

Staff Report



Development Services Department

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REPORT TO: Community and Infrastructure Services Committee

DATE OF MEETING: April 22, 2024

SUBMITTED BY: Rosa Bustamante, Director of Planning & Housing Policy, 519-741-2200 ext. 7319

PREPARED BY: Tanya Roberts, Project Manager (Planning), 519-741-2200 ext. 7704
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WARD(S) INVOLVED: All Wards

DATE OF REPORT: March 12, 2024

REPORT NO.: DSD-2024-143

SUBJECT: Not-For-Profit Affordable Rental & Co-op Housing Incentive (Pilot)

RECOMMENDATION:

That a new Council Policy regarding Not-For-Profit Affordable Rental & Co-op Housing Incentives (Pilot), attached to Report DSD-2024-143 as Appendix A, be approved; and,

That the reallocation of Affordable Housing Reserve funds, to be used towards the Not-For-Profit Affordable Rental & Co-op Housing Incentives (Pilot), be approved; and,

That the General Manager of Development Services or their designate be authorized to execute all agreements and other related documentation, subject to the satisfaction of the City Solicitor, which may be required to administer the Not-For-Profit Affordable Rental & Co-op Housing Incentives (Pilot).

REPORT HIGHLIGHTS:

- The purpose of this report is to establish a new Council Policy and to allocate sufficient funds to implement the Not-For-Profit Affordable Rental & Co-op Housing Incentive (pilot) program to incentivize up to 520 new not-for-profit supportive and affordable units in Kitchener.
- The key finding of this report is that upfront funding is a barrier for some not-for-profit affordable housing projects and that seed funding worth \$10,000 per unit would help advance projects to a state that positions them for other critical capital funding.
- The financial implications are that \$1.3M from the Affordable Housing Reserve will be used to leverage \$3.9M of Housing Accelerator Funds from the Federal Government.
- Community engagement included interviews with key stakeholders including not-for-profit and co-operative housing providers, development consultants who support these

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projects along with CMHC and Region of Waterloo staff involved with funding for affordable housing projects to determine the approach to program development and implementation.

- This report supports Building a Connected City Together by focusing on housing and ensuring secure, affordable homes.

BACKGROUND:

In November 2023, City of Kitchener announced a partnership with the federal government to fast track the construction of new homes. Through the Housing Accelerator Fund (HAF), the Federal government will provide \$42.4 million to the City of Kitchener to enable the City to develop new programs and initiatives to accelerate housing starts. One of these new initiatives is the Not-For-Profit Affordable Rental & Co-op Housing Incentive (pilot). The Not-For-Profit Affordable Rental & Co-op Housing Incentive is a pilot program designed to remove upfront financial barriers from the creation of new affordable housing units by providing a \$10,000/unit grant for qualifying developments to incentivize 520 new units with a commitment to 260 units with building permits issued by September 1, 2026.

The City currently incentivizes affordable housing through the Affordable Rental Housing Incentive which waives planning and building application fees. In addition to this, a concierge service was first piloted in 2021 with YWKW's supportive housing project on Block Line Road, then formally established in 2021 to help navigate affordable housing projects through the approvals process.

This program supports the Housing for All Strategy, approved in December 2020, and specifically supports priority 4, which focuses on helping to secure community, affordable rental, and affordable home ownership housing. It also implements Priority 5 through applying for and receiving federal funding through the HAF for affordable housing. Housing for All Implementation is one of 11 strategies and actions to support the building of 35,000 more homes by 2031, as part of Kitchener's Municipal Housing Pledge approved by City Council in March 2023.

REPORT:

The objective of this report is to establish the Not-For-Profit Affordable Rental & Co-op Housing incentive pilot program to assist with the predevelopment costs of building new not-for-profit affordable rental and co-operative housing units. The intention of the program is to help cover up-front (non-capital) costs involved in advancing projects towards shovel-ready construction. Upfront costs related to design and City approvals have been identified by affordable housing developers as a significant financial barrier to beginning projects.

Through this report, staff recommend a grant program that provides \$10,000 per unit up to a maximum of 50 units (\$500,000/project) to be distributed incrementally at key milestones, as outlined in the proposed policy in Appendix A. The general parameters of the program include:

- \$10,000/unit up to a maximum of 50 units (\$500,000/project)
- Grant funding to be forwarded based on an incremental staged approach following project milestones:

- E.g., Pre-submission Consultation, Conditional Site Plan Approval, Site Plan Approval, Building Permit issuance.

Total funding of \$5.2M for this pilot program will come from:

- Federal Housing Accelerator Fund (\$3.9M)
- City Affordable Housing Reserve Fund (\$1.3M)

Discussion about each of the funding sources is provided below.

Re-allocation of Housing Reserve Fund

One of the actions identified in Kitchener's Housing for All Strategy was to establish an Affordable Housing Reserve Fund to support affordable housing initiatives. This reserve was established in 2021 and has been used to provide financial relief from paying development charges. Changes made through Bill 23, *More Homes Built Faster Act*, mean that qualifying affordable housing developments are now exempt from paying development charges. Based on this, staff is seeking to repurpose the \$1.3M in the Affordable Housing Reserve to support the proposed pilot program outlined in this report.

Utilizing HAF Funds for Affordable Housing

The program was initially conceived to include \$1.3M of HAF funds, to be paired with a matching grant of \$1.3M City funds to provide \$5,000 per unit that would incentivize up to 520 new affordable units. To boost the per unit incentive to \$10,000, additional HAF funds that were unused through the "Growing Together West" HAF initiative are intended to be re-allocated to this program. Should this funding model require any changes in the future, staff will report back to Council.

Program Development

Purpose. Through consultation, affordable housing providers encouraged the City to advance a \$10,000/unit incentive, which would go a long way to support front-end costs before larger capital funding through CMHC, the Province, or private donors can become available. These funds are not intended to be used for capital costs, but for early upfront costs which can help to advance a project beyond conception to a shovel-ready state. Getting to this stage is a requirement for other provincial and federal funding programs that provide core capital/construction costs. These incentives would be used for design and approval costs which are not exempt or provided in-kind and are often challenging to secure.

Incentive format. To determine the form of incentive, staff considered a full grant and a combination of no-interest loan and a grant. Through consultations, some of the recurring concerns with a loan program included the additional costs and administration involved with processing and securing the loan, both for the housing provider and the City. In addition, the risk of using the loan money to determine if a project is feasible posed a challenge. If a project was determined to be unfeasible, the loan repayment would become a challenge for the housing provider to repay. Feedback from some stakeholders identified other funding preferences over a loan, such as accessing existing equity or lines of credit. All stakeholders expressed a preference of a grant versus a loan. Through this evaluation, it is recommended

that the incentive program is established fully as a grant program to remove barriers to accessing funding, with the goal of advancing affordable units to construction quicker.

Navigating Risk. It was also identified that although these new incentives will provide much needed funding and fill current funding gaps for getting a project off the ground, there is still some risk that this funding alone cannot guarantee that a project will advance to a shovel ready state and progress to construction. For example, some stakeholders identified that they were shovel ready, yet lacked enough capital/operations funding to progress to construction and were stuck. It was also identified that mixed rents are the most financially feasible and that some projects are unlikely to include only affordable units, as many stakeholders identified the challenges in its operational sustainability.

Staff are aware that there may be a percentage of projects that do not progress to a state of being shovel ready and are therefore recommending that the incentives created through this grant be distributed in stages, as outlined in Appendix A. This pilot will run during the period of the HAF program, and the City will evaluate the continued implementation of this type of an incentives program depending on the uptake and success during the HAF program. HAF dollars would represent 75% of the total funding for this program, and when coupled with existing funds in the City's Affordable Housing Reserve Fund, could have immediate impact on the delivery of affordable housing.

Policy Administration

Once approved, staff will develop administrative procedures, including:

- Application form, including requirements for supporting documentation to confirm eligibility;
- Legal agreement process; and
- Internal procedures for staff review and approval of requested forms received and funds released and tracking progress for the program.

Conclusion

The Not-For-Profit Affordable Rental and Co-op Housing incentive pilot program is intended to help break down front-end barriers to starting an affordable housing development project and will support the creation of up to 520 new affordable units, helping the City to achieve its goal of building 1200 new units in the next 3 years. The proposed program supports the Housing for All strategy through an innovative incentive program that aims to build more affordable housing quicker. Staff recommend that Council endorse the recommendations outlined in report DSD-2024-143.

STRATEGIC PLAN ALIGNMENT:

This report supports Building a Connected City Together: Focuses on neighbourhoods; housing and ensuring secure, affordable homes; getting around easily, sustainably and safely to the places and spaces that matter.

FINANCIAL IMPLICATIONS:

Funding to implement this pilot program will be provided from the following sources:

Funding Source	Amount
Housing Accelerator Fund (HAF) grant	\$3,900,000
City's Affordable Housing Reserve	\$1,300,000
TOTAL	\$5,200,000

COMMUNITY ENGAGEMENT:

INFORM – This report has been posted to the City's website with the agenda in advance of the Council / Committee meeting.

CONSULT – Staff engaged in stakeholder interviews with not-for-profit affordable housing and co-op housing providers, consultants involved with affordable housing projects, as well as the Region of Waterloo and CMHC to help inform program development.

PREVIOUS REPORTS/AUTHORITIES:

- [Housing for All – City of Kitchener Housing Strategy](#) (DSD-20-214)
- [City of Kitchener Municipal Housing Pledge](#) (DSD-2023-063)
- [Implementation of Bill 13, Bill 109 and Bill 23](#) (DSD-2023-239)
- Development Incentives for Affordable Housing Implementation (CSD-17-034)

REVIEWED BY:

Ryan Hagey, Director of Financial Planning and Asset Management
Katherine Hughes, Assistant City Solicitor

APPROVED BY: Justin Readman, General Manager of Development Services

ATTACHMENTS:

Attachment A – Council Policy: “Not-For-Profit Affordable Rental and Co-op Housing Incentive”