A Tailored and Local P3 Approach to Affordable Housing

Issue

Pressure on affordable housing across Alberta and Canada is growing. It is neither feasible nor sustainable for governments to address the issue on their own. P3 (Public-Private Partnership) models show the greatest potential to address the magnitude of the issue while creating a sustainable program. By activating the private development sector, more affordable housing units can be rapidly brought on stream to meet demand. This can be accomplished by incentivizing developers to participate in projects that combine affordable and market-value housing.

Background

Current Situation in Alberta

Nearly 500,000 Albertans spend more than 30% of their before-tax household income on housing costs and 164,275 households are in core housing need,[1] which is unaffordable according to the standard for affordability. In 2020, more than 110,000 Albertans lived in affordable housing, with 19,000 on waitlists.[2] Waitlists are growing due to population increase and demographic changes. Economic uncertainty caused by COVID-19 and an economic downturn is challenging the financial sustainability of Alberta's affordable housing system.[3]

Lack of sufficient affordable housing contributes to homelessness and has socio-economic costs for communities. These include, but are not limited to, health issues and educational disadvantages for vulnerable individuals and families, increasing household debt, poorly maintained properties, crime, addictions, challenges attracting labour, and more.

A Sustainable and Innovative P3 Model

Municipal housing authorities currently use a number of housing acquisition models to address affordable housing needs. These include new construction, purchase of existing building, long-term leases, direct-to-consumer subsidies and landlord subsidies linked to specific units. More recently, P3 models are being undertaken for construction projects of new and refurbished housing units.[4] Regardless of the strategies employed, municipalities need the flexibility to decide which model works

[1] Does not meet one or more standards for housing adequacy (repair), suitability (crowding), or affordability, and has to spend 30% or more of its before-tax income to pay the median rent (including utilities) of appropriately sized alternative local market housing.
[2] Government of Alberta Final Report of the Affordable Housing Panel Review 2020
[3] Government of Alberta Final Report of the Affordable Housing Panel Review 2020
[4] The Canadian Council for Public-Private Partnerships defines P3 as public-private partnerships that include arrangements where development is undertaken with a combination of not-for-profit, private and public participations of programs.

best for them and, more importantly, need access to funding from the provincial and federal governments who have the responsibility of addressing affordable housing needs.

P3 models show the greatest potential to address affordable housing needs in a sustainable way. Private sector developers can move more rapidly to construct affordable housing units to meet the rate at which the core needs housing problem is growing. This is accomplished by incentivizing the developer to participate in projects that combine affordable and market-value housing. Benefits of a blended-model also include improved geographic distribution of housing and better mixed-income models that provide dignity for those in need of affordable housing.

The proposed P3 model offers an easy-to-implement solution that can help address affordable housing demand. It includes an incentive for developers to construct additional market-value housing units to temper future inflation and contribute to the municipality's tax base for municipal services. In addition, this P3 model is scalable, transferable to other regions, and sustainable in the long-term while leveraging partnerships and reducing risks for the municipalities and all government partners.

A key element of the proposed P3 model is that housing projects that receive grants under these programs remain fully taxable to the municipality and the Province because the property is not government or not-for-profit owned and operated.[1] Development incentive grants created by municipalities can be in the form of cash, land, waiver of fees or other incentives that directly reduce the cost of development. In situations where cash incentives are required, municipalities should have the ability to borrow from the Province at a zero interest rate with the understanding that the Province will receive its return through taxes on the full assessed value of property. A return on investment for the Province is therefore realized through a combination of repayment of principal by the municipality and property taxes by the developer.

Sample Analysis

1. Developer receives a municipal affordable housing incentive totaling 10% of a $10 million construction project. The actual program may vary from municipality to municipality.
2. Municipality borrows the $1 million from the Province to incentivize the development.
3. Rental rates for the affordable housing units are set under the same guidelines as Canada Mortgage and Housing Corporation (10% below revenue potential).
4. Typical provincial mill rate is $2.44 and based on a $10 million assessment, this generates $24,400 in annual taxes to the Province. This is equivalent to a 2.44% annual rate of return to the Province.
5. The rate of return for the municipality is dependent on the incentive program it creates, and based on its portion of property tax collected.

Conclusion

This proposed model of P3 demonstrates an alternative approach that is innovative, can be easily implemented, and is sustainable in the long-term while leveraging partnerships and reducing risks for

[1] Section 362(1)(n) Municipal Government Act Parts 1 and 3 of AR 281/98
[6] Government of Alberta Final Report of the Affordable Housing Panel Review 2020

the municipalities and all levels of government involved. It allows government to focus resources on higher level strategies, directing provincial and federal grants to the more immediate/acute need of supportive housing. These outcomes align with findings from the recent (2020) Government of Alberta Affordable Housing Panel Review, which recommends transforming Alberta's affordable housing system through a range of models and capital contributions; partnerships; community-driven action; and tailored approaches. [1]

The Review supports government investment in affordable housing as "[the investment] is multiplied in economic returns because it creates jobs and supports tenants to stay in their community and obtain and maintain meaningful employment."[2] To engage private developers in affordable housing P3 projects, municipalities may require cash commitments. The Alberta government plays an integral role in this partnership and strategy by providing municipalities with access to a zero interest rate loan. These loans give municipalities the flexibility to tailor solutions that work best within their respective communities and offer another tool to address the affordable housing crisis. Such an investment by the Province is low risk, has a negligible budgetary impact, will see value for P3 partners and better outcomes for all Albertans, and will help drive recovery of the Alberta economy.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Support a sustainable and locally tailored P3 approach to address affordable housing demand that actively engages private sector developers by giving municipalities the ability to borrow from the Province at a zero interest rate, with the understanding that the Province will receive its return through taxes on the full assessed value of property.

[2] Government of Alberta Final Report of the Affordable Housing Panel Review 2020