

FEBRUARY 2024

Growing non-market housing in Ontario

Briefing note for municipalities on affordable housing

Summary

Underpinning Ontario's housing affordability crisis is the fact that individuals and families with low to moderate incomes (earning \$58,300 or less) cannot afford anything on the current housing continuum.

Since the pandemic, there has been significant investment in new housing developments, but low to moderate income households are not living in them as the average home purchases range from \$635,000-\$715,000 across Ontario. In addition, rental options are often out of reach. For example, the minimum wage worker in any given municipality may only be able to afford \$1,460 for housing costs while the average rental listing may be upwards of \$1,850 plus utility costs. The housing crisis is only poised to become [worse](#) across Canada by 2026.

Affordable housing is defined as affordable if the rent or mortgage is 30 per cent of a household's income. This is a long-standing measure of affordability used by the [Canadian Mortgage and Housing Corporation \(CMHC\)](#), among others.

To meet the need for housing in Ontario, all types of housing need to be increased, but public policy solutions must particularly include non-market housing, which is the most underdeveloped and therefore offers the greatest potential for growth.

Nonprofits are best positioned and eager to deliver non-market housing in perpetuity

Nonprofits and nonprofit cooperatives can lead the charge in realizing housing options for those in greatest need of affordable and deeply affordable housing. The purpose, governance, and ownership structure of nonprofits - [the nonprofit difference](#) - ensures that nonprofits meet needs for public good or benefit, are accountable to local communities, exhibit higher levels of transparency, and reinvest profits back into their missions. That translates into delivering non-market housing options such as supportive housing, below-market rental units and community land trusts over profit. Now is the time to better leverage nonprofits' expertise, local infrastructure and community-centred missions with public policy solutions that enable them to deliver non-market housing.

Background

What is non-market housing?

There are four main types of housing in Canada:

- **Subsidized:** Emergency, transition and supportive housing that is usually operated as part of the social service system by governments or nonprofits.

- **Social:** Also supported by governments and operated as nonprofits and providing rent geared to income housing for people with marginal incomes.
- **Non-market:** Operating outside of market forces; housing co-ops, land trusts, and nonprofit housing are all variants of non-market housing that offer affordable rent or long-term ownership
- **Market:** Rental and ownership homes built, sold, or leased at market pricing. They are affordable at various wealth levels, and often serve as the backbone of a family's equity and retirement financing.

Non-market housing is underdeveloped in our communities. Since the 1990s there has not been much focus on this housing segment. "[Non-market housing](#)" prioritizes affordability rather than profit and includes everything on the housing continuum outside of the "market". Operated by community nonprofit organizations such as churches, social clubs, local charities and coops, non-market housing is protected from market forces, offering affordable rent or ownership in perpetuity. [This segment of the housing market is now rapidly expanding](#) with the use of new social finance tools that may be market-based but still prioritize affordability over profit.

Image¹

THE HOUSING CONTINUUM



Who are the residents who cannot afford market housing?

Municipalities can determine who in your area cannot afford housing by consulting [the HART Index](#). The index provides a breakdown by municipality, region, and province of household income levels, size of households, and identifies priority groups for housing. Click on [the link](#) to see a summary of the housing needs for residents in your municipality.

Policies to date have not delivered housing for most households who cannot afford market housing

The Ontario government and federal government are placing priority on building housing and have brought in new planning rules and program funding that encourage incentivizing for-profit

developers to expand who they build for. However, even if stretched, how far can the market reach? The evidence to date shows that unless municipalities team up with nonprofit housing providers, the needed affordable housing for most households will not be actualized. Consider:

- **Traditional legislative definitions of affordability are becoming less and less relevant.** Historically in Ontario, the definition of “affordable” for new housing developments has been 80 per cent of market rent. While this definition may, in years past, have been closer to the CMHC measure of 30 per cent of household incomes, the gap between affordable and market has increased dramatically..
- **Recent definitions of affordability implicitly state the market cannot deliver for low to middle income households.** The provincial government is proposing to amend the definition of affordable from 80 per cent market rent in the *Development Charges Act, 1997* to [30 per cent of the 60th percentile of gross annual household income in the applicable local municipality](#). This means the municipality will have to forgive development fees of developers who build units affordable for residents in the 60th percentile of income earners in the municipality. This implicitly indicates that the market cannot be incentivized to build affordable housing for the bottom 59 per cent of households.
- **Even when affordable housing is created,** it is often designed to preserve affordability only for a set period of time, rather than being permanently affordable. [Bill 23, More Homes Built Faster Act](#) amended the *Development Charges Act* to put a minimum time limit of 25 years for the number of years the affordable housing unit needs to be affordable in Ontario. It is hard to negotiate for longer terms such as 99 years or a perpetual land trust when the threshold is only 25 years. The short time limit means municipalities will never be able to build up a sufficient inventory of moderate and low income housing by relying on private developers.

Taken together, these policies create a significant gap between what a municipality could reasonably expect private developers to do and what would be affordable for households in a community with incomes below the 60 per cent threshold.

Solutions for municipalities to develop a stock of truly affordable housing for their communities.

In the absence of tools to encourage or force developers to build affordably, Ontario’s municipalities’ best option is to support nonprofits whose mission is to deliver affordable and quality-of- life housing. Municipalities can take the following first steps to do so:

1. Understand the housing needs in your community. Using the [Hart Index](#), develop a profile of your municipality. This will give you the information you need to develop a housing plan.

2. Negotiate with your regional government (if applicable) and the provincial government. The HART data will help you make your case for the subsidized and social (rent geared to income) housing needed locally.
3. Identify and engage nonprofit organizations and other interested parties in your community who could assist and support the development of affordable housing. Non-market housing falls to the local government. Coops, land trusts and nonprofit housing are various forms of non-market housing.
4. Connect with other municipalities who are developing their local capacity. For example, several Southern Georgian Bay communities have been actively engaged with figuring out how to build affordable housing. They have developed an [Affordable Housing Toolkit](#) that demonstrates how affordable housing is essential for the continued viability of local towns, and with innovative approaches, the necessary housing can be built.

Building truly affordable housing requires construction grants, loan guarantees and/or long-term affordable mortgages. Access to affordable land and a nonprofit operator also helps to lower costs. Affordable rental housing must be able to cover the operating costs on an ongoing basis. To do this successfully the affordable rental units can only carry a limited amount of mortgage. The more deeply affordable the rent, the more grants and low interest mortgages are required for the build. These grants and mortgages can and should require 99 years of affordability for the units. If the landlord or operator is a nonprofit then long-term affordable housing is their focus.

Policy solutions include:

1. Commit suitable surplus land to be used for affordable nonprofit housing. The land can be leased for a nominal rent to an operating nonprofit for 99 years or the property put in a land trust for affordable housing in perpetuity.
2. Request the province to make all suitable land owned by it or by agencies it controls (e.g. school boards) available for 99 year nominal rent leases for deeply affordable nonprofit housing. Alternatively the land could be put into a land trust for affordable housing in perpetuity.
3. Invest municipal surplus funds and use the municipality's ability to borrow and seek grants to build low and moderate cost affordable units. The municipality could also attract local social finance investment for local housing. A provincial guarantee could encourage such investment from municipalities and local citizens.
4. Ensure the housing is self-sufficient and operated by a nonprofit landlord or as a cooperative. The long-term affordability commitment allows the municipality to build up its housing stock over time to meet the diverse needs of its residents.

Conclusion

Municipalities have the tools and financial means to grow non-market housing in their communities and nonprofits are ready and eager to support.



Additional Resources:

- Report: [Bringing affordable housing home: An action plan for housing stability in Ontario](#)
- Consultation submission: [Changes to the Definition of an “Affordable Residential Unit” in the Development Charges Act](#)

About ONN

ONN is the independent nonprofit network for the 58,000 nonprofits in Ontario, focused on policy, advocacy and services to strengthen the sector as a key pillar of our society and economy. We work to create a public policy environment that allows nonprofits to thrive. We engage our network of diverse nonprofit organizations across Ontario to work together on issues affecting the sector and channel the voices of our network to government, funders and other stakeholders.

For more information:

Candice Zhang

Policy Advisor

Email: candice@theonnc.ca