# Executive Summary

What makes the HDC’s business model sustainable?

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## Governance & Corporate Structure

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## Conclusions & Recommendations

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## The Business Model

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[Logos of SHS Consulting, Purpose Capital, and MaRS Centre for Impact Investing]
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

Refer to page 6 of the Draft Business Plan for more information.
The Need and Problem

- Developing and Acquiring Affordable Housing Units is Costly and Complex

- Limited Financial Resources to Sustainably Finance Affordable Housing

- Lack of Coordinated Financial and Technical Expertise, Capacity in Marketplace

- 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

Refer to pages 9-12 of the Draft Business Plan for more information.
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

Refer to page 13 of the Draft Business Plan for more information.
What does the **HDC** look like?

**THE BUSINESS MODEL**
## The Business Model Canvas

<table>
<thead>
<tr>
<th>Collaborators</th>
<th>Key Activities</th>
<th>Value Proposition</th>
<th>The Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private realtors, developers, and builders</td>
<td>Coordinate deployment of government funding</td>
<td>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.</td>
<td>City of London</td>
</tr>
<tr>
<td>Non-profit developers and property managers</td>
<td>Enhance and better utilize municipal incentives</td>
<td></td>
<td>Property owners</td>
</tr>
<tr>
<td>Financial institutions and credit unions</td>
<td>Regenerate public housing stock</td>
<td></td>
<td>Private developers</td>
</tr>
<tr>
<td>Federal, provincial and municipal government</td>
<td>Establish revenue generating activities</td>
<td></td>
<td>Non-profit community organizations</td>
</tr>
<tr>
<td>Employment and training providers</td>
<td>Explore and initiate innovative financing and investment tools (i.e. Resilient Communities Fund)</td>
<td></td>
<td>Investors</td>
</tr>
<tr>
<td>Other community players and thought leaders</td>
<td>Unite collaborators</td>
<td></td>
<td>London residents, including individuals and families in identified need</td>
</tr>
</tbody>
</table>
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
Goals and Strategic Directions for HDC

Goal 1: Improve and Enhance Current Programs

1. Coordinate Deployment of Government Funding
2. Enhance and Better Utilize Municipal Incentives

Goal 2: Build New Business Lines

3. Be a Developer of Affordable Housing and Establish Other Revenue Generating Activities
4. Explore and Initiate Innovative Financing and Investment Tools

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

## THE POTENTIAL (2016-2025)

<table>
<thead>
<tr>
<th>STATUS QUO in London</th>
<th>STRATEGIC DIRECTION #1</th>
<th>Coordinate Development of Government Funding</th>
<th>450 units</th>
</tr>
</thead>
<tbody>
<tr>
<td>with the HDC</td>
<td>STRATEGIC DIRECTION #2</td>
<td>Enhance and Better Utilize Municipal Incentives</td>
<td>450 units</td>
</tr>
<tr>
<td>with the HDC</td>
<td>STRATEGIC DIRECTION #3</td>
<td>Establish Revenue-Generating Activities</td>
<td>100 units</td>
</tr>
<tr>
<td>with the HDC and including the RCF</td>
<td>STRATEGIC DIRECTION #4</td>
<td>Explore and Initiate Innovative Financing and Investment Tools</td>
<td>up to 500 additional units</td>
</tr>
</tbody>
</table>

= 1000 total units

## THE IMPACT

- **2× MORE AFFORDABLE UNITS CONSTRUCTED OR REGENERATED**
- **1000 HOUSING UNITS CONSTRUCTED**
- **3000 JOBS**
- **+ $158 MILLION INVESTMENT IN AFFORDABLE HOUSING**
- **+ $221 MILLION GDP GROWTH**

Refer to page 22 of the Draft Business Plan for more information.
How is it Innovative?

CURRENT PROGRAMS

developers

property owners

City of London

community groups

investors

Current Market Activities

450 units

THE POTENTIAL

property owners

community groups

investors

City of London

HDC

RCF

Potential Future Market Activities

1000 units

+ 500 additional units

Innovations in investment and financing

Refer to page 23 of the Draft Business Plan for more information.
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)

Refer to page 24 of the Draft Business Plan for more information.
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** ($450 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** ($450 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.

Refer to page 24 of the Draft Business Plan for more information.
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

Refer to page 24 of the Draft Business Plan for more information.
Financial Impact of HDC Activities

4. Explore and Initiate Innovative Financing and Investment Tools (up to $500 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

Refer to page 24 of the Draft Business Plan for more information.
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

Refer to page Appendix 8 of the Draft Business Plan for more information.
FROM THE PROPERTY INVESTOR’S PERSPECTIVE

Refer to Appendix 8 (page 80) of the Draft Business Plan for more information.
FROM THE TENANT’S PERSPECTIVE

Refer to Appendix 8 (page 81) of the Draft Business Plan for more information.
### Operating the HDC (preliminary)

#### Annual Revenue

<table>
<thead>
<tr>
<th></th>
<th>Years 2016-2020</th>
<th>Years 2021-2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Administration Fees</td>
<td>$175,500</td>
<td>$213,000</td>
</tr>
<tr>
<td>Resilient Communities Fund Management Fees, Interest</td>
<td>$758,983</td>
<td>$1,958,573</td>
</tr>
<tr>
<td><strong>Annual Total Revenue</strong></td>
<td><strong>$934,483</strong></td>
<td><strong>$2,171,573</strong></td>
</tr>
</tbody>
</table>

#### Annual Expenses

<table>
<thead>
<tr>
<th></th>
<th>Years 2016-2020</th>
<th>Years 2021-2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDC Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expertise in Management, Development, Financial, Administrative</td>
<td>$375,000</td>
<td>$495,000</td>
</tr>
<tr>
<td>Office Overhead</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment, supplies, communication</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>RCF Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expertise in Fund Management, Loans</td>
<td>$190,000</td>
<td>$230,000</td>
</tr>
<tr>
<td><strong>Annual Total Expenses</strong></td>
<td><strong>$665,000</strong></td>
<td><strong>$825,000</strong></td>
</tr>
<tr>
<td><strong>Annual Profit/Loss</strong></td>
<td><strong>$269,483</strong></td>
<td><strong>$1,346,573</strong></td>
</tr>
</tbody>
</table>

Refer to page 25 of the Draft Business Plan for more information.
Objectives of the Structure of the HDC

- Have the expertise necessary to govern a sophisticated development and financial organization.
- 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 attract money, land, people, and credibility.
- 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 or construction operator role.
- Not to take on the role of housing operator.
- Be able to retain earnings as “development equity” to seed projects.
- Be capable of decision making on development and financial industry timelines.

Refer to page 26 of the Draft Business Plan for more information.
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

Refer to page 27 and Appendix 7 of the Draft Business Plan for more information.
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)

Refer to page 28 and Appendix 7 of the Draft Business Plan for more information.
Housing Development Corporation Structure and Control Mechanisms

- City of London (Shareholder)
  - Board of Directors
  - 
    - HDC Administration
      - Partnerships and Service Relationships
        - Contractors
        - Not for Profit Groups
        - City of London as Granting Agency
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

Refer to page 32 of the Draft Business Plan for more information.
CONCLUSIONS & RECOMMENDATIONS
Conclusions

The Need and Challenge

Supply

Affordable Housing

Limited and decreasing government resources to finance affordable housing

Demand

Growing need for investments in maintenance of LMHC’s housing stock

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

The Opportunity

Capitalizing on identified opportunities

- Available land
- Financial capital
- Existing and new incentives
- Technical expertise
- Willing stakeholders

The HDC’s role

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

1000 housing units constructed

+ $158 million investment in affordable housing

= $221 million GDP growth

3000 jobs

2x

More affordable units constructed or regenerated

Refer to page 33 of the Draft Business Plan for more information
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**

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

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

Refer to pages 37-83 of the Draft Business Plan for more information.
Conclusions

The Need

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.

Limited and decreasing government resources to finance affordable housing.

Refer to page 33 of the Draft Business Plan for more information.
Conclusions

The Opportunity

Refer to page 33 of the Draft Business Plan for more information.

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

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

10,000 HOUSING UNITS CONSTRUCTED = 3,000 JOBS

2x MORE AFFORDABLE UNITS CONSTRUCTED OR REGENERATED

the HDC’s role

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