St. Clare's Multifaith Housing Society

25 Leonard Affordable Housing Project

Final Report to HomeGrown Solutions

April 2002

Preface

This report was produced under the aegis of ***Homegrown Solutions***, a grant program funded by the Canada Mortgage and Housing Corporation, and administered by the Canadian Housing and Renewal Association, the Co-operative Housing Federation of Canada, the Canadian Home Builders' Association and the Federation of Canadian Municipalities; these agencies are partners of the initiative and sit on the Executive Committee and the selection committees.

Initially, in 1995, ***Homegrown Solutions*** was funded by the federal government as part of the National Enablement Demonstration Initiative with the following goals:

1. assisting community organizations to respond to housing needs by determining and channelling new and existing resources available to their community;
2. demonstrating and sharing ideas and methods used to meet local housing needs.

Homegrown Solutions does not deal only with housing production: the initiative is an attempt to develop local potential and allow communities to be creative in their use of existing resources to meet local needs.

This final report was produced by the St. Clare's Multifaith Housing Society to document this initiative in order to share information with those wanting to address the need for affordable housing in their community.

In total, 66 initiatives have been funded in four selection rounds since 1996. Each demonstration initiative leads to a final report in order to share the experience acquired and lessons learned with other community organizations wanting to address affordable housing needs.

Further information on ***Homegrown Solutions***:

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Executive Summary

Project Highlights

The construction of 50 units of affordable apartments targeted to low income singles exiting the shelter system is the culmination of 5 years of effort by an advocacy organization – Toronto Action for Social Change – combining advocacy with a very pragmatic "just do it" approach. TASC became involved with a group of street youth that had been arrested for squatting in the square fronting Toronto City hall after they were evicted from a squat. After helping the youth secure bail and dealing with the justice system, a partnership emerged with a focus on finding a way to build affordable housing where youth like these could live. In the absence of ongoing social housing program, the task was to find a way to secure property, funding and financing. TASC incorporated a legal entity so that the group would be eligible for charitable status and could make offers on property. Recognizing that the costs of building new would increase the challenge, the group focused its efforts on trying to acquire existing properties suitable for conversion to apartments.

After making offers on various properties, an agreement for purchase was successfully negotiated on a former medical office building at 25 Leonard, in downtown Toronto. The property was converted to create 50 small one-bedroom units.

Funding and Community Resources

A key first step was securing a $50,000 line of credit with a credit union. This provided the society with a way to provide refundable deposits and thereby participate in biding on properties, even though they had only very limited cash assets.

Homegrown Solutions provided start-up funding to help with incorporation and the Mayors Homeless Initiatives Fund added $25,000 to this startup. Initial pre-development costs and project technical consultants and lawyers accepted fees on a deferred basis to reduce initial cash requirements.

Once the property was acquired and a concrete goal established, it was possible to pursue other funding sources. With its charitable status the group raised $235,000, primarily from foundations.

Grant funding was secured from various programs, that at the time (1998-2000) were just emerging. This included $2.25 m from the federal Supporting Community Partnerships Initiative (SCPI); $395,000 in grants and waived fees from the City of Toronto Lets Build Program; and GST and PST rebates

In addition, a rent supplement commitment was secured which enabled the project to charge market rents ($775) while tenants pay only the $325 Ontario Works single shelter rate. This enabled the project to carry mortgage financing for $2.0 million. Because rent supplements cannot be secured for the long term, the mortgage is amortized over the term of the rent supplement program - 5 years. In year 6 the mortgage payment was reduced to permit the loan to be paid off within ten years.

Impact on Affordable Supply

This project is now providing affordable housing to 50 individuals and charging rents of $325 per month.
Once the rent supplement agreement matures the mortgage will be retired (through the rent supplement subsidy) and the project expects to cover operating expenses from affordable rents (initially at the $325 OW rate). Operating efficiencies are expected as the project is planned to operate with minimal costs – there is a live in superintendent and limited overhead administration. Service agreements with 10 shelters, from which the tenants are referred, will provide any required supports, if tenants require these from time to time

Lessons and Adaptability

25 Leonard is one of the first projects to be built in Ontario outside of a formal program, and based on bundling together various sources of funding and using a creative financing approach - including the line of credit approach as a way to secure property.
The initiative was facilitated by an entrepreneurial and opportunistic approach that included a degree of risk taking and developed creative financing approach based on available limited funding sources. Because the group had its roots in civil disobedience and the protest movement, this organization was more reluctant to take risks than other may be – for example buying the property before other funding was in place, and proceeding with conversion before a permit was issued. Other than the property itself, the group had no other assets and had a nothing to lose attitude – which may not always be the case for others.
St Clare's examined and adopted typical private sector practices and adapted these to a non-profit approach – including minimalist operating costs.

Context & History

Toronto Action for Social Change

The initiative to set up the St. Clare's Multifaith Housing Society came from Toronto Action for Social Change (TASC), an organization that came together in the spring of 1995 in response to the election of a conservative government in Ontario that, in very short order, cut welfare rates by 22% and cancelled the construction of thousands of units of affordable housing. TASC members felt that a compassionate society would not stand quietly while the most vulnerable among us were pushed even further away to the margins of dignity and survival.

The members of TASC came from a variety of backgrounds. Sandra Lang is a consumer surviver who works for an agency that houses ex-psychiatric patients; Rev. Dan Heap, the former MP and Toronto Alderman; Joel Harden, a doctorial student at York University; Maggie Helwig, the well-known Canadian poet; Mary Hutchnison, who works with intellectually challenged adults; Rev. Brian Burch, the former chaplin to the Don Jail and an activist with the housing co-op movement; Mathew Beherens, the founder of Men's Walk Against Male Violence and a free lance editor; and Don Johnson is homeless and lives in a hostel.

TASC was instrumental in the formation of Interfaith Witness for Social Justice and Compassion. This organization, now supported by more than 30 local religious and community organizations is best known for its weekly vigil on the steps of Queen's Park (the location of the Ontario Legislature) that has been going on since November of 1995. In 1999 TASC was part of a coalition that formed Homes Not Bombs, a group that wants the resources assigned to the military to be redeployed to develop affordable housing.

TASC is committed to non-violent civil disobedience. The members of TASC have conducted workshops across Ontario on non-violence as well as providing skills development training for grass roots activists. TASC members have appeared on panels, given numerous media interviews and acted as a resource for organizations seeking assistance in responding to the challenges of meeting human needs in an increasing dehumanizing society.

TASC has found many ways to draw attention to the problems of the hungry and poor among us through the creative use of protest and public events. Taking inspiration from activists such as Saul Alinsky, TASC members realized that ridicule is the most effective way to deal with the arrogance of the conservative government. TASC's best known action was the Queen's Park Plant-in. In 1998, members of TASC planted a vegetable garden on the lawns of Queen's Park to demonstrate the link between poverty and hunger. The demonstrators were promptly arrested and charged with vandalism. The court case was widely reported in the Toronto newspapers. The government failed to get a conviction, and the judge asked TASC members to not plant a garden at Queen's Park for another year. Moreover, the judge commented that in a democracy, the actions of groups such as TASC should not only be permitted, but encouraged. A year later TASC organized the second plant-in, and again everyone was arrested. The fear of peaceful protest is such that several of St. Clare's board members are arrested on sight at Queen's Park to make sure they don't do anything which could embarrass the government.

From Protest to Action

In the spring of 1996, one of the 'tribes' of homeless street youth living in Toronto was arrested for trespassing in Nathan Phillips Square. (This square is the forecourt of Toronto's New City Hall, and is a very visible civic symbol.) The youth were frustrated that the City had evicted them from the 'squat' where they were living. So they decided to move to Nathan Phillip Square. Squatting in Nathan Philip Square was partially an act of civil disobedience and partially an act of desperation.

The members of TASC, who had lots of experience being arrested for civil disobedience, went to the jail and provided practical advice to the youth (how to get bail, what to do say to the judge etc.). When TASC members asked the youth what they could do to help, the answer was simple: "You could get us a place to live."

Finding affordable housing is easier said than done. In order to defuse a potentially embarrassing political situation, TASC and several youth who were arrested in Nathan Phillip Square had a series of meetings with Toronto Mayor Barbara Hall. Discussions focussed on trying to acquire a vacant apartment building owned by the City at 414-418 Jarvis Street. It was an ideal building because it was centrally located, and already zoned residential. Unfortunately the building was tied up in a law suit, and not available. The meetings led nowhere, largely because the City bureaucrats wanted the 'tribe' to be disbursed into a number of small group homes. The 'tribe' refused to be split up, but the meetings forced TASC to think about how to get housing for people who were homeless.

In May 1997, the City put 414-418 Jarvis Street up for sale. It was being sold by tender, and purchasers had to submit sealed bids. TASC bid on the property, but unfortunately TASC was not the successful bidder. However, the process of putting together the bid showed the members of TASC that there was enormous support for anyone who wanted to do something about homelessness. In less than two weeks TASC was able to find $5,000 cash for the refundable deposit, and raised more than $100,000 in pledges in the event their proposal was successful and they were able to acquire the building.

The community's response to TASC's proposal to buy 414-418 Jarvis Street showed that it was possible to organize around buying a building and converting it into housing for the homeless.

The next step was to incorporate a new organization which would be eligible for charitable status that could make offers on properties. St. Clare, the sister of St. Francis of Assisi, was selected as the 'patron' of the project because of her work with the poor and homeless in thirteenth century Italy. Multifaith was included in the name to ensure that people would understand that the organization was inclusive, and was not intended to be a specifically catholic or Christian organization.

St. Clare's Multifaith Housing Society was incorporated in February 1998. In June 1998, St. Clare's received charitable status.

An offer to purchase a commercial property is usually accompanied by a sizable deposit. In the summer of 1998, St Clare's negotiated a $50,000 line of credit with a local credit union that could be drawn upon to provide refundable deposits. The line of credit was partially secured by term deposit belonging to a supporter who wanted to facilitate St. Clare's efforts to develop housing for the homeless. With the line of credit in place, St. Clare's started making offers to purchase government-owned buildings which had been declared surplus and were being sold. During 1998 and 1999 the Ontario Reality Corporation (a provincially owned crown corporation that disposes of surplus government land) sold the several parcels of lands belonging to the former Princess Margaret Hospital near Jarvis and Wellesley in downtown Toronto. These sites were ideal for the kind of project that St. Clare's wanted to develop. The line of credit made it possible for St. Clare's to bid on these sites as the government required a $50,000 cash deposit to accompany the offer.

Faith Develops Projects & Money Follows Ideas

At the time when St. Clare's was making these offers there was no government program to assist the development of housing for the homeless. In January 1999, the Mayor's Homelessness Action Task Force released its report, *Taking Responsibility for Homelessness: An Action Plan for Toronto* (usually known as the Golden Report). This report documented the extent of homelessness in Toronto and was used by the City to pressure the federal government to do something about homelessness. In December of 1999, Claudette Bradshaw announced federal funding for Supporting Community Partnership Initiatives (SCPI), but it wasn't until February 2000 that the City signed the agreement with the federal government that allow SCPI funds to flow.

Trying to develop housing for the homelessness without a government program is a form of civil disobedience. It's not following the rules. Just trying to do it shakes people up and challenges their beliefs. The members of St. Clare's believed that developing housing for the homeless was not just about finding a building and getting the financing, it was a political act. The challenge is how to turn a political vision into reality. The political vision has to be grounded with a real project. "Money follows ideas."[1] If a viable project could be found then the financing would follow.

Evidence that is approach works occurred in the summer of 1998 when an $8,000 donation was received from the Beastie Boys, an Australian Rock Band. This donation wasn't solicited. Rather the Beastie Boys learned about St. Clare's because the board members posted information about the organization's activities on the web. The Beastie Boys are Buddhists, and strong

1 John Rolston Saul: from a speech made to the Canadian Housing and Renewal Association's annual meeting, April 2002.

supporters of non-violence. St. Clare's approach clearly had a resonance for them.

Securing a property - 25 Leonard Ave.

In October 1999 Kensington Community Housing (KCH) identified 25 Leonard Ave. as a building which could be converted into affordable housing. KCH was a community development corporation supported by the Kensington Market Action Committee (KMAC). KMAC received funding from Human Resources Development Canada to undertake a community revitalization project in the Kensington Market area of Toronto. Some of KMAC's funding was used to hire a housing worker to work with KCH to identify housing issues in the community and to find ways to address those issues.

25 Leonard is a 4-storey concrete medical office building built in 1960 that was largely vacant. The building is on the edge of Kensington Market, near the corner of Dundas and Bathurst Streets, and right across the street from the Toronto Western Hospital.   Free office space for doctors came available in the late 1990's as a result of the Toronto Western Hospital's merger with Toronto General. Many doctors took advantage of the free space and moved out of 25 Leonard. The building was less than 10% occupied in November 1999, and the owner was looking for ways to cut his losses.

The building suited itself to being converted into affordable housing. It contained more than 20,000 square feet of useable space. The existing doctor's offices were about 330 square feet, which is an ideal size for a small one-bedroom transitional housing units. The offices were divided into two rooms (an examining room and a reception area) and all the offices had a sink and running water (so that the doctors could wash their hands between patients). The building had an elevator and was wheelchair accessible.

Kensington Community Housing made an offer to buy 25 Leonard in February 2000. When the offer was signed back, KCH had 48 hours to find a $50,000 deposit. They did not have the funds. St. Clare's agreed to provide the deposit, and the Agreement of Purchase and Sale was assigned to St. Clare's as security for the deposit. The deposit was provided on the understanding that the project would be developed as a joint venture between St. Clare's and Kensington Community Housing. A few months later the Kensington Market Action Committee self-destructed, and KCH's community base disappeared. St. Clare's found itself without a partner and undertook to develop the project on its own.

Initial/Amended Objectives

In 1998, the members of St. Clare's had spent a great deal of time talking with, and providing support for, homeless youth in the various squats around Toronto, and when St. Clare's first articulated its objectives, the board wanted to provide housing and services for street youth.

The board developed a coherent vision of the kind of housing and supports that would be appropriate for street youth. The board's ideal project included a drop-in centre, ten units of second stage (congregate) housing, and twenty to thirty units of permanent housing for singles and couples. The project would provide a continuum of housing and support options. The idea was that youth would come to the drop-in centre, move-in to the congregate units and then into the permanent housing. Support would be provided by peer mentors: young adults who were living on the streets themselves until recently. These young adults would have been able to get a job (or welfare), and a place to live. They were coping with society and all of its pressures. Many of these young adults knew the kids on the street, and visited them in the squats. They provided positive role models and showed that it is possible to get your life together and get off the street.

To a large extent St. Clare's initial vision articulated a way to provide appropriate supportive housing for street youth. During 1998 and 1999, while the board tried to find a suitable property, the commitment to develop a project for street youth was tempered with the realization that it would be very difficult to get a building, let alone funding. Members who were working with street youth drifted away when it became clear that St. Clare's would never be able to develop the ideal housing project for homeless youth.

As St. Clare's reached out into the community for support for its vision, the board became increasingly frustrated with the number of nay-sayers who thought it was impossible to do anything without a government program. These nay-sayers felt that homelessness was a problem that only the government could solve, and they held countless meetings and conferences to draw attention to the problem and decry the government's inaction. But no one was actively trying to develop affordable housing.

In the spring of 1999, the board reviewed St. Clare's goals and articulated broader and less prescriptive objects. The board realized that the need was to develop housing for people who are homeless, and that they should seize any opportunity that came available. They were tired of being told that affordable housing couldn't be built. They wanted to take action. They were tired of talk . . . they wanted build.

Overview of Approach

During the spring and summer of 1999, St. Clare's started an informal dialogue with several people who worked in the development industry. Acting as informal advisors, these individuals helped the board of St. Clare's to articulate an approach to developing affordable housing in an era of government neglect. The board decided to use private sector strategies to achieve social goals. A number of informal brainstorming sessions were held to figure out how to develop housing for the homeless without a government program. Slowly a coherent vision of how a project could be developed evolved out of these discussions.

This vision guided St. Clare's development of 25 Leonard.

Operations

In the past the provincial or federal government provided assistance to subsidize the operations of non-profit housing. This assistance is no longer available. The challenge is operate affordable housing without any ongoing government assistance – although a capital subsidy is required.

St. Clare's target client group is single people living in shelters who will qualify for welfare when they move into the building. Part of the monthly welfare cheque which individuals receive is a $325 shelter component which is available for rent payments. Can 25 Leonard break even if the average rent received from tenants is $325 a month?

The answer is yes, provided that:

a) The project does not pay municipal taxes;

b) The project is operated using the private sector operating norms (see below); and

c) The project does not have any debt.

<u>Taxes</u>

In Ontario, charitable organizations that operate housing for very low income individuals qualify to be exempted from having to pay municipal taxes. This tax exemption will reduce the operating costs at 25 Leonard by approximately $100 per unit per month.

<u>Private sector operating norms</u>

There are many profitable residential hotels, rooming houses, and low-end affordable apartment buildings in Toronto. These buildings house people who drift in and out of homelessness depending on their financial circumstances. If the residents have enough money (from welfare, or work) to afford a room, then they have housing. If they don't have enough money, then they sleep rough. The residents of these buildings include psychiatric survivors and recovering addicts. The existence of these projects proves that the private sector can house people that agencies consider 'hard to house'. If the private sector can do it, then it should be possible for a non-profit group like St. Clare's to do it as well.

These projects were examined to see how they operated and if their practices which could be applied to a project developed by St. Clare's.

a. Live-in Superintendent

What all these projects had in common were a live-in superintendent who was responsible for maintenance, and day-to-day administration, including renting vacant units. In many government subsidized non-profit projects, live-in superintendent are not cost effective because the projects have administrative and management staff who are in the office on a full or part time basis, eliminating the need for the superintendent's administrative function, and turning the superintendent into a cleaner.

Hiring a live-in superintendent to manage the building is clearly the most cost effective way to operate affordable housing. However, this model assumes that the owner is not going to be involved in the day-to-day operations of the project.

In addition, a live-in superintendent is on call 24 hours a day. The superintendent's presence effectively provides 24/7 staffing at no extra cost.

St. Clare's hired a property management firm to manage 25 Leonard. The management firm hired a live-in superintendent who lives in the two bedroom unit on the ground floor.

b. Agency Support

All the live-in superintendents in the private sector have a good working relationship with local agencies and shelters. If one of the tenants goes on a bender, then the superintendent would take them to the detox centre. If someone is acting up because they weren't taking their medicine then the superintendent would call their worker who would come to the building and deal with the situation. Although there was no paid staff providing support in these buildings, support is available when needed.

Using a similar approach, St. Clare's has set up referral agreements with local agencies who will provide support to the residents of 25 Leonard as required at no cost to the organization.

c. Minimal Administration

All the private sector residential hotels have very minimal administration. There are no management staff on-site.

This is in sharp contrast with the non-profit sector where most projects have on-site staff that provide support for the non-profit's board and operations as well as being available in the office for tenants to talk to when they have a problem. Minimizing administration costs is clearly a key way to operate a building in a cost-effective manner. Using this approach, St. Clare's decided that all the money from operations would be used for the building, and that none of the income would be used to support St. Clare's democratic functioning or administration.

Debt free

The income derived from the shelter component of welfare, $325 per month, is sufficient to cover the operating costs of 25 Leonard. There is no money available for debt service.

Unfortunately, St. Clare's was unable to obtain grants to cover 100% of the capital costs at 25 Leonard. To address this shortfall a commitment of rent supplements was secured, enabling the balance of the project's capital costs to be financed with mortgages. The project's mortgage payments are matched against the income stream received from the provincial rent supplement program. 25 Leonard will be largely debt free when the provincial rent supplements expire.

In 1999, the federal government gave a large cash payment to the Province of Ontario when they downloaded the housing programs. This money had to be used to provide affordable housing. The Province decided to fund 5,000 new rent supplement units.

The Province has set a sunset clause on the funding. After March 31, 2005, the Province will not fund rent supplements. The Province expects municipalities to cover the cost of the rent supplement after that date. The City of Toronto has agreed to pay a rent supplement for anyone receiving a subsidy on March 31, 2005, for as long as they continue to live in the unit. However, the City will not subsidize anyone who moves into a unit after March 31, 2005. Accordingly, the project's financing assumes that there will be 5 years of income from rent supplements that will decline slowly over the next ten years. Starting in year 6 the mortgage payment is reduced to reflect the reduction in revenue from rent supplements. The mortgage will be fully repaid in 10 years.

In a typical social housing project, 10% of the rent supplement units turn over annually. If this pattern holds for 25 Leonard, then we at the end of ten years half the units will be subsidized, and the last units receiving rent supplement will not move out of the building until the fifteenth year of operation.

At 25 Leonard the Province set the market rents at $775 per month. As discussed above the building's operating costs are $325 a month. The rent supplement program generates $450 per unit per month surplus which can be used to cover mortgage payments. St. Clare's borrowed a total of $2,000,000 for 25 Leonard. The mortgage will be entirely paid off by the time that the income from rent supplements ends.

Financing

Financing for 25 Leonard was obtained from three sources:

a) Grants from the federal, provincial, and municipal governments ($2,965,000);
b) Fundraising ($235,000); and
c) Mortgages ($2,000,000).

(See appendix 1 for details.)

Layered Conventional Mortgages

It cost $5 million to buy and renovate 25 Leonard Ave. Grants and fundraising provided $3,000,000. The project required mortgage financing of $2,000,000.

The appraised value of 25 Leonard, when all the renovations are competed, is $3,100,000. The mortgages are less than 60% of value, which meant that the project could get conventional financing.

The first lender St. Clare's approached was a progressive credit union. The credit union did not have a lot of experience doing commercial rental buildings, nor did they have the staff who could properly evaluate the loan proposal. Worried about the risk, the credit union agreed to provide mortgage financing if St. Clare's obtained CMHC insurance for the project. In addition, they wanted to charge 1½ % above the residential lending rate on the loan. The credit union's proposal was not competitive.

St. Clare's then approached First National Financial Corporation. First National agreed to provide first mortgage financing without CMHC insurance and without requiring personal guarantees from the board. First National had a creative approach to mitigating risk. They offered to lend St. Clare's $1,700,000, but only $1,500,000 would be available for construction. The remaining $200,000 was placed in an escrow account, and at the end of five years the money in the escrow account would be use to pay down the loan at that time. St. Clare's monthly mortgage payments are based on the $1,700,000 loan amount. The escrow account is in effect a capitalized operating reserve and provided First National with a cushion in case there were financial problems with the project. In the event of a construction cost overrun, the escrow funds could provide addition capital funds without having to negotiate a loan increase. During operations, the funds in the escrow account provide a 'capitalized operating reserve' that could be used if operating expenses were greater than anticipated to ensure that the mortgage did not go into arrears.[2]

First National charged a 1% application fee, and refunded half the fee when the project when on mortgage repayment.

The take-out rate was set at 1.25% above their cost of funds. (First National was acting as a mortgage broker, and had sold the mortgage to a trust company.) Interest adjustment date was February 1, 2002, and the rate was 6.55%.

[2] It is common for non-profit housing projects in the United States which have project specific Section 8 funding (rent supplements) to set up a capitalized operating reserve because the rent supplements are only funded for five (or sometimes ten) years. The capitalized operating reserve ensures that the project is viable after the rent supplement funding ends.

The Canadian Alternative Investment Co-op (CAIC) provided a $300,000 second mortgage. CAIC is funded by a group of faith-based pension funds that want to invest a portion of their pension money in socially worthwhile ventures. CAIC lends money for community economic development and affordable housing projects across Canada.[3]

CAIC charged a 1% application fee. The mortgage rate on CAIC's mortgage is 9% (which is significantly lower than the going rate for second mortgage financing.)

In order to address debt service ratios, the term on First National's loan was written as ten years, but St. Clare's agreed to make regular additional principal payments which accelerated the repayment of the loan.

Development

Accepting risk

The board of St. Clare's was prepared to take risks.

St. Clare's goal was to build housing, not an organization. Because St. Clare's had no assets and no staff it was relatively easy for the board to make decisions which could bankrupt the organization if a particular scenario did not go according to plan. The bottom line was that the affordable housing would be built and occupied by people who were homeless even if it wasn't owned and operated by St. Clare's. The goal was to get the project built, and if St. Clare's went down in the process, so be it - provided it resulted in affordable housing.

This approach only works if the corporation developing the housing has no assets other than the project it is developing. St. Clare's approach at 25 Leonard was similar to the strategy used by private developers who incorporate a separate company for each new project to isolate risk (although typically private developers are required to pledge other assets to secure loans).

In the context of housing development, taking risks means not having everything tied down before proceeding to the next step. It means knowing where you want to go, but not having all the details worked out (or pinned down) before starting. It means hoping that you assumptions are correct, and trusting your instincts when making decisions.

Although with hindsight some of the risks facing St. Clare's at 25 Leonard appear minimal; they weren't at the time. When St. Clare's signed made the offer to purchase in February 2001, there was no funding program. Despite having no cash, St. Clare's incurred more than $150,000 in consulting fees to get the project to the point where money could be advanced to purchase the building. The project's viability depended on the receiving rent supplements, and the guidelines

[3] See CAIC's web site (www.caic.ca) for further information on CAIC.

for the program were only finalized the week before the first tenants moved in. In order to minimize delays (and holding costs), construction started two months before the building permit was issued.

Some of St. Clare's willingness to take risks came from the board member's experience with civil disobedience, where any action could lead to arrest and incarceration. In comparison, developing affordable housing was relatively risk free.

The willingness of St. Clare's board to accept risk is in stark contrast with the boards of most non-profit organisations who don't want to take any risk at all. These organizations are risk averse for a good reason - they are acting as trustees for the large investment of public capital they received in the past to develop a project. These boards have a stewardship function, which is not compatible with the risky nature of developing new housing.

Now that 25 Leonard is occupied, St. Clare's is looking for new board members - people who will be interested in managing the building in a responsible and businesslike fashion. The original board members want to do more development, but they will incorporate a new charitable organization to isolate the risks associated with development from impacting on the operations of 25 Leonard. Doing development in a separate corporation means that if the new project goes bust, 25 Leonard won't go down with it.

Partnerships

When people talk about partnerships, they are usually referring to an agreement between the housing provider and the government, an institution or a private corporation. The partner usually provides resources or cash to help with the development of the housing. Partnerships were critical for the successful development of 25 Leonard, but the partnerships were with individuals rather than organizations.

The board of St. Clare's wanted to get the housing built, but they did not have the experience or expertise to do the development work themselves and they didn't have the funds to hire staff to manage the development process. In order to develop 25 Leonard the board entered into partnerships with consultants who could manage the development. St. Clare's was able to attract several experienced consultants who acted as project staff and managed the project on behalf of the board. The staff became partners in the project.

The project staff worked on spec, and when staff work on spec, the role of staff and board change. If the staff are only going to get paid if the project proceeds, then the staff are taking a significant amount of risk. Effectively the staff are lending the project money (in the form of deferred wages), which gives them a financial stake in the project. The staff become partners - and to a large extent they become the managing partners - after all, it's the staff who will suffer financially if the project does not proceed. The fact that there is only a limited amount of money to pay staff means that there is an enormous incentive for staff to expedite the project. The longer it takes to develop the project, the less money staff will earn.

This is a private sector approach where remuneration is based on performance, and the board delegates responsibility for project management to the staff. When staff have a financial stake in the project, then there is a much greater incentive to find solutions to problems, to make the project succeed, and to build it faster.

Target Client Group

The dramatic increase in the number of homeless people in Toronto is the direct result of the cancellation of funding for new social housing projects by the Ontario government in 1995.

Prior to 1995, most of the people living in shelters were people who could be described as 'hard -to-house', including psychiatric survivors, people living with addictions and/or AIDS. However, starting in 1995, people who had lost their homes because of financial problems became homeless. Previously, when someone lost their home, they could find a subsidized unit in one of the new social housing projects that were under construction. It might take a couple of months, but eventually they would get a subsidized apartment. The cancellation of social housing turned off the supply of new affordable apartments, no one was leaving their subsidized apartments and the market rents in vacant apartments are not affordable. The result was that people were forced to live in shelter simply because they were poor.

Between 20% and 30% of the people using the shelters in Toronto are not 'hard-to-house'. They are living in the shelter simple because they are poor and can not afford rental housing, rather than for some other reason. In addition, many people living in shelters have received life skills and job readiness training and can live independently. No wonder so many people living in Toronto's shelters have (low-paying) jobs and go to work everyday.

The most cost-effective way to deal with homelessness is to provide subsidized housing for people living in the shelters who are capable of independent living and need little or no support.

The target group at 25 Leonard are single people living in shelters who were able to live independently with a minimum amount of support. The fifty people moving into 25 Leonard will free up 50 beds in shelters for people who are now living on the street.

Everyone moving into 25 Leonard was referred to the building by a shelter. The agency operating the shelter signed a referral agreement agreeing to provide on-going support to the tenants on as needed basis.

The following is a statistical analysis of the tenants living the in 25 Leonard:

Gender

Men 22

Women 28 (with 12 living on the Woman's Only Floor)

Age

The tenant's ages range between 18 and 72
less than 30 years old - 25%
30 to 50 years old - 50%
more than 50 years old - 25%

Sources of Income

30% of the tenants (15 out of 50) are working.
Two tenants have pension income.
Twenty-seven tenants receive welfare (Ontario Works)
Six tenants receive a disability pension.

Agency Partners

Eva's Phoenix (Youth) - 10 referrals
City of Toronto - Woman's Residence (Women) - 12 referrals
City of Toronto - Seaton House - (Men) 9 referrals
Fife House (PWA - People with AIDS) - 5 referrals
Homes First Society (Men and Women) - 4 referrals
Sistering/Fred Victor Centre - (Women) 8 referrals
Treasure House Ministries (Cameron St) - (Men and Women) 2 referrals

Resources Accessed

St. Clare's developed 25 Leonard with virtually no money.

The first two instalments ($12,500) of the from Homegrown Solutions was received in 1998, and was used to set up the corporation, to cover the expenses associated with searching for a suitable site for a housing project for youth and with making offers on buildings. By the time 25 Leonard was identified, St. Clare's had run out of cash.

St. Clare's received a $25,000 grant for the City of Toronto's Mayor's Homeless Initiatives Fund. This grant covered some of the technical consultants' costs, but the main source of cash flow for the pre-development expenses on the project was the agreement of the consultants working on the project to defer payment of their invoices until funds were available. For instance, McCarthy Tétrault, the law firm that handled the OMB appeal, had to wait almost eighteen months to get paid.

No further funding was received until 25 Leonard was purchased in March 2001.

Once 25 Leonard had been purchased, St. Clare's was able to access the money from SCPI, the Mayor's Homelessness Initiatives Fund and the conventional mortgage financing. Money started flowing when the St. Clare's finally purchased 25 Leonard and the various agreements could be registered on title.

End Results

The development of 25 Leonard resulted in the development of 50 units of transitional housing that are occupied by people who were formally living in shelters.

25 Leonard was an experiment. A number of innovate approaches to developing affordable housing were 'field-tested' during the development of the project. These innovations include:

- Using a conventional first and second mortgage to provide financing (rather than using CMHC insurance);
- using income from rent supplements to pay off a mortgage with a 5-year amortization;

These innovations are being adopted by other projects. The development of 25 Leonard clearly showed that affordable housing can be built, and the project served as an inspiration to groups trying to develop housing.

25 Leonard was occupied in December 2001. Upon completion it became the largest social housing project built in Ontario in the last seven years. It seems destined to hold this title until the Frontiers Foundation's 70 unit project in the east end of Toronto is completed in the fall of 2002. It is a sad reflection on the state of affordable housing in Ontario, that the development of a 50-unit project is seen as a major accomplishment.

Lessons learned

1. Funds for the deposit

St. Clare's had set up a line of credit a year before 25 Leonard was identified as a suitable building to convert. The line of credit was a critical factor in St. Clare's ability to purchase the building. Being able to make a $50,000 refundable deposit on 25 Leonard gave St. Clare's creditably with the vendor. Without the deposit, the vendor would not have signed the offer back.

2. Willingness to take risks

The board of St. Clare's was willing to take risks. On a number of occasions, they authorized work to proceed although it was unclear when, or if, the funds or government approvals would be received. They had confidence that they (and the project staff) could find solutions to any challenges that might be encountered.

3. Partnerships

The board of St. Clare's recognized that they were not development experts and they treated the staff and technical consultants as partners in the project. Payment to the staff was based on performance.

4. Conventional financing

The development of 25 Leonard showed that it was possible to finance affordable housing using conventional financing. Using a first and second mortgage eliminated the need for CMHC insurance which saved money and speeded up the approval process.

5. Rent supplements used to amortize loans

The development of 25 Leonard showed that it was possible to use the stream of payments generated by rent supplements over the five-year life of the rent supplement program to pay off a mortgage.

6. Minimalist Approach to Operating

Without ongoing operating assistance, affordable housing projects have to keep their operating costs under control. There is less money for administration which these new projects. 25 Leonard showed that it was possible to operate a project if the average rent was the component of welfare.

7. Private Sector Attitude

As long as housing providers were creatures of government, there were certain expectations about how housing should be developed and managed. For better or worse, the conservative government in Ontario has abandoned the non-profit sector as the delivery agent and has set the rules so that affordable housing has to be developed using a private sector approach.

As described above, St. Clare's used private sector business strategies to achieve social goals. This attitude allowed St. Clare's to take advantage of opportunities and develop 25 Leonard in a cost-effective and timely fashion.