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1.0 OVERVIEW AND CONTEXT

1.1 Background

In December 2012 the City of London’s Council Housing Leadership Committee recommended that staff engage a consultant to explore the options and implementation plans associated with the potential creation of a local Housing Development Corporation (HDC) to advance affordable housing in London. Staff have retained the Consulting Team, of SHS Consulting, in association with Purpose Capital, MaRS Centre for Impact Investing and Robins Appleby & Taub, to assist with the exploration of a Housing Development Corporation for the City of London.

1.2 Goal of the Project

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.

1.3 Purpose of Interim Report

This report is an interim report outlining the findings to date, options, plans, and requirements associated with the creation of the Housing Development Corporation. It includes information about the current need and why an HDC is being proposed, as well as the key business modeling components for a Housing Development Corporation in the City of London.

The business modeling components highlighted in this interim report constitute a “minimum viable product” (MVP) for the HDC. The minimum viable product refers to a prototype framework of how the HDC will add value for itself and its customers. The MVP provides an outline of the key activities, value propositions, key partners, resources, customer relationships, channels, customer segments, cost structure, and revenue streams of the HDC.

The MVP allows the Consulting Team to outline a proposed business model and get feedback on it before developing the detailed business plan.

The business modeling components identified in this interim report have emerged from three main sources:

- Community consultation with key housing and development stakeholders in London. This includes a range of public, private and non-profit leaders in realty, development, finance, and academia.
- Secondary research, focused primarily on understanding the range of housing programs, policies and tools available to the City of London, as well as identifying the features of HDCs in other jurisdictions.
- Business model brainstorming sessions with key City of London staff.
1.4 Project Approach

The Consulting Team devised a project approach 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 from internal and external advisors and City staff received in Phase 2, 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 on the MVP model. This interim report represents the culmination of this work.

Next steps include detailed financial modelling and analysis to further refine the model, consideration of legal structure, additional consultations with key stakeholders, a second round of review with internal and external advisors, resulting in the preparation of a formalized business plan.

In addition to research, analysis and modelling, within each phase, the Consulting Team is conducting communication and community engagement initiatives, including:

- bi-weekly meetings with London staff
- interactive webinars
- a Community Roundtable discussion with London stakeholders
- separate key informant interviews
- Corporate Resource Committee meetings of City staff
- Council Housing Leadership Committee meetings
- National Housing Day events in association with CMHC.

Refer to Appendix 1 for additional details on the community engagement.
1.5 The Problem

When building an effective business model, it is vital to understand the problem or related set of problems that is faced in the market. In short, the problem is clear. There is a need for affordable housing. But it is costly and complex to develop and acquire new units, and there are limited financial and technical resources available to increase the portfolio. There is no actor in the marketplace with the financial and technical expertise, or mandate to increase the affordable housing portfolio.

Affordable housing refers to housing that is affordable to low and moderate income households, where low and moderate income households are households in the bottom 60% of the income distribution in London. While households with incomes in the bottom 60% of the income distribution in London would be the maximum, a mix of income levels below this targeted.

1.5.1 There is a tremendous need for affordable housing in the City of London

Community indicators: Over 3,500 families and 9,000 individuals visit a food bank in the City of London every month. Too many households have to make tough choices about putting food on the table or paying rent.

Employment indicators: Although the unemployment rate has dropped over the past six months, London’s unemployment rate (7.9% in October 2013) is among the highest amongst large cities in Canada. Many individuals have dropped out of the labour market altogether.

Housing waiting list indicator: Although not a complete picture of need, 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 represent an overwhelming proportion of their income. The current supply of affordable housing is not fully meeting market demand or need.

1.5.2 Developing and/or acquiring affordable housing units is costly and complex

Basic business model: Rental income is a simple and perhaps the most significant challenge to the basic business model of any affordable housing project: monthly rents do not typically cover operating costs. The operating cost of a one bedroom unit may be $900 per month, but the maximum rental charge according to RGI could be $475. 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. It can be challenging balancing the interests of all of these parties.

Policy and approvals process: Approval for housing development is not a short and simple process; it requires an appropriate policy and approval process. However, regulatory and approval hurdles at a municipal level can add time, and thus, associated costs for development. There is potential for increased efficiency in the approvals process.
1.5.3  There are limited financial resources available to sustainable 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 in 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.

City of London support: Although London has been a leader in providing direct municipal investment into affordable housing development, its funding is often tied to that of other orders of government. Where this is not the case (e.g. conversions to rent which is 100% funded by the municipality), London has been successful in advancing housing development, albeit, in a limited capacity.

1.5.4  There is a gap in the local marketplace for focused or coordinated financial and technical expertise and capacity in developing affordable housing

Current market players: There are individuals, organizations, and enterprises that develop market housing, manage affordable housing, and manage market housing targeting low and modest income households. There are only a small number of players that develop single projects in neighbourhoods.

Financial expertise and capacity: Although available, there is uncoordinated knowledge and expertise related to available grants and loans for housing, development financing models, and innovative financing models blending grants, government support, and debt financing that can reduce financing costs. In addition, 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 diverse array of service providers.

1.6  Market Opportunity

There are a number of related challenges faced in London, but there are also a number of opportunities and potential for developing affordable housing. There are significant resources available in the City: financial capital, technical expertise, land, housing, and willing
stakeholders. If effectively deployed, these resources could generate tremendous economic and social benefits for the City of London and its citizens.

1.6.1 **There is an 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 acquisition and re-development of existing stock for affordable housing, inclusive of social housing.

**Municipal land:** There is a substantial supply of land (greenfield, brownfield, bluefield/government and institutional, greyfield/vacant commercial and retail lands) owned or under the regulatory auspices of the City of London that could be developed or re-developed for mixed or affordable housing projects.

New developments could be mixed, increasing overall sustainability of the model (with appropriate incentives for developers) throughout London in sites and areas not currently being sought or viewed for their development opportunity.

1.6.2 **There are various tools and resources available**

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:

- City of London sets regulations (e.g. Design Guidelines) and manages the approvals process for new developments
- City of London sets development charges and taxes for new and existing housing
- City of London has a standing commitment to affordable housing with a $2 million annual allocation
- City of London staff members have 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 of London. 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.

1.6.3 **There is interest, expertise and existing involvement among stakeholder**

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

- London Community Foundation (LCF) has already identified affordable housing as a priority, and they have kick-started a social finance fund supporting housing in London.

- There is strong potential for partnerships with developers, home builders, and renovators in the City. These players have a track record of effective and efficient development and re-development projects in London and beyond.
1.6.4 There is a potential supply of capital in the City of London and beyond that could be directed towards sustainable housing

Local wealth: There is $40 billion in assets (Investor Economics & Social Finance London) in the community. In addition, the City of London has 37,000 residents with assets of $1 million or more (London Free Press & Social Finance London). There are a number of local institutions with significant assets like 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 already $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 (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).

Beyond these available capital pools for financing acquisition and development, there are also financing tools and opportunities that can increase the financial sustainability for housing development and acquisition of new units:

- Rent supplements can be leveraged to provide a more stable revenue stream for housing projects;
- Energy efficiency measures can be implemented to increase environmental and financial sustainability of existing and new stock.

1.6.5 Housing development has economic and social benefits for the City of London

Cost effectiveness: Affordable housing is a more cost-effective, healthy, and sustainable option than housing vulnerable Londoners 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 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.

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).
2.0 BUSINESS MODEL

2.1 Value Proposition

A core concept underpinning a business model is the need for an exchange of value. The HDC must offer a certain type of value to its customers, and those customers provide value back to the HDC. The value the HDC provides to its customers is what is known as the Value Proposition.

Every value proposition the HDC offers should be tailored to each 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 primary value proposition is the following:

The HDC is the most optimal vehicle to directly achieve the City’s affordable housing goals and increase the City’s capacity to develop affordable housing.

Specifically, a municipally-sponsored Housing Development Corporation has the potential to provide the City a mechanism to directly achieve key housing local goals and objectives including:

- Aligning and strengthening the municipal role in housing development within a social and economic investment context
- Leveraging municipal investments and maximize investments from other governments and funders to create stabilized funding
- Maximizing the impact of housing development in London, inclusive of affordable, supportive, and market housing
- Creating a stabilized housing strategy that is based on local needs and contributes to the local economy, and
- Advancing the community’s housing vision: “...Where all members of the community have access to housing that is safe and suitable to their needs and ability to pay.”

2.1.1 Achieving Affordable Housing Targets

A Housing Development Corporation will help address the housing needs and targets identified in the City’s current and future Official Plan and the London Community Housing Strategy. The City’s Official Plan has a target that 25% of housing be affordable to low and moderate-income households (i.e. households in the lowest 60% of the income distribution for the City of London). The 2010 London Community Housing Strategy set a target of 1,000 new affordable housing units by 2015. In June 2010 Council reset the target to 1,200 units.

Meeting the City’s affordable housing needs in the future will require continued investment in new affordable housing to meet the needs of the City’s current and growing population, as well as the maintenance/renewal of the existing stock. As noted above, the market is falling significantly short of meeting these needs.
Municipalities have routinely struggled to identify models that adequately finance the development of affordable rental housing. The main challenge is finding the funding necessary to bridge what is known as the “affordability gap” – the gap between the rents that would be required to achieve financial feasibility and the rent that someone in need of affordable housing is able to pay. The rents received by tenants can support a mortgage of approximately 40% of the construction costs of a unit. A private investor can be expected to contribute 10% of the costs in equity, and the remaining is the “affordability gap”, which must be bridged by other sources.

Bridging the gap can be done through a variety of sources such as federal and provincial funding, municipal contributions in the form of grants or incentives, through an HDC itself from its profit generating activities, and other investment vehicles or funds.

**Funding an Affordable Rental Housing Unit**

This may be a combination of a number of sources:
- Federal and Provincial Funding
- Municipal
  - Grant
  - Incentives
- HDC from profit generating activities
- New investment vehicles/funds

From 2000 to 2010, municipal funding of $2 million per year ($20 million over 10 years) leveraged $65 million in federal and provincial funding, and $74 million in private equity and mortgages held by the developers. This resulted in the creation of approximately 1,200 new affordable housing units.

However, federal and provincial funding has been available in irregular and intermittent intervals, and future amounts are uncertain. This greatly inhibits the City’s ability to maintain stable and strategic housing development and ensure that it is able to meet its affordable housing targets.

A Housing Development Corporation could help achieve stable predictable funding to support affordable housing development.
2.1.2 Increasing Capacities of the City to Develop Affordable Housing

There are a number of ways a Housing Development Corporation can increase the capacities of the municipality to develop affordable housing over the current in-house model of delivering affordable housing initiatives. An HDC could:

Planning and Development
- Foster developments outside of market interests but within community needs
- Generate sufficient and sustained development

Financial:
- An HDC can take on debt separate from the books of the City, based solely on conventional lending measures
- Whether directly or through a related vehicle, create an investment conduit for investors seeking social and financial returns
- Have greater ease in developing mechanisms for revenue generation and value/benefit capture, enabling some of the fruits of housing development to be reinvested in the goals of the corporation

Land
- Work with prospective developers earlier in land acquisition process
- Begin strategic investigation of potential acquisition of surplus “bluefield” (former government and institutional lands) lands, such as schools, hospitals, churches, etc. prior to notice of disposition

Organizational
- Build a clearer image and identity, so it is more likely to be seen as a centre of expertise and can more easily establish a track record of delivery
- Attract professionals willing to sit on its board and committees who have the focussed experience necessary to govern a development company
- Can change direction or increase the scale of implementation quickly and engage in quick decision-making.

A comparative review of current capacities and those of a Housing Development Corporation can be found in Appendix 2.

2.2 Proposed Mandate

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 tremendously though typically fall within a range from narrow to broad, as illustrated in the image on the following page. Refer to Appendix 3 for information on the range of activities of examples of HDC’s from other jurisdictions.
Feedback from the London community consultations was 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 City of London Homeless Prevention and Housing Plan. The Plan’s housing vision remains that all members of the community to have access to housing that is safe, secure, and suitable to their needs and ability to pay. The HDC’s mandate will mirror the City’s plan to promote “Housing First” and to prioritize affordability, safety, and accessibility.

With the City’s vision in mind, the proposed HDC core mandate and supportive mandates are as follows:

**Core Mandate of HDC:**
The HDC stimulates the development and sustainability of affordable housing throughout the City of London.

**Supportive Mandates of HDC:**
To achieve this core mandate, the HDC should adopt the following supportive mandates:

- The HDC supports our community’s 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.

The core and supportive mandates imply that the HDC will be involved in a range of development activities. This range of activities is not limited only to affordable housing – rather, the HDC will have a role to play in development opportunities across the development spectrum where affordability may be a feature, but not necessarily the sole focus of the development.
2.3 Customers

Like any corporation, an HDC will need 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 are:

**City of London:** The City of London could direct land, funding and financing instruments, and tools and incentives to the HDC. The HDC would leverage these mechanisms to help meet 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 will be attracted to a number of the key activities the HDC undertakes, including technical advice.

**Investors:** These customers could include businesses and individuals interested in investing in property owned by the HDC or innovative financial products/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.

**Residents of the City of London:** This includes individuals and families in need of housing, especially low and moderate income earners whereby the HDC provides or facilitates the development of affordable and market housing, both rental and ownership housing. The residents of London may also be directly involved in employment opportunities generated by the HDC through its development activities.
2.4 **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.

Activities could include:

- **Community convenor**: Convene community stakeholders to advance collaboration on housing challenges, new mixed use or focused affordable housing projects, or policy matters;
- **Technical advisor**: Directly advising mainstream developers on mixed housing projects, or affordable housing developers on financing/development;
- **Knowledge broker**: acting as a knowledge portal for market data, and available grants, loans and development supports for housing projects.

With these pillars in mind, the HDC may be involved in the following activities:
2.5 **Key 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

2.6 Key Revenue Streams of Cost Drivers

2.6.1 Key Revenue Streams

There are a number of revenue sources that can help bridge what is known as the “affordability gap” – the gap between the rents that would be required to achieve financial feasibility and the rent that someone in need of affordable housing is able to pay.

The revenue streams that could help address this gap include:

- federal and provincial funding
- municipal grants and incentives
- the HDC itself from profit generating activities
- new investment vehicles/funds.

Federal and Provincial Funding

Depending on the number of units being developed, federal and provincial funding can contribute the funding required to address the full affordability gap. However, it’s uncertain level of funding and availability in irregular and intermittent intervals, as well as the potential need for more units than available funding, precipitates that need for other funding sources as well.

Municipal Grants and Incentives

In the past Council has committed $2 million per year, which has been used to help fund the capital costs of affordable housing developments. If this were continued, the contribution this would provide each affordable housing unit would depend on the number of units created, but could be in the range of 8% of the costs (assuming 900 units are created by the HDC every 5 years). Alternatively, the municipal grants could be used to leverage other investment vehicles (see Resilient Communities Fund).

The City currently has a variety of incentives which can be applied to affordable housing development. In some cases (such as certain projects in the Downtown area), the incentives may contribute up to approximately 12% of the capital costs. However, in most cases incentives would likely contribute much less to reducing the affordability gap. Refer to Appendix 4 for
more information on the City’s incentives and their potential contributions to reducing the affordability gap.

**HDC from Profit Generating Activities**
The aim of the HDC is that it eventually would become self-sustaining and not relying exclusively on government programs. To do so, it must engage in profit generating activities to help fund the affordability gap. Profit may be generated from acquisition and disposition of land, development of mixed-use properties, or through new investment vehicles/funds. For example, the proceeds from the development and sale of four or five market housing units if done by the HDC alone could contribute the funding required to address the full affordability gap for affordable housing. Likewise an infill development could include a commercial component that aids in the funding of affordable housing within a mixed use project, as noted by Rethink London.

In addition, the HDC could also provide low-cost, fee-for-service technical assistance (eg. consulting) for the development of mixed and/or affordable housing projects.

**New Investment Vehicles/Funds/Products – The Need for “Catalytic Capital”**
Current revenue streams available to the City of London 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, of course, is to design the investment opportunity in a way that attracts new investors. To do this, the investment opportunity must satisfy the investment 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 reinforcing manner.

A mechanism by which to bring these two investor groups together is what is known as Catalytic Capital. 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.

Catalytic Capital works in the following way:

- 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.

The nature of the Catalytic Capital can also vary, and can often be tailored to satisfy specific investment requirements. Catalytic Capital can take form such 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. Appendix 5 provides more information on Catalytic Capital, including case studies in other jurisdictions.

2.6.2 The “Resilient Communities Fund”

The City of London can incorporate the concept of Catalytic Capital into an investment vehicle for affordable housing development. For the purposes of this report, this new investment vehicle is referred to as a Resilient Communities Fund.

The Resilient Communities Fund would include investments from multiple investors, collaborators and partners that have a blend of motivations and a variety of investment criteria (for example, banks, foundations, endowment funds, private investors, and corporate investors).

The type of capital incorporated into the fund would include a blend of philanthropic (grants), debt and equity. A portion of the invested funds (in the 10-20% range) would act as the catalytic capital and would be structured in one or more of the ways identified above (e.g. loan guarantee, reserve fund or junior debt/equity).

The structure of the Resilient Communities Fund will need the involvement of key stakeholder groups – philanthropic foundations, the banking/investment sector, government and the HDC. Appendix 5 provides a case study of a similar fund structured to support affordable housing development in New York City.

What is presented here is a concept – the specific structure and stakeholders to be involved require detailed consideration. At this stage, the City will need to consider the following:
• Is a new investment vehicle needed for the City of London? (i.e. Are the funding mechanisms that already exist sufficient in themselves to bridge the affordability gap?)
• What level of risk is the City willing to bear and contributions is the City willing to make towards a new investment vehicles/fund/product? (e.g. Is the City willing to provide loan guarantees to cover potential first losses and inject funds into a reserve cover returns?)

2.6.3 Cost Drivers

There are also a number of costs related to an HDC. These would be based on the incremental costs over existing commitments and would include:

• Cost of capital
• Land and real estate acquisition/development costs
• Administrative costs
• Property management costs.

The development of a detailed operating budget will be contingent on the specific scope of activity and its relationship to the City of London.

In the short-term, the municipal funding would likely be required to cover the HDC’S operating budget. Over time, the aim is for the HDC to become self-sustaining and fund its operating costs through its revenue generation activities.
3.0 **PRELIMINARY GOVERNANCE CONSIDERATIONS**

Local Housing Corporations incorporated pursuant to the Social Housing Reform Act (SHRA) are incorporated under the Business Corporations Act (Ontario), which continues to be mandated by the Housing Services Act (HSA).

By contrast, the HDC will have a choice of statutes under which to incorporate. Following the premise that legal form should follow the desired function, this report does not yet advocate a particular governance structure or legal form.

As a general principle it is likely that the final report in 2014 will recommend that an HDC be established and be separately incorporated in such a manner as to manage its risks, revenues, costs, and outcomes under the guidance of a municipal service agreement and related rules of the associated corporate governance model.

This model will ensure the HDC has the capacity to retain earnings toward seeding ongoing investments and developments and greater flexibility and agility of operation.

There remain a number of considerations to examine once the mandate of the HDC is established, including income tax implications, the details of which are beyond our mandate.
4.0 **NEXT STEPS**

Work to date has focused on articulating the “essence” of the HDC – its mandate, its proposed scope of activity, potential collaborations and the funding model. Once this essence is approved by the City of London, attention will turn to the “structure” of the HDC – the legal status and the governance model.

With both the essence and structure articulated, a final detailed business plan will be drafted for review and approval. The comprehensive business plan will include:

1. Description of the business of the corporation and an overview of its cost and benefit analysis
2. Revised mandate and strategic objectives
3. Recommended corporate by-laws
4. Considerations for a service agreement with the City of London
5. Initial and ongoing financial requirements
6. Funding sustainability model
7. Recommended sources of funding (new and repurposed existing)
8. Recommended governance and organizational models including board composition details
9. Legal and risk management considerations
10. Preliminary service delivery approaches and program details, including initial 3 year anticipated cash flow projection.
APPENDIX 1 – COMMUNITY ENGAGEMENT STRATEGY

The following community engagement initiatives have or will take place over the course of the project.

**PROJECT STATUS UPDATES**

SHS Consulting and City of London staff participate in 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 has 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. The Consulting Team will be meeting with the Corporate Resource Committee to obtain input on this interim report.

**KEY STAKEHOLDER INTERVIEWS AND CONSULTATIONS**

Key stakeholder interviews were conducted with stakeholders representing the London Chamber of Commerce, the London Community Foundation, London Home Builder’s Association, and Pillar Non-Profit Network. Additional consultation sessions with stakeholders will take place as the Consulting Team works towards the development of the final HDC business model.

**COUNCIL HOUSING LEADERSHIP COMMITTEE**

The Consulting Team attended the City of London’s Council Housing Leadership Committee meeting in October to present project progress to date and receive and address feedback from the Committee. Future meetings are planned for November and once the business model has been finalized.

**WEBINARS**

An informative webinar was offered to London staff and key stakeholders on September 27, featuring speakers from Enterprise and BRIDGE Housing. A second webinar is scheduled to take place on November 4, featuring speakers from Ottawa Housing Corporation, Centretown Citizens Ottawa Corporation, and District of Cochrane Social Services Administration Board. In addition, webinars are planned for early 2014 to share the proposed Housing Development Corporation model with the community as well as outline the implementation plan.

**COMMUNITY ROUNDTABLE DISCUSSION**

The Consulting Team participated in a Community Roundtable Discussion on September 23 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 Housing Development Corporation.

**NATIONAL HOUSING DAY**

National Housing Day events will take place on November 18th in the City of London. The HDC project team will present project progress to the community, receive feedback, and answer questions.
APPENDIX 2 – A COMPARATIVE REVIEW OF CURRENT CAPACITIES AND THOSE OF AN HDC

Non-mandatory special purpose bodies are generally considered within a municipal environment in order to advance or differently oversee a specific local service or function. Municipal governments often establish separate arm’s length agencies or corporations for activities that are ‘market facing’ and involve market-based transactions (i.e. activities that engage various sectors and involve labour markets, property markets, investment markets, etc.), rather than ‘citizen facing’ that focus on public service administration or direct delivery. Separate corporations are especially suited to ‘contested’ activities such as locational and investment decisions, or ‘collaborative’ activities (such as multi-party planning and joint ventures). It is often helpful to have these activities delivered by market-like bodies and business-led approaches.

In the case of exploring an independent HDC, the capacity of a new entity should be measured against the functions and capabilities that already exist within current municipal context. As such, the business case for advancing in the direction of a HDC should be based on specific and measureable outcomes, efficiencies, opportunities, or other capacities that support the proposed governance model and business approach.

While the decision making process within a public arm’s length corporation is just as geared to the transparency required in the expenditure of public money, once a decision is made, they take advantage of a corporate governance structure led by a CEO (as opposed to political structure led by council) to execute their decisions in a more efficient way.

There are a number of business competencies, advantages and challenges related to the current model of housing development as well as within an independent corporation model. The following charts outline some of these attributes based on key functional areas.
### Planning and Development Tools:

<table>
<thead>
<tr>
<th>Core Functions &amp; Capacities</th>
<th>Current Model</th>
<th>HDC Delivery Model</th>
<th>Comments and Other Considerations</th>
</tr>
</thead>
</table>
| Advancing Official Plan Interests and Directions | Driven by governing local policies, private market interests, and generally larger development opportunities | As with current, but would also allow for developments outside of market interests but within community needs | • Independent corporation could advance mixed density and form within existing communities  
  • Implementing the project may be more important than ensuring that municipal development principles are met |
| Focus on Affordable Housing in all Communities | Council By-laws, program criteria, and multi government funding focus on affordable housing interests. Programs may align with other development programs based on community improvement or other local plans and incentives | Affordable housing interests can be pursued independently or within mixed use (e.g. commercial and residential) projects  
Would allow for more influence on where affordable housing is located | • Would need to ensure fair practices and within mandate of HDC |
| Project Planning and Development | Project planning and scheduling is based upon funding schedules and program parameters | HDC can generate sufficient and sustained development and support ongoing internal specialized professional project and development roles | • HDC would need to incorporate current housing development capacities to advance and sustain the related competencies |
### Financial Tools:

<table>
<thead>
<tr>
<th>Core Functions &amp; Capacities</th>
<th>Current Model</th>
<th>HDC Delivery Model</th>
<th>Comments and Other Considerations</th>
</tr>
</thead>
</table>
| **Investment**              | Primarily focused on funding from all orders of government with equity assets and private mortgages from developers | HDC can create an investment conduit for investors seeking social and financial returns  
HDC can generate profit that can be invested in affordable housing development |  
• Seed capital for organization will be needed  
• Potentially, provision of assets needed for corporation to deliver on mandate  
• The City may be able to leverage lending rates based on projects and equity of the HDC. |
| **Debt and Financial Recoveries** | Primarily focused on service agreements with long-term forgivable loans | HDC may take on debt separate from the City based on conventional lending measures  
Can engage in shorter and longer term agreements  
Can still incorporate government funding tools |  
• Role in managing investments and returns requires risk management  
• Separate financial liability of the corporation from the municipality may reduce liability and risk exposure  
• More favourable terms in risk and profit sharing arrangements with the private sector |
| **Revenue Generation**      | Primarily through municipal reserve funds and promissory program funding through other orders of government from time to time | Capacity to develop sustainable revenue generation and value/benefit capture through profit making activities such as mixed use development  
HDC can leverage the assets of housing development within the HDC mandate |  
• HDC would still rely on funding from all orders of government but would not be sole funding source  
• HDC model can foster the certainty needed to attract private sector investment and funding outside of government program funding time periods |
| **Local Economic Factors**  | Demonstrated return on investment through local employment in trades and services  
High multiplier effect | Linkage to training and development opportunities with trades groups and organizations |  
• More sustained  
• Consideration for more strategic collaborations |
| **Gift and Trust**          | Capacity exists within the municipal environment, but not exercised for specific housing intent | HDC could (if non-profit) apply for charitable status to allow tax incentives, such as offering charitable tax receipts |  
• Land acquisition could be separate from project and development |
### Core Functions & Capacities

<table>
<thead>
<tr>
<th>Land Tools:</th>
<th>Current Model</th>
<th>HDC Delivery Model</th>
<th>Comments and Other Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquisition and Sale</strong></td>
<td>Currently, no linkage between municipal acquisition of land and affordable housing</td>
<td>Could have a component specific to fair market value land sale and acquisition</td>
<td>• Would need to have clear parameters to ensure a balanced approach of objectives and relation to core mandate</td>
</tr>
<tr>
<td><strong>Land Assessment and Pre-Approval</strong></td>
<td>Currently through 3rd parties involved with developers prior to RFP processes</td>
<td>Could be working with prospective developers earlier in process (pending projects in abeyance) Could be working with other orders of government to establish mutual agreements on land acquisition and sales within their portfolios Could begin strategic investigation of potential disposal of school board sites prior to notice of disposition</td>
<td>• Represents a tactical approach to land development. Projects may be handed to the organization and there may not be clear accountabilities to tie them to other municipal initiatives</td>
</tr>
<tr>
<td><strong>Environment and Community Impact</strong></td>
<td>Considerations for environmental and sustainable design built into RFP process Strong success with infill projects</td>
<td>HDC can work with developers and builders on new environmental design elements that include use of brownfields, institutional lands, and infill</td>
<td></td>
</tr>
</tbody>
</table>

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**City of London**

PROPOSED HOUSING DEVELOPMENT CORPORATION

Interim Report

Page | 24
<table>
<thead>
<tr>
<th>Core Functions &amp; Capacities</th>
<th>Current Model</th>
<th>HDC Delivery Model</th>
<th>Comments and Other Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Management</td>
<td>Council approves developments and bares risks associated with the funding provided</td>
<td>The arms’ length HDC can isolate development risk away from the City through the creation of an independent board of directors (though there may be some municipal representation)</td>
<td>• Depending on how arms-length the organization is, it may have less of an understanding of the internal dynamics of the municipality, and less of a working relationship with various departments in the City</td>
</tr>
<tr>
<td>Business Development</td>
<td>The City attracts RFP submissions based on proponents’ understanding of the operating environment of the City</td>
<td>Ability to build a clearer image and identity. 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</td>
<td>• HDC would be focused on meeting its own corporate objectives, often the focus is financial</td>
</tr>
<tr>
<td>Board Expertise</td>
<td>Rely on expertise around Municipal council, but often not able to engage community-based experts in a variety of fields</td>
<td>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</td>
<td>• Release of some control and authority to the HDC • Directors could put them in position of conflict of interest</td>
</tr>
<tr>
<td>Decision Making</td>
<td>Decisions must follow the formal City and Council decision making process, which can be lengthy</td>
<td>Decision making is streamlined and focused. Once a budget is set, authority to make adjustments is delegated to the HDC’s expert staff. There isn’t a need to go back for municipal approvals so it can increase the pace of the city’s response to investors/developers. The</td>
<td>• Release of some control and authority to the HDC</td>
</tr>
<tr>
<td>Core Functions &amp; Capacities</td>
<td>Current Model</td>
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</tbody>
</table>
|                             |               | 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 | • Adds another approval layer  
• Corporate objectives may not be in line with municipal objectives |
| Strategic Direction         | Council sets the strategic direction for housing, and changes in direction can be lengthy | The HDC is nimble and can change direction or increase the scale of implementation quickly by being able to commission additional resources quickly |
APPENDIX 3 – BEST PRACTICES IN HOUSING DEVELOPMENT MODELS

The following provides an overview of some examples of the mandates and scope of activities of other Housing Development Corporations:

1. 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**

<table>
<thead>
<tr>
<th>Concept Phase</th>
<th>Pre-Development Phase</th>
<th>Construction Phase</th>
<th>Operations Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixed market housing development and mixed-tenure communities</td>
<td>Forming partnerships with public or private sector developers, social enterprises and landlords</td>
<td>Mortgage guarantees and loans to qualifying housing projects</td>
<td>Rental subsidies paid to landlords or cooperative/non-profit housing project based on how much tenant can afford</td>
</tr>
<tr>
<td></td>
<td>Grants for private and non-profit housing developments, to include smaller &amp; modest, affordable homes in their plans</td>
<td>Agencies given preferred interest rates for long term periods than private lenders</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Acquiring and disposing real estate</td>
<td>Financing to qualified agencies to purchase, lease or upgrade housing facilities</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2. 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

<table>
<thead>
<tr>
<th>Concept Phase</th>
<th>Pre-Development Phase</th>
<th>Construction Phase</th>
<th>Operations Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Identify moderate income individuals/families looking to buy/rent first home</td>
<td>- Land acquisition and development</td>
<td>- Lots sold to small business owners who wish to build, sell or lease a home to an employee</td>
<td>- Affordable housing units rented at 20-30% below market rate</td>
</tr>
<tr>
<td></td>
<td>- Co-invest with public sector to create housing for public sector workers (Public Sector Partnership Program)</td>
<td>- HDC develops and sells industrial property. Uses proceeds of this sale to build new affordable housing</td>
<td>- 0% interest 2nd mortgages to homeowners. (25% equity increase at sale)</td>
</tr>
<tr>
<td></td>
<td>- Create partnerships with employers to provide affordable housing for essential workers</td>
<td></td>
<td>- Home mortgage program where rental rate is based on income</td>
</tr>
</tbody>
</table>

- HDC develops and sells industrial property. Uses proceeds of this sale to build new affordable housing
3. 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)

Scope of Activity

<table>
<thead>
<tr>
<th>Concept Phase</th>
<th>Pre-Development Phase</th>
<th>Construction Phase</th>
<th>Operations Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Increase and finance the creation and preservation of affordable housing</td>
<td>- Building relationships with property developers/managers Implementation of the New Housing Marketplace Plan (NHMP).</td>
<td>- Issues “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</td>
<td>- Affordable housing units rented at 20-30% below market rate - LAMP (Low Income Affordable Marketplace Program) funding packages which include 2 mortgages</td>
</tr>
</tbody>
</table>

- LAMP (Low Income Affordable Marketplace Program)
## 4. 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)

### Scope of Activity

<table>
<thead>
<tr>
<th>Concept Phase</th>
<th>Pre-Development Phase</th>
<th>Construction Phase</th>
<th>Operations Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable non-profit rental housing and affordable homeownership</td>
<td>Form relationships with non-profit societies and private lenders for equity contributions</td>
<td>Develop affordable housing through construction or purchase and renovation of existing buildings</td>
<td>No ongoing subsidies or grants to make housing self-sustaining</td>
</tr>
<tr>
<td>Self-sustaining affordable housing</td>
<td></td>
<td>Community Partnership Initiative- Interim construction financing (up to 100%) and/or long term financing at a competitive interest rate</td>
<td>Sales proceeds are used to pay down interim construction loans</td>
</tr>
<tr>
<td>Identify low to moderate income households</td>
<td></td>
<td>Units priced at or below 90% of fair market value</td>
<td>Simple Affordability and 2nd Mortgage arrangements</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Take out financing has inexpensive loan insurance, preserving housing availability</td>
</tr>
</tbody>
</table>
5. 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 partnerships
- Development Office

Scope of Activity

<table>
<thead>
<tr>
<th>Concept Phase</th>
<th>Pre-Development Phase</th>
<th>Construction Phase</th>
<th>Operations Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Focus on the due diligence and transfer processes in order to acquire these assets</td>
<td>- 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</td>
<td>- Land acquisition from the city of Ottawa Professional consulting services to prepare land for development</td>
<td>- Revenue from the sale of land wrote off legacy costs through real estate profits Opportunities for small homebuilders</td>
</tr>
</tbody>
</table>
6. 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

<table>
<thead>
<tr>
<th>Concept Phase</th>
<th>Pre-Development Phase</th>
<th>Construction Phase</th>
<th>Operations Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>Affordable housing portfolio: Developing new housing and redeveloping existing properties</td>
<td>Rental units with rents 10-20% below market price</td>
<td>Leases affordable housing buildings to agencies that provide supportive housing services</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Portfolio consists of 23 sites, 33 buildings and over 400 rentable housing units</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6 of the buildings currently leased to partner community agencies</td>
</tr>
</tbody>
</table>
7. 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**

<table>
<thead>
<tr>
<th>Concept Phase</th>
<th>Pre-Development Phase</th>
<th>Construction Phase</th>
<th>Operations Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Mobilize capital to meet critical financing needs of affordable housing and community developers</td>
<td>- Build relationships with developers, investors, government and community-based non-profits</td>
<td>- Preservation and creation 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</td>
<td>- Expertise and financing to governments and non-profit housing providers through programs and services</td>
</tr>
<tr>
<td>- Varying projects in different areas of the U.S. based on local needs</td>
<td>- Research communities in need of support &amp; their local challenges</td>
<td>-</td>
<td>- Low income housing tax credit, community loan funds, new markets tax credit, home development and consulting, grants</td>
</tr>
</tbody>
</table>
8. 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

**Scope of Activity**

<table>
<thead>
<tr>
<th>Concept Phase</th>
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<th>Operations Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Housing is only one element of strengthening communities</td>
<td>- Form partnerships with private and organizational donors</td>
<td>- Affordable housing construction financed by major donors</td>
<td>- Asset management (portfolio management, capital market, regulatory compliance, financial and insurance)</td>
</tr>
<tr>
<td>- Production and stewardship of quality affordable housing, paired with programs for social growth</td>
<td>- Variety of housing developments to serve different needs (family, senior, supportive, assisted living, 1st time ownership)</td>
<td>- Variety of housing developments paired with on-site social services</td>
<td></td>
</tr>
<tr>
<td>- To become a financial intermediatively and allow for efficient access to capital</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

APPENDIX 4 – OVERVIEW OF AVAILABLE TOOLS & BEST PRACTICES

Municipalities in Ontario have a number of important levers that allow them to use various tools to promote affordable housing. Among them:

<table>
<thead>
<tr>
<th>Statute</th>
<th>Potential Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning Act – Community Improvement Areas</td>
<td>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.</td>
</tr>
<tr>
<td>Municipal Act – Tax Financing</td>
<td>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.</td>
</tr>
<tr>
<td>Municipal Act – Municipal Capital Facilities</td>
<td>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: - Relief from Property Taxes - Relief from Development Charges. - Guaranteeing debt - Leasing or selling land</td>
</tr>
<tr>
<td>Housing Services Act</td>
<td>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.</td>
</tr>
</tbody>
</table>

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

- Grants and loans
- Relief from property taxes
- Relief from development charges
- Sale of surplus municipal land.

However, there may be opportunities for the City to expand the use of its tools, or improve the terms of the tools, if it so chose 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.
Incentives currently offered by the City that could be applied to affordable housing developments 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.

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Estimated Contribution as a Percentage of Capital Costs</th>
<th>Qualifiers to the Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Charge Rebate under the Downtown or Old East Village</td>
<td>Approximately 8%</td>
<td></td>
</tr>
<tr>
<td>Improvement Project Areas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown Rehabilitation and Redevelopment (Tax) Grant Program</td>
<td>Up to 4%</td>
<td>Depends on which level the property qualifies for</td>
</tr>
<tr>
<td>Bonusing</td>
<td>Likely less than 5% and may be much less</td>
<td>Amount depends on number of affordable units and number of additional units resulting from the bonusing</td>
</tr>
<tr>
<td>Innovative Design and Servicing Standards</td>
<td>Likely less than 5% and may be much less</td>
<td>Will vary depending on the concessions</td>
</tr>
<tr>
<td>Facade Improvement Loan Program</td>
<td>Less than 1%</td>
<td>Assuming 10 or more units in development</td>
</tr>
<tr>
<td>Upgrade to Building Code Loan Program</td>
<td>Less than 1%</td>
<td>Assuming 10 or more units in development</td>
</tr>
<tr>
<td>Priority in Approval Processes</td>
<td>Less than 1%</td>
<td></td>
</tr>
<tr>
<td>Brownfield Incentives Program</td>
<td>Less than 6.5%, impact may be 0% after factoring in clean-up costs</td>
<td>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</td>
</tr>
<tr>
<td>Surplus Municipal Lands</td>
<td>Less than 6%, and 0% if provided a fair market value</td>
<td>Up to 6% if provided at no charge</td>
</tr>
</tbody>
</table>
APPENDIX 5 – CATALYTIC CAPITAL EXPLAINED

Affordable housing, as an investment opportunity, is often perceived as having higher financial risk. Catalytic Capital (also known as Catalytic First-Loss Capital or CFLC) encourages the flow of capital to these opportunities by improving their risk-return profiles, thus incenting others to invest.

Catalytic Capital has three main features:
1. It identifies certain parties that bear first loss. The amount of the loss covered is typically agreed upon up front
2. It is catalytic. By improving risk-return, certain investors that otherwise would not invest become investors
3. It is driven by purpose. The first-loss investors are motivated by social good and thus aim to channel commercial capital toward social/environmental projects that would otherwise not be attractive as an investment

For the first-loss investor, the value proposition includes:
- **Impact Acceleration:** The first-loss provider is typically a group that has as its mandate the advancement of a certain type of social or environmental impact. This group already allocates capital to this endeavour, though the ability to accelerate impact is 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 cause the potential for 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, the value proposition includes:
- **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 concept of Catalytic Capital is not new – in fact, it has been used globally and in a range of sectors. Below is a case study highlighting the use of Catalytic Capital in affordable housing investment in New York City.

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Case Study – New York City Acquisition Fund LLC

The New York City Acquisition Fund (the “Fund”) is a creative approach to addressing the need to finance affordable housing in New York City. The Fund is the result of collaboration among the City of New York, philanthropic foundations, the banking sector and financial intermediaries.

Since its launch in 2006, the Fund has raised $210MM across a number of housing types (see image below for a breakdown).

<table>
<thead>
<tr>
<th>Project Category</th>
<th>Low-Income Rental</th>
<th>Mixed-Income Rental</th>
<th>Mixed-Income Homeownership</th>
<th>Preservation</th>
<th>Supportive Housing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>1,500</td>
<td>71</td>
<td>29</td>
<td>2,600</td>
<td>1,000</td>
<td>5,200</td>
</tr>
<tr>
<td>Total Loan Commitments</td>
<td>$36 million</td>
<td>$2 million</td>
<td>$2 million</td>
<td>$140 million</td>
<td>$30 million</td>
<td>$210 million</td>
</tr>
</tbody>
</table>

The Fund provides flexible capital for land acquisition and pre-development to non-profit and for-profit developers that are building affordable housing across NYC’s five boroughs. The financing takes the form of low recourse loans (typically 3 years at prime + 1.1%) with flexible underwriting criteria that bridge the period between site acquisition and construction closing.

The Fund is an example of Catalytic Capital at its best. The Fund is capitalized by 13 financial institutions as senior lenders, and 6 foundations as first loss capital providers. Of the $210MM pool, approximately $40MM is provided as a first loss guarantee pool from the foundation partners and the remainder is senior lender debt from the financial institution partners.

Other examples of funds that have adopted Catalytic Capital can be seen in the following chart (source: Global Impact Investing Network):
### Market Development

<table>
<thead>
<tr>
<th>Category</th>
<th>COMMUNITY FINANCE FUND FOR SOCIAL ENTREPRENEURS (CFFSE)</th>
<th>PEAK II</th>
<th>CALIFORNIA FRESHWORKS FUND—TERM DEBT FACILITY</th>
<th>DEMOCRACY PREP CHARTER SCHOOL</th>
<th>FLEXCAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Geography</strong></td>
<td>Australia</td>
<td>Tanzania</td>
<td>California, U.S.</td>
<td>New York, U.S.</td>
<td>U.S.</td>
</tr>
<tr>
<td><strong>Impact Objective</strong></td>
<td>Access to finance for low-income populations</td>
<td>Equipment finance lending</td>
<td>Healthy food in low-income communities</td>
<td>Affordable charter school real estate</td>
<td>Home ownership for low-income and under-privileged populations</td>
</tr>
<tr>
<td><strong>CFLC Amount</strong></td>
<td>USD 4.1 million (AUD 6.5 million)</td>
<td>USD 1.2 million (USD 1.1 million)</td>
<td>USD 7.5 million</td>
<td>USD 0.3 million</td>
<td>1 quarter of payment + 5% of outstanding</td>
</tr>
<tr>
<td><strong>Amount Catalyzed</strong></td>
<td>USD 5.5 million (AUD 6 million)</td>
<td>USD 3.6 million</td>
<td>USD 135 million</td>
<td>USD 3.3 million</td>
<td>USD 141 million (since 1996)</td>
</tr>
<tr>
<td><strong>Protection Ratio</strong></td>
<td>37.5% initially (may reduce with additional investor)</td>
<td>25% initially (may reduce with additional investor)</td>
<td>8%</td>
<td>5.1%</td>
<td>A little over 5% (see case study for details)</td>
</tr>
<tr>
<td><strong>CFLC Instrument</strong></td>
<td>Grant (converted from restricted grant)</td>
<td>Grant</td>
<td>Grant</td>
<td>Reserve account + guarantee</td>
<td></td>
</tr>
<tr>
<td><strong>Year</strong></td>
<td>2011</td>
<td>2012</td>
<td>2011</td>
<td>2008</td>
<td>1997</td>
</tr>
<tr>
<td><strong>Provider(s)</strong></td>
<td>Australian Governments Social Enterprise Development and Investment Fund (SEIF)</td>
<td>Equity for Africa (via the Government of the Netherlands)</td>
<td>The California Endowment, JPMorgan Chase</td>
<td>Civic Builders (via U.S. Dept of Education)</td>
<td>Habitat for Humanity</td>
</tr>
<tr>
<td><strong>Provider Type(s)</strong></td>
<td>Government</td>
<td>Fund Manager (via government)</td>
<td>Foundations, Government</td>
<td>Nonprofit Organization (via government)</td>
<td>Nonprofit Organization</td>
</tr>
<tr>
<td><strong>Recipient(s)</strong></td>
<td>Christian Super</td>
<td>Multiple Investors</td>
<td>Foundations, Government</td>
<td>Nonprofit Organization</td>
<td>Nonprofit Organization</td>
</tr>
<tr>
<td><strong>Recipient Type(s)</strong></td>
<td>Pension fund</td>
<td>Various—across Investor Types</td>
<td>Community Development</td>
<td>Various—primarily banks, pension funds, insurance companies</td>
<td></td>
</tr>
</tbody>
</table>

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16. Protection ratio defined as: \[
\text{Protection ratio} = \frac{\text{Amount of CFLC protection}}{\text{Total amount of investable capital}} \times 100\%
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