

Creating Affordable Housing in Toronto Using Public-Private Partnerships

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Abstract

This major paper explores observed trends in residential urban infill and intensification and the need for improved affordability in this type of development. Following detailed analysis of the affordability crisis within the City of Toronto, it is determined that strategies for improving the affordability of housing must be identified. Public-private partnerships are explored as a way to overcome the financial challenges that are preventing the construction of affordable rental housing. Through analysis of the City of Toronto's partnership program (Let's Build), this paper concludes that as long as senior government support for housing remains low, the use of intergovernmental and public-private partnerships will be the most realistic and effective way for municipalities to bridge the gap between local public resources and the costs of housing development.

Part One: Infill and the Affordability Crisis

1.1 Introduction

In recent years, there has been growing interest in the role of infill development in implementing growth management strategies, such as smart growth. Infill development is simply a market response to rising land value which involves the development of vacant sites or intensified use of underutilized sites within existing urban areas. It has been identified as a way to "accommodate development, much of it incremental and small-scale, on undeveloped building lots or in areas that have been abandoned or are currently underutilized" (Beatley and Manning 1997, 53). Infill developments vary considerably because the physical outcome of each project is determined by site-specific design objectives and challenges. Some projects will involve adaptive reuse of historic buildings or construction of additional floors on existing buildings, while others will require that new buildings be constructed. Infill development is made possible by the fact that most cities have vacant parcels of land and underutilized sites, such as surface parking lots and low density commercial or institutional buildings. While infill development will not entirely replace the need for exurban and peripheral growth, it is argued that a significant amount of future growth could be accommodated within existing urban areas through intensification practices (Gladki *et al* 2002; Haughey 2001; Daly and Milgrom 1998; Suchman and Sowell 1997; Beatley and Manning 1997; Isin 1991).

This major paper was initiated in response to observations that while infill development in the City of Toronto is commendable for contributing to the development of a more compact urban form, it fails to meet the needs of low- and moderate-income households. This is because the majority of infill development within the City of Toronto is in the freehold and condominium ownership markets, with as little as 0 to 3 percent in rental unit production in recent years (ONPHA 1999, 86). To understand the negative impact of this tenure ratio on low- and moderate-income households, consider that the average unit selling price of all newly completed single detached and semi-detached dwellings in Toronto in 2001 was \$336,173 (CMHC 2001a). Figures published by the Toronto Real Estate Board indicate that the average condominium selling price in central Toronto in December 2002 was \$272,634 (TREB 2003, data for all condominium sizes, including new and old units). Prices in this range would command a household income of approximately \$77,431/year and a \$33,617 (ten percent) down payment for a single or semi-detached house, and approximately \$62,796/year and a \$27,263 down payment for a condominium (assuming a 25 year amortization period on the mortgage). In fact, the required income for a condominium would actually be higher because this calculation does not include condominium fees, which can add significantly to annual expenses. Considering that the median annual household income in the City of Toronto was \$40,400 in

1996, housing in this range cannot be considered affordable to a large percent of households within the City of Toronto (Statistics Canada 1996, quoted in OMMAH 2002).

Meanwhile, a severe shortage in the supply of affordable rental units - caused by dramatic reductions in both private and assisted rental housing completions since the early 1990s and the ongoing loss of existing units to demolitions and condominium conversions - has driven Toronto's average rent beyond the means of low-income households. The average rent for a three bedroom apartment in the City of Toronto rose from \$782/month in 1989 (ONPHA 1999, 84) to \$1,212/month in 2001 (CMHC 2001b), which is not affordable to a large percent of tenant households within the City of Toronto. Moreover, it has been determined that average rents are rising faster than the rate of inflation (HSWG 2001; FCM 2000) and that this rise in rent coincides with a period of overall decline in tenant incomes (ONPHA 1999). Average family income in the city dropped by 12.5 percent between 1991 and 1996 (City of Toronto 1999, 135), which has caused a notable increase in the incidence and depth of poverty in Toronto. According to Statistics Canada, the incidence of low-income among the population living in private households in Toronto rose from 15 percent in 1990 to 21.1 percent in 1995 (Statistics Canada 1996a). These figures confirm my initial observation that Toronto's infill development is catering to high-income households while low- and moderate-income households are being priced out of the city.

1.2 Why Toronto Needs Affordable Infill

The exclusivity of infill development is a significant problem because infill sites represent a valuable opportunity to increase the supply of low-cost units where the demand is most acute. When infill development only provides luxury condominiums and townhouses for the high-end of the market, this opportunity is wasted. To explain, in terms of the distribution of demand for low-cost housing, regional analysis indicates that the City of Toronto has a far greater proportion of low-income households than the rest of the Greater Toronto Area municipalities (City of Toronto 1999; ONPHA 1999). Therefore, it is logical that the amount of low-cost housing available in Toronto should correspond to this aspect of the population. However, this is not the case. Toronto's housing stock is unbalanced in two ways. First, there is not enough affordable housing, as indicated by the large number of households paying more than they can afford for their housing. Affordability is determined by the percentage of household income that is spent on basic housing costs, such as rent or mortgage payments and utilities. In 1999, at least 45 percent of tenant households within the City of Toronto were spending more than 30 percent of gross household income on rent (City of Toronto 1999, 137). The threshold of 30 percent of gross household income is the most widely recognized housing affordability standard and as such will be used as the standard in this report. Households that must spend more than 30 percent on rent are considered to be experiencing an affordability crisis. According to the Mayor's Homelessness Action Task Force (City of Toronto 1999, 137),

"30 percent of income is an established norm for the percentage of gross income that low- and moderate-income households can afford to spend on shelter while leaving enough over for taxes, food, clothing, transportation, and other necessities. It is the main criterion for CMHC's Core Need approach to housing need and has been used in international comparisons."

In addition to the affordability standard of 30 percent, the definition of core housing need provided by CMHC also includes standards for adequacy of housing condition (that the unit does not require major repairs) and suitability (that the unit is of sufficient size and has enough bedrooms) (Melzer 2001). Therefore, according to CMHC (Melzer 2001, 1);

"A household is said to be in **core housing need** if its housing falls below at least one of the adequacy, suitability, or affordability standards **and** it would have to spend 30 percent or more of its income to pay the average rent of alternative local market housing that meets all three standards." [emphasis not added]

The second problem with Toronto's housing stock is the shortage of rental units. Consistently low vacancy rates throughout the last decade indicate that Toronto has a very tight rental market. CMHC

(Canada Mortgage and Housing Corporation) housing statistics show that vacancy rates in Toronto have hovered at or below one percent over the past six years (CMHC 2001c). New low-cost units are needed to bring the vacancy rate up to what is considered necessary for a balanced competitive market, which is approximately 3 percent (Dunphy 2001; FCM 2000). However, the private sector has not been producing new rental units because there is more profit and less risk in the ownership market (HSWG 2001). Private rental production dropped off considerably in the 1970s and in recent years there has been virtually no new production of rental units (CMHC 1999). In fact, the supply of rental units has actually decreased in recent years because the number of existing units lost through demolitions and conversion of older apartment buildings to condominium ownership has exceeded the number of new rental units produced. According to Daly and Milgrom (1998, 14), "during the first half of the 1990s only 150 private rental units were built each year, meeting less than 4% of the need for additional rentals." In 2001, only 39 new private rental units were constructed and many more existing units were lost, which is representative of production trends over the past four years (Lewington 2002).

Ever since the provincial government repealed the *Rental Housing Protection Act* in 1998, which had granted municipalities the authority to restrict the redevelopment or removal of multi-unit rental buildings, the City of Toronto has faced serious challenges in preserving the existing stock of rental housing (City of Toronto 2001a). In terms of preserving the affordability of existing private rental units, the changes to rent control imposed by the *Tenant Protection Act* (also in 1998) have aggravated the situation. Existing units are becoming more expensive due to vacancy decontrol. Rising rents have meant that 60,000 units in the low-rent category of Toronto's rental market were lost between 1991 and 1996 (City of Toronto 1999, 138). Overall, the impact of the increasingly tight rental market is surely felt by a large number of households throughout the city, as it is reported that more than half of Toronto's households (an estimated fifty-two percent) are tenants (City of Toronto 2002a; Lorinc 1999).

The above noted tenure split between ownership and tenancy is a very important point because it proves how many people are affected by the rental shortage, but also because it underlines the affordability problem. This is because average tenant household incomes are much lower than those of owner households. The average tenant household income in 1995 in Ontario was \$33,590 and the average owner household income for the same period was \$66,179 (Statistics Canada 1996, quoted in ONPHA 1999, 21). Using the affordability standard of 30 percent of gross household income, this means that tenant households earning the average tenant income in Toronto can only afford to spend \$839 per month on housing (the average tenant household income of \$33,590 multiplied by 30 percent and divided by 12 months). This presents a serious challenge because, based on the average rents reported by CMHC in October 2001, \$839 is not quite enough for a one-bedroom apartment (\$869/month) - it is only enough for a bachelor unit (\$699/month) (CMHC 2001, 42). If the household in question is a family requiring three bedrooms, the average rent they would have to pay is \$1,212/month, or approximately 43 percent of their income. This is why so many of Toronto's tenant households end up spending more than 30 percent of their income on rent.

To summarize the situation, due to a severe shortage in the supply of affordable rental units, Toronto's housing stock does not match up with the housing needs of Toronto residents in terms of quantity, tenure, or price. In order to correct the imbalance, the task for the municipality is to encourage construction of new affordable rental units while taking steps to preserve the existing stock. An approach which focuses on adding to the housing supply is necessary because rental units simply don't exist in sufficient numbers. This does not mean that income support is not necessary, just that support in the form of income supplements alone will not solve the housing problem if the affordable units don't exist to be rented. This leads into the third reason that Toronto needs affordable infill, which is that in major urban centres, any increase in housing supply must be through infill and intensification. Simply put, if new affordable housing is to be constructed within the jurisdictional boundaries of the City of Toronto, where there is tremendous need, it must be through infill or intensification due to build-out. Development already extends up to and beyond the municipal boundaries. Fortunately, there is considerable potential for residential infill development on small vacant and underutilized sites in Toronto, such as surface parking lots, unoccupied industrial and commercial buildings, and low density retail areas. There are also a few large parcels of land remaining in the city, such as the West Don lands, the railway lands, and the portlands (Daly and Milgrom 1998). In 1995, it was estimated that the total residential land inventory of vacant land in the City of Toronto could accommodate up to 265,000 new housing units (Daly and Milgrom 1998, 15). Gladki *et al* (2002) also

estimate that there is considerable potential for new residential development within the City of Toronto. However, when exclusive infill developments consume remaining vacant lots, there are fewer sites available for affordable infill developments. Thus, construction of affordable rental housing, on infill sites within Toronto in particular, is of critical importance due to shortages in supply, disproportionately high demand, and limited availability of land.

1.3 The Estimated Shortage

As stated above, 45 percent of tenant households in Toronto were paying more than 30 percent of their income on rent in 1999. Given that there has been a net decrease in the number of low-cost rental units on the market (Lewington 2002; Dunphy 2001; ONPHA 1999), the number of households experiencing affordability problems has likely increased. Toronto's shortage of low-cost rental units was recently estimated to be 143,000 units, which includes 37,000 households on the Toronto Social Housing Connections waiting list plus 106,000 households paying more than fifty percent of their income on rent (City of Toronto 1999, 140). When all tenant households paying more than the thirty percent affordability standard are included, the estimated shortage of units in Toronto climbs to 270,160 (Statistics Canada 1996b). Demand for low-cost units continues to grow because of several factors, including changes in the structure of the labour market, newly imposed restrictions on employment insurance eligibility, cuts to welfare, overall decline in tenant incomes, and an increase in low-income households moving to Toronto (Layton 2000; Skaburskis and Mok 2000). In fact, since the Mayor's Homelessness Action Task Force Report was published in 1999, the number of households on the Toronto Social Housing Connections waiting list has grown substantially from 37,000 to 63,500 (Commissioner 2002a).

In response to the shortage, it is advocated that between 2,000 and 4,000 new affordable rental units per year are needed to meet the annual growth in affordable housing demand in Toronto, irrespective of the backlog of unmet need (Commissioner 2002a; City of Toronto 2001a; City of Toronto 1999; ONPHA 1999). This production goal is considered to be realistic (provided senior government support is reinstated), because similar quantities were produced in the years between 1973 and 1995 when there was more funding available (City of Toronto 1999). It has been projected that if the supply shortfall is not resolved, competition for rental units will intensify, rents will continue to rise, and the most severe consequences will be felt by those households with the lowest incomes (HSWG 2001).

In calculating the estimated affordable housing shortage it is important to include the percentage of household income spent on rent because waiting lists and data on shelter usage do not necessarily include the large number of households at imminent risk of homelessness. Many housing advocates point out that homelessness figures are just the tip of the iceberg. To explain, many households experiencing severe financial stress find that they are only one paycheque away from becoming homeless because so much of their income is spent on rent. Some form of financial assistance is needed to bridge the gap between what low-income households can afford to pay and the current market rents. However, the shelter component of welfare benefits has recently been cut back and the waiting period for assisted housing on the Toronto Social Housing Connections waiting list is so long (estimated to be seven years) that some households don't bother to fill out an application. For larger families and people with special needs it can take as long as seventeen years to obtain financially assisted housing (City of Toronto 1999, iv). In these situations, many households are forced to rely on food banks and share their unit with other households (which results in overcrowded living conditions) in order to continue making rent payments and avoid eviction. To leave these households out of the equation would result in a gross underestimation of the need for new affordable housing.

1.4 Linking Affordability Objectives to Purposeful Intensification

Study of the affordability of infill is necessary at this time because of the aforementioned affordability problems, but also because of new plans for intensification. Within the City of Toronto's newly adopted Official Plan (2002), there are specific areas zoned for intensification along arterial roads and transit lines, as well as in former industrial areas. Recognizing the need to expand the City's tax base and to implement transit-supportive land use policies, the plan states that development will be encouraged in designated growth and regeneration areas (City of Toronto 2002a). While the plan could place greater emphasis on how important it is that new development in the designated growth areas specifically includes low-cost units, the

need for “a healthier balance” between rental and ownership units is discussed in the housing section and some measures have already been implemented. These measures include a ‘housing first’ policy for surplus municipal lands, a new (lower) property tax rate for multi-residential properties, fee and charge exemptions for affordable non-profit housing developments, the establishment of a Capital Revolving Fund for Affordable Housing, and the Let’s Build program, which is designed to stimulate private sector investment in new affordable rental housing (City of Toronto 2002a, 3.2.1). Also, a by-law permitting second suites in single and semi-detached houses has been enacted, although whether this will make a significant contribution to the supply of affordable units is questionable. Despite the fact that there are many empty bedrooms in the older suburbs of Toronto, it is unlikely that second suites would be created in sufficient quantity, nor is it likely that they would be made available to the most needy households. According to a recent study (HSWG 2001, 6), “while the secondary market plays an important role in providing affordable rental housing, it is a less secure source than purpose built rental housing.” Further, because the availability of these units will fluctuate and affordability cannot be controlled, the basement suites provided by the secondary market “cannot be counted on as a stable long-term supply” (HSWG 2001, 6).

The specific housing policies pertaining to affordable rental units within the new official plan aim to preserve existing stock and provide assistance to the private and non-profit sectors for the production of new units. Various forms of municipal assistance are available and restrictions are imposed on the redevelopment of sites containing six or more rental units (although the legal basis of this redevelopment restriction is being challenged at the Ontario Municipal Board). The policies also set minimum requirements for the inclusion of affordable units in large residential developments. The requirement is a minimum of 20 percent affordable units in projects that are larger than five hectares. While this may be a positive step, the majority of infill developments would not be affected by this inclusionary requirement because most infill and intensification developments are situated on sites that are much smaller than five hectares.

While the new official plan projects a progressive vision of development in the city, the City of Toronto could achieve far more than increased density and transit efficiency by actively integrating plans for intensification with broader social objectives. For example, the provision of more low-cost housing units would bring much needed advancement from the emergency assistance programs and shelters operating now, to a system that strives for prevention of homelessness. This would improve the economic stability of low-income families, and by extension, there would also be improvements in public health, wellness, and the effectiveness of education and training programs. This is simply because the stress of not having enough money for housing costs, nutritious food, clothing, and other basic necessities makes it difficult to maintain one’s health and take part in educational advancement or job training programs. The social instability created by an affordable housing shortage can have a negative impact on a city over the long term because its economic competitiveness depends on maintaining a high quality of life and a knowledgeable and skillful workforce. Job creation initiatives and training investments will only be wasted if corporations find the housing stock in a candidate city to be limited or inadequate (HSWG 2001). According to Starr and Pacini (2001, 4), a broad range of housing types, including an adequate supply of affordable units, will help to “ensure the availability of a local labour force for all types of commercial activity,” thus making the city an attractive location for new or expanded operations. Providing new low-cost housing units through infill and intensification is important, because Toronto is the number one destination for immigrants in Canada and 80 percent of newcomer households rent their accommodation (City of Toronto 2002b). The lack of rental housing for newcomers is bound to have a negative impact on the commercial sector because new immigrants are a major component of Canada’s labour force (HSWG 2001).

Another reason the City of Toronto should strive for the inclusion of low-cost units in infill developments is that the provision of permanent low-cost housing is less expensive than running an emergency shelter system (Starr and Pacini 2001; Let’s Build 2000). In other words, preventing people from losing their housing in the first place is better for the people *and* for the municipal budget. When one considers the social and economic costs of not ensuring access to adequate affordable housing it is clear that prevention of homelessness is cheaper than reacting to the consequences. Inadequate housing has a negative effect on overall well-being, health, and productivity, which can lead to increased costs for the public health care system and other social services. For those who don’t believe that housing should be treated as a right rather than a commodity, there are strong economic and budgetary arguments in favour of government assistance in the production of affordable housing.

For each of these reasons, it is argued here that affordability objectives can and should be directly linked to intensification plans by encouraging or requiring the inclusion of low-cost units in infill projects. In this regard, the City of Toronto is in a favourable position because growing interest in living downtown has created the level of nontransferable locational demand necessary for negotiating the inclusion of affordable units. While mandatory requirements such as inclusionary zoning and linkage fees are advocated in the literature as effective measures for achieving affordable housing goals, at present there is a definite trend toward the partnership approach (Tomalty *et al.* 1999; White 1992). Affordable housing is now being pursued through partnership programs in many Canadian cities. Therefore, it is important to investigate how the partnership approach is working: to assess its advantages and disadvantages, to consider it in the context of government policies and market conditions, and to evaluate its success in getting new low-cost units built. Taking note of the tools employed and lessons learned in completed projects and partnership programs used in other jurisdictions will help to ensure that the forthcoming intensification in Toronto's designated growth areas will include low-cost housing.

1.5 Future Directions: A More Compact Urban Form

Studies of ways to improve the affordability of infill are needed now because many recent government reports and policies have emphasized the compact urban form as the shape of future growth. Recent land use planning conference agendas, the publications of professional planning organizations, and urban studies journals have also focused on study of the compact urban form in recent years. If the compact urban form is indeed a future direction for planning policies, it is important to consider why governments and planners are advocating a shift away from conventional, low density growth.

In recent years, there have been numerous reports from the federal, provincial, and municipal levels of government which express support for a more compact urban form. For example, *Canada's Urban Strategy*, the report of the Prime Minister's Task Force on Urban Issues (PMTF 2002, 44) reports that, "It is important that the design of our communities be environmentally sensitive and utilize the land appropriately." In this regard, the recommendations of the report specifically call for compact, mixed-use development. Similarly, Toronto's *Growing Together: Prospects for Renewal in the Toronto Region*, which was written in response to pressure for development on the Oak Ridges Moraine and concerns about air quality and traffic congestion, also calls for urban intensification. This report identifies significant potential for accommodating growth within the built environment and estimates that the recommended intensification "would result in a 38% reduction in the amount of land that would otherwise need to be urbanized" (Gladki *et al* 2002, 25). This finding echoes the results of earlier studies which also found considerable potential for the accommodation of growth on underutilized sites in Toronto (Berridge Lewinberg Greenberg Ltd., 1992 referenced in Daly and Milgrom 1998; Isin 1991). The Ontario government's smart growth initiative, of which infill development is a significant component, promotes compact growth within urban growth boundaries and intensification along main streets and transit networks. The Ministry of Municipal Affairs and Housing's *Ontario Smart Growth* website explains that "unlocking gridlock and promoting livable communities" are priority issues, and lists "increasing the density of development; directing investment toward brownfield sites; and providing a wider range of housing options" among the strategic approaches required to resolve these issues (OMMAH 2002). What is most interesting is the outright acknowledgment that accommodating central Ontario's projected growth in population "requires rethinking how we plan our communities" (OMMAH 2002). Collectively, these reports and policy initiatives indicate that all three levels of government are beginning to recognize the need to change conventional, sprawling patterns of growth.

Conventional Development

In brief, the conventional growth pattern is characterized as low density expansion of single land use subdivisions at the urban periphery. It is commonly found that the rate at which land is converted to development under the conventional growth pattern is not matched by population growth. Beatley and Manning (1997) find that overall urban densities are declining and Hare (2001, 7) reports that "in the U.S., 1% population growth in a metropolitan area means at least a 7% increase in land usage as a direct result of conventional development." Isin *et al* (1991, 5) also report on the form and density of conventional growth and conclude that the challenge of accommodating Toronto's anticipated growth in population "cannot be met with [the] suburban development that has been experienced in the GTA." A broad range of problems

associated with low density urban expansion are well documented in the literature, including concerns about urban decline, regional economic health, municipal finance, socioeconomic exclusion, and environmental concerns, such as air pollution, loss of prime agricultural land, and inefficient energy consumption. In this paper, discussion will be limited to the connections between urban decline, inefficient suburban expansion, and regional economic health.

The sprawling growth pattern and associated urban decline raise concerns about regional economic health because most suburbs depend heavily on central cities for jobs, major facilities, and the reputations of their metropolitan areas (Downs 1994). It is argued that decline in the urban core will strain the economic competitiveness of an entire region by eroding quality of life and discouraging private investment (Daniels 2001). This is because a city's ability to attract and retain businesses can deteriorate when the outward migration of affluent urban residents (seeking bigger homes for less money and lower property taxes) leaves its mark on urban centres in the form of an eroded tax base, aging infrastructure, and a disproportionate demand for services. Over time, urban decline will affect the suburban municipalities as well. Suchman and Sowell (1997, 5) refer to several studies which concluded that

“the fortunes of central cities and their suburbs move in concert. Where cities tend to be strong and productive, suburban prosperity is greater. There is a direct correlation between city-suburban disparity and economic growth. Where disparities are great, economic growth is slower.”

Thus, the symptoms of urban decline, such as the growing incidence and depth of poverty which has been observed in Toronto, can extend beyond the city and have a negative impact on economic conditions in the surrounding municipalities.

Meanwhile, the low density growth pattern complicates municipal finance for suburban municipalities because it fuels an unsustainable commitment to more growth. As older subdivisions begin to require increased maintenance and social services, development proposals for new subdivisions must be approved in order to finance the growing service costs. This is because the costs of servicing low density growth often exceed what the municipality receives in development charges and property taxes (Fodor 1999). Over time, it is argued that inefficient suburban expansion and urban decline will undermine the economic health of the entire region (Calthorpe and Fulton 2001; Orfield 1997; Downs 1994), because the city and its suburbs function interdependently as one economic unit (Rusk 1993). This regional economic relationship is important because it means that even though residents of the outer suburbs do not pay for social services in the urban core and inner suburbs through their property taxes, they are not insulated from the consequences of urban decline. According to Suchman and Sowell (1997, 3), “the continuing deterioration of many city neighbourhoods should be a matter of concern to all metropolitan-area residents, regardless of where they live.” When one considers the importance of the GTA as a hub for production and innovation in Canada, it becomes clear that resolving the problems which contribute to regional disparity and social instability, such as the shortage of affordable housing in Toronto, should be a top priority of all three levels of government and not just the municipality. In the words of Anthony Downs (1997, 67), “we can no longer indulge in the frontier mentality of simply moving farther outward to escape our problems, while leaving them behind, unresolved.” Through development of low-cost housing on city owned infill sites, infill has the potential to reduce regional imbalances and exclusivity.

In light of these points, the apparent shift in policy and ideology from continued conventional growth to the encouragement of infill and intensification which has been noted in the reports and policies of the municipal, provincial, and federal levels of government should be regarded as progressive.

1.6 The Planning Rationale for Promoting Affordable Infill

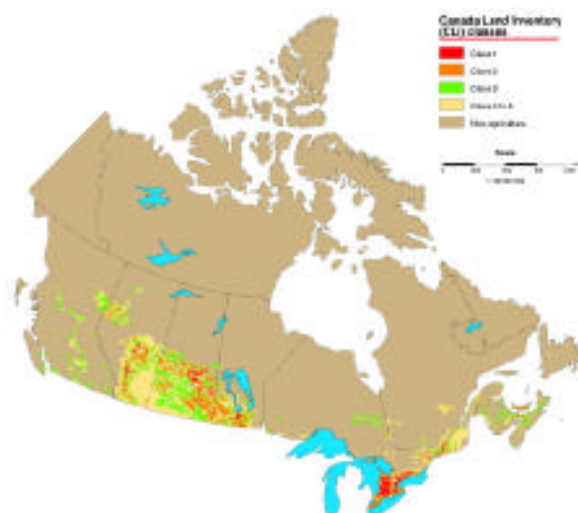
There is strong planning rationale for promoting affordable infill development which is rooted in concerns about the inefficient use of land, infrastructure, and energy. The compact city form may facilitate the preservation of valuable agricultural land and greenspace in close proximity to urban centres. The diversity of land uses and businesses found within higher densities may reduce dependency on motorized travel and eliminate the need for private automobile ownership. Demographic considerations, such as the aging of the population and shrinking household sizes, also support the promotion of affordable infill

development in cities. It is necessary to explore these arguments in the analysis of residential infill because of the fundamental connections between housing and land use, energy consumption, and the social aspects of everyday life. As stated by Seelig and Seelig (1995, 190), debate about housing must be reintegrated into “a more comprehensive view of the neighbourhood. Housing must be viewed in conjunction with the location of shopping and of workplaces, with the design of main streets, and with the general daily schedule of human activities.”

Efficient Use of Land

Compared with low density greenfield development, infill promises improved efficiency in the amount of land dedicated to urban uses. To explain, building on underutilized or vacant lots within a city allows for the preservation of environmentally significant and agricultural lands at the urban fringe. Some critics charge that concern about the conversion of farms into subdivisions is borne out of mere nostalgia for pastoral settings and that there is no danger of “cities encroaching on reserves of ‘prime’ agricultural land” (Gordon and Richardson 1997, 96). While this may or may not be true in the United States, which is the context of Gordon and Richardson’s article, the circumstances are different in Canada. In fact, considering that most Canadian cities are located within areas of high quality agricultural land and that very little Canadian land is suitable for agriculture, it is clear that the protection of prime agricultural land from urban expansion is indeed necessary for food production (Paehlke 1991).

Using the Canada Land Inventory (CLI) system of classification, only land classes 1 to 3 are considered “dependable” agricultural lands, which means that only 5 percent of Canada’s total land area is suitable for long-term agriculture use (Statistics Canada 2000, 126). It has been determined that 52 percent of Canada’s CLI class 1 land is located in southern Ontario, percent of which is visible from the top of the Tower in Toronto (Statistics Canada 2000, 126). These figures send a powerful message when one considers what is now visible from the top of the CN Tower. While it not surprising that most Canadian urban centres are located within areas of high agricultural value, given that these centres



Source: Statistics Canada (2000)

emerged from early farming communities, it is a significant point which merits attention in studies of urban growth and land use planning. The amount of CLI class 1 land occupied by urban uses in Ontario reached 19 percent in 1996 (Statistics Canada 2000, 126). Hare (2001, i) reports that “between 1976 and 1996 the Greater Toronto Area lost 150,000 acres of prime farmland to urbanization.” Given that conventional growth continues to expand urban boundaries, that number has likely risen in the past six years. With so much of the CLI class 1 land concentrated near the Greater Toronto Area (note the areas marked in red on the map), it is of particular concern that the municipalities of Peel, Halton, York, and Durham are the fastest growing municipalities in central Ontario (Ministry of Finance 2000, quoted in OMMAH 2002). These figures and growth trends confirm that because of the location of Canada’s best agricultural land and the location of its large cities, urban expansion into prime agricultural land is indeed cause for concern.

Infrastructural Efficiency

Another potential source of improved efficiency is the fact that costly infrastructure expansions are often not necessary for infill developments (Haughey 2001). This is because they are located within areas that are already served by road networks, transit systems, water and sewer piping and treatment facilities, hospitals, schools, and libraries. These public services and utilities infrastructure represent considerable municipal expenditure and investment. According to Blais (1995, 40), “a study prepared for the Greater

Toronto Area Task Force estimated infrastructure costs in the GTA over the next 25 years under current development patterns at \$55 billion, with an additional \$14 billion required for operation and maintenance.” The costs of infrastructure expansion are already an issue for municipalities, given that the current municipal infrastructure deficit in Canada has been estimated to be in the billions of dollars. Blais estimates that \$0.7 to \$1.0 billion could be saved each year if a more efficient development pattern were used for future GTA growth (1995, 41). These figures indicate that infill presents a valuable opportunity to minimize municipal expenditure on infrastructure expansions. Although it is possible that infill developments could require infrastructure upgrades to increase operational capacity or modernize aging equipment, most municipal utilities operate below capacity and would actually benefit from more users. In the event that upgrades were required, infill developments could utilize various forms of green infrastructure and building technologies, such as those used in the CMHC Healthy House demonstration project in Toronto (Ledger 1997).

Energy Efficiency

Infill development may contribute to significant reductions in energy consumption because higher density settlements support non-motorized forms of transportation such as cycling and walking. This is simply because the physical distances between homes, offices, shopping, and recreation are shorter than they are in low density settlements with separated land uses. Furthermore, parking costs and slower travel speeds discourage traveling by car in areas of high density, which makes the non-motorized options more attractive. In addition to walking and cycling, high densities also improve the feasibility of transit service provision because there is a larger pool of potential riders in any given area. These arguments are contested by Gordon and Richardson (1997) and Handy and Clifton (2001), who counter that shorter distances will merely translate to shorter car trips and that consumer preference will prevail over intentions to shop locally and reduce car use. Yet, within the same article Handy and Clifton concede that conventional development patterns not only reduce transportation choice, but actually eliminate choice, make driving a necessity for most daily trips. In this regard, studies have shown that people value having alternatives to the car, and that when land use patterns support such options, car use declines. A study commissioned by CMHC (Hunt Analytics Inc. 1999, 31) on the impact of urban form on private vehicle use found that

“as walk accessibility at the home location increases, households tend to own fewer autos ... with the end result that they tend to make less use of their autos overall” and that “making activities physically closer ... results in substantial reductions in VKT” (vehicle kilometers traveled) (1999, 30).

As further evidence that automobile dependency can be reduced through land use planning, Barton (2000, 107) cites research which indicates that “car ownership varies inversely with density ... even when socioeconomic variables are held constant.” Similarly, Newman and Kenworthy (1999, 78) analysed data on per capita transportation fuel consumption patterns, and the results of their study proved that “the extent to which economic factors influence car use can be questioned.” This means that although factors such as price and disposable income are influential, the perceived necessity for motorized travel due to density and land use patterns is also highly significant. Daly and Milgrom (1998, iii) report that in Toronto’s urban core, where density is 7100 people per square kilometer, two-thirds of all trips are by transit. Although served by the same transit system, ridership is lower in Toronto’s inner suburbs where densities are not as high. On the need for planning mechanisms to reduce automobile dependence, Newman and Kenworthy call for higher density land use and mixed use zoning to reduce the need for motorized travel.

In addition to improved transportation efficiency, it should be noted that the energy consumption of buildings themselves may also be reduced due to the inherent efficiencies of multiple dwelling units, such as reduced exterior wall space and expanded opportunities for district heating (Paehlke 1991).

Social and Environmental Benefits

In addition to these efficiency arguments, several authors report on the social and environmental benefits of the compact urban form (Beatley 2000; Roseland 1998; Duany *et al* 2000; Hough 1995; Jacobs 1961). For example, Beatley refutes the argument that compact cities leave no room for urban greenspace. While it is an understandable concern that infill development could displace urban greenspace, Beatley

notes several European cities (e.g. Freiburg, Helsinki, and Copenhagen) which effectively demonstrate that compact form and protected greenspace can coexist, even with “large wedges of greenspace and nature [that] extend into the very centre” (Beatley 2000, 63). Similarly, a study of intensification policies in three U.K. boroughs (Williams 2000, 37) which looked at the protection of urban greenspace found that when preservation of such places is given priority “from the outset of proposed developments ... then losses [of urban greenspace] are not inevitable.” Beatley extends the argument that intensified development and nature can coexist, stating that “it is the very compactness that allows these networks of greenspace to exist in such proximity to large populations” (2000, 63). This assertion is supported by Hough (1995), who argues that the compact city form can facilitate the preservation of ecologically valuable urban greenspaces while simultaneously enhancing the built environment by maximizing the visibility of wildlife and natural processes for urban inhabitants.

In exploring the social benefits of the compact urban form, Roseland (1998, 138) cites studies of residential satisfaction which indicate that “the relative disadvantages of low density communities are increasing.” The main disadvantage noted by Roseland is that as more households become two-income households, those in low density areas must choose between the financial burden of a second car and the compromised accessibility of doing without. However, it has been estimated that after taxes and daycare, the second income in many households pays for little more than the second car (Duany *et al* 2000). In this way, the low densities and separation of land uses that are characteristic of conventional subdivisions have a negative financial impact on each household. It is argued by Duany *et al* (2000), that one of the most effective ways to increase the affordability of housing would be to eliminate the need for a private automobile. This would translate into tremendous savings, considering that the average household in Ontario spends \$8,515 per year on transportation (Statistics Canada 2001b). Given the high rate of automobile ownership in Ontario, it can be assumed that the majority of reported transportation expenses are related to privately owned vehicles and not public transportation.

Jacobs (1961) supports the compact urban form because of the contributions that high residential densities make to a neighbourhood’s diversity, vitality, and convenience. According to Jacobs, “city dwellings have to be intensive in their use of the land, for reasons that go much deeper than cost of land” (1961, 202). Specifically, it is argued that a high density of dwellings is important for the vitality, diversity, and future development of city districts. Jacobs notes that higher concentrations of people help to generate greater diversity in the shops and services that are available within an area and increase the level of activity within the public realm. Among other factors, such as a mixture of commercial and residential uses and a range of dwelling sizes and types, “dense concentrations of people are *one* of the necessary conditions for flourishing city diversity” (Jacobs 1961, 205 emphasis not added).

Demographic Considerations

Another important consideration which lends support for infill is that demographic change is creating more demand for housing in general, with greater demand for high-density residential environments in particular. To some extent this is already evident and projections by CMHC (1999, 97) indicate that “demographic factors over the next 20 years will generate a need for roughly 50,000 to 60,000 additional units in Canada per year even without allowing for replacement of any units lost from within the existing stock.” Dramatic decreases in household size (from 3.7 people per household in 1971, to 2.8 in 2001) are generating increased demand for housing units in general (Statistics Canada 2003; Statistics Canada 2001a). As household sizes decrease, a great deal of the existing housing stock becomes underutilized, particularly when homeowners choose to ‘age in place.’ To explain, many houses in the inner suburbs containing four or more bedrooms are occupied by only one or two people when the children grow up and move out. The overall demand for housing increases when what was formerly one household splits to become two (or more) households, each requiring separate units despite the availability of space in the former housing unit. The former living space (bedrooms, etc.) of the adult children often remains empty, unless the house is renovated to contain a second suite which can be rented to another household.

While some empty nesters are choosing to age in place, there is also a growing interest in living downtown for the ease of access to shopping, entertainment, and cultural venues. The ability to reach such destinations without getting in the car is particularly appealing. In the words of Myers and Gearin (2001, 645), “the aging of the baby boomers is remaking the residential landscape of America” due to a growing

preference for compact city housing among home buyers and renters over the age of 45. Demand for downtown dwelling units is also strong among young professionals. The problem with this trend is that increased demand for housing in general, combined with the growing preference for living downtown have directly contributed to the high rents and purchase prices in the City of Toronto. As explained by Burton (2000), affordability is strongly related to demand for housing, because in areas of high demand, the market value of the land is also high. This pressure on rents and prices makes it important to find ways to improve the affordability of infill developments.

Collectively, these points indicate that infill and intensification can play an important role in protecting agricultural land and greenspace at the urban fringe, providing accessible living environments for those who cannot or choose not to drive, reducing municipal spending on infrastructure expansion, and creating new housing opportunities in the city. At a time when the loss of agricultural land, automobile dependence, municipal budget shortfalls, and affordable housing shortages are such critical planning issues, it appears that infill and intensification have a lot to offer.

Part Two: The Partnership Strategy in Context

2.1 Emergence of the Partnership Strategy

Public-private partnerships, also called joint ventures, are an emerging trend in the production of affordable housing in Canadian municipalities. The partnership strategy has been selected as the focus of this study for several reasons. First, it has been calculated that the private sector simply cannot produce housing that is affordable to low-income households without some form of subsidy (City of Toronto 1999; Pomeroy *et al* 1998; Suchman and Sowell 1997). Even for the construction of modest housing units, the break-even rents are higher than what is considered to be affordable for many low-income households (City of Ottawa 2002a; City of Toronto 1999). Similarly, the years following the withdrawal of senior government funding have shown that municipalities lack sufficient funding and resources to produce low-cost housing on their own. Since the federal non-profit housing programs ended in 1993 and provincial programs ended in 1995, no new assisted projects have been built in the City of Toronto, except those that were already in progress (City of Toronto 2001a). Therefore, based on the situation created by government funding shortfalls and current market conditions, it appears that affordable housing production will require a partnership between public and private sectors. This observation is echoed throughout the literature and a trend toward public-private partnerships has been noted in Canada and the United States (Burdick and Kawahara 2002; Tomalty *et al* c.1999; Pomeroy *et al* 1998; Canadian Housing and Renewal Association 1991; Carter and McAfee 1990; Keyes 1990).

By definition, a public-private partnership involves shared risks and shared decision making between partners in the public and private sectors. According to the US General Accounting Office (quoted in Pomeroy *et al* 1998, 2),

“In contrast to privatization, contracting out, or other arrangements between the public and private sectors, a partnership signifies that both public and private sectors share risks and responsibilities in order to meet critical community needs, as defined by the partners. Shared risk means that both partners could lose resources; it encourages the involvement of both public and private sectors in ventures that neither sector could successfully attempt alone.”

The following definition has been adopted by the Canadian Council for Public-Private Partnerships and makes similar references to shared risk and responsibilities in venturing to meet public or community needs (CMHC 1999, 30):

“A cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of risks, rewards, and responsibilities.”

Potential partners within the public sector include municipalities, municipally owned non-profit housing providers, provincial and federal governments, and government funded agencies such as the Canadian Centre for Public-Private Partnerships in Housing (CCPPPH) division of the Canadian Mortgage and Housing Corporation (CMHC). According to the Canadian Housing and Renewal Association’s review of partnerships, most formal partnership projects have been done in major cities by municipal housing corporations (CHRA 1991). Private sector partners may include independent non-profit housing providers, for-profit developers, and private sector investors.

In terms of affordable housing production, partnerships allow municipalities to benefit from private sector investment, which helps to reduce expenditure of limited public funds. A partnership arrangement offers great potential because it combines private sector expertise, efficiency, and resources with the financial and regulatory tools of the municipality. Within a partnership arrangement, municipalities may choose to allow greater flexibility in permitted height, density, site configuration, open space and parking requirements, and mixed-use zoning, or opt to provide financial incentives in exchange for the inclusion of low-cost rental units. Financial incentives can take a variety of forms, including long term leases on municipally owned land, loans, grants, tax credits, reduced property taxes, and waived application and

development fees. Given that delays can increase financing costs, offering a streamlined approval process for developments containing a certain percentage of affordable units can also be considered a financial incentive. This report will focus primarily on the use of financial incentives in public-private partnerships.

The benefits of partnership arrangements do not only flow in the direction of the private sector partners. Private sector involvement in affordable housing production provides benefits to the municipality as well. The private sector partner may be able to contribute equity to the project, which is important for obtaining mortgage financing, or they may own land which can be used for the project. Another advantage for the municipality is that if the financial incentives offered to the private partner are not direct subsidies, such as a forgivable loan, then the new housing does not necessarily impose a heavy financial burden on the municipality. To explain, while forgone property taxes, development charges, and permit fees do represent lost revenue, in many cases the forgone revenue is dismissed as potential revenue only (Commissioner 2002c). This is because the projects would not be developed in the absence of municipal assistance, meaning that there would be little chance of collecting property taxes and development charges for those sites anyway (Commissioner 2002c). Furthermore, the losses of forgone property taxes and development charges would be substantially lower than the administrative and operating costs of actually constructing and managing the buildings independently, without private sector involvement.

Project Viability

As mentioned above, the private sector cannot provide units at rents that are affordable to many of the City of Toronto's low-income households. Thus, market conditions provide important reasons to explore public-private partnerships in this paper, particularly when striving for improved affordability on infill sites. To explain, there are a number of challenges associated with infill development which are not encountered to the same extent with greenfield development. Additional challenges of infill include working with small or oddly shaped sites, ensuring compatibility with adjacent land uses, earning the acceptance and support of the infill site's neighbours, and obtaining the necessary zoning changes and site plan approvals (Suchman and Cole 2001; Farris 2001; Haughey 2001; White 1992; Smart 1985). These challenges can add expenses and delays, so from the developer's viewpoint an infill project is only viable if it guarantees a greater return on their investment than would a comparable greenfield project. Consequently, in order to ensure that the costs of development do not exceed market value, most infill developments cater to the high-end of the real estate market (Suchman and Cole 2001). This is because there is a larger profit margin and less risk in the high-end and ownership markets, which helps to compensate the developer for the higher land costs and added complexity of infill development.

In general, the economics for new purpose-built private sector rental housing have been poor in recent years. Considering that projected returns rank highest of the factors which determine whether a project is viable and that in Toronto, the potential returns for new rental unit development are "well below the minimum 15 percent that developers are typically seeking" it is not surprising that the private sector is reluctant to build rental properties (CMHC 1999, 74). Further, as it has been determined that "the cost of building affordable rental is typically only slightly less than building high end" (HSWG 2001, 13), it is not surprising that high-end developments "are usually the only projects that the private sector is willing to build on its own" (HSWG 2001, 5). However, not only has there been a sharp decline in affordable rental production, but in high-end rental production as well. As stated in the introduction, only 0 to 3 percent of development in Toronto has been in private rental unit production in recent years, which includes low and high ends of the market (ONPHA 1999, 86). According to a CMHC survey of private sector developers (1999, iii), "the main disadvantages [of rental development] are perceived as the extent of government intervention and high property taxes." A recent study conducted by the City of Ottawa (2002a) also found that changes to the Income Tax Act, the Goods and Services Tax, and the Provincial Sales Tax are related to low private sector production of rental units. Disputed government interventions include rent control, legislation governing landlord and tenant rights, and restrictions on the transfer of renovation costs to tenants, all of which are said to negatively affect the viability of rental development. Until recently, higher property tax rates (roughly four times higher) for multi-unit rental buildings had created a direct incentive to build condominiums rather than rental apartments. Another reason developers are choosing to build ownership housing rather than rental is that the developer is able to sell condominium units before construction, whereas rental units do not produce any equity or returns until after project completion.

Overall, it appears that if the shortage of affordable rental housing is to be resolved, the economics of private sector rental development must be improved. The developers surveyed in the CMHC study (1999) provided several recommendations for improving the economics of new rental housing development. Some of the recommendations correspond with the incentives currently provided through the City of Toronto's partnership program. For example, the developers recommended reducing government-imposed costs, such as development charges, lengthy approvals processes, and high property tax assessment rates (CMHC 1999).

It is also important to look at market demand because it has a significant impact on affordability. According to Burton (2000), although high densities are sometimes thought to cause an increase in housing prices, it is not the density itself but rather the high land values which are created by high demand. Burton's research concludes that affordability is most strongly related to demand for housing, while "the density in a city is simply a reflection of this demand" (2000, 1984). In the City of Toronto, demand for housing in general has been strong due to decreasing household sizes (only 2.8 people per household in 2001). Similarly, demand for housing in the urban core has been strong due to a growing interest in living downtown among young professionals and empty nesters, which has put upward pressure on housing prices (Myers and Gearin 2001; Daly and Milgrom 1998). The growing popularity of infill housing is well documented in the literature (McIlwain 2002; Haughey 2002; Suchman and Cole 2001; Fader 2000). In sum, as long as demand is strong in general and particularly strong in downtown areas, developers will cater first to the higher end of the market because of the high land costs, added complexity of infill development, and better profit margins.

Legislative Changes

Recent changes to the Ontario Municipal Act also provide good reason to explore the partnership strategy at this point in time. Under Ontario Regulation 189/01, Section 210.1 of the Municipal Act now permits municipalities to extend the financial incentives which were previously restricted to non-profit housing providers, to for-profit private developers (Commissioner 2002c, 4). The addition of municipal housing project facilities to the list of eligible municipal capital facilities for which municipal councils may enter into agreements with both for-profit and non-profit companies is what has expanded opportunities for municipal partnerships. The incentives include "giving or lending any property of the municipality, including money; guaranteeing borrowing; leasing or selling any property of the municipality at below fair market value; and giving a total or partial exemption from any levy, charge or fee" (Municipal Act Chapter M.45, Section 111). This means that there are now both regulatory-based tools (permitted under the density bonusing provisions in Section 37 of the Planning Act) and incentive-based tools available to municipalities wishing to work with private developers on the production of low-cost housing. In accordance with this change in provincial regulation, the Municipal Housing Facilities By-law (By-law No. 282-2002) was recently enacted (Commissioner 2002b, 3). This new by-law clearly defines what is meant by "affordable housing," states policies regarding eligibility and tenant access criteria for the housing units to be created, and summarizes the provisions that partnership agreements are required to contain. Overall, this change is seen as a positive development by many in the field (Zimmerman 2002; Wood 2003) and there is considerable interest in how this will affect private sector construction of affordable units in the near future.

To summarize, the partnership strategy has emerged in response to the situation created by chronic government funding shortfalls, recent housing program cancellations, and the effect of market conditions on private sector development. Research of the partnership strategy is required at this time to determine whether it is effective in achieving affordability objectives and production targets. The growing popularity of public-private partnerships in Canada and the United States and recent changes to the Ontario Municipal Act which allow municipalities to extend financial incentives to for-profit private developers also contribute to the need for further research of the partnership strategy.

2.2 Overview of Canadian Housing Policy

In order to better understand why there has been a shift toward the use of partnerships for affordable housing production, and to better understand future directions in housing policy, it is important to explore the theories, political motivations, and criticisms that have shaped Canadian housing policies over time. By

way of introduction, this section will commence with a summary of general trends and criticisms, which is followed by a more detailed account of Canadian housing policies.

While the homelessness crisis has now reached unprecedented levels in Toronto and other Canadian cities, the provision of housing for low-income Canadians has been a problem in Canada throughout the last century. In fact, some would argue that providing adequate housing for those households in the lowest income range has always been a challenge (Keyes 1990). There have been various responses from all levels of government, each with varying degrees of success. Canadian housing policy analysts point out four commonalities which have been evident in most government programs and policies. First, most government programs and funding policies have been designed to assist home ownership through loans and tax incentives, with comparatively little assistance provided for rental housing. Second, there has been considerable reliance on the ability of the private sector to provide the necessary housing, and faith in the notion that as new housing was built, older housing would filter down to become occupied by low-income households. Third, most federal programs have been in the form of market support (assisting private lenders by providing mortgage insurance) and by providing funds for municipally-led projects, rather than direct involvement in housing provision. A fourth observation of Canadian housing policy is that “there has never been a consistently high level of subsidy, rather an on-again / off-again pattern” (Fallis and Murray 1990, 71). Thus, the production of affordable housing in both the public and private sectors has been hampered by great fluctuations in policies and subsidy commitments.

Each of these trends in the government approach to housing provision has sparked criticism. The emphasis on promotion of home ownership rather than rental assistance has contributed to the most common criticism of Canadian housing policy, which is that many government programs have been poorly targeted and have helped middle- and upper-income households more than low-income households. This is largely because of the substantial investment required to purchase even a modest home. In this regard, Sewell (1994, 117) argues that, “support for private rental housing and renters has never been at the forefront of housing policy in Canada” and that “the aim of Canadian housing policy has been to make ownership of a detached house, and more recently, a condominium apartment or townhouse, a feasible option for those that qualify for a mortgage” (Hulchanski 1988, 18 quoted in Sewell 1994, 117).

Further to the unbalanced emphasis on ownership assistance, the theory that older housing would filter down to low-income households as new ownership housing was built did not pan out as expected. The housing in many older neighbourhoods appreciated in value, some older housing was demolished and replaced with new expensive housing, and some older housing was upgraded, which meant that older housing did not filter down to the low-income households. In the end, the low-income households were no better off. Some of the programs which assisted private developers in housing production were equally ineffective in helping low-income households because landlords often favoured middle-income households in their selection of tenants. These programs have also been criticized as inefficient for providing excessive financial benefits to developers at considerable public expense. A final criticism that has been common to Canadian housing policies over the years is that more often than not, housing programs have been launched to stimulate a declining economy by creating construction jobs, rather than out of genuine concern for the problems of overcrowding, inadequate or unsanitary living conditions, and homelessness (Fallis and Murray 1990). Details of the government programs and the arguments which have informed this summary are explored in greater detail below.

Late 1800s - Mid 1900s

In the late 1800s and early 1900s, there was simply not enough housing (or jobs and wages) to match the urban migration which was spurred by the growth of industrial firms in Canada’s major urban centres. Local initiatives, such as the Cottage Home Builders Association of 1907, the Toronto Housing Company of 1913, and the Toronto Housing Commission of 1920, preceded federal involvement in housing provision (Greene 1991). These local initiatives experienced some success, producing several hundred houses each, but the leaders of the organizations eventually found that “the two goals [which were to provide housing for people of limited means and to ensure that the city didn’t lose money in the provision of said housing] were incompatible and gave up” (Greene 1991, 26). The depression of the 1930s made things worse because lenders were less willing to finance projects, housing starts slowed overall, and property values fell.

It was with the Dominion Housing Act of 1935, the first explicit federal housing policy, and the National Housing Act of 1938 that the federal government became involved in housing (Fallis 1995). The purpose of these two Acts was to encourage the distribution of loans for building houses for private ownership, but critics charge that the government only “fell into the housing field accidentally” (Wilson 1959, 219 quoted in Fallis 1995, 7) and that the true objective was relief of unemployment. According to Greene (1991, 27), the quantity of housing produced under these Acts was insignificant (only 4903 DHA assisted units created) and they failed to help those in greatest need of assistance. This is because in order to benefit from the programs one would have to have enough money for a down payment and a high enough income to carry the mortgage; not to mention that the housing produced was relatively expensive compared to wages at the time (greater than \$3000). In this period, the strongest federal involvement was with Wartime Housing Limited, which produced 26,000 rental housing units (Greene 1991, 28). Wartime Housing Limited was later merged with the Veterans’ Rental Housing program and almost 50,000 homes were built (Sewell 1994, 132). Unfortunately, when the Canada Mortgage and Housing Corporation (CMHC) was created in 1945 to replace the Department of Finance in administering the Dominion Housing Act and the National Housing Act, Wartime Housing Limited was dismantled, integrated with CMHC, and the rental housing units were sold off (Sewell 1994). This is considered unfortunate because once the units were sold, prices could no longer be controlled, and they were essentially lost from the supply of affordable housing.

1940s - 1970s

After the Second World War, there was a push for housing in response to the shortage of dwellings available for the families of returning soldiers and, once again, high unemployment rates. Federal loans and grants were delivered through the municipalities because the provinces lacked the administrative and financial means to assume responsibility for housing programs. CMHC provided assistance to developers in the form of loans and joint loans with private financial institutions. Federal tax treatment, capital gains tax, and depreciation allowances also encouraged private sector rental construction. The main criticism of housing policies in this period is that little was done to improve housing conditions for low-income households. There was too much faith in the assumption that as better housing was built, the houses formerly occupied by middle- and upper-income households would fall in price and filter down to low-income households. Sewell (1994, 117) argues that despite its failure in practice “the filter-down approach has proved to have a long political shelf life” because it favours the middle- and upper-income households who have greater political leverage. This is an important point because the political acceptability of a policy will often determine its fate. Some feel that political appeal is a key strength of the partnership strategy because it does not necessarily impose a heavy financial burden which would in turn lead to higher taxes. Further, the public costs of an affordable housing partnership are often in the form of forgone taxes and charges, which are less visible to the public than direct expenditure of collected funds.

Social housing in the form of publicly owned rent-geared-to-income (RGI) units became a focus of federal housing policy in the mid-1960s (Fallis 1995). Slum clearance and large scale urban redevelopment projects such as Toronto’s Regent Park, Moss Park, and Don Mount Court were initiated by the federal and municipal governments at this time. A significant number of units were produced in these programs (at its height in 1971, ten percent of all housing starts were public housing), but critics charged that because the assisted housing was fixed in one large location, tenants felt stigmatized (Fallis 1995). In order to reduce the stigma of social housing, the focus shifted to the provision of mixed-income housing where only 25 percent of units were rented to low-income households. Although there was (and still is) support for mixed-income developments, the mixed-income housing programs were still flawed in that they failed to reach some of the poorest households by limiting low-income occupancy to 25 percent of the total development. Critics argued that the most disadvantaged households should be the first priority of publicly funded housing programs.

In 1964, changes to the National Housing Act improved upon previous attempts at cost-sharing between the provincial and federal governments. The changes meant that CMHC would provide 90 percent of capital costs, which reduced provincial responsibility from 25 percent to only 10 percent, but operating losses would be shared equally (Fallis 1995). This development has been called “the turning point which put all questions of whether decent housing would be built squarely in the laps of the provincial governments” (Fallis 1995, 136). Up to this point, involvement in housing provision was limited to the federal and municipal

governments. Later in 1964, Ontario established the Ontario Housing Corporation, which began acquiring small buildings and municipally-sponsored projects and encouraged new public housing construction - but only at the request of the municipalities.

In the 1970s, the Rent Supplement Program was launched as an attempt to provide housing assistance without dictating where tenants must live. The program still exists today, although it is now administered by the provincial governments. Under this program, tenants from the social housing waiting list pay a rent geared to their income for a unit in a private apartment building, with the remainder of the market rent funded by the federal and provincial governments (Fallis 1995). The advantage of the Rent Supplement Program is that the assistance is more effectively targeted to those in need. In other words, the program only assists low-income tenants - not landlords, developers, or middle-income tenants as some of the programs which assisted housing development have done (such as the Limited Dividend Program and the Capital Cost Allowance program). However, because the program subsidizes occupation of existing units rather than adding to the housing stock it only works when there is a high vacancy rate in the rental market and the housing problem is one of affordability and not supply (Sewell 1994). Another shortcoming is that the program does not yield long term benefits. According to Sewell (1994, 128), there is "no continuing benefit from the money spent" because "when the lease expires, the tenants must move on" and the formerly subsidized units return to market rents.

The Non-Profit Housing Assistance and Cooperative Assistance Programs were created in 1973, and combined with the Rent Supplement Program were found to be more effective than public housing initiatives and (for-profit) private sector housing programs in producing low-cost housing (Fallis 1995). According to Pomeroy et al (1998, 30), "even as funding levels fluctuated between 1973 and 1993 ... Canada developed what some perceived to be one of the best and most efficient non-profit housing systems in the world." In fact, the success of the non-profit system during this period is largely why public-private partnerships are a relatively new phenomenon in Canada, as compared with the United States. The Rent Supplement Program, which helped to place tenants from the social housing waiting list in private buildings was celebrated for giving tenants greater choice in terms of housing location. The program subsidized the difference between market rent and ability to pay through a federal-provincial cost sharing arrangement. Cancellation of the non-profit and cooperative housing programs in the 1990s had a devastating effect on affordable housing production overall because these programs accounted for a significant amount of all housing starts. However, it must be noted that these programs, particularly the co-op housing program, were sharply criticized for providing new housing at considerable public expense to "well-educated, middle-class renters" rather than those in greatest need of assistance (Poulton 1995, 63). This is because the projects were mixed-income developments that provided assisted housing to low-, medium-, and even upper-income households.

1980s - Present

The 1980s saw the beginning of federal downloading of housing responsibility to the provinces and overall reductions in government spending on housing. In 1986, the provinces signed agreements with the federal government for provincial delivery of remaining federal housing programs (Greene 1991). Due to concerns about inefficiency and poorly targeted programs, federal non-profit mixed-income projects were terminated in 1985. It was found that the subsidies per unit were too high and that "much of the money was not going to low-income households" (Fallis 1995, 15). In fact, "the co-op program was one of the most expensive social housing programs on a per unit basis that the federal government ever produced" (Poulton 1995, 68). Concerns about the federal deficit led to limitations on planned growth in housing assistance, with severe program cuts made in 1986 and again in 1993. According to Poulton (1995), the spending cap imposed by the federal government in 1993 left only enough funding to maintain existing commitments. Further cuts were made in the 1995 federal budget and with the funds remaining "virtually no social housing units can be built" (Fallis 1995, 19). In general, opposition to government intervention in housing and a pro-market philosophy took hold in the 1980s because it was felt that government involvement in the market had "stifled entrepreneurial spirit and innovation" (Greene 1991, 35). The federal government sought to improve the cost effectiveness of housing assistance by reducing program commitments to assist only those in greatest need and by increasing reliance on private sector production. In the 1990s, the federal government concentrated on improving the efficiency of the administration for existing housing units (FCM 2000). In

sum, this period saw a shift away from relatively deep levels of financial support, followed by increased reliance on the private sector and public-private partnerships for housing production (Sheridan et al 2002). The current housing policies of the federal and Ontario provincial governments “rely on market-generated solutions to housing problems” (Skaburskis and Mok 2000, 171).

Current Issues in Housing Policy

Since the senior governments withdrew support for housing in the mid-1990s, the municipal governments have, by necessity, taken a leadership role in the housing crisis. While there are some senior government programs and funds remaining, the assistance is minimal and program eligibility criteria are specific. There is no money available for ongoing expenses in current senior government programs - only capital costs are eligible (Carter 1997). Further, assistance from the federal government has narrowed considerably from wide reaching support of low-income households to programs targeted only at specific groups (Carter 1997). For example, federal programs such as Home Adaptations for Seniors Independence, the Shelter Enhancement Program for victims of family violence, and the Remote On-Reserve Housing Initiative are all designed to assist specific groups. Other programs are specific about how funding can be spent, with an emphasis on repair of existing buildings. This is probably because total senior government funding commitments are too low to assist in new construction. Funding is available from the federal government through the Residential Rehabilitation Assistance Program (RRAP), which assists in mandatory repairs and the conversion of unoccupied buildings to residential use, and through the similar Emergency Repair Program. The RRAP program has been criticized as primarily funding small patch up and repair jobs but this is not entirely true. Project Amik, which is profiled in Part 3 of this report, received almost \$1 million in assistance through this program for the conversion of an abandoned warehouse to contain residential units, two administration offices, and a daycare. In terms of existing rental unit repairs, the average cost of repairs funded by RRAP Rental program (per unit) was \$12,882 between 1998 and 1999 (CMHC undated). Peter Robinson (2003), project manager of the Peterborough Community Housing Development Corporation, notes that while “the RRAP program is popular and arguably quite successful, the problem is that there isn’t enough funding to go around.”

Other federal programs have been launched in recent years, such as the Supporting Communities Partnership Initiative (SCPI) and the Canadian Centre for Public-Private Partnerships in Housing (CCPPPH). The SCPI program is criticized for focusing primarily on capacity building and continuing support services rather than capital investments in housing production (FCM 2000), and that the resources allocated through SCPI are minimal. SCPI funding is distributed at the municipal level according to terms and conditions outlined by the federal government. Many municipalities have had difficulty administering the SCPI money because its use was limited to a three year period, although the period has been extended (Commissioner 2002a). The CCPPPH program established within CMHC is mandated to promote “the development of affordable housing *that does not require ongoing government subsidies to operate*” (Pomeroy et al 1998, 31 emphasis not added). However, with the exception of proposal development loans and mortgage insurance loans, it appears that the CCPPPH program is limited to project planning advice and networking assistance (CMHC 1998). When this program is compared with municipal partnership programs such as Let’s Build and ActionOttawa, it is evident that the municipalities are taking a more results-oriented approach.

Municipal leadership in housing has brought a notable departure from the strategies of previous housing policies and programs, which is the effort to reduce the underlying costs of housing production. Costs can be reduced by allocating surplus municipal lands to affordable housing projects, reducing parking requirements, encouraging development of single-room occupancy units, waiving development charges, and streamlining the approval process. This strategy has been essential, given that municipal budgets are insufficient to fulfill the responsibility of housing provision. While it is agreed that municipalities are the appropriate level of government to administer affordable housing programs because they are well placed to understand local need (Sewell 1994), there must be more funding support from senior levels of government. According to Carter and McAfee (1990, 227) “municipalities, even with the best of goodwill and motivations, cannot be expected to fulfill all of the roles and responsibilities required to respond to housing need.” This is because the property tax, which is a municipality’s main source of revenue, is an inadequate and inappropriate source of funding to serve a redistributive purpose such as the provision of low-cost housing (City of Toronto 1999). In this regard, Carter and McAfee (1990, 239) argue that “local taxes should not and

cannot be used to effect income redistribution” and that “fiscal responsibility for housing must remain a priority of the senior levels of government because of the broader tax base they command.”

In sum, although municipalities are provincially required to provide a full range of housing, the tools to do so have not been supplied. While some municipalities have been successful in producing new housing through creative partnerships and cost reduction, the affordability crisis in Canadian cities will not be solved without increased senior government funding. Recent announcements of plans for increased federal spending on housing indicate that financial support may be restored to some degree. In the meantime, the development of strategies to produce new housing without increased senior government support should be treated with a sense of urgency.

2.3 Comparative Discussion of the Partnership Strategy

Analysis of public-private partnerships as a strategy to address the urban affordability crisis reveals several advantages over alternative methods. First, partnerships offer a flexible approach that can be tailored to the specific needs of a given municipality and can be adapted to its regulatory framework. If the municipal incentives are strong enough, effective negotiation with private sector partners can produce public benefits that are highly valued by the community.

Second, the partnership strategy is politically neutral compared to other strategies and is favoured by the private sector over government intervention. The development industry prefers voluntary initiatives like partnership programs over the imposition of mandatory inclusion requirements (CMHC 1999; Greene 1991). Inclusionary zoning, whereby a minimum percentage of units in a new residential development must be sold or rented at affordable rates, is an example of regulation-based methods for increasing the supply of affordable housing. Greene (1991) reports that developers find that inclusionary zoning adds to uncertainty and reduces profit, which threatens project feasibility. According to interviews with for-profit private sector developers conducted by Greene (1991, 106), “developers feel that the solution [to shortfalls in the production of affordable housing] is in providing incentives, not regulations.” Staff at the City of Toronto’s Let’s Build partnership program also believe that providing incentives is more effective than government intervention when trying to secure private sector investment in low-cost rental housing (Wood 2003). Politically, the partnership strategy is appealing among the voting public because the involvement of the private sector in the development of low-cost housing reduces reliance on public funds. Also, the public costs of an affordable housing partnership are often in the form of long term leases on surplus municipal land or forgone taxes and fees, which are less visible to the public than direct expenditure of collected funds.

Finally, in the context of senior government funding shortfalls and the economic constraints to private sector rental development, the partnership strategy is a realistic way to bridge the gap between insufficient public resources and the costs of housing development. In practice, partnerships have helped to combine public and private sector tools as part of an integrated housing strategy. Partnerships enable municipalities to utilize private sector resources, expertise, and efficiency, which can result in reduced project development costs. By leveraging contributions from a variety of partners, the partnership strategy reduces the cost borne by each partner and improves project viability.

An additional benefit of the partnership strategy has been observed through site tours of the two housing developments which are profiled in the next section of this paper. This benefit is impossible to quantify, but because involvement in partnership programs is voluntary, there is a sense that the housing has been produced out of a desire to help rather than mere adherence to minimum inclusion requirements. This gives the buildings a personal quality that might not exist if they had been developed under different circumstances. The cooperation and shared responsibility among partners in the planning and financing of these housing developments may take hold in the relationships that form among neighbours. The art gallery in Project Amik and the community garden, kitchen, and children’s play area in Trellis Gardens, which are described in Part Three, may provide a setting for this sense of cooperation and shared responsibility to grow.

A limitation of the partnership strategy is that the specific financing arrangements are not replicable from one jurisdiction to another, and are not necessarily replicable from project to project within one program (Suchman and Sowell 1997). Due to the high degree of variability in application, there has been little systematic analysis of the effectiveness of partnership programs in the literature (Canadian Housing and

Renewal Association 1991). The fact that there is no standard formula for structuring a partnership may add to administrative costs and the time required for project planning. According to Farris (2001, 22) "some developments require multiple layers of financing from different public and private sources, with different goals and schedules for each. It may take years to successfully package the appropriate financing for a project." However, once a municipal partnership program has been established, its staff will develop knowledge of what works best based on the resources that are available and the rules of the regulatory framework. Execution of the process will improve with experience, as has been demonstrated by the Let's Build program. Knowledge of a wide variety of community-based, private sector, and government resources has been compiled by Let's Build staff, which can be applied to future projects. Also, although the exact financing arrangements may not be replicable, partnership programs can be modeled after existing programs if the regulatory framework, senior government resources, and housing demand issues are the same. The example given in the Part Three is that the City of Ottawa's ActionOttawa partnership initiative has been modeled after the Let's Build program.

Other methods for increasing the supply of affordable housing, such as direct government provision and inclusionary zoning may be more straight forward in application, but a definite shift toward partnerships has been observed in Canada and the United States. Direct government provision of housing is simply not possible due to inadequate support from senior governments and fiscal constraints at the local level. In the future, it is expected that attention will continue to be directed toward strategies that are "relatively inexpensive for municipalities to implement and that rely on the private sector" (Tomalty et al c.1999, 69). Inclusionary zoning is very inexpensive for municipalities to implement, but it presents other challenges. Although inclusionary zoning has proven to be highly effective in California, New Jersey, and Maryland (White 1992), locally conducted research has concluded that "a negotiated approach to inclusionary housing, involving incentives, would be more practical in the Toronto business climate than a mandatory inclusionary zoning program" (Tomalty et al c.1999, 14). Greene (1991) reports that legislative barriers, the likelihood of challenges at the Ontario Municipal Board, and the need for provincial enabling legislation have prevented the use of inclusionary zoning policies in Toronto. These factors, combined with strong opposition from the development industry and fears that inclusionary requirements would result in higher housing costs overall have contributed to a demonstrated preference of the partnership strategy. Part Three explores application of the partnership strategy in greater detail with a focus on the City of Toronto's Let's Build program.

Part Three: The “Let’s Build” Partnership Program for Affordable Housing

As discussed in the previous section, Canadian municipalities are now engaging in partnership agreements with the private sector in order to overcome the financial challenges which are preventing affordable rental housing production. This section provides an overview of what the City of Toronto is doing to increase the supply of affordable rental housing through the Let’s Build partnership program. Project Amik and Trellis Gardens are profiled as case studies and the details of the partnerships are discussed.

3.1 Let’s Build

Let’s Build is the City of Toronto’s newest affordable housing development program which runs out of the Community and Neighbourhood Services Department. The objective of the Let’s Build program is to encourage construction of new affordable housing in Toronto by working in partnership with the private sector. The program was created as a strategic response to homelessness and the shortage of affordable housing for low-income households in the City of Toronto. Recognizing that there are fewer senior government resources available for housing production than in the past due to program cancellations and funding cutbacks, the intention of the Let’s Build program is to create new low-cost housing with minimal reliance on government subsidies. A variety of financial incentives are offered by the municipality in order to secure private sector involvement in the program. Generally it is found that the benefits of the partnership outweigh the cost of providing the incentives (Wood 2003). The financial incentives offered may include the use of city owned land, grants and interest free loans, waiver of development charges and permit fees, streamlining of the approval process, reduced property taxes, waiver of parkland dedication fees, and other measures which reduce the underlying costs of development. By pairing up with private sector partners and by utilizing the remaining senior government programs, the Let’s Build program helps the city to increase the supply of affordable housing with less reliance on municipal resources than if the city were to finance the projects on its own. The municipality and the private sector partners find that together they are able to produce housing at a level of affordability that neither could achieve independently. When the resources of each partner are combined, more money is available upfront which means that mortgage costs can be reduced. Free lease of surplus municipal land and interest free loans reduce costs by eliminating the need to pay interest or lease charges. Exemption from planning fees and development charges, property tax reductions, and streamlining of the approval process reduce underlying costs. Finally, private sector developers employ their expertise to reduce development costs through architectural design and the use of construction methods which maximize efficiency.

How the Program Works

City-owned land used for Let’s Build projects is made available through the city’s new Housing First Policy, which holds affordable housing development as a top priority for surplus municipal lands. The use of city-owned land for affordable housing has been a particularly important aspect of the program because it has acted as a catalyst for action. Many of the groups involved in Let’s Build projects have had a long history of interest in the issue of affordable housing, but without a specific site to work with they could not begin the process of proposal development. When the city begins forming partnerships with for-profit developers in the spring of 2003, it is anticipated that the use of municipal land will be a very strong incentive (Wood 2003).

Financial assistance in the form of loans and grants for Let’s Build projects comes from the Capital Revolving Fund for Affordable Housing (CRF). The CRF is a \$25 million fund which was set up by the city in 1999 as a way to provide financial assistance to eligible affordable housing developers. Assistance provided to each project through the CRF is limited to a maximum of 25 percent of total capital costs although, the projects approved to date have required CRF funding for only 18 percent of total capital costs (Commissioner 2002a). This shows that Let’s Build staff have selected efficient, competitive proposals for the projects approved to date. An external advisory group consisting of members from Toronto Council, the development and property management industry, the financial sector, the community-based housing and services sector, and the federal and provincial governments advises staff on the use and allocation of the CRF funds (City of

Toronto 2002d). To date, 68 percent of the allocations from the Capital Revolving Fund have been in the form of loans and 32 percent have been in the form of grants (Commissioner 2002a). According to the 2002 annual progress report on Let's Build, the CRF is not expected to be self-sustaining in the short term because the loans are long term (35 years), but in the long run repayments to the CRF will "have the potential to become a significant source of revenue to support new projects" (Commissioner 2002a, 7).

The procedure for project approval requires that the Request for Proposals (RFP) competitive process is followed. RFPs are sent out to a database of private sector companies and organizations that has been compiled by Let's Build staff and are also posted on the city's website. All projects receiving assistance from the CRF or the use of city owned land must be approved by Toronto Council. According to Zimmerman (2002) Let's Build projects are not exempt from any part of the approval process, which includes development proposals, building permits and other standard requirements, and may also include appeals to the committee of adjustment, rezoning applications, or official plan amendments. However, Let's Build projects are fast-tracked through the development approval system using the new Corporate Priority Policy (Let's Build 2000).

Affordability criteria stipulate that rents charged in Let's Build projects do not exceed a maximum of 90 percent of the average market rents as measured by the CMHC rental market survey for the City of Toronto (Commissioner 2000). The duration of the affordable rents depend on the negotiated terms of the Affordable Housing Agreement between the city and the private sector partner. The details of the Affordable Housing Agreement will likely stipulate that interest charges on loans from the CRF and lease rates on city owned land will only be waived if the units are rented at the negotiated rate and to tenants from the approved sources. Tenants for assisted units must be selected from Toronto Social Housing Connections waiting list or the emergency shelter system.

To date, involvement in the Let's Build program has been dominated by private sector non-profit groups (Zimmerman 2002). This is because involvement in the Let's Build program had been limited to non-profit organizations until recent amendments to the *Municipal Act* (Section 210.1) enabled municipalities to offer financial incentives to for-profit developers. Prior to this legislative change municipalities could only offer financial incentives to non-profit organizations. The first partnerships with for-profit developers are expected to be formed soon because the first RFP extended to for-profit developers will be released in March 2003 (Wood 2003). According to Wood (2003), there has been a high level of informal interest from for-profit developers in the private sector because "the city money will open up a new sector for these developers ... one in which they will make a profit." The low-cost housing market has been underserved for the past few decades because the costs of development do not allow for a decent return on investment. In fact, it has been found that for modest rental units, the break-even rents are sometimes higher than average market rents (City of Ottawa 2002a; City of Toronto 1999). Therefore, the introduction of municipal incentives for affordable housing development effectively opens a large new market for the private sector. From the city's perspective, the advantages of for-profit private sector involvement are that developers may have their own land and money to contribute to new projects and that they have proven expertise in reducing the costs of development.

While there is great enthusiasm about the expansion of the Let's Build program to include involvement with for-profit developers, it will be important to maintain the involvement of non-profit groups. Wood does not anticipate that the involvement of for-profit developers in the Let's Build program will drive out non-profit involvement even though the for-profit developers have more capital resources and expertise. Instead, it is expected that non-profits will either partner with the for-profits, or continue to work with the city on separate projects. According to Zimmerman (2002), non-profits are not as skilled at driving down development costs but they can help with other challenges, such as working with special needs groups. Additionally, they bring strength to a project through the energy and dedication of volunteers. An important benefit of working with non-profit housing providers is that the housing may remain affordable forever, whereas the affordability of projects constructed by for-profit developers will likely be limited to the duration of the affordable rent terms.

The following subsections profile two recently completed Let's Build affordable housing projects which were developed with non-profit partners. The details of the process, the partnership contributions, and photographs of the finished buildings help to give an idea of the amount of planning, coordination of resources, and labour that go into each project. These profiles also provide a specific context for discussing the lessons which have been learned through experience.

3.2 Project Profile: Project Amik

Project Amik, which means “beaver” in Ojibwe, is one of the first affordable housing projects to be completed under the City of Toronto’s Let’s Build program. It is also the first scale affordable housing development to be completed in Ontario since 1993 (Stark 2002). It contains 74 low-cost rental units, which provide affordable housing to over 100 people, including seniors, singles, and families. The partners involved in Project Amik include Frontiers Foundation Incorporated (developer), New Frontiers Aboriginal Residential Corporation (NFARC, financing assistance), Senior Link (property management and support services), and the City of Toronto through Let’s Build. There was also federal and provincial government involvement in the project, through various federal programs, rent supplement, and provincial sales tax rebates. Bringing together so many partners and resources from all three levels of government is what allowed Frontiers Foundation and Let’s Build to significantly reduce mortgage and development costs and make the project possible. The dedication of Frontiers Foundation and the generosity of its donors and volunteers were also critical to the success of Project Amik.



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Frontiers Foundation is a charitable non-profit organization dedicated to providing housing for aboriginal people in need of assistance. Over two thousand homes have been built by Frontiers Foundation in the past 33 years, most of which have been single detached houses in northern Ontario and other parts of Canada (Catto 2003). Within Project Amik, half of the units were made available to aboriginal families, singles, and seniors requiring housing assistance and half of the units were filled by applicants on the Toronto Social Housing Connections waiting list. The official opening ceremony was held on October 17, 2002 and Project Amik is now 100 percent occupied (Catto 2003).

Located at 419-425 Coxwell Avenue in Toronto’s east end, Project Amik includes two three-story buildings, each containing a mix of one, two, and three bedroom apartments. Fourteen of the units are specially designed to accommodate the needs of physically challenged individuals. The larger of the two buildings, containing 44 of the 74 units, is a converted Eaton’s warehouse and garment factory, while the second building is entirely new construction built upon formerly vacant land. The site also includes surface and underground parking, an aboriginal art gallery, and the Le Petit Chaperon Rouge Day Care facility, both of which are housed within the converted building. Rents for the apartments are approximately \$500 for a one bedroom unit and \$600 for a two bedroom unit. The total cost of developing this project was \$10,500,000 (Stark 2002). With the exception of rent supplements funded by the provincial government, it will not receive ongoing operating subsidies.

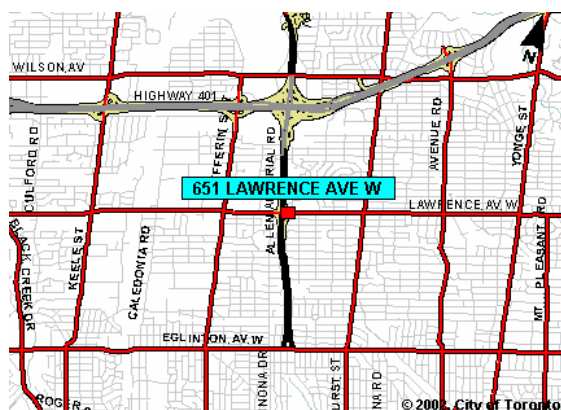
Project Amik was initiated when the city put forth a request for proposals for the development of affordable housing on the site and the Frontiers Foundation proposal was chosen over a number of other proposals. Let’s Build staff recommended the project to Council for approval, including free long term lease of the land and partial mortgage funding from the CRF (Wood 2003). Let’s Build staff were successful in coordinating funds from a wide variety of federal programs for use in this project, including close to \$1 million under the RRAP program for conversion of the industrial building to residential use. The municipal resources provided through Let’s Build have been critical for leveraging funds from other sources. According to the 2002 annual report on the progress of Let’s Build, “without Let’s Build core resources and co-ordination, none of the other leveraged resources would have come into play” (Commissioner 2002a, 6). Table 1 provides a summary of the contributions made by each partner.

Table 1: Project Amik Partnership Contributions Summary

Partner	Project Amik Partnership Contributions Summary
<p>The City of Toronto - Let's Build</p> <p>(Source: CMHC 2002)</p>	<ul style="list-style-type: none"> • provided \$1,570,000 in land (leased to NFARC for \$1 for a period of 50 years) • provided a \$888,000 grant from Toronto's Capital Revolving Fund for construction • provided a \$91,000 loan to pay for the Toronto Catholic District School Board development charge • waived fees and development charges valued at \$166,000
<p>Frontiers Foundation Incorporated</p> <p>(Source: Catto 2003)</p>	<ul style="list-style-type: none"> • raised \$500,000 through private donations and fundraising plus donated materials • coordinated apprentices and volunteer labourers during project construction • ongoing administrative responsibilities
<p>New Frontiers Aboriginal Residential Corporation</p> <p>(Source: Stark 2002)</p>	<ul style="list-style-type: none"> • holds the first private mortgage of over \$6 million • paid the mortgage insurance required by Canada Life of over \$300,000
<p>Senior Link</p> <p>(Source: Catto 2003)</p>	<ul style="list-style-type: none"> • provision of support services to residents • provision of training for an Aboriginal support staff
<p>Provincial Government</p> <p>(Source: CMHC 2002)</p>	<ul style="list-style-type: none"> • PST rebates for building materials (valued at \$148,000) • <i>Homelessness Rent Supplement Program</i> will be providing RGI supplements of up to \$2.6 million over the next 5 years
<p>Federal Government</p> <p>(Source: CMHC 2002)</p>	<ul style="list-style-type: none"> • CMHC's <i>Canadian Centre for Public-Private Partnerships in Housing (CCPPPH)</i> provided an interest-free repayable proposal development loan of \$75,000 to help Frontiers Foundation Inc. with upfront development expenses • <i>Residential Rehabilitation Assistance Program</i> provided funding in the amount of \$942,000 to convert the former industrial building into 44 housing units, and to ensure accessibility for persons with disabilities (\$150,000 under <i>RRAP for Persons with Disabilities</i> and \$792,000 under <i>RRAP for Non-Residential Conversion</i>) • CMHC mortgage loan insurance helped Frontiers Foundation to obtain a loan of over \$6 million to cover the remaining expenses of conversion of the existing building and construction of the new 30-unit apartment building • <i>National Homelessness Initiative</i> (NHI) provided \$46,928 in funding from the <i>Supporting Communities Partnership Initiative</i> (SCPI) to provide outreach services • <i>HRDC Apprenticeship Training</i> : \$84,000

3.3 Project Profile: Trellis Gardens

Trellis Gardens is also one of the first Build affordable housing developments. Although it was not the first to be completed occupied, it was the first project initiated in the Build program. The name “Trellis” was chosen because it is a symbol of support for beauty, growth, and development (Hyman 2003). Trellis Gardens is a three-story building which contains 24 rental units, including 17 rent supplement units which provide low-cost housing to households who were previously in the city’s emergency shelter system and motels. Most of these units are occupied by women and their children. The remaining seven are rented at average market rent, which is \$1,079 for a two bedroom apartment and \$1,289 for a three bedroom apartment. Rents for the assisted units are set at the shelter component of social assistance, with the remainder paid by rent supplements. The total cost of developing this project was \$3,923,000 (Hyman 2003). It will not receive ongoing operating subsidies.



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Located at 651 Lawrence Avenue West, Trellis Gardens has a mix of one, two, and three bedroom apartments. The apartments are bright and spacious, with high quality kitchen fixtures and new appliances. There is no differentiation in quality or apartment size between the market-rate and assisted units. On the main floor of the building there is a child care room and a communal kitchen with a large dining room. The site includes space for a community garden and children’s playground equipment, which is scheduled for completion in the summer of 2003. When construction of the building’s common areas is complete and the building is fully occupied, support services such as child care and skills training will be offered to residents who wish to participate. The proposal for Trellis Gardens contained a strong component of community programming and numerous volunteers have signed up to lead cooking classes, parent support seminars, and art programs (Hyman 2003).

The partners involved in this project include Trellis Housing Initiatives Incorporated, the City of Toronto through Let’s Build, and the federal and provincial governments through various funding and loan programs. Table 2 provides a summary of the contributions made by each partner (see page 28). Trellis Housing Initiatives is a community-based non-profit organization that was formed by members of Congregation Darchei Noam and volunteers from the Out of the Cold Resource Centre. Planning for Trellis Gardens began when staff from the City of Toronto approached Out of the Cold representatives who had previous experience in housing development. A joint meeting was held to develop the proposal for Trellis Gardens (Hyman 2003).

The planning and development process was long and complicated for this project, largely because it was the first to go through the system. In order to proceed with construction, Trellis Housing Initiatives first had to enter into a Lease Agreement, an Affordable Housing Agreement, and a Grant and Loan Agreement with the city. However, these legal documents were rewritten six times, which caused delays in obtaining funding from other sources (Hyman 2003). Consequently, the delay in obtaining funds held up construction because the builder could not be paid. Additional expenses were incurred as a result of the delays and there are ongoing negotiations about who is responsible for these expenses. For example, the property manager had been hired for the original occupancy date of August 1st, 2002, but occupancy was delayed month by month to February 15th 2003. Residents had been selected in April 2002 and had to continue living in temporary accommodations as the move-in date was repeatedly delayed. The experience was frustrating for the residents because of their poor living conditions. In order to relay updates on the building’s progress to the residents, each board member took three names from the list of residents as personal contacts. This gesture is one of many which demonstrate that the Trellis Housing Initiatives volunteers truly care about people. When move-in day finally arrived, the board members helped the residents move in and assisted in getting mattresses and other furniture donated (Hyman 2003). Several weeks later, the board members hosted a pizza party to welcome all of the residents and celebrate the completion of the building.

The most remarkable aspect of the Trellis Gardens development is the sense that much more has been created than just the building itself. The people of Trellis Housing Initiatives have worked hard to establish a setting which supports community interaction and personal growth. Although physical settings cannot create a sense of community or determine how people will use a space, the community garden, shared kitchen and dining areas, and the child care room are important features of the project. As co-housing developments have demonstrated, shared kitchens are very useful for single parents because neighbours can share cooking responsibilities or supervision of children while others are away at work. Additionally, the cooking, parenting, and art programs to be offered by volunteers will present opportunities to get involved and develop new skills. Finally, the dedication which was demonstrated by the board members throughout the delayed construction process and on the move-in day sends a message that Trellis Gardens was created out of a genuine desire to help. This is the reason that Let's Build staff should ensure that the involvement of for-profit developers in the program does not drive out non-profits. While it is true that for-profit developers may have a desire to help, it is also true that the municipal incentives will enable them to make a profit in a sector of the real estate market in which it was previously impossible to do so. It is anticipated that the potential for profit will be their main motivation for involvement in Let's Build partnerships (Wood 2003). Therefore, while the Let's Build program stands to benefit from for-profit involvement because of their resources and expertise in cost reduction, the staff at Let's Build should also recognize the value of non-profit involvement and strive to keep them involved.

Reflecting on the experience, Hyman has noted that "if you really want to set up these public-private partnerships, you have to make it easier for the private partners... I sometimes feel that for all we've been through, we could have built 240 units of housing instead of 24" (Keenan 2002, 4). According to Hyman, "the Let's Build staff were wonderful," but being the first project to go through the system was a frustrating experience (2003). Mark Guslits, Special Advisor for the Let's Build team acknowledges that there have been growing pains but reports that the process is speeding up (Keenan 2002). Guslits also notes that with public money there is always going to be more bureaucracy, which may be a new experience for the private sector partners (Keenan 2002). With three completed projects and six other projects in various stages of development, it appears that the program has improved with experience.

Table 2 provides a summary of the contributions made by each partner.

Table 2: Trellis Gardens Partnership Contributions Summary

Partner	Trellis Gardens Partnership Contributions Summary
The City of Toronto - Let's Build (Source: City of Toronto 2001b)	<ul style="list-style-type: none"> provided land valued at \$500,000 (lease rates waived for a period of 50 years if the rent targets set out in the Affordable Housing Agreement are maintained) provided a \$288,000 grant from Toronto's Capital Revolving Fund provided a \$800,000 loan (interest free) to cover the second mortgage waived fees and development charges valued at \$100,000
Trellis Housing Initiatives Inc. (Source: Hyman 2003)	<ul style="list-style-type: none"> raised \$360,000 through private donations and fundraising acquired donated mattresses and other furniture volunteer board performs administrative duties and provides free services
Provincial Government (Source: City of Toronto 2001b)	<ul style="list-style-type: none"> no direct contribution to capital costs <i>Homelessness Rent Supplement Program</i> will be providing rent supplements of an undisclosed amount
Federal Government (Source: City of Toronto 2001b)	<ul style="list-style-type: none"> CMHC provided \$87,000 in grants and loans (interest free) for proposal development CMHC mortgage loan insurance: \$1.9 million (helped to facilitate construction by enabling a larger mortgage to be obtained at a lower rate) <i>National Homelessness Initiative</i> (NHI) provided \$500,000 in capital funding from the <i>Supporting Communities Partnership Initiative</i> (SCPI) HomeGrown grant of \$20,000 Affordability and Choice Today (ACT) grant of \$12,000

3.4 Accomplishments and Lessons Learned

There are now nine Let's Build projects (418 units) with Council-approved funding in various stages of development in all areas of the city (Commissioner 2002a). Completed developments include Project Amik, Trellis Gardens, St. Paul L'Amoureux, and Shaw House in addition to some small scale renovation projects (Wood 2003). Table 3 provides a summary of the nine projects with approved funding on page 30. When these nine Let's Build projects are combined with the federal SCPI (Supporting Communities Partnership Initiative) transitional housing funds delivered by the city (which is also a responsibility of Let's Build staff), more than 900 housing units have received some form of assistance since 2000 (City of Toronto 2002c). Although this paper focuses on permanent affordable housing projects rather than transitional housing, it is important to note that having the Let's Build framework in place and staff expertise in coordinating funding and project planning has helped the City of Toronto to be more successful than other municipalities in expediting delivery of time-limited SCPI funds (Commissioner 2002a).

In evaluating the success of the Let's Build program, a key strength appears to be the demonstrated ability to lever additional contributions. In fact, it has been reported that "every city dollar has attracted three dollars from other sources" (Wood 2003). Certainly the partnership strategy has proven to be more cost-effective than if the municipality were to undertake the housing projects independently. However, a breakdown of contributions reveals that the federal and provincial governments are not contributing enough. In some cases, the fundraising efforts and voluntarism of the non-profit organizations have matched or exceeded senior government contributions. Calculations based on six Let's Build projects in advanced stages of construction reveal that city contributions accounted for 26 percent of total capital costs (including land, loans, grants, and fee and charge exemptions), averaging \$39,000 per unit (Commissioner 2002a). Federal contributions accounted for 11 percent, provincial contributions were 2 percent (plus rent supplements), and the non-profit sponsor groups raised 10 percent. The remaining 51 percent of total capital costs for these projects were financed through mortgages. Given the severity of Toronto's affordable housing shortage and the fact that senior government support is minimal, staff at Let's Build have a realistic

attitude when evaluating the success of the program. According to Wood (2003), a development is considered to be successful if it gets built and if the rents will remain affordable for the long term.

As the experience of Trellis Housing Initiatives has demonstrated, implementation of the Let's Build program has followed a learning process. Subsequent projects have not encountered the same degree of bureaucratic red tape and delays as Trellis Gardens. In the relatively short time frame of three years, Let's Build has managed to get nine projects totaling 418 units underway after a long period of time in which no new affordable housing was built at all. As further evidence of its success, the Let's Build program has served as a model for the City of Ottawa's pilot partnership program, "ActionOttawa." It makes sense for Ottawa to use the Let's Build program as a model because the regulatory framework governing municipal undertakings and the resources available through senior government funding programs are the same in both cities. Partnership programs used in the United States or other provinces would not be as readily transferable. Additionally, the shortage of affordable housing in Ottawa is comparable to the situation in Toronto (City of Ottawa 2002a).

ActionOttawa uses a similar combination of capital grant dollars, loans, waiver of fees and parkland levies, and surplus municipal land to attract private sector involvement. The goal of the program is to build 250 new units per year to serve applicants on the city's social housing waiting list (City of Ottawa 2002b). The program is specifically targeting one bedroom and three bedroom units as well as units with special needs accessibility. One notable difference between the two programs is that Ottawa's affordability criteria only require 60 percent of the units to be rented at below average market rents. However, both programs permit affordable developments to be combined with market developments to increase project viability.

Table 3: Summary of Completed and Current Let's Build Projects

Adapted from the Let's Build Annual Progress Report (Commissioner 2002a)

Project	Private Sector Partner	Address	Units	Project Status
Trellis Gardens	Trellis Housing Initiatives Incorporated	647-657 Lawrence Ave. West	24	Occupied
Project Amik	Frontiers Foundation Incorporated	419-425 Coxwell Ave.	74	Occupied
St. Paul L'Amoureux	<i>not listed</i>	3333 Finch Ave. East	51	Occupied
Shaw House	<i>not listed</i>	108 Lakeshore Ave.	6	Occupied
Toronto Housing Company Incorporated (project unnamed)	Toronto Housing Company Incorporated	657-659 Northcliffe Blvd.	56	Under construction; completion early 2004
Lester B. Pearson Place	NUC-TUCT Incorporated (Newtonbrook United Church - Taiwanese United Church of Toronto)	53 Cummer Ave.	60	Rezoning approved; detailed design drawings started
Fred Victor Centre (project unnamed)	Fred Victor Centre	1978 Lakeshore Ave. West	42	Environmental and heritage issues now resolved
Ghana Amansie Townhouses	Ghana Amansie Canadian Multicultural Association	2350 Finch Ave. West	48	Redesign and financing issues being resolved
Wigwamen	<i>not listed</i>	20 Sewells Rd.	57	Detailed planning and design work started

The Outlook for the Future

Through this research several strategies for improvement of the Let's Build program have been identified. However, each of these strategies require an increase in senior government support for affordable housing. First are foremost, the financial contributions of the federal and provincial governments must be increased. It is appalling that in some cases, volunteers and private donors are doing as much or more than the senior governments to resolve the affordable housing crisis in the City of Toronto. Such generosity and dedication is admirable, but housing provision is a government responsibility which should not depend so heavily on the fundraising efforts of charitable organizations and volunteers. This is clear when one considers that the senior governments have recently delivered tax cuts to middle- and upper- income taxpayers and corporations. To clarify, the reason that the provision of low-cost housing is a government responsibility is because it is an example of market failure. The market cannot produce housing that is affordable to households in the lowest income range without some form of government subsidy.

The breakdown of Let's Build project contributions also reveals that the City of Toronto is spending more than the federal and provincial governments. As discussed earlier in this paper, property taxes, which are the main source of revenue for the municipal contributions to Let's Build projects, are an inappropriate and inadequate source of funds for housing provision. This is partly because of the regional economic disparity discussed in Part One of this paper. Municipalities with greater proportions of low-income

households will be unable to raise as much revenue through property taxes, although they will effectively need more than richer municipalities in order to respond to stronger demand for assisted housing. Property taxes are considered to be an inappropriate source of funding for housing because people who are in need of assistance will move from place to place in search of better opportunities. Imbalances in demand for low-cost housing develop over time, as is evident in the greater incidence of low-income that has been observed in the City of Toronto when compared with other municipalities in the GTA region. Property taxes are considered to be an inadequate source of funding for housing because the potential for revenue collection does not match the scope or severity of the problem. The shortage of affordable housing in Canadian municipalities has recently been called a national disaster by numerous mayors and the Federation of Canadian Municipalities. It is clearly time for the senior governments to follow the lead of the municipalities and private sector non-profits and contribute their fair share for affordable housing projects. In recent months there have been announcements of plans for increased federal spending on housing, but whether the funding will materialize is questionable. If the recently announced federal Affordable Housing Partnership Program does lead to a more equitable sharing of contributions between the federal and municipal levels of government, and current municipal funding levels are maintained, it is expected that a larger volume of units could be produced in the future. In terms of provincial contributions, the city is lobbying for more rent supplement funding so that the number of new rent supplement units created in the city can be increased. At present, only 40 percent of the rent supplement funding allocated for Toronto (1,841 units in total) can be used in new Let's Build and SCPI units, with the remaining 60 percent to be used in existing units. Rent supplements are important because they deepen the level of affordability in Let's Build projects and they can help to reduce the costs of development. This is because rent supplements are recognized by the lender as part of the project's revenue stream, which can result in reduced mortgage costs.

As a final comment, the senior governments need to acknowledge that affordable housing developments trigger economic benefits that extend beyond the site and its inhabitants. Project Amik has created 80 jobs in construction trades, 7 full time jobs in administration, plus related jobs created by demand for raw building materials and prefabricated components such as doors and plumbing fixtures, as well as transportation, installation, and inspection services (Stark 2002). Senior governments also draw revenue from affordable housing projects. According to Catto (2003), approximately \$1.3 million has been paid in federal taxes associated with Project Amik and \$185,000 has been paid in provincial taxes. These taxes should be waived for all eligible housing projects meeting defined affordability standards, as has been demonstrated by the waiver of municipal fees and charges. Discussion of these issues is continued in Part Four with concluding comments on the partnership strategy and the outcome of its application in the City of Toronto.

Part Four: Concluding Discussion

4.1 Concluding Discussion

To restate the problem that motivated this research, there is a severe shortage of affordable housing in the City of Toronto, but the majority of new residential development is being produced for the high end and ownership markets. Analysis of infill development trends and the supply and demand figures for affordable housing confirm that **affordable** residential infill is acutely needed in the City of Toronto. The significance of this problem is that while infill has the potential to increase the supply of affordable housing in the City of Toronto, at present this potential is not being realized. If infill and intensification policies are to effect a more equitable balance in the housing stock which meets the needs of all Toronto residents, the inclusion of affordable housing must become a stated priority in these policies.

In evaluating possible responses to the shortage of affordable housing, it has been determined that neither the municipality nor the private sector can resolve the problem independently. Municipalities simply don't have enough money and the private sector cannot produce low-cost rental housing without some form of financial assistance. The contextual factors of the problem, including the cancellation of senior government housing programs, budgetary constraints at the local level, and poor economics for rental development call for strategic collaborative solutions that minimize reliance on public resources. In this regard, partnerships have emerged as the most practical way to bridge the gap between the resources that are available and the costs of housing development. In both Canada and the United States, partnerships appear to be the preferred strategy for affordable housing development.

In Toronto, public-private partnerships have been successful in getting new low-cost rental housing built. This is a significant accomplishment because prior to the launch of Let's Build, almost nothing had been built since the mid 1990s. The program has been successful in leveraging contributions from a variety of partners, including the federal and provincial levels of government and community-based non-profit organizations of the private sector. Dispersal of costs is important because no one group has sufficient resources to undertake the projects alone. It is expected that expansion of the Let's Build program to include for-profit developers in March 2003 will result in a substantial increase in the number of units produced. This is because for-profit developers will likely have more money and land to contribute than the non-profit partners involved in the program to date, plus their expertise will help them to move through the process faster.

Reduction of overall development costs is another advantage of the partnership strategy. It has been found that overall development costs can be reduced because of the combined resources that become available in a partnership. To start, mortgage costs can be reduced when there is more money available upfront. Free lease of city owned land and interest free loans eliminate the need to pay interest or lease charges. Exemption from planning fees and development charges, property tax reductions, and a faster approval process reduce underlying costs. Finally, private sector partners employ their expertise to reduce development costs through architectural design and the use of construction methods which maximize efficiency.

While cost reduction and efficiency are goals of the Let's Build program which have been met with success, at this point the priorities are to get new units built and to ensure that they will remain affordable for the long term. Using these criteria, the Let's Build program can definitely be called successful. Further research of the partnership strategy and partnership programs in other jurisdictions is needed to identify additional cost reduction techniques that can be applied to future projects.

Consideration of the context in which the partnership strategy has emerged and possible directions for the future suggests that the greatest potential for improvement of the Let's Build program depends on increased support from the federal and provincial governments. In the past, senior government housing policies were either flawed in excessive reliance on the private sector to produce low-cost housing without assistance or incentives or were flawed due to poorly targeted and inefficient programs. The sliding scale of support in the history of Canadian housing policy is evidence of the many failed attempts to get it right. However, to simply withdraw support and download responsibility for housing to the municipal governments is not an appropriate response. Right now, the partnership programs which have been established in some Canadian municipalities present a valuable opportunity for senior governments to put the necessary funding back into housing provision, in such a way that it will be used effectively and efficiently toward resolving the

severe shortages of affordable housing in Canadian municipalities. Completed Let's Build projects are evidence that the partnership strategy works. It is now time for the senior governments to give municipal partnership programs the funding support that is required.

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