

Developer Sponsored Affordable Housing Program Review

Recommendation

That the March 23, 2021, Citizen Services report CR_7623, be received for information.

Previous Council/Committee Action

At the February 25, 2020, Urban Planning Committee meeting, the following motion was passed:

That the February 25, 2020, Citizen Services report CR_7623, be postponed to the April 7, 2020, Urban Planning Committee meeting.

Clerk's note: Due to the pandemic spread of COVID-19, the April 7, 2020, Urban Planning Committee meeting was cancelled.

Executive Summary

In 2018, the Office of the City Auditor reviewed the City's affordable housing strategies and recommended that the Developer Sponsored Affordable Housing Program and City Policy C582 be reviewed to ensure its objectives are aligned with those of Administration and City Council.

In 2019, Administration retained a consultant to conduct a review of the program and found that the policy has not resulted in a significant number of affordable housing units nor has it fully achieved its objectives. As a result of the limited use of the policy, and the significant steps required to administer the policy, the current policy is not achieving the desired outcomes and should be revised or replaced with a new or amended approach. In 2021, Administration will develop a work plan to be implemented in 2022. Engagement with industry is needed to inform the replacement approach and to be sensitive to the economic context, which is one of increasing affordable housing needs along with economic challenges for business and industry.

Report

The Developer Sponsored Affordable Housing Program has been part of the City's approach to affordable housing as a voluntary contribution by developers since 2006,

and was formalized as City Policy C582 - Developer Sponsored Affordable Housing in 2015 (Attachment 3). This program was put in place with consultation between the City and industry, in the absence of formal inclusionary zoning powers.

Inclusionary zoning is where a municipality uses the development or subdivision approval processes to require a certain amount of dwelling units or land, or money in place of dwelling units or land, be provided for the purposes of affordable housing. The enabling legislative regulation for inclusionary zoning (*City of Edmonton Charter, 2018 Regulation*, as amended) was approved in 2018, with subsequent amendments in early 2019 (Attachment 2). Edmonton has not yet enacted inclusionary zoning; there is an opportunity to examine how the City could make use of the legislation, or other tools and approaches, to broaden the City's ability to obtain affordable housing contributions.

How the Policy Currently Works

The Developer Sponsored Affordable Housing policy only applies to a small segment of the residential development opportunities in the City. The policy can only be applied when residential or mixed-use sites are given increased development rights through Site Specific Development Control Provision (DC2) or Direct Development Control Provision (DC1) zoning and meet the minimum project size (12 dwellings). Under the policy, the inclusion of a developer-sponsored affordable housing clause is a condition of Administration's support for the rezoning, unless the clause has been supplanted by the provision of a comparable public benefit.

On applicable projects, at the development permit stage, Administration and the developer enter into an option to purchase agreement (as a condition of development permit approval). This agreement requires that the developer provide the City with an option to purchase up to five percent of the residential units in their development for 85 percent of market value or provide an equivalent value as a cash-in-lieu to the City at the discretion of the developer. When the City exercises its option to purchase residential units at the discounted rate, it then contracts the property management of the units to HomeEd, the City of Edmonton's non-profit housing corporation. Rents for each unit are set at below average market rates for eligible tenants only.

Affordable Housing Strategies Audit

In 2018, the Office of the City Auditor conducted a review of the City's affordable housing strategies. This included the City's affordable housing programs under Cornerstones II (2012-2016) and the Affordable Housing Strategy (2016-2025). The audit found that the program cannot be seen as efficient or cost-effective to date due to several reasons, including:

- the relative cost of creating a new unit under the Developer Sponsored Affordable Housing program is considerably higher than other affordable housing programs

- the program has been very slow in creating new units - only generating 26 units and \$110,000 in cash-in-lieu since the practice was first introduced in 2006; since the program review concluded, the City acquired an additional two units, bringing the total to 28 units
- the program has not succeeded in its goal of broadening the range and choice of affordable housing units or in supporting the geographic dispersal of affordable housing to all parts of the city

The Office of the City Auditor recommended that Administration assess the effectiveness of the program and policy to ensure its objectives are aligned with those of the business area and Council. Administration accepted the Office of the City Auditor’s recommendation and engaged a consultant to complete a review of the Developer Sponsored Affordable Housing Program. The findings of the review were received and accepted by the Office of the City Auditor.

Detailed Program Review - Summary of Findings

The Review of Developer Sponsored Affordable Housing (Attachment 1) included interviews and meetings with residential development industry representatives.

Overall, the review found that, while the program aligns with the City’s affordable housing objectives, the narrow scope of the policy limits its effectiveness for creating new units of affordable housing. The review also concluded that the program is not cost-effective due to the relatively high cost of creating an affordable housing unit when compared with other affordable housing programs. The review identified several other issues, including:

- the program had not yielded significant results due to market conditions that have not been strong since the policy came into effect in 2015
- the recent relatively weak market for condominiums in Edmonton, which has further reduced opportunities to acquire units
- several Direct Control rezonings that have not proceeded to the development permit stage, resulting in no opportunity to purchase units in the development
- projects initially conceived as condominiums, that ended up being developed as single-titled rental properties
- the marketplace is increasingly favouring the construction of purpose-built rental developments, which means fewer new condominium projects are being proposed

Cost-Effectiveness

Although an improvement in market conditions could increase the opportunity to acquire new units, this program is less cost-effective compared to other options as listed below:

Unit Type	City Cost	Total Cost	City’s investment
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			(vs. other funding sources)
Inclusionary housing unit obtained through City Policy C582	\$154,765	\$191,488	1:0.2 (81% City / 19% other)
Affordable housing capital project with a nonprofit partner	\$73,000	\$235,000	1:2 (31% City / 69% other)*
Secondary suite	\$19,815	\$32,000	1:0.6 (62% City / 38% other)

*Based on the results of the Cornerstones program.

The benefit to the City at the time of acquiring a developer-sponsored unit is diminished over time by the operating and maintenance costs required by the City, as the owner of the unit. As a percentage of operating costs, 62 percent are condo fees, 27 percent are property management, seven percent are for repairs and four percent are utilities. As of January 2021, a special assessment of approximately \$65,000 was also levied against six units owned by the City in one development. A study completed within the same development indicated the reserve fund is inadequate to meet planned expenditures. This places the City’s portfolio at risk of worsening performance over time.

The average annual operating cost per unit is \$7,344, which is offset by revenues generated that average \$11,052 per unit annually. The average net surplus is approximately \$3,708 per unit annually (2017-2019 financials). As buildings age, this surplus may diminish, especially as unit refurbishments or special assessments are required.

The City of Edmonton typically does not bear any of the operating costs for affordable housing units achieved under other affordable housing programs and initiatives because they are operated by independent non-market housing providers. As well, it is less efficient to manage a portfolio of a few units in multiple buildings spread across the city rather than a building wholly owned by a single affordable housing operator.

Under the current program, Administration targets projects that have a unit acquisition cost that will not compromise the program’s financial performance and projects that have features and operating costs that are aligned with mid-market housing. Developments built using the Direct Control Site Specific Development Provisions (DC2) are often not aligned with these qualities; rather, they represent the high-end of market properties with on-site amenities that often drive purchase prices out of range for the City to justify purchasing. The monthly expenses associated with more expensive units or amenity-rich developments, including condominium fees, compromise the program’s financial performance, potentially over-subsidizing households and constraining portfolio growth potential.

Shifting Legislative and Policy Context

The *City of Edmonton Charter, 2018 Regulation*, as amended, provides new authority for the City to include inclusionary housing in its land use bylaw, to enable contributions of land, dwelling units, or cash-in-lieu, as part of the subdivision or development permit process (Attachment 2). This new authority provides an opportunity to replace the policy with an inclusive zoning framework or a revised policy that can provide outcomes that are more efficient and effective than the current policy.

The City Plan focuses on improving the availability of affordable housing through the Inclusive and Compassionate Big City Move, which will be measured through the following targets:

- Less than 35 percent of average household expenditures are spent on housing and transportation
- Nobody is in core housing need
- There is no chronic or episodic homelessness in Edmonton

The City Plan also provides direction to enable a more inclusive and equitable city with improved access to affordable housing by reviewing its governing documents, as outlined in policy statements such as:

2.2.2.1 Streamline provision of affordable housing in all neighbourhoods through continual regulatory and procedural review and improvement.

Next Steps

One of the key opportunities to address a more equitable approach to housing would be to replace City Policy C582 - Developer Sponsored Affordable Housing with an approach that is more effective and efficient. To address this, the first step is to repeal the current policy, which will be brought forward for City Council’s consideration at a future date to ensure alignment with the implementation of a revised approach to direct control bylaws.

In 2021, Administration will initiate discussions with industry and other stakeholders about the longer-term potential for determining alternative approaches to housing contributions, and provide an update to Council when a work plan is complete.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a sustainable and accessible infrastructure; Edmonton is a safe city			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Increasing the supply of affordable housing in all areas of the City	Percent of available units to purchase are acquired by the City	2017-2018: 70 percent	95 percent

Attachments

1. Final Report - Review of Developer Sponsored Affordable Housing
2. City Charter Provisions related to Inclusionary Housing
3. City Policy C582 - Developer Sponsored Affordable Housing

Others Reviewing this Report

- M. Persson, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement
- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- K. Fallis-Howell, Acting City Solicitor