



October 8, 2024

Position Paper on Affordable Homeownership

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On behalf of the Co-operative Homeownership Sector

To: All those that are suffering from the lack of proper housing

Re: An **OTHER** Part of the Housing Solution, Affordable Homeownership

Preamble:

The status quo makes the stated government housing targets completely unachievable. We need to recognize that there is no “One Solution” to the housing crisis, and that an all hands on deck approach, is indeed, needed.

Let’s look back to what worked in the 1980’s - an accountable and innovative Non-profit/Co-operative Housing Delivery sector, that aligned the interests of the financial and private construction sectors, with social outcomes.

The financialization of real estate has brought us to this untenable housing situation.

The Co-operative Homeownership Sector has developed an innovative solution that uses unmet demand, to control risk and satisfy desired stakeholder needs for Affordable Housing production.

The keys:

- No grants or subsidies.
- Pay fair market value for land.
- Utilize thoughtful borrowing using existing financial lending mechanisms.
- Establish a sustainable and scalable non-governmental delivery channel.

Too good to be true? Then you are intrigued to learn more – please read on!

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Introduction:

The Co-operative Sector has always been a leader helping Canadians deal with pressing social issues. In the 1970's and 1980's we created the Co-operative Rental Sector, applying our principals to significant success. Today we are once again taking the lead by creating the Co-operative Homeownership Sector, ramping up capacity to build thousands of homes that will be OWNED, not rented, to address the housing crisis without the need of grants or subsidies.

A very common statement with respect to delivering enough housing for Canadians is the requirement for an "all hands-on-deck" approach. CMHC has declared it wants to see 4.5 million additional housing units in Canada by 2030, and Ontario's goal is an additional 1.5 million units by 2032.

Does Government think it is as easy as setting a target to solve this gargantuan problem?

If the status quo was able to solve the current housing shortage, they would have already done so.

Governments at all levels have been assuming that somehow, somewhere, with a little assistance from government, the private sector profit-making development industry will figure out a fix.

We believe the private sector has had more than enough time to prove to anyone with basic housing knowledge, that they are not able to resolve the affordable housing challenge on their own. The private sector is not equipped or properly aligned to address the size and scope of the issue.

Unfortunately, shortages are good for-profit margins.

We need to address four issues in the following ways to establish a comprehensive affordable housing solution:

1. The Non-profit/Co-operative sector MUST "Captain the Ship"

The 1960's and 1970's provide significant insight into what does and doesn't work.

The Non -profit/Co-operative sector, with its focus on improving society for everyone, makes it perfect for focusing all housing industry participants, including profit-making entities, on a housing solution that will serve all income groups on

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budget while providing reasonable margins for industry rather than windfall profits.

Charities are best suited to focus on supportive housing for very low-income households because of their legal mandates. They have not been successful to date at supplying significant amounts of housing.

2. Use Loans instead of Grants or Subsidies

There is not enough government funding available to subsidize rental programs to the scale needed to address the housing crisis.

Every subsidized program introduced since 1975 has needed, more and more money, to build fewer and fewer units.

It would require \$1.2 Trillion of grants and subsidies over the next 8 years for Canada to address the issue exclusively through subsidized rental!

The key to an affordable and comprehensive housing solution is implementing an action and recovery program that ***REQUIRES NO PUBLIC MONEY*** in grants and subsidies.

The Co-operative Homeownership Sector can accomplish this by using loans instead of grants and subsidies.

Equity growth overtime within this type of financing program makes it progressively more self-sustaining as more supply is built.

Canadians becoming homeowners means better cared for properties and increased household equity. History will attest to the fact that persons invested in themselves, their families, and their futures become “civic participants” and better neighbours. It also means more tax payers investing in their communities rather than drawing on the limited resources available presently.

YES! IT MEANS A PARADIGM SHIFT!

Rental is part of the solution. OWNERSHIP IS THE OTHER SOLUTION WE NEED TO INVEST IN for all our benefit and for a massive return!

The Credit Union movement in collaboration with the Co-operative sector are fully capable of leading this shift.

3. *Pre-sales focused on lower income households (\$30-\$85,000)*

Selling the majority of the units to lower income households addresses the greatest market need. Affordability is key to solving the entirety of housing problem.

CMHC defines affordability as, “a household spending less than 30% of its gross income on acceptable shelter.”

Since ownership involves savings by the purchaser through their principle payments we use 32%.

Many households cannot “afford” homeownership, because they are not able to:

- Save a sufficient **down-payment**
- Gain a mortgage approval due to **high interest rates**
- Enter the housing market due to **high housing prices**

Most households are thus forced to remain in rentals, experiencing:

- Household **insecurity**
- **High expenses**
- No equity **appreciation**

We can achieve pre-sales by helping those requiring assistance with their down payment and carrying costs, utilizing sources of lending that are repaid when the original purchasers sell their homes. The Co-operative Homeownership Sector has already accomplished this with Credit Unions.

Our model allows purchasers/co-op members to:

- **On average, pay a mortgage on their home that is half the purchase price**
- **Purchase their home with a down payment as low as 5%**

In addition to this game changing solution, up to **10% of our units can be sold using our “Save to Own” program that requires a minimum of \$500 as a**

down payment and a commitment to saving 5% before the unit title is transferred!

Our Community Wealth Development Model targets household incomes as low as \$35,000 per year, creates significant economic development opportunities for those that need it most and bolsters our economy by making it easier for employers to recruit and retain workers.

4. Double Canada's Construction Capacity, Starting in Toronto

To deliver the number of units that Canada requires, **we must double the current capacity of the construction industry**. We can achieve this by requiring that the homes we design generate **50% of their components in factories**, thus doubling the production capacity of the available on-site work force. The Co-operative Homeownership Sector in concert with the Credit Union Movement, are ideally suited to do this since we are providing the financing and therefore can require that all project designs be factory production friendly.

What does this mean for Toronto?

In 1993 when all levels of government terminated the funding for affordable housing, Toronto required the production of 10,000 units of affordable housing every year to meet its needs. In the following 20 years, there was no production, but the annual need continued to increase. In the last 10 years, Toronto completed at best 5,000 units.

Toronto now has a deficit of approximately 300,000 units!

Given the magnitude of this need, it is no wonder the suffering and frustration is boiling to the surface in our subways, in our schools, on our roads and in our neighbourhoods.

It should be no surprise that employers in Toronto are having trouble retaining workers. The University Health Network alone loses 25% of its nurses every 2 years due to lack of affordable housing! Think of how many other workers and their families have and are being forced to leave Toronto and the civil institution and businesses that need them to thrive.

To begin the process of recovery the city must generate at least **25,000 affordable units per year**.

According to city of Toronto's own published figures, it is currently planning to provide grants and subsidies to produce about 5,000 units of affordable rental and ownership housing, leaving a gap of 20,000 units per annum.

The Co-operative Homeownership Sector using the Community Wealth Development Model implemented by 20 delivery agencies led by Home Opportunities Non-profit, can, over the next 5 to 10 years, hit that target.

The City of Toronto hired an external consultant to create a, **“Report on affordable ownership housing needs in the city”**. **This new report once released, will create a rare opportunity to get the production of affordable housing back on track.** The key to any such program producing at scale, hinges on eliminating the need for grants, subsidies or permanent incentives.

Governments can afford to lend and invest, but they cannot possibly afford to subsidize our way out of the housing crisis in our current economy.

At the Co-operative Homeownership Sector we strongly believe, based upon our research and our team's experience over the last 40 years, that this report should include an Affordable Homeownership Program that integrates the following recommendations:

1. Set an Affordable Homeownership Housing Goal of 10,000 units per year within 5 years and 20,000 units per year within 10 years.
2. Grant priority access to all government-controlled land within Toronto, (including, but not restricted to TCHC, CreateTO, TDSB, Provincial and Federal lands) not designated for affordable rental housing, to Non-profit delivery agencies. **ALL** RFP's and REOI's should require that the lead proponent be a Non-profit delivery agency.
3. Require recovery of fair market land value plus any proportionate share of market appreciation of the units when the homes are resold or rented.
4. Require that the non-profit agency sell at least 30% of the units to households with incomes below the 30th percentile, 15% below the 40th, 15% below the 50th, 15% below the 60th and 15% below the 80th.
5. Establish that any, and all, incentives provided to the non-profit delivery agency be recovered on the following basis:
 - Waived/deferred Development Charges recovered when homes are resold or rented
 - Federal and/or Provincial program loans to be recovered when homes are resold or rented

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- Waived/deferred parks levy recovered when homes are resold or rented
- Waived/deferred permit fees recovered when homes are occupied
- Waived/deferred additional municipal fees recovered when homes are occupied
- Deferred Community Benefit Contribution recovered when homes are resold or rented
- Deferral of the Municipal Land Transfer Tax recovered when homes are resold or rented
- Deferral of Property tax through an incremental tax grant on a declining basis for 10 years recovered when homes are resold or rented

Note: Facilitating agreements and approvals required for the rapid ramp up of this Affordable Homeownership Program approach include:

- Access to CMHC long-term bulk financing from the Affordable Housing Fund
 - Access to Infrastructure Ontario long-term bulk financing recovered when homes are resold or rented
 - Expedited municipal development approvals (C2K/Priority Development Review Stream Facilitating access to a preconstruction loan [2-year term])
6. Recognize that household eligibility for ownership and higher income households varies and adopt the following guidelines:
 - For incomes up to the 50th percentile 32% of their income for their mortgage carrying costs
 - For incomes from the 50th to the 60th percentile 34% of their income for their mortgage carrying costs
 - For incomes from the 60th to the 80th percentile 36% of their income for their mortgage carrying costs
 7. State that Affordability in perpetuity will not apply:
 - If a replacement unit for the same income group is provided elsewhere in the non-profit's portfolio within the City of Toronto
 - When the proponent returns City equity on resale
 - If the land being developed was originally intended for market housing
 - If the sector is not producing in excess of 10,000 units a year.
 8. Define the maximum unit price as the cost of the home that a purchaser is carrying, with the remaining value of the home protected for future use by low-income purchasers. This would be subject to the maximum values set by the province.
 9. Accept Affordable Homeownership Housing development applications under the program on private lands, on a project-by-project basis.

10. Require annual reporting on the progress and size of all Affordable Homeownership developments.

Conclusion:

The City of Toronto can only solve its housing crisis if it chooses to support both Rental **AND** the Ownership Housing delivery mechanisms implemented by the right partners using the same approaches that it used successfully in the 1980's.

This non-market solution still works within the market but is flexible enough to continue to produce under all market conditions. It is important that programs trying to work at scale do not rely on grants and subsidies.