



# A Feasibility Study to Establish A Community Land Trust in St. Albert

Prepared for



Prepared by

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# Chapter 1: Introduction

Over the past six years, the City of St. Albert has invested considerable time, money and energy into identifying its affordable housing needs and evaluating its options to meet those needs. The City recently completed a formal Community Housing Plan and has now entered the implantation phase for that Plan. In response to the Plan’s findings and recommendations, the municipality is looking at options for how to set up a Community Land Trust. To assist it in achieving that goal, the City has engaged Housing Strategies Inc. to conduct a feasibility study. The *Principal* of Housing Strategies Inc. was both directly involved in setting up and running the Calgary Community Land Trust Society and is the author of “Critical Success Factors for Community Land Trusts in Canada” – a CMHC funded research study.

## 1.1 Purpose of This Feasibility Study

The purpose of this feasibility study is twofold:

- To evaluate St. Albert’s current capacities to develop and maintain an effective Community Land Trust; and
- To recommend an appropriate structure and mandate for the Community Land Trust based on the community’s affordable housing goals and its current capacities.

## 1.2 Methodology

The process for completing the feasibility involved a series of key person interviews with local and regional stakeholders, including:

- Council and Administration
- Affordable Housing Advisory Board Members
- Local service providers
- Local and regional developers, including non-profit housing organizations and private-sector developers/builders

The intent of these interviews was to yield the following:

1. An **Environmental Scan**: to identify St. Albert’s current housing issues, challenges and opportunities.
2. A **Capacity Assessment**: to identify the community’s existing municipal, non-profit and for-profit capacity for:
  - a) Land acquisition
  - b) Land development
  - c) Affordable housing construction
  - d) Affordable housing operations/management; and
  - e) Related supports to target clients.

3. A **Compatibility Assessment**: to identify and recommend how and where a Community Land Trust would be appropriate for St. Albert.

### **1.3 Format of This Report**

This report is organized into five sections:

- *Chapter 1: Introduction* provides an overview of the project purpose and methodology;
- *Chapter 2: Community Land Trusts* explains what a Community Land Trust is and how it operates;
- *Chapter 3: Key Findings from This Study* provides an assessment of the political, practical and financial viability of establishing a Community Land Trust in St. Albert;
- *Chapter 4: Options and Implications* describes the various options available to St. Albert and the potential implications of each option; and
- *Chapter 5: Recommendations* provides a series of recommendations on how St. Albert should proceed in establishing a Community Land Trust.

# Chapter 2: Community Land Trusts

## 2.1 What is a Community Land Trust?

A Community Land Trust (CLT) is a non-profit organization that acquires and holds land in Trust on behalf of the community for the purpose of providing perpetually affordable housing – be it rental, leasehold homeownership, housing co-operative, co-housing, or a variety of supportive housing, including transitional housing or emergency shelters.

CLTs can acquire vacant land and arrange for it to be developed as affordable housing or they can acquire land that already has housing built on it. In both cases, the CLT retains permanent ownership of the land. In so doing, it controls the use, occupancy and value of the land (and by extension the housing on that land). In other words, it ensures that its land will *always* be used to provide **housing** that is **affordable to low- and modest-income households**. It also prevents the flipping of properties by individual households for short-term financial windfalls that can sometimes occur when publicly-funded affordable housing initiatives are developed on freehold title lands.

Traditionally, CLTs control the use and valuation of housing on their land through long-term lease agreements. The people living in housing built on CLT lands do not own their land but rather lease it from the Community Land Trust typically on a 99-year renewable basis. The buildings themselves are then rented or owned by the people who live in them. The legal mechanism (a residential leasehold interest) is similar to housing built in a National Park (e.g., Jasper or Banff) or on a First Nations Reserve (e.g., Redwood Meadows near Calgary). However, contrary to housing built in National Parks and on Reserves, housing built on Community Land Trust land is only available to low- and moderate-income households.

When a household goes to sell its home, it sells it back to the CLT at a price pre-determined through a resale formula. Resale formulas vary from CLT to CLT. Some formulas tie appreciation to the Core Consumer Price Index. Other more effective formulas limit what individual households earn to the equity they have paid down on their mortgages plus 25% of the market appreciation of their homes. The value of the remaining 75% of the appreciation remains with the CLT (and therefore the community) and allows the next homeowner to purchase the home at what is still an affordable price. Research conducted by one of the most successful CLTs in North America (Burlington Community Land Trust in Burlington, Vermont) has proven that housing built on a CLT's lands become **even more affordable** as time goes by through the use of this resale formula.<sup>1</sup> This same type of resale formula can also be used on rental properties.

As such, a CLT can be a very effective tool to assist a community in addressing its long-term affordable housing needs. CLTs ensure that the bulk of community resources and investment in affordable housing stay *in* the community for the long-term benefit *of* the community rather than

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<sup>1</sup> A study conducted by the Burlington Community Land Trust revealed that the average income of a first-time homebuyer was 62% of Burlington's *Area Median Income* (AMI). Upon resale, those same homes were affordable to households earning on average 57% of the AMI.

going into individual hands. Housing developed on CLT lands also provides low- and modest-income households with a “hand-up” rather than a “hand-out.”

## **2.2 What a Community Land Trust is Not**

Community Land Trusts do not acquire and protect environmentally sensitive land or natural habitat. Such organizations are conservation Land Trusts. While many of these conservation Land Trusts call themselves *Community* Land Trusts, they are not Community Land Trusts in terms of the model originally developed and championed by the Institute for Community Economics out of Springfield, Massachusetts.

In most cases, CLTs also do not provide housing for high-income or high-net-worth households since these households are typically able to access housing that is affordable to them through the open housing market. In some cases, however, CLTs *may* provide housing for *modest-* or *middle-* income households as a means of encouraging more mixed-use/mixed-income developments. These developments are often seen as more financially and socially viable. By mixing households of different income levels in a single development, it becomes harder to know who is low-income and who is not (thus avoiding potential stereotyping and stigmatization). Whether or not a CLT can pursue mixed-income housing projects depends greatly on whether or not it has charitable status and what legal restrictions may be applied to that status.

## **2.3 Why a Community Land Trust?**

Community Land Trusts are a sustainable approach to addressing both a community’s short- and long-term affordable housing needs. They are recognized for their ability to:

- Provide *perpetually* affordable housing (rather than short-term affordability);
- Prevent private windfalls from public subsidies;
- Promote long-term subsidy retention; and
- Encourage community development through strategic partnerships.

CLTs have emerged as a solution to affordable housing in communities where:

1. The market is either unable or unwilling to provide affordable housing for low-income households;
2. Public subsidies to help the market provide affordable housing are seen as either too costly or at risk of constantly increasing as the cost of housing continues to escalate while incomes remain flat; and/or
3. Public subsidies for affordable housing risk going into the hands of individuals either in the short term because there are no affordability restrictions in place or in the long term when affordability restrictions eventually expire.

In communities experiencing rapid growth and polarizing income levels, supply and demand dynamics can make it extremely difficult to build housing that is affordable to low- and modest-income households. In these communities, the combination of:

- high land costs
- high construction labour costs
- high construction materials costs
- planning restrictions
- community opposition (NIMBY)

increase the overall costs of developing housing to a point where it is no longer affordable to lower-income households.

CLTs can help to increase the supply of affordable housing in a community in several key ways:

- CLTs separate the cost of the land from the cost of the home. The individual household pays primarily for the cost of the home and a very modest monthly lease fee on the land.
- As non-profit organizations, CLTs reduce the profit component from the end cost of the home. In some cases, CLTs develop housing in partnership with for-profit builders and developers. In these cases the private developer earns a modest profit for their participation in the project. However, the overall project remains primarily non-profit (or at least reduced profit).
- CLTs can acquire existing buildings in the community and preserve that stock of affordable housing by removing it from the speculative market. The loss of affordable rental housing can be a major concern in communities where rental units are rapidly being converted to condominiums.

## **2.4 Critical Success Factors for Community Land Trusts**

Based on previous research conducted by the Consultant, there are a number of common critical success factors for CLTs. These include:

- The ability to acquire and develop appropriate land;
- Creating a sustainable business plan;
- Having strong and effective leadership and administration;
- Developing and maintaining effective community partnerships;
- Securing sufficient and ongoing funding and capitalization;
- Obtaining and maintaining community support both for the initiative and for affordable housing; and
- Maintaining a commitment to responsible due diligence and risk management.

These success factors are key in evaluating the potential viability of a CLT for St. Albert.

## Chapter 3: Key Findings from This Study

This feasibility study examined the potential viability of creating a CLT in St. Albert from three different perspectives:

1. Political Viability
2. Practical Viability
3. Financial Viability

### 3.1 Political Viability

The political viability of a CLT is based on the likely support the initiative will gain from:

- Council and Administration
- the Community-at-Large
- the Development Industry

#### 3.1.1 Council and Administration

The Mayor and several members of Council have openly expressed their support not only for affordable housing but for creating an action-oriented initiative that will achieve the desired outcome of new affordable housing being created in the community. Council has supported allocating substantial public dollars and staff resources over the past six years to conducting the necessary research, developing the necessary plans and supporting the Affordable Housing Advisory Board (AHAB) in an effort to find appropriate solutions to the lack of affordable housing and choice in St. Albert. Council has recently approved a recommendation for Administration and AHAB to begin the process of transitioning from an advisory board to a non-profit organization. A business case has been put forward for consideration by Council to allocate \$150,000 (2007) and \$100,000 (2008) towards affordable housing initiatives that may include municipal tax incentives and grants to support affordable housing. Administration is also in the process of developing a package of initiatives, including planning incentives, that are designed to encourage more affordable housing and choice in the community. As such, there appears to be broad support from Council and Administration for both affordable housing and a CLT. Maintaining that support will require the CLT to consistently achieve tangible results (i.e., new affordable housing) in a timely and cost-effective manner.

#### 3.1.2 Community-at-Large

Anecdotal evidence from Council, Administration, the private sector and the non-profit sector indicates that the Community-at-Large may not be overly supportive of affordable housing – especially high-density affordable housing and housing that is affordable to very low-income households. Private developers regularly experience NIMBY (“Not in My Backyard”) opposition to new housing development proposals. Numerous participants in this research expressed the concern that the community-at-large may fear that “affordable housing” will bring “indigent people” into their neighbourhoods.

St. Albert also has one of the highest residential property tax rates in Alberta. It was widely expressed by participants in this Study that the community feels over-taxed and will likely oppose any increase in public taxes to support affordable housing (i.e., subsidize individual residents).

The CLT will, therefore, need to make community outreach and education one of its core functions; ideally in partnership with the City and with local non-profits and service providers. CLTs are a relatively “new” phenomenon in Canada, let alone St. Albert, and are based on a somewhat unconventional philosophy about affordable housing and homeownership. The CLT may need to invest significant resources (time and money) into building support among potential funders/donors, community organizations, the business community (including the development industry), potential clients, and the community-at-large not only for affordable housing but for the CLT model itself.

The CLT will also need to ensure that new affordable housing developments on its lands are both high quality and architecturally compatible within their surrounding neighbourhoods. Simple design need not look “cheap.”

### **3.1.3 Development Industry**

Support from the development industry is likely to be varied. It is expected that some private sector developers, builders and rental property owners may see the CLT as benefiting unfairly from public subsidies in the form of donated land and money from the City, Province and/or Federal Government. Others may perceive the CLT benefiting from special treatment by the City’s planning department (e.g., inconsistent zoning relaxations). However, other developers and builders may see the CLT as a vehicle that allows them to participate in one-off affordable housing projects that meet a social need in the community, thereby allowing them to meet their own socially-minded interests and/or marketing needs.

The CLT will need to work hard to create genuine partnerships with both the City and the private sector to find creative and mutually beneficial solutions to increase St. Albert’s housing affordability and choice. The City will also need to play an ongoing leadership role in the community encouraging the private sector to find economical ways in which to support and participate in CLT-sponsored affordable housing initiatives.

## **3.2 Practical Viability**

The practical viability of a CLT depends on its overall:

- Land Acquisition Capacity;
- Development Capacity;
- Support Capacity; and
- Structural Capacity

In other words, the ability of the organization – either internally or through strategic partnerships – to mobilize the resources it needs to:

- Acquire land;
- Develop/service that land;
- Build affordable housing;
- Manage that housing; and
- Provide appropriate support services where necessary to residents

### **3.2.1 Land Acquisition**

It is expected that acquiring suitable land for affordable housing development will consistently present a challenge for the CLT; but one that can be overcome through diligence and effort. There is a limited supply of available, developable land in St. Albert and a great deal of competition from the development industry for that land. The private sector has both deeper pockets and greater financing capacity, making it easier and faster for developers to purchase private lands that become available for sale.

The most likely sources of land will come from government, especially in the short-term until the CLT has developed both a strong enough reputation and profile in the community and sufficient financial and staff resources to identify and secure land (through purchase or possibly donation) from the private sector. The City of St. Albert has identified the Badger Lands as a possible source of land for the CLT. However, this land may not be ready for development for another five to six years and may not be available depending on the outcome of the Budget Needs Assessment. In the interim, other municipal land may need to be identified.

Opportunities may also be available to acquire land from other non-profit and charitable organizations (e.g., churches). However these opportunities will be limited as many of these organizations will either be unable or unwilling to transfer ownership of their land. Where these opportunities do present themselves, these lands will likely need to be purchased.

### **3.2.2 Development Capacity**

It is critical that the CLT be successful in actually creating new affordable housing in the community. That requires solid development capacity (expertise and resources).

There appears to be substantial housing development capacity in the community. This capacity is almost exclusively private sector. The private sector, however, is not actively involved in developing housing that is affordable to low- and modest-income households (i.e., non-market housing) and is having difficulty even lowering the current threshold of entry-level housing. Rather, the private sector is busy meeting the growing demand for middle- and higher-end market housing. Additional development capacity exists regionally, where a larger number of for-profit and non-profit organizations are involved in developing affordable housing. These organizations may be constrained in their ability to assist St. Albert in developing new affordable housing given their existing capacity and their ability to participate in projects outside the City of Edmonton (the Edmonton Housing Trust Fund, for example, can only operate within the City of Edmonton proper and not outside the municipal boundaries). Currently, the community does not have sufficient non-profit or affordable housing development capacity to achieve the desired outcomes. It is also unlikely that the CLT will be able to assemble all of the required capacity internally to achieve its desired outcomes in the short-term. This means the CLT will have to

focus its efforts initially on developing community partnerships (i.e., Triple-P partnerships) by finding creative and effective ways to engage the local private sector and/or the regional private and non-profit sector to provide assistance. In the long-term, however, it may be possible for the CLT to develop that capacity and expertise internally.

The CLT will likely experience the same level of risk associated with housing development as other for-profit developers. Housing development can be a high-risk activity and subject to market fluctuations. Managing that potential risk will therefore be an essential consideration for the CLT and underlines the need not only to build a solid organization with an experienced Board of Directors and Staff but also to develop strategic partnerships within the community and with other experts in the housing and development industry who understand the market and can help prevent the CLT from overextending itself or taking on too much risk. It should also become a standard practice to conduct individual (i.e., on a project-by-project basis) market feasibility studies to confirm that there is in fact a market for the proposed housing project and that the housing market is stable enough for that project to remain financially viable both in the short- and long-term.

The CLT will also likely face the same planning challenges that the for-profit sector faces when developing housing. It will likely experience the same challenges providing an affordable end project that private developers face due to current planning requirements (e.g., maximum densities, minimum parking requirements, etc.) that will limit the number, size and type of units that can be developed on any given parcel of land (thereby reducing possible cost savings that could be achieved by spreading land and overhead costs over a larger number of units). The CLT will also likely face community opposition in many of the projects that it seeks to develop, which may add to the end cost of any housing it seeks to develop as a result of project delays, concept revisions and added features and amenities negotiated in response to that opposition. The CLT will also have to compete with the private sector to engage the limited number of trade workers and subcontractors to develop housing. As such, the CLT will need to work hard to establish itself as a genuine partner working with both the Municipality and the private sector to find creative and mutually beneficial solutions to overcome these many challenges. The CLT cannot be seen as a panacea solution to affordable housing but rather one element in a larger package of municipal initiatives that seek to address the structural and planning barriers to providing affordable housing in St. Albert.

### **3.2.3 Support Capacity**

Support capacity consists of property management services (in the case of rental housing) and social/community support services.

Currently, St. Albert does not have a formally incorporated non-profit rental housing provider or property manager. Market rental housing is also limited in St. Albert. There are a few local non-profits and charities that own and maintain rental housing for their clients, but these too are limited. Where appropriate and economically viable, there may be opportunities for existing non-profits to expand their housing portfolio in partnership with the CLT. However, many of the local non-profits not already engaged in providing housing for their clients do not foresee either a desire or the ability to expand their mandates to include housing. Thus, the CLT will likely either have to provide property management services itself or (preferably) contract those services out to the private sector if it intends to develop and/or own rental housing.

Social and community support services, on the other hand, appear to be plentiful and well coordinated to meet the needs of a wide range of families and individuals in St. Albert. The St. Albert Family and Community Support Services is currently conducting a needs assessment to determine what service gaps may exist in the community and if so, which of those services make sense to provide locally. It is reasonable to conclude that if the CLT were to develop affordable housing, the necessary support services would be both available and actively engaged in supporting CLT households – albeit strictly from a support service perspective.

### **3.2.4 Structural Capacity**

Several members of the Affordable Housing Advisory Board have current and/or past experience in a combination of real estate, non-profit housing management, law and community development. The City of St. Albert has also recently hired an Affordable Housing Coordinator with extensive experience in Project Management. As such, AHAB has the beginnings of a foundation for the CLT. The Board's capacity will, however, need to be increased by recruiting additional board members with specialized land and housing development expertise. This expertise includes:

- Property Management
- Law (experience with both non-profits/charities and real estate)
- Fundraising (securing both private donations and government grants)
- Real Estate and Land Development
- Affordable Housing Design & Construction
- City Planning
- Banking and Mortgage Financing
- Home Inspection
- Financial Management & Accounting
- Business Management
- Communications
- Environmental Management
- Homeownership Education & Training
- Community Development

### **3.3 Financial Viability**

The financial viability of the CLT will depend on its ability to secure funding in two areas:

- Operations
- Capital Projects (including land acquisition and housing development)

It is important to note that, while funding for both operations and capital projects are available, this funding is limited, is subject to considerable competition among non-profits and charities, and often comes with a number of “strings” attached.

#### **3.3.1 Operations**

The CLT will need to secure ongoing operating dollars to support its staff and to pay for office space and equipment. Additional operating dollars will be required to retain ongoing legal and accounting services and to hire consultants on a project-specific basis. Securing sufficient operating dollars is a common challenge among non-profits – whether or not they are registered charities. The CLT will likely experience the same challenges and will therefore need to develop a long-term strategy for becoming financially self-sufficient.

In the short-term, operating dollars *may* be available through various government programs and foundations, including:

- Alberta Real Estate Foundation
- Service Canada (NHI Capacity Development)
- Alberta Lottery Fund (Community Initiatives Program, the Wild Rose Fund)
- In-kind/pro bono private sector contributions

#### **3.3.2 Capital Projects**

The CLT will need to secure some level of external capital funding for most if not all of its housing projects to pay for land acquisition and development, feasibility studies, design services, capital construction, municipal fees, etc. Current sources of funding include:

- CMHC (Seed Funding, Proposal Development Fund Loans, RRAP grants, etc.)
- National Homelessness Initiative (SCPI, SFRPHI)
- Alberta Seniors and Community Supports (AHPI and various seniors’ housing programs)

It is essential that the CLT move quickly to take advantage of any funding opportunities that exist currently both for operations and for capital projects.

The CLT will also need to secure some level of bank financing and mortgage insurance for most if not all of its housing projects. Financing will typically come from the chartered banks and local credit unions. However, securing bank financing may be difficult for the CLT – both because of its non-profit status and its affordable housing mandate. Non-profits can be perceived as high-risk

for banks because of the potential volatility of their short- and long-term income streams. Since banks risk facing a public relations nightmare should they be required to foreclose on a non-profit, they may take extra measures to minimize the potential risks of lending to the CLT. Affordable housing projects also tend to have a lower market value than other similar projects earning market rates of return because of the capitalization rates applied to housing projects. In which case, CLT projects may not be eligible for the same level of financing as market housing projects despite the fact that many of the basic construction costs of both types of projects may be similar.

This is particularly the case for housing projects that guaranteed permanent affordability through a CLT since CMHC will not provide mortgage insurance:

*“Should a bank foreclose on an individual homeowner and CMHC be required to pay out the insurance and take possession of the unit, CMHC does not want the resale of that asset limited either in price or to whom the property may be sold (i.e., CMHC wishes to be able to resell that property at its highest and best value).”<sup>2</sup>*

In order for the CLT to secure bank financing for its projects, it may require either enough upfront equity to negate the need for mortgage insurance (i.e., a minimum 25% equity or downpayment) and/or seek mortgage insurance through Genworth Financial – Canada (formerly GE Capital).<sup>3</sup>

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<sup>2</sup> CMHC (2005) *Critical Success Factors for Community Land Trusts in Canada*, p. 30.

<sup>3</sup> GE Capital is originally from the U.S. where a combination of legislation and tax credits have encouraged financial institutions and mortgage insurers to support CLTs and other forms of perpetually affordable housing. As a result, GE Capital (and therefore Genworth Financial – Canada have a longer history and better understanding of the risks associated with underwriting perpetually affordable housing).

# Chapter 4: Options and Implications

## 4.1 Approach to Affordable Housing

Based on the feedback received during this feasibility study, there are three alternative approaches that St. Albert can pursue to address its affordable housing needs:

1. Rely on the Market
2. Create a Community Land Trust
3. Create a Non-Profit Housing Development Corporation

### 4.1.1 *Rely on the Market*

This alternative would see the City of St. Albert focusing its energy and resources on finding ways to assist the private-sector in meeting the community's affordable housing needs rather than creating a new, non-profit organization to meet those needs.

Under this alternative, the City would focus on two core initiatives:

1. Providing financial incentives (e.g., reduced planning fees, tax deferrals, etc.), and developing more flexible zoning opportunities (increased density, reduced parking, etc.) to lower the cost of entry-level market housing (ownership and rental); and
2. Providing direct financial subsidies to low-income households to allow them to afford (and therefore encourage developers to build) appropriate market rate rental housing.

There is logic in this alternative. The private sector already has the capacity and expertise to develop and build housing. These developers are not currently involved in providing housing that is affordable to modest-income households because of the difficulty in achieving the same level of profits as higher-end housing. Current restrictions on density and other planning requirements (e.g., maximum site coverage) limit the total number of units that can be built on a given parcel of land, which means that the land costs, site servicing costs, and developer's overhead costs have to be shared across a fewer number of units, thus raising the per-unit costs.

By making it easier and cheaper for developers to build housing, presumably those cost savings would be passed on to the consumer in terms of lower housing prices. By increasing the incomes of low-income households (or at least the income allocated to housing) to the point where they could afford market rental housing, it could become more financially viable for developers to build rental housing, thus increasing the rental stock in St. Albert.

However, just on its own, this alternative is not likely to produce all of the results necessary (i.e., the number of units at the levels of affordability required) without significant public subsidy in the form of reduced municipal income (ongoing tax incentives and lost permit and fee revenue) and the potentially escalating costs of direct income subsidies to low-income households. The Province of Alberta has moved away from direct income subsidies for rental housing (i.e., the Private Landlord Rent Supplement program – or PLRS) because of the substantial drain on public

coffers of trying to subsidize the growing gap between what subsidized households are earning and the escalating costs of market rental housing.

Nor is this alternative likely to produce permanent affordability. Other municipalities have experimented with creative zoning and reduced municipal fees for affordable housing development (e.g., Canmore). Through these incentives, they were able to encourage the market to provide relatively more affordable housing. However, in the case of homeownership, this housing was only affordable to the *first-time* homeowner. It also provided opportunities for investors to purchase and flip that housing for a substantial profit once market forces took over.

#### **4.1.2 Create a Community Land Trust**

This alternative would see the municipality supporting the creation of a non-profit organization (charitable or otherwise) to acquire and manage contributions of land to ensure those lands are always used exclusively for affordable housing for low- and modest-income households.

Under this alternative, the CLT would focus its energy and resources almost exclusively on two activities: 1) acquiring and owning parcels of land for affordable housing; and 2) forming strategic partnerships with other organizations in the community and region (either for-profit or non-profit) to develop, build, own, manage and operate a wide range of affordable housing projects on the CLTs land. These projects could be for homeownership, rental or transitional housing/emergency shelters.

There is both logic and precedent with this alternative. The Calgary Community Land Trust Society developed this model and has been using it effectively for the past five years. The organization has one project completed (27 townhouse units in partnership with Habitat for Humanity-Calgary), has two projects under construction (a 12-unit townhouse development again in partnership with Habitat and a 10-bed supportive/transitional housing project in partnership with the Canadian Paraplegic Association (Alberta)), and is currently pursuing a partnership with a Calgary church congregation to develop potentially up to 40 units of affordable housing on two separate parcels.

By focusing exclusively on land acquisition and forming strategic partnerships to build and manage the housing, this model allows the various non-profit organizations involved in housing-related supports and activities to remain focused on what they do best, while bringing them together to achieve greater synergy and leverage. By retaining ownership of the land, the CLT ensures that the housing built on its land cannot be flipped, remains *perpetually* affordable, and is only used to house those in the community who truly need that affordable housing. By ensuring long-term affordability, this model makes better use of limited public resources and is a key strategy in achieving greater subsidy retention (i.e., keeping the value of public subsidies in the hands of the community rather than the hands of private individuals).

The challenge with this model is that it relies heavily on partnerships, which may or may not be available in the community and/or interested in participating in affordable housing. As the findings from this study show, there is limited non-profit housing development and management capacity in the community with which the CLT could partner. As in many communities, there are

a limited number of for-profit housing developers willing or able to develop housing that is affordable to the low- or modest-income households that the CLT would strive to serve.

This model also relies heavily on donations and grants to acquire land – which may or may not be forthcoming; especially in the short-term. It was widely expressed by participants in this study that currently, the St. Albert community seems to be “tapped out” by fundraising initiatives for other large-scale community projects (e.g., the recreation centre). In order to acquire donations, the CLT would need to be a registered charity able to issue tax receipts for those donations. As a registered charity, the CLT would be limited in its ability to house a variety of income levels (i.e., limited to providing housing to those defined as living in poverty) or participate in mixed-income or combination market/non-market housing projects.

This model alone will also not address some of the planning barriers that prevent more relatively affordable housing from being created. A CLT will likely run into the same challenges in its pursuit of affordable housing the private sector encounters in terms of zoning and other planning requirements. Furthermore, it will likely have more challenges arranging bank financing and mortgage insurance due to the market value (cap rate) of its projects and perpetually affordable nature of its housing.

It could also be argued that a charitable CLT would more likely run into problems with community opposition (NIMBY) due to the clients the CLT would be trying to house.

#### ***4.1.3 Create a Non-Profit Development Corporation***

This alternative would see the municipality supporting the creation of a non-profit (and non-charitable) organization that would function in the same way that a private developer would but on a non-profit basis and focused primarily (but not exclusively) on providing affordable non-market and near-market housing.

Under this alternative, the Non-Profit Development Corporation (NPDC) would focus its energy and resources not only on acquiring and owning parcels of land for affordable housing but also on developing, building, owning, managing and operating a wide range of affordable housing projects (rental and ownership) either on its own or in partnership with other organizations.

The advantage of this model is that all aspects of housing development, construction and management remain non-profit, thus removing the profit motive from the housing equation (and costs) and minimizing the chances of public subsidies going directly into the hands of individuals. It creates an organization that remains focused on a daily basis on finding ways to get new affordable housing units built in the community. It also creates an organization that may be less dependent on local and regional partnerships that may or may not be available.

As a non-profit (rather than a registered charity), the NPDC is better able to house a wider range of income groups (low, modest, moderate, average, etc.), thus participating in mixed-income and combination market/non-market housing projects. The typically greater financial viability of these projects may provide more opportunities for the organization to become financially self-sufficient. By mixing income groups in individual projects, the NPDC may encounter fewer incidents of NIMBY than a charitable CLT.

As a developer, the NPDC would not necessarily be restricted to developing on land that it acquires and owns itself. Rather, it could provide its development services to other community organizations such as churches and non-profits that want to help meet some of the community's affordable housing needs but still want to (or have to) retain ownership of their land themselves.

The challenge with this model is that it will be in direct competition with the for-profit developers for land, materials, capital, and trades. Shallower pockets will mean the NPDC will likely face greater challenges in securing those resources, especially in the short-term.

As a non-charitable non-profit, the NPDC would not be able to issue tax receipts directly, making it more difficult to acquire donations. In the absence of an organization legally able to flow charitable donations to non-profit activities, the NPDC would have to raise its own capital (equity and financing) and ensure that its housing projects were financially viable through grants and cost recovery.

Nor does this model alone address some of the barriers that prevent more relatively affordable housing from being created. Like a CLT, the NPDC will likely run into the same challenges in its pursuit of affordable housing that the private sector encounters. Furthermore, it will likely experience the same challenges arranging bank financing due to the market value (cap rate) of its projects and mortgage insurance if it attempted to provide perpetually affordable housing in the same way a CLT does (i.e., through direct and ongoing ownership of the land) rather than through caveats that can ultimately be lifted by the mortgage insurer.

This model also has the potential to have the highest short-term financial costs and the steepest short-term learning curve of the three alternatives. It also presents the greatest duplication of services by replicating the services currently provided by the private sector locally and other non-profits regionally – some of whom may be in the process of restructuring their operations and mandates to allow a more regional focus and reach.

## **4.2 Structure and Mandate**

There are several options available to the CLT in terms of its structure, mandate and focus.

### **4.2.1 Ownership**

The question was raised as to whether the CLT should be its own separate legal entity or should it be a solely owned subsidiary (or department) of the City of St. Albert.

As a separate legal entity, the CLT would have a certain degree of autonomy from the City and could operate with more flexibility. As a separate legal entity whose creation was supported by the City, the CLT could serve as a symbol of the City's leadership and genuine commitment to affordable housing without the perception of the City having to be in control of how that housing is built. As a neutral party in the local housing development industry, it might be in a better position to form partnerships with the private sector, non-profit sector and all three levels/orders of government. As a separate entity, the CLT could potentially serve as a bridge between the private sector and the City; providing a safe and appropriate testing ground upon which to

introduce and evaluate the effectiveness of different municipal zoning, permitting and fee strategies.

As a subsidiary or department of the City, the CLT could be perceived by the private sector as the City competing directly and unfairly with private developers, thereby reducing their willingness to participate in any future affordable housing projects. The City could also end up having to bear the sole responsibility and financial burden of developing and managing all new affordable housing in the community.

In larger urban centres like Edmonton and Calgary, the municipality owns an affordable or social housing development agency (e.g., the Calgary Housing Company). However, in smaller communities like St. Albert, this may be less appropriate.

#### **4.2.2 Mandate**

As described above, the CLT could focus exclusively on acquiring and owning land and form strategic partnerships to develop, build, manage and operate the affordable housing. Alternatively, the CLT could become a non-profit housing developer performing any or all of those duties itself. The pros and cons of either option are detailed above and need not be repeated.

It is conceivable that the CLT could focus initially on simply acquiring and owning land for affordable housing as a short-term strategy. In the long-term, as opportunities present themselves and as the organization builds its internal capacity, it could begin to take on more development and construction responsibilities and ultimately grow into a non-profit development corporation. As with the charitable/non-charitable option described above, the CLT could eventually evolve into two separate legal entities under a single umbrella: 1) a registered charity that acquires, owns and manages donations of land for affordable housing for low- and modest-income households; and 2) a non-profit development corporation that develops, builds and in some cases operates affordable housing on its own (non-donated) lands, CLT lands and lands owned by other non-profits or registered charities in the community.

#### **4.2.3 Legal Status**

It is expected that the CLT would incorporate itself as a non-profit society under the *Societies Act of Alberta*. In doing so, it would be governed both by the provisions of the *Societies Act* and its own bylaws. The CLT would have members who would elect a Board of Directors to govern its day-to-day activities. As a non-profit society, it would still be able (and in some cases expected) to generate an operating surplus; however, that surplus would remain with the society as long as it remained solvent and not go to individual members.

As a non-profit society, the CLT would have two options: 1) to remain strictly non-profit; or 2) seek to register as a *charitable* non-profit with Canada Revenue Agency (CRA). There are advantages and disadvantages to both options.

As a registered charity, the CLT would be able to issue tax receipts for any donations it received which would give it an advantage in securing donations from private companies and individuals in the community. These donations could be in the form of real property (bare land or land and

buildings), money, stocks, etc. and would greatly assist the CLT in achieving its goals. The downside is that a registered housing charity can typically only pursue projects that are clearly designed to reduce poverty by serving (either directly or indirectly) low-income households who are clearly living in poverty. These households would typically earn incomes at or below either the Statistics Canada *Low-Income Cutoffs* (LICOs) or the *Core Need Income Thresholds* (CNITs) as defined annually by CMHC and Alberta Seniors and Community Supports. The CLT would not normally be able to participate in mixed-income or combination market/non-market housing projects except under very tight and clear conditions.

As a standard non-profit (i.e., non-charitable), the CLT would be able to participate readily in mixed-income or combination market/non-market housing projects without affecting its corporate status. These projects could be 50:50 market/non-market developments providing housing to both low- and modest-income households as well as market tenants. This has the advantage of creating housing projects that may be more financially and socially viable and avoid potential issues with “ghettoizing” or stigmatizing low-income households. The downside is that the CLT will not be able to issue tax receipts, and would therefore have a harder time securing private donations. Any additional grants or capital contributions necessary to make its projects financially viable would have to come from government. As a standard non-profit, the CLT would likely have to rely heavily on land gifted by the City.

The decision of whether to become a registered charity or remain a standard non-profit depends a great deal on the likelihood that donations are going to be forthcoming and whether or not those donations are critical to the organization’s ability to develop housing that is affordable to the intended target population.

It is conceivable that two separate but integrated legal entities could be incorporated under the umbrella of the CLT. In this case one arm of the organization would remain a non-profit that owned land and buildings that served a mix of income groups while the other arm would be a registered charity that owned land and buildings that housed almost exclusively low-income households. There is precedent for this type of structure.

#### **4.2.4 Target Population**

The decision as to whether the CLT should be a registered charity or a standard non-profit depends greatly on the population(s) the CLT intends to serve. If the CLT intends to serve the community’s low- and modest-income households (i.e., those whose incomes fall at or below either the Low-Income Cutoff – LICO – or the Core Need Income Threshold - CNIT), then the CLT may be well positioned to register itself as a charity. If, however, the CLT intends to serve moderate-income households (e.g., teachers, nurses, ambulance attendants, etc.), the CLT will *not* be able to do so as a registered charity unless these households represent a limited fraction of the total population served (i.e., no more than 33% of the CLT’s customers per Canada Revenue Agency policies). There are advantages and disadvantages to focusing on either target group.

Several studies conducted by the City of St. Albert assessing its housing needs indicate a need for more housing choices across the continuum but emphasize the greatest need for households whose income falls at or below CNIT (i.e., low- and modest income households).

Low- and modest-income households come in a variety of “shapes and sizes.” They include seniors, students, young adults, young families, single parents, persons with disabilities, persons on income supports, and a variety of individuals working in the tertiary/service sector. A lack of housing that is affordable to these people means that they cannot live, work *and* participate in the St. Albert community. Many of these people may find that they have to leave the community in order to find appropriate housing. This may have a negative impact on the community’s overall social stability. Others, especially young adults and students, may find that they have to remain living with their parents in order to make ends meet.

Some low- and modest-income individuals and households are currently accessing numerous supports and related services in the community. The lack of housing affordability for this population may be undermining or limiting the effectiveness of those support services. Providing affordable housing for low- and modest-income households could help to improve the effectiveness of these supports and promote longer-lasting results, thereby reducing dependency on those supports over time.

The lack of affordable housing for low- and modest-income households means that local businesses may be suffering because they cannot recruit and retain enough staff. This can have an impact on the quality and availability of retail services that local residents can access. Local businesses may have to start recruiting staff from outside the community (e.g., Edmonton). When businesses bring in staff from outside the community, vital dollars tend to leave the community on a daily basis as these staff spend their locally-earned paycheques back in their home neighbourhood rather than in St. Albert. There can also be issues with transportation and the willingness of service staff to commute to St. Albert when similar paying jobs already exist and are available closer to home and don’t require the individual to own a car.

The downstream affect of the lack of affordable housing for low- and modest-income households in the community is that St. Albert may find it increasingly difficult to recruit and retain new businesses. This has an impact on the community’s tax base; increasing the community’s dependency on residential property taxes to maintain municipal and community services and facilities.

The disadvantage of focusing on low- and modest-income households is that these households are typically easier to stereotype and judge. Attempts to provide housing for this population can often encounter NIMBY, especially if there is not a lot of understanding or support for affordable housing in the community. The CLT may also run into difficulties providing housing that is sufficiently affordable to be both financially viable from a project perspective and economically affordable for the individual households.

On the flip side, however, providing housing that is affordable to moderate-income households (e.g., teachers, nurses, ambulance attendants, etc.) is more likely to gain support from the broader community. These households are seen as providing “essential services” that benefit the community as a whole. They are also typically less controversial as potential neighbours, which may help to reduce incidences of NIMBY. These households can also afford higher rents/housing costs which increases the likelihood that the CLT will be able to develop financially viable affordable housing for this population.

In the long-term, if the CLT decides to incorporate two separate organizations under a single umbrella – one that is chartable and one that is a standard non-profit – the CLT will likely be able to serve both populations. The challenge is which population to serve first. Serving modest-income households in the CLT's first projects could help to ease the community into the idea of affordable housing.

#### **4.2.5 Target Tenure**

The CLT has the option of focusing just on rental housing, just on homeownership, or both. Participants in this study consistently stated that both tenure options are needed in the St. Albert and that the CLT should therefore pursue both rental and homeownership.

In either case, as the legal owner of the land, the CLT will need to enter into long-term lease agreements with its development and management partners. In the case of rental projects, the individual rental housing provider would maintain a leasehold interest in the land while renting the individual units to its tenants. In the case of most homeownership projects, the CLT would maintain a separate leasehold agreement with each individual homeowner similar to the agreements maintained by homeowners who purchase homes in National Parks (e.g., Jasper and Banff) or on reserves (e.g., Redwood Meadows near Calgary). In some cases (e.g., a partnership with Habitat for Humanity to develop owner-occupied townhouses), the CLT would maintain a single leasehold agreement with Habitat and then Habitat would maintain individual sub-leasehold agreements with each of its homeowners.

#### **4.2.6 Role of the Board of Directors**

There are two options for the role of the Board of Directors. One option would see the Board as strictly a policy Board. The Board focused exclusively on policy development and oversight, and ongoing operations of the Society are the responsibility of staff. The other option would see the CLT led by a working Board of Directors where the Board is actively involved in assisting the staff with the ongoing operations of the Society.

Initially, during the start-up phase and first couple years of the CLT's existence, the Board will likely need to be actively involved in day-to-day operations in order to get the organization off the ground. Staff resources will likely be limited as the CLT will not have sufficient financial resources or a dedicated stream of income to hire a full complement of staff. There will also be a steep learning curve and the CLT will need to rely on the skills, expertise and experience of its Board of Directors.

As the organization evolves and is able to access more funding sources (including potential cost recover from some of its projects), the CLT can hire more staff. At this point, the Board can start to pull back and limit its role to policy development and oversight.

## Chapter 5: Recommendations

Based on the findings from this feasibility study, it appears that a CLT is both possible and appropriate for St. Albert. However, it will likely encounter numerous challenges in its pursuit of affordable housing, primarily in terms of development capacity, fundraising and community support. These issues are common among non-profits attempting to develop affordable housing. The success of the CLT will depend on its ability to overcome those challenges.

The following recommendations are based on a number of key guiding principles; namely:

- Maximize existing community capacity before building new community capacity
- Choose the most cost-effective solution(s)
- Focus on *Results*
- Maximize leveraging of resources
- Meet a full-range of housing needs, options and opportunities
- Ensure that community investments remain in the community
- Keep your options open
- Minimize risk
- Minimize overlap, duplication and unnecessary competition

### **Recommendation #1: Proceed with Establishing a Community Land Trust**

It is recommended that the City of St. Albert proceed with establishing a Community Land Trust to meet both its short- and long-term affordable housing needs as part of an overall strategy that includes planning strategies and development incentives.

### **Recommendation #2: Focus on Transitions**

It is recommended that the City of St. Albert create an organization capable of transitioning over time as it builds more capacity and expertise. This focus on transitions is designed to reconcile several outstanding issues/questions about the desired mandate and focus of the organization. Potential transitions include:

***Affordable Housing Advisory Board:*** In the short-term, the current membership of AHAB may be sufficient to set up the CLT with additional support from the City and hired consultants (e.g., legal and technical services). In the long-term, membership in AHAB will need to be increased to ensure it has the full range of expertise necessary to fundraise and develop affordable housing.

**Legal Status:** In the short-term, the CLT could be a non-profit Society. In the long-term, it should consider establishing a registered charity – either as a partner organization or as a sister organization under a single, larger umbrella.

**Housing Focus:** In the short-term, as a non-profit, the CLT could focus on mixed-income and entry-level housing that is seen as more palatable to the community-at-large. In the long-term, as a registered charity, it could expand its focus to serve lower-income households as the community becomes more familiar and accepting of affordable housing.

The CLT should also consider choosing as its first housing project one that is relatively easy to build, small- to medium-scale development that serves a moderate-need population and that can be developed through a partnership with only one or two other organizations. In other words, the CLT should *not* attempt to develop a large-scale project for a high-needs population that requires many partners as its first housing project. More challenging projects can be pursued later as the organization’s capacity and experience increases.

**Mandate:** In the short-term, given its limited capacity, the CLT should focus exclusively on acquiring land, while forming strategic partnerships with other organizations to develop and manage affordable housing on that land. In the long-term, the CLT could increase its capacity to serve as a non-profit development corporation.

**Recommendation #3: Develop a Business Plan**

Should the City of St. Albert decide to proceed with creating a CLT, a solid business plan will need to be developed that clearly articulates the goals and objectives of the CLT, define how the organization will operate in order to achieve those goals, and how it will transition over time. The business plan will need to include the following components:

- Background**
  - Vision and Mission
  - Goals and Objectives
  - Issues, Challenges and Opportunities
  - Target Market(s) – Housing and Clients
  - Critical Success Factors
  
- Organization and Operations**
  - Legal Structure
  - Governance
  - Management and Staffing
  - External Partnerships
  - Due Diligence Requirements
  
- Communications and Marketing**
  - Goals and Objectives
  - Key Audiences
  - Positioning and Strategies

*Growth Strategy*

- Goals and Objectives
- Key Assumptions
- Growth Strategy and Projections

*Financing*

- Capital
- Operations
- Sustainability

*Appendices*

- Bylaws
- Feasibility Study Findings
- Human Resources – Job Descriptions

This business plan should be viewed as a living document that is regularly reviewed and updated where necessary to respond to changing needs in the community and changing financial and market conditions.

**Recommendation #4: Recruit Key Experts**

As mentioned above, the membership of AHAB will need to be expanded to ensure the organization has the necessary expertise in housing development, fundraising and business management to be effective and results-driven. The organization will need to be led by a group of committed, energetic and results-driven people who have demonstrated track records of mobilizing resources, overcoming obstacles and coordinating all aspects of housing development.

**Recommendation #5: Begin Educating the Broader Community**

Both the City and the CLT should partner in developing and implementing a broad community education and outreach program in an attempt to address potential issues with NIMBY. This program should focus not only on building understanding and support for affordable housing in general but also on building understanding and support for the CLT.

**Recommendation #6: Identify a Suitable Parcel of Municipal Land to**

While the City has identified the Badger Lands as a possible future source of land for the CLT, this land may not be ready for development for another five to six years and may not be available depending on the outcome of the Budget Needs Assessment. In the interim, it is recommended that another suitable parcel of municipal land be identified for the CLT's first housing project.

**Recommendation #7: Obtain Seed Funding (Operating and Capital)**

The CLT will require start-up funding for operations (i.e., to hire staff, pay for office space and equipment, hire legal and accounting services, contract other technical expertise and purchase liability insurance). Depending on which of the above can be donated/provided on a *pro bono* basis, the CLT should estimate between \$50,000 and \$100,000 in annual operating expenses. It is recommended that the City consider providing some of these services (e.g., office space, legal and accounting services) to the CLT during the organization's first year of operations while CLT staff seek alternative funding. Ideally, the CLT should seek a three- to five-year funding commitment to support its operating costs.

It is also recommended that the CLT seek a combination of Seed Funding and Proposal Development Fund (PDF) Loan funding through CMHC for its first housing project (and likely all subsequent housing projects). Depending on the specific nature of its first housing project (i.e., rental vs. ownership; families vs. seniors), the CLT will also likely be required to seek appropriate capital grants.