



## Trillium Housing 2022 Ontario Budget Submission

February, 2022

Trillium Housing creates housing affordability. Using conventional housing development investment, sourcing investment from the social finance sector (and providing both financial and social return) and working cooperatively with government, Trillium Housing invests in the building of entry-level ownership housing and delivers additional housing affordability to families through our regular-payment-free, shared-equity Trillium Mortgage.

Trillium Housing was founded by a group of dedicated individuals with experience leading organizations throughout the housing sector. We have led organizations such as, Toronto Community Housing, ONPHA, CHRA, Home Ownership Alternatives, MMAH, Meridian Credit Union, Woodgreen CS, Ernst and Yougn...

The team at Trillium Housing has been advocating to governments for many years on a variety of issues regarding housing affordability. Trillium Housing has taken pride in developing policy and program proposals that build on innovative, tested concepts that are designed to be either cost-neutral for government or with a funding source identified. The Trillium team's advocacy successes include, the recent Development Charges Act improvements for non-profits (20 year DC payment schedule), the new Community Benefit Charge, Priority Access for Non-Profits to surplus Ontario land, opening up Infrastructure Ontario to finance non-profits, among others.

Trillium Housing is providing 5 proposals to the 2022 Ontario Budget consultation.

Trillium Housing believes that the principal cause for the lack of appropriate housing supply in Ontario is that the market signals provided by government policy/charges steer housing development to provide very large/expensive homes. The current structure of many government charges and fees bias development pro forma against the production of inclusive, affordable communities. This is caused by a series of policies and taxes/charges which are designed for specific purposes but have the negative consequence of skewing development decisions toward the construction of large, high-priced units. This is currently how developers can maximize their profit – which is the only factor they consider in conceptualizing a new housing development. This has resulted in ever larger homes being built which are further and further out of reach financially of the average middle-class family. They are also the worse form of housing with respect to preserving agricultural land and reducing carbon emissions.

The solution is to redesign Government policy and taxes/charges so that they provide the market signals to the industry to build and sell entry-level housing.

Put another way, increase the costs to build high-end product and reduce the costs to build entry-level product. Then, let the market do its thing.

Proposals:

### **Market Signals for Industry**

1. **REFORM Government charges and fees paid to develop housing so that they are progressive.**  
Long ago municipal politicians understood that it is best to shift costs (ie tax increases) away from existing homeowners to future homeowners who will buy a new home. This was called growth pays for growth. The result was a series of regressive costs for the development of a new home. They are regressive because regardless of whether a housing unit is entry-level or super-luxury, the charge is the same. As you know, for property taxes our society uses the value of the home as a proxy for household income and taxes accordingly. Your tax is a percentage of the value of your home and if you own a more valuable home, you can afford to pay more tax. But with charges and fees there is a regressive nature of a one-size-fits-all charge – regardless of home price, the fee/charge is the same. So, in the situation where a developer must pay \$100,000 in government fees and charges to build a home regardless of the price of that home, are they more likely to build a modestly priced unit or the most expensive unit possible? OR they would prefer to build one large home rather than two homes half the size (which doubles the government fees). If these charges and fees were redesigned to act as a policy tool to incent the development of entry level units – by having progressive rates based on the sales price of the units, it would create the market incentives for developers to build more entry-level housing. The Ontario government accepted Trillium Housing’s advocacy on this issue two years ago and split some regressive costs from the Development Charge and we will soon see the new Community Benefit Charges set as a percentage of land value. This is a step in the right direction. A tiered rate system (where the rate applied increases and decreases with the value of the land or the price of the housing), would further reduce the regressive aspect of Government charges and increase the incentive to build entry-level housing. It will take a large change in attitudes with regards to charges and fees but the government has the tools at hand to implement these changes. It should be noted, these changes can be implemented in a manner to be overall revenue neutral (no additional tax – just collect more from expensive housing and less from entry-level housing) AND provide developers greater certainty as to the costs of development – responding to two of the industries concerns.

### **Play your best player – Non-Profits**

While the development industry is geared to find maximum profit within the sector’s cost/zoning environment, it is exceptionally rare for private entities to embark on the delivery of housing that is

affordable to the bottom quintile of the population. It is non-profits who do the work of effectively delivering housing affordability for the segment of our population most in need.

***Non-profits are to affordable housing what hospitals are to health care.***

And yet, governments have done very little to support and foster the part of the housing continuum that serves those most in need. Indeed, non-profits are hamstrung with hundreds of byzantine regulations/reports. “Global budgets” for non-profit housing providers are unheard of but would allow them the flexibility to best serve their communities. The lack of support of our most important delivery agent for housing affordability has recently been reinforced with the recent CMHC-designed federal programs, where CMHC applies its insurance company “risk minimization” habits and pays exceedingly large subsidies to highly capitalized developers in order to minimize the agency’s risk, at the expense of housing affordability delivery. Rest assured, private developers working with CMHC today are scooping up maximum profits.

The Province should Play their Best Player, the non-profit sector, when it comes to delivery of housing affordability.

2. **Back a Fund to back non-profits.** To deliver more housing affordability, the non-profit housing sector needs a stable source of investment funds that operates in a business-like and innovative manner. Direct government involvement in the building and running of housing has NOT proven a formula for success over the last 75 years. We propose that the Province sponsor/back a Non Profit Housing Provider Fund. The Fund would provide investment funds to non-profit housing developments which will demonstrate both a sound financial plan and demonstrable delivery of housing affordability. The Fund should be permitted to take risk and include a complete range of financing offerings, from equity financing for land purchase, mezzanine loans, construction financing and longer term mortgages. Fund criteria should be tenure neutral (rental or ownership housing could be delivered). While the Province could directly finance the Fund, we propose two, lower cost alternatives. One funding option would be for the Province to invite the very large pension plans which it sponsors/funds, to make a modest investment in the Fund - say .1% of assets (this would be \$200million from the Teachers Plan alone). The Province would back stop that investment – de-risking the investment and reducing the cost of funds. Another option would be to replicate the outstanding success of the Ontario Green Bonds – where over \$10 billion has been raised by the province for “green” infrastructure projects. The Fund should be run and delivered by organization(s) with both non-profit sector and real-estate finance sector expertise.

The non-profit led developments would rely heavily on private sector developer/builder partners. The partnerships should include equity participation and financial rewards for the developer partners. These partnerships if properly designed would benefit the Fund as aligned financial interests between non-profits and developers would increase the potential for Fund financial success.

3. **Surplus Ontario Land.** Ten years ago the Province provided non-profits the opportunity to purchase surplus government land to repurpose for community benefit. Trillium Housing

knows, because we have purchased three sites under this policy (and may be the only non-profit to have done so). We paid the full appraised market value for each site. Those sites will soon become over 400 units of entry-level ownership housing in Pickering and Hamilton. Cost to Ontario taxpayers – zero. The Province could greatly improve non-profits ability to repurpose these surplus lands with the following improvements:

- a. The Province should include all surplus Ontario agency sites (including surplus school and LCBO legacy sites) in the non-profit circulation. This would greatly increase the number of appropriate sites for redevelopment.
  - b. IO and Ontario agencies should be directed to provide a Vendor-take-back (VTB) mortgage for 5 to 10 years for a substantial proportion of the value of the sites they sell to non-profits (we suggest 80%). This would improve the financial pro forma for non-profits to develop sites. The VTB should have a ZERO interest rate, with an interest penalty if the site does not deliver a pre-determined amount of housing affordability. The three sites purchased by Trillium Housing had been in government hands for over 50 years. Certainly the province can wait 5+ more years to be paid for these sites once the repurposing of the site is complete.
4. **More Non-Profit incentives.** While access to financing and lands as recommended above would greatly improve non-profits ability to deliver housing affordability, the Province could also make a series of minor adjustments to policies and taxes to provide the sector even greater support. As opposed to tax breaks and incentives for the private sector, the non-profit sector will take any advantages and deliver MORE housing affordability. Items to consider are:
- a. Clarify that the new Development Charge Act which provides Non-Profit Housing Developments with a 20 year payment schedule, to make clear to all Municipalities that the act applies to non-profit housing developments regardless of tenure and it is NOT restricted to the provision of rental housing as is currently being interpreted by some municipalities.
  - b. Provide non-profit housing providers a zero rate for Land Transfer Tax when acquiring a site. To compensate for reduced Ontario revenue, apply a sur-charge on land transfer tax paid by land purchasers who will NOT utilize the property as their principal residence.
  - c. IO should be directed to provide low cost housing development financing to non-profit housing developers, regardless of tenure type or whether the Ontario government is invested in a project and they should be instructed to eliminate internal policy and administrative barriers to access their lending for non-profit housing providers.
  - d. The province could look to help with the launch of innovative programs and look at the experience with Trillium Housing as a pilot. When we launched Trillium, we asked the province to do a pilot program with us. After 2.5 years our Pilot was approved and a \$1.5m loan guarantee was provided to support our equity financing in two project. The first project was completed in 2020 and Trillium delivered almost \$3million in Trillium Mortgages. 33 families were provided Trillium commitments. Their average household income was \$66,000. We helped 8 single-parent led families get a home. Trillium

Mortgages are saving our families, on average \$500 PER MONTH in housing costs. Our impact investor was fully repaid with interest.

The second project financed by the Pilot program is under construction. With the guarantee term set at 4 years, we have fully repaid the impact investor and the Ontario guarantee is now fully released. We anticipate that once fully occupied in 2023, we will have 40 families with Trillium Mortgages. At this time we anticipate monthly housing cost savings to again approach \$500 per month. Our average household income will likely be about \$75,000.

The full Ontario guarantee is now completely discharged. The pilot, by any measure, is an unmatched success. By the end of the second project over 270 units of entry-level housing will have been created. Trillium Mortgages will be issued to over 60 income-eligible families. On a monthly basis, over \$30,000 in housing costs will be reduced from these families' monthly bills. The Provincial expenditure – ZERO.

Our proposal is that Ontario implement a Loan Guarantee program to support non-profit housing developers.

### **Help Modest Income Home Buyers**

Ontario is forecast to tax Ontarians who buy property in 2021 to the tune of over \$4 billion. The Land Transfer Tax (LTT) currently is set as follows:

amounts up to and including \$55,000: 0.5%

amounts exceeding \$55,000, up to and including \$250,000: 1.0%

amounts exceeding \$250,000, up to and including \$400,000: 1.5%

amounts exceeding \$400,000: 2.0%

amounts exceeding \$2,000,000, where the land contains one or two single family residences: 2.5%.

The province also has a First Time Home Buyer refund available. It is capped at \$4000.

5. **Refine the Land Transfer Tax to support housing affordability.** The following proposals could be used to revise the LTT to encourage housing affordability for Ontario families. They are designed to target the tax more effectively, to support housing affordability for modest income families and encourage developers to produce more entry-level-priced and environmentally responsible housing.
  - a. While the current LTT has a progressive scale, the property price thresholds for each rate are very much out-of-date. The province should consider indexing the tax rate quintiles. This would ensure that government revenue increases are only based on active government decision to increase taxes. These should be updated to lower the tax on the lowest priced homes. If necessary to compensate for lower revenue, the province could consider increasing the highest level rate on the most luxurious homes.
  - b. An energy efficiency rebate could be provided to new homes that exceed standards. This would reward home energy efficiency upgrades. To compensate for the revenue

reduction from the rebate, a sur-tax on over-sized residences could be designed to encourage more modest-sized homes. All residential properties over a set size and based on number of bedrooms would pay an over-sized unit surtax. This would allow the LTT on all other units to be reduced, increasing their affordability. This would put a financial cost on those who choose to live in homes that are much larger than their need and hopefully have an impact on reducing carbon emissions.

- c. There are currently some exemptions to the LTT. An exemption could be provided to Non-Profit Housing Developments (as mentioned above) in order to support the provision of more housing affordability. This would demonstrate how the province is living up to the standard it recently set for municipalities who now must provide non-profit housing developments a 20 year payment schedule for Development Charges. If needed, the LTT rate on the highest priced homes could be increased in order for the exemption to be revenue neutral.
- d. The LTT rebate for First Time Home Buyers program could be targeted based on income and home price. Set up on a progressive basis, this would allow for rebates that would be larger for modest income families which would decline in value as the income of the family is higher and finally there would be a maximum household income cut-off where NO rebate would be provided. Equally, there should be a cap on the value of a home where the rebate will be provided.