



A (draft) business plan for a

HOUSING DEVELOPMENT CORPORATION

for the City of London

COUNCIL HOUSING LEADERSHIP COMMITTEE - APRIL 3, 2014



The (draft) Business Plan

EXECUTIVE SUMMARY

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sustainable?
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Why an HDC for the **City of London?**

THE NEED & OPPORTUNITY



The Need and Problem

Tremendous Need for Affordable Housing in the City of London

- A growing need for affordable housing, as identified by the City of London Homeless Prevention and Housing Plan (November 2013)
 - Growing population
 - Flattening income levels
 - Decrease in vacancy rates
 - Little development in the related market segment
 - Static available stock of rental housing

The Need and Problem

- Developing and Acquiring Affordable Housing Units is Costly and Complex
- Lack of Coordinated Financial and Technical Expertise, Capacity in Marketplace
- Limited Financial Resources to Sustainably Finance Affordable Housing
- City's Capacity and Structure Limits its Opportunity to Respond

The Opportunity

- Available Supply of Housing and Land in London
- Existing and New Tools and Resources
- More Effective Response to Emerging Opportunities
- Available Supply of Capital
- Existing Stakeholder Interest, Expertise, and Involvement
- Housing Development has Economic and Social Benefits for the City


The Time is Now

- **Affordable Housing Situation Reaching a Critical Stage**
- **Addressing Need and City's Affordable Housing Targets a Challenge**
- **The HDC Can Play a Pivotal Role in Capitalizing on Opportunities**
 - a focused mandate on affordable housing development
 - a structure that allows real time decision making
 - a Board of experts in development
 - best framework to apply existing and new resources to meet the need for affordable housing in London

What does the **HDC** look like?

THE BUSINESS MODEL

The Business Model Canvas

 Collaborators	 Key Activities	 Value Proposition	 The Customer
<ul style="list-style-type: none">Private realtors, developers, and buildersNon-profit developers and property managersFinancial institutions and credit unionsFederal, provincial and municipal governmentEmployment and training providersOther community players and thought leaders	<ul style="list-style-type: none">Coordinate deployment of government fundingEnhance and better utilize municipal incentivesRegenerate public housing stockEstablish revenue generating activitiesExplore and initiate innovative financing and investment tools (i.e. Resilient Communities Fund)Unite collaborators	<p>The HDC is the optimal vehicle to directly achieve the City of London's affordable housing goals and to increase the City's capacity to develop affordable housing.</p>	<ul style="list-style-type: none">City of LondonProperty ownersPrivate developersNon-profit community organizationsInvestorsLondon residents, including individuals and families in identified need

The Business Model Canvas

Core Mandate

The HDC stimulates the development and sustainability of affordable housing throughout London.

Supporting Mandates

1. The HDC supports the local need for revitalized and strengthened neighbourhoods, and diverse and inclusive communities.
2. The HDC collaborates with all three sectors (private, non-profit and public) to create and sustain affordable housing and stimulate economic growth

What makes the HDC's business model **innovative**?

THE APPROACH



Refer to page 16-21 of the Draft Business Plan for more information.

Goals and Strategic Directions for HDC

Goal 1: Improve and Enhance Current Programs

Goal 2: Build New Business Lines



STRATEGIC DIRECTION #1

Coordinate Deployment of Government Funding



STRATEGIC DIRECTION #3

Be a Developer of Affordable Housing and Establish Other Revenue Generating Activities



STRATEGIC DIRECTION #2

Enhance and Better Utilize Municipal Incentives



STRATEGIC DIRECTION #4

Explore and Initiate Innovative Financing and Investment Tools



Impact of the HDC

THE POTENTIAL (2016-2025)

STATUS QUO
in London

STRATEGIC DIRECTION

#1

Coordinate Development of Government Funding

450 units



STRATEGIC DIRECTION

#2

Enhance and Better Utilize Municipal Incentives

450 units



STRATEGIC DIRECTION

#3

Establish Revenue-Generating Activities

100 units



= 1000 total units

with the **HDC** and including the **RCF**

STRATEGIC DIRECTION

#4

Explore and Initiate Innovative Financing and Investment Tools

up to 500 additional units



THE IMPACT

2x

MORE AFFORDABLE UNITS CONSTRUCTED OR REGENERATED



AFFORDABLE HOUSING PORTFOLIO

1000 HOUSING UNITS CONSTRUCTED =

3000 JOBS

+ \$158 MILLION INVESTMENT IN AFFORDABLE HOUSING



+ \$221 MILLION GDP GROWTH

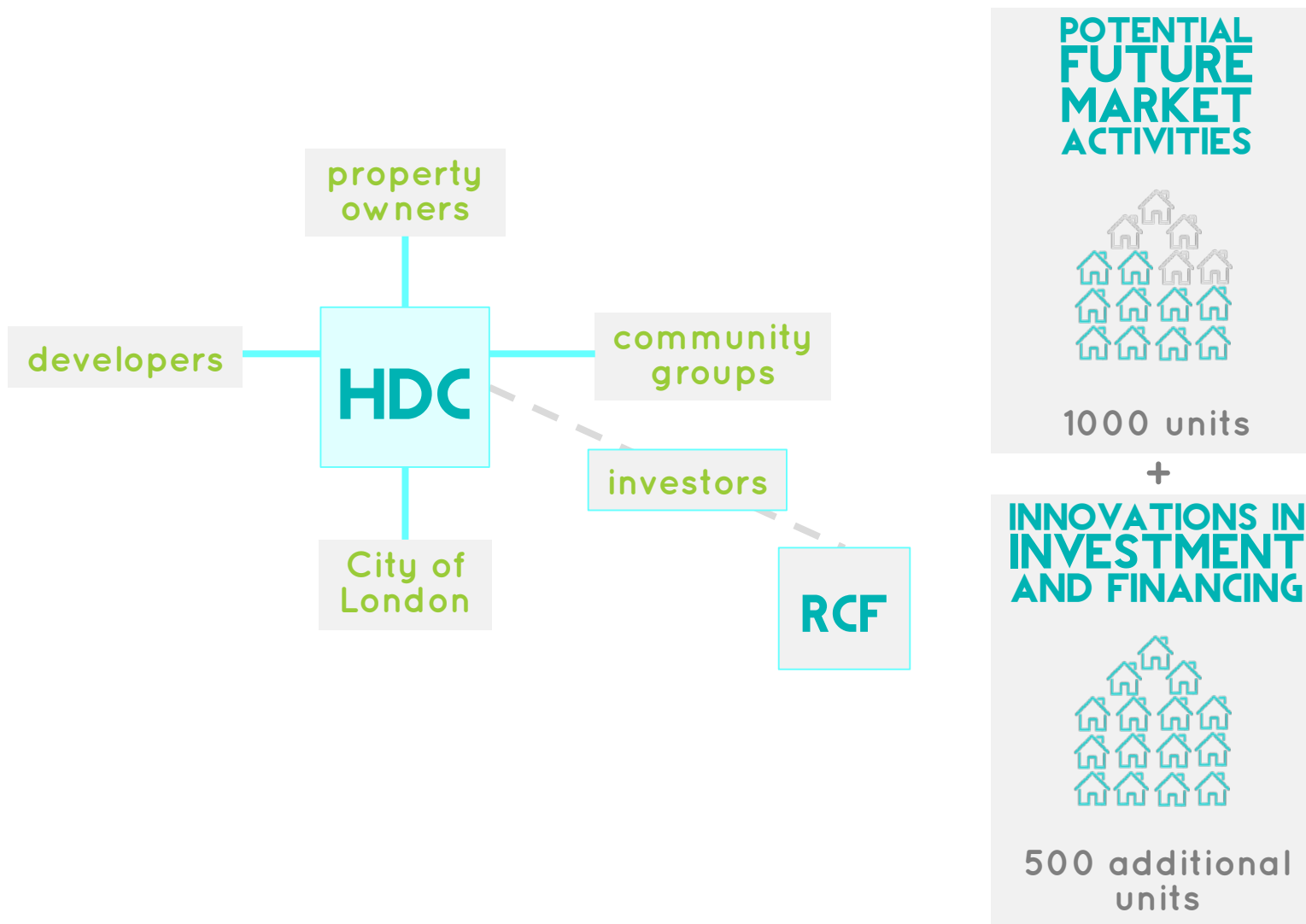


How is it Innovative?

CURRENT PROGRAMS



THE POTENTIAL



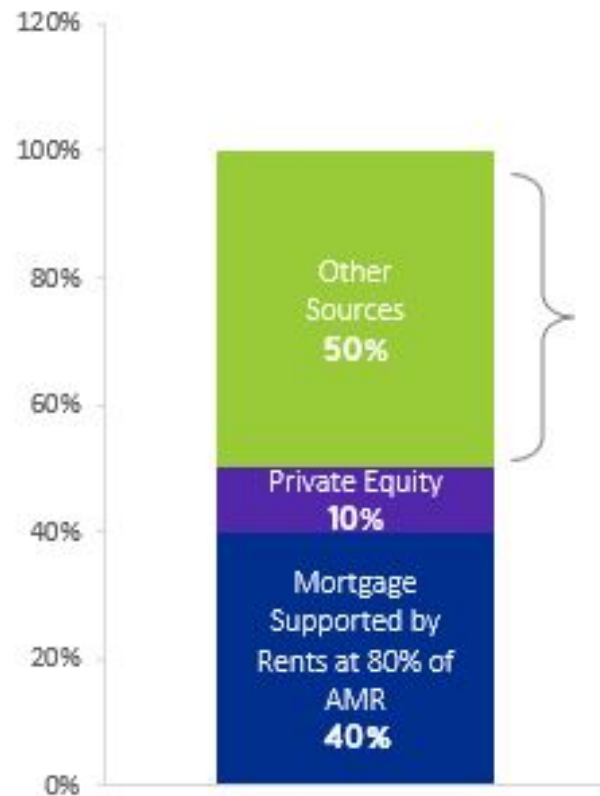


What makes the HDC's business model **sustainable**?

FINANCIAL MODEL

Financial Impact of HDC Activities

Funding an Affordable Rental Housing Unit



Funding comes from a combination of a number of sources:

- Owner equity
- Federal, provincial, municipal capital grants
- Enhanced and new municipal grants and incentives
- Revenue from HDC revenue generating activities
- New investment vehicles (Residual Communities Fund)



Financial Impact of HDC Activities

 **KEY ACTIVITIES** of HDC are estimated to generate about \$100 million for the creation and regeneration of approximately 1000 units of affordable housing over 10 years.

1. Coordinate Deployment of Government Funding (\$45 million over 10 years)



- Administer federal/provincial affordable housing capital grant programs
- Identify, secure or inform community partners about funding programs
- Administer other complementary senior government funding initiatives such as energy efficiency, rehabilitation
- Administer municipal grants, such as housing partnership strategy and convert-to-rent

2. Enhance and Better Utilize Municipal Incentives (\$45 million over 10 years)



- Research and recommend to the City enhanced and new incentives and tools for affordable housing including planning, housing and other municipal incentives
 - Surplus municipal lands policy for affordable units
 - City-Wide Community Improvement Plan (CIP) for Affordable Housing offering a range of incentives
 - Second Unit incentive program.
- Promote the comprehensive tool box of incentives to customers and collaborates of the HDC
- Act as a knowledge portal for market data, and available grants, loans and development supports for affordable housing
- Identify opportunities to leverage existing municipal assets, e.g. existing municipally owned land, public housing stock.

Financial Impact of HDC Activities

3. Be a Developer of Affordable Housing and Establish Other Revenue Generating Activities (\$10 million over 10 years)



- Be a developer of affordable housing in the London community focusing on publically owned properties and joint ventures, although not exclusively
- Build relationships and broker partnerships with landowners and developers
- Build relationships and broker partnerships with organizations that contribute equity to a development
- Provide development and project management services for the regeneration of LMHC properties
- Work strategically with other government partners to acquire surplus government lands
- Identify, investigate and undertake revenue generating to support the creation of more affordable housing:
 - Developing consulting services for HDC developments, as well as community developments where the HDC or City has an interest
 - Profits from enhancing land value through rezoning, sub-dividing properties and sale of surplus property
 - Administrative fees related to acquiring or disposing of government properties



Financial Impact of HDC Activities

4. Explore and Initiate Innovative Financing and Investment Tools (up to \$50 million over 10 years)



- Further explore and define the Resilient Communities Fund
- Once tested, establish and operate mortgage investment fund
- Once tested, establish and operate affordable housing endowment fund

Resilient Communities Fund

Affordable Housing and the Need for “Catalytic Capital”

Goal of the RCF

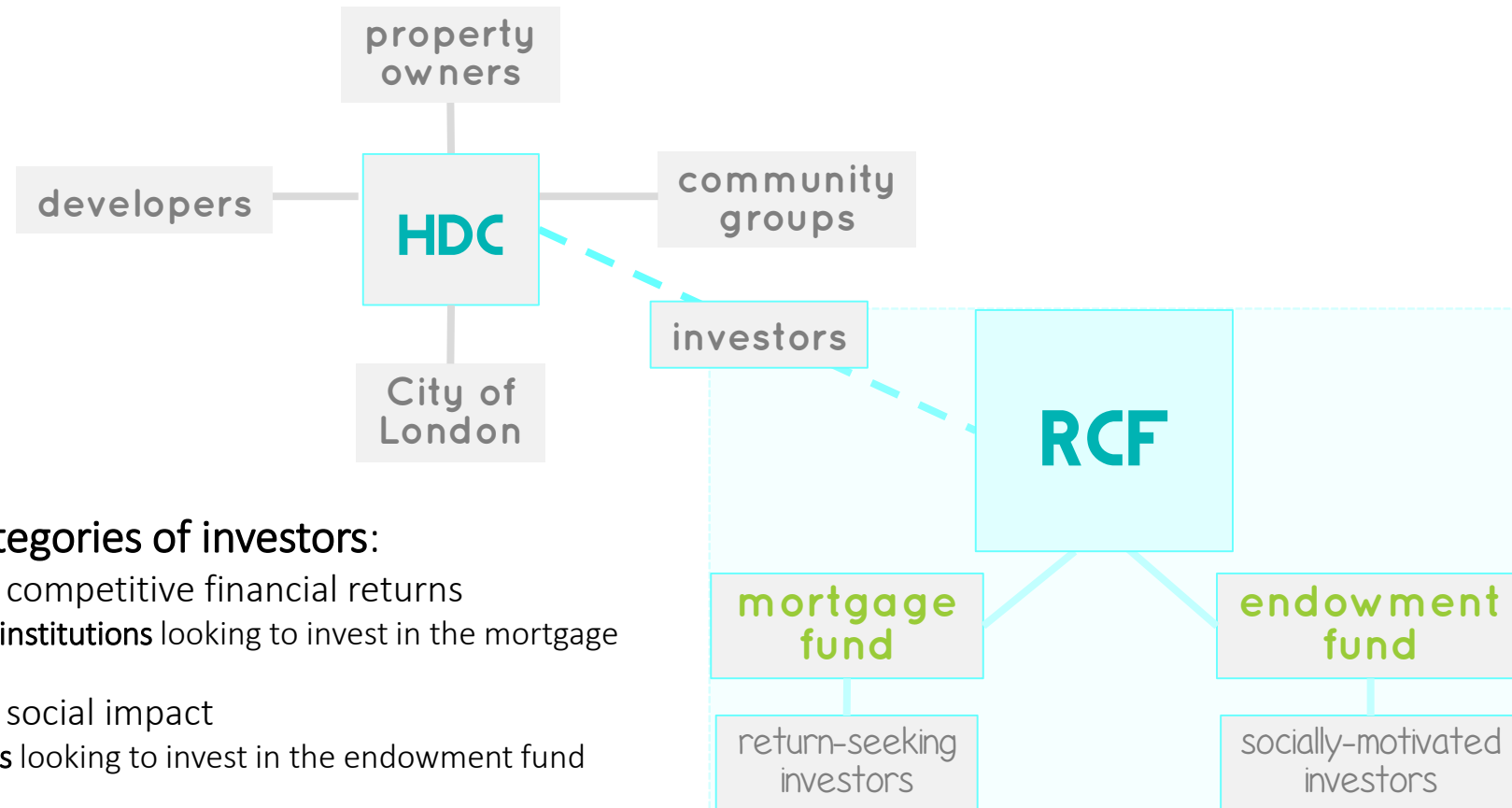
- Create a sufficient and stable pool of funds to build and maintain affordable housing
- Offer a conduit through which **new capital** can be injected

The Two Funds

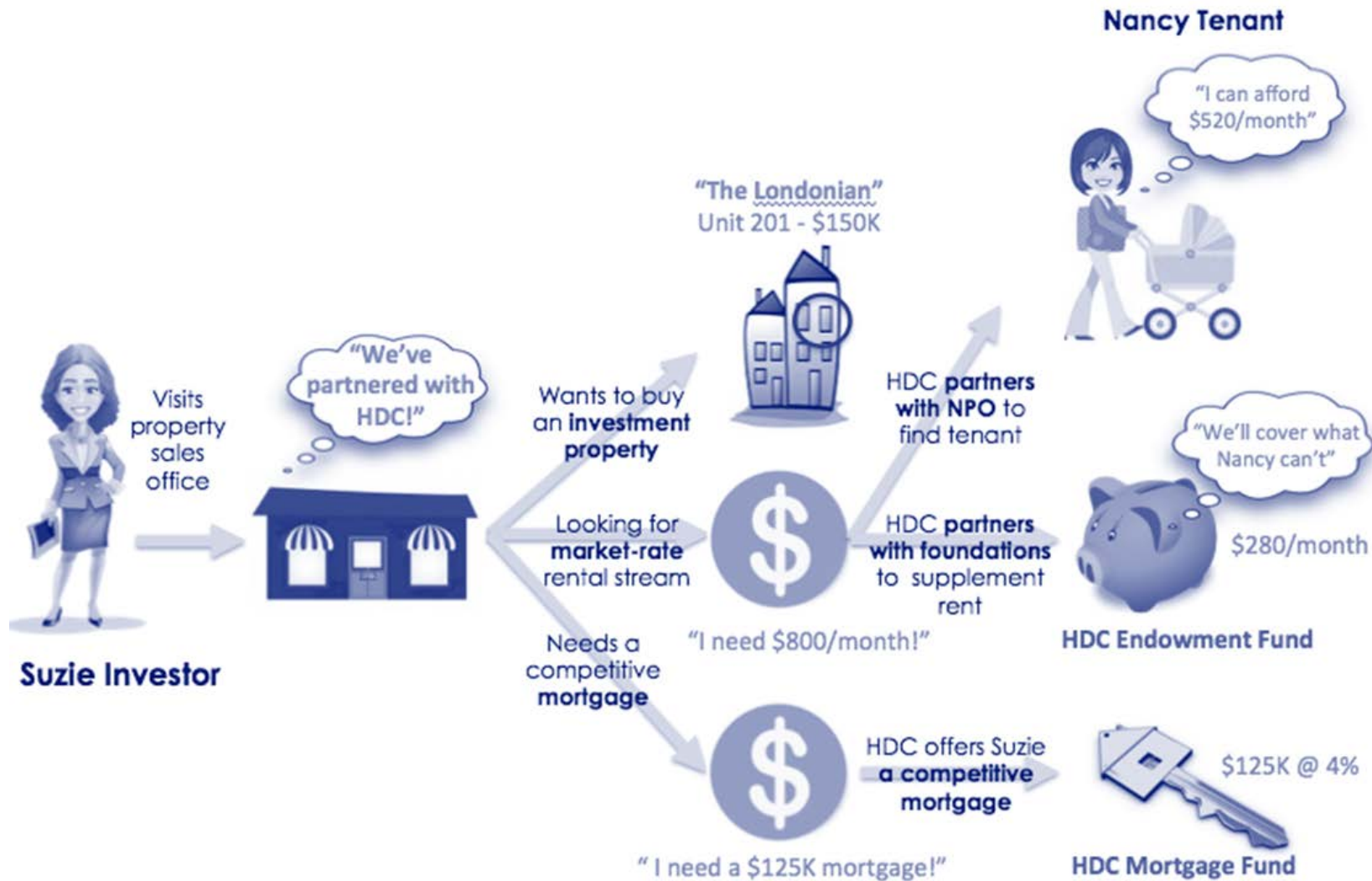
- Mortgage fund
- Endowment fund

Types of Investors

- **The HDC will aim to attract two categories of investors:**
 - Investors that are primarily seeking competitive financial returns
 - E.g. **high net worth individuals** and **institutions** looking to invest in the mortgage fund
 - Investors that are primarily seeking social impact
 - E.g. **foundations** and **philanthropists** looking to invest in the endowment fund



FROM THE PROPERTY INVESTOR'S PERSPECTIVE



FROM THE TENANT'S PERSPECTIVE



Operating the HDC (preliminary)

Annual Revenue	Years 2016-2020	Years 2021-2025
Program Administration Fees	\$175,500	\$213,000
Resilient Communities Fund Management Fees, Interest	\$758,983	\$1,958,573
Annual Total Revenue	\$934,483	\$2,171,573
Annual Expenses	Years 2016-2020	Years 2021-2025
HDC Resources		
Expertise in Management, Development, Financial, Administrative	\$375,000	\$495,000
Office Overhead		
Equipment, supplies, communication	\$100,000	\$100,000
RCF Resources		
Expertise in Fund Management, Loans	\$190,000	\$230,000
Annual Total Expenses	\$665,000	\$825,000
Annual Profit/Loss	\$269,483	\$1,346,573

GOVERNANCE & CORPORATE STRUCTURE

Objectives of the Structure of the HDC

- Have the **expertise** necessary to govern a sophisticated development and financial organization
- Be able to **attract money, land, people, and credibility**
- **Isolate development and financial risk** from the City
- Be able to **retain earnings as “development equity” to seed projects**
- Be capable of **decision making on development and financial industry timelines**
- Be able to **partner and contract with confidence** (can withstand some political turbulence)
- Balance **accountability, transparency, and value for money**
- **Be responsive** to other City development goals
- **Achieve City’s policy objectives** with respect to affordable housing
- Not to be engaged directly in construction lending
- Not to take on the role of housing operator



Models

The Consulting Team's Recommendation

- For the HDC to take a **corporate form** for two principal reasons:
 - Allows for risk associated with the HDC's activities to be alienated from the City;
 - And allows the City to tailor the governance and reporting structure to the mission of the HDC.

Business Corporations Act versus Corporations Act (Not for Profit)

The Consulting Team's Recommendation

- That the HDC be incorporated under the **Business Corporations Act (Ontario)**
 - Provides a known and transparent accountability framework in which the City would act as sole shareholder, appoint a board, and set reporting mechanisms
 - Provides flexibility should the City ever wish to repatriate funds from the HDC to the City through a shareholder dividend

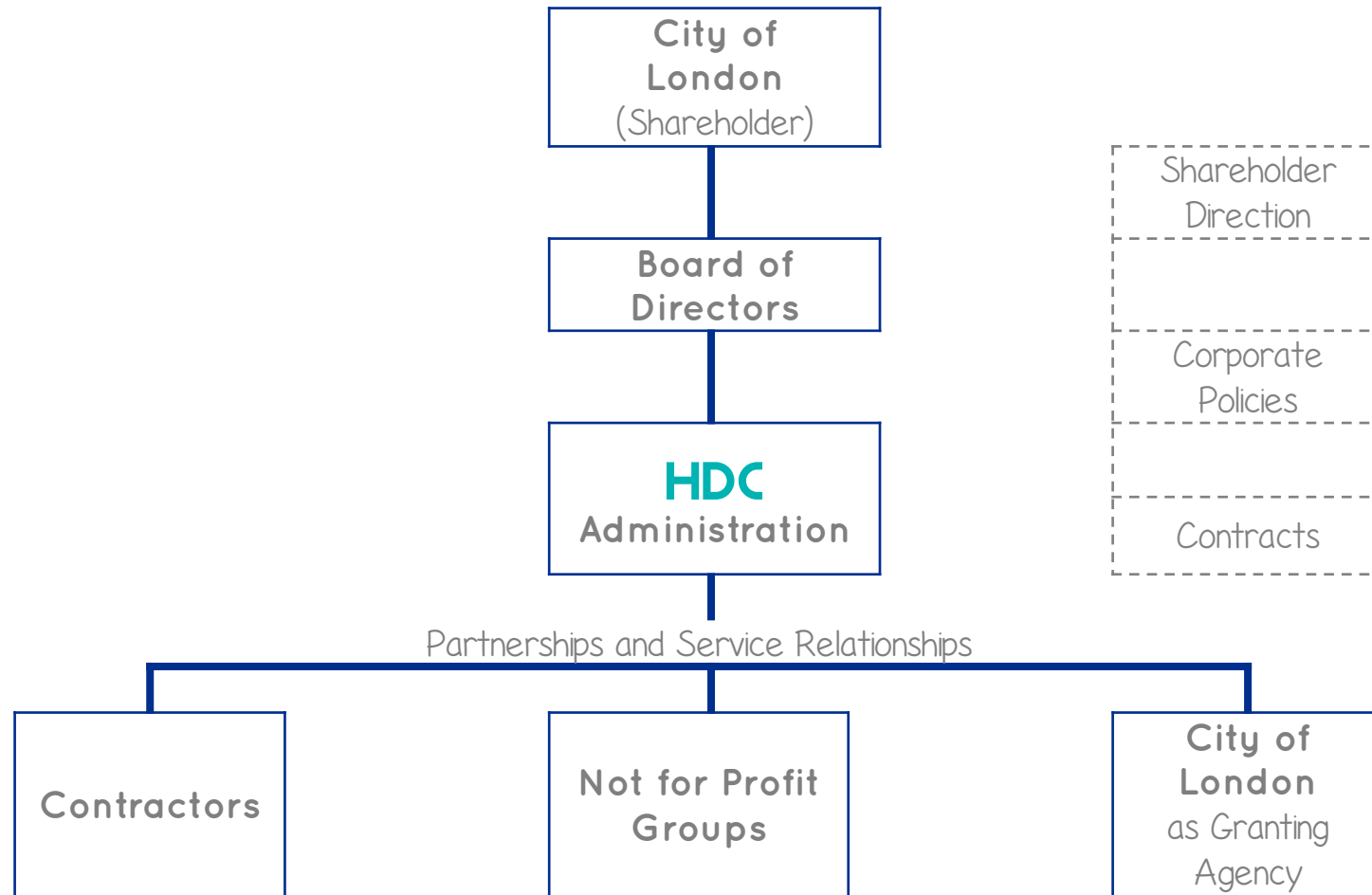
Governance

- In general, corporations are governed by a **board of directors**
- **Shareholders** meet annually, elect directors, and approve financial statements
- **Two governance models for the operation of the HDC have been identified**
 - A governance model based on a **management committee structure**
 - A governance model based on a **board governance model** (similar to Build Toronto)



our recommendation

Housing Development Corporation Structure and Control Mechanisms



Challenges

Accountability, Transparency, and Value for Money

- The proposed structure is capable of achieving accountability, transparency, and deliver value for money
- **Important consideration:** whether public accountability would impact the ability of the HDC to deliver value for money

Conflict of Interest

- Concern was expressed that the HDC would replace not for profit housing providers
- Should the HDC be both the grantor and grantee of IAH funding, there is a conflict of interest
 - The City could mitigate this by assigning grants in such a manner that a set proportion cannot be used by the HDC, or by simply awarding all capital funding to the HDC

City as Regulator

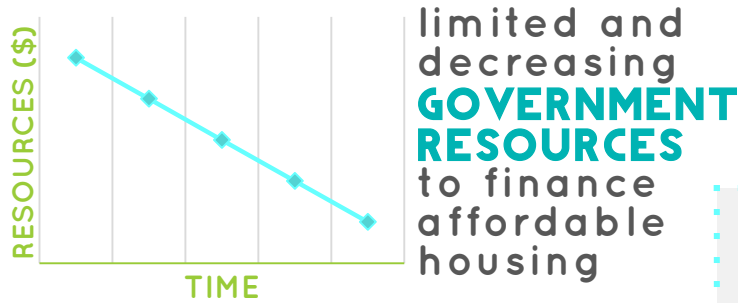
- Care will need to be taken to ensure that the City's role as a regulator is not vested in the HDC

CONCLUSIONS & RECOMMENDATIONS

Conclusions

The Need and Challenge

The Opportunity



AFFORDABLE HOUSING SUPPLY < **AFFORDABLE HOUSING DEMAND**


London's target to create new affordable units over the next 10 years will be a challenge

 growing need for investments in maintenance of **LMHC's** housing stock

the HDC's role **CAPITALIZING ON IDENTIFIED OPPORTUNITIES**

- ✓ available land
- ✓ financial capital
- ✓ existing and new incentives
- ✓ technical expertise
- ✓ willing stakeholders



+ \$158 MILLION INVESTMENT IN AFFORDABLE HOUSING
=
+ \$221 MILLION GDP GROWTH

2x
MORE AFFORDABLE UNITS CONSTRUCTED OR REGENERATED

the HDC's best framework

- ✓ focused mandate
- ✓ structure allowing real-time decision making
- ✓ board of development experts
- ✓ vehicle to directly achieve key local goals and objectives



Draft Recommendations

- **Corporate Structure and Governance** (recommendations 1 to 3)
- **Core and Supporting Mandates** (recommendation 4)
- **Goals and Objectives** (recommendation 5)
- **Key Activities of the Housing Development Corporation** (recommendations 6 and 7)
- **Financial Model** (recommendation 8)
- **Implementation Plan** (recommendations 9 to 11)



NEXT STEPS

Next Steps

1. Incorporate feedback from today's meeting
2. Work with City's Finance team on a detailed review of the costs and implications to the City, both for start-up and long term
3. Share draft business plan with key stakeholders (week of April 7)
4. Hold a consultation session with select group of stakeholders to obtain their feedback on the draft plan (April 14)
5. Hold Corporate Resource Committee meeting to consider feedback and revisions (May 28)
6. Finalize the business plan for HDC and submit to CHLC (May 1)
7. Meet with CHLC to discuss stakeholder feedback and present final business plan (May 12)
8. C&PS Meeting to consider HDC business plan (May 21)
9. Council Meeting to consider HDC business plan (Jun 10)

THANK YOU & QUESTIONS

APPENDICES

APPENDICES

Appendix 1: Project Approach

Appendix 2: Community Engagement and Consultation

Appendix 3: The Business Model Canvas in Detail

Appendix 4: Best Practices in Housing Development Models

Appendix 5: Overview of Municipal Tools and Incentives

Appendix 6: Financial Model Assumptions

Appendix 7: HDC Structuring Considerations and Recommendations

Appendix 8: The Resilient Communities Fund

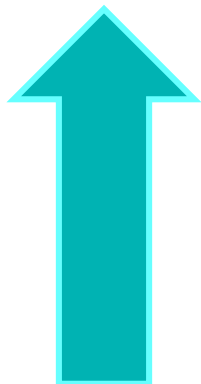
Conclusions

The Need

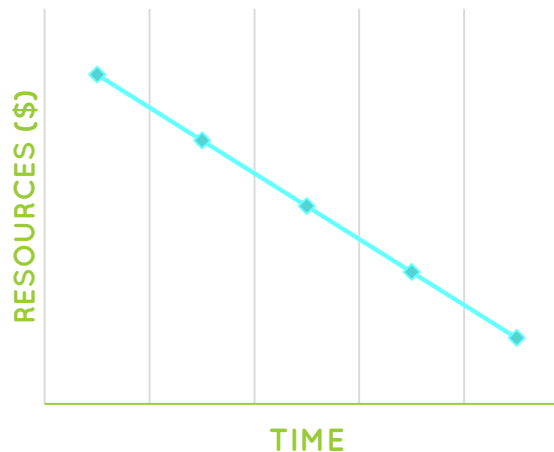
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HOUSING
SUPPLY



AFFORDABLE
HOUSING
DEMAND



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housing stock



limited and
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PORTFOLIO**

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mortgage
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