RÉSEAU QUÉBÉCOIS DES OSBL D'HABITATION

Permaloge

Housing rights guaranteed

Outline of a Community Housing Development Program

April 28, 2016

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Presentation of the Réseau québécois des OSBL d'habitation (RQOH)

For the past 15 years, the RQOH has formed a solidarity network with the mission to bring together, support and represent the Quebec housing NPO (H-NPO) community.

By its actions, it seeks to foster the development and sustainability of housing NPOs, the recognition of the right to housing, and access to quality social housing.

Quebec's 50,000 NPO units are divided among 1,200 organizations. These are organized in eight regional federations, all affiliated to the RQOH. More than 10,000 people are active as volunteers, one way or another, in this network, which also counts on the participation of at least 6,500 employees.

Various socioeconomic-health indicators define our tenants as generally the most vulnerable individuals in Quebec society.

The values of social justice, democracy, solidarity and autonomy guide the RQOH's actions, directions and positions. Our work is governed by a mobilizing and participatory approach involving all the components and bodies of the movement: NPOs, federations, board of directors, working committees, volunteers, employees and tenants.

The RQOH is an organization primarily funded by various contributions made by housing NPOs and benefits associated with its offer of services to the regional federations and the local H-NPOs.

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Introduction

Quebec's community housing needs are very significant. Regardless of the indicator used (the number of tenant households allocating more than 30% of their income to rent or the number of registrations on the social and community housing waiting lists), all serious analysts of the housing field arrive at the same finding: it is imperative to support and develop social housing.

This imperative is shared, in particular, by municipalities (as evidenced by many demands from the Union of Municipalities of Quebec, the Federation of Municipalities of Quebec and the Federation of Canadian Municipalities) and by many stakeholders and analysts in the fields of health, economics, social work, urban planning, etc. But researchers, social movements and Government always run into the same obstacle: developing community housing is expensive.

When the provincial budget was tabled in March 2015, Minister Leitão announced a 50% reduction of the amounts allocated to the development of new social housing, lowering the government contribution from $252 million to $126 million. In this field, as in others, the Government affirms that it is no longer able to invest as much as before to meet social needs.

The same budget announced the introduction of the private Rent Supplement Program (RSP), intended to offset the reduction in the number of new social housing units by an assistance program to help 1,000 tenants pay their rent on the private market.

In the view of the community housing movement, this approach has many faults. First of all, social housing offers more than a roof – it offers community support. Here is an example to illustrate this difference: a senior living in poverty and social isolation sees her financial position improve with the RSP, but this does not solve her social isolation problem, whereas community housing does. The same argument applies to people with other social vulnerabilities, such as problems of mental health, drug addiction, discrimination, etc.[1]

Moreover, large-scale experiments with RSP-type programs in the rest of the world have generated some perverse effects, including upward pressure on rents throughout the market (whereas construction of social housing has the opposite effect).

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1 2013, AECOM, *Étude sur les impacts sociaux des activités de la Société d'habitation du Québec*, Québec, SHQ, online: http://www.habitation.gouv.qc.ca/en_vedette/en_vedette/article/etude_dimpacts_des_activites_de_la_shq.html.

Another serious problem with RSP-type programs is their ad hoc nature. Contrary to the construction of a building dedicated to social housing, the RSP is a temporary intervention, depending on the governments' annual budget choices. This is a short-term approach, while housing is a permanent need. From the cradle to the grave, everyone needs a roof over their head every day of their life. It is therefore appropriate to have a long-term structuring approach to address this issue. The RSP does not meet this criterion.

It can also be recognized that the RSP has few effects on economic development, does not make any contribution to revitalization efforts in urban centres (or stabilization of populations in rural communities) and does not act as a mechanism limiting real estate speculation. Construction of social housing makes a positive contribution to all these challenges[2]. Not only is social housing a long-term response to housing needs, but it is also a sound economic investment. It stimulates economic activity throughout the territory, favours local small business and, once the original investment phase is completed, guarantees a supply of social housing units less expensive than the RSP[3].

This text is therefore meant to be a contribution to the search for a proposal that would make it possible to find financing mechanisms that are less costly for the Government, while allowing the ongoing development of social and community housing to provide a structuring and sustainable response to housing needs for the most socially and financially vulnerable populations.

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[2] 2011, AECOM, *Étude d'impacts des activités de la Société d'habitation du Québec*, Québec, SHQ, online: http://www.habitation.gouv.qc.ca/la_shq/retombees.html.

[3] For example, it can be recognized that the Rent Supplement Program (RSP) announced by Mr. Leitão in March offers units at a rent 10% more expensive than the median market price, while a recent RQOH study shows that the average rent of NPO-type units is 14% lower than the median market price. 2015, Allan Gaudreault, *Les caractéristiques économiques et la viabilité financière du parc des OSBL d'habitation du Québec*, Montréal, RQOH, online: https://rqoh.com/viabilite-fianciere-osbl-2/.

The AccèsLogis Program

Since the late 1990s, the main community housing development support program in Quebec has been AccèsLogis (ACL). Depending on the annual budgets of the various governments, the funds allocated to this program have made it possible to build 1,500 to 3,000 units per year. The program is administered by the Société d'habitation du Québec (SHQ). Since its inception, ACL has allowed for the construction of slightly over 25,000 units, and 6,000 more are being developed as this document is written.

Essentially, the ACL program can be summarized by four main characteristics[4].

- **SHQ financial assistance to the developer** for the construction of the buildings. This assistance, according to the program, must cover 50% of the development costs. In practice, the amounts disbursed correspond to approximately 40% of the costs, because the SHQ contribution is limited by the program's scales defining the maximum price authorized for a unit (this amount varies according to the type and size of the unit). These scales generally are more modest than the actual costs claimed by the contractors selected by a public tendering process.

- **A contribution by the organization** generally equivalent to 40% of the value of the project and usually provided through a 35-year mortgage (fixed rate renewable every 5 years) contracted with a financial institution. The lender is identified by the SHQ during a tendering process for the program as a whole. The mortgage is guaranteed both by the property and by the SHQ. In practice, the program's rates are slightly higher than the rates available on the market. This is surprising given the double guarantee (the property and the SHQ), which protects the lender, and the program's flawless mortgage repayment history to date. The current rate is 2.6812%, even though it is easy to find rates of 2.5% on the market[5]. The other problem is that the rates, based on 5-year cycles, induce risks related to potential rate variations. These variations may have major impacts on the budget capacity of the developer groups. Since it is not unusual to see a rate increase of 2%, 3%, 4% or even 5% for a 35-year mortgage, this risk is quite real.

[4] All the details of the AccèsLogis program are presented on the SHQ website: http://www.habitation.gouv.qc.ca/programme/programme/acceslogis_quebec.html.

[5] Ratehub, online: http://www.ratehub.ca/meilleurs-taux-hypothecaires-quebec.

- **A financial contribution from the community**. The municipal authorities and organized groups of civil society (Kiwanis Clubs, religious communities, private foundations, etc.) must contribute to cover the difference, generally 20% to 30% of the development budget of ACL projects.

- **SHQ financial assistance to the tenants**. In principal, at the time of their inauguration, the units developed with the ACL program are leased at a price equivalent to 94.5% of the median market price for similar units in the same region. However, since the program requires that 2/3 of the units be leased to persons with very modest incomes, the SHQ assists the tenants with financial support that limits their contribution to the rent to 25% of their income; the difference is paid directly by the SHQ to the developer. As the ACL projects evolve, the price of the rents gradually moves away from market prices (which rise much faster than the rents for community housing) and end up stabilizing around 70% to 75% of the median market price.

An Innovative Proposal

Since the ACL program is considered too expensive by the Government and the RSP formula involves many deficiencies, the community housing movement is considering a bold proposal to the SHQ to break this impasse: ***Permaloge***.

The aim of this program is to permit the development of thousands of community housing units each year, without capital investment from the Government, through sound use of different existing financial products and mechanisms with which the Government and the market are familiar. The financial setup that sustains Permaloge would make it possible to support community initiatives for housing construction (building subsidies) and help people pay their rent (individual assistance).

As its name implies, *Permaloge* aims at a permanent response to housing needs. It is distinguished from the AccèsLogis program by the fact that, at the end of a 15-year cycle, the Government could recover 100% of the amounts invested in development and, in exchange for 15 years of Government assistance to the tenants, the developer could then finance 20 more years of rent supplements, in addition to owning the property.

This formula therefore is potentially more advantageous than the current ACL program and, above all, clearly more interesting socially and financially than the option of the Rent Supplement Program on the private market.

Generations Fund, Régie des rentes du Québec and Canada Pension Plan Investment Board

The Quebec government should be familiar with the general logic of Permaloge, because it is based on the same major concepts as those that led to the creation of the Generations Fund[6]. Moreover, the benchmark returns used here are those of the Régie des rentes du Québec and the CPP Investment Board.

The Generations Fund

The Quebec government has chosen to pay over one billion dollars each year into the Generations Fund, which has the exclusive mission of paying down the debt[7], instead of repaying the debt directly.

The Generations Fund seeks to take advantage of the differential between the Quebec bond rate and the appreciation of a vast investment portfolio. Since the Quebec government's credit rating is very good (and the SHQ's is even better), the interest rates charged by investors are very low (1% for one-year fixed rate bonds). On the other hand, the return on a large, diversified and well-capitalized portfolio is around 7%[8]. The experts at the Conseil du trésor and the Ministère des Finances conclude that this type of financial setup allows the debt to be repaid more easily and more rapidly.

Permaloge uses exactly the same logic.

The Régie des rentes du Québec and the Canada Pension Plan Investment Board

One of the program's innovative aspects is the mutualization of the return and risk of the social housing investment portfolio. With the ACL program, each project is faced with the obligation to protect itself individually against potential interest rate variations. With the Permaloge approach, this risk is mutualized among the projects and over time.

6 An Act to reduce the debt and establish the Generations Fund, CQLR c. R-2.2.0.1, <http://canlii.ca/t/698hd>

7 Ibid, section 2

8 Projected return of the Generations Fund for 2015-2016, http://www.budget.finances.gouv.qc.ca/fondsdesgenerations/

Although each project's individual obligation is limited to the contribution fixed when its agreement is signed, the project benefits from the return on the entire portfolio for the duration of its 35-year agreement, and even beyond.

In this respect, Permaloge can be compared to a defined benefit pension plan, such as the one managed by the Régie des rentes du Québec (RRQ) or the Canada Pension Plan. The benefits paid to a retiree of such a plan are not directly related to the return of the pension fund at the time he made his contributions to the fund. Therefore, the contribution level required from the developers (and eventually from the SHQ and/or CMHC) would be fixed by actuarial studies intended to establish the adequate contribution level to guarantee the appreciation of the Permaloge portfolio so that it can meet the program's obligations.

For comparative purposes, Quebecers who applied for a pension during the 2008 financial crisis (income -25%) did not directly experience the effects of the sudden reduction of RRQ capitalization. In the same way, retirees who applied for a pension in 2013 (income +13.1%) did not see their pension increased, even though this was a good year.

Community housing cannot be financed on an annual ad hoc basis. Since housing is a permanent issue, it is important (for citizens, the authorities and developers) to be able to manage this concern with tools that integrate and take advantage of this fact. This is what Permaloge allows.

The Financial Mechanics of Permaloge

The main characteristics of the Permaloge program are as follows:

- **Bond financing**. By using bond financing instead of mortgage financing (as is the case with ACL), Permaloge succeeds in reducing the cost of financing necessary to develop community housing projects. Above all, Permaloge guarantees budget stability for the entire repayment period. Currently, Épargne Placements Québec issues bonds at rates ranging from 1.1% (for a bond repayable after one year) to 3% (for a 15-year bond[9]). The Canadian one-year bond rate is 0.7%[10]. The possibility of using a fixed rate for the duration of a project is a major qualitative improvement compared to the ACL program.

- **Leverage.** By proceeding with a bond issue higher than necessary for construction of the building, and by investing the difference in a diversified portfolio, the probable return of this portfolio should be significantly higher than the cost of financing generated by the bond. For example, Caisse de dépôt et placement du Québec (CDPQ) has had a historical return of 8.6% since its founding; the return for the past five years is 10.46% and the return for the past 10 years (including the ABCP catastrophe of 2008) is 7.22%[11]. The CPP Investment Board has had an annualized return of 8% for the past 10 years. The hypothesis chosen in writing this proposal is 7%.

- **A community contribution of 15%** of a project's development cost. Although the ACL program provides for a 15% contribution, in practice communities must make a higher contribution. However, this represents an obstacle to the development of projects, especially in rural and semirural communities. It therefore seems appropriate to reduce the requirements imposed in this regard.

- **A development budget adjusted to the actual cost of construction**. The standards of the ACL program have become unrealistic. Currently, the maximums authorized by the program are those established in 2009. In practice, the developers and the community must make up the difference. The working assumption submitted here is $190,000 for a typical one-bedroom unit, which corresponds more closely to the actual construction cost of a typical unit of this

9 Épargne placement Québec, online: http://www.epq.gouv.qc.ca/F/Info/taux_en_vigueur/produit_complet.aspx#terme.

10 Canada Savings Bonds, online: http://www.oec.gc.ca

11 Caisse de dépôt et placement du Québec, online: http://cdpq.com/fr/resultats/donnees-historiques.

size.

- **A Government contribution to assist tenants in paying their rent.** Tenants of social housing projects have very modest incomes. A recent internal RQOH study showed that 80% of tenant households of housing NPOs have an income below $20,000 per year. The Government's contribution, in our hypothesis, seeks to limit the tenants' contribution to 25% of their income. The ACL program also offers the same type of assistance. However, the organization of the assistance is facilitated and its cost is reduced considerably with the Permaloge program (without provoking a rent increase for the tenant).

- **A financial contribution from the developer group adjusted to its budget capacity.** The logic introduced by Permaloge seeks to separate two concepts currently confused by the ACL program. On the one hand, there is the notion of the group's contribution to the project. On the other hand, there is the notion of mortgage repayment. It is important to obtain a significant contribution from the developer group (evidence of the community's commitment and the project's long-term viability). It is unnecessary for this contribution to be defined by the mortgage market's interest rates. Other variables and other sources of financing can contribute to repay the investment.

- **Allowing the community developer to achieve financial viability as soon as possible.** Reducing the term of the repayment period allows the developer to reduce the cost of its rents more quickly, reduce the scope of its financial reserves (because it has real estate assets) and channel them to building maintenance. Currently, the ACL program prevents the developer from using its real estate assets before the 36th year of the project. This situation generates several harmful effects. First of all, it forces the developer to allocate a large part of its resources to an unproductive expenditure: interest payments. Then it compels the developer to constitute reserves to absorb an eventual "mortgage rate shock" when its mortgage is renewed every five years. This is money the developer cannot invest in building maintenance and community support to tenants. Moreover, during the 35 years in which a first mortgage (guaranteed by the SHQ) burdens the property, it is impossible to use the equity in the property to finance other development projects. This constraint considerably limits the possibility of "off-program" development and forces the community movement to rely almost exclusively on the Government as a funding source. By preventing the community movement from investing in the development of social housing, the Government deprives itself of a key financial partner to respond to social housing needs.

- **The developer's long-term commitment to supply a unit at an affordable price for a very low-income household, once its repayment obligation is complete**. In the model imagined here, the developer, effective from the 15th year of the project, is able to offer units at a very low cost, based on exploitation cost (taxes, insurances, maintenance and management), free of financing expense.

- **A self sustain system to help tenants pay their rent from the 16th year onward.** During the first 15 years, the program capitalises enough resources so that from the 16th year it is able to support the tenants so they can pay their rent. This is done without any additional contribution from the state.

The program is articulated by linking the low bond financing costs available to the Government to the return obtained by a very well-capitalized diversified portfolio. The basic assumption applied is to entrust the amounts in question to an institution, such as Caisse de dépôt et placement du Québec or the CPP Investment Board, so that it manages this money as it does with the other amounts entrusted to it by the CPP, the RRQ, the CSST, the Generations Fund, etc. This minimizes the management cost while benefiting from the expertise of these public institutions.

The following figure is an illustration of the suggested mechanism, reduced to the scale of one housing unit with a development cost of $190,000. Here is a brief description of the figure.

Origin of the funds

- Two sources of financing are used for the down payment.
  - A Government bond $285,000
  - A community contribution $28,500
  - Total $313,500

Investment made with the funds

- A $190,000 tranche is given to the developer to build the unit.
- A $123,500 tranche is turned over to CDPQ or the CPPIB to invest.

The Government makes an annual rental assistance contribution for the first 15 years

- Since the average tenant has an income of $12,000 per year, and the rent necessary to cover the project costs is $11,000, the tenant cannot assume this expense without assistance. For the tenant's contribution to correspond to 25% of his income, that is, $3,000, the tenant must receive $8,000 in government assistance per year so that he can pay his rent, or $666 per month.

Financing expenses

- The investment portfolio must pay the bondholder an annual return of 3% per year, or $8,550 per year.

Income generated by investments during the first 15 years of the project

- The portfolio obtains a 7% return, lower than the historical return of CDPQ or the CPPIB, on the $123,500 entrusted to it, namely $8,645 per year.
- The developer pays the portfolio $7,000 per year to contribute to repayment of the bond.
- This amount is added to the initial amount of $123,500 invested at the beginning of the process, thereby increasing the gains generated by the portfolio's investments.

The results of one year of operation of the project (during the first 15 years)

• Portfolio return on $123,500	$8,645
• Developer's contribution	$7,000
• Payment of interest to the bondholder	-$8,550
• Year-end income	$7,095

Available assets at the end of the 15th year

• Original capital of the portfolio	$123,500
• The annual income from operations paid to the portfolio each year during the first 15 years of the project, that is, a compounded return of an annual investment of $7,095 at 7% x 15 years	$178,290
• Financial asset of the Permaloge portfolio after 15 years	$301,790
• Real estate asset ($190,000 x 2% compounded annually)	$255,714
• Total financial and real estate assets	$557,504

Repayment of the bond in the 15th year

• Value of the bond	-$285,000
• Financial asset	$301,790
• Total	$16,790

Since the bond is repaid in the 15th year, the developer receives a release and no longer has to pay the Government. What is important is not that the developer has repaid the amount remitted to it at the beginning of the project, but rather that the bondholder is repaid. The model allows the developer to be the full owner of the property at the end of Year 15 and releases the Government from the obligation to guarantee the property's financing.

A low rent for 20 additional years

Further to its social mission and in recognition of the assistance provided by the Government, the developer undertakes to offer a low-rent unit for 20 years after repayment of the bond. Concretely, it reduces the rent by an amount equivalent to the contribution it remitted to CDPQ. The assistance necessary to guarantee the tenant a low rent is reduced considerably.

• 25% of the income of a tenant earning $12,000 per year	$3,000
• Cost of management and maintenance of a unit	$4,000
• Annual assistance necessary for the tenant	$1,000

To offer this assistance, the SHQ uses the assets still available in the Permaloge portfolio, $16,790. This amount generates a return of $1,175 per year, which is more than the amount required for rental assistance.

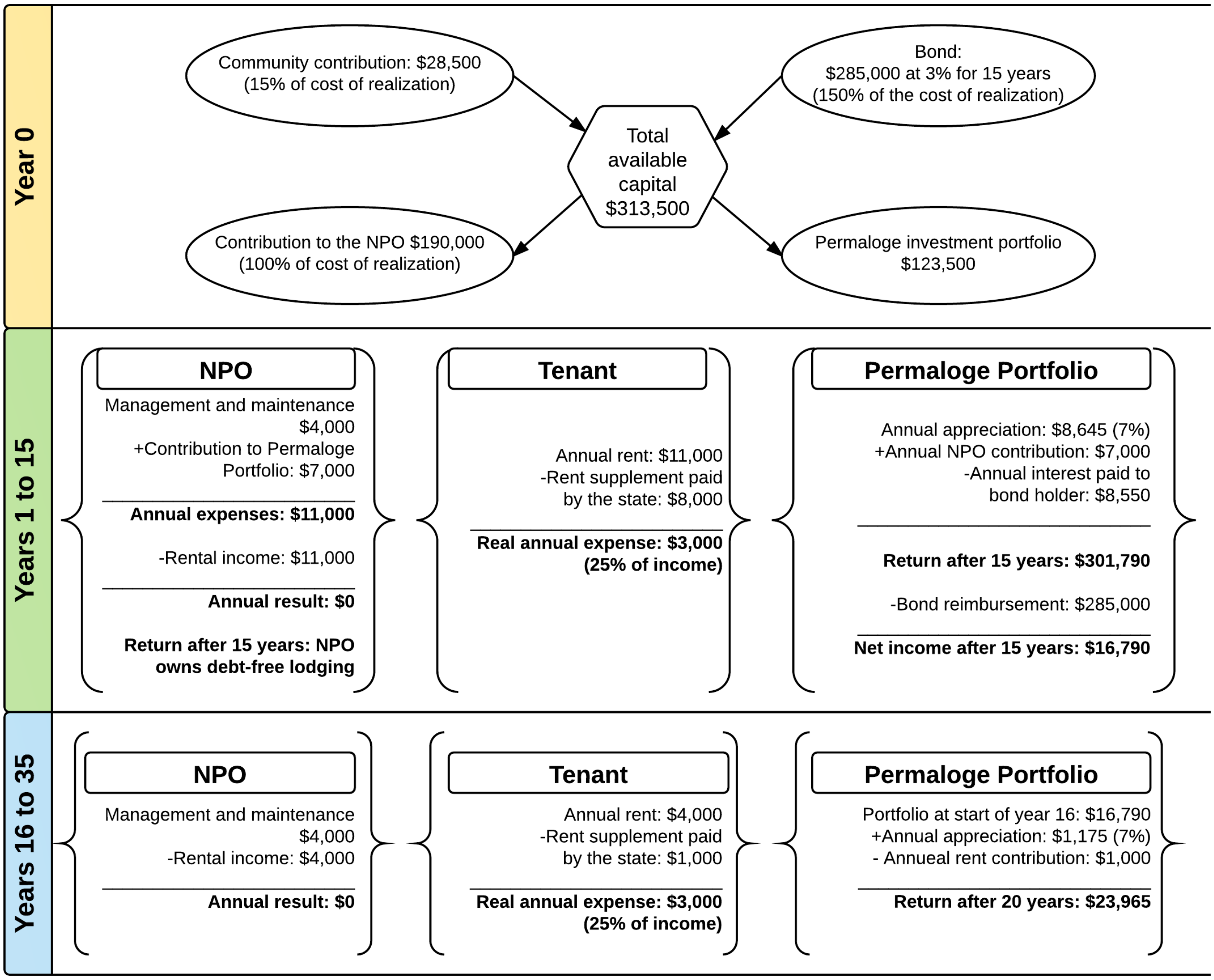
• Annual return at 7% of $16,790	$1,175
• One tenant's annual need for financial assistance	$1,000
• Annual surplus	$175

A positive final net income for the portfolio

At the end of the 35th year, the project allows the portfolio to generate a net income of $23,965.

• Assets in the 16th year	$16,790
• Appreciation compounded at 7% of a $175 annual surplus	$7,175
• Final surplus	$23,965

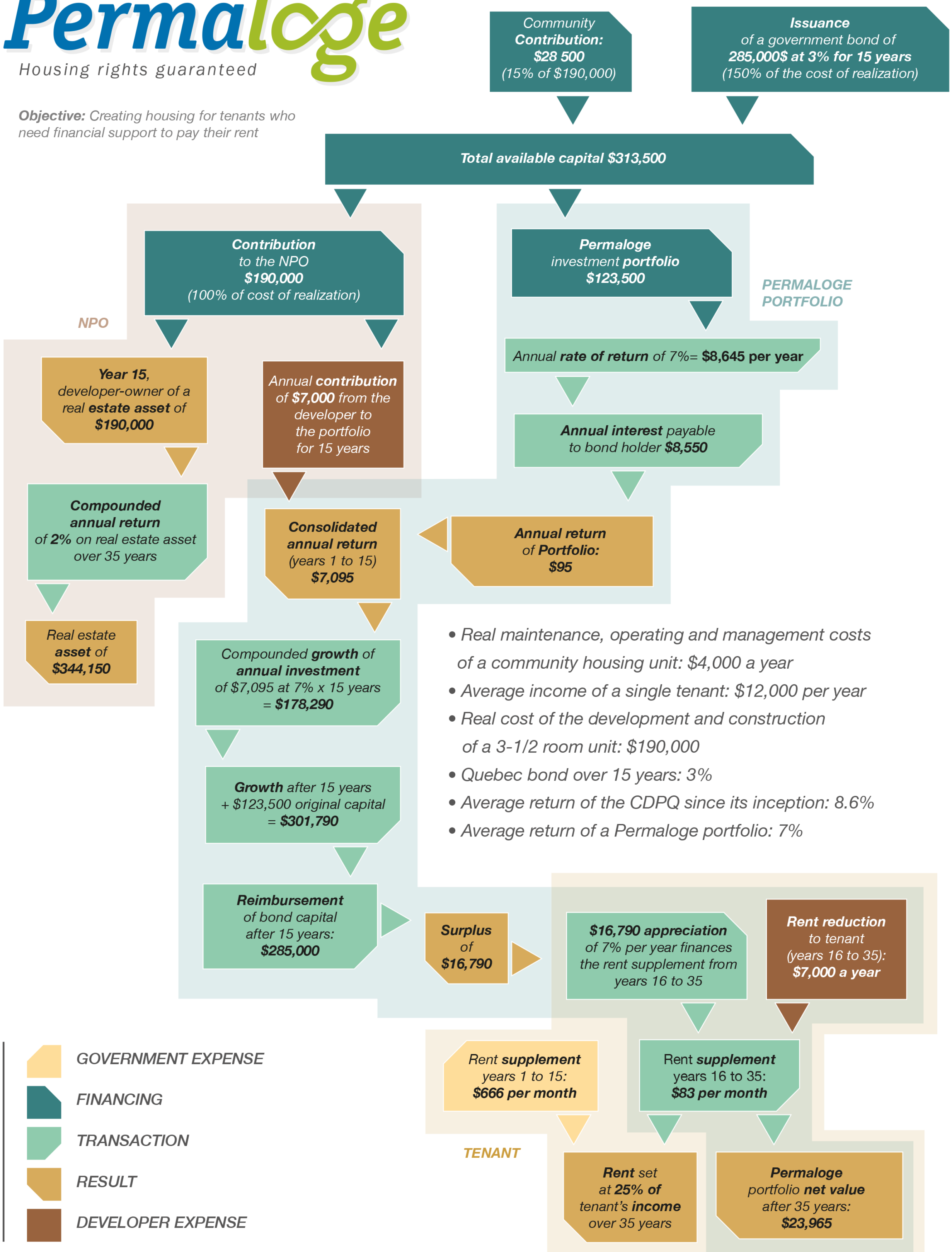
Synthesis of the Permaloge Program



Modelling on the Scale of One Unit

Housing rights guaranteed

Objective: *Creating housing for tenants who need financial support to pay their rent*



- *Real maintenance, operating and management costs of a community housing unit: $4,000 a year*
- *Average income of a single tenant: $12,000 per year*
- *Real cost of the development and construction of a 3-1/2 room unit: $190,000*
- *Quebec bond over 15 years: 3%*
- *Average return of the CDPQ since its inception: 8.6%*
- *Average return of a Permaloge portfolio: 7%*

Risk Factors of the Permaloge model

Although some of the variables used to model the Permaloge program are reliable, there are still some unknowns. The next section covers what have been identified as the model's main risk factors and suggests methods that could be considered to mitigate them.

Return on investment of CDPQ and the CPP Investment Board

Although the figures used here are based on the historical returns of CDPQ (8.6%) and the CPPIB (8%), there is no guarantee that the Permaloge portfolio will succeed in generating a return of 7% for each 15-year cycle.

However, the risk is attenuated considerably by two factors. Although the model illustrated is reduced to the scale of one housing unit, it must not be forgotten that the program would concern at least 3,000 units per year for several years. Thus, the amounts entrusted to CDPQ would be around $370,500,000 per year ($123,500 per unit for 3,000 units per year). If it is considered that the repayment of the bond is necessary only at the end of the 15th year and that the program lasts at least 15 years, the amounts accumulated in this fund would represent a mass of around $12 billion by the beginning of the 16th year. The obligation to pay $855,000,000 ($285,000 x 3,000 units) to proceed with one full year of bond payments will not then be a problem when the program reaches that point. This is all the more true given that the housing NPOs have a default rate approaching 0% for honouring their mortgage repayment obligations. The repayment share coming from the developers ($105,000) is therefore virtually guaranteed.

Moreover, for reasons of simplicity and clarity, the bond financing used in the model is based on 15-year bonds at 3%. However, the portfolio managers could decide to use other forms of bonds to improve the program's return. For example, one-year fixed-rate bonds are currently at 1.1% for Quebec and 0.7% for Canada. The use of discount bonds could also be considered, which would allow an increase in the potential return on the investments entrusted to the portfolio, because this type of investment does not require an annual interest payment. These different hypotheses make it possible, in particular:

- to increase the capitalization level of the funds entrusted to the portfolio;
- to increase the probabilities of a return close to CDPQ and CPPIB historical returns;
- to postpone the first bond repayment cycle beyond the 15th year of the program.

In addition, Permaloge opens up immense possibilities for additional financing, because it authorizes the developer to use the equity of its property effective from the 16th year instead of having to wait 35 years, as imposed by the ACL program.

NPO operating costs

The model set out here presents very realistic (and even slightly high) operating costs for the project to work. Beyond the mortgage, the developer of an ACL project must also assume regular operating costs, such as taxes, insurance, maintenance, etc. As in the case of all the components of this project, additional studies are relevant to establish the precise amounts necessary to guarantee the projects' viability. Once this work is accomplished, it will be possible to adjust the model.

One main avenue for adjustment is available to the program. It is possible to change the amount of the bond issued initially. By increasing this amount, the share of the financing based on the return of the Permaloge portfolio can be increased.

Variation of tenant incomes

The model studied here takes it for granted that the tenant income level will be stable for 35 years. This statement could prove to be false.

For example, the conditions governing the different forms of assistance paid to vulnerable populations have evolved considerably over the past 35 years (many reforms of social assistance, employment insurance, old age security, veterans' benefits, family allowances, etc.).

Since the incomes of community housing tenants are largely dependent on these social transfers, the commitment to offer units at accessible prices for these populations for 35 years is conditional on the maintenance of a tenant income level throughout the program. If the benefits paid to the vulnerable populations were to decrease, the developers could not be bound by their obligation to provide units at affordable prices for the poorest members of society without being able to count on greater Government assistance.

A Comparative Analysis of the Cost of the ACL and Permaloge Programs

Permaloge's financial advantages over the ACL are notable for all the parties contributing directly to community housing.

For the Government

Currently, the ACL program requires three types of financial commitments from the Government, namely a contribution to development of tens of thousands of dollars per unit, a mortgage guarantee for the entire value of the project for 35 years for the lender (National Bank or Desjardins), and direct assistance to tenants, guaranteeing rents equivalent to 25% of their incomes.

- A reduction of the net debt

The direct contribution to development represents a net expenditure of $252 million per year for the Government ($126 million in 2015-2016). This expenditure is accounted for as net debt, because the Government does not acquire any tangible assets in return for this contribution. Thus, the development of community housing is perceived by the Conseil du trésor and the financial analysts as an expenditure that has no financial counterpart.

The scenario proposed by Permaloge totally changes this part of the deal. Each dollar mobilized (by bonds) is backed by assets. In fact, the assets in question are bound to grow, while the liabilities remain stable. The community housing financing operation is therefore eliminated from the net debt.

- An increased level of sustainability

The mortgage guarantee of the ACL program represents a material risk for the Quebec government, because the 5-year financing maturities induce a variability that could prove dramatic if the rates increased significantly. In such a contingency, it is foreseeable that several ACL and Affordable Housing Québec projects would find themselves in difficulty and would have to rely on SHQ assistance to deal with the situation. By using fixed-rate 15-year financing, as Permaloge provides, this risk is eliminated.

- A considerably lower cost per unit

The amount disbursed for direct assistance to tenants living in community housing does not diminish over time under the ACL program. However, Permaloge allows a considerable reduction of assistance to tenants for the last 20 years of the 35-year cycle.

In all, by adding the SHQ's participation in development and the direct assistance to the tenant, it can be estimated, over a 35-year period, that the SHQ makes a contribution amounting to $145,695 per unit. Permaloge would allow reduction of this contribution to $95,420, **a difference of $50,275 per unit in favour of Permaloge**.

For the community developer

Permaloge also represents an improvement for the community developer compared to the ACL program. By reducing project financing to 15 years, the developer gains in several respects. First of all, it benefits from rate stability, so that it avoids having to constitute reserves for an eventual mortgage rate shock. By concentrating the repayment period, it reduces the share of its contribution intended to finance the option (it pays the principal instead of paying interest). Finally, the short term allows it to reduce the replacement reserves. They do not need to be as high because it will not have to use them before paying the mortgage. In either case, this allows it to allocate its resources to improving the services offered to the tenants instead of financing its debt.

By having equity in its property after only 15 years, it can eventually use it to favour a new development phase, to go on to improve its property or to invest these assets usefully to serve its social mission.

For the community partners

In practice, the costs authorized by the ACL program require communities (with the municipalities playing the leading role) to make an investment much greater than the 15% provided by the ACL program. The financial structure makes it possible to reduce the investments required by municipalities and the other partners to more acceptable thresholds. In fact the community contribution has become so high with ACL that the mobilization of community resources for a project has become one of the main factors slowing down project development. It is not unusual with ACL for the community to require years of work and representations to constitute the funds necessary to submit a viable ACL project.

This has three major negative impacts. First of all, the amount required discourages some stakeholders. Then, the delays between the promises of the community partners and the development of the project means that community resources are immobilized for years, at the expense of other community projects (municipalities, social groups and religious communities are solicited for all kinds of projects). In this context, other projects that can be accomplished more quickly demand that the budgets be allocated to them instead of leaving the money “dormant.”

Finally, and most dramatically, the delays have one main consequence: people who need quality housing at a reasonable price are obliged to continue living in bad conditions for a longer time.

For the tenant

Permaloge should allow the development of better-quality projects (because the development budgets would be bigger), more rapidly (because mobilization of community resources will be easier) and have organizations that are in a better financial position (because they will have control of all the equity effective from the 16th year, without being threatened by interest rate variations), and capable of offering better housing conditions (because less money will be invested in financing properties and more in maintenance and management).

Table of Typical Comparative Data for ACL and Permaloge

	Target budget	Actual MAC	Actual MAC	Actual MAC
	Permaloge (realistic budget allowing sustainable development + universal accessibility)	**ACL-SHQ**	**ACL developer**	**Programs and actual additional contributions (PRQ, innovation, etc.)**
Developer’s contribution for construction 3 ½	190,0	51,650		
Community contribution	28,500		16,000	35,000
Quebec bonds	285,0			
Original investment in CDPQ	123,5			
Developer’s contribution (mortgage)			40,000	
Developer’s mortgage rate			0.024	
Annual mortgage repayment			1,687	
Annual rate of return on Permaloge portfolio	0.07			
Value of annual return on Permaloge portfolio	8,645			
Annual interest rate on the bond	0.03			
Annual interest paid on the bond	8,550			
CDPQ annual return minus annual bond interest	95			
Developer’s annual contribution	7,000			
Annual consulted income	7,095			
Compounded appreciation of annual investment	178,2			
15-year appreciation + original CDPQ deposit	301,7			
Surplus after repayment of the bond	**16,790**			
Annual appreciation of the surplus for years 16 to 35	1,175			
Annual contribution to the RSP for years 16 to 35	1,000			
Net annual surplus in the 16^{th} year	175			
Annual surplus appreciated for 20 years at 7%	7,790			
Surplus in year 16 + compounded net annual surplus for years 17 to 35	**24,580**			

	Target budget	Actual MAC	Actual MAC	Actual MAC
Tenant’s annual income	12,000		12,000	
25% of the tenant’s income	3,000		3,000	
Cost of management, maintenance, insurance, etc.	4,000		4,000	
Management cost + Developer contribution years 1 to 15 (or ACL mortgage repayment 35 years)	11,000		5,687.00	
Annual RSP necessary (25% income – cost and contribution) years 1 to 15	8,000	2,687	2,687	
RSP necessary monthly years 1 to 15	667	224	224	
Total RSP cost for first 15 years	120,000	40,305		
Total RSP cost years 16 to 35	20,000	53,740		
Total cost of direct assistance to tenant	**140,000**	**94,045**		
Portfolio contribution to the RSP years 16 to 35	20,000			
Direct assistance to tenant 35 years + Assistance to development - Surplus after bond repayment - Appreciation of the surplus	**95,420**	**145,695**		
SHQ net monthly RSP cost years 1 to 15	667	511		
SHQ net monthly RSP cost years 16 to 35	83	224		
Average net monthly RSP cost 35 years	227	347		
Difference for SHQ, Permaloge vs. ACL	**-50,275**			
Difference in community contribution	**12,500**			

Conclusion

Leaving vulnerable and fragile populations to their own devices, without sufficient social protection, not only brings difficulties for the individuals in question but also has major negative social and financial consequences for the community as a whole.

Avoiding a single day of hospitalization by providing adequate housing can fund one year in community housing. Imprisonment of a person for one year costs the Government as much as the contribution necessary to house this person decently in community housing for a lifetime.

Thus, an adequate response to the social needs for housing has positive budgetary and social impacts, both individually and collectively.

It is obvious that a few pages are not enough to define a detailed and definitive program of the scope mentioned here.

At this stage of the discussion, this is not only impossible but useless.

The RQOH’s intention at this time is simply to provide a sufficiently convincing demonstration to its partners and the authorities so that credible solutions can be envisioned that respond both to the Government’s budget requirements and the social concerns of community housing stakeholders.

By taking advantage of the collective development tools our society has instituted over the past 40 years, we believe it is possible to combine the financial experience of institutions like the Société d’habitation du Québec, Canada Mortgage and Housing Corporation, the Caisse de dépôt et de placement du Québec and the Canada Pension Plan Investment Board with that of the community housing movement. Together, it is possible to meet the social needs for housing that the private market is unable to satisfy suitably.

RÉSEAU QUÉBÉCOIS DES OSBL D'HABITATION

50,000 housing units

1,200 organizations

8 regional federations

1 solidarity network

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