Consultation Summary - Housing non-profits & development consultants

On March 18, 2021 Council passed the below motion related to the Victoria Housing Reserve Fund Guidelines.

"That the program be modified to take into account the net-new units for housing rather than the gross number of units in the project and that the staff report back with options for program modification."

In preparing the Council report Staff consulted with various housing non-profits and local development consultants in July 2021 to understand the potential impacts of these changes.

Feedback and recommendations from those who were consulted via email response, phone calls and online meetings are included below:

Groups Consulted:
• Capital Regional Housing Corporation • Greater Victoria Housing Society • Pacifica Housing • Victoria Cool Aid Society • Gorge View Society • Wiser Projects

Key Themes Raised in relation to shifting grant funding to net-new units from gross new units for The Victoria Housing Reserve Fund Guidelines:

<u>Net-new vs gross</u>

- If switching to net new units it would be better to increase the overall funding per unit to maintain the funding levels, less about how you are going to configure the funding and more important what funding is provided.
- Net-new units is function of density, the greater density provided to non-profits and developers the greater the overall increase in units will be achieved.
- City controls the increase of net-new through land use policy and zoning regulations
- Direct connection between density and affordability when land is controlled, greater number of units where there are no land costs the greater affordability that can be delivered.
    - By supporting density there is greater potential for affordability as fixed land costs can be shared among a greater number of units
- In the context of affordable housing, when redevelopment occurs there is not the same loss of affordability when compared to market housing.
    - Loss of older affordable units in non-profit context results in the replacement of these older units with a much greater number of new similarly affordable units that better meet community needs
    - Big difference in terms of redevelopment of aging affordable project for larger new affordable projects when compared with aging market rental with affordable rents being replaced by larger new market rental project with higher rents
    - Big difference between sectors (market and social housing), but the two are conflated in terms of redevelopment of older sites.
    - Non-profits have plan in place to relocate and often bring back tenants and affordability is preserved with greater community benefit delivered
- Projects already encumbered enough based on affordability targets, financial feasibility targets, requiring near market or market units and then adding on encumbrance of net-new vs gross number of units adds another layer of complexity.

- Simplicity makes it easier for non-profits to put together projects and navigate programs.
- More criteria added to funding program increases administrative burden for non-profit.
- More encumbrances placed on units receiving grants makes it more challenging for non-profits to accept or apply for the funding (management costs etc.)
- As City adds more criteria it creates impression that the City is not seeing non-profit as partner, even when non-profit exists to deliver affordable housing (mission-driven).
- Recent project provides a good example, 19 unit building from the 1960s, purchased in 2011
    - Redeveloping to 40-unit building (5 storeys) or would be 21 net-new units
    - Could have gone to 6 storeys and 12 more units, but wanted to be neighbourly to surrounding 3-4 storey buildings
    - Grants decreased once during the planning process and more stringent conditions on the rental rates that could be charged to meet affordability threshold were introduced
    - Added requirements means the society can now qualify for lower borrowing amounts, more of own capital required to make project feasible
    - Under a net-new approach of funding units, the grant in this project would cost the organization money to accept – due to added constrains non-profit organization and lower rents able to achieve etc. Cost of roughly $300k / door to build new units
- Need to maintain incentive for older units to redevelop if we want to see new affordable housing units created.
- Need to provide flexibility to non-profits to find creative ways to deliver and maintain affordability, don't add more constraints
    - For example, if a building's operating agreement is ending there may be opportunity to access subsidy (through SAFER) for existing low-income tenants, but raise rent to generate revenue to build new projects
    - Access subsidy for low-income tenant but allow non-profit to increase rents to generate revenue to keep up with costs and maintain affordability
- To achieve deeper affordability for people with low and very low incomes requires considerable on-going subsidy from senior levels of government even with free land, tax exemption and other incentives etc.
    - Mix of market, non-market and affordable RGI units is also very helpful to allow for cross-subsidy within projects

VHRF helps non-profits access funding from senior government

- The feasibility of many projects is determined by BC Housing funding (grants and construction loans)
- VHRF funding is often valuable as projects look to access federal and provincial funding as programs often require projects to demonstrate local community support via grant funding or letters of support.
- CMHC Co-investment program looks specifically at the ways in which the local government is contributing through programs such as the VHRF grants
- City should continue to look for ways to facilitate the work of non-profit partners, may be other ways that local governments can demonstrate local support and assist them in securing funding.
- VHRF is valuable in leveraging larger funding for construction and financing
- VHRF program provides valuable funding as some of the VHRF funds can flow prior to construction financing help to cover some of the pre-development costs that are challenging for non-profits to cover.
- Program is very helpful in demonstrating support from political and policy perspective from local government when looking to apply and secure funding from senior levels of government (BC Housing etc.).
- Funding that can flow prior to construction is extremely valuable for non-profits as this funding is very challenging for non-profits to secure to cover consultant fees and technical studies.

- Does not make or break any one project, but valuable in demonstrating local support to funder such as CMHC and BC Housing
- Ease of process in getting rezoning or BP is just as important as grant, would allow projects to access funding from BC Housing more quickly etc.
- As City layers on more constraints less rental revenue can be generated and then non-profit needs to bring greater amount of capital to ensure project feasibility

Challenges of managing aging buildings and retrofits

- Funding dollars for renovation and retrofit from senior levels of government can be challenging to secure and often very piece-meal.
- Can be challenging for non-profits to secure funding to undertake repairs or improvements.
- In some cases, BC Housing operating agreements provides funding for building maintenance,
  - Requires significant funding from BC Housing that is likely better served to fund new units and new projects given long-term benefits
- BC Housing will often require and fund Building Condition Assessments for aging sites.
  - In cases where a project requires repairs or renovation that are valued at 30% or more of the capital value of the building it is not seen as a good investment and funding is not provided.
- Older buildings from 1970s and 1980s were built to low-end of market standards over 35 years ago in many cases
  - Many buildings are very costly and challenging to maintain which creates a burden for non-profits
- Older buildings from the 1960s/70s
  - often not energy efficient
  - Lacking safety requirements such as fire alarms
  - Have asbestos and hazardous building materials
  - Lacking elevators, which is challenging in terms of accessibility or aging in place
- Many projects built in the 70s and 80s are coming up to their term, meaning projects were built to 40–45-year building lifecycle.
  - Pursuing one deep retrofit, but unearthing surprises
  - Consider condition of building and OCP future land use direction when making decisions around redevelopment vs retrofit
- Renovation projects often deliver no net-new units and often it may result in fewer units based on current standards and better serving community needs
  - For example, seniors units from 1970s and 1980s were very small and would not meet today's standards; often redevelopment or renovation projects will propose to develop larger units, resulting in fewer net-new units delivered but a benefit to the community.
  - Another example is that National Housing Requirements for family units can require 3 bedrooms and 2 bathrooms, which can take up a lot of space and could make it difficult for a project to deliver a significant increase in net-new units but provide much needed larger family-oriented units.
  - Based on the small size of SRO units, redevelopment of SROs often results in a decrease in number of units based on delivering more livable one and two-bedroom units that meet needs of community.
- In cases where sites have less opportunity for density (OCP policy) it may be challenging for projects to access VHRF grants to redevelop smaller 2-3 storey projects that are at end of their life / have poor building condition as there would be a marginal increase in the number of net-new units.
- For example, some smaller walk-ups are in poor condition (poorly maintained) and will need redevelopment but would deliver a very small increase in net-new units unless the unit mix that was slanted towards smaller studio / 1-bedroom units.

Community Benefits Associated with New Affordable Rental Units

- Significant benefits associated with creation of new units vs the older existing units
  - Provide opportunity for family-oriented units (single parent families), greater demand for 2 bedrooms and 3 bedrooms, can deliver these in new projects, serve families and newcomers
  - Many of the older projects have high proportion of bachelors and 1-bedrooms
  - Improved accessibility measures to support aging in place and accommodate mobility aids for daily living
  - Greater energy efficiency in new builds based on improvements to building code, makes units easier and less costly to maintain.
  - Adding elevators improves quality of life for all tenants (e.g., seniors & families)
  - Built to a higher construction standard (new building code) will have much longer lifespan
  - New projects are being built to 60-year lifespan, proving excellent value for dollar in terms of the quality of construction of new affordable housing.
- Significant benefits associated with creation of new units that are being managed outside of market by mission-driven organizations.
  - Critical to build supply of non-market housing even in cases where deep affordability is not delivered immediately.
  - Over time (10+ years) below market projects will be some of the most affordable units available.
- For supportive housing projects, purpose-built projects offer better security options in terms of entrance and exits compared to a hotel or SRO that has been retrofitted
  - Improved management of site for non-profits reduces impact of supportive housing on neighbourhood
  - New projects often have common areas or amenity rooms that provide spaces for supports or more cohesion among residents
  - New projects can integrate areas for skills training and neighbourhood amenities (e.g., coffee shop in new project at 210 Gorge Road East)
- Often consider opportunities for retrofit if building condition allows it, but limited opportunities to add new units and meet community demand

Importance of un-locking existing land holdings for new affordable housing

- Leased or owned land that is provided to the project by a government partner or where an organization has owned or controlled land and is mostly debt-free is often the bare minimum needed for non-profit projects to deliver affordable housing
- Much of the older affordable housing is in the form of low-density townhouses / attached housing in areas well suited for medium or high-density multi-family housing.
  - Increasing density of these sites and redeveloping is the best way for non-profits to meet the increased demand for affordable rental housing and deliver affordability.
- Would be a significant impact if non-profits were constrained in their ability to access grants for redevelopment projects of existing affordable housing sites owned by a non-profit.
- Very challenging for non-profits to acquire land on the open market given the length of time to confirm funding / zoning approvals.
  - Typically, non-profits are not able to require land until funding call or funding approval comes through – results in a very lengthy process
  - Need to find a very sympathetic vendor and often results in paying monthly holding fee
  - Limited land available for non-profits and therefore densification is a major opportunity to deliver new units – every project is different.

- In considering opportunities for future projects non-profits often look at existing land holdings where they control the asset (land lease or ownership)
    - Consider which sites have support from a policy or zoning perspective in terms of increasing density (e.g., 30 townhouses to 100-150 units)
    - Look at which sites have the greatest land value, providing opportunity to leverage that land value for funding or financing to expand portfolio
    - Identify where buildings coming to the end of their lifespan and costs are high to maintain
    - Many sites with low-density townhouses where land use policies support much greater density – key asset for growth of portfolio and affordable housing generally
    - Even Land Lease of 49 years allows non-profits to borrow from a bank and leverage equity.
    - Supports such as property tax exemptions are also very valuable to a project's feasibility.
- Many aging sites are underdeveloped based on current OCP policies and zoning
- Land use policies create incentive for redevelopment
- Land is one of the most significant hurdles for a project, CMHC and BC Housing are increasingly not wanting to fund land
- Very challenging to acquire a new site, competing on the open market vs REITs etc.
- Other funding programs are encouraging non-profits to leverage older sites for redevelopment
- Using existing land is one of the best ways for non-profits to create new units for next 60 years
- More constraints on non-profits; tougher it is for affordable housing to be delivered

Importance of aligning VHRF with other funding programs

- BC Housing is the primary funder for many non-profit housing projects
- Important to align with Community Housing Fund, funds gross number of units with some criteria to consider if adequate number of net new units achieved.
- Provincial programs don't differentiate between net-new or gross number of units in terms of funding.
- Avoid creating more stringent requirements than BC Housing programs
- Important that funding such as VHRF offer certainty to non-profits as they plan their projects and budgets.
- BC Housing is focusing Community Housing Fund (CHF) on larger projects to encourage efficiencies in project management and construction as well as streamlining the deployment of funding from an administrative perspective.
- Net-new approach would create further administrative issues for non-profits with unit mix changes having greater impact on overall funding levels.
- Avoid creating criteria that is different than BC Housing, makes it more challenging for applications to BC Housing if local govt (VHRF) funding is only supporting a portion of the affordable units (i.e., net-new).
- Unit and rental rates secured in perpetuity, even for small funding amount
- Should align with provincial & federal programs that require 35 and 25 years respectively
- Smaller grants but more stringent conditions, term of agreements should reflect level of funding provided

Tenant Relocation Strategies for affordable housing redevelopment projects

- Non-profits internal policies often exceed City's Tenant Assistance Policies and what a market developer would do, ensuring tenants are provided with comparable alternate accommodation.
- Typically, provide tenants with option to return to new building after redevelopment at same rents as prior to redevelopment
- Develop detailed tenant relocation plans – looking at all tenants in a property impacted:

  - Often involve long-range planning (3-5 years) very important to non-profit societies
  - Look for ways to move tenants to different building on existing site to limit impact
  - With larger portfolio, tenants can be relocated to another property during redevelopment at the same rent
  - Reach out to other societies in neighbourhood to keep people in their community
  - In some cases, non-profits may opt to not fill units to reduce impacts in future
  - Often, non-profits provide financial support for moves where that has been budgeted in the costs for the new project
  - In some cases, non-profits will subsidize people in open market until they can rehouse them in new units but adds to capital costs of new build.
  - By densifying sites gradually, non-profits can often accommodate people in different buildings on site over time.
- In context of supportive housing this may result in the purchase of another site to house tenants while redevelopment takes place
- Non-profits with larger portfolios often have very robust tenant relocation plans a larger portfolio of units
  - Non-profits should be exempt from City's Tenants Assistance plans
  - Often able to accommodate impacted tenants in other buildings within portfolio, help to pay for move
  - Recent TAP cost close to $10,000 in legal fees, adds costs to project, impacts affordability