

AFFORDABLE RENTAL HOUSING DEVELOPMENT

Funding and Financing

TIM WELCH CONSULTING INC.

Team of Six+:

- ▶ Affordable housing development and planning approvals
 - ▶ Housing and homelessness policy, research and program evaluation
 - ▶ Affordable home-ownership (Creating Homes)—Guelph, Cambridge, Milton
 - ▶ Social housing redevelopment and regeneration
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- ▶ Over 700 units in the past 9 years in 20 developments in southern Ontario



TIM WELCH CONSULTING INC.

- ▶ Financing and cash-flow are the biggest challenge of developing new affordable housing

FINANCING NEW AFFORDABLE
HOUSING

- ▶ Small scale renovation may be less difficult for planning approvals i.e. in downtowns
- ▶ Not likely less expensive unless organization already owns building
- ▶ Challenge of making old building layout adapt to new accommodation needs
- ▶ New build may be more expensive due to new building code requirements but can result in more appropriate building

RENOVATION VS NEW BUILD

<u>CAPITAL BUDGET</u>		
<u>1. Land & Property acquisition cost</u>	<u>Amount</u>	<u>Notes and Assumptions</u>
(a) Property Cost	650,000	
(b) Phase I and 11 ESA and RSC if required	20,000	Estimate
(c) Geotechnical Report	4,500	Estimate
(c) Legal Fees	3,000	Estimate
(d) HST	88,023	
(e) Land Transfer tax	11,500	
(f) Survey	3,500.00	Need to update survey
(g) Appraisal		
(h) Other - design drawings	-	
Sub total property acquisition	\$780,523	

COSTS OF BUILDING RENTAL HOUSING – LAND AND RELATED

2. Soft Costs				
(a) Legal Fees (other than land)			14,000	
(b) Municipal approvals & permits				
Planning Fees				
Official Plan Amendment				uncertain if needed
Zoning Amendment			\$8,000.00	\$8,000 Base Fee for Major Amendment
Site Plan Application			\$6,500.00	\$4,000 Base Fee plus \$2,500 misc costs
		Planning Sub-Total	\$14,500.00	
Development Charges				
City Development Charges			218,858	\$6,437 per unit
Region Development Charges			199,444	\$5,866 per unit
Parkland Fees			32,500	Estimate: 5% of Property Assessment
Education Board Fees			57,494	\$1,691 per unit
Building permit fees			\$35,784.00	\$1.26 per sq. ft.
(c) Consultants				
Planner/ Development consultants			\$94,197	1.8% of Construction Cost
Architects, mechanical, electrical			\$159,040	3.5% of Construction Cost
Landscape			\$0	Incl. in architect fees
Other Costs			\$0	Costs
Quantity Surveyor			\$15,300	Estimated Cost
(d) Mortgage Insurance fees			\$6,800	\$200 per unit
(e) Interest during Construction			\$32,000	Estimated
(f) Insurance during Construction			\$9,000	Estimated
(g) Taxes during construction			\$13,000	
(h) One year bus pass for all residents			\$24,480	
(i) Government Signage			\$600	
(j) HST			\$34,741	
(k) Other Soft Costs			\$16,000	\$10,000 operating loss
		Sub total soft costs	\$992,237	

SOFT COSTS



MICHAEL HOUSE - GUELPH

- ▶ Municipal Incentives by way of rebate
- ▶ Municipal portion of Development Charges, Parkland Dedication and site plan fees
- ▶ Affordable Reserve fund
- ▶ City currently developing policy on incentives

GUELPH - IAH FUNDING +
MUNICIPAL INCENTIVES

3. Construction		
(a) Construction	\$4,544,000.00	Cost @ \$160 per square foot
(b) Site Servicing	\$60,000.00	Estimate
(c) Stoves & Refrigerators	34,000	\$500 each excluding HST
(d) Furnishings & Equipment		- None required
(e) Surface Parking		- incl. in construction
(h) Landscaping		- incl. in construction
(i) HST effective rate of 13.0%	595,140	
(j) Other	-	
(k) Contingency	227,200	5% of the construction cost
Subtotal	\$5,460,340	

HARD COSTS

- ▶ Difficult to estimate initially
 - ▶ Hydro pole relocation
 - ▶ Changes related to location of transformer
 - ▶ Upgrades to water and sewage pipes
 - ▶ Municipal fees/municipal cost recovery related to site servicing

SITE SERVICING



INNERKIP: CISTERNS AND COUNTY SEWAGE CAPACITY FEES

Total Capital Cost of Project	\$7,221,600	
Less:		
Land Contribution	\$0.00	
Municipal Grants/Offsets	\$418,302.00	Includes Municipal Development Charges
IAH Capital Funding	\$4,250,000	\$125,000 per unit (34 units)
HST Rebate (82%)	\$576,083.46	82% Rebate
Proponent Equity	\$225,000.00	
Total Equity Provided	\$5,469,385.46	
Proposed Loan	-\$1,752,215	
Total mortgage	-\$1,752,214.81	

EQUITY TOTAL

- ▶ Apply for HST Municipal Status – ideally in monthly not annual rebates
- ▶ Otherwise will have a significant negative impact on cash flow

HST REBATE

Projected Income Statement

	Annual Amt.	
Revenue		
1 Bedroom @ \$489	\$ 82,152	14 units at 60% of AMR
1 Bedroom @ \$652	\$ 125,184	16 units at 80% of AMR
2 Bedroom @ \$780	\$ 37,440	4 units at 80% of AMR
Parking	\$ 5,100	16*12*25
Laundry	\$ 6,000	
Gross Revenue	\$255,876	
Less: Vacancy Allowance @ 3%	\$7,676	
Net Revenue	\$248,200	

INCOME

- ▶ Organization's financial position
- ▶ Equity sources – land, cash, fundraising capacity
 - ▶ **And ability to cash flow during development/construction**
- ▶ Organization capacity to take on a capital project
- ▶ Scale of proposed project
- ▶ Smaller projects don't necessarily mean less work

WHERE TO START

- ▶ CMHC Seed Funds (\$10k grant + \$10K loan)
- ▶ Organization's equity
- ▶ CMHC PDF (if no IAH)
 - ▶ Prepare to spend some modest - medium funds without certainty project will go ahead

PRECONSTRUCTION COSTS



HERITAGE HURDLE - WHAT EXPENSES
TO UNDERTAKE WHILE WAITING?

Main Source for many projects:

- ▶ Federal/Provincial Investment in Affordable Housing (IAH) capital funding for new rental housing through Service Manager – up to \$150,000 per unit – Forgivable loan
- ▶ Talk to Service Manager about funding cycles and next proposal call
- ▶ Competitive process

WHAT FUNDING IS AVAILABLE?

- ▶ No funding flows until building permit is issued and construction begins (expect 3-4 weeks for processing)
- ▶ Initial flow of 50% of IAH
 - ▶ **How to cashflow until then?**
- ▶ Second payment (40%) at structural framing (expect a further 2-4 weeks for processing payment)
- ▶ Final 10% at end of 45 lien period (funds arrive approx./ two months after occupancy)

IAH CASH FLOW

Options for new development/renovations/land purchase:

- ▶ Banks/Credit Unions
- ▶ Infrastructure Ontario
- ▶ Social enterprise financing
 - ▶ Community Forward Fund (\$1 m or less)
 - ▶ Canadian Alternatives Investment Co-operative (\$500,000 or less)
 - ▶ New Market Equity Funds

FINANCING OPTIONS

- ▶ Must show funders – governments, support service funders, potential donors and mortgage holder that all of the funding (capital and operating) will come together to ensure ongoing financial viability
- ▶ Who is willing to be to be financially “first in”

KEY CHALLENGE



SHORT TERM LOANS FOR LAND PURCHASES

- ▶ Interest Rate
- ▶ Corporate guarantees
- ▶ CMHC insurance required?
- ▶ When is initial construction draw
 - ▶ Will a quantity surveyor report be required first?
 - ▶ What equity must be already invested (including portion of IAH)
- ▶ Legal and admin fees of lender
- ▶ Timing of processing request, especially first draw

- ▶ Interest rate
- ▶ Term (how long to lock-in)
- ▶ Buying forward of rate
- ▶ Value of development in Bank's perspective is less than actual cost to develop/build
- ▶ Corporate guarantee
- ▶ CMHC insurance – Fees and premiums
 - ▶ Implications of being part of program or having a municipal agreement

TAKE OUT MORTGAGE
FINANCING



HCPM CAMBRIDGE – NOT NEEDING
CONSTRUCTION FINANCING FUNDS UNTIL
NEARING COMPLETION – RARE!

- ▶ Different programs municipally
- ▶ Can be time consuming to complete application and ongoing reporting
- ▶ Some grants/loans will cover costs to complete the application
- ▶ Often need to apply before work is started. Timing can be an issue

ACCESSING OTHER FUNDING



HAMILTON FIMUR + CITY CORRIDOR LOAN

- ▶ Purpose of the program is to stimulate the conversion of commercial to residential
- ▶ Eligible properties in CIP area, downtown or main corridor
- ▶ No interest loan if paid back within 5 years
- ▶ Exterior and interior renovations

HAMILTON CORRIDOR LOAN

Determine any financial incentives from the municipality (including when paid/credited):

- ▶ Municipal development charges
- ▶ Permit Fees – site plan agreement, etc.
- ▶ Parkland dedication
- ▶ Tax-increment financing/lower property taxes
- ▶ Brownfield clean up credits

MUNICIPAL INCENTIVES

- ▶ For existing housing providers, potential to either loan or provide equity from operating surplus
- ▶ Will need to discuss with Service Manager

LOANING AND REPAYING
OPERATING SURPLUS



CAMBRIDGE / FENELON FALLS

- ▶ First draw of funds from construction financing
- ▶ IAH flow of funds 50 – 40 -10
- ▶ Need for quantity surveyor reports
- ▶ Things always take longer!
- ▶ Once capital budget is firmed up, undertake a cash flow spreadsheet for all development phases

CASH FLOW



BRANT NATIVE HOUSING – STRETCHING PAYMENT FOR LAND AND ARCHITECT

▶ Rental Subsidies

- ▶ Rent Supplement through Service Manager
 - ▶ Housing Allowance through Service Manager
 - ▶ Rent Supplement from Support agency/LHIN
- ▶ Property tax relief or TIF
 - ▶ Energy efficiency features

ASSISTANCE ON THE OPERATING SIDE

- ▶ Energy efficiency – incentives from utility company, GMF
- ▶ Community space – Trillium Foundation
- ▶ Support services – establish partnerships early on

FUNDING FOR OTHER FEATURES

FURTHER QUESTIONS?

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