

City of Edmonton

Considering Regulatory Tools to Support
Affordable Housing

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nblc
N. Barry Lyon Consultants Ltd.

City of Edmonton

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The conclusions contained in this report have been prepared based on both primary and secondary data sources. NBLC makes every effort to ensure the data is correct but cannot guarantee its accuracy. It is also important to note that it is not possible to fully document all factors or account for all changes that may occur in the future and influence the viability of any development. NBLC, therefore, assumes no responsibility for losses sustained as a result of implementing any recommendation provided in this report.

This report has been prepared solely for the purposes outlined herein and is not to be relied upon, or used for any other purposes, or by any other party without the prior written authorization from N. Barry Lyon Consultants Limited.

1.0 Introduction

N. Barry Lyon Consultants Limited ('NBLC') has been retained by the City of Edmonton to support the City in evaluating potential policy approaches for the creation of affordable housing. The City has limited policy tools available from a regulatory perspective and has been holding collaborative discussions with the development industry to explore potential approaches to co-creating a solution which might allow for a more predictable and meaningful contribution to housing affordability through private sector contributions as part of new residential development.

Before engaging NBLC, the City led an engagement program throughout the fall of 2022 to highlight the range of available policy approaches, national and international precedents, and the scale of the affordability challenges facing the City. Presently, the two key approaches available to the City of Edmonton include:

- Some form of an Inclusionary Housing / Inclusionary Zoning policy (referred to in this report as "IZ"); and,
- Some form of a monetary levy collected as part of a development permit.

In Phase 2 of its work plan, the City's intention for the discussions were to once again highlight the range of regulatory policy tools that are available and then to explore the opportunities around non-regulatory approaches that might come forward through collaborative dialogue with industry stakeholders. NBLC's role in these conversations has been to listen and to offer constructive feedback and analysis where applicable.

The following summary report is intended to highlight the range of policy tools and feedback that have been gathered throughout the engagement to date, as well as to offer commentary regarding NBLC's perspective on the challenges or opportunities that relate to the strategies being considered.

1.1 About NBLC

NBLC has been providing real estate consulting services to municipalities, private sector developers, housing corporations and non-profit housing providers since 1976. NBLC's blend of experience in housing policy, affordable housing strategy, as well as a practical understanding of housing economics and the development industry allows us to be exceptionally well qualified to provide our perspective on the tools being considered in this report. NBLC has played a significant role in developing innovative housing strategies and policy, including leading the underlying analysis supporting the design of Inclusionary Zoning policies in Toronto and many other Southern Ontario municipalities where provincial legislation now allows the tool to be implemented.

2.0 The Current Economic Context

A major variable affecting the outcomes of this analysis is the rapidly changing cost of construction. The hard costs of high-density housing have seen dramatic increases over the past two years, which introduces a significant degree of volatility into the market and results in a challenging environment for policy making. Importantly, market conditions continue to be highly variable. The trajectory of interest rates and inflation are likely to continue to have meaningful impacts on development costs over the next few months and years. As such, any policies that function as a significant market intervention may require recalibration as economic conditions evolve over time.

At the time of writing (Fall 2023), there are a number of economic uncertainties that have had the effect of slowing the housing market since early 2022, with reduced demand and declining pricing in some markets. It is possible, if not likely, that volatility in the residential market will continue in the coming months. These following economic uncertainties could all conspire to slow the levels of housing production throughout Canada and influence the viability of new policy strategies for Edmonton in the near term:

- **Inflation:** Canada's inflation rate recently rose slightly on a month over month basis to 4.0% in August 2023 after having fallen to around 3% in recent months and since rising to a 31-year high of 8.1% in June 2022. As everyday costs increase, and interest rates rise, some buyers are likely to exit the market or to have less money to put towards housing. This has the potential to impact both pricing and sales. Additionally, construction costs have been rising rapidly, while sitespecific variance comes into play, anecdotal discussions and aggregate reporting indicates that this escalation has been in the range of 20% to

30% (or more) over the past 12 months in some markets. Rising construction costs will create additional challenges for project feasibility.

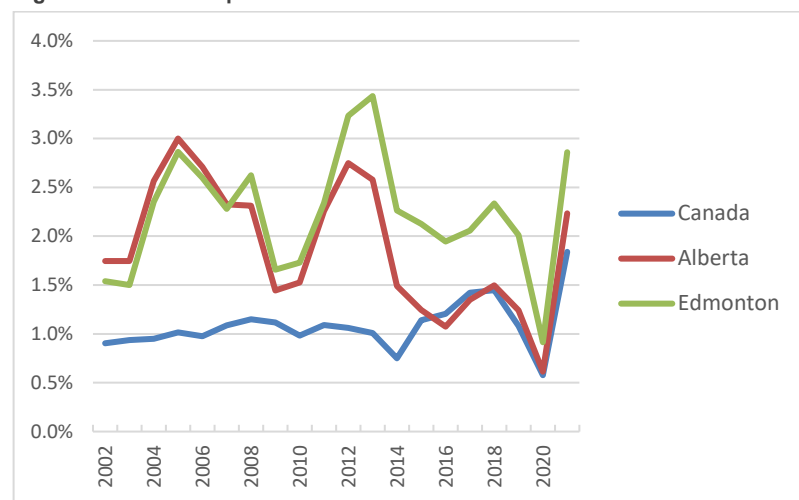
- **Rising Interest Rates:** The Bank of Canada began raising the overnight lending rate in March 2022 in an effort to reign in exceptionally high inflation. The bank has raised the rate several times over the past 18 months, from a rate of 0.25% in March 2022 to the current rate of 5.00% (as of September 6th, 2023). Historically speaking, this is the largest and fastest incremental increase in lending rates in over forty years. Higher lending rates reduce consumers' purchasing power, though it is expected to take some time before housing sale prices fully reflect this shift in the demand curve.
- **Fears of Recession and the War in Ukraine:** The war in Ukraine has added significant uncertainty to the global financial system, exacerbating some of the issues that have been caused by COVID-19. The war has impacted supply chains and commodity and energy prices and could lead to further inflationary pressures.

The following provides additional high level information regarding Edmonton's residential market. This includes information on population growth, forecasted population and housing need, as well as other macro-level market information.

2.1 Edmonton’s Population is Growing Faster than Provincial and National Averages, Driven by Immigration

Since 2009, Edmonton’s population growth has grown at a faster rate than both the national population and the provincial population, averaging 2.3% growth annually. This growth has been particularly pronounced over the past decade, as shown in **Figure 1**. On a nominal basis, this equates to an average annual growth of 22,200 persons over the past decade.

Figure 1 – Annual Population Growth Rate



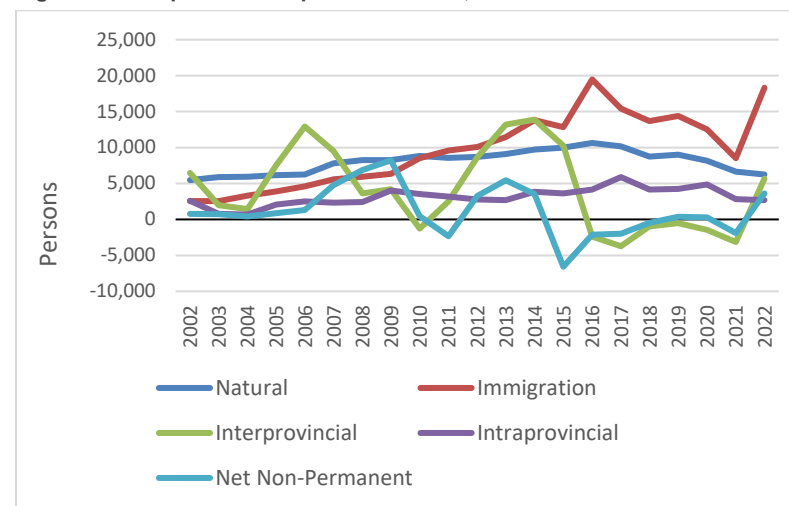
Source: Statistics Canada Annual Population Estimates

The driving force behind Edmonton’s population growth has been immigration. **Figure 2** clearly illustrates that immigration has been the primary factor contributing to the city’s population growth since 2015, displaying an upward trend over the past two decades. This surge can be attributed to the Canadian government consistently raising annual immigration targets during this period. Additionally, in recent years, a growing number of new Canadians have chosen to settle in relatively more affordable regions like Alberta, as traditional destinations such as

Vancouver and Toronto have become prohibitively expensive. Considering the federal government’s ongoing commitment to increasing immigration levels in the foreseeable future, it is highly likely that the influx of immigrants landing in Edmonton will continue to increase should job opportunities remain available and housing choices remain relatively affordable.

A key driver of Edmonton’s recent population growth has been persons aged 30 to 39. Between 2011 and 2021, they accounted for more than one-quarter (26%) of the city’s total population growth, trailing only children. This is not at all surprising, given that immigration has been the largest source of Edmonton’s population growth. Immigrants are typically younger, between the ages of 20 and 39. In Edmonton, 56% of the immigrants that have moved to Canada in the past decade have been between the ages of 20 and 39.

Figure 2 – Component of Population Growth, Edmonton CMA



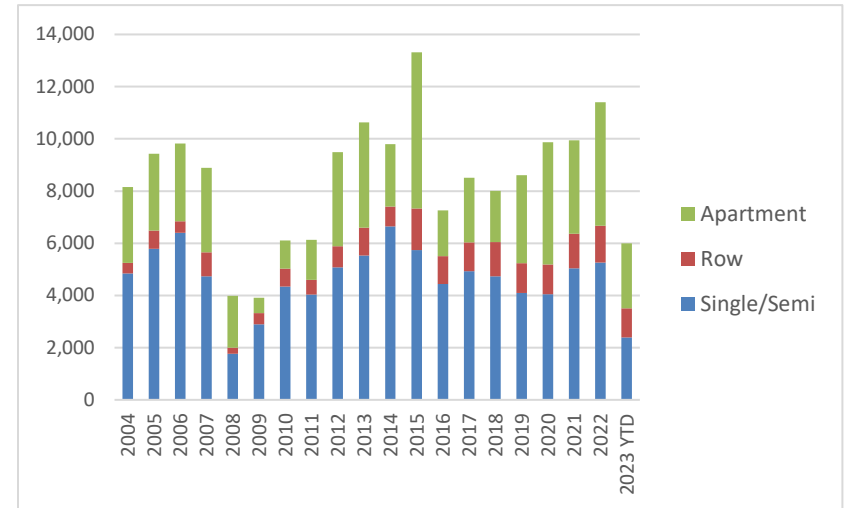
The above-noted groups driving population growth are particularly notable given that immigrants, and young adults are typically a strong source of housing demand, particularly for higher-density housing forms like rental apartments and condominium apartments.

2.2 Housing Starts are Beginning to Slow

Despite broad economic challenges facing the housing market in recent years – rising construction costs, increased interest rates, and a softening economy – Edmonton saw a gradual increase in annual housing starts between 2016 and 2022 (**Figure 3**). A total of 11,401 housing starts were recorded in 2022, the second highest year on record trailing only 2015 with 13,311 total housing starts.

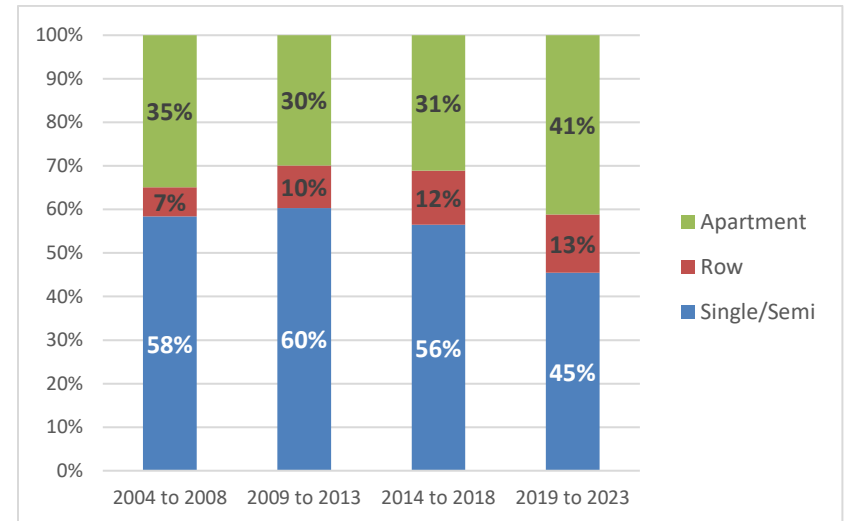
Through August 2023, there have been 5,990 housing starts recorded in Edmonton. As a point of comparison, the City of Edmonton recorded an average of 6,514 housing starts in the first eight months of the year between 2020 and 2022, equal to 63% of the average annual housing starts during this period. If we assume similar trends remain for the rest of 2023, the City would be on pace for approximately 9,567 total housing starts in 2023. While it is too early to make any broader prognoses, this could indicate a slowing number of housing starts for Edmonton, which is reflective of the prevailing economic climate and the challenges that are facing new home development across Canada. Similar trends of slowing housing activity are observed in major markets across Canada.

Figure 3 – Annual Housing Starts by Typology, City of Edmonton



Source: CMHC

Figure 4 – Share of Housing Starts by Typology, City of Edmonton



Source: CMHC

Notably, single/semi-detached homes are accounting for a decreasing share of total housing starts in Edmonton, coming at the expense of increased apartment and increased row housing starts. Over the past five years, singles/semis have accounted for only 45% of total housing starts in Edmonton, while row homes and apartments accounted for 13% and 41%, respectively (**Figure 4**). This trend is being driven by two factors:

- **Shifting lifestyle preferences** – Both older and younger households are continuing to show an increasing market preference for smaller housing for lifestyle reasons. The cultural desire for a single-detached home with a large yard, while still prevalent, is not as strong as it once was.
- **Affordability** – While pricing remains affordable in Edmonton and has grown at a more modest pace than in other communities in Canada, the increasing costs of low-rise ownership have likely shifted a portion of Edmonton’s housing demand towards higher-density forms of housing – either condominium apartments or rental apartments.

2.3 The Private Market is Delivering Homes that are Attainable to Moderate Incomes

In Edmonton, the private market has been relatively successful in delivering housing that is attainable for middle income households. Relative to Calgary and other urban centres across Canada, pricing in Edmonton demonstrates a degree of price sensitivity that is reflective of land availability throughout the region and exposure to energy sector cycles. Coupled with rising construction costs and interest rates, the relative availability of moderately priced newer rental and ownership housing in Edmonton is reflective of market conditions where there are lean margins from which to capture value for community benefits through policy intervention. Moreover, relatively quick approval timelines, low

government fees, and permissive planning policies mean that the minimum delivery cost of new housing is lower than in many other markets in Canada.

Over the past year, pricing across new medium and high-density ownership housing forms has remained relatively flat or declined slightly. As of Q2 2023, new concrete condominium apartment product was selling at an average price of \$608 per square foot (‘psf’), new wood-frame apartments at \$352 psf on average, and new townhomes at an average of \$273 psf. The total number of actively selling projects decreased slightly in Q2 2023 compared to the previous quarter. New multi-family ownership project launches continue to be infrequent in the Edmonton market. Of the actively marketing projects as of Q2 2023, townhomes accounted for the majority of sales.

Throughout newer purpose-built rental supply, average rental rates broke above the \$2.00 psf mark in Q2 2023 (\$2.01 psf). This is an increase in rental rates of 5.2% from the previous quarter and 8.6% year over year. Average rents were in the order of \$2.37 psf for new concrete purpose-built rental buildings, \$1.84 psf for wood frame and \$1.31 psf for townhomes throughout Edmonton in Q2 2023. Overall vacancy throughout newer purpose-built rental projects increased by 0.7% in Q2 2023 compared to the previous quarter. The overall increase in vacancy was due to numerous large project launches. Overall vacancy was the highest in Edmonton’s Downtown submarket at 13.6%.

Generally, these pricing thresholds are attainable to Moderate income households as defined in the City’s 2022 Affordable Housing Needs Assessment income categories (Moderate incomes are defined as being between \$45,000 and \$69,999 per annum).

The City identified the greatest quantum of housing need throughout Low and Very Low income categories, as summarized in the following table. Typically, the provision of housing to Low and Very Low income categories cannot be addressed by the private sector. This end of the housing spectrum is generally within the purview of government and non-profit agencies. In most instances, fees and taxes are paid to address low-income housing needs.

Table 1

| Edmonton Housing Needs - Summary of Income Categories and Projected Rental Need | | | | | | | | | | |
|---|---------------------|---|------------------------|---------|--|---------|--------------------------------------|--------|--------|--------|
| Income Category | Annual Income Range | | Monthly Rent Threshold | | Indicative \$PSF* (*850 sf avg unit size) | | Projected Rental Unit Need (2026) | | | |
| Very Low | < \$15,000 | | \$0 | - | \$374 | \$0.00 | - | \$0.44 | 2,500 | |
| Low | \$15,000 | - | \$44,999 | \$375 | - | \$1,124 | \$0.44 | - | \$1.32 | 30,800 |
| Moderate | \$45,000 | - | \$69,999 | \$1,125 | - | \$1,749 | \$1.32 | - | \$2.06 | 6,900 |
| Average | \$700,000 | - | \$104,999 | \$1,750 | - | \$2,624 | \$2.06 | - | \$3.09 | 100 |
| High | \$105,000 + | | \$2,625 + | | \$3.50 + | | | | - | |

Source: City of Edmonton Affordable Housing Needs Assessment June 2022

3.0 The Economics of Housing Extractions

It is a common misconception that the cost of constructing new housing determines the price at which that housing can be sold, and further, that any new or increased costs – including those incurred due to government policies – can be directly ‘passed on’ to end users through higher sale prices or lease rates. Though interrelated, the market dynamics that determine the cost of construction, and the price of housing is often far more nuanced and complex. This understanding informs the approach to which impacts from new policies should be considered.

3.1 Prices and Rents Are Established by Supply & Demand

In an efficient, competitive market, developers and/or landowners will charge the maximum price (rent or sale value) that the market will bear at any given time. Competitive markets establish pricing by the characteristics of supply and demand, underpinned by the principle of the ‘willing buyer and seller’. This price is irrespective of the costs of constructing the home in the first place. In any real estate market, it is the demand from consumers (as supported by incomes, savings, debt, etc.) relative to the supply of housing which determines the price to purchase or lease housing.

3.2 Profit Margins Are Fixed

Developers invest their skill and equity with the expectation of a return that is commensurate with the risks inherent to real estate development. In a competitive market, developers must compete for land, capital, labour, and purchasers or renters. The effect of this competition is to place downward pressure on profit margins to the minimum amount feasible so that they are not outbid for these scarce resources. The minimum risk adjusted return

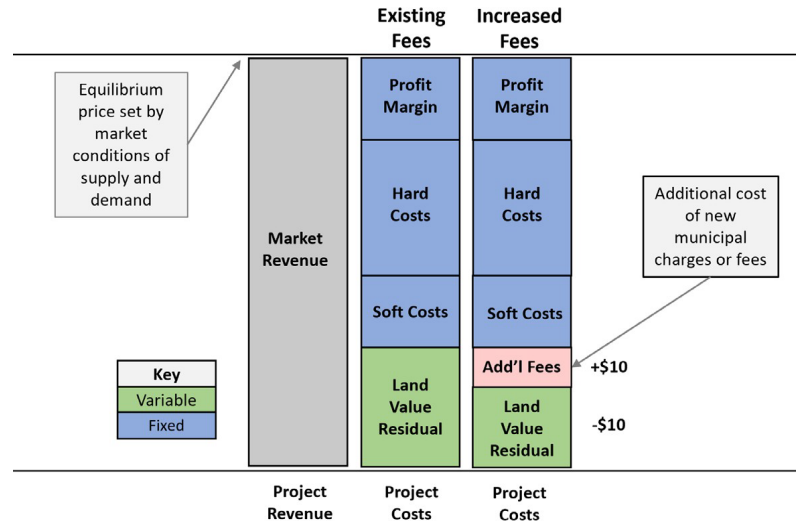
is set in large part by global capital markets and is largely beyond the control of any individual developer. If an acceptable profit level cannot be demonstrated, developers, investor partners and financiers will choose to invest their capital elsewhere – be it a real estate development in another community, or another investment vehicle altogether.

3.3 Residual Land Values Underpin Development Feasibility

Prior to acquiring a development parcel, a developer will evaluate market conditions to establish a project budget. The budget will include a projection of potential revenues and costs. To the extent that revenues exceed the cost of construction and achieve the developer’s minimum risk adjusted return, any residual amount will form the developer’s budget to acquire a development parcel. Landowners looking to sell their property for redevelopment purposes will often undertake a similar analysis in establishing their price.

Where land has not yet transacted, the impact of any cost increase is to erode the value of land. **Figure 5** illustrates this relationship, showing that if the total project revenue remains stable (as set by supply and demand conditions), any increase in soft costs (i.e., a development levy) must be compensated for by an equal reduction in land value as neither the cost of construction, nor the developer’s profit margin can typically accommodate the cost increase.

Figure 5



For example, if two identical high-density condominium development projects were situated adjacent to one another, buyers (demand) would view these homes as substitutes. In this situation, pricing would be comparable at each project. However, if one of these projects was situated on a parcel of land that required expensive environmental remediation, the developer would not be able to increase prices equivalent to the cost of remediation, as buyers would simply choose the identical and lower priced project. To the buyer, the additional construction cost is largely invisible and does not materially improve the quality of the unit. Therefore, a developer could not charge more for the unit to compensate for the added cost of construction.

For these reasons, it is common practice for developers and landowners to seek an opinion with respect to the quality of the soil and other matters of due diligence prior to purchasing the parcel of land. If there is evidence of a soil/environmental issue, the developer will discount the value of the

parcel by the cost of remedying the problem. The same principle applies for development-related fees. A purchaser would not pay more for a home simply because costs have increased. Rather, for developers seeking to acquire new development sites, they will look to reduce their price to acquire land by an amount commensurate to the additional cost. Of note, dynamics associated with other market interventions can have similar impacts (e.g., inclusionary zoning).

Therefore, an understanding of the market and site-specific conditions which support the land purchase price matter a great deal to the financial feasibility of a project. Significant, unforeseen changes to the revenues, costs, or profit requirements will have a material impact on the value of land and, by extension, the actions of landowners and developers in choosing to transact property and undertake projects.

3.4 Developers At-Risk Following Land Acquisition (i.e., those that already own land)

Following the acquisition of land, a developer is at risk to market and site-specific conditions that may impair or benefit project viability. Market conditions that support prices increasing faster than the cost of construction could yield a greater profit margin than was anticipated when the land was acquired. Conversely, market conditions that reduce revenues or increase the costs of development would erode the developer’s profit margin. Given that a developer’s land acquisition cost is now fixed, significant changes to revenues or costs over the development horizon will have a material impact on a developer’s rate of return and the viability of the project.

In the context of this review, we are considering policies that may increase the cost of construction. While housing affordability is an important issue, the introduction of a potential levy or inclusionary policy would not

increase development revenues, i.e., by improving the marketability or quality of a site or its context. However, if and when new infrastructure investments create major benefits from a development perspective (by way of built form, density, revenue potential or absorption pace), opportunities for ‘land value capture’ can arise for the public sector. In most instances, the cost of a development levy or inclusionary policy will be borne by landowners where the land has not yet transacted (i.e., an impact to land value), and by developers where it has (i.e., an impact to profitability).

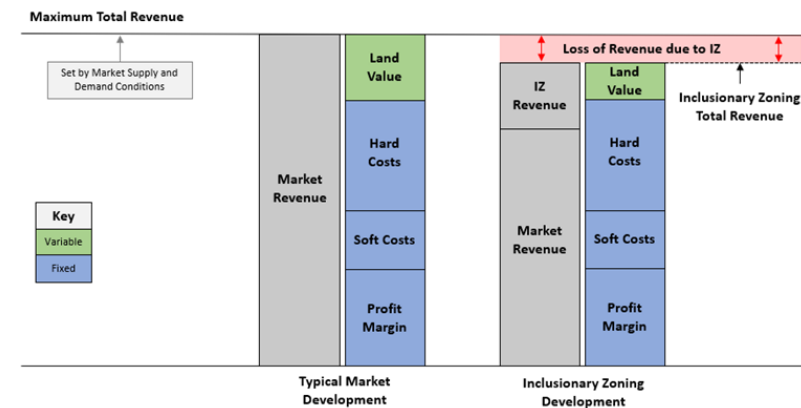
An exception to this is in the instance where a development cost increase occurs following the condo presale period. In these situations (subject to purchase and sale terms) the burden of the increased fees (or, a portion of them) can sometimes be incurred by a homebuyer as part of their closing costs, in effect, increasing the price to the purchasers. Where the purchaser’s exposure to rate increases are ‘capped’ – a common feature of presale home purchase agreements in some Canadian markets – the increase in fees is shared with the developer.

In Edmonton’s context, it is likely that some or all of a cost increase would need to be absorbed by the developer, in turn eroding the developer’s profit margin. However, there is a limit to profit margin compression. Lenders will be resistant or altogether unable to advance financing to projects where profit margins do not meet a minimum threshold (or, “hurdle rate”). In instances where investors are exposed to too much risk they will look to other investment vehicles, making the project unfinanceable. To the extent that the profit margin falls below the threshold required by the developer and project financiers, the project would be considered financially unviable and would not proceed or would be delayed until market conditions improve. A reduction to supply, when faced with constant demand, can cause affordability to worsen broadly across a market.

3.5 Inclusionary Zoning/ Inclusionary Housing Policies Have Similar Impacts

Like increased development costs, inclusionary zoning also impacts land values, although the mechanism is slightly different. Inclusionary zoning is not a direct cost of development, as it is not an additional fee imposed on a project. Instead, inclusionary zoning policies reduce a project’s total revenue as a set number of units are no longer able to be priced at fair market value. Meanwhile, the hard and soft costs associated with the development do not change, nor do the developer’s profit expectations. In this scenario, where the costs and profit expectations remain fixed, land values must be reduced in order to compensate for the reduced revenue. This scenario is illustrated in **Figure 6**.

Figure 6 – The Impact of Inclusionary Zoning on Land Values



Given these dynamics, successful inclusionary zoning/ inclusionary housing policies typically include offsetting measures to mitigate this impact as it could reduce the effectiveness of the policy and create unintended consequences. In some jurisdictions, this could include monetary offsets like tax abatements, or non-monetary offsets like

additional development density. However, only in very strong markets can additional development density have a meaningful offsetting impact because there needs to be sufficient market demand to absorb the added project scale without adversely affecting the project's timeline or cost structure (i.e., underground parking, etc.).

3.6 Potential Impacts on Affordability

As noted, the impact of these additional charges and fees does not linearly translate to increased costs for consumers. Instead, the cumulative impact of rising housing production costs will put downward pressure on land prices. However, if significant, this reduction in land prices can impact the supply of available and developable land, which in turn could impact housing prices by shifting supply and demand conditions. If the downward pressure on land values leads to a decline in land available for development, the supply of new housing would be reduced, which in turn could lead to increased pricing for both new and existing housing.

Downward pressure on land value can impact the supply of developable land in several ways:

- Existing landowners may be less likely to sell or redevelop a property, as the existing land use may provide equal or even greater value;
- Project viability can be impacted as the costs of development may exceed local market pricing; and,
- Other competitive uses such as office and retail uses may now be able to compete for properties.

Any of these potential outcomes could discourage reinvestment, reducing the supply of new housing and putting upward pressure on housing prices – to the extent that the market will allow – ultimately impacting

affordability. As supply is constrained, the market is either forced to pay more for housing or make other housing choices. This is especially true in low-growth areas where financial margins are already very thin, but opportunities for lower cost housing are the greatest. These areas also benefit significantly from new investment in terms of community improvements.

4.0 Implementation Considerations

4.1 Considerations for the Implementation of a New Levy

Development levies are generally limited in scope and are generally a small component of soft costs for new residential development in Edmonton. If the City were to implement significant levy, it could represent a structural change in the way that the City collects revenue to pay for infrastructure; in this instance, housing. There is precedent for development levies across Canada (e.g., Development Cost Charges in B.C., and Development Charges in Ontario), in these instances there is a general philosophy that ‘growth pays for growth’. However, the practical reality of these frameworks in many cases would suggest that these charges are sometimes used as a mechanism to keep property tax rates low, and as the cost of delivering infrastructure has increased substantially in recent years, so too have the development levies which are applied to new real estate development. In Edmonton, the implementation of a development levy could be structured differently to mitigate the constraints that exist in other jurisdictions.

Overall, the degree to which a new development levy will impact the feasibility of new projects will be subject to the magnitude of change being considered. For instance, we know from testing in comparable markets that a charge as low as \$10,000 per unit can have a significant impact to the feasibility of high-density residential development projects where achievable residential sales pricing is already at the most the market can bear. This should be expected in the absence of commensurate development revenue increases (e.g., an additional \$1M over a 100-unit project).

However, it may also be true that developers could be successful in incorporating a much smaller levy with inconsequential impacts to the purchase price of a home and a purchaser’s mortgage (e.g., a \$500 levy amortized over a typical 25-year term is equivalent to the price of a coffee on a monthly basis). Notwithstanding this, in purpose-built rental scenarios the ability to absorb an upfront levy is likely to be more sensitive.

In calibrating a potential development levy, the municipality must be cognisant that a significant added cost will decrease the budget available for land acquisition to meet the development industry’s typical financial viability requirements. Furthermore, it remains unlikely that existing landowners will drastically reduce their asking prices to align with a developer’s reduced land budget.

In short, the magnitude of the levy matters significantly. Moreover, any levy must be considered within the cumulative picture of all fees and charges that a development will be exposed to. Overall, it is impossible to pinpoint what degree of new cost can be absorbed in the market without significantly altering the behaviours of landowners, developers, purchasers and renters.

In levy scenarios beyond a low nominal fee that could be absorbed by most end users at closing, it will be important to consider strategies to mitigate impacts. A blunt policy could create broader risks to housing supply and housing choice throughout the City.

Following are several factors which should be considered in calibrating development levies and relate particularly to instances where the levy would create a significant change to the costs of new residential development projects.

- **Impacts of policy changes on land value can be significant, but will vary.** The impacts of a new development levy will vary depending on the form of residential development, market location, and tenure of the project. For instance, condominium apartment projects in the strongest market locations are likely to demonstrate lesser impacts than those in more moderate or emerging submarkets in the City. Thus, if a blunt flat-rate approach were to be implemented, it is possible that new development investment would be delayed in some instances until markets become more established and can support growth in revenues to offset the potential added cost.
- **High construction costs and interest rates are exacerbating development challenges.** The costs of high-density residential construction have grown at a rapid pace the past two years. Previously, many developers have largely been able to absorb construction cost increases because revenue grew at an equal or faster pace. With this relationship eroding, at least in the short-term, the potential impacts of a proposed policy changes or fee increase will be magnified with the viability of many projects being increasingly challenged to return an acceptable profit. Further, should recent levels of inflation persist and interest rates continue to remain high in the coming months, the challenge posed by increased hard and soft costs will only further be magnified by impacts to residential demand and pricing because consumer purchasing power has been impacted. These factors also play out in the purpose-built rental market where developers are perhaps even more susceptible to the challenges presented by a high interest rate environment given the higher equity thresholds that are often required in financing these developments.
- **Strong market areas are better capable of sustaining the impact of increased charges.** A fee's potential impact on land value will vary throughout different market locations and across built form. Stronger submarkets are generally better able to withstand an increase in costs.

As these stronger submarkets can achieve higher project revenues and sell or lease more units faster, the underlying land values also tend to be higher, allowing for a greater capacity to absorb increased costs without significantly impacting development feasibility. Conversely, weaker submarkets commonly have lower underlying land values due to lower demand (meaning lower achievable project revenues and slower absorption). In this case, higher costs can have a more significant impact on these underlying land values, and in turn, may restrict the supply of developable land for new residential development.

- **Recent land purchasers generally have thinner margins with which to absorb increased costs.** This is especially true if the developer has recently purchased land without fully understanding the magnitude of the potential increases in development costs. In scenarios such as this, where a developer has recently acquired land and an unanticipated increase in costs occurs, developers may no longer be able to achieve an acceptable return on their investment. This could result in the developer needing to hold the property until market revenues have increased enough to reinstate an acceptable return.
- **Long-term landowners may also hold back supply.** Meaningful development cost increases could also impact the actions of long-term landowners, despite their theoretical buffer that could absorb some degree of a cost increase. While landowner's motivations can vary dramatically, a rapid escalation in costs can lead many long-term landowners to delay new investment plans, waiting for revenues to increase so that their margins are reinstated. Further, developers will often obtain financing with the market value of their landholding included as part of their equity. For this reason, a rapid adjustment to project costs can also impact projects on historical land acquisitions.

As outlined in this report, the increased costs resulting from a significant development levy would be absorbed by reducing residential land values in a forward-looking scenario, or by impacting profit margins for existing

developer-landowners. In some instances, this reduction in residential land values may improve the ability of other non-residential land uses to compete for land in prime locations. It may also cause land vendors to delay investment decisions, choosing instead to wait until market pricing returns to a more favourable level. The City should also be cognizant that these dynamics will apply either as the result of a specific affordable housing levy, or from the culmination of other potential changes to municipal fees and processes. The cumulative impact of changes that affect projects costs or revenues should be considered holistically as they are being evaluated.

The pressure to increase municipal fees to address broader housing affordability challenges comes at a time when the development industry is facing significant increases in hard construction costs. In addition, recent interest rate increases have undermined demand and pricing. There will be limited capacity for development finances to absorb an additional cost increase, particularly outside of strong submarkets. The effects, however, will vary depending on the market and land economics associated with a particular site and its development strategy.

As the City considers a potential development levy to address housing affordability in Edmonton, it is recommended that only a low nominal charge be considered (for example, a rate of \$500 per new unit). It is more likely that a small charge can easily be absorbed by the market and limit structural challenges within a project's proforma. The City should also consider an approach that gives stakeholders a degree of certainty with respect to how the levy might adjust over time.

If a more significant levy is to be considered, the municipality should adopt approaches to mitigate the significant impacts that an additional

development levy could have. Considerations for mitigating unintended consequences could include:

- A gradual phase-in period whereby the levy would be introduced at a low nominal rate alongside a schedule for planned increases, if any;
- Designing the policy so that it provides long term certainty over rate escalation by tying any increases to a prescribed index (e.g., the consumer price index, or building construction price index);
- Calibrating the rate with the strength of a geographic submarkets (i.e., an area-rated fee);
- Providing exemptions for specific development typologies, forms, tenure, or affordability thresholds that meet other city building objectives;
- Dovetailing the levy with a strategy for re-investing the levy that is created; and,
- Implementing a procedure for monitoring and reviewing the levy so that impacts can be evaluated and the rate adjusted, if required.

In NBLC's opinion, where a significant levy is being considered, staff should underscore the importance of both moving slowly with the adoption of fee changes, as well as acting in a deliberate manner that seeks to provide advance notice and clarity to the development community. A measured and deliberate implementation approach should seek to allow the residential land market time to adjust in a manner that does not lead to unintended consequences in Edmonton's housing market.

In contrast, a more equitable approach with fewer potential impacts to new housing supply could be to consider a 'whole of community' approach to

funding new investments in support of improved housing affordability. For instance, a nominal fee collected via municipal property taxes (e.g., \$100 on an annual basis) could also be considered by the City of Edmonton (this could be instead of, or in addition to, a nominal levy on new units). Potential benefits of this approach are that it limits potential risks of new housing supply, expands the revenue tool to a wider collection base, is less susceptible to market fluctuation, and could be more enduring should the new home market continue to face challenges.

Given these considerations and the broader economic and market context noted earlier in this analysis, it is very likely that developers in Edmonton do not have high margins for which to compress land values or profit margins to compensate for a significant new development levy.

4.2 Considerations for the Implementation of Inclusionary Zoning

Within the context of this discussion, it is important to consider that the implementation of IZ can take many forms. IZ can be a mandatory program (e.g., an entire building is subject to IZ), a voluntary program (e.g., IZ applies in particular situations, such as above a density threshold or within specific locations, i.e., near new transit investments), without offsets (i.e., rely on land value compression), with offsets (e.g., financial incentives and increased density to offset land value compression), or a combination of these approaches.

A **mandatory IZ policy** requires that all development subject to IZ provide affordable housing as a condition of receiving a building permit (or another planning approval instrument). The IZ policy contains explicit detail on all affordable housing and administrative requirements, which allows developers to incorporate the affordable housing into their business plan when acquiring land and proceeding with municipal approvals and

development. A mandatory policy can also include offsetting measures to reduce the impact on land value and development feasibility.

A **voluntary IZ policy** would seek to incentivize a developer to participate in a program and provide affordable housing. For a voluntary program to work, the incentivizing measures must provide a meaningful benefit to the developer such that they would want to participate in the IZ policy. For example, a municipality may provide financial incentives, increased density, and/or quicker approvals in exchange for the affordable housing. A municipality may also structure a bonus density scheme, where only buildings above a certain size would be subject to IZ. For example, at 10-storeys IZ is not required, but up to 20-storeys is available where IZ would apply to the extra 10-storeys should the developer decide to pursue the increased density.

In the Edmonton's context, the application/implementation of IZ may vary across the submarkets due to area specific contextual considerations, existing planning permissions, planned municipal investments and other municipal objectives.

The majority of successful IZ programs in North America, predominantly in the United States, are voluntary programs where increased density and/or financial incentives are exchanged for affordable housing. In this case, the use of offsets (i.e., incentives, density increase, parking reductions, transit improvements) can mitigate or offset the reduction in land value that might result from IZ, which would result in many positive outcomes:

- Land transactions and development activity would be less likely to be impacted.
- Impacts to development feasibility could be mitigated.

- Developers would be less likely to avoid the IZ policy (i.e., quickly submit a development application prior to the IZ by-law being introduced or seek opportunities outside of particular policy area).
- The need to slowly transition / phase-in the policy is reduced.

The effectiveness of offsetting measures is subject to their calibration relative to the cost of the affordable housing policy itself. Where the offsets are not well calibrated, adverse impacts can arise and relate to the price of land, land supply, and pace of new development activity. A framework of offsets would need to be considered for Edmonton, but would be challenging to establish, given that:

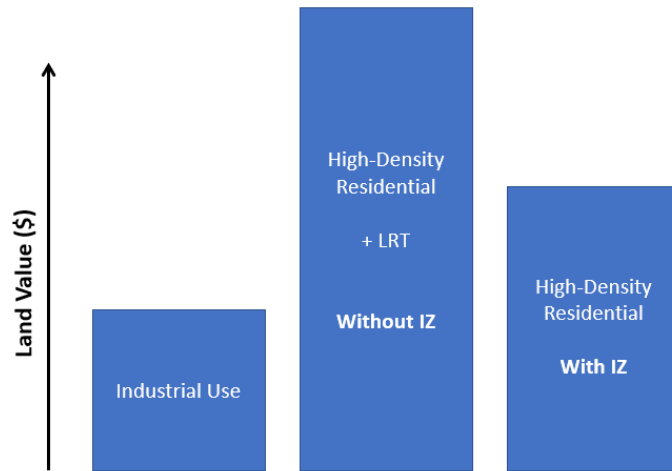
- The City generally has a permissive zoning framework and market housing supply is not so constrained that additional floor area carries high enough value that it may not fully offset the cost of developing affordable housing units.
- The City has limited capacity to provide monetary offsets and there are not currently high development levies which could be waived to lower project costs.
- The City's Housing Needs Assessment highlights housing affordability issues for low-income households and households needing support and/or are transitioning from homelessness. Inclusionary housing policies generally target low-end of market income deciles where social and economic inclusion is less stark relative to market purchasers/renters. From a land economics perspective, seeking to incorporate deep levels of affordability in an Inclusionary Housing policy would mean that few units can be accommodated without adversely impacting the viability of new market housing investment.

4.2.1 How Can Land Value Impacts be Minimized / Eliminated?

It is highly advantageous to develop the IZ policy in tandem with forward looking planning, whether in the context of development permissions or other major public sector infrastructure investments. The following explores these considerations.

- **Rezone land from non-residential to residential uses.** This can have a significant value implication for landowners, where land that is currently zoned for low-density commercial or industrial use is granted high-density residential permissions. As illustrated by **Figure 7**, the land value of the property could significantly increase when it is granted high-density residential permissions. Similarly, in the case of transit-oriented planning where LRT infrastructure investments are being made, these changes to entitlements and infrastructure often come with little cost to existing landowners.
 - A developer is likely willing to pay more for a property with high-density residential permissions than a property zoned exclusively for industrial use, a benefit that would solely be captured by the current property owner when they sell their property to a developer.
 - In this situation, IZ would reduce the amount a developer would pay for the property. However, so long as the land value is not depressed too much, the property owner could still be motivated to sell, and the developer could move forward with their project while incorporating affordable housing as required by the IZ policy.
 - It is therefore beneficial to implement IZ **in concert with** a land use / zoning change. It is problematic if land is rezoned and IZ introduced later, because land value has already been created and possibly transacted at a price that does not account for any future affordable housing requirement by way of an IZ policy.

Figure 7: Example of Land Use Change on Land Value



- **Increase the as-of-right density permitted for residential development.** There may also be situations where residential permissions are already in place, however changes to the City's planning framework could seek to increase those permissions as-of-right (e.g., maximum of 6-storeys increased to 20-storeys – **Figure 8**). This can also be a highly effective offset. Very similar to the previous example, increasing the maximum allowable density can increase the value of a site (in market locations where there is sufficient demand), which can assist with offsetting the impact of IZ.
 - Both **Figures 7** and **8** illustrate a scenario where the uplift in density and transit improvements are sufficient on their own to generate a positive outcome for IZ. The land value improves as density is increased, which is then suppressed by the requirement for IZ. However, the land value with increased density and IZ remains well above the existing land value (e.g., employment land or low-density permission). This scenario indicates that landowners will still earn a strong premium over their existing land value and would therefore be incentivized to sell their land

to a residential developer. It also indicates that a developer would be motivated to pursue a high-density development despite the IZ policy.

- It is also possible to have instances where IZ might not result in a viable outcome. As illustrated by **Figure 9**, the land value increases as a developer is allowed to build an additional 14 storeys for their project, exactly as shown in **Figure 8**. However, with IZ applied, the land value decreases below the existing land value. In this situation, the IZ policy is too aggressive, resulting in a large depression in land value that results in an unviable outcome. Either additional density, the inclusion of financial incentives, and/or lessening the IZ policy will be necessary.

Figure 8: Example of Density Increase on Land Value – Positive Outcome

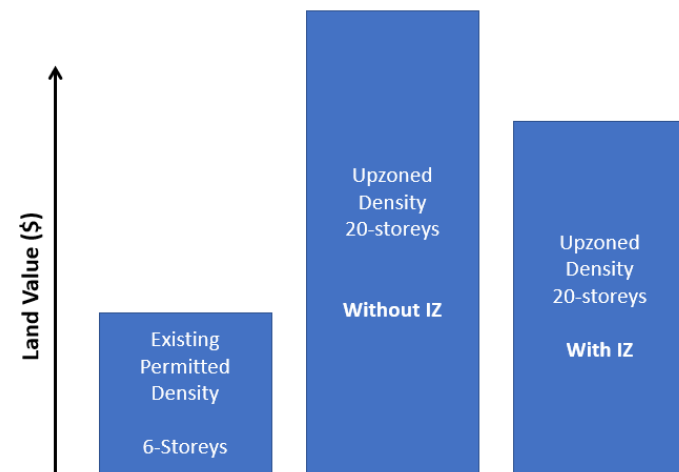
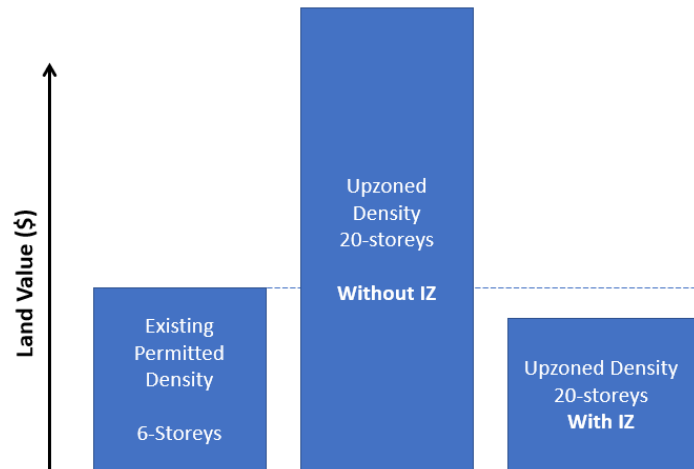
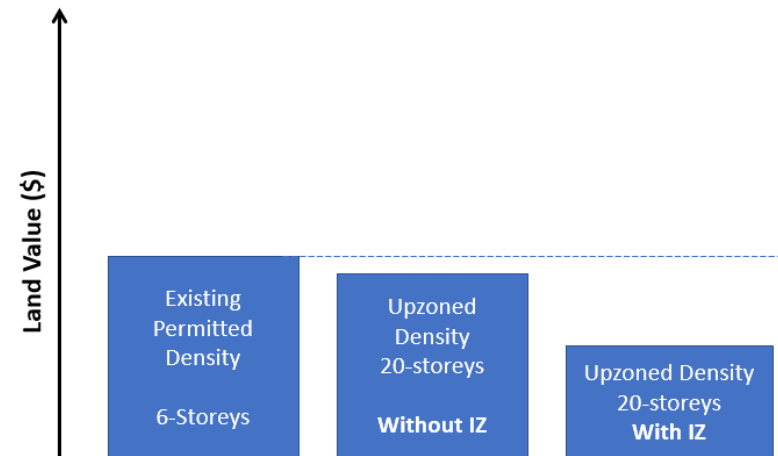


Figure 9: Example of Density Increase on Land Value – Negative Outcome



- It could also be the case that density does not add value because the revenue associated with the increased floor area does not offset the associated development costs. This can be the case in weak/modest market areas where achievable market pricing is low, during market downturns, or in areas where an increase in density requires significant additional costs such as a requirement to provide underground parking, infrastructure upgrades, etc. This is illustrated by **Figure 10**, where value is not created through the density increase, which is then negatively influenced by the IZ policy. Other approaches to offsetting the IZ requirement (e.g., incentives) would be necessary here.

Figure 10: Example of Density Increase on Land Value – Negative Outcome



In designing an IZ framework, it is recommended that a fulsome assessment of market dynamics be considered alongside a forward looking planning policy review to consider and calibrate the potential policy approach. This work should ultimately determine if density increases on their own are a sufficient offset to result in a viable IZ policy, or if other offsets such as financial incentives are necessary. However, to accurately assess impacts, the existing and proposed densities and transit improvements must be determined as well as the draft IZ policy and associated operational components.

4.2.2 Where Density Uplift does not accompany an IZ Policy

There may also be situations where the existing planning framework already has significant permissions in place that allow for high-density residential development. In these locations, the land market will already reflect high-density land values, which would be negatively impacted by an IZ policy. In these situations, increased density cannot offset an IZ policy, and the impact must be absorbed in the land value. In this case, the following mitigating strategies should be considered.

- The IZ policy be phased in very slowly to allow land markets to adjust over time. As discussed earlier, a sudden decrease in land values can shock the market and cause development activity to stall.
- Offsetting measures can be included to mitigate the impact of the IZ policy, which would likely need to be financial subsidies. Depending on the results of a financial analysis, it may be possible to offer these on an interim basis and remove them over time as land values improve. Without offsetting measures, it is likely that growth in locations where IZ is applicable would be negatively affected.

4.2.3 Mandatory vs Voluntary IZ Approach

A voluntary IZ policy would seek to incentivize a developer to participate in the program and provide affordable housing. For a voluntary program to work, the incentivizing measures must be calibrated to provide a meaningful benefit to the developer such that they would want to participate in the IZ policy. Such a structure could include:

- Using the example in **Figure 8**, current planning permissions permit up to 6 storeys, which could be increased to 20 storeys through the planning process accompanying an IZ policy. If a developer decides to construct a 6-storey building, IZ will not apply. However, if they pursue the 20-storey building, IZ would apply to floors 7-20. The

value of the density (and other offsets) must be sufficient to offset the negative impact of providing affordable housing, otherwise the developer would not pursue the higher density or would not build at all.

- Planning policy allows for up to 20-storeys. A voluntary IZ policy applies asking for up to 5% of the building to be affordable, which will include offsetting measures (e.g., 20% increase in density, reduced parking requirements, property tax incentives for rental, etc.). The developer would therefore be able to decide if they want to participate in the IZ policy or not, which will depend on the magnitude of incentives offered relative to the affordable housing requirement.

A mandatory policy on the other hand would not provide an option to participate in the policy. IZ would apply to the building as a condition of receiving a building permit (or in tandem with some other development mechanism). However, a mandatory IZ policy could also include incentives and offsets to ensure development feasibility is maintained.

The main difference between the two approaches is that a voluntary program allows market-rate projects to proceed if the offsetting measures are insufficient, whereas a mandatory program could result in development becoming infeasible if the policy and associated offsets do not align with market reality. In all cases, the chosen approach should seek to limit the impact to land values and development feasibility.

4.2.4 Programmatic and Operational Considerations

From our perspective, it is important that a municipality determine the affordable housing needs and characteristics that IZ is intended to target as well as the density permissions being brought forward through a forward-looking planning exercise or package of offsets prior to advancing to detailed analysis.

A municipality considering IZ must therefore analyze local demographics, incomes, market pricing, housing supply, and other factors to determine the affordable housing need in the community and the manner in which private sector developers can contribute through their projects. It is important that the municipality carefully consider this topic to determine who the IZ units are intended to serve, the types of housing that should be targeted to meet the identified need, and the affordable purchase prices and rental thresholds that IZ units will be subject to. Other factors, such as how the rental rate / purchase price is determined (e.g., whether this includes utilities, condo fees, property taxes, etc.), parking requirements (e.g., requiring a parking space be included in the purchase price / rental rate), and other similar considerations must also be determined.

These are important considerations that should be carefully thought through as a municipality begins thinking about implementing IZ. Questions such as who will own/manage the affordable units, where will qualified households be sourced from, how will long-term affordability be secured, how will the IZ units be purchased/transferred, and others need to be identified prior to advancing a policy.

Further, potential exemptions can have an influence on the success of an IZ policy. For example, if sites within the IZ policy area are already subject to a development application, the City might consider exempting these sites from IZ as a way to acknowledge that the policy could not have been considered within the project's proforma. However, when this is announced, it will also be common for existing owners of land to submit a development application prior to IZ coming into force to avoid the policy.

The two most important unintended consequences of an IZ policy is that housing does not get built because development is made financially infeasible by the policy and land is withheld from development (too large

of an impact, developer betting on political/ policy change, etc.), or the housing that gets built does not have any affordable housing (developer's focus on grade-related forms, or projects gets built outside of the affected policy area).

These and other factors will all influence the success of an IZ policy. The density/ planning parameters, affordability thresholds, offsets, considerations for market variance and implementation framework will also significantly influence the success of the policy and the degree to which market rate development can still proceed. Small changes in any single variable can significantly affect the results of a proforma analysis. It is therefore important to carefully consider these variables prior to implementing an IZ policy. Moreover, it is likely that a one-size-fits-all approach to policy of this nature will be too blunt to be effective within the varied market conditions that exist across the City.

If IZ is to be considered further in Edmonton, the municipality's policy approach must seek to limit the impact to development feasibility and the range of potential unintended consequences that are noted throughout this report, among others. After all, if the policy is not well calibrated to economic reality, market development projects will not be able to proceed and IZ units will not materialize.

To summarize, should the City of Edmonton decide to pursue an IZ policy, a robust analysis, consultation and decision making process would be necessary. The following should be considered in any IZ policy design:

- The preparation of a modeling methodology to inform the calibration of the policy within either a mandatory or voluntary IZ framework. This might include limiting the application of the policy to certain geographies or submarkets where development economics are strongest, or, varying the policy's design across submarket areas.

- Accompany the policy with a phase-in period that provides a clear signal to the market that the policy is forthcoming. Once in place, the set-aside rate should start low and increase gradually over time in order to allow the land market to adjust.
- Consider exemptions for sites with existing development proposals/ approvals, and/or certain other forms or tenure of development that is otherwise being encouraged in Edmonton.
- The City would need to establish and test certain policy parameters that will have a direct bearing on the development pro formas for projects that might be subject to IZ. These variables would include:
 - The depth of affordability required in IZ units, i.e., who will these units serve? We note the potentially sensitive interplay between the integration of market and affordable units at certain depths of affordability/ levels of social or programmatic support.
 - The mix and size of units, if prescribed at all.
 - The required duration of affordability.
 - The approach to calibrating set aside rates (e.g., based on a certain percentage of total units in a project, a percentage of units within an offsetting density bonus framework, etc.).
 - Thresholds for which the policy would/ would not apply (i.e., above a minimum building size/ height) and any unintended consequences that may be triggered as a result.
 - The variable economics between ownership and rental projects i.e., purpose-built rental apartment projects may warrant a different IZ approach than market condominium apartment developments.
- Consider and calibrate the policy alongside monetary offsets, planning policy changes, and/ or other infrastructure investments that may add value as a measure of offsetting the impact of a potential policy.
- Develop a framework that anticipates and allows for policy adjustments in tandem with market and economic shifts over time. Revisiting the policy in regular intervals would be critical in order to understand when the policy is too burdensome, or when there are opportunities to increase policy requirements.
- Consider the varying operational considerations, for example:
 - Who would own and manage the IZ units (private sector, municipality, not-for-profits), and how are these partnerships established?
 - Who designs and administers the tenant/ purchaser selection process? How are tenants/ purchasers of IZ units selected/ qualified? Who maintains the waitlist?
 - Who monitors and reports on the success of the policy and when would there be opportunities to assess and re-calibrate the policy?
 - How is the price of an IZ unit established and is there capacity at the municipality throughout the not-for-profit sector to acquire these units at those prices?
 - When in the development process would a developer be paid for the affordable unit? For example, in a condo project, are deposits on IZ units paid in the presale period alongside market units?

5.0 Potential Non-Regulatory Approaches to Increasing Affordable Housing Supply in Edmonton

Throughout the City of Edmonton’s engagement with industry stakeholders, three potential approaches emerged which, if further analysed and implemented, may establish a framework for non-regulatory affordable housing contributions in Edmonton.

The following section of this report is intended to highlight these potential approaches to raise key questions for consideration by the City and its industry partners as a more detailed implementation strategy is considered. Future municipal consultation and decision-making would be required in order to advance one or all of these approaches later in 2023.

5.1 A Formalized Philanthropic Campaign

There is recent precedent from Calgary where a formalized philanthropic campaign was created to pool funds from a variety of philanthropic sources (primarily the development community) and distributed throughout participating private sector development projects as a means for buying down the price of new units. Several years ago, the “Resolve Campaign” (2010 to 2018) took a philanthropic approach to addressing affordable housing issues in Calgary through partnership between the private and not for profit sectors. Following are key aspects of that campaign and commentary relating to a similar opportunity in Edmonton.

- Non-profits in Calgary were working with federal-provincial affordable housing funding and leveraging additional philanthropic contributions to offset equity requirements and alleviate the long-term carrying costs of permanent supportive housing. However, the cost and funding landscape was evolving significantly and other additional sources of equity were becoming necessary in order to support sustainable project cash flows, as is often the case today.

- The Resolve Campaign brought about a philanthropic fundraising approach and married that with a framework that leveraged the skills and capacity of the private sector in the delivery of deeply affordable housing. The campaign was used to contribute about 30% of development costs to projects that were otherwise funded by upper levels of government. Philanthropic donations were made by prominent private sector developers who were then eventually the developers of these projects, retaining naming rights and other development management fees.

To apply this approach in Edmonton, the City could consider a similar strategy. The first major step would be to engage with senior level government partners to secure a portfolio of funding in order to entice private sector participation. In essence, securing a pool of resources that might ‘match’ municipal and private sector contributions first. This is necessary in order to de-risk the public sector funding component of the required equity investments in these projects and build trust with potential private sector donors.

We note that the realities of post-pandemic financial proformas mean that there may be fewer opportunities to leverage upper-level government funding. Notwithstanding this, it is likely that government will need to be at the table in a meaningful way for this approach to have traction with philanthropic participants.

The Resolve Campaign had strong private sector leadership. This is a common prerequisite in philanthropic programming where a prominent champion emerges (or is sought out) to lead by providing philanthropic support themselves, while also spearheading the communication with other high net worth individuals and corporate leaders. Garnering the ‘ears

and wallets' of this target market is not likely to be achievable without someone within this peer group taking on this role.

Within Edmonton's context, there would be work ahead to identify programmatic leadership both through a private sector champion, as well as a leader or coordinator in the not-for-profit sector. These groups would likely be the organizations who would be owning and operating the new housing assets that benefit from fundraising. These aspects should be explored further in order to consider whether capacity exists to drive a meaningful philanthropic campaign in Edmonton as was accomplished in Calgary years ago.

Municipal participation could enhance the concept. Areas for City leadership and contribution could include the identification of surplus development sites and housing providers, coordination of servicing and planning approvals, among others. Moreover, the City could also play a significant role in advocacy and coordination of senior level government funding for which philanthropic sources could be stacked upon. With the City of Edmonton coordinating the public sector from a finance, planning and land perspective, the opportunity for a philanthropic program would be significantly enhanced.

5.2 An Affordable Housing Partnership Program

Through its engagement process, City staff and industry stakeholders identified a lack of real estate development capacity within the non-profit housing provider space which may be contributing to the deficiency of new developments serving lower income households in Edmonton. The concept of an "Affordable Housing Partnership Program" was identified as a potential approach which might triangulate and build upon the respective strengths of the City as a facilitator, private sector developers as

real estate analysts and implementors, and non-profits as operators and providers of support services.

It is NBLC's view that the approach warrants further exploration. It is also recommended that the City consider approaches for pairing this initiative with surplus lands throughout its portfolio by disposing lands at low or no cost either via an arm's length sale or long-term ground lease. While the program may mean that additional capital investments are required from the City to service surplus properties, the inclusion of public land offering could be meaningful in terms of lowering the delivery cost of affordable units and creating certainty in the market.

Moreover, the measuring and monitoring of contributions and the deployment of resources will likely require significant organization and coordination on the City's part, in part as a means for maintaining accountability and measuring progress.

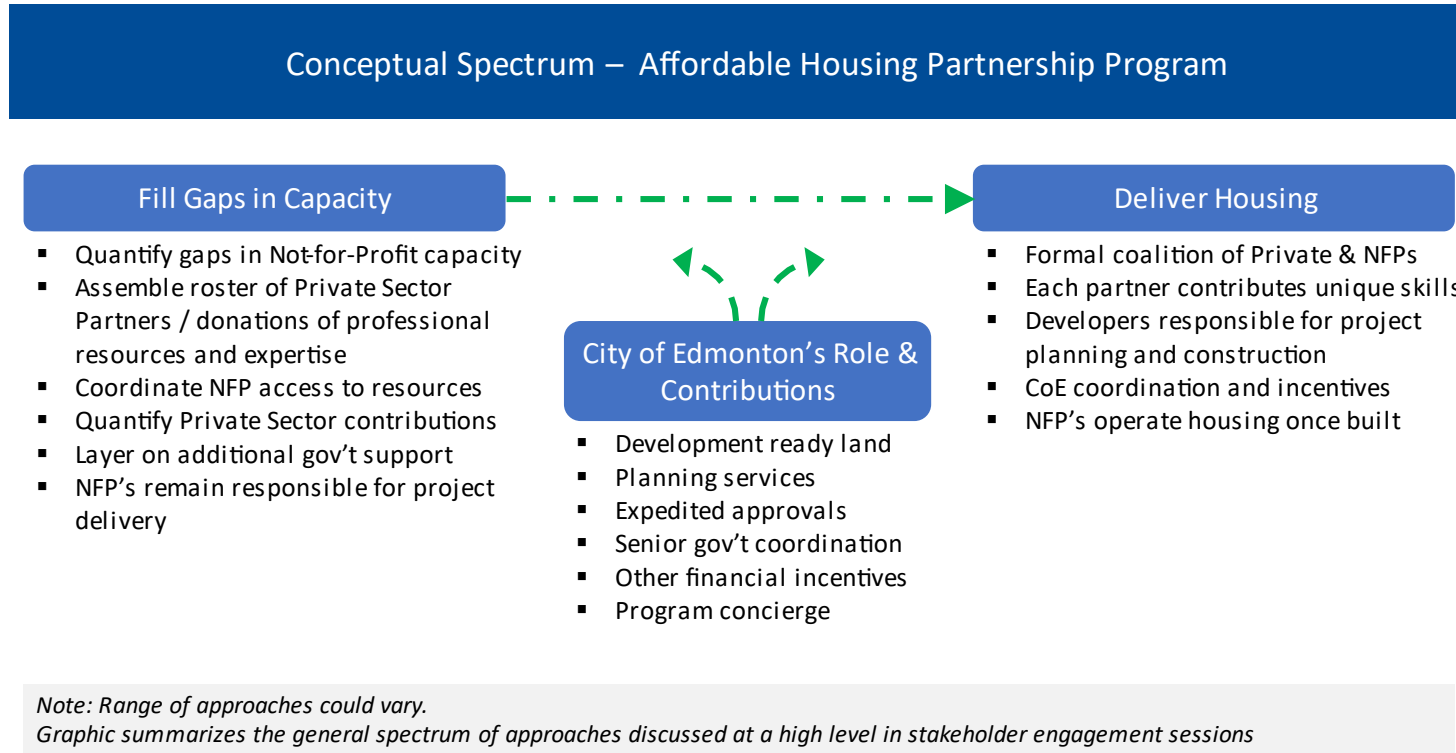
Several next steps for consideration include:

- Identifying and resourcing an appropriate leadership team. This could be led by the City or an arm's-length partner depending on the roles, responsibilities and contributions of the parties involved.
- Identifying surplus public land that could be diverted to the Affordable Housing Partnership Program as well as any infrastructure investment requirements or entitlement work that would be required to bring the sites to a development ready state.
- Identifying a roster of not-for-profit developers who are considering new development, have capital, land, etc.
- Identifying the specific gaps in terms of capacity and resources that exist in the roster of not-for-profits.

- Identifying what the private sector is willing to contribute to the program in terms of labour, materials and time.
- Designing a conceptual governance and intake model to implement the program, monitor progress, contributions, and manage potential risks.
- Conducting feasibility studies on a selection of top development site candidates in order to ground truth the financial pro forma and identify the appropriate sources of funds for these projects.
- Identifying existing capacity and resources needs from the City's perspective that could be allocated to the approach.
- Designing a procurement process and/ or intake program that would evaluate the capacity and experience of potential proponents, the feasibility of potential projects, community benefit outcomes (e.g. alignment with priority populations or income groups), and resource gaps required for implementation.

Subject to input and decision making from the City and its partners. The design of the program could seek to source private and non-profit development partnerships to build on surplus public land and or fill resource gaps in either the non-profit or private sector where affordable housing objectives are being sought. As with any real estate venture, there is no guarantee that this would generate units, further detailed analysis would be required on a project by project basis within the context of the City's priorities as well as the capacity and resources being delivered by the City as well as private and non-profit organizations. **Figure 11** provides a conceptual overview of the potential spectrum of complexity that a potential Affordable Housing Partnership Program might entail, based on ideas workshopped throughout stakeholder engagement sessions.

Figure 11



5.3 An Affordable Housing Investment Fund

In consultation with development industry partners the concept of a revolving social impact investment fund arose as a vehicle that could potentially be stacked upon CMHC products and enhance the affordable housing outcomes in new private or non-profit purpose-built rental developments.

Based on our experience and research, there are few examples of this type of municipal investment in Canada. The closest example comes from Toronto where the City has established a Social Debenture Program where the City issues social bonds that are used effectively as takeout financing for a range of eligible city-led capital projects. The distinction between this and what has been considered by staff and stakeholders in Edmonton is that the Toronto model is used to relieve municipal financing obligations in public projects, rather than delivering financing or placing equity into private sector development initiatives.

We also understand that some other innovative models may be emerging in Quebec and Ontario where not-for-profit and social housing providers are pooling assets and partnering with other investors. The City of Edmonton should continue to actively engage with these types of stakeholders and remain opportunistic in exploring potential solutions.

Conceptual discussions in Edmonton have suggested that the program might bring capital to new private sector or not-for-profit projects in order to lower the equity requirement for projects that incorporate a measure of affordability, improving the financial viability of these projects. This type of revolving fund could provide low-interest loans, which later replenish and add to the fund through principal and interest payments.

Some early stakeholder discussions suggested that this fund could be targeted towards pre-construction/ pre-development costs, helping non-profits to start their projects. While it is often true that this initial funding gap is a barrier, this is also when projects are generally facing the highest amount of risk. As such, the City would need to be rigorous in its underwriting and evaluation of project viability. We are aware of similar CMHC programming which in the past has been problematic because (low interest/ forgivable) seed funding has had to be written off due to unviable project outcomes.

A similar revolving fund model was recently created by the Housing Investment Corporation (HI-C) and supported through CMHC's Innovation Fund via a credit facility. The program operates nationally and uses lending criteria modelled from CMHC standards as well as those used by BC Housing. We understand that this financing was part of the range of tools used to support Civida's (formerly Capital Region Housing) Londonderry redevelopment in Edmonton.

Throughout this project, industry stakeholders expressed an interest in exploring the concept further. There are several key questions that will need to be addressed to further flush out the concept. These include the following, among potential others:

- **How is the Investment Fund seeded?** The fund would need to be seeded with capital for deployment into new development projects, the source of seed money would of course need to be established. Moreover, given the depth of affordability identified in Edmonton's needs analysis, the scale of this funding would need to be significant in order to deliver a meaningful impact and address the identified housing need.

Given that the premise of this project was to seek contributions from the private sector for affordable housing, one approach might be to seek philanthropic contributions from the development community themselves. However, if this fund were to be used within mixed income development projects being led by private sector development firms, developers may be apprehensive to contribute as this would effectively be lending capital to their competitors (especially if at a low interest rate/ return on investment).

Another approach might be to fund the program through other sources (the general tax base, other philanthropy, levels of government, and/ or ESG financing sources) and while these may well produce productive outcomes, these funding sources may not represent the type of ‘contribution’ that the City had been seeking from the development industry. Further, more detailed discussions with potential funders would need to occur to consider the viability of these funding sources.

- **Is the fund a source of equity, or debt?** In addition to the source of the fund’s seed capital, the structure of the program would also need to be carefully considered. Early City discussions with industry participants conceptualized the fund as a source of equity, whereby the fund would be seeded either by the City or investors. This would therefore mean that a developer would effectively be selling a share of ownership in a project to the fund and would then provide a share of profit as a return to investors.

If structured as debt, the fund would see developers borrowing money and paying it back at a certain interest rate, the fund would not have an equity position in the project but rather function as a creditor, comparable to CMHC or other lenders. However, the type and structure of the debt would need to be considered more fully within the context of the fund’s structure and sources of capital (i.e. are other sources in first position?). Moreover, the provision of debt to development

projects would need to be carefully considered within the context Edmonton’s abilities or limitations as a municipal corporation, particularly its debt ceiling.

- **Can the City manage potential conflict?** As a regulatory approval body, the City may expose itself to real or perceived conflict if it were to take an equity position in a market/ for-profit real estate venture. The City would have development approval authority whilst also standing to potentially earn a share of profit in exchange for its equity investment. This may require distinct separation in terms of corporate structure or other legal considerations in order to remove the potential for self-dealing. A potential programmatic partnership with an established social finance facility or revolving fund may offer necessary risk mitigation in this regard.
- **What is Edmonton’s appetite for risk in real estate development?** There are varying degrees of risk associated with participation in real estate development, both from the perspective of those with equity in a venture with private and non-profit partners, as well as for those who are lending sources of debt to a project. The City should consider engaging with internal stakeholders to undertake a risk assessment of various approaches to delivering a potential fund. Key risks could include, among others:
 - A developer’s ability to deliver upon the City’s stated program objectives around affordable housing (or other criteria);
 - Developer solvency and structuring of senior and subordinate debt;
 - Market risk and financial performance of the project, particular consideration of impacts relating to below-market inclusion; and,

- Considerations related to positions of conflict and other reputational risk.
- Does the City have the capacity and resources to manage an Affordable Housing Investment Fund? In order to effectively place capital (debt or equity) into real estate ventures, the city will require specialized skillsets in development feasibility, underwriting, capital market and development finance (among others). An evaluation of the City's capacity and resources would be required to understand whether these skillsets exist, or need to be acquired. Then, with those human resources identified, the design of a program (intake, evaluation, reporting, etc.) would need to be undertaken and evaluated from a risk management perspective.



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