



Budget 2022 Submission

SELECT STANDING COMMITTEE ON FINANCE AND GOVERNMENT SERVICES

LEGISLATIVE ASSEMBLY OF BRITISH COLUMBIA

Contact information:

Jill Atkey
Chief Executive Officer
BC Non-Profit Housing Association
Phone: 778-945-2155
Email: Jill@bcnpha.ca

Thom Armstrong
Chief Executive Officer
Co-op Housing Federation of BC
Phone: 604-343-2350
Email: tarmstrong@chf.bc.ca

September 29, 2022

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Introduction

It is with pleasure that BC Non-Profit Housing Association and the Co-operative Housing Federation of BC submit our Budget 2022 consultation paper. We recommend the Select Standing Committee on Finance and Government Services consider the following proposals to strengthen housing affordability in BC:

1. **Move up \$4.2 billion in housing supply investments** so it can be spent immediately. The provincial government has \$4.6 billion planned in housing investments between 2022 and 2028, we would like to see \$4.2 billion of that money moved up to the 2022-2023 budget cycle to address immediate needs.
2. **Commit \$500 million in capital funding to develop a provincial rental housing acquisition strategy**, that helps non-profit and co-operative housing providers in the community housing sector to acquire rental housing stock as it comes up for sale on the market.
3. **Dedicate \$10 million to off-set Property Transfer Tax on land lease renewals** to preserve current levels of affordability for homes on land with expiring land leases in 2022-2023.

Taken together, these proposals will ensure that British Columbians have increased access to affordable housing and that their housing is affordable, safe, and in a livable state of repair.

About Housing Central

Housing Central is a strategic alliance between BC Non-Profit Housing Association (BCNPHA) and the Co-operative Housing Federation of BC (CHF BC). Our mission is to strengthen and grow the community housing sector so all British Columbians have a safe, secure home they can afford.

BC Non-Profit Housing Association

BC Non-Profit Housing Association (BCNPHA) has been the provincial umbrella organization for the non-profit housing sector for nearly 30 years. We serve more than 500 members, including non-profit housing societies, businesses, individuals, partners and stakeholders, with education and professional development opportunities, research and advocacy, and asset management services. BC's non-profit housing societies manage more than 70,000 units of long-term, affordable housing in over 2,500 buildings across the province.

The Co-Operative Housing Federation of BC

The Co-operative Housing Federation of BC (CHF BC) acts as the voice for housing co-ops in BC. We represent the co-op housing sector and advocate for co-ops, whether with government or other institutions. We often work with CHF Canada on national issues and have had many successes.

1. Move up \$4.2B in housing supply investments

Context

In Budget 2018, the provincial government committed to providing investing \$6.184 billion to build 33,700 homes over ten years. From 2017/18 to 2020/21, the budget committed to spending just over \$1.9 billion in housing supply investments with a further \$4.2 billion in investment planned between 2022 and 2028 (Figure 1 below) to achieve a target of 33,700.

Figure 1: Planned provincial investments in new supply, Budget 2018

| | 2017/18 to 2020/21 (\$ millions) | 10-Year Total | Housing Units (#) |
|---|--|------------------|-------------------------|
| Modular and Affordable Rental Housing (<i>Budget 2017 Update</i>) | 724 | 1,249 | 3,700 |
| Affordable Rental Housing..... | 453 | 1,962 | 19,250 |
| Permanent Supportive Housing | 178 | 1,239 | 2,500 |
| Housing Options for Women and Children Fleeing Abuse | 141 | 734 | 1,500 |
| Housing for Indigenous Peoples..... | 158 | 550 | 1,750 |
| Student Housing Beds | 259 | 450 | 5,000 |
| Total | 1,913 | 6,184 | 33,700 |

¹ Investments include operating and capital funding for direct contributions to construction or increasing the affordability of existing housing projects as well as funding for other supports (i.e. ongoing operating costs and support services).
² Funded through both the Municipal Affairs and Housing budget and the Ministry of Finance's Housing Priority Initiatives Special Account.
³ Does not include an estimated 3,000 student housing beds to be funded through other sources.

Since the 2018 Budget, \$1.6 billion¹ invested through Building BC programs², delivered 16,420 completed or emerging units. This leaves \$4.6 billion **remaining** to build 17,280 homes over the next 7 years to meet the stated target of 33,700 homes.

While these investments have delivered thousands of desperately needed affordable homes across the province, the level of demand in communities is overwhelming the annual allotted investment as communities struggle to address decades of unit backlog and underfunding. The 2021 Community Housing Fund Call for Proposals received applications for 13,000 units but only 2,600 were approved due to budgetary constraints.³

Solution

Moving up the remainder of the investment committed to in Budget 2018 into the 2022-2023 budget cycle will address immediate need in communities across the province. We urge the province to move up \$4.2 billion (\$400,000 per unit) to invest in the 10,400 homes that were not funded through the 2021 Community Housing Fund Call for Proposals. Investing in the remaining homes would further the province's progress towards meeting the commitments laid out in Budget 2018 and remains within the investment amount committed in Budget 2018, albeit on a different timeline. The affordable housing

¹ Data obtained from BC Housing.

² Building BC programs include: Rapid Response to Homelessness, Affordable Rental Housing, Community Housing Fund, Indigenous Housing Fund Supportive Housing Fund, and Women's Transition Housing Fund (2020/21 BC Housing Annual Service Plan).

³ Information obtained from BC Housing.

crisis is felt in communities across the province and this move would ensure that provincial investment would keep pace with the urgency for affordable housing in communities large and small.

The Community Housing Sector plays a significant role in addressing the affordable housing crisis in communities across British Columbia. The volume of applications to the Community Housing Fund Call for Proposals in 2021 demonstrates the Community Housing Sector's capacity, willingness, and readiness to be a part of the solution to address the affordable housing crisis in the province.

2. Commit \$500M to develop a rental housing acquisition strategy

Context

A crucial, yet missing piece from BC's housing system is a rental housing acquisition strategy that helps facilitate not-for-profit entities within the community housing sector to acquire existing market rental buildings as they come up for sale. Across all housing types and forms in BC, there has been a rapid loss of older, more affordable rental homes over the last generation, and without an acquisition strategy the provincial government will not be able to build its way out of the current affordability crisis.

Housing Central has previously reported on the substantial loss of deeply affordable rental market homes since 1991. An analysis of more recent data illustrates this alarming loss of affordable housing. Between 2015 and 2019, 34,000 rental dwellings were lost, while at the same time provincial government investment initiated just over 11,000 affordable homes. Although new homes were constructed through provincial investment, between 2015 and 2019, every 1 unit of provincially supported affordable housing developed, over 3 affordable homes in the private rental sector were lost.⁴

Solution

To ameliorate the further loss of purpose-built rental across the province, we propose that the provincial government allocate \$500 million in capital funding to jumpstart a provincial acquisition strategy.

The core element of our proposed approach would see the development of a new provincial rental housing acquisition fund (the Fund), capitalized with an initial investment of \$500 million from the provincial government. The purpose of the Fund would be to quickly, efficiently, and competitively approve and provide one-time capital grants to freehold acquisition projects initiated by non-profit entities in the community housing sector.

The Fund is not intended to duplicate or add undue complexity to existing lending and investment facilities, either public or private. Rather, grants from the Fund would be deployed to offset the purchase price of a given property to the point where the net operating income (NOI) generated by the current rents can support the financing and operating costs of the property. The Fund would have no on-going role in the project, nor would the project have any recourse to the Fund: all loans, legal agreements, and covenants would be the responsibility of the non-market owner. Grants from the Fund should be structured in such a way as to provide for a minimum debt coverage ratio of 1.20 or 1.25. This would help manage risks involved in situations where limited building documentation is available or producible within realistic closing timelines and would also provide the non-profit owner flexibility to

⁴ Housing Central (2021)

accommodate any need for more affordable rents for tenants whose housing situation is under severe stress.

The Fund would not itself originate projects. Instead, non-profit entities would submit to the Fund acquisition proposals that are, aside from the need for capital, viable and sustainable. Proponents would include documentation such as rent rolls, building assessments and maintenance log (where available), and a commitment letter from a financial partner. Staff at the Fund would then quickly assess the documentation and make a recommendation to the Committee to fund the proposal or not. Funding decisions would be made by the Committee, through a majority vote.

Insofar as the Fund may not be a permanent institution, it may be practical to contract out its management. One likely entity for the management of the Fund would be BC Housing, which has considerable experience in the local market. However, other approaches should be considered if they would streamline proposal evaluation and funding recommendations. In either case, there is potential to combine Fund grants with financing through the Housing Hub. This would be consistent with the NDP's election platform commitment of directing the Housing Hub "to partner with non-profit and co-op housing providers to acquire and preserve existing rental housing". However, the choice of financial partners, lenders, and investors would be at the discretion of the community housing sector entity acquiring the property.

To demonstrate the potential impact of the Fund in terms of the province meeting its housing goals, we have included a "prototype" project in Appendix A (and accompanying pro-forma attached to this submission as Appendix B).

3. Dedicate \$10M to off-set the Property Transfer Tax on land lease renewals

Context

Over the next few years, many Community Housing Sector land leases will be expiring. The Property Transfer Tax places a serious financial burden on co-ops and non-profit housing providers and can have a significant impact on the Community Housing Sector's ability to maintain current levels of affordability.

Solution

While the Property Transfer Tax and its application to land lease renewals need to be thoroughly reviewed, the provincial government can provide immediate relief for the Community Housing Sector in the coming year. Housing Central partners estimate that approximately 25 land leases (10 co-ops and 15 non-profit housing) will be expiring during the 2022-2023 budget cycle. To address this immediate need, we urge the province to dedicate \$10 million in the 2022-2023 budget to preserve existing levels of affordability currently available in the Community Housing Sector. This dedicated amount of \$10 million would go a long way in preserving affordable housing stock in the province and support the provincial government's commitment to affordability outlines in the 30-Point Plan.

Final Reflection

Taken together, these three proposals would have a significant impact on the affordable housing system in BC. Protecting existing stock, preserving affordability, and building new stock are the only ways to ensure that the dial is being moved on housing affordability. BCNPHA and CHF BC again thank the Select Standing Committee on Finance and Government Services for reviewing this submission and we look forward to seeing these initiatives implemented in Budget 2022.

Appendix A – Acquisition “Prototype” Project Overview

Demonstrating Potential Impact

Aware of the non-profit sector’s desire to establish a Fund for acquiring existing rental properties, New Market Funds has approached Housing Central with a potential “prototype” project. The property at 631 6th St, New Westminster, is a 72-unit concrete building with retail at grade and close to Skytrain and bus transport. The rent schedule shows that 63% of the 70 studio and 1-bedroom units currently rent for less than \$1,000/month; a dozen have rents under \$800/month. On average, rents are at approximately 70% of local market rents and are affordable for households making less than \$40,000 per year.

Discussion

The building is on the market, with target rents set at \$1,350-\$1,443/month. This is not overly aggressive in local market terms but would clearly represent a substantial erosion of overall rental affordability in downtown New Westminster. Its impact on the tenants is likely to be equally detrimental. The target rents, at a 4.5% cap rate and current expenses, yields a valuation of approximately \$23.3M. The current rents will support only a fraction of this debt service.

The attached pro forma proposes to preserve the current level of affordability using a \$13M long-term, 50-year, mortgage CMHC loan facilities available to non-profits, \$1.5M in mid-term equity from New Market’s newly launched Rental Fund II, designed specifically to assist sector acquisition of existing rental stock, and a grant from the Acquisition Fund of approximately slightly less than \$10M. As the pro forma demonstrates, the grant will preserve the current affordability while meeting the Fund’s financial metrics as outlined in the proposal document.

Comparison

While the grant per unit is higher than the suggested target in the proposal, the deep affordability, at 70% of 2021 HILs, may justify the increased amount. Certainly, achieving this level of affordability in new construction would be both time-consuming and costly. In concrete construction, the development cost including land, would likely be in excess of \$34M and might take 4 years to complete. Even in wood frame, the building would probably cost close to \$30M. Given a standard BC Housing-backed 35-year mortgage at the same interest rates assumed in the pro forma and a DCR of 1.10, the per unit grant would likely exceed \$250,000, a premium of close to 40% above the proposed acquisition.

Conclusion

Acquisition projects like 631 6th St, made possible by the Fund, can offer an attractive complement to the current Building BC strategy, in terms of both time and budget, adding flexibility to the Government of BC’s housing affordability strategy.

Appendix B - Acquisition “Prototype” Project Pro-Forma

See attached pro-forma.