Final Report

Review of Developer Sponsored Affordable Housing

Submitted to:

The City of Edmonton

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Table of Contents

LIST OF FIGURES

LIST OF TABLES

EXECUTIVE SUMMARY

Introduction

Developer sponsored affordable housing (inclusionary housing) has been part of the City's overall approach to affordable housing dating back more than a decade and was formally approved as City policy in 2015. Policy C582: Developer Sponsored Affordable Housing requires developers seeking enhanced development rights (e.g. increases in allowable density) for multi-unit housing projects under the City's zoning bylaw to offer the City the option to purchase 5% of the units in the development at 85% of the market value. Purchased units are managed by homeEd and rented below market rates. The Policy gives developers the discretion to pay the City 15% of the sale price of the units as cash-in-lieu or provide the City with a comparable public benefit (such as heritage preservation).

The Office of the City Auditor conducted a review of the City's affordable housing programs in early 2018 and concluded that the Developer Sponsored Affordable Housing Program cannot be considered to have been effective or cost effective to date but has the potential to be an important part of the City's approach to expanding access to affordable housing in the future.

The Director of Housing and Homelessness accepted the City Auditor's recommendation to undertake a review of the Developer Sponsored Affordable Housing Program and Policy C582 to ensure effectiveness and alignment with Council objectives.

Shifting Legislative and Policy Context

This review of the Developer Sponsored Affordable Housing began in November 2018 when input was still being received by the Government of Alberta on proposed legislative changes that would broaden the City's authority in relation to inclusionary housing policy. The City of Edmonton Charter, 2018 Amendment Regulation under the Municipal Government Act was subsequently approved in February 2019.

The scope of this review did not extend to engagement on – or analysis of – options for new inclusionary housing policy. The City is in the process of developing a new City Plan and conducting a review of the zoning bylaw. These will establish the policy framework for any future City inclusionary housing initiatives.

Policy C582 currently allows for the provision of a public benefit in place of the developer sponsored affordable housing clause in proposed DC1 or DC2 rezoning bylaws. As a more recent policy - Policy C599: Community Amenity Contributions in Direct Control Provisions - requires community amenity contributions for all DC1 or DC2 rezoning, the option for developers to provide a public benefit to the City rather than options to purchase units to use as affordable housing or cash-in-lieu appears to be no longer relevant under Policy C582.

Program Alignment with Council and Business Area Objectives

The City of Edmonton views the provision of affordable housing as central to its mandate and achieving the vision and priorities set out in *The Way We Grow* (Edmonton's Municipal Development Plan) and *The Way We Live* (Edmonton's People Plan).

The Way We Grow commits the City to "provide in partnership with others, safe, accessible and long-term affordable housing in all areas of the city" and sets policy direction of explicit relevance to the Program, including:

- Expand new affordable rental housing in the city;
- Provide a range of affordable housing; and,

- Encourage new development and infill redevelopment to incorporate affordable housing.

The Program also aligns with the strategic policy direction in *The Way We Live* that "the City of Edmonton provides, partners and advocates for a variety of housing programs to meet the diverse needs of Edmontonians".

The Program also aligns with the *City of Edmonton's Affordable Housing Strategy (2016-2025)* which provides direction for the programs and initiatives pursued by the Housing and Homelessness Section. This strategy identifies that the City will use a range of tools to address affordable housing needs in all areas of the city, including funding, land, regulations, and policies. Policy C582: Developer Sponsored Affordable Housing is one of the City's affordable housing policy tools.

The Program plays a role in supporting two goals in the *Affordable Housing Strategy*, in particular:

Goal 1: Increase the supply of affordable housing in all areas of the city

Goal 4: Anticipate, recognize and coordinate action to respond to housing and homelessness needs

Program Relevance

Program relevance refers to whether a program is responding to a need or needs that would otherwise not be met.

There is no question about the need for affordable housing in Edmonton and the City's commitment to work with other orders of government, not-for-profit organizations, and the private sector to respond to local affordable housing needs. The City estimates that 20% of households in Edmonton do not have their needs met by private rental or ownership housing.

The Developer Sponsored Housing Program is one of the City's responses to increase the supply of affordable housing in the city. While the Program aims to involve developers obtaining increased development rights through rezoning in expanding the supply of affordable housing in the city and increase the integration of affordable non-market into market housing developments, both of these aims could be achieved through other policy or program initiatives.

The current policy provision allowing developers to provide a comparable public benefit in place of options to purchase units or provide cash-in-lieu is of questionable relevance to increasing the supply of affordable housing in the city.

Program Effectiveness and Cost-Effectiveness

The key metric for the assessment Program's performance specifically related to the goals of the City's *Affordable Housing Strategy* is the Program's contributions to increasing access to affordable housing in the city.

To date, 26 six units have been created under the Program (and its predecessor, the Inclusionary Housing Program) since the practice was first introduced in 2006. These units have come through the City exercising its options to purchase units in five projects. In addition, roughly $110,000 has been received from developers as cash-in-lieu under the Program. The number of units in the City's developer sponsored housing portfolio can be considered to be modest.

The key driver of the size of the portfolio is the volume of new multi-unit housing development applications coming forward seeking DC1 or DC2 rezoning, which is highly dependent on circumstances in the local economy and robustness of the local condominium market. Between 2009 and 2018, the average sales price for condominiums in the city fell by 2%.

Only a small proportion of new multi-unit housing projects with DC1 or DC2 rezoning approval yield units eventually purchased by the City. There may be several reasons for this, including:

- Projects initially intended to be marketed as condominiums end up being developed as rental properties. However, if increased development rights have been granted through DC1 or DC2 rezoning, the City retains the right to purchase the rental units if they are ever converted to condominiums.
- Developers decide to delay or cancel developments for which DC1 or DC2 rezoning has been approved because of unfavourable conditions in the local market.
- The City decides to not exercise its options to purchase units because of budget constraints or the units that become available are not considered to be suitable for the Program. In cases where a developer opts for selling units to the City at a reduced price rather than contributing cash-in-lieu, and the City chooses not to exercise its option to purchase, neither units nor additional funding for affordable housing are realized.
- Developers exercise their discretion to contribute cash-in-lieu instead of selling units to the City.

There is broad variation in the change in the market value of the units since they were acquired by the City, ranging from -22% to +35% (including the City's initial 15% purchase price discount). The units in projects in mature neighbourhoods closer to the City core have shown the greatest value retention or appreciation. So far, the City has not sold any of the units in the portfolio.

Compared to other approaches for expanding access to affordable housing in the city, the Developer Sponsored Affordable Housing Program is less cost effective than other options, especially if units are held for longer periods of time and rented at below market rates.

Potential Future Program Performance

The potential for the Program to contribute in a more meaningful way to easing affordable housing pressures in the city will be dependent upon the financial attractiveness of new condominium investment in Edmonton, whether developers seek upzoning for projects, the extent to which units purchased by the City increase in value, and the City's net rental revenue from the units.

Currently, the City's portfolio of developer sponsored housing units is not large enough or positioned in a sufficiently robust condominium and rental market to offer much potential in the near term.

For the City to expand the portfolio through the sale of units, it would need to sell multiple units in order to repurchase the same number of units *and* add additional units. For example, at current average unit values, the City would need to sell a minimum of six units each year in order to purchase seven units and grow the portfolio by one unit without using additional program funding.

Conclusions and Recommendations

Policy C582: Developer Sponsored Affordable Housing is a complicated policy approach to increasing access to affordable housing in the city.

To date, the Developer Sponsored Affordable Housing Program has not yielded the expected results in terms of increasing the number of units of market housing available for rent as affordable housing. There are many reasons for this, foremost of which is the local market has not been strong since Policy C582 came into effect in 2015. While the Program aligns with Council and business area objectives, it needs to be recognized that it offers limited potential for success when the local economy is not favourable for new condominium development. Even if the market improves, it can be expected that a large proportion of proposed multi-unit housing development projects would still not proceed to the point where the City is able to exercise its option to purchase units. The factors influencing the progression of projects through the project “pipeline” depicted in Figure 7-2 would still come into play. While some portfolio growth could occur in a stronger market, the Program would still generate fewer units as compared to alternative affordable housing program options.

The Program has also not resulted in significant leveraging of private sector investment beyond the City’s investment in units to achieve portfolio growth. Based on the current outlook, this is not likely to change in the near term.

From a cash-flow perspective, the Program can deliver a positive net cash flow under certain scenarios, but this involves selling units. While the City can realize a positive return on investment over time, this comes at the cost of selling units being used for affordable housing.

There are several factors that can have a bearing on the Program’s cost effectiveness. On a per unit basis, the Program has the highest cost per door and lowest level of partner levering when compared to alternative affordable housing options. Analysis suggests that if the Program continues to acquire units, projects expected to provide units at an acquisition cost in the order of $200,000 should be targeted. The monthly subsidy associated with more expensive units compromises the Program’s financial performance, potentially over-subsidizing households and constraining portfolio growth potential.

The Program places the City ‘in the development game’, with the resulting upside opportunities but also downside risks. Furthermore, as the Program’s basis is rental property ownership, the City is exposed to market fluctuations and its flexibility to manage its portfolio is constrained as compared to other cash-based programs.

Although this review confirmed that the Program has not made a significant contribution to increasing access to affordable housing in Edmonton so far, it is recommended that it remain in place as the City proceeds with developing a new City Plan and zoning bylaw, as it is currently the City’s only program that explicitly involves private industry as a partner in increasing access to affordable housing and integrates affordable housing into market housing developments. In the meantime, some elements of the current Policy and Program should be revised, including eliminating the option for developers to provide a public benefit instead of options to purchase units or cash-in-lieu contributions. This appears to no longer be relevant now that Policy C599: Community Amenity Contributions in Direct Control Provisions is in place. Another matter requiring attention is rationalizing the tenant eligibility criteria under the Policy with the Cornerstones eligibility criteria.

The success metrics and management targets set out in Policy C582 should also be adjusted based on the additional understanding of Program implementation and performance gained through this review and other work that is being done by Housing and Homelessness Section staff.

There appear to be mixed views within the development industry about this Program and inclusionary housing initiatives more generally. Some developers are strongly opposed to this Program. Engagement with developers will be critical going forward with this and any other inclusionary housing initiatives that might be considered now that the City’s authority in relation to inclusionary housing has been expanded under provincial legislation.

Engagement with developers should include sharing Program information, including how funds generated through the Program are used for affordable housing initiatives, and seeking input on the impact of the Program and ways to improve its design and implementation.

1. Introduction

1.1 Background

Policy C582: Developer Sponsored Affordable Housing

The City of Edmonton (the "City") is committed to expanding the supply of affordable housing in the city. Developer sponsored affordable housing (inclusionary housing) has been part of the City's overall approach to affordable housing dating back more than a decade. However, it was not officially adopted as City policy until Policy C582: Developer Sponsored Affordable Housing (the policy) was approved by City Council in September 2015.

This Policy frames the Developer Sponsored Affordable Housing Program (the Program), which is intended to leverage private sector investment in affordable housing. The policy requires developers seeking enhanced development rights (e.g. increases in allowable density) under the City's zoning bylaw to offer the City the option to purchase 5% of the units in the development at 85% of the market value. Purchased units are managed by homeEd and rented below market rates. The Policy allows developers the exclusive right to pay the City 15% of the sale price of the units as cash-in-lieu or give the City a comparable public benefit (such as heritage preservation).

Office of the City Auditor Affordable Housing Strategies Review

In June 2018, the Office of the City Auditor completed a review of the City's affordable housing programs under Cornerstones II (2012-2016) and the *Affordable Housing Strategy (2016-2025).*

This review found that the Developer Sponsored Affordable Housing Program met only one of the four program effectiveness criteria set out in a previous evaluation of the City's Cornerstones Housing Programs:[1] enhance partnering with the affordable housing sector by involving the private sector. The program was found to have been ineffective to date in relation to the three other criteria identified for assessing effectiveness in the previous evaluation:

- increase the availability of affordable housing;
- broaden the range and choice of affordable housing units; and,
- increase integration and dispersal of affordable housing across the city.

The City Auditor's review concluded that, while the Developer Sponsored Affordable Housing Program cannot be considered to have been effective or cost effective to date, it has the potential to be an important part of the City's approach to expanding access to affordable housing in the future. The Director of Housing and Homelessness accepted the City Auditor's recommendation to undertake a review of the Developer Sponsored Affordable Housing Program and Policy C582 to ensure effectiveness and alignment with Council objectives. It was agreed that, as part of this process, the impacts of changes to the *Municipal Government Act* and the new City of Edmonton Charter on the program would be reviewed.

[1] Nichols Applied Management Inc., Cornerstones Affordable Housing Programs Evaluation prepared on behalf of the City of Edmonton, (2015).

This Review

The City of Edmonton issued a NRFP in September 2018 for the review of the effectiveness of the City of Edmonton's Developer Sponsored Affordable Housing Program to ensure its objectives are aligned with those of the Housing and Homelessness section and City Council. Nichols Applied Management Inc. was contracted to conduct this review in November 2018.

2. Approach

2.1 A Developmental Evaluation Approach

A developmental evaluation approach was taken for the review of the Developer Sponsored Affordable Housing Program. This involved assessing the program relevance (i.e., the needs the program is intended to respond to), design (i.e., the key program elements), implementation (including roles and authorities, processes, etc.), effectiveness (i.e., achievement of intended outcomes), and cost effectiveness (i.e., outputs and outcomes being achieved relative to the resources applied).

Attention was given to exploring *why* Policy C582 and the Developer Sponsored Housing Program may or may not be achieving the type and volume of outcomes intended, and options that could be considered for improving program performance and building internal performance management capacity. The review was more expansive than the previous Cornerstones II evaluation and the review conducted by the Office of the City Auditor last year.

2.2 Questions Guiding the Review

The review focused on addressing eight key questions:

- Is Policy C582 and the associated Program responding to a need or needs that would otherwise not be met?
- Have there been shifts in the legislative or policy environment that have implications for the relevance and potential effectiveness of the program?
- Have there been shifts in the housing market and development industry that have implications for the relevance and potential effectiveness of the program?
- Is there a shared understanding of the policy and its application among City staff and between the City and developers?
- Is the balance between the potential benefits to the City and to developers under the program considered to be appropriate?
- What have the successes of the program been?
- What challenges have been encountered implementing the program?
- Are there opportunities for improving the effectiveness and cost effectiveness of the program?

2.3 Review Confined to Existing Policy

This review began when input was being received by the Government of Alberta on the proposed City of Edmonton Charter, 2018 Amendment Regulation under the *Municipal Government Act*. The Amendment Regulation approved by Order in Council on February 12, 2019 gives the City of Edmonton authority to provide for inclusionary housing in accordance with the land use bylaw. In effect, it broadens the City's authority in relation to inclusionary housing policy. The scope of this review did not extend to engagement on – or analysis of – options for the development of a new inclusionary housing bylaw.

2.4 Sources of Input and Information

Input and information were obtained from numerous sources for this review, including:

- **City staff familiar with the history and/or implementation of the program.** Interviews were conducted with all current staff in the Housing and Homeless section, City legal staff who have had involvement with the program, and two Senior Planners in Planning Coordination.
- **Representatives of the residential development industry.** Interviews were conducted with seven representatives of the residential development industry, including representatives of BILD Alberta, Urban Development Institute (UDI) - Edmonton Region, Canadian Home Builders' Association (CHBA) – Edmonton Region, and four development companies.
- **Non-Market Housing Providers.** Interviews were conducted with representatives of two non-market housing providers: homeEd (which handles renting the units acquired by the City under the program) and Habitat for Humanity – Edmonton.
- **Research and program information on inclusionary housing programs in other jurisdictions.** This research looked at similarities and differences in the design of other inclusionary housing initiatives and what has been found about the effectiveness of programs in different market contexts. The findings from the jurisdictional research are summarized in Appendix A.
- **Information on Edmonton's housing market, land development applications, Policy C585 clauses in DC1 and DC2 rezoning bylaws, units/cash-in-lieu/public amenities obtained by the City in exchange for enhanced development rights, and the returns to the City through the operation of the units.**

3. Overview of the Policy and Procedure

3.1 Policy C582: Developer Sponsored Affordable Housing

The policy statement for Policy C582: Developer Sponsored Affordable Housing sets out an expectation that the policy will contribute to affordable housing through partnerships between the City and residential developers that leverage each party's expertise at creating and providing affordable housing.

The key parameters of the policy are:

- It applies to any rezoning that uses direct control provision (DC1) or site-specific development control provision (DC2), meets the minimum project size requirement (12 units), and increases the development rights from the base zoning.
- Inclusion of the developer sponsored affordable housing clause will be a condition of Administration's support for rezoning that uses DC1 or DC2, unless a comparable benefit (e.g. heritage preservation) is provided by the developer to the City.
- Developers are expected to offer the City options to purchase 5% of the units in their developments at 85% of market value for use as affordable housing. However, developers have the option to pay cash-in-lieu of options to purchase units (at the developer's sole discretion).
- Rents for units acquired through the Program will be set below average market rent for eligible tenants. Units may be rented to tenants with incomes above the eligible tenant income thresholds if net rental revenues are used for affordable housing.
- The City will not sell an acquired unit unless all units in the development offered for sale by the developer have been sold, the unit has been operated as affordable housing for at least one year, and the sale is needed to replenish the City's funding for the purchase of other units through the Program.
- Targets set out in the policy include: 95% of available options to purchase are exercised; units are integrated and interspersed throughout a development; units are indistinguishable from other units in a development; units are acquired through partnerships; the average rent across the portfolio is 85% (±5%) of average market rent; and the net present value of associated revenues and costs over the holding period for each unit is greater than zero.

3.2 Procedure for Policy C582

Expectations set out in the accompanying City Procedure include:

- In addition to including the developer sponsored affordable housing clause in the housing agreement for any rezoning that uses DC1 or DC2 provisions, agreements are also to address dwelling unit selection, timing of deposits and final payment, the registration and discharge of caveats and all other legal matters dealing with the City's acquisition of the units.
- The City's acquired portfolio is managed by a professional property management organization.
- A target balance in the Program's fund (within the affordable housing reserve) sufficient to acquire five units per year.

3.3 Program Logic Model

A logic model was developed at an early stage in the review to provide a high-level depiction and ensure a shared understanding of the program inputs, activities and outputs leading to the primary intended outcomes of:

- Increased affordable housing units created through partnerships between the City and developers; and,
- Increased integration of affordable housing that is indistinguishable from market housing in projects granted enhanced development rights through rezoning.

The primary intended outcomes, which are the focus for assessing the effectiveness of the program, are shaded in gold in the figure below.

Figure 3-1 Developer Sponsored Affordable Housing Logic Model

Inputs	• Legislation, policies, broader City strategies and plans • Funding • Human and professional resources • Systems supporting program administration		
Activities	**City** • City Council (strategy, policy and rezoning bylaw approval) • Citizen Services Department: Housing and Homelessness Section in the Social Development Branch (Affordable Housing Strategy implementation, program management) • Urban Form and Corporate Strategic Development Department: Planning Coordination Section in the City Planning Branch (land development applications, housing agreements for rezoning applications) • Financial and Corporate Services Department: Financial Strategies and Budget Section, Law Section, Real Estate Section (legal services related to housing agreements and bylaws, financial services related to affordable housing reserve, services related to real estate acquisitions and renting units through homeEd)	**Developers** • Land development applications • Negotiate housing agreements for rezoning applications (discretion regarding offers to purchase, cash-in-lieu, other public amenity) • Build housing projects	**homeEd** • Property management services under agreement to the City
Outputs	Clauses in rezoning bylaws for projects the Policy applies to that provide the City with: • Options to purchase units to rent as affordable housing • Equivalent value as cash-in-lieu, *or* • Another public benefit (e.g. heritage preservation) in exchange for increased development rights in DC2 and DC1 rezonings		
Intended Outcomes	• Increased number of affordable housing units created through partnerships between the City and developers • Increased integration of affordable rental housing that is indistinguishable from market housing in condominium developments with enhanced development rights granted through rezoning		
Cost Effectiveness	• Outputs and outcomes relative to costs		

4. Program Context

4.1 Evolution of the Program

When the concept of developer sponsored housing was first conceived and trialed as a practice by the City, the housing market in Edmonton was experiencing strong growth in demand and price levels. Demand for housing was increasing in response to the region's strong economic and population growth, putting upward pressure on housing costs and intensifying concerns about the shortage of affordable housing options in the city.

In 2008, City Council approved the approach to inclusionary that had actually started in 2006 and transitioned into the Inclusionary Housing Program, one of seven programs included in Cornerstones II, the City's affordable housing plan for 2012-2016.[2] However, it was not until 2015 that a formal Developer Sponsored Affordable Housing Policy (Policy C582) and City Procedure were adopted. The Developer Sponsored Affordable Housing Program was retained when the City updated the *Affordable Housing Strategy (2016-2025).*

4.2 Shifting Legislative and Policy Context

4.2.1 City of Edmonton Charter 2018 Regulation

The overarching enabling legislation for the Program is the *Municipal Government Act* (MGA). A 2015 amendment to the *Act* provides the legislative authority for City Charters to define relationships between the Government of Alberta and Alberta's two largest cities: Edmonton and Calgary.

The City of Edmonton Charter 2018 Regulation under the MGA was formally approved in April 2018. The Charter provides the City with increased flexibility and authority to respond to local needs, Over the years, the City has assumed a larger role in addressing issues affecting the lives of Edmonton residents, including affordable housing. The Charter provides the City with increased flexibility and authority to use policy tools in several areas, including city planning and affordable housing.

An amendment to the City of Edmonton Charter 2018 Regulation was approved in February 2019. The amendment defines inclusionary housing as "the provision of dwelling units or land, or money in place of dwelling units or land, for the purpose of affordable housing as a condition of subdivision approval or being issued a development permit." The amendment also provides a framework by which the City may approach inclusionary housing, including:

- How and when it can acquire dwelling units, land or cash-in-lieu for inclusionary housing;
- The maximum number of units, land or money that can be acquired for inclusionary housing;
- How the units or land need to be maintained or operated; and,
- Annual reporting requirements.

The City's new City Plan and zoning bylaw will establish the policy framework for the Developer Sponsored Affordable Housing Program and any other future inclusionary housing initiatives.

[2] The other programs included in Renewing the Commitment: Edmonton's Plan for Affordable Housing 2012-2016 (Cornerstones II) were: Housing Opportunities Program for Edmonton (HOPE); Curb Appeal Grant Program; Secondary Suite Grant Programs; Safe Housing; Capital Construction Grant Program; and, Fee Rebate for Affordable Housing Program.

4.2.2 Policy C599: Community Amenity Contributions in Direct Control Provisions

The guiding policy for the program (C582) allows for the developer sponsored affordable housing clause to be excluded when an application goes forward to City Council for DC1 or DC2 rezoning approval if the proponent provides a comparable public benefit.

A subsequent City policy - Policy C599: Community Amenity Contributions in Direct Control Provisions - requires community amenity contributions for all DC1 or DC2 rezoning. This policy, which was approved by City Council in July 2018, has implications for the option available previously under Policy C582 for the developer sponsored affordable housing clause to be omitted from a DC1 and DC2 rezoning bylaw if a public amenity is being provided instead.

Under Policy C599, developers are required to contribute community amenities when rezoning:

- Is a direct control rezoning (DC1 or DC2);
- Proposes a building at least 5% larger than currently allowed in the existing zone or plan area; and,
- Is for a redevelopment site (i.e., located in one of Edmonton's older neighbourhoods or on land that has been built on before).

Under the policy, community amenities include: sidewalk upgrades, extra trees, better benches, lights or bus stops; public access to park/amenity area; upgrades to public park, community facilities, or trail connections; public art; family-oriented housing with three or more bedrooms; and, heritage preservation.

4.2.3 Zoning Bylaw Renewal

The City of Edmonton is in the process of developing a new City Plan. Concurrently with this process, the City's zoning bylaw is being reviewed and renewed, with the expectation that a new zoning bylaw be in place by 2022.

Possible changes to the zoning bylaw have implications for the Developer Sponsored Affordable Housing Program as the program's basis is rezoning that is required when no standard zone works for a proposed development and applicants propose direct control upzoning.

4.3 Program Economic Context

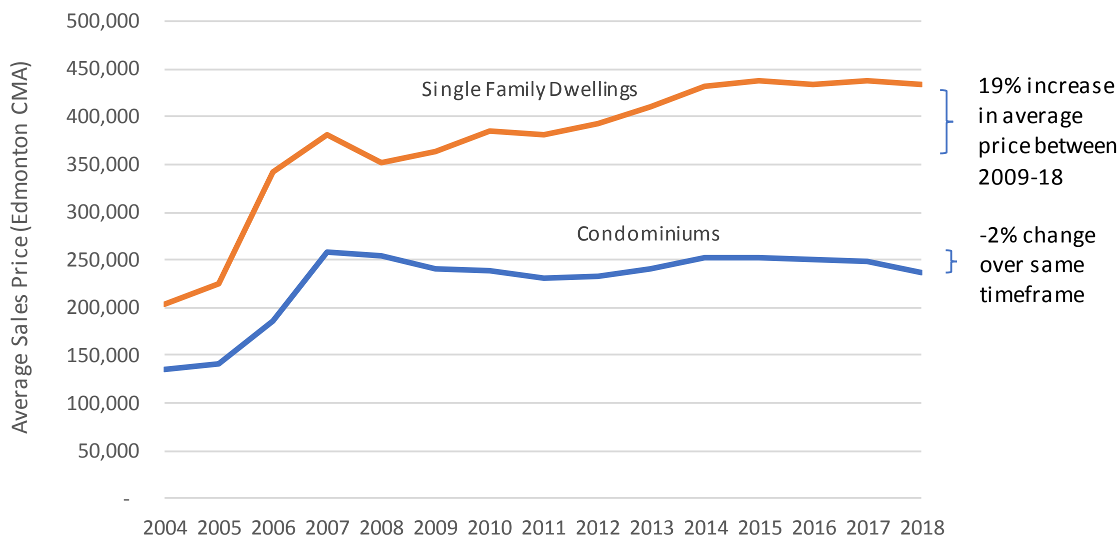
4.3.1 Housing Market Trends

Conditions in the local condominium market have a direct bearing on the potential of the Program to be effective. Achievement of the Program's intended outcomes is completely reliant on partnerships with developers actively creating condominium housing developments.

Since 2008, when the City first began the approach to inclusionary housing, Edmonton has experienced two economic downturns. The first (starting late 2008 and extending to 2010) was shorter and less pronounced than the second (which started in 2014, with an unsteady recovery still underway).

Figure 4-1 shows the trends in the average price of single-family dwellings and condominiums for the period 2004 (four years prior the approval of the inclusionary housing practice) to 2018. A sharp rise in average prices of both single-family dwellings and condominiums leading up to 2007 can be seen. However, between 2009 and 2018, there is a notable diversion in the price trends for single-family dwellings and condominiums, with average prices for single family dwellings increasing by 19% and average prices for condominiums decreasing by 2%. While the overall average decline in condominium prices over that ten-year period was 2%, there were marked variations in the condominium market across the city, with properties located in the central core more likely to have gone up in value, while those in newly-developed areas in the city's outer ring more likely to have declined in value.

Figure 4-1 Average Prices of Single Family Dwellings and Condominiums: 2004-2018

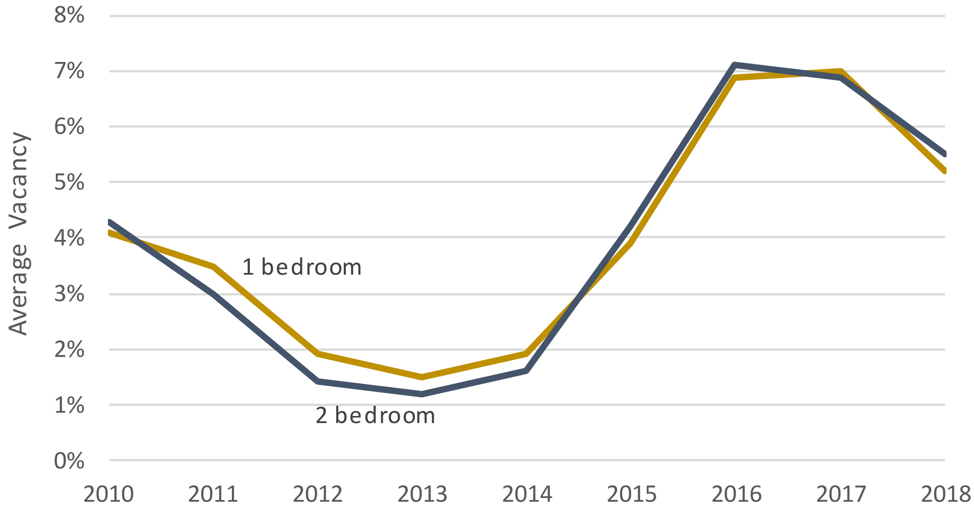


Note: Historical data available for Edmonton CMA. Prices in the City of Edmonton align closely with the CMA over the past five years (0.1% difference).

Source: Edmonton Real Estate Board (Edmonton CMA)

Vacancy and rental rates are also important for understanding broader trends that may be influencing program performance. The units in the City's developer sponsored affordable housing portfolio are subject to the same market forces as other rental units in the city. Figure 4-2 presents average vacancy rates for one and two-bedroom apartments in the city of Edmonton over the last eight years.

Figure 4-2 Vacancy Rates: 2010-2018



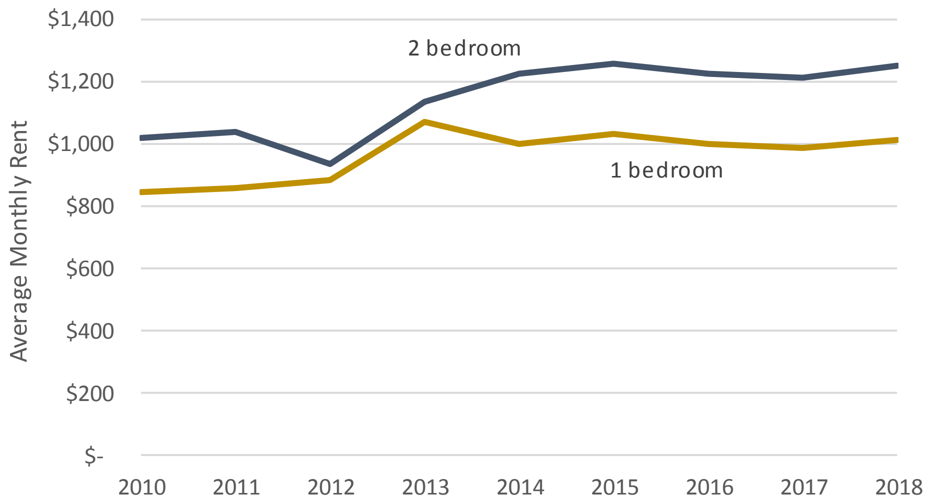
Source: CMHC Fall Rental Market Reports (Edmonton city boundary)

Key observations about vacancy rates over the past eight years for one and two-bedroom apartments in Edmonton are:

- Average vacancy rates for one and two-bedroom apartments track closely to one another.
- There has been volatility in vacancy rates over this period. With the economic recovery that started in 2010, there was a steady decline to vacancy rates of just over 1% in 2013, reflecting a very tight rental market at that time. However, vacancy rates rose sharply over the two years following the rapid and significant drop in the price of oil in 2014, peaking at about 7% in 2016, indicating a softening in the rental market with excess supply.
- The average vacancy rate started trending downwards again in 2017 to roughly 5% in 2018. Although improving, there continues to be more one and two-bedroom apartments available for rent in the city than there is demand for these units.

Figure 4-3 shows the trend in rental rates for one and two-bedroom apartments between 2010 and 2018 in Edmonton.

Figure 4-3 Rental Rates: 2010-2018



Source: CMHC Fall Rental Market Reports (Edmonton city boundary)

Key observations about rental rates for one and two-bedroom apartments over the past eight years are:

- Average monthly rental rates for two-bedroom apartments rose between 2012 and 2015 and have remained relatively stable in the past few years.
- Following a rise in the average monthly rental rates for one-bedroom apartments in 2012 – 2013, there was a dip in 2014. They have since remained at 2014 levels.
- The average rental rate between 2015 – 2018 was $1,010 for one-bedroom apartments and $1,240 for two-bedroom apartments. The combined average rent (i.e., for both one and two-bedroom apartments) over those three year was $1,120.
- Trends in rental rates for one and two-bedroom apartments do not appear closely tied to vacancy rates. Although the average vacancy rate over the past three years hit as high as 7% in 2016 before reducing to 5% in 2018, average rents have been relatively stable since 2014.

4.3.2 Broader Economic Trends Impacting Investment in Multi-Unit Housing

The Alberta economy continues to deal with much uncertainty because of continued low oil prices and challenges related to pipeline constraints. The slowdown in oil and gas investment in the province in recent years has reduced investor confidence across other sectors and slowed population growth, including in Edmonton. Other factors such as the change in U.S. government, renegotiation of NAFTA, and potential changes in provincial and federal governments all contribute to increased levels of real or perceived investment risk. This, combined with the long period of stagnation in average condominium prices in Edmonton, has dampened investment interest for new condominium developments in the city.

The rate of new condominium projects being brought to market has slowed down significantly since 2014 in comparison to the levels seen prior. Although many projects have been identified as meeting the criteria for application of Policy C582 at the development application stage, since 2012, only one project has progressed to the point of the City acquiring units for affordable housing (five units in total, bringing the total number of units in the portfolio to 26). There are many factors that can come into play between a development application being received that could fall within the parameters of the policy and units being added to the City's developer sponsored affordable housing portfolio. These are discussed in Section 7.

The dominant factor influencing the success of the Program is the robustness of the local condominium market, including the new projects being brought forward by private sector developers. Over the past number of years, the macroeconomic context has not been conducive to a steady 'pipeline' of multi-unit housing developments upon which the Program can lever.

5. Program Alignment with Council and Business Area Objectives

The City of Edmonton views the provision of affordable housing as central to its mandate and achieving the vision and priorities as set out in its guiding strategic documents. In particular, *The Way We Grow* (Edmonton's Municipal Development Plan) and *The Way We Live* (Edmonton's People Plan).

The Way We Grow commits the City to "provide in partnership with others, safe, accessible and long-term affordable housing in all areas of the city" and sets policy direction of explicit relevance to the Program, including:

- Expand new affordable rental housing in the city;
- Provide a range of affordable housing; and,
- Encourage new development and infill redevelopment to incorporate affordable housing.

The Program also supports this specific strategic policy direction in *The Way We Live:* "the City of Edmonton provides, partners and advocates for a variety of housing programs to meet the diverse needs of Edmontonians".

However, the Program is most directly linked to the City of Edmonton's *Affordable Housing Strategy (2016-2025)* which was approved by City Council in November 2015. This Strategy provides direction for the programs and initiatives of the Housing and Homelessness Section. Under this strategy, the City is using a range of tools to address affordable housing needs in all areas of the city, including funding, land, regulations, and policies. Policy C582: Developer Sponsored Affordable Housing is one of the City's affordable housing policy tools.

The Program plays a role in supporting several goals set out in the *Affordable Housing Strategy*, in particular:

Goal 1: Increase the supply of affordable housing in all areas of the city

Strategies:

1.1.1 Acquire and develop affordable housing units

1.1.3 Leverage the existing City-owned affordable housing portfolio to increase supply

1.2.3 Implement effective regulations and internal processes to encourage affordable housing development

Goal 4: Anticipate, recognize and coordinate action to respond to housing and homelessness needs

Strategies:

4.2.1 Bring housing sector partners, including both the private and public sectors, together to coordinate action and identify shared objectives

6. Program Relevance

One of the questions addressed through this review relates to the Program's relevance. Specifically, is the Program responding to a need or needs that would otherwise not be met?

There is no question about the need for affordable housing in Edmonton and the City's commitment to work with other orders of government, not-for-profit organizations, and the private sector to respond to local affordable housing needs. The City's *Affordable Housing Strategy* points out that 20% of households do not have their needs met by private rental or ownership housing.[3]

The City of Edmonton's affordable housing programs[4] focus on four segments of what is commonly referred to as the housing spectrum: supportive housing (supports generally provided on site), supported housing (needed supports are external or mobile), social housing (rent geared to income), and independent living (rent below market average). The Developer Sponsored Housing Program is one of the City's responses to increase the supply of affordable housing in the independent living segment of the spectrum.

While there are other City programs responding to needs in this segment, the Program is unique in that it:

- Requires explicit involvement of developers granted enhanced development rights in providing affordable housing (either through options to purchase units or an equivalent amount as cash-in-lieu).
- Results in units available for rent as affordable housing that are integrated with – and intended to be indistinguishable from – units purchased at full market rates.

It cannot be concluded that either of these could not be achieved through other policy or program mechanisms. For example, developers receiving enhanced development rights could contribute to increasing affordable housing in other ways (such as cash contributions or fees paid to the City) and rents in market housing units could be subsidized through another type of program.

One aspect of the Program that is of questionable relevance to increasing the supply of affordable housing in the city is the option for the developer sponsored affordable housing clause to be replaced with a provision to provide a comparable public benefit.

[3] City of Edmonton, *Affordable Housing Strategy (2016-2025),* p. 1.
[4] Affordable housing is defined in the *Affordable Housing Strategy* as rental or ownership housing that requires capital subsidies or capital subsidies plus ongoing operating subsidies, has rents or payments below average market cost, and is targeted for long-term occupancy by households that earn less than median income for households their size.

7. Program Performance

7.1 Background

The key metric for the assessment Program's performance specifically related to the goals of the City's *Affordable Housing Strategy* is increase the supply of affordable housing in all areas of the city.

Looking at the performance of the program through the more targeted lens of the outcomes depicted in the logic model (Figure 3-1), indicators of program performance are:

- Increase in the number of affordable housing units created through partnerships between the City and developers.
- Increased integration of affordable rental housing that is indistinguishable from market housing in condominium developments with enhanced development rights granted through rezoning.

7.2 Program Performance at a Glance

Figure 7-1 provides a high-level overview of the results achieved through the Program since 2007. In total, 26 units of affordable rental housing have been created through partnerships between the City and developers, and all these units are integrated into developments that were granted enhanced development rights through rezoning. Furthermore, the 26 units can be considered indistinguishable from market housing units in the developments.

Roughly $110,000 has been received by the City as cash-in-lieu for use in other ways to expand the availability of affordable housing in the city.

A number of projects remain under development or have been brought to market ultimately as rental rather than ownership projects. All of these provide potential future units within the Program, should the following occur:

- Two projects with Building Permits which appear to remain actively pursuing their proposed developments proceed (either as units for purchase or cash-in-lieu contribution). These two projects represent the potential for an additional 26 units to the Program.
- Five other projects with Housing Agreements that either do not yet have building permits or are showing less development activity at present, actually develop. These projects represent up to 41 additional units to the Program should the City exercise its options to purchase.
- Any of the 6 projects granted enhanced development rights previously and developed as rental properties are ever converted to condominiums.

Figure 7-1 Developer Sponsored Affordable Housing Program Performance: 2006-2018

Units acquired and rented as affordable housing:	**Cash-in-lieu:**	**Potential additional units under existing agreements:** *(139 total potential units)*
• 26 units acquired in 5 developments • In total, the net purchase price of the units was approximately $4. 9 million • No units have been sold • The appraised value of the units in spring 2018 was approximately $6.2 million - an overall increase in value since purchase of approximately $1.3 million or 27% • The change in the value of individual units since purchase ranges from -13.6% to 54.5%	• 2 contributions totalling approximately $110,000 (approximately $45,000 in 2017 and $65,000 in 2018)	• 2 projects (26 potential units to the Program) with building permits and actively progressing: 1 intended to be a condominium; the other undetermined • 5 projects 'semi-actively' developing (41 units) • 6 projects developed as rental buildings that the City could exercise options to purchase 72 units if they are converted to condominiums in the future

7.3 A Closer Look at Program Performance

7.3.1 Analytical Approach

The following information sources were used, and steps were taken as part of this review to assess historical program performance and potential future performance, based on experience to date:

- Inventory of the current Developer Sponsored Affordable Housing portfolio, including units acquired to date, net purchase price to the City, year acquired, and current appraised value (as of April 2018).
- 2018 information provided by homeEd related to rental operations on a per unit basis, including monthly and annual operating costs, rental revenue, days vacant.
- Information provided by the City of Edmonton for incurred capital maintenance costs associated with the units in the portfolio.
- Discussion with a homeEd property manager about program awareness and demand for units, trends in rental rates, vacancy and unit take-up over time and experience applying the program criteria (i.e., rent and income caps).
- Review of the net present value (NPV) model that informed development of Policy C582: Developer Sponsored Housing in 2015 including methodology, assumptions, and outputs. A new model was created to apply a similar NPV analytical approach to alternative portfolio management scenarios, including the disposition of existing units and acquisition of new units.
- Development of a net cash flow analysis to evaluate the performance of the Program portfolio to date compared to other affordable housing programs.
- Analysis of the 'project pipeline' tracing the flow of all multi-unit housing projects in the city through to units being acquired by the City through exercising its options to purchase Developer Sponsored Affordable Housing units. This analysis helps in understanding the various reasons for the Program's limited output to date. The reasons and high-level estimates of the number of potential units dropping out of the 'pipeline' at each step in the project development process are shown in Figure 7-2.

7.3.2 Size and Value of Existing Portfolio

The City has exercised options to purchase units in five projects, resulting in 26 units being available for rent as affordable housing. Table 7-1 shows when the projects were approved for development with enhanced development provisions (e.g. rezoning bylaw), when the projects were completed, and the units became available for the City to purchase. There have been no additional projects coming forward for rezoning since the policy was formally adopted in 2015, linked primarily to the economic context as discussed above.

Table 7-1 Program Inventory of Projects and Units

Project	Year Approved (Bylaw)	Year Units Completed	# Units Acquired by City
1	2006	2010	6
2	2009	2010	4
3	2008	2011	6
4	2009	2012	5
5	2010	2015	5
Total			**26**
Current Appraised Portfolio Value $6,174,975 (April 2018)			

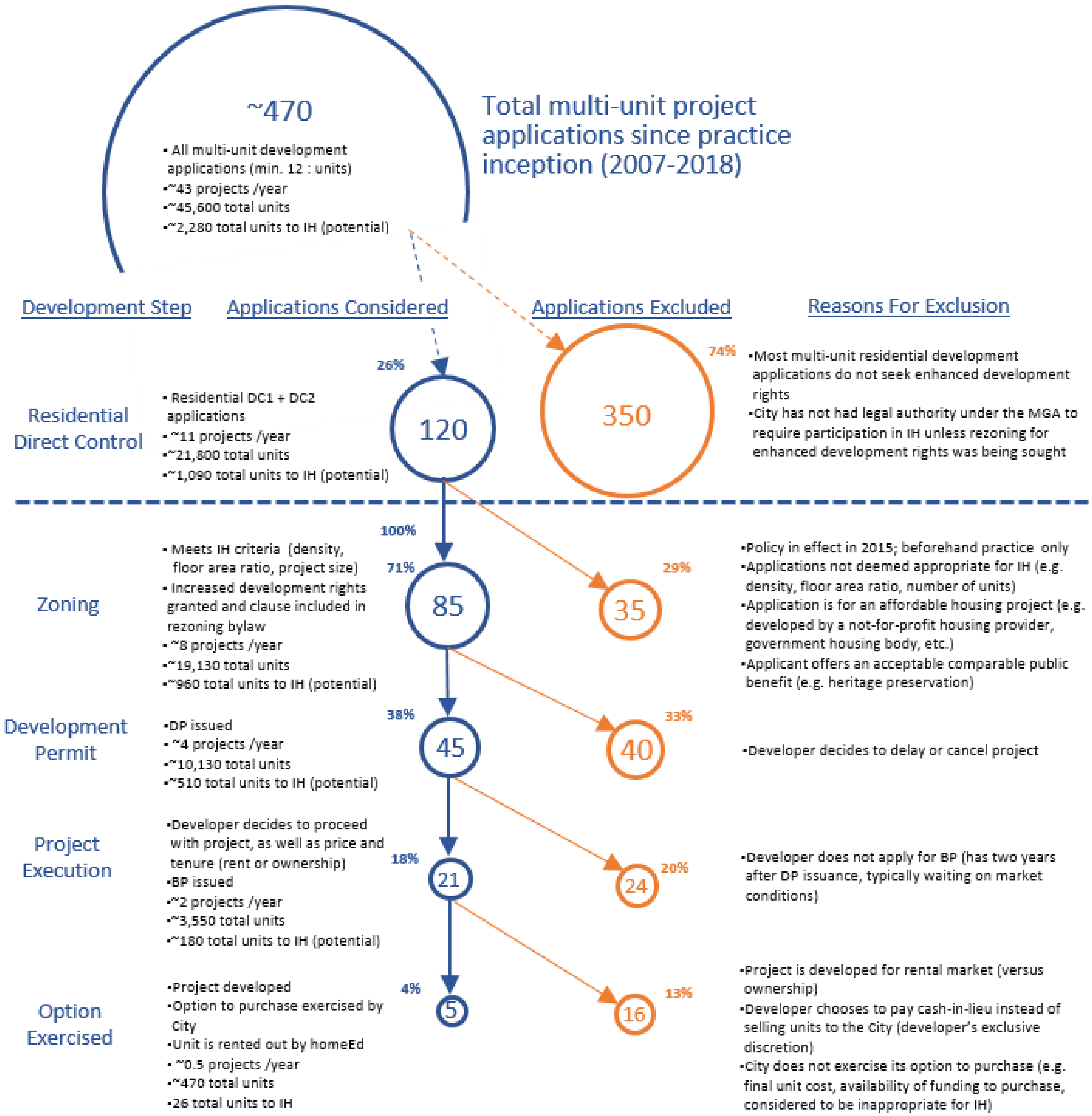
The program has resulted in 26 units being acquired by the City, roughly 3.25 units per year between initiation of the policy as a practice (2006) to the most recent purchases (2015), or approximately 2.3 units per year up to 2018.

7.3.3 New Project Supply Pathway

Figure 7-2 shows the key steps on the pathway to the City obtaining inclusionary units. Potential units in the developer sponsored affordable housing 'pipeline' can stall or drop off as projects proceed through the development process. The pathway for the 26 units (in 5 projects) currently in the City's developer sponsored housing portfolio is shown in blue, with the estimated number and proportion falling out of the pipeline at each step in the process shown in orange. The key driver of the size of the portfolio is volume of new multi-unit housing applications coming forward seeking DC1 or DC2 zoning, as this opens the door for negotiation regarding program inclusion in exchange for increased development rights. However, after this, projects can stall or drop out of the pipeline for a number of reasons, key of which are:

- The policy does not apply to multi-unit housing projects intended to be operated as rental properties, yet some proposed projects initially intended as condominiums change tack through the development process ultimately becoming rental buildings. If properties have been granted increased development rights through DC1 or DC2 rezoning, the City retains the right to purchase units if they are ever converted to condominiums.
- A large proportion of potential units drop out between the rezoning and development permit steps in the process. Depending on conditions in the local condominium market, developers may decide to delay proposed projects or cancel them altogether.
- At the final step in the process, the City may not be able to exercise its option to purchase units because projects end up being developed as rental properties, not condominiums, the developer chooses to pay cash-in-lieu, or units are of a size, cost or have other characteristics which leads the City to choose not to exercise its option to purchase.

Figure 7-2 Project Pipeline and Development Steps



Notes:
IH: inclusionary housing/developer sponsored affordable housing
DP: development permit
BP: building permit
Total units to IH based on 5% as per Policy C582: Developer Sponsored Affordable Housing
Number of projects/units by stage are not exact but are rather generally indicative of progress along the development pathway

7.3.4 Realized Rental Rates

The policy objective is for the average rental rate of the entire portfolio be 15% below the City's average rental rate (plus or minus 5%). The actual average rental rate for one- and two-bedroom units in the City of Edmonton in 2018 was $1,135. The rental rate for an average unit across all projects in 2018 was $988 per month.[5] The program's realized rental rate is thus equivalent to about 87% of the City's average and in line with the stated objective.

7.3.5 Actual Vacancy Rates

In 2018, three of the Program's projects experienced some vacancy. The average vacancy rate across the portfolio last year was 9%, equivalent to approximately 1 unit for 1 month of the year. Unit vacancy has varied over time. Program design factors (e.g. maximum incomes, minimum target rental rates) and demand levels in the Edmonton rental market have reportedly created some challenges for homeEd in terms of identifying eligible renters in previous years.

In some cases, to avoid long periods of vacancy, units have reportedly been rented at above the maximum rental rate to households with incomes above the maximum income limit (both Cornerstones defined targets) due to lack of applicants. While this approach complies with the program's management target of the average rent across the portfolio being 85% (plus or minus 5%) of average market rent (6.2b) it does not comply with the other management target of 100 percent of new tenants being eligible tenants at the time of leasing (6.2a).

7.3.6 Program Eligibility

A challenge identified with the program design is a slight disconnect in the criteria used to assess client eligibility. Following the City's Cornerstone's program design, the lower limit of the inclusionary housing program's eligibility has been set at the maximum chargeable rental rate. The upper limit of the program's eligibility is the maximum income level of tenants, calculated by household size. Table 7-2 presents these limits for typical household configurations and unit types.

Table 7-2 Program Eligibility Boundaries

	Maximum Income	**Maximum Annual Income**	**Implied Maximum Monthly Rent (<30% on housing)**
Upper	Single	$37,701	$943
	Couple	$57,237	$1,431
	Lone parent	$61,706	$1,543
	Couple up to 2 child	$73,861	$1,847
Lower	**Maximum Rent**	**Maximum Allowable Rental Rate (MARR)**	**Implied Annual Income (<30% on housing)**
	One-Bedroom	$864	$34,560
	Two-Bedroom	$1,065	$42,600

Source: Cornerstones 2019 Maximum Allowable Rental Rates (MARR) and Income Levels

[5] Data obtained from homeEd does not provide detail on the rent charged for individual units, rather is summarized by project.

The maximum annual income for a single-person household is currently $37,701. Applying the commonly-referenced affordability standard of average monthly housing costs being at or below 30% of gross income, the implied maximum rental rate associated with that income level would be $943 per month. Currently, the maximum allowable rent the program can charge under the MARR standard is $864. This represents a $79 per month difference between the chargeable rent and the income affordability target. This difference grows substantially as the household and unit size increases, as can be seen in Table 7-3 below.

Table 7-3 Difference Between Eligibility Criteria

		Maximum Allowable Rent		
Unit Size	Household Configuration	As per Income Cap	As per MARR Cap	Income vs MARR Gap
One-Bedroom	Single	$943	$864	$79
	Couple	$1,431	$864	$567
Two-Bedroom	Couple	$1,431	$1,065	$366
	Lone parent	$1,543	$1,065	$478
	Couple up to 2 child	$1,847	$1,065	$782

The gap between income levels of potential tenants as defined by the upper and lower eligibility criteria differs depending on household size. For instance, a couple household with up to two children (essentially the maximum sized household that would be included in the inclusionary housing program due to unit size), if earning up to the maximum income level of $73,681 could afford housing up to $1,847 per month. However, the chargeable rental rate is capped at $1,065 for a two-bedroom unit (including heat and water). This means the realized rent could be up to $782 higher on a per monthly basis than at present.

Other observations on the program eligibility criteria are:

- Rents for developer sponsored affordable housing dwelling units will be set at below average market rent (3.1). Dwelling units may be rented at rates above average market rent to tenants with incomes above the eligible tenant income thresholds where the net rental revenues are used for affordable housing (3.2).
- The affordability target used in the above analysis is based on the monthly cost of housing limited to 30% of gross income. While the situation of every household differs, for those households earning more than that implied by the maximum allowable rent (MARR) limit, the City may in effect be providing a larger-than-required subsidy for certain households.

It is recognized that establishing affordability criteria can be challenging, as it relates to market conditions (income levels and rental supply, demand and costs) all of which are dynamic, particularly in a fluctuating housing market such as Edmonton's in recent years.

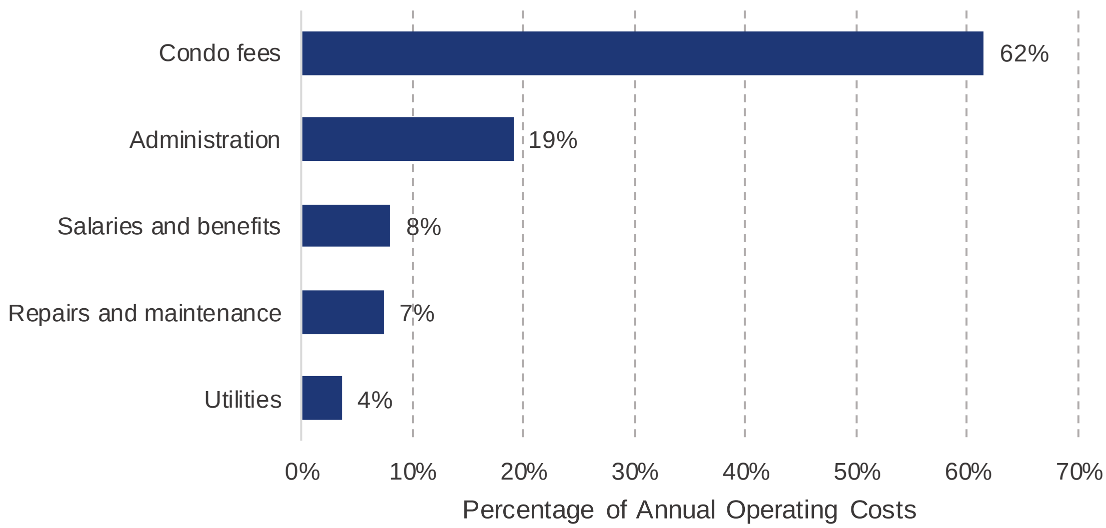
7.3.7 Program Cash Flow

The Program's cash flow is estimated on a per project basis and considers revenues collected less operating costs, including homeEd's management fee but excluding the City's internal oversight costs. For this review, program costs are considered for the year 2018, based on information available from homeEd.

In 2018, each of the five projects with units in the City's developer sponsored affordable housing portfolio had a positive cash flow ranging from an average of $1,650 per unit up to an average of $4,720 per unit.

Annual operating costs differ across projects. On average, condo fees make up approximately 62% of per unit operating costs across all projects (Figure 7-3). Administration fees, including management fees and advertising costs, are the second largest category of operating costs per unit, accounting for about 19% of per unit operating costs. Salaries and benefits for resident managers, repairs and maintenance, and utilities each make up less than 10% of total per unit operating costs each year. In addition to operating costs, each unit costs approximately $700 per year for additional administration salaries.

Figure 7-3 2018 Operating Costs per Unit, by Category



Source: homeEd, 2018 operating year.

If it is assumed that all years have looked like 2018 in terms of cash flow, a picture of how an average unit for each project has performed to date can emerge. As shown in Table 7-4, if an average unit were to be sold from each of the program's projects today, each unit's net cash flow would differ. The sale of a unit from Project 1 would result in a total net cash flow of -$2,510, primarily due to the large decline in value these units have experienced since their purchase in 2010. Each of the other projects see positive net cash flows from the sale of an average unit. The Project 2 units have a relatively lower cash flow than the units in Projects 3 and 4 because the Project 2 units have both declined in value over time and had a large capital call (about $33,165 per unit) in 2017.

7.3.8 Unit Appreciation

An additional consideration as to the performance of the City's developer sponsored affordable housing portfolio is unit value appreciation since their purchase. As shown in Table 7-4 each project has varied in terms of both the real market return of the average unit between its purchase date and 2018, as well as the City's average return for the same period. Note prices are reflected in $2018 constant dollars, which adjusts for inflation effects on price.

In terms of real market appreciation, both Projects 3 and 4 have seen an increase in the market value of their units to date, while the rest have declined in value. Project 1 has seen the most significant decline in value - over 34% since the units were purchased. Because the City receives a 15% discount on all purchased units, there is some buffer for fluctuations in market values, so even when the market results in units going down in value, the City may still be able to realize positive proceeds from a sale if the decline in unit value has not been significant.

Table 7-4 Average Market and City Return Since Year of Purchase

Project	Purchase Year	Purchase Price in $2018		Current Market Price	Market Return	City Return
		City Price	Market Price			
1	2010	$190,025	$223,560	$148,185	-34%	-22%
2	2010	$229,720	$270,260	$264,430	-2%	+15%
3	2011	$231,035	$271,805	$311,500	+15%	+35%
4	2012	$217,810	$256,250	$287,515	+12%	+32%
5	2015	$171,880	$202,215	$184,116	-9%	+7%
Portfolio Average	-	**$208,094**	**$244,816**	**$239,149**	**-4%**	**13%**

Location appears to be a key factor influencing unit value retention. Project 1, the only project located outside the core and mature neighbourhoods, has seen the largest drop in value (-34%). This is an example of how the City is exposed to market fluctuations under this program: the outer ring of the city (developing communities) experienced substantial condominium development over the past decade, leading to excess inventory in the area where Project 1 is located, putting downward pressure on the market value of the City's units in this project. The other units in the portfolio, located in core or mature neighbourhoods, have not declined in value to the same extent. Two projects (Projects 3 and 4) have seen value appreciation.

7.3.9 Realizing Returns and Expanding the Portfolio

The overall costs per door to date for each project in the City's developer sponsored affordable housing portfolio are shown in Table 7-5 below. For most projects, the sale of an average unit today would result in a positive net revenue for that unit (accounting for purchase price, historical cash flow, and the sale revenue and cost). The exception is Project 1, which has seen a substantial decline in value since the units were purchased and would result in a loss of about $2,500 per unit if sold today. While the sale of most units would result in the City gaining financially, each sale would also result in a loss of an affordable housing unit.

For the City to expand its developer sponsored affordable housing portfolio through the sale of units, it would need to sell multiple units in order to repurchase the same number of units *and* add additional units. For example, given the property value of an average unit in the current portfolio, the City would need to sell a minimum of 6 units each year in order to purchase 7 units and grow the portfolio by one unit each year without using additional program funding. Alternatively, the City could hold on to units for longer periods and use rental revenues to purchase additional units, but unknown variables such as capital calls and vacancy rates increase the risk of this approach and make the provision of consistent affordable housing through this program a challenge.

Without the sale of any units, the net revenue for an average unit in each project is negative, implying that no unit has earned sufficient rental revenue since its purchase to overcome the initial cost, and that an average unit in the portfolio has cost approximately -$155,000 to date to provide housing.

Table 7-5 Net Revenues per Unit to Date (with and without sale)[6,7]

Project	Net revenue per unit (if sold today)	Net revenue per unit (if held onto)
1	-$2,510	-$150,695
2	$40,144	-$224,285
3	$92,428	-$219,072
4	$95,507	-$192,008
Portfolio Average	**$47,560**	**-$154,765**
Combined Portfolio	**$1,178,000**	**-4,076,000**

7.3.10 Unit Acquisition Costs and Realizable Rent

A key challenge this program faces is translating potential acquisition costs of units to realizable rental rates. The current program design does not specify a purchase price limit, but rather states that all projects are eligible, regardless of unit price. The City has the right to exercise its option to purchase in all condominium developments falling within the policy, however the criteria and practice for if and when options to purchase are exercised is not documented and varies situation by situation. This reportedly creates confusion for staff in the Housing and Homelessness section, but also in Planning Coordination and among developers. A current gap identified in program practice is explicit guidance for staff in terms of the project types to be pursued and when options to purchase should be exercised or not.

As the management target (2b) is for average rent to be at 85% of average market rent, ultimate program performance would be to acquire new units that can be rented at that exact rate, thereby minimizing the cost to the City of subsidizing units. As an example, the average market rent for a two-bedroom apartment between 2015 and 2018 was $1,240 per month. The target rental rate for the program should therefore be 85% of that, or $1,050.

The challenge for the program is it has to acquire units in developments from the program's available budget at 85% of the unit price set by the developer. The City is limited in choice based on current activity in the 'project pipeline' against which options to purchase can be exercised. The question raised is what unit acquisition cost delivers units for the target rental rate of $1,050? This can be challenging to answer, as unit costs are affected by a number of factors including how long the unit is held on to, what it will be sold for, the City's expected rate of return, the developer's price per unit, among others.

Roughly speaking, a unit acquisition price in the order of $200,000 would be expected to result in a unit that could be rented at the target rental rate. To date, unit acquisition costs for the program have ranged between $170,000

[6] The study team was unable to acquire historical cash flow data for Project 5.
[7] Note that complete historical cash flow data was unavailable. These net revenue calculations are based on an extrapolation of 2018 operating data from homeEd, as well as some anecdotal data provided by City staff.

and $230,000, which suggests current units have been in an appropriate price range. Table 7-6 presents two scenarios of unit acquisition and implications for the program.

Table 7-6 Two Unit Purchase Scenarios

Scenario 1 ($200,000 two-bedroom unit)		
Average Rent Target	$1,240	
Monthly rent cost delivered by program (capped)	$1,050	
Actual cost to program	$1,050	
Cost of Rental Subsidy	$190	15%

Scenario 2 ($400,000 two-bedroom unit)		
Average Rent Target	$1,240	
Monthly rent cost delivered by program (capped)	$1,050	
Actual cost to program	$2,060	
Cost of Rental Subsidy	$1,010	81%

Under scenario one, a unit is acquired for $200,000, and should be rentable at approximately $1,050 (depending on the above-listed assumptions). This meets the program's objective of 15% subsidy (below average market rent) exactly, resulting in the minimum potential subsidy costs of $190 per month.

Under scenario two, a unit is acquired for $400,000. The maximum allowable rent the program can charge is the 85% target of $1,050, yet the true monthly cost of the unit equates to roughly $2,060 per month. This results in a monthly subsidy cost of $1,010, or 81% above the target level.

This analysis suggests that the program should target units that can be acquired for about $200,000. It should not look to acquire more expensive units, as the implied cost of the monthly subsidy would be suboptimal.

7.3.11 Cash-In-Lieu

Under the Program, developers may elect to pay cash-in-lieu in place of selling units to the City. To-date this has been at the developer`s discretion as the City has lacked the legislative authority to direct payment of cash-in-lieu. This limitation has presented challenges for the Program.

The developer has until a project is built to decide whether it will sell units to the City or choose to provide the City with cash-in-lieu instead. The City may be approached earlier in the development process by developers interested in getting a sense of whether the City intends to exercise its option to purchase. The City can be challenged in responding to these inquiries before more is known about proposed projects (e.g. unit prices, floorplans, etc.). Furthermore, developers can gain insights that leads them to offer units that the City is not able or willing to purchase (e.g. because of high unit costs), thereby averting having to offer cash-in-lieu instead. This can have the unintended consequence of developers of higher-end condominium projects for which increased development rights have been granted not having to contribute via either selling units to the City for less than market value or providing cash-in-lieu.

While an apparent solution to this would be to make cash-in-lieu at the discretion of the City, allowing the City to obtain funding that it could apply to other affordable housing, this option is currently not available to the City.

7.3.12 Program Cost in Comparison to Other Affordable Housing Options

Developer sponsored affordable housing is one of several programs the City has been using to increase the supply of affordable housing. The particular focus of the Program is on the upper end of the near-market segment of the affordable housing spectrum. Table 7-7 presents a comparison of the Program's per unit cost with other City affordable housing initiatives.

Table 7-7 Cost Comparison to Alternative Options

Program	Per Door Cost (City's Contribution)	Total Per Door Cost	City's Investment Leveraging
Inclusionary Housing (unit held onto)	**$154,760**	**$191,490**	0.25:1
Inclusionary Housing (unit sold today)	**-$47,560**	**-$10,840**	n/a
Affordable Housing capital project with community partner	$73,000	$235,000	2.2:1
Secondary Suite (average in-house)	$19,815	$39,630	1:1

Note: Positive values reflect a cost, negative values reflect a revenue.

8. Developer Perspectives

The first point most industry representatives wanted to emphasize in interviews was the poor state of the economy in recent years and the impact this is having on businesses in the industry. It was reported that many businesses in the industry have made significant downward adjustments to their building plans, with some smaller firms having halted building for now. There was some frustration that City staff may not fully understand the difficulties the industry is facing.

The second point emphasized in many interviews is the tight margin within which the homebuilding industry works in the Edmonton marketplace. The margins in Edmonton have historically tended to be smaller than in some other cities (Toronto and Vancouver, specifically) with sales prices never greatly exceeding construction costs. The Program imposes additional costs on developers that some do not feel is offset by the benefits of upzoning in Edmonton. It was mentioned that these costs can be passed on to other households seeking to purchase new condominium units in projects, potentially contributing to broader market housing affordability challenges.

Some developers commented on the Program introducing additional risks into the development process, including risks associated with the potential for City staff to take different approaches to negotiating developer sponsored affordable housing clauses in rezoning bylaws, and risks associated with marketing new buildings with City-owned units that will be used for affordable housing. While some acknowledged that the units might bolster presale numbers for some projects, this is not always the case.

There were comments about the Program applying across the range of proposed projects seeking DC1 or DC2 rezoning. While there was acknowledgment of the Policy's intent to integrate affordable housing into market housing developments, there were questions – and some concerns – about the application of the Policy when the units to be developed will be comparatively expensive, with high condominium fees. There is interest in greater Program transparency, including whether the City is exercising its options to purchase and receiving and using cash-in-lieu for affordable housing. There is also interest in information about the cost-effectiveness of the Program compared to other affordable housing programs.

Regarding the concept of the Program being a partnership between the City and developers of condominium projects receiving enhanced development rights through rezoning, this is not how it is viewed by many of the developers who were interviewed for this review.

Questions were raised about some the key premises behind any type of inclusionary housing programs, including:

- The cost of the rezoning process, considering that the need for rezoning may be more a reflection of needed zoning changes.
- The use of funding from these types of programs to address a societal issue that some feel should be addressed through income taxes or municipal general revenues. These types of programs should not place a financial burden on only one segment of one industry (in the case of this Program, developers of new condominiums).
- These types of programs have the risk of introducing inefficiencies into the development process, increasing costs for developers and ultimately, other households.
- Working with non-profits like Habitat for Humanity is considered by some to be far more effective in creating affordable housing.

- It was suggested that alternatives to inclusionary housing programs be considered, including down payment assistance.

The developers interviewed are aware that the legislative landscape for inclusionary housing is changing. They mentioned that communication between the development industry and the City around options for going forward is critical. Some commented that they had observed improved communication with the City over the past 18 months.

9. Conclusions and Recommendations

Policy C582: Developer Sponsored Affordable Housing is a complicated policy approach to increasing access to affordable housing in the city.

To date, the Developer Sponsored Affordable Housing Program has not yielded the expected results in terms of increasing the number of units in market housing condominium developments available for rent as affordable housing. There are many reasons for this, foremost of which is the local condominium market has not been strong since Policy C582 came into effect in 2015. While the Program aligns with Council and business area objectives, it needs to be recognized that it offers limited potential for success when the local economy is not favourable for new condominium development. Even if the market improves, it can be expected that a large proportion of proposed multi-unit housing development projects would still not proceed to the point where the City is able to exercise its option to purchase units. The factors influencing the progression of projects through the project "pipeline" depicted in Figure 7-2 would still come into play. While some portfolio growth could occur in a stronger market, the Program would still generate fewer units as compared to alternative affordable housing program options.

The Program has also not resulted in significant leveraging of private sector investment beyond the City's investment in units to achieve portfolio growth. Based on the current outlook, this is not likely to change in the near term.

From a cash-flow perspective, the Program can deliver a positive net cash flow under certain scenarios, but this involves selling units. While the City can realize a positive return on investment over time, this comes at the cost of selling units being used for affordable housing.

There are several factors that can have a bearing on the Program's cost effectiveness. On a per unit basis, the Program has the highest cost per door and lowest level of partner levering when compared to alternative affordable housing options. Analysis suggests that if the Program continues to acquire units, projects expected to provide units at an acquisition cost in the order of $200,000 should be targeted. The monthly subsidy associated with more expensive units compromises the Program's financial performance, potentially over-subsidizing households and constraining portfolio growth potential.

The Program places the City 'in the development game', with the resulting upside opportunities but also downside risks. Furthermore, as the Program's basis is rental property ownership, the City is exposed to market fluctuations and its flexibility to manage its portfolio is constrained as compared to other cash-based programs.

Although this review confirmed that the Program has not made a significant contribution to increasing access to affordable housing in Edmonton so far, it is recommended that it remain in place as the City proceeds with developing a new City Plan and zoning bylaw, as it is currently the City's only program that explicitly involves private industry as a partner in increasing access to affordable housing and integrates affordable housing into market housing developments. In the meantime, some elements of the current Policy and Program should be revised, including eliminating the option for developers to provide a public benefit instead of options to purchase units or cash-in-lieu contributions. This appears to no longer be relevant now that Policy C599: Community Amenity Contributions in Direct Control Provisions is in place. Another matter requiring attention is rationalizing the tenant eligibility criteria under the Policy with the Cornerstones eligibility criteria.

The success metrics and management targets set out in Policy C582 should also be adjusted based on the additional understanding of Program implementation and performance gained through this review and other work that is being done by Housing and Homelessness Section staff.

There appear to be mixed views within the development industry about this Program and inclusionary housing initiatives more generally. Some developers are strongly opposed to this Program. Engagement with developers will be critical going forward with this and any other inclusionary housing initiatives that might be considered now that the City's authority in relation to inclusionary housing has been expanded under provincial legislation.

Engagement with developers should include sharing Program information, including how funds generated through the Program are used for affordable housing initiatives, and seeking input on the impact of the Program and ways to improve its design and implementation.

Appendix A - General Observations Drawn from Jurisdictional Research

- **The need for new approaches to increasing the supply of affordable housing is real.** There is broad acceptance across most of the jurisdictions reviewed that a significant (and growing) number of households are facing housing affordability issues. Implicit in this is a recognition that:
  - private development (without public intervention) does not meet the housing needs of all households, and
  - traditional public sector initiatives to increase the supply of affordable housing are falling short of meeting the demand for non-market housing.
- **Inclusionary housing policies and programs are becoming more and more prevalent.** A growing number of municipalities in the United States and Canada (as well as Europe, Australia and New Zealand) are using inclusionary zoning (IZ) and inclusionary housing (IH) initiatives to either require or incent developers to create below-market rental apartments or for-sale homes in connection with the local zoning approval of newly proposed market development projects.
- **IZ and IH are complicated and controversial.** These programs attempt to take advantage of the dynamics of the real estate market to achieve a non-market housing objective. They seek to find a balance between often opposing points of view regarding the roles and responsibilities of the private sector to help meet a public need within a free-market economic system. Further complications are introduced when defining whether IH policies and programs will:
  - be mandatory, voluntary, or somewhere in between;
  - apply across a jurisdiction or only in specific areas;
  - involve full, partial or no offsets for the economic impact IH has on land values and development.
- **In the right market conditions and with the optimal availability of development incentives, IZ policies can generate development of new workforce housing units that would not otherwise be built.** Even in such situations where the stars align, IZ at its most effective is only one tool in what must be a broad-based toolbox available to local governments to meet their workforce housing needs.
- **The number of IH programs is not an indicator of program effectiveness.** Too many people have argued that the "popularity" of IH is indicative of program success. IZ has been in use in the United States since the 1970s when it was first introduced in response to "exclusionary zoning practices" in growing suburban areas. American studies indicate that 500+ American municipalities have some type of inclusionary zoning in place. While this is a significant number in itself, it is not in itself indicative of effectiveness. The same studies indicate that while many inclusionary programs have successfully improved housing affordability, many programs haven't produced affordable housing units.
- **The intended outcomes of different programs vary considerably.** Most inclusionary housing (IH) programs in the United States involve greenfield, suburban, low-density development. The analysis of these types of program will likely offer little insight to the City of Edmonton as it plans its approach to IH in the future. More can be learned from the IH programs implemented in larger American cities.
- **IH programs are more effective in some jurisdictions than others**, regardless of how they are designed and implemented. As IH programs are entirely dependent on the development of new housing, they cannot

produce affordable housing units when development is constrained or stagnant. IH programs, by definition, are more effective in larger, developing marketplaces.

- **IH programs tend evolve over time.** Most jurisdictions have changed their approaches to IH, predominantly to adjust to the marketplaces in which they are operating. As a result, the evolution of IH programs isn't consistent across jurisdictions. Some municipalities have broadened their programs while other have narrowed theirs. Some have made their programs mandatory while others have made theirs more discretionary.
- **IH programs are not a panacea for housing affordability**. On their own, IH programs do not produce (relatively) significant proportions of affordable housing units in most jurisdictions. IH programs appear to be more effective when they are implemented in concert with other affordable housing programs.
- **IH programs may be politically attractive if they are viewed as a means of expanding the supply of affordable housing with less (or no) public sector investment.** Interest in IH programs at the municipal level tends to increase when senior government financial support for affordable housing initiatives wanes.
- **Not everyone supports IH.** Critics argue that IH programs constrain the supply and therefore drive up the cost of low-end of market housing, ultimately reducing rather than increasing housing affordability within a jurisdiction.
- **Substantial variations across programs makes jurisdictional comparisons difficult.** While there are similarities between programs, the design and implementation of IH programs varies tremendously across jurisdictions. Some are mandatory while other are voluntary, some are applied broadly across a jurisdiction while others are site-specific. Many (not all) programs involve cost offsets, including height and density increases and/or other regulatory relaxations, fee reductions and expedited approvals. Different programs have different objectives. Most IH programs (particularly those in the United States) are focused on providing housing for "working class" households with moderate incomes. Most do not produce housing units for low-income households.
- **Strong political support is a prerequisite** for effective IH programming. Research indicates that IH programs are more effective in jurisdictions where it is mandated by senior governments and fully supported at local levels.
- **There has been relatively little evaluative work undertaken on IH programs in the past decade.** The research that has been undertaken typically does not include rigorous analysis of the effect of IH programs on housing prices and starts. Analyses that have taken a broader market perspective (National Centre for Smart Growth Research and Education, *Housing Market Impacts of Inclusionary Zoning*, 2008) conclude that IH programs do not come without costs. The City of San Francisco's Office of Economic Analysis argued in 2016 that any type of IH program is likely to create both benefits and costs to the local economy and recommended that careful assessment of the net impact of IH programs is critical.
- **Much of the evaluative work that has been published suffers from significant data and methodological limitations.** If it has not done so already, the City should carefully consider the results of economic analyses undertaken by the Urban Land Institute's Terwilliger Center for Housing (*The Economics of Inclusionary Housing*, 2016).

Observations Drawn from Canadian Jurisdictional Research

	Montreal	Toronto	Vancouver
Policy	Inclusionary Housing Policy	Large Sites Policy	20% Core Need Housing Policy
Affected Developments	Developments on private and public lands needing major zoning changes	Developments on private lands needing seeking increased density or height	Developments on private lands needing change of use to residential
Size Thresholds	200 units	5 ha	200 units
Set-Aside Obligations	30%	20%	20%

Vancouver

The City of Vancouver adopted an IH policy in 1988 that required 20% affordable housing in rezoned neighbourhoods. Under the policy, the City is obligated to negotiate a housing agreement with the landowner stipulating the terms of inclusion in return for increased density. The developer is required to set aside land for affordable housing. Construction of affordable housing units is reliant on public financing.

The Vancouver approach has evolved over time, but has generally focused on large, privately-owned industrial lands seeking rezoning to residential. Only developments exceeding 200 units were affected as they were considered capable of accommodating a separate and reasonably-sized social housing building.

Under the policy, the City had the option of buying land at 60% of market value to build social housing, Developers were not obliged to build units. This approach was only effective when federal and provincial funding was available to finance land purchases and unit construction.

The City recently approved a *10 Year Affordable Housing Delivery and Financial Strategy* which it hopes will help it achieve the development of 12,000 units of social and supportive housing (including co-op housing) over the next ten years. Inclusionary housing is a key component of the strategy. The strategy identifies five approaches to meeting the 12,000-unit target, two of which involve inclusionary housing:

- Increase the inclusionary housing requirement for large development sites, prioritizing the provision of unencumbered dirt sites as a contribution to the Land Acquisition Strategy, while retaining flexibility to consider alternate policy options for complex sites.
- Continue and clarify the approach to inclusionary housing city-wide to balance on-site affordability levels with reinvestment of lease payments to preserve and grow the housing portfolio, including contributions to the Land Acquisition Strategy.

The strategy emphasizes that inclusionary policies and zoning are relatively new tools in Vancouver. As of 2017, 21 inclusionary housing projects have been approved under inclusionary policies and zoning totaling approximately 1,500 social housing units for low- and moderate-income families and individuals. Initial analysis of inclusionary projects delivered in relatively high value locations shows that these projects are not only financially viable but also have the potential to generate significant rental revenue, creating an opportunity to apply the revenue from these projects as a funding source for a Land Acquisition Strategy to enable more affordable housing projects for lower-income residents.

Lessons for the City of Edmonton

- Use inclusionary housing policies as part of a larger toolbox of affordable housing units.
- Secure strong political support.
- Establish a framework for non-profit ownership of social housing units.
- Establish a long-term asset management plan and legal mechanisms for monitoring and oversight of units secured through IH.

Montreal

The Montreal Inclusionary Housing Strategy (MIHS) was officially adopted in 2005. The Strategy, which is currently implemented on a voluntary basis and subject to negotiation, has already undergone some changes and is likely to continue to evolve in response to emerging challenges. It applies to new, large (200+ units) residential projects that require rezoning (density or height) or public infrastructure to proceed.

It is noteworthy that Montreal's strategy was implemented without provincial authority to impose mandatory provisions on residential developments. The strategy seeks to make 30% of new units affordable, half through the development of public sector-funded social housing and half through public-sector incented private sector development.

The MIHS has generated approximately 7,600 social, community and private affordable inclusionary units since the development of the first inclusionary project in Montreal a few years prior to the adoption of the policy.

The strategy relies on subsidies, incentives and financial assistance from various levels of government. Developers are expected to sell land to non-profit agencies at below-market value and to develop affordable housing units on their own (these units can be of a smaller size and lower amenity level than the market units they are developing).

There is a wide range of players in IH in Montreal, including a non-profit organization that manages, develops and supports affordable housing on behalf of the City: (Société d 'habitation et de development de Montreal, SHDM, https://www.shdm.org/en/about/governance/. SHDM's mandate focuses on developing housing for households not eligible for social housing, but also not able to afford market housing. In this capacity, it builds and provides privately-owned affordable as well as public sector-owned rental housing.

The strategy focuses on ensuring that social housing is built adjacent to market rate housing through a developer contribution of land. It has triggered inclusion or payment of in-lieu fees in 31 large residential projects.

The City also provides grants for first-time home buyers and repayable down payment assistance (10% of purchase price) for buyers of condo units.

Lessons for the City of Edmonton

- Work diligently to maintain strong working relationships with developers.
- Success is dependent upon strong ongoing political support.

Toronto

While Toronto has a relatively long history securing affordable housing through section 37 of the *Ontario Planning Act*, analysis of this history will not provide significant insight to the City of Edmonton as reviews its Developer Sponsored Housing Program. The Toronto housing market is substantially different from Edmonton's in that its long-sustained building boom has significantly increased the value of density bonuses to developers seeking rezoning approvals.

To obtain public benefit from this private development boom, the City has applied Section 37 extensively to secure community benefits such as park space improvements, public art, and funds for new daycare facilities and affordable housing. While City Council has the final say on zoning bylaw amendments, ward councillors work with developers to determine the type of benefits to be secured through density bonusing.

However, Toronto's approach to inclusionary housing can be expected to change significantly in the immediate future in response to the Government of Ontario's 2016 *Promoting Affordable Housing Act* and 2018 regulations empowering Ontario municipalities to develop inclusionary housing programs. To establish inclusionary zoning in Toronto, City Council will have to set out policies in its Official Plan and zoning bylaw. Through these policies Council will be able to:

- establish the threshold for when a development must include affordable units;
- set out the length of time that affordable housing unit must be maintained as affordable (i.e., 20 years or 30 years);
- identify the number of units each development must set aside as affordable housing units; and
- set standards and procedures for the stewardship of affordable housing units to ensure long-term affordability.

Lessons for the City of Edmonton

The process the Government of Alberta has used to introduce inclusionary housing through regulations under City Charters is similar to that used by the Government of Ontario over the past couple of years. The recently approved City of Edmonton Charter, 2018 Amendment Regulation gives Edmonton a considerable level of discretion with respect to implementing inclusionary housing. Going forward, it may be useful for Edmonton to consult with Toronto regarding:

- Analyses of potential impacts of IH policy on the housing market and on the viability of development or redevelopment in the city;
- Bylaw development;
- Strategy for preserving the long-term affordability of units;
- Public and stakeholder engagement; and
- Public monitoring and reporting on the results to IH policy.

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