not all social housing providers exiting agreements will be able to transition to a new model of rent support without putting in place additional provider supports. This includes, but may not be restricted to, housing with particular mandates to serve hard-to-house and very low income populations, supportive housing and housing with specialized mandates (urban Indigenous communities, northern communities). Further discussion with provinces/territories is required to negotiate a specific set of agreements for this type of housing.

Transition over time, enabled by investments in renewal and transformation as part of the National Housing Strategy, will contribute to harmonization of housing supports. A detailed plan for a phased transition to a portable housing benefit can be found in the National Housing Collaborative's *Proposal for a National Portable Housing Benefit (2017)*.

Extending a more enterprising culture

Many organizations across the social housing sector are already developing and modelling transformation, and the asset management model. The goal for social housing transformation is to turn these leading behaviours into the norm for the sector.

This shift represents a significant culture change for many social housing operators, and will take time to achieve. The tools and structure of the flow of funds into the sector will play a large role in incenting entrepreneurial behaviours. In addition, federal Budget 2017 outlined significant investment in transformation and the creation of a technical resource centre to assist the sector.

The technical resource centre should incorporate into its work the following priorities:

- ✦ **Building expertise and development capacity** – The asset management approach entails active and proactive inventory assessment and development. Private developers have full time employees searching for land and property opportunities, with the understanding that quick action is essential when opportunities are identified. The technical resource centre should build the capacity across the social housing sector to identify and act on opportunities for inventory development.
- ✦ **Enabling deep analysis of resource potential** – Establishing the tools and spreading the knowledge to conduct asset inventories, and building the capacity of social housing operators to acquire a deep understanding of their resources will be essential to leveraging assets and achieving viability.
- ✦ **Establishing and spreading use of consistent key performance indicators (KPIs)** – Standardizing a set of well understood key performance indicators will enable providers to understand their relative performance and learn from one another, thereby improving viability and outcomes. The Agency for Co-operative Housing is a potential model for the standardized collection and sharing of KPIs across providers.
- ✦ **Building an innovation track for leading providers** – Much of the work of transformation will be to help all providers move up to the level of those leading the sector. Resources and attention will still be required to promote ongoing innovation and leadership in the sector. Identifying and investing in experimentation and innovation from pioneering practitioners should be a vital part of sector development.

Accountability in the transformed model

By creating an objective flow of capital into the sector, with investment grounded in the viability of a project and portfolio, accountability will inherently be structured into the deal. In this regard, a transformed social housing sector built on more

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conventional market mechanisms and underwriting should diminish the need for separate reporting and accountability mechanisms.

Metrics of performance evaluation applied equally to all providers will help to inform decision-making and evaluate the outcomes achieved by the sector. Establishing and standardizing these metrics is in very early stages; the chronic lack of comparative performance data across the sector – and across the housing system more generally – is well known. Establishing a baseline of data on the state of the inventory and the sector is an essential first step.

In addition to establishing a baseline for the sector, the following principles should guide the expansion of data collection and use across the sector:

- ✦ Metrics should focus on outcomes, not just outputs and processes, meaning for example, that they will need to track comparative performance of different providers in achieving tenant satisfaction, and also that they will need to include measures of improved life chances of social housing residents, etc.
- ✦ Data should be regularly utilized to analyze and understand risk, including potential for catastrophic loss of assets as well as more mundane risks such as those associated with mismanagement of assets.
- ✦ Data collection should seek to achieve common reporting across the system – a single framework as opposed to a separate framework for each activity or project.
- ✦ Key performance indicators should be consistent and readily available to the maximum extent through collection from routine operations. They should be utilized consistently over time and place.

Ultimately, the transformation described here will facilitate an environment wherein providers are focused on housing provision, and are accountable not to reporting requirements, but rather directly to their tenants.

Appendix

The following serve as case studies of the type of the asset management approach, enterprising partnership making, and risk-taking venture development by social housing providers. They are intended as exemplars of the kind of transformational behaviours already underway in some parts of the sector. The goals of social housing transformation is to encourage more of these types of projects and behaviours, and remove barriers to their being more widely adopted.

Partnership and new development – Alice Bissett Place, Calgary AB

Alice Bissett Place is a 3-story building located in the community of Inglewood. It has 114 suites consisting of bachelor, one-bedroom, two-bedroom and three-bedroom townhouse units. The building has energy-efficient solar panels, a landscaped exterior and 12 fully accessible units. Development of Alice Bissett Place was completed in 2009 as a result of a joint venture partnership between the Calgary Home Builders Foundation, the Calgary Homeless Foundation and Horizon Housing Society. David Bissett, along with his wife Leslie, donated to the construction of the building, which is named after David Bissett's Mother. In 2013, Alice Bissett Place was awarded Building of the Year (101+ units) by the Calgary Residential Rental Association (CRRA). Candidates were evaluated on several criteria including building upkeep and cleanliness, curb appeal, lighting, renovations and security.

Intensification and asset optimization – 250 Davenport, Toronto ON

Like many of Toronto's apartment buildings built in the post-war era, Toronto Community Housing's (TCH) high-rise at 250 Davenport Road was constructed using the "tower in the park" design principles. As a result, almost two-thirds of the site was comprised of open space. Facing significant capital repairs to the apartment building and 11 townhouses on the site, TCH sold a portion of this open space to Diamond Corp. and Metropia who are planning to construct market townhouse and condo apartment units. Proceeds from this land sale will be used to undertake capital repairs on the existing apartment building and replace the 11 townhouses which were in poor physical condition.

Inclusive, mixed-use communities – Alexandra Park, Toronto ON

TCHC and the Tridel Corporation are undertaking this multi-phase redevelopment of TCHC's Alexandra Park. In exchange for selling portions of the existing site to Tridel (who will construct more than 1,500 market units), TCHC will replace 333 of its existing RGI Rental Units and refurbish an additional 473 existing RGI Rental Units. Proceeds from the sale of land will also go towards constructing new amenities such as a public park, larger community centre and create new connector streets through the site. An additional 5,700m² of retail space will also be added.

Equity mechanisms and vertical alignment across governments – 457 Young Street, Winnipeg MB

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Working with the University of Winnipeg's Educational Housing Corporation, Kinkora Developments Ltd. purchased and renovated an abandoned apartment building in Winnipeg's inner city into 23 units of affordable housing for low-income post-secondary students. In this collaboration, Kinkora was responsible purchasing the building, overseeing its rehabilitation and providing building maintenance and other operation services once occupied. In turn, the arms-length housing corporation was responsible for selecting tenants and providing subsidies to ensure that the units were affordable for households. Kinkora provided equity funding for the project, in addition to funding from all three levels of government.

Outcome-based performance requirements – Norton Lake Residence, Brampton ON

The Norton Lake Residence is a 200 unit, 25-storey affordable rental building in Brampton for singles, families and senior households. The residence is owned by the Region of Peel, and operated and maintained by Pathway Housing and Support Services. Pathways was the successful respondent of an RFP (issued by the Region) for operating the building. As part of its agreement with the Region, Pathways is required to operate on a break-even basis and to maintain the building to Region standards.

An asset management development and innovative financing tools – Cahdco, Ottawa ON

Cahdco provides real estate development consulting to non-profit organizations in the Ottawa area. Cahdco specializes in affordable housing development. Cahdco engages in the development of social purpose real estate, as well as affordable home ownership development and affordable rental housing development. Social purpose real estate includes properties and facilities owned and operated by mission-driven organizations, including affordable housing, but also community health centres, community hubs, daycares, foodbanks, run by organizations that prioritize community benefit over financial profit. Through the implementation of innovative financial tools and elegant design Cahdco is well equipped to help other non-profits exceed their affordable rental goals, and provide opportunities for low- to moderate-income households enter the home ownership market and begin to accrue equity.