AFFORDABLE HOUSING P3 PROPOSAL

Request

The Chamber of Commerce requests that the City of Grande Prairie implement a Policy to support its Affordable Housing Strategy which includes a Public-Private Partnership (P3) that incorporates an agreement to lease privately owned housing units based on the following concept:

1. An initial contribution to secure housing; and
2. A long-term contract providing discounted lease rates.

Further, we request that the City of Grande Prairie identify immediate funding for these types of agreements to act as an economic recovery driver.

Introduction

In 2019, the City of Grande Prairie released several draft reports to address the issue of affordable housing in Grande Prairie. These included the Affordable Housing Strategy 2020-2030, Non-Market Housing Development Timeline 2020-2030 and the Grande Prairie Community Housing Company Business Plan. Organizations and community members were invited to provide feedback on these plans.

The reports presented by the City identified two major classifications within the housing continuum that need to be addressed: supportive housing and affordable housing. It was the general opinion of the development community that government should be involved in addressing housing needs for vulnerable sectors of the community but avoid competition with the private sector when addressing affordable housing needs. In particular, the Community Housing Company Business Plan evaluated the merits of city-owned projects to address the affordable housing shortfalls. To mitigate the issue of competition with private sector, the strategy recommended that the City focus on "development projects through partnerships".

Issues

According to the Affordable Housing Strategy, there were 683 households on waitlists in 2016 for affordable housing. The same report identified 11% of all households in Grande Prairie, or 2,475 households, that fell into the Core Housing Needs category – the main criteria being that they spend more than 30% of their pre-tax income on shelter costs. This number is expected to increase to 3,000 by 2030, a growth rate of 1.4% annually.

Based on the numbers in this report, it would be extremely difficult for the City of Grande Prairie to tackle this problem on its own. At 1.4% growth, the City would need to obtain 35 new housing units each year to keep the numbers at current levels. There are two main obstacles that the City needs to address. First, the capital costs for construction requires more money than it has access to. Second, there are well documented case studies which have identified negative social impacts to locating a large number of low-cost housing units within the same building or area. To compound the issue further, there are additional costs beyond construction including utilities, maintenance, administration and periodic renovations which affect the long-term sustainability of property ownership. A final impact that must be considered is the fact that government-owned projects do not pay property taxes which are essential in sustaining service levels in a municipality.

To reduce social impacts of non-market affordable housing, the best approach is to distribute the housing throughout the community and limit the proportion within a single building complex or development area. Design of a plan must include input from all stakeholders and sustainability of the plan must be the central focus.

Proposal Details

This proposal offers a P3 model to help address the affordable housing issue in Grande Prairie. The general concept is to offer financial incentives for developers of housing projects to partner with the City in working towards a solution. This model is not meant to address the issue of supportive housing where individuals are homeless, identified as substance abusers or require treatment for a mental illness – these are individuals or families in households that are categorized in Core Housing Need. In addition, this proposal requires that the properties that participate have no tax exempt status with the any level of government. Other details of the agreements will need to be determined by the City and the developers' legal consultants.

The basis of the model is twofold:

1. An initial cash contribution by the City to secure housing units with a private property owner.
    a. Offers a cash advance as an initial contribution to secure the property.
    b. Will vary depending on whether the property is new construction or an existing building, but is based on a percentage of market-value rent over the term of the contract.
    c. Repayment of the initial contribution (prorated amount) if the agreement is terminated early.
    d. No more than 30% of the total number of suites in an apartment building or 50% of the suites in other dwellings may be leased at one time.
2. A long-term lease at a considerable discount from market-value rent.
    a. Market-value to be evaluated on an annual basis.
    b. Lease rates will be a discounted percentage of current market-value rent (30% discount for new units, 25% discount on existing units).
    c. The City may offer the leased property at any rate it chooses, but the rent must be a minimum of 10% below market-value to qualify as affordable housing.
    d. Tenants for these properties must meet criteria established for affordable housing.
    e. The City will be responsible for all damage deposits, in-suite maintenance and collection of payment as if they were the owner of said property.

Financial Analysis

Financial analyses have been completed that identify the costs, maximum potential revenue and overall rate of return for the City of Grande Prairie. In each of the scenarios outlined, the City is able to see a positive return over 20 years for new and 10 years for existing buildings. The values in the calculations have been tested against market pricing and financial feasibility models of developers. It is important to stress that these numbers could be further refined, however, a great deal of consultation and iterations were required to balance the cost-benefit for both the City and the developer. Note that the financial benefit to the City has not accounted for costs to manage the property or the source of funding used for each investment. An annualized rate of return is being shown to demonstrate that the model may be capable of succeeding utilizing debt financing.

Example #1: New Construction Leasing 10 Units for 20 Years								
Housing Type	Market-Value Rent	Initial Contrib.	20 Yr Gross Revenue	20 Yr Lease Costs	20 yr Revenue	ROI (years)	Rate of Return	Annual ROR
1 BR Apartment	$1,150	$540,960	$2,869,006	-$1,932,000	$937,006	11.5	73%	2.8%
2 BR Apartment	$1,350	$635,040	$168,398	-$113,400	$1,099,964			
3 BR Apartment	$1,600	$752,640	$199,583	-$134,400	$1,303,661			

Example #2: Existing Building Leasing 10 Units for 10 Years								
Housing Type	Market-Value Rent	Initial Contrib.	10 Yr Gross Revenue	10 Yr Lease Costs	10 yr Total Revenue	ROI (years)	ROR	Annual ROR
1 BR Apartment	$1,000	$180,000	$1,241,329	-$900,000	$341,329			
2 BR Apartment	$1,200	$216,000	$1,489,595	-$1,080,000	$409,595	5.3	90%	6.6%
3 BR Apartment	$1,500	$270,000	$1,861,994	-$1,350,000	$511,994			

A further analysis was conducted on the long-term impact of City investment dollars to compare the benefits of this proposal over City-owned/constructed projects. This example compares a $10 million investment on new construction over a 20-year time frame for 2-bedroom housing units.

P3 Affordable Housing Projects

$10 million

=

157 units for affordable housing

- 20 years of housing spread throughout the city
- Return on Investment:

$45.8 M	Gross Rental Income
-$35.6 M	Total Rental Cost
$10.2 M	**Net Rental Revenue**
+ $7.1 M	Tax Revenue
$17.3 M	**Total Revenue**

- Less $10 M initial investment = $7.7 M return or 77% (11.3 year cost recovery)
- Generates additional **$16.6 M** taxes from 366 additional market-value units constructed.
- Additional housing will temper prices in the long-term.

City-Owned Affordable Housing Projects

$10 million

=

54 units for affordable housing

- City owned asset (appreciated value).
- Return on Investment (estimated #'s):

$15.7 M	Gross Rental Income
-$3.5 M	Total Admin Costs
$12.3 M	**Net Rental Revenue**

- Less $10 M initial investment = $2.3M return or 23% (16.4 year cost recovery)
- Asset can be leveraged for additional projects.
- Non-taxable property.
- In competition with private sector.
- Affordable housing is concentrated into one building.

This proposal offers relatively fast access to housing at a fraction of the cost when compared to construction of new units by the City and offers flexibility in relation to how that housing is be utilized to address the continuum of housing needs. To reduce the risk of vacancies and utilize existing resources efficiently, it is recommended that the City employ an existing social housing management body such as the Grande Spirit Foundation. GSF currently manages other properties for the City and possesses a waitlist of households requiring affordable housing.

Closing

Although significant capital is required to address Core Housing Needs in the city, it is important to note that there are socio-economic costs (household debt, labour force attraction, degrading properties, crime, etc.), if this issue is not addressed. A summary of the social benefits to this type of program include:

- Better geographic distribution of housing.
- Blended model provides dignity for those in need of affordable housing.
- Allows the City to focus on higher level strategies.
- Provincial and Federal grants can be directed to the more immediate/acute need for supportive housing.
- Requests for land and fee waivers can go directly towards the City's investment contribution.

The model presented in this proposal offers a solution that is easy to implement and not only addresses affordable housing needs, but includes an incentive for developers to construct additional market-value housing units to temper future inflation and contribute to the City's tax base for municipal services. In addition, this proposal demonstrates a P3 model that is scalable, transferable to other regions, and sustainable in the long-term while leveraging partnerships and reducing risks for the municipalities.