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TO: Planning and Housing Committee and Council

DESTINATAIRE : Comité de la planification et du logement et Conseil

FROM: Clara Freire
General Manager, Community and
Social Services

Contact:
Paul Lavigne
Director, Housing Services, Community
and Social Services
613-580-2424 x 43206
paul.lavigne@ottawa.ca

EXPÉDITEUR : Clara Freire
Directrice générale, Services sociaux et
communautaires

Personne ressource :
Paul Lavigne
Directeur, Services de logement,
Services sociaux et communautaires
613-580-2424 poste 43206
paul.lavigne@ottawa.ca

DATE: August 24, 2023

24 août 2023

FILE NUMBER: ACS2023-CSS-GEN-016

SUBJECT: Ward 15 Section 37 Funds – Ottawa Community Land Trust Property
Acquisition

OBJET : Fonds prévus à l'article 37 du quartier 15 – Acquisition de propriété par la
Fiducie foncière communautaire d'Ottawa

PURPOSE

The purpose of this report is to inform Committee that at the request of the Councillor for Ward 15, Section 37 funds in the amount of \$400,000, will be allocated as a pilot to

the Ottawa Community Land Trust (OCLT) to support the acquisition of a six-unit affordable rental apartment building located at 887 Kirkwood Avenue. It is proposed that the OCLT will own this property and partner with a non-profit housing provider or property management service to manage operations and maintain the units at an affordable rent in perpetuity. The OCLT will be responsible for all costs associated with operations and lifecycle maintenance.

BACKGROUND

Section 37 Funds

Prior to Bill 197, Section 37 of the *Planning Act* allowed a municipality, with appropriate Official Plan policies, to pass Zoning By-laws permitting increases in height and/or density on a site, in return for the provision of community benefits. This exchange was referred to as density bonusing. Section 37 community benefits varied from project to project, however, they needed to be over and above what would otherwise be required as part of the City's standard development application review process, parkland dedication requirements, budgeting process and Development Charges By-law. Further, the community benefits needed to be set out in a by-law and secured through a legal agreement between the Owner and the City, registered on title.

Although in September 2022, Bill 197 ended the City's ability to collect these revenues, several wards in the City of Ottawa have access to the remaining community benefit funds secured through density bonusing. At present, in accordance with provincial legislation, the City has enacted a new Community Benefits Charge By-law to continue to collect fees and fund a range of community capital projects required as a result of new growth.

Affordable Housing – A Community Benefit

The zoning by-laws and related Section 37 contribution agreements that secured the remaining density bonusing funds in Ward 15 provide direction for these funds to go towards affordable housing. By way of motion, the use of the funds for an affordable housing project within the Ward or an adjacent Ward is under the discretion of the ward councillor, with the concurrence of the General Manager of Community and Social Services.

The Ward Councillor has requested this use of the Section 37 funds, and the General Manager has approved the allocation of \$400,000 of these remaining funds to the OCLT as a forgivable loan to support the acquisition of an affordable rental apartment building,

with the objective of preserving in perpetuity, six (6) affordable housing rental units. This will be the first acquisition for the OCLT's property portfolio and will be used as a pilot to evaluate the effectiveness of this type of partnership.

Community Land Trusts (CLTs)

The City of Ottawa 10-Year Housing and Homeless Plan sets the goal of ensuring everyone has a home, with objectives to preserve the existing affordable housing stock and increase the supply and access to affordable housing. As a part of the Implementation Plan to support this goal and its associated objectives, Appendix A lists several tactics including the following, "explore the creation of a land bank or community land trust for affordable housing."

CLTs are community-based non-profit organizations that acquire properties to preserve affordability and facilitate land stewardship for community residents. While the CLT model may vary across communities, four broad characteristics are generally shared:

- Non-profit status. CLTs are created to advance the communal good and are not motivated by profit. Revenues are put back into the organization to acquire additional lands and buildings, construct affordable housing, and to maintain properties
- Land ownership. CLTs retain ownership of the land allowing third parties to use the land through long-term leasehold agreements. CLTs separate land and housing costs, enhancing affordability as potential homeowners or housing providers only pay for the building and not the land underneath
- Democratic control. CLTs are democratically operated organizations governed by an elected (in rare cases appointed) volunteer Board of Directors. Membership includes individuals who lease, or own housing managed by the CLT, those residing in the geographic area of the CLT, and representatives from local government, community groups, and local activists
- Perpetual affordability. CLTs are created to ensure that there is a consistent stock of affordable housing for future generations. This is done by controlling all housing transactions and limiting the resale value of homes through resale formulas contained in ground leases

DISCUSSION

This section will introduce the Ottawa Community Land Trust, its unique business model, and the specific rationale for the property acquisition being supported using Ward 15 Section 37 funds.

Ottawa Community Land Trust

The Ottawa Community Land Trust is a new social enterprise pursuing innovative ways of preserving housing affordability in the national capital region. In addition to securing vacant land for future development, the OCLT is currently focused on acquiring existing rental properties to turn them into non-profit affordable housing.

In the past, non-profit housing providers built their portfolios by acquiring existing rental housing. Almost no community housing organizations are currently including acquisition of existing occupied multi-residential properties in their growth strategies. The Ottawa Community Land Trust was created with the objective of filling this perceived gap in the sector.

Business Model

The OCLT acquisitions will operate on a business model borrowed from the private sector, but with added layers of affordability and tenant protection. Target properties are 5 to 40 units, with existing rents at 80-120% of area Average Market Rent, a capitalization rate above 4%, allowing them to support mortgage debt financing for over 65% of the acquisition cost.

The remaining capital required to close on a purchase, up to 35%, will come from social impact investment, including initial equity investments from sponsors and then a community bond campaign after an acquisition occurs. Community bonds are an innovative form of social finance that allow non-profit organizations to leverage community supporters, as community members can purchase bonds, with specific terms and rates of return. While community bonds are proven social financing tools that generate social and financial returns, the use of these bonds by the OCLT in Ottawa is unique. Community bonds will help minimize the amount of capital requested of the City.

Eventually, the repayment of bond capital as well as further acquisitions are to occur through the refinancing of mortgages on properties. Social impact investments are particularly critical in the initial days, until the Land Trust has built up a portfolio of properties, and lenders no longer require additional security on the mortgage value.

Property Acquisition (887 Kirkwood Avenue)

The new OCLT is acquiring the lands municipally known as 887 Kirkwood Avenue. The building was constructed in 1955. As per the building assessment, the building appears to be in satisfactory condition with no visual evidence of major structural failures, soil erosion, or differential settlement. Existing on site is a six (6) unit, fully occupied apartment building with parking located at the rear. The apartment building contains two 1-bedroom and four 2-bedroom units, with existing rents averaging 63% AMR. The OCLT is committed to sustaining current tenancies, with any rent increases only to align with provincial guidelines. For project viability, upon turnover, rents will be raised to 80% AMR.

In addition to Section 37 funds, the OCLT has partnered with the Ottawa Community Foundation and the Vancity Community Investment Bank to further support this acquisition. As per their business model, social impact investments in the form of community bonds will be utilized and refinancing of the property is proposed in approximately ten (10) years. Drawing out of available equity will be put towards a further acquisition, supporting the preservation of additional affordable units. The OCLT is closely working with Tapestry Community Capital towards structuring a community bond campaign. The OCLT and their lenders have expressed a high degree of confidence in the success of the campaign. In the event the campaign is unable to reach the target amount, OCLT lenders will work towards finding solutions, which could include extensions to the line of credit.

Overall, the \$400,000 of Section 37 funds to support the property acquisition of 887 Kirkwood Avenue, results in a \$66,667 per unit equity contribution from the City. Given equity contributions for new affordable units are currently averaging closer to \$200,000 per unit, this investment would represent good value for money. While the specific business model proposed by the OCLT is new, the City's contribution will allow the City to evaluate the effectiveness of this type of investment and will allow the OCLT to start to grow its property portfolio by leveraging capital contributions, with the objective of expanding the sector's capacity to preserve existing affordable housing.

CONCLUSION

This significant \$400,000 forgivable loan contribution to the initial cycle of acquisitions by the Ottawa Community Land Trust is a step toward expanding sector capacity to preserve affordable housing. Staff will require regular reporting of the operation and rents for the property to monitor the success of this business model. Further, staff will

continue to explore new internal and external opportunities to support the preservation of affordable housing.

Next Steps

As part of the allocation of the Section 37 funds, a contribution agreement between Housing Services and the OCLT will be prepared for execution. The agreement will detail requirements to acquire and maintain the affordable rental apartment units at 887 Kirkwood Ave, along with annual reporting.

Clara Freire

General Manager / Directrice générale

Community and Social Services / Services sociaux et communautaires

City of Ottawa/ Ville d'Ottawa