Affordable Housing Revolving Fund in Ontario

Research Study: Summary Report

Final Report: June 26, 2025

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Prepared For:
WoodGreen Community Services
815 Danforth Avenue
Suite 402
Toronto, Ontario M4J 1L2
Canada
Phone: 416 645 6000

Prepared For:
BILD
2005 Sheppard Avenue East
Suite 102
Toronto, Ontario M2J 5B4
Canada
Phone: 416 391 3445

Prepared By:
Arcadis Professional Services
(Canada) Inc.
55 St. Clair Avenue West
7th Floor
Toronto, Ontario M4V 2Y7
Canada
Phone: 416 596 1930

Our Ref:
30258575

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Acronyms and Abbreviations

AHRF	Affordable Housing Revolving Fund
BILD	Building Industry and Land Development Association (GTA)
CHPF	Community Housing Pre-Development Fund
CMHC	Canadian Mortgage & Housing Corporation
COCHI	Canada-Ontario Community Housing Initiative
CWSRF	Clean Water State Revolving Fund
DC	Development Charge
FCM	Federation of Canadian Municipalities
NFPs	Not-for-Profits
OPHI	Ontario Priorities Housing Initiative
SAH	Sustainable Affordable Housing
TOAH	Transit-Oriented Affordable Housing

Definitions

Additional Funding Sources: For the purposes of this report, this refers to a phase of work following the Preparation Phase, which entails work related to preparing and applying for Municipal funding and gap financing from other sources.

Affordable Housing Developer: This term includes any developer of affordable housing units (including non-profit developers, purpose-built rental developers providing affordable units, and for-profit developers providing affordable units).

Affordable Housing Revolving Fund ("AHRF"): A revolving fund, with backstop support by the Province, available to qualified affordable housing developers to finance Predevelopment work. The revolving fund would be replenished through loan repayments by the proponent or applicant – plus interest – at terms to be determined. The AHRF is proposed to be available only to eligible applicants (e.g. private and non-profit affordable housing developers) who have successfully completed the Viability (Seeding) Phase, and for specific scopes of work (i.e. the Preparation and Additional Funding sources phases of work as defined in this report, and leveraging additional funding sources. The AHRF would be a new fund separate to any existing funding sources, however it could be used in collaboration with other funding sources, subject to specified lending restrictions.

Predevelopment: For the purposes of this report, predevelopment refers only to the Preparation and Additional Funding Phases as defined in this section of the report. While sometimes considered as part of predevelopment work, the Viability (Seeding) Phase identified in this report is considered a preface to predevelopment work and therefore a separate component. It is envisioned that the AHRF applies only to the predevelopment work: i.e. the Preparation and Additional Funding Sources phases.

Preparation Phase: The Preparation Phase occurs after feasibility of a development is confirmed via the Viability (Seeding) Phase, and includes the setting up of a project/consultant team in addition to all planning approval application and design-related work (e.g. studies, drawings, meetings, application fees). The work undertaken during the Preparation Phase would provide the necessary technical and business case report to unlock (future) Federal/Municipal funding and incentives for preconstruction and construction.

Viability (Seeding Phase): This refers specifically to an initial phase of work prior to the predevelopment phases of work (as defined in this Report). The Viability (Seeding) Phase provides for an initial viability assessment of a site and/or project before proceeding any further with the project (e.g. development). This phase includes preliminary site due diligence, the development of and initial concept plan, and the creation of a preliminary development pro forma. Once viability is successfully confirmed, the project would then progress to the Preparation Phase and initiate the process to attain funding from the proposed AHRF. The Viability (Seeding) Phase of work is not eligible for AHRF funding, and is expected to be funded via self-directed investments and/or grants/philanthropic funding sources. It is anticipated that this phase of work costs up to $100,000 – depending on the extent of initial assessment required.

Executive Summary

Arcadis Professional Services (Canada) Inc. ('Arcadis') was retained to conduct a research study in support of an Affordable Housing Revolving Fund ("AHRF"), an initiative of WoodGreen Community Services ("WoodGreen") in partnership with Building Industry and Land Development Association ("BILD") and other affordable housing developers. This study addresses predevelopment work – commencing with project team assembly, upfront technical studies & planning application requirements, and bridging initial equity investment gaps – to identify solutions to anchor the acceleration and scaling of affordable housing development in the Province of Ontario. The proposed AHRF would be created with backstop support from the Government of Ontario ("the Province") as a new loan funding source with significant investment dollars for the scaling of non-profit affordable housing projects. The fund is envisioned as being self-sustaining, with the upfront borrowed money being replenished through fund re-payments by the proponent or applicant (plus moderate interest) at terms to be determined.

A major challenge standing in the way of non-profit and private affordable housing developers (including purpose-built rental developers) is the availability of sufficient and reliable sources of predevelopment funding – including upfront equity investment capital – which are required to provide the initial financial uplift to affordable housing development. The purpose of the AHRF is, therefore, to provide funding for predevelopment work and upfront investment capital, both of which are essential components to encourage and scale affordable housing development.

This Summary Report provides an overview of a proposed AHRF for affordable housing based on an assessment of a number of North American case studies, an analysis of current affordable housing funding sources and opportunities within Canada, a peer review of the pro forma for 1117 Gerrard St. E. (an affordable housing building developed by WoodGreen), and outlines key recommendations & considerations as to how an AHRF could potentially be implemented in Ontario.

Key Findings

- **This report illustrates the following four key components necessary in financing of affordable housing including[1]:**
  - **Viability (Seeding) Phase:** to assess and confirm initial feasibility and creation of credible funding application to the AHRF. Funded by the proponent (e.g. private and/or philanthropic funding sources).
  - **Preparation Phase:** a low-moderate interest loan funded by the AHRF to successful applicants to pay for the cost of taking the project through the approvals process (e.g. drawings, studies, reports, development application requirements, City permits, consultant costs), in addition to business case work to enable the project to apply for construction and long-term debt financing from CMHC and/or private sector commercial lending banks.
  - **Upfront equity investment loan:** to ensure that the project's pro forma is financially feasible. To be paid to an affordable housing developer prior to long-term debt financing or out of revenue from the project on stabilization as secondary debt to the lenders.
  - **Construction and long-term debt financing:** from lenders such as CMHC and/or private sector commercial lending banks

[1] It is noted that while these four key components are not the same as the five phases of development identified in Figure 1.

- **At the regional/municipal level, there are a limited number of incentive programs or grants that support predevelopment work for affordable housing developments.** The majority of regional/municipal incentives or programs typically focus on development charge exemptions and/or tax reduction to financially aid affordable housing developments. Recent changes to the *Development Charges Act* through Bill 23 now make all affordable housing projects exempt from development charges as of June 1, 2024. Changes to the legislation provides regions/municipalities with the opportunity for more incentives and innovative funding mechanisms for affordable housing. For example, the City of Toronto created a Pilot Community Housing Pre-Development Fund ("CHPF") in mid-2024 to support predevelopment costs, but this is at an early-stage and cannot yet be assessed for successes or potential limitations.

- **There is a lack of upfront investment capital sources for affordable housing development.** Developers of private condominiums and established investors in market purpose-built rentals have access to private investment capital to cover upfront costs that is not available for affordable housing developers. There is a crucial missing component in the form of access to upfront investment equity to encourage and make viable the development of viable affordable housing at scale. Meanwhile, affordable housing developers – both private and non-profits – must rely on their own limited reserves or philanthropy, which are not reliable or sufficient to accelerate and support the construction of affordable housing.

- **There is an important opportunity at the Provincial level to enter the affordable housing funding & financing space through support to an AHRF.** A Province-wide third-party-managed affordable housing fund, backstopped by the Government of Ontario, could be available to both non-profit and private affordable housing developers to anchor the development of affordable housing in Ontario in conjunction with other existing tools and enablers. The fund would be available to affordable housing developers as upfront capital investment and potentially incentivize potential investors to pivot to affordable housing development, including pension funds, publicly traded companies, high-net-worth investors, bank lenders and social impact financiers. A Provincially-backstopped AHRF would create a unique financing ecosystem with the critical volume to attract the best lending rates for developers of affordable housing. It is envisioned that the AHRF would also augment existing predevelopment funding sources available throughout the province.

- **An AHRF is intended to help solve a key financing gap in the affordable housing development value-chain in Ontario and encourage new affordable housing development.** While the AHRF could represent a significant new financing source for affordable housing developers by providing upfront capital needs, the overall development of affordable housing will still require continuation of current commitments by all levels of government and philanthropic/social impact financiers in all phases of affordable housing development value chain.

- **The Case Studies support the delineation of an initial Viability Phase prior to receiving funding from the AHRF to mitigate risk and address concern over default repayment.** As per the Vancouver Transit Oriented Affordable Housing (TOAH) Study, a revolving fund for the entire pre-construction phase of potential affordable housing projects can pose high-risk for applicants due to uncertainty of projects moving beyond initial viability (especially for smaller borrowers) and the fact that debt cannot be tied to any project. The TOAH study's recommendation for a grant, donation, or small zero interest loan for initial viability work provides key insight for the separation of the initial Viability (Seeding) Phase from the predevelopment phases eligible for AHRF funding. TOAH's findings are supported by the City of Toronto's (CHPF), which includes potential loan forgiveness in the case of a project being determined as not viable in its' initial stages.

- **The proposed AHRF would cover predevelopment work only, not initial viability:** It is proposed that only the Preparation Phase and Additional Funding phase would be eligible under the AHRF. The Preparation Phase would only be initiated after the successful completion of the Viability (Seeding) Phase (estimated at up to approximately $100,000 worth of work) to assess initial project feasibility. Funds for the Viability (Seeding Phase) would be provided by existing grant programs, philanthropic donations, or through a developers' own sources – not through the AHRF. Once viability is confirmed, the AHRF would then provide funding via a low-moderate interest loan to applicants to bring the project through the approvals process and prepare it for construction. The AHRF would cover approvals-related costs (e.g. drawings, studies, reports, consultant costs) and business case work to enable the project to apply and receive subsequent development & construction funding. It is estimated that funding for between 5-10% of project costing (e.g. $1-3m) could be applied for via the AHRF.

- **The proposed AHRF would also cover early project gap-financing or upfront investment equity:** a crucial component that is often missing to ensure the viability of many affordable housing developments with an initial capital shortfall. The AHRF would lend this gap dollars to the project with the intent of recovering and hence revolve the investment if its repaid earlier in the process or secured through the long-term operational revenues upon stabilization. The gap-financing tool proposed for the AHRF would have a big impact and will level the playing field in the development of affordable purpose-built rental housing in Ontario.

- **There is flexibility in what is considered "low" interest rates.** There is a range of "low-moderate" interest rates which could be applied to a revolving fund, ranging from just below market rate to a negative interest rate as per the USA – EPA: Clean Water State Revolving Fund (CWSRF) case study. Learning from the CWSRF, it would be beneficial for the AHRF to be able to dictate the rate based on social benefits or community need. Across the board, fixed interest rates should be provided to allow for transparency and predictability for repayment. It is critical for the AHRF to be at least low-moderate interest rate in order to replenish and grow the fund over time.

- **An AHRF may expedite development timelines and therefore lower costs of getting projects "shovel ready".** A September 2024 study completed by Altus Group Economic Consulting found that the costs associated with construction delays range from $2,673 to $5,576 per month <u>per unit</u> depending on the municipality.[2] [3] A streamlined approach to receiving predevelopment funding may allow affordable housing developers to conduct this preliminary phase of work more expeditiously, reducing the timelines by a year to a year and a half. Based on the above Altus estimates, a reduction by a year to a year-and-a-half on WoodGreen's case study project at 1117 Gerrard Ave. E. (35-unit project) could save between $2.3m to $3.5m, which equates to 14%-21% of the overall capital costs for this specific project.[4]

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[2] Cost of delay range reflects the lowest (Bradford West Gwillimbury - $2,673) and highest (City of Toronto - $5,576) per month **per unit**.
[3] Costs include financing/opportunity costs, annual property taxes, construction cost escalation, and development charge escalation. (source: Altus Group Economic Consulting – Greater Toronto Area Benchmarking Study (September 26, 2024), section 3.4. (pg.24).
[4] 14-21% based on 'Gerrard Closing Budget' document received from Woodgreen – $16.238m including land value and $14.38m not including land value. $2.3m is 14% of $16.238m and $3.5m is 21% of $16.238m.

- **Collaboration between Governments and multiple parties in the affordable housing development value-chain is critical for success.** In the successful cases of the revolving funds reviewed by Arcadis, collaboration was a critical component for both fund start-up and long-term financial longevity. The CWSRF is a partnership between the Federal, State, and Local governments bodies, the UBC Sustainability Revolving Fund was a partnership between BC Hydro, Fortis BC, Natural Resources Canada, and the BC Government, and the Greater Minnesota Housing Fund provides funding through a public-private fund. Given the multiple governmental bodies, affordable housing developers, and players in the planning approval process in Ontario, this type of multi-body approach will be important for a new AHRF model in Ontario.

- **By securing funding through the AHRF, affordable housing developers will be able to reduce risk associated with a development through their ability to access additional funding sources quicker, and with more certainty.** Through access to more certain funding via the AHRF, affordable housing developers are able to undertake predevelopment work and acquire the necessary upfront investment capital with more certainty and confidence to unlock subsequent financial resources from other lending sources for construction. This stronger financial certainty is critical to reducing risk and determining the development timelines for projects.

For proof of concept of the application of a predevelopment fund and upfront investment capital, the Study includes a peer review of WoodGreen's self-funded predevelopment work, and an upfront capital-social impact investment project at 1117 Gerrard Street E., with the following key findings:

- **When compared to the original WoodGreen pro forma, the introduction of the AHRF increases the debt coverage ratio of the project and yields a long-term savings of approximately $750,000.** The infusion of initial cash investment early into the process helps to create a buffer for the development in the starting building operation years when revenues are less stable. Additionally, the proposed fixed interest rate of the AHRF will generate long term savings, as its usage allows for the replacement of a portion of the New Market fund loan, with repayment at a lower interest rate along with increased certainty of funding and a reduction in the carrying cost of the overall project through the Preparation Phase.

- **As noted above, the AHRF will need to be stacked with other incentives or grants already in existence for affordable housing developers to continue to help the viability of affordable projects.** The AHRF will help with the initial cash flow of a project – stacked with other capital (grants, private equity, etc.) – in order to get the development off the ground. In the 1117 Gerard example, the private market equity required to secure financial viability equated to approximately 5% of the project's total budget. The proportion of a project's budget that may be attributed to a AHRF can vary greatly depending on the scale of the development and any site-specific costs. The predevelopment costs of 1117 Gerard account for 14% of the project's total budget.[5]

- **Toronto has a robust program through the Open-Door fund (now the Rental Housing Supply Program) to provide funding for affordable housing developers. However, many municipalities in Ontario do not have similar programs, which strengthens the need for a Provincially-backed predevelopment fund and upfront investment financing.** The evaluation of the pro forma for 1117 Gerrard, specifically Scenario 5 (see Section 5.3 of this report below), indicates the importance of

[5] Based on 'Gerrard Closing Budget' document received from Woodgreen: $2.308m in costs up to construction (not including land costs) against overall project cost of $16.238m (which includes land costs). $2.308 against $16.238 = 14.2%.

additional funding – specifically for the Preparation phase of work and upfront equity investment loan – to anchor the financial viability of affordable housing projects.

- **A critical component of a successful AHRF will be the maintenance of a preferred interest rate for the entirety of the loan term.** For these market scenarios, Arcadis has assumed a constant interest rate of 2% for the entirety of the loan term. This was critical to help keep interest costs down as well as create predictable future payments.

Specifically relating to the implementation of an AHRF, the following components will need further assessment as part of a future business plan:

- **Who will be the overseeing body**? Through discussions with the project team, it is understood that the AHRF is envisioned to be managed by a third-party entity and backed by the Government of Ontario, although details surrounding this should be determined through further evaluation.
- **How and by whom will initial investment be compiled?** Will outside investment be permitted? If so, what is the quantum of funds to be raised by outside investment and what is the expected rate of return of the participants?
- **What are the terms of the fund for initial investors?** What are the terms surrounding initial investment? What are the terms regarding repayment to investors?
- **Who will be eligible to apply for the fund**? Will it only be limited to non-profits and other affordable housing developers, or will it also be open to for-profit developers?
- **What is eligible to be covered by the funds**? The initial proposition is that the AHRF covers the Preparation Phase and Additional Funding Sources phase. It is important to establish exactly what types of work and costing can be included in these phases – having a clear set of criteria established will enable a streamlined process for applicants.
- **What is an appropriate loan amount**? The initial proposition is that the AHRF provide between 5-10% of project costs, depending on the size of development.
- **What interest rates are feasible from the lender and borrowers' perspective**? Can the fund be flexible, similar to that of the CWSRF? Are they a fixed rate throughout the individual loans' term or do they fluctuate with market rates? If the latter, how does this translate to long-term loans – are they fixed rate or can they be renewed at certain intervals such as a mortgage?
- **What is the optimal structure and management of the AHRF?** Is there an opportunity for the fund to be structured similarly to an endowment fund, with a portion of the capital being used to fund projects, and the remainder of the fund being retailed to generate additional returns and protect against the fund's overuse. How much of the fund will be allocated to projects? Additionally, the timing of which investors can recoup their investment should be considered to guard against early fund withdrawals.
- **What are appropriate timelines for loan repayment**? Shorter term loans pose less risk to the fund but may not allow for the lending of higher sums of money which may be required to cover all predevelopment costs. Will there be a fixed loan term that all projects are to enter into an agreement to or will the repayment structure be on a case-by-case basis? How will this impact the "revolving" aspect of the fund?

- **How will the "revolving" aspect of the fund function**? How will repaid loans (plus interest) be recycled and re-distributed to future applicants? If third party investment is permitted, how will investors receive their return on investment?

1 Introduction

Arcadis Professional Services (Canada) Inc. ('Arcadis') was retained to conduct a research study in support of an Affordable Housing Revolving Fund ("AHRF"), an initiative of WoodGreen Community Services ("WoodGreen"), in partnership with Building Industry and Land Development Association ("BILD") and other affordable housing developers. This study addresses predevelopment work – commencing with project team assembly, upfront technical studies & planning application requirements, and bridging initial equity investment gaps – to identify solutions to anchor the acceleration and scaling of affordable housing development in the Province of Ontario. The proposed AHRF would be created with backstop support from the Government of Ontario ("the Province") as a new loan funding source with significant investment dollars for the scaling of non-profit affordable housing projects. The fund is envisioned as being self-sustaining, with the upfront borrowed money being replenished through fund re-payments by the proponent or applicant (plus moderate interest) at terms to be determined.

Ontario's affordable housing sector – both private and non-profit – has a long history of providing housing for low and moderate-income sections of the rental housing market, especially in major cities. Notwithstanding the sector's experience in developing and managing affordable housing, a major challenge standing in the way of non-profit housing developers is the insufficient and unreliable sources of predevelopment funding and upfront equity investment capital – which are required to provide the initial financial uplift to affordable housing development. Development activities such as community engagement, design, planning approvals and financial assessment are required to developing approved viable project business cases. In addition, affordable housing developers have few and insufficient sources of upfront investment capital to close the initial capital gap to make project pro formas pencil and business case viable prior to proceeding to construction and debt financing stages. This contrasts with private developers who generally have easier access to private investor capital to fund development processes and provide upfront investment capital.

On this basis, the purpose of the AHRF is therefore, to firstly, provide funding for predevelopment work, which is essential to jumpstart and scale affordable housing and secondly, offer affordable housing developers with upfront investment finance to add to project capital stack.

This Summary Report provides an overview of a proposed AHRF for affordable housing based on an assessment of a number of North American case studies, an analysis of current affordable housing funding sources and opportunities within Canada, a peer review of the pro forma for 1117 Gerrard St. E. (an affordable housing building developed by WoodGreen), and outlines key recommendations & considerations as to how an AHRF could potentially be implemented in Ontario.

1.1 Contents of Report

As per Arcadis' work plan, this "Summary Report" is intended to provide an overview of an AHRF, demonstrate how it could be utilized through a case study analysis, and to test its potential impacts through an evaluation of an example pro forma (1117 Gerrard St. E.) to determine its feasibility for future implementation. The Summary Report provides a baseline analysis and demonstrates the benefits of the AHRF as an innovative funding model for delivering affordable housing projects, as well as serve as a basis for discussions with Provincial government officials.

To achieve this goal, Arcadis has adopted the following approach for this Summary Report:

- Provide an overview of current affordable housing funding sources and opportunities within Ontario and Canada;
- Summarize the evaluation of two North American case studies: Vancouver's Transit Oriented Affordable Housing proposed program and the Environmental Protection Agency's Clean Water State Revolving Fund Assessment (USA);
- Provide a summary of the evaluation and findings of the peer review of WoodGreen's 1117 Gerrard St. E. pro forma to understand the role and impact a predevelopment fund would have had; and,
- Provide key recommendations & considerations as to how an AHRF could be established with support by the Province.

It should be noted that this report is not a business plan, and its recommendations are intended to identify additional components and risk mitigation measures which will require further assessment and analysis. Additional work on the structure, management, requirements, fund size, and eligibility criteria will be required.

2 Low-Interest Revolving Fund Overview

Funding for affordable housing is a crucial element in addressing the housing crisis at both the Provincial and municipal levels. For example, through the HousingTO 2020-2030 Action Plan and subsequent updated targets, the City of Toronto has set a goal of providing 65,000 new rent-controlled homes, comprised of 6,500 rent-geared-to-income units, 41,000 new affordable rental homes and 17,500 rent-controlled market units by 2030. As of 2024, the City has seen the completion of 37% (24,340 units) of its 2030 rent-controlled target, including only 37% (15,107) of its affordable rental homes target. Similar experiences to Toronto are seen across the province, indicating the need for new solutions to incentivize affordable housing development and get shovels in the ground for new projects. More recently, in March 2025, the City of Toronto and Federal Government announced a $2.55 billion agreement aimed at accelerating the construction of 4,831 rental homes – of which a minimum of 1,075 will be affordable units. This announcement – coupled with the other aforementioned programs – signifies that funding spaces around affordable housing are starting to evolve at the municipal and Federal levels, however, there remains significant potential opportunity for the Province of Ontario to join these municipal and nation-wide initiatives.

Currently, there are four levels of government at which funding for affordable housing projects can be accessed; Federal (CMHC & FCM), Provincial (COCHI), regional/county (where applicable), and area municipal (incentive programs or Community Improvement Plans). However, the large majority of these funds are for construction and long-term debt phases, with only five funding programs available in Ontario for funding the due diligence or predevelopment work for projects. The majority of these, as further described in Section 4 of this report, offer nominal amounts of money, which do not generally cover the full costs of due diligence or project feasibility assessment.

Through discussions with industry representatives, it is understood that one of the largest barriers to scaling the development of affordable housing is securing funding for predevelopment work to allow for the proper due diligence and assessment, and account for associated consultant and study costs. In addition, while market purpose-built rental housing developers have access to a variety of upfront capital investment sources – including incentive institutional investors such as pension funds, publicly traded companies, high-net-worth investors, bank lenders and social impact financiers pension funds – developers for affordable housing have limited sources of upfront capital. Non-profit developers in particular lack access to readily-available and predictable investment capital opportunities to finance and scale up development, putting them at a disadvantage when it comes to bidding for projects or competing for new sites. On this premise, WoodGreen, BILD and research partners are exploring the possibility of a new funding model, a revolving fund, as a new vehicle for non-profits and private affordable housing developers to access predevelopment funding and upfront equity financing that are reliable and sufficient to support the acceleration and scaling of affordable housing development in Ontario.

2.1 Purpose & Application of Revolving Funds

Revolving funds are typically low-interest loans with favourable terms that help overcome high initial borrowing costs and provide access to capital as gap financing for applicants that may not be able to access traditional upfront investment sources.[6] Revolving Funds can be set-up to provide a variety of loan ranges, interest rates,

[6] EPA: Revolving Loan Funds. https://www.epa.gov/statelocalenergy/revolving-loan-funds#:~:text=RLFs%20can%20offer%20low%2Dinterest,funding%20for%20some%20LMI%20borrowers.

and payback schedules, and generally use a source of capital, typically offered by government funding or a combination of funding sources, to make direct loans to borrowers.

Proceeds from loan repayments flow back into the fund, or revolve, and become available to lend again over time. The loans can be short or long-term, and provide low-interest rates for payback to assist projects or borrowers that require upfront capital without collateral against mortgages or equity lines. As such, revolving funds are often attractive to small private businesses or non-profit organizations that may not have significant upfront capital.

Applicants to revolving funds are often required to submit a proposal/application to the governing/lending body through a competitive application process by which a reviewing body will assess the application, including the total amount requested, the proposed project (including goals and objectives), a cost breakdown (e.g. how any funding will be spent), ability for repayment to be made, and any associated risks. In most cases, if the revolving fund does not cover the entirety of proposed eligible costs, then the remaining finances have to be confirmed or covered prior to delivery of the funds.

Reviewing bodies/lenders may also look to third-party support and/or partnerships when assessing a project for funding. As is the case for many revolving funds – especially those in the United States – funds can blend capital from numerous investors such as public funders, philanthropic funders, banks, financial institutions, or other investors such as impact investors. Through these partnerships, revolving funds are able to guarantee lower interest rates to projects in exchange for long-term return on investment for investors, typically at lower rate of returns and the provision of positive social impact (i.e. development of affordable housing).

Revolving funds are used throughout North America, but are more common in western Canada (e.g. BC, Alberta) and the US. Many of the funds have a focus on sustainability/retrofitting, affordable housing, and small business-related projects. A number of Canadian examples of revolving funds are in the retrofit industry – the University of Waterloo and British Columbia Institute of Technology (BCIT) both have revolving fund programs to provide money towards retrofit costs for campus buildings. In the US, revolving funds are much more common, with many high value revolving fund programs currently in-effect. Often these are a collaboration between the Federal and State governments to provide funding for water, sewage treatment, and stormwater infrastructure, in addition to several business-focused revolving fund programs across the country.[7]

2.2 Proposed Affordable Housing Revolving Fund

As noted previously in this report, there is a significant gap when it comes to predevelopment and upfront investment funding for affordable housing projects, particularly in the Ontario context. While there are a number of limited seed and predevelopment preparation funding sources at the Federal level (e.g. CMHC, FCM), the majority of these are capital funds to go towards development/construction and long-term take-out debt, and non for upfront capital financing. Currently, only FCM's Sustainable Affordable Housing – Studies Fund and CMHC's Seed Funding provide a reasonable funding source ($250,000 and $350,000 respectively) for predevelopment work. These programs are further explored in Section 4 and detailed in **Appendix A** of this report.

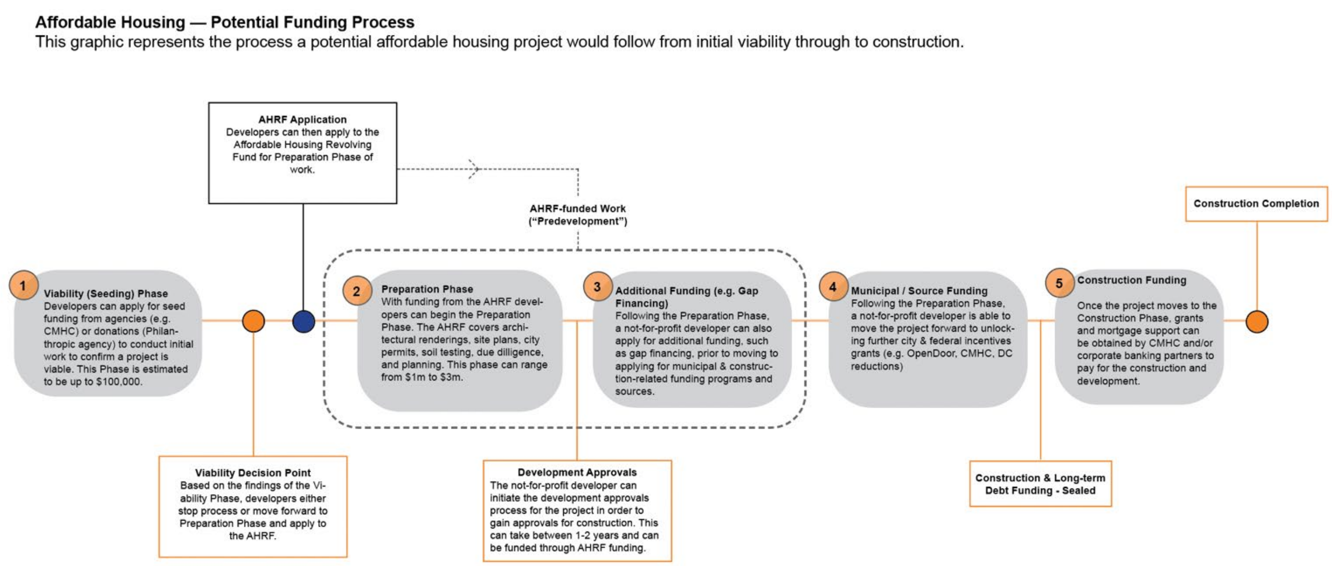
Based on an evaluation of existing programs available to Ontario affordable housing developers, there is an opportunity to create a revolving fund, with backstop support by the Province, available to qualified affordable housing developers, that would allow for predevelopment work and to provide potential funding for upfront capital investment.

[7] U.S. Economic Development Administration (EDA) – Revolving Loan Fund (RLF). Accessed September 3, 2024. https://www.eda.gov/funding/programs/revolving-loan-fund

The proposed AHRF in this report is a revolving fund backed by the Province, which allows applicants to receive funding for predevelopment work as defined and identified in **Figure 1** of this report. Through discussions with industry representatives, predictability, reliability and sufficiency of funding in this phase would allow for competitiveness within the market for sites, and would also cause a ‘domino effect’ for subsequent stages in the development process by unlocking additional funding sources for construction and development. As part of the AHRF, a funding range between 5-10% of project cost is proposed to assist non-profit and private affordable housing developers with upfront capital to cover gaps in project pro forma(s) and to undertake predevelopment-related work (e.g. due diligence, development-related studies, hiring of consultants, and other associated costs that come with the pre-construction phases of projects). It is recommended that prior to applying to the AHRF, the potential borrower would be required to complete an initial Viability (Seeding) Phase, which is undertaken through either self-funding or grants/philanthropic sources. It is estimated that this phase of work would cost between$80,000-$100,000, and includes work related to the development of a credible feasibility case prior to applying to the AHRF. The predevelopment work funded by the AHRF would unlock access to subsequent Federal/municipal funding and incentives for preconstruction, construction and long-term debt financing.

An initial dollar amount would be required to create the AHRF. This could be either from a singular source or a pooled combination of sources (e.g. the province, other levels of government, financial institutions, corporations, donors). This pool of money would then be distributed by a third-party fund manager to successful applicants via applications from eligible affordable housing developers. Depending on the payback period and interest amount ultimately decided upon, applicants would then be required to begin repayment of the loan and any applicable interest based on the contractual agreements. **Figure 1** below demonstrates the potential overall funding process for a project: the initial proponent-funded Viability (Seeding) Phase (#1), AHRF-funded Preparation Phase (#2), AHRF-funded Additional Funding (e.g. Gap Financing) Phase (#3), Municipal/Source Funding Phase (#4), and Construction Funding Phase (#5). As noted, a Viability Decision Point is required after the Viability (Seeding Phase) to determine whether the project is feasible, at which point applicants can apply for funding through the AHRF, which covers Phases 2 & 3. (Specific details of the AHRF process and repayment cycle can be found in **Figure 2**).

Figure 1 – Potential Funding Process



With respect to repayment, Arcadis has assumed that the interest on the loan would be set at a constant interest rate for the duration of the repayment period. Borrowers would be expected to start loan repayment either prior to project commencement or at confirmation of long-term debt financing or at time of occupancy/closing or once the development has completed and starts collecting revenue. The money received from the principal loan repayments – in addition to the interest payments – would help the fund grow and will provide a source of funding for the next affordable housing developer. Based on the revolving funds that Arcadis reviewed as part of this report, it appears that both loan and interest repayments are paid back into the same fund, which then creates a growing fund for future redistribution to eligible applicants. It is noted that a number of revolving fund case studies that Arcadis reviewed had annual 'top ups' – additional cash injections which were provided to the fund on an annual basis, in addition to the interest repayment. This allows for new projects to be funded on an annual basis without waiting for funds to be replenished solely through repayments. Another potential option would be structuring the AHRF similar to an endowment fund, wherein only a portion of available moneys in the fund are funneled to successful applicants, with the remaining amount providing a buffer that itself could generate interest. Further assessment is required to determine the payback period and how this relates to the revolving nature of the AHRF.

In the evaluation of an affordable housing revolving fund, the following considerations and goals should be assessed to ensure that all participating parties realize the benefits of the fund[8]:

- **End users:** The units need to have rents affordable to households within the given policy context of the geography (e.g. based on Average Market Rent or 30% of household income).
- **Policymakers:** The development projects need to meet key policy and planning goals regarding location, populations served, and affordability, among others.
- **Housing developers and operators:** The loans offered need to solve critical development challenges and be financially feasible in a project's pro forma.
- **Investors:** The fund needs to have terms attractive to public/private investors so that it can raise enough capital to meaningfully affect the development pipeline and overall supply of affordable rental housing units. The fund must be responsive to the required return on investments that investors are looking for in order to gain buy-in.

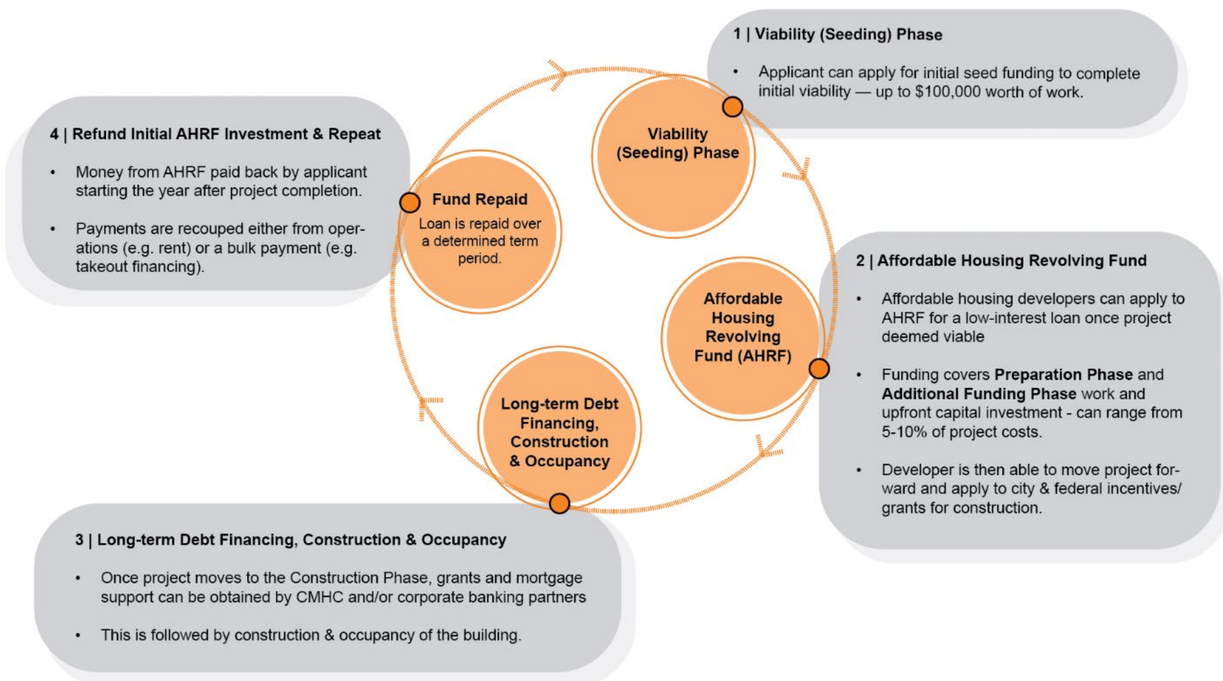
In a review of the proposed AHRF, the following assumptions must be stated:

- It is assumed that the land costs for the property will net out to zero. Therefore, the fund would not be eligible to be used for land purchases;
- It is presumed that the initial project viability (prior to the AHRF-funded predevelopment work) is funded through funds from the developer (e.g. grants) and/or in combination with philanthropy or self-generated initial investment. It is expected that this initial Viability (Seeding) Phase funding in the amount of approximately $100,000. Only once the Viability (Seeding) Phase is complete and a project is confirmed viable can a developer move forward and apply to the AHRF for the Preparation Phase and for upfront capital investment financing;
- The AHRF can be partnered with other (existing and future) grants/incentives to allow for funding at all phases of development;
- The Preparation Phase includes site due diligence, fees related to development approvals, legals fees, architectural design costs, planning/engineering costs and other consultant costs required to meet lender requirements;

[8]Enterprise, City Spaces, ECONorthwest "TOAH Fund Business Framework for Metro Vancouver", Final Report (March 2019)

- The Additional Funding Sources phase refers to a phase of work following the Preparation Phase which includes work related to preparing and applying for gap financing funding sources; and,
- The upfront capital investment financing enables the pro forma to pencil out with a positive return after all the other funding sources – including debt financing have been incorporated. Typically, affordable housing development with less than market rents require 5-10% upfront equity that has no predictable funding source.[9]

Figure 2 – Affordable Housing Revolving Fund



[9] Based on existing WoodGreen development.

3 Case Studies: North American Low Interest Revolving Funds

To inform the proposed Affordable Housing Revolving Fund and peer review of WoodGreen's pro forma, Arcadis undertook an analysis of Revolving Fund examples across North America to understand their current use and success rates. For the purposes of this report, Arcadis has focused on two primary case studies that provide unique insight into the pros and cons of Revolving Funds in addition to a number of smaller case studies:

- City of Vancouver (Canada) – Transit Oriented Affordable Housing (TOAH) Study
- USA – EPA: Clean Water State Revolving Fund (CWSRF)

Arcadis has also reviewed a number of smaller case studies across North America:

- Vancouver (Canada) – UBC Sustainability Revolving Fund
- Minnesota (USA)– Greater Minnesota Housing Fund
- Toronto (Canada) – Pilot: Community Housing Pre-development Fund (CHPF)

The following sections provide an overview of both case studies, highlighting key details and takeaways that can be applied to a future Provincial Affordable Housing Revolving Fund.

3.1 City of Vancouver – Transit-Oriented Affordable Housing (TOAH) Study

In 2019, the City of Vancouver undertook a study to assess potential funding mechanisms to incentivize transit-oriented affordable housing within the Metro Vancouver Area. The assessment included an analysis of whether revolving funds would make sense for both predevelopment (i.e. visioning, due diligence business planning), and construction phases of work. The study included a series of stakeholder consultation and community engagement, in addition to open houses and expert roundtables to understand market need, costs, and the pros and cons of low-interest revolving funds for the predevelopment phase.

This feedback and report findings highlighted concerns with using a revolving fund for predevelopment work (particularly for initial feasibility assessment) due to the high-risk nature of repayment for investors, high-risk for applicants, and overall uncertainty of project moving to construction. As such, starting a fund that covers all pre-construction work (e.g. viability, predevelopment, and funding application) would be a "heavy lift" and would require lenders to extend capital into unknown, risky territory. City of Vancouver Staff did provide alternative feedback; specifically, that a number of these concerns could be mitigated by incorporating consistent and clearly defined parameters by which each application could be assessed.

The TOAH Study identified three types of potential funding program types:

- Predevelopment Funding[10] – Funding for early visioning, design, pre-award due diligence, business planning. Filling predevelopment gap that exists due to CMHC's recent policy shifts to prepare proven feasibility.
- Acquisition Funding – Funding to fill acquisition gap for land or properties
- Permanent Debt Funding – Lower cost financing after construction of mixed-income properties

For the purpose of this case study section, Arcadis has focused on the 'Predevelopment Funding' assessment and key findings of the TOAH report.

The final report recommended that while an overall development fund that could include some predevelopment phases (i.e. site consolidation) should be created, a revolving fund specifically for initial predevelopment (e.g. preliminary visioning, due diligence) was not appropriate and should be sourced from other external financing or philanthropic funding sources.

Revolving Fund Implementation

The supporting work for the TOAH study provided useful information with regards to how a revolving fund for predevelopment projects could potentially be implemented (see **Figure 3** below). Specifically, it outlined the following key takeaways:

Figure 3: Vancouver TOAH Revolving Fund – Predevelopment Key Fund Components[11]

Terms	
Recommended Fund Size	• $10 million or more
Recommended Loan Term	• 3-5 years, with options for extensions
Recommended Interest Rate	• Fixed preferred, but may need to be higher to accommodate higher risk products • Repayment paid from capitalized interest[12] reserve or from current cash flow of property
Types of Projects	• Predevelopment works including due diligence, site assembly, acquisition, relocation, preservation, or redevelopment of existing sites.
Eligible Applicants	• Mission driven, non-profit or for-profit borrowers which meet minimum covenants and criteria to ensure sufficient financial strength, organization experience and staff capacity
ROI	• To be determined based on investors

Stakeholder Consultation Feedback & Implementation Steps

The overall takeaway from the consultation feedback was that a revolving fund was deemed "not appropriate for predevelopment"[13] funding due to high-risk for investor, likelihood of repayment, lack of being able to tie funding

[10] The TOAH definition of 'Predevelopment Funding' is akin to the 'Viability (Seeding) Phase as defined in this report.
[11] Enterprise, City Spaces, ECONorthwest "TOAH Fund Business Framework for Metro Vancouver", Final Report (March 2019)
[12] 'Capitalized interest' refers to interest that is added to the total cost of a long-term asset of loan balance, meaning that is not recognized in the current period as an interest expense.
[13] In the case of the TOAH report, "predevelopment" refers to all pre-construction costs, but specifically identified the initial viability and feasibility phases as a concern.

to any debt since it is not a physical project, and likelihood of a project moving beyond predevelopment phase – especially for a smaller applicant.

City Staff proposed that these factors could be mitigated by incorporating consistent and clearly-defined parameters by which each application is assessed. In addition, it was also highlighted that options existed that could make a revolving fund a potentially financially-sustainable option for both the municipality and borrowers, such as zero interest or interest-only loans.

As such, it was ultimately recommended that Predevelopment Funding (as defined by the TOAH study – e.g. initial viability) should be in the form of no-interest loans, grants, or public/philanthropic funders who do not expect a return, with the remainder of any loan given to be allocated to the construction phase where investment could yield returns for the fund.

Figure 4: Consultation Feedback & Potential Implementation

Item	Stakeholder Direction / Feedback	Implementation Steps
Eligible Borrowers	Potential access only for not-for-profit (NFP) developers / developments	Establish list of borrower criteria (NFP status, development experience, collateral)
Eligible Users	Early stage funding much-needed but tricky to define	Establish list of criteria of eligible funding uses and timeframes (e.g. site evaluation, initial architecture & design, other funding applications, meetings & conversations w/planning departments)
Eligible Products	Predevelopment funding much riskier (for lender) – funding should be grant vs. loan	City staff disagreed but understood concern – a low-interest rate revolving fund could still be accessible for NFPs plus other options exist (e.g. zero-interest, forgivable, interest-only payment)
Capital Sources	Public subsidy or philanthropic funding would be needed for predevelopment grant	Establish list of potential funders, amounts, and expected return
Funding Terms	1-3 year timeframe is acceptable Funding range of \$80-\$150k per project	Establish funding terms, criteria for initial timeframe and amount, in addition to criteria for extensions or increases (e.g. what do borrowers need to prove for an increase/extension)

Final TOAH Report[14]

Following the 2018 Consultation Feedback report, a Final Report was prepared in March 2019 that recommended an overall fund that is open to some preconstruction work, however significant funding for early-stage work should be in the form of grants. The final report restated the position that a revolving fund is not appropriate for predevelopment work based on the following reasons:

[14] Enterprise, City Spaces, EcoNorthwest – *TOAH Fund Business Framework for Metro Vancouver* (March 2019).

- It is common for envisioned projects to end up non-feasible, thereby preventing the project from repaying loans to the fund
- Predevelopment loans are not present in the industry means that the TOAH fund could not gather and blend existing funding sources to include in the fund
- Starting a fund focused specifically on predevelopment projects would be a “heavy lift” and would require convincing lenders to extend their capital into unknown, risky territory
- Financing for predevelopment projects would be better served with a subsidy solution from either public or philanthropic funders who do not expect a return on investment

3.2 USA – EPA: Clean Water State Revolving Fund

The Clean Water State Revolving Fund (CWSRF) is a collaboration between the Environmental Protection Agency (EPA) and all 50 States of the USA (in addition to Puerto Rio), for water infrastructure projects. Applicants apply for funding via their respective State, which themselves receive funding allocation through said revolving EPA fund. The CWSRF has been in place since 1987 and has funded over 48,022 loan agreements as of 2023.[15]

The CWSRF was created as a financial assistance program for a wide range of water infrastructure projects, and grants States the flexibility to fund a range of projects that address their highest priority water quality needs.[16] Building on an initial federal investment of $52.4 billion, the CWSRF has provided $172 billion to communities through to 2023. The EPA provides grants to each State’s CWSRF loan programs, and each state contributes an additional 20 percent to match the federal grants.[17]

Process & Loan Terms

The 51 CWSRF programs function like environmental infrastructure banks by providing low interest loans to eligible recipients which can be put towards the planning and construction of water infrastructure projects and programs. As money is paid back into the state’s revolving loan fund, the state makes new loans to other recipients for high priority, water quality activities. Repayments of loan principal and interest earnings are recycled back into individual state CWSRF programs to finance new projects that allow the funds to "revolve" at the state level over time.

States are responsible for the operation of their CWSRF program. Under the CWSRF, states may provide various types of assistance, including loans, refinancing, purchasing, or guaranteeing local debt and purchasing bond insurance. States may also set specific loan terms, including interest rates from zero percent to market rate and repayment periods of up to 30 years. States have the flexibility to target financial resources to their specific community and environmental needs.

States may customize loan terms to meet the needs of small and disadvantaged communities, or to provide incentives for certain types of projects. Beginning in 2009, the United States Congress authorized the CWSRFs to provide further financial assistance through additional subsidization, such as grants, principal forgiveness, and negative interest rate loans.

[15] EPA: Clean Water State Revolving Fund – How the CWSRF Works. https://www.epa.gov/cwsrf/about-clean-water-state-revolving-fund-cwsrf#works
[16] 33 U.S. Code S1383. (retrieved August 29, 2024). https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title33-section1383&num=0&edition=prelim
[17] EPA: Clean Water State Revolving Fund Infographic (https://www.epa.gov/cwsrf/clean-water-state-revolving-fund-infographic) (2023)

Figure 5: CWSRF – Key Fund Components

Terms	
Loan Ranges	• $2,300 - $660 million[18]
Loan Repayment	• Up to 30 years (or useful life of project) – whichever is less • Interest starts the day of fund receiving • Repayments start one year after project completion
Interest Rate	• 1.46% average interest rate since 1987
Types of Projects	• Publicly owned treatment works • Watershed projects • Water conservation • Security measures • Water reuse • National Estuary Program Projects • Stormwater • Energy Conservation
Eligible Applicants	• Communities, Private Entities, NFPs, Citizen Groups
ROI	• Every $1 invested generated $3.28 towards communities

The application requirements for the CWSRF can be found at the following link.

3.3 Additional Revolving Fund Examples

There are a number of additional low-interest revolving fund examples that Arcadis reviewed in addition to the two case studies selected and detailed in sections 3.2 & 3.3 above:

3.3.1 UBC Sustainability Revolving Fund[19]

The UBC Sustainability Revolving Fund provides loan amounts that range from $10,000-$200,000 for energy-related retrofit projects on the campus. The payback period is 2-5 years, with an average 3.00% interest rate. This fund was a collaboration between BC Hydro, Fortis BC, Natural Resources Canada, and the BC Government. The review process for applications include a risk assessment through which all applications will be evaluated against an 'acceptable risk'.

[18] Based on 2022 key statistics.
[19] UBC Sustainability: Sustainability Revolving Fund. https://sustain.ubc.ca/get-involved/sustainability-funding-opportunities/sustainability-revolving-fund

3.3.2 Greater Minnesota Housing Fund (Minnesota, USA)[20]

The Greater Minnesota Housing Fund has provided $270 million to affordable housing projects since 1996 with two funding routes: Interim Financing and Permanent Financing.

- Interim financing provides loans for predevelopment, acquisition, construction, and other short-term work for the preservation and construction of affordable housing.
- Permanent financing provides long-term amortization loans, TIF loans, and gap loans via the NOAH (Naturally Occurring Affordable Housing) Impact Fund across the Twin Cities region and other Minnesota Metros.

The fund is the leading affordable housing Community Development Financial Institution (CDFI) in Minnesota. The NOAH Impact Fund is a public-private partnership involving a number of banks, Minnesota Housing Finance Agency, Hennepin County, McKnight Foundation, and Otto Bremer Trust, each of which made impact investments to support the fund. The NOAH Impact Fund was officially launched in June 2017 with $25 million from seven impact investors to acquire 1,000 units of rental housing and maintain affordable rents for 15 years.

3.3.3 Pilot: Community Housing Pre-Development Fund (Toronto, ON)

This pilot project was created based on a recommendation by Council as part of adopting the Federal Housing Accelerator Fund. The recommendation was to create a municipal predevelopment fund for Indigenous, non-profit, and co-operative housing projects to supplement CMHC's funding programs, and provide support to qualified housing organizations working to assist the City, to deliver new RGI (Rent-Geared-to-Income), affordable, and rent-controlled homes.[21]

This pilot program was created in May 2024 to run from 2024-2026, with a minimum annual allocation of $10m from the City, although 2024 saw a total of $16m allocated. Eligible projects can apply to receive up to $50,000 per RGI housing and affordable rental homes in the form of interest-free loans. The fund will be a revolving fund where funds will be re-paid via interest-free loans at the first construction loan draw and re-invested back into the predevelopment fund and/or in future Community Housing projects in Toronto.

It is noted that projects that apply and receive funding from the CHPF will be required to also apply for Seed Funding available from CMHC (up to $350,000 in interest-free loans or a maximum of $150,000 of forgivable contributions) to assist with early development expenses.

Eligible costs include the following:

- Project viability study (analysis of need and demand for proposed project)
- Preliminary financial feasibility & business plans
- Site surveys, project drawings, preliminary design, environment site assessments & Geotechnical reports
- Engineering studies (for example, wind, shadow and traffic impact analyses)
- Construction cost estimates
- Planning fees (for example, rezoning, development agreement costs) & development permits
- Final viability report

[20] Greater Minnesota Housing Fund: https://gmhf.com/finance/
[21] Report: Launching the Rental Housing Supply Program (City of Toronto, May 30, 2024), pg.8.

It is noted that the loan can be forgiven (at the discretion of the Executive Director, Housing Secretariat), where the project is:

- Determined to not be feasible as a result of findings of predevelopment due diligence
- Faces significant changes to project specifications as part of the predevelopment due diligence work that render the project non-viable
- Faces unresolved barriers in securing construction financing

Given 2024 was the first year of the CHPF, Arcadis cannot opine on its' success and/or limitations, however its' case-by-case term repayments and forgiveness of unfeasible projects are worth noting.

3.4 Key Findings

Based on the evaluation of the above Case Studies, Arcadis has identified the following key findings:

- **The Case Studies support the delineation of an initial Viability Phase prior to receiving funding from the AHRF to mitigate risk and address concern over default repayment:** As per the Vancouver Transit Oriented Affordable Housing (TOAH) Study, a revolving fund for the entire pre-construction phase of potential affordable housing projects can pose high-risk for applicants due to uncertainty of projects moving beyond initial viability (especially for smaller borrowers) and the fact that debt cannot be tied to any project. The TOAH study's recommendation for a grant, donation, or small zero interest loan for initial viability work provides key insight for the separation of the initial Viability (Seeding) Phase from the predevelopment phases eligible for AHRF funding. TOAH's findings are supported by the City of Toronto's (CHPF), which includes potential loan forgiveness in the case of a project being determined as not viable in its' initial stages.
- **The proposed AHRF would cover predevelopment work only, not initial viability:** It is proposed that only the Preparation Phase and Additional Funding phase would be eligible under the AHRF. The Preparation Phase would only be initiated after the successful completion of the Viability (Seeding) Phase (estimated at up to approximately $100,000 worth of work) to assess initial project feasibility. Funds for the Viability (Seeding Phase) would be provided by existing grant programs, philanthropic donations, or through a developers' own sources – not through the AHRF. Once viability is confirmed, the AHRF would then provide funding via a low-moderate interest loan to applicants to bring the project through the approvals process and prepare it for construction. The AHRF would cover approvals-related costs (e.g. drawings, studies, reports, consultant costs) and business case work to enable the project to apply and receive subsequent development & construction funding. It is estimated that funding for between 5-10% of project costing (e.g. $1-3m) could be applied for via the AHRF.
- **The proposed AHRF would help to assist with upfront investment capital.** With regards to the Additional Funding Phase, the proposed AHRF would provide initial capital to address gaps in the pro formas for affordable housing developers. This capital injection is critical to help close the financial gap after utilizing municipal grants, capital contributions, CMHC lending thresholds, and debt service limitations caused by lower revenues from affordable housing. Ideally, the upfront capital would be repaid from building revenues once the project is complete and stabilized.
- **Loan amounts and loan terms are not consistent amongst revolving funds and vary based on the fund size and the location.** Loan amounts for different revolving funds examples vary greatly. For example, the EPA Clean Water reserve loan amounts ranged from $2,500 to $660 million while the Vancouver TOAH

Study ranged from $80,000-$150,000. Understanding that the financial backing between the two funds is quite different, any implementation metrics of an affordable housing revolving fund in the Ontario context should be predicated on the amount of investment received and the level of risk the fund is looking to take on.

- **There is flexibility in what is considered "low" interest rates.** There is a range of "low-moderate" interest rates which could be applied to a revolving fund, ranging from just below market rate to a negative interest rate as per the USA – EPA: Clean Water State Revolving Fund (CWSRF) case study. Learning from the CWSRF, it would be beneficial for the AHRF to be able to dictate the rate based on social benefits or community need. Across the board, fixed interest rates should be provided to allow for transparency and predictability for repayment. It is critical for the AHRF to be at least low-moderate interest rate in order to replenish – and grow – the fund over time.
- **Application requirements and agreement between parties will be key to mitigate risk**. For the lender, a well-structured application which collects all necessary financial information will be critical to help mitigate risk, as well as a clear and concise process for applying to the AHRF to clearly-define parameters by which each application is assessed (e.g. project success rate, applicant history, likelihood of repayment).
- **An AHRF could help solve a key financing gap in the affordable housing development value-chain in Ontario.** While the AHRF could represent a significant new funding opportunity and assistance to affordable housing developers by providing upfront capital needs, continuing and accelerating the development of affordable housing will still require continued commitment by all levels of government and philanthropic/social impact financiers.
- **Collaboration between multiple parties in the affordable housing development value-chain is critical for success.** In the successful cases of the revolving funds reviewed by Arcadis, collaboration was a critical component for both fund start-up and long-term financial longevity. The CWSRF is a partnership between the Federal, State, and Local governments bodies, the UBC Sustainability Revolving Fund was a partnership between BC Hydro, Fortis BC, Natural Resources Canada, and the BC Government, and the Greater Minnesota Housing Fund provides funding through a public-private fund. Given the multiple governmental bodies, affordable housing developers, and players in the planning approval process in Ontario, this type of multi-body approach will be important for a new AHRF model in Ontario.

4 Canadian Affordable Housing Funding Programs & Grants

For the purpose of this report, Arcadis has undertaken a review of a number of predevelopment funding sources that are available to affordable housing developers across Canada. It is noted that while Federal funding is available to everyone, availability of all funding programs varies significantly depending on municipality in which project is in. While this section provides a high-level summary of the following five funding sources, additional information and details on application requirements is provided in **Appendix A**.

CMHC: Affordable Housing Innovation Fund

The CMHC: Affordable Housing Innovation Fund supports new ideas and approaches that will evolve the affordable housing sector and create the next generation of housing in Canada. The fund began in 2022 and was to deploy $550.8m over six years to three types of projects: Transformational; Breakthrough; and, Incremental. The loan amount. term, and interest rate varies project to project. Eligible projects include developing and testing innovations that incorporate resource and operating efficiencies that are replicable and scalable, and is available to municipalities, provinces, & territories, private sector developers, non-profit housing developers, and indigenous governments and organizations.

CMHC: Canada Greener Affordable Housing Pre-Retrofit Fund

The Canada Greener Affordable Housing Pre-Retrofit Fund supports costs for completing the pre-retrofit activities needed to plan, prepare, and apply for CGAH Retrofit Funding. $19.5 million in contributions are available through a callout application-based process. The maximum contribution is $130,000 per project. Funding will be available over 3 years starting in 2023-24 in the form of low-interest repayable and forgivable loans, and is available to community housing developers, indigenous governments & organizations, and provincial, territorial, and municipal governments.

CMHC: Seed Funding

The CMHC: Seed Funding provides interest-free loans and non-repayable contributions to develop and preserve affordable housing. There are two types of funding available: contributions up to $150,000 and interest-free loans up to $350,000. It supports funding for completing predevelopment activities only related to the construction of new affordable housing supply, and is available for community housing, affordable housing, shelters, and conversion of non-residential buildings to affordable multi-residential projects. Eligible applicants include non-profit housing organizations, governments, indigenous governments and agencies, and private developers.

FCM: SAH – Planning

The FCM/GMF Sustainable Affordable Housing – Planning provides grants (up to $30,000) to assist housing developers in the early stages of sustainable affordable housing development. This grant is intended to fund the development of deliverables required in applications for additional funding (e.g., GMF's Sustainable Affordable Housing (SAH) – Study grant or the CMHC Seed Funding). This grant supports initial planning phases of projects including project initiation, needs assessment, financial assessment, and identifying design consultants and contractors.

FCM: SAH – Studies

The FCM: SAH-Studies fund supports studies focused on the integration of energy efficiency measures and onsite renewable energy generation in existing affordable housing retrofit and new build projects. The funding is in the form of a grant up to $250,000, available to municipal governments, municipally-owned corporations, and not-for-profits and affordable housing developers. Housing developers can use a study grant to assess the approaches needed to implement an eligible pilot or capital project in detail, including technical evaluations and energy models, financial options analysis, site assessments, stakeholder engagement, and detailed project planning.

4.1 Additional Development Funding Sources

In addition to the existing predevelopment funding opportunities listed in Sections 4.1 above, there are a number of development funding sources – e.g. funding for construction of affordable housing units and projects. Details of these additional development funding sources have been included in **Appendix B**.

With respect to construction funding for affordable housing, there are generally two methods in which funding is provided: capital funding in the form of a grant or loan; and, development incentive programs, which typically offer fee/development charge reductions or property tax breaks/deferrals to developers. For capital funding programs, such as CMHC, funds are specifically earmarked to assist with the cost of construction of affordable housing units, and are typically received after it can be proven by the developer that the project is financially feasible. Fee, development charge or property tax reductions, which are typically offered by regional/local municipalities through an incentive program or Community Improvement Plan, take the form of a reduction or rebate in which a developer can be "credited" the cost to the municipality and/or Region upon payment. It should be noted that as per changes from Bill 23, as of June 1, 2024, affordable housing units are exempt from Development Charges (Section 4.1(8) of the *Development Charge Act*). Both of these options are available to affordable housing developers either at the end of the planning process or at the beginning of the construction process.

4.2 Key Findings

Based on the evaluation of the above funding sources, Arcadis has identified the following key findings:

- **With respect to predevelopment funding options, there is an apparent funding gap at the provincial, regional, and municipal levels.** The five predevelopment funding sources for affordable housing are all provided by agencies of the Federal government. The majority of regional/municipal incentives or programs traditionally focused on development charge exemptions and/or tax reduction to financially aid affordable housing developments. In mid-2024 the City of Toronto created the CHPF to support existing CMHC predevelopment funding programs, but this is at an early-stage and cannot yet be assessed for successes or limitations.
- **Of the available predevelopment funding sources, there is no program which provides substantial money to cover the full cost of the predevelopment phase (i.e. prior to construction).** There are only five programs available nation-wide which focus on providing funding for the predevelopment phase and upfront capital investment for affordable housing projects – the maximum predevelopment funding is $350,000 via the CMHC Seed Funding program. While this is a substantial amount of money, it does not cover estimated predevelopment costs, which WoodGreen estimates at between 5-10% of total project costs.

- **It should be noted that changes to the *Development Charges Act* through Bill 23 will now exempt affordable housing projects from development charges as of June 1, 2024.** While this is a welcome change to non-profits and affordable housing developers, this change to the *Development Charges Act* will effectively negate many municipal incentive programs which only provide a deferral or reduction in development charges for affordable housing projects, giving the opportunity for more innovative solutions and funding mechanisms.

5 Proof of Concept: 1117 Gerrard St. E. Development Pro Forma

Arcadis has conducted a peer review analysis of the project approach and cash flow for WoodGreen's development at 1117 Gerrard St. E. in the City of Toronto (herein referred to as "1117 Gerrard") to identify opportunities and impacts of a revolving fund on the development pro forma. The purpose of this analysis will be to identify the current concerns with the process and the financial pinch points associated with affordable housing development and determine where/how a contribution from the revolving fund would have the most benefit to the project. Using the findings of this assessment, Arcadis will look at how the revolver fund could be applied to other affordable housing projects.

5.1 1117 Gerrard St. E. – Project Summary

1117 Gerrard Street East is a five-storey affordable seniors' residence in Toronto's Leslieville neighbourhood, near the intersection of Gerrard St E and Jones Ave. It is located approximately 700m from the future Ontario Line Gerrard subway station. The building was designed by LGA Architectural Partners for WoodGreen and offers a total of 26,340 SF – 23,810 SF of residential and 2,530 SF community space (e.g. daycare). The building consists of a total of 35 units (one studio and 34 1-bedroom) and five vehicular parking stalls. The building was completed in 2021, with the daycare opening in 2022.

As per WoodGreen's Pro Forma, 1117 Gerrard received the following funding components for a total of $7.3m of government funding and $0.8m of private capital funding:

- Open Door (City of Toronto) – $5,400,000 (Social Impact Fund – Seniors Funding) & $100,000 for additional unexpected costs. The development qualified for development charge and property tax exemptions.
- CMHC Grant (Federal) - $1,900,867 (forgivable loan) & $6,036,133 (repayable loan)
- New Market Funds (Private) - $800,000

Figure 6: 1117 Gerrard Public & Private Funding Source Timeline

Funding Source	Pre-Construction	Construction	Closing	Total
Open Door	$1,715,754	$2,551,615	$540,000	$5,400,000
CMHC	$0	$1,900,867	$0	$1,900,867
New Market Funds	$0	$0	$800,000	$800,000

5.2 Arcadis Assumptions

Arcadis has utilized a number of assumptions to maintain consistency throughout the analysis of the different scenarios that have been created. These assumptions include:

- The pro forma assumes that the land component of the calculation will be a net zero cost to the developer
- It is assumed that the costs and revenues as provided in the pro forma by WoodGreen would still be valid in 2025.
- The takeout financing interest rates have been updated to rates currently available to Woodgreen - 3.25% which is up from the 2.25% assumed in the original WoodGreen model
- The AHRF interest rate is assumed at 2% in perpetuity
- The AHRF will begin generating interest the day the moneys are paid but repayment begins one year after project closing
- The takeout financing interest rate will increase 0.25% every 5 years to provide a conservative estimate.

A more fulsome list of assumptions used in the analysis are provided in **Appendix C.**

5.3 Pro Forma Scenarios

To understand the impact of a AHRF on a sample development, Arcadis has created six different scenarios to test the financial viability of the addition of these funds.

- **Scenario 1:** The first scenario was developed as a “Worst Case” model whereby a full development charge was implemented for each unit developed, the City of Toronto’s Open Door Grant was removed as a funding source, and the AHRF was inserted as a funding source. This increased the amount of takeout financing that would be required to complete the project compared to the project’s original budget.

- **Scenario 2:** The second scenario, or the “Second Worst Case” built upon Scenario 1 whereby the Open Door grant was removed but development charges were not included as a line item in the project’s budget. This scenario was designed to showcase the conditions of an affordable housing project in a municipality that did not offer any financial supports.

- **Scenario 3:** The third scenario, “the Status Quo Scenario” is the closest version to what was originally calculated through the subject site’s original budget. This scenario removes development charges and the “New Market” funds, maintains the City of Toronto’s Open-Door grant, and inserts the AHRF to cover the upfront costs of development.

- **Scenario 4:** The fourth scenario, the “Best Case Scenario”, builds upon the Static Scenario and inserts a new funding source; the CMHC Seed Fund which offers $150,000 grant to affordable housing developments. This scenario is meant to showcase a development pro forma that includes greater affordable housing funding supports that are available to developments across Canada, not just in the City of Toronto.

- **Scenario 5:** The fifth scenario, the “Other Municipality” scenario does not include development charges or the Open Door Grant, but does include the CMHC Seed fund, the AHRF, and as an example, the Region of Peel Affordable Housing Incentive Grant program which Arcadis has estimated could provide a grant of $65,000 per unit for a total value of $2.275 million for the example pro forma. This scenario is meant to illustrate how the AHRF could impact affordable housing developments outside the City of

Toronto but within municipalities that offer an affordable housing grant program, such as the Region of Peel.

- **Control Scenario:** the final scenario uses the inputs provided in the original pro forma, namely the original interest rate, and reduced the reliance on takeout financing by implementing the AHRF in the calculations. This was meant to showcase the effectiveness of the AHRF in a scenario that retained as many of the values that existed when the development was completed rather than current rates and values.

Arcadis recognizes that in the development of affordable housing projects, the ratio of affordable units and market units can be adjusted to create a scenario whereby the development is financially viable. These scenarios can create greater financial sustainability, but it is imperative that the ratio continues to meet the definitions set forward by the various affordable housing funding sources, the development will continue to receive grants and low interest lending. Arcadis has not created or run a scenario that adjusts the rate of affordable units for the 1117 Gerard pro forma proof of concept as the purpose of this analysis was to test the financial impact of the AHRF directly on the existing unit mix of the development.

5.4 1117 Gerrard – Pro Forma Analysis

Arcadis has run a sensitivity analysis for each of the five scenarios, plus a control scenario for comparison, to determine the net position, cumulative net position, and debt coverage ratio of the development in Year 1, and each subsequent decade out to year 50.

Figure 7: 1117 Gerrard Development Scenarios Pro Forma Summary

Scenario Summary							
Scenario	**Value**	**Year 1**	**Year 11**	**Year 21**	**Year 31**	**Year 41**	**Year 50**
Original Proforma	Before Tax (Net Position)	$ 66,282	$ 46,305	$ 81,586	$ 121,639	$ 175,065	$ 459,321
	Cumulative Net Position	66,282	807,919	1,463,369	2,499,796	3,991,540	6,052,560
	Debt Coverage	1.33	1.18	1.32	1.48	1.72	-
Control	Before Tax (Net Position)	$ 115,506	$ 74,709	$ 109,150	$ 147,193	$ 194,723	$ 459,321
	Cumulative Net Position	115,506	640,802	1,578,612	2,879,278	4,601,535	6,800,743
	Debt Coverage	1.75	1.33	1.48	1.64	1.87	-
1	Before Tax (Net Position)	$ (211,170)	$ (251,871)	$ (213,962)	$ (168,216)	$ (100,418)	$ 459,321
	Cumulative Net Position	(211,170)	(2,952,442)	(5,273,496)	(7,161,244)	(8,506,623)	(8,604,242)
	Debt Coverage	0.56	0.55	0.61	0.69	0.81	-
2	Before Tax (Net Position)	$ (136,206)	$ (176,451)	$ (138,914)	$ (94,262)	$ (30,500)	$ 459,321
	Cumulative Net Position	(136,206)	(2,126,926)	(3,694,524)	(4,838,299)	(5,461,106)	(5,012,915)
	Debt Coverage	0.66	0.63	0.71	0.80	0.93	-
3	Before Tax (Net Position)	$ 83,358	$ 44,433	$ 80,890	$ 122,347	$ 174,287	$ 459,321
	Cumulative Net Position	83,358	290,918	930,000	1,965,395	3,458,970	5,505,818
	Debt Coverage	1.45	1.17	1.31	1.48	1.71	-
4	Before Tax (Net Position)	$ 89,454	$ 41,505	$ 77,938	$ 119,304	$ 170,915	$ 459,321
	Cumulative Net Position	89,454	267,446	877,200	1,882,533	3,344,296	5,363,072
	Debt Coverage	1.50	1.16	1.30	1.46	1.69	-
5	Before Tax (Net Position)	$ (37,602)	$ (86,319)	$ (49,262)	$ (6,048)	$ 52,404	$ 459,321
	Cumulative Net Position	(37,602)	(1,131,706)	(1,798,944)	(2,054,716)	(1,817,711)	(724,084)
	Debt Coverage	0.88	0.78	0.87	0.98	1.14	-

The above table indicates in all scenarios, that the financial position of the development in year 1 is more advantageous than in year 11 mainly because of the assumption that the AHRF will not be paid back until one year after close (year 2) in an effort to allow the development to start generating revenue prior to repayment. This does have the effect, however, of not realizing the project's true financial position until year 2. Based on the above table, the AHRF can have a net positive impact on the development in two of the five scenarios. Scenarios 3 and 4 indicate that a net positive financial position is attainable in year 1 and through the life of the project.

Unsurprisingly, the worst case and second worst case scenarios only become cashflow positive in year 50, once the takeout loan has been paid off, and result in a cumulative net position of -$8.5 million and -$4.9 million over the 50-year term respectively. The removal of the Open Door Grant and the inclusion of full development charge rates has a severe impact on the financial viability of the project and even with the AHRF, it is not enough to overcome the significant increase in takeout loan required to finance the project.

The fifth scenario that includes the Peel Region affordable housing grant, provides the most representative example of developing an affordable housing project outside of the City of Toronto. This scenario includes $2.275 million in grants, which only represents about half the amount provided by the City of Toronto's Open Door grant. The project does have a positive net position in year 31 but the cumulative net position is still negative even after year 50 due to the greater reliance on takeout financing than the subject site's original development pro forma.

Figure 8: 1117 Gerrard Development Scenarios Pro Forma Summary

Scenario Summary							
Scenario	Value	Year 1	Year 11	Year 21	Year 31	Year 41	Year 50
Original Proforma	Before Tax (Net Position)	$ 66,282	$ 46,305	$ 81,586	$ 121,639	$ 175,065	$ 459,321
	Cumulative Net Position	66,282	807,919	1,463,369	2,499,796	3,991,540	6,052,560
	Debt Coverage	1.33	1.18	1.32	1.48	1.72	-
Control	Before Tax (Net Position)	$ 115,506	$ 74,709	$ 109,150	$ 147,193	$ 194,723	$ 459,321
	Cumulative Net Position	115,506	640,802	1,578,612	2,879,278	4,601,535	6,800,743
	Debt Coverage	1.75	1.33	1.48	1.64	1.87	-

Figure 8 highlights the differences between the original pro forma and the control scenario. The control scenario maintains the original interest rate and reduces the reliance on "New Market Funds" upfront capital which results in an increase of cumulative net position over the lifetime of the project of approximately $750,000. This is a direct result of stable interest rates charged on the AHRF opposed to traditional takeout financing. Additionally, the debt coverage ratio for the control scenario is higher than the original pro forma, allowing for more financial flexibility for the developer. This showcases that the introduction of an AHRF in the development early on will allow an affordable housing developer the opportunity to have greater access to leverage their net position for reinvestment in new projects earlier on than with traditional lending.

Figure 9: 1117 Gerrard Development Scenarios Pro Forma Summary

Scenario Summary							
Scenario	Value	Year 1	Year 11	Year 21	Year 31	Year 41	Year 50
Control	Before Tax (Net Position)	$ 115,506	$ 74,709	$ 109,150	$ 147,193	$ 194,723	$ 459,321
	Cumulative Net Position	115,506	640,802	1,578,612	2,879,278	4,601,535	6,800,743
	Debt Coverage	1.75	1.33	1.48	1.64	1.87	-
3	Before Tax (Net Position)	$ 83,358	$ 44,433	$ 80,890	$ 122,347	$ 174,287	$ 459,321
	Cumulative Net Position	83,358	290,918	930,000	1,965,395	3,458,970	5,505,818
	Debt Coverage	1.45	1.17	1.31	1.48	1.71	-

Figure 9 compares the control scenario and what Arcadis considers a 'static' scenario. The net position of the development after 50 years is only slightly decreased in Scenario 3 due to the increase of interest rates to currently achievable values (3.25% in year one).

It should be noted that the above exercise is meant to illustrate the potential financial advantages of utilizing and AHRF in a specific, existing development scenario rather than outline the anticipated benefit that every project granted access to AHRF funding could achieve. The terms of debt repayment in the above example are designed to be simple as part of a proof of concept. Further analysis is suggested to fully understand the fulsome financial impact of and AHRF using current market costs and revenues.

5.5 Opportunity for Time and Cost Savings with Increased Certainty

Overall, the usage of an AHRF in the context of different scenarios shows a net benefit in help to reduce overall cost of development for affordable housing development by reducing the long-term interest payments and reducing the need for private loans, which tend to have higher interest rates. While the use of an AHRF will not solve all financial concerns that affordable housing developers experience, it could potentially significantly reduce the risk of affordable housing developments by allowing affordable housing developers to access additional initial funding sources quicker and with more certainty. This stronger financial certainty is critical to reducing risk and determining the development timelines for projects.

A September 2024 study completed by Altus Group Economic Consulting found that the costs associated with construction delay range from $2,673 to $5,576 per month per unit depending on the municipality.[22] [23] A streamlined approach to receiving predevelopment funding may allow affordable housing developers to conduct this preliminary phase of work more expeditiously, reducing the timelines associated with acquiring upfront capital from 3rd party sources and allowing non-profit developers to get to the feasibility phase quicker to unlock additional grants and loans.

Through discussions with WoodGreen and BILD, it is estimated that the provision of the AHRF can reduce predevelopment timelines by a year to a year and a half, thereby lessening carrying costs, property taxes and overall development timelines. Based on the above Altus monthly estimates, a reduction by a year to a year-and-a-half on WoodGreen's case study project at 1117 Gerrard Ave. E. (35-unit project) could save between $2.3m to $3.5m, which equates to 14%-21% of the overall capital costs.[24]

In addition to the cost of time in the current economic and planning climate, it is estimated that the increased certainty in clarifying where predevelopment funding will originate can help to accelerate the development timeline. This certainty will allow for fewer wasted months of predevelopment effort clarifying funding sourcing to guarantee that the predevelopment contractors will continue to work while money trickles in.

[22] Cost of delay range reflects the lowest (Bradford West Gwillimbury - $2,673) and highest (City of Toronto - $5,576) per month **per unit**.
[23] Costs include financing/opportunity costs, annual property taxes, construction cost escalation, and development charge escalation. (source: Altus Group Economic Consulting – Greater Toronto Area Benchmarking Study (September 26, 2024), section 3.4. (pg.24).
[24] 14-21% based on 'Gerrard Closing Budget' document received from WoodGreen – $16.238m including land value and $14.38m not including land value. $2.3m is 14% of $16.238m and $3.5m is 21% of $16.238m.

5.6 Additional Fund Considerations

As funding sources are developed with targeted users in mind, the best-case scenario is that there is instant and sustained interest in accessing the fund. As much as any fund manager would be keen to lend funds to all applicants, the realistic nature of funding is that unless the fund becomes so successful over time that it can never be fully depleted in a year of applications, some consideration should be paid towards the structure of the fund. Arcadis suggests that in the fund's infancy at least and potentially through its long-term operating that a portion of the initial funds invested by third parties is withheld from use in applicant developments and is invested at traditional market returns. This structure would operate in a similar fashion to an endowment. This would ensure that the fund can continue operate and grow while the first few rounds of applications are approved instead of having to wait for funding to be repaid fully before another round of applications can be approved.

Further consideration should be given to the terms of how and when investors are able to recoup their monies. If the fund is over leveraged there is no opportunity to repay investors who require access to their initial investment. In a similar design as buying bonds, investors could be locked in for a certain period of time to guard against early withdrawals, but the specifics of this arrangement warrant further discussion through later stages of analysis.

5.7 Key Findings

Based on the analysis of the pro forma for 1117 Gerrard, Arcadis has identified the following key findings:

- **When compared to the original WoodGreen pro forma, the introduction of the AHRF increases the debt coverage ratio of the project and yields a long term savings of approximately $750,000.** The infusion of initial cash investment early into the process helps to create a buffer for the development in the starting building operation years when revenues are less stable. Additionally, the proposed fixed interest rate of the AHRF will generate long term savings, as its usage allows for the replacement of a portion of the New Market fund loan, with repayment at a lower interest rate along with increased certainty of funding and a reduction in the carrying cost of the overall project through the Preparation Phase.
- **Non-profits and affordable housing developers should be looking to capitalize on the additional funding programs provided by agencies of the federal government.** As identified in Scenario 4 (the "Best Case Scenario") the long-term benefits of receiving additional grant money will help with project viability as it will help to reduce reliance on private investments while providing greater certainty on early development timing and funding.
- **Toronto has a robust program through the Open-Door fund (now the Rental Housing Supply Program) to provide funding for affordable housing developers. However, many municipalities in Ontario do not have similar programs, which strengthens the need for a Provincially-backed predevelopment fund and upfront investment financing.** The evaluation of the pro forma for 1117 Gerrard, specifically Scenario 5 (see Section 5.3 of this report below), indicates the importance of additional funding – specifically for the Preparation Phase of work and upfront equity investment loan – to anchor the financial viability of affordable housing projects.
- **A critical component of a successful AHRF will be the maintenance of a preferred interest rate for the entirety of the loan term.** For these market scenarios, Arcadis has assumed a constant interest rate of 2% for the entirety of the loan term. This was critical to help keep interest costs down as well as create predictable future payments.

- **As noted above, the AHRF will need to be stacked with other incentives or grants already in existence for affordable housing developers to continue to help the viability of affordable projects.** The AHRF will help with the initial cash flow of a project but stacked with other capital (grants, private equity, etc.) in order to get the development off the ground. In the 1117 Gerard example, the private market equity required to secure financial viability equated to approximately 5% of the project's total budget. The proportion of a project's budget that may be attributed to a AHRF can vary greatly depending on the scale of the development and any site-specific costs. The predevelopment costs of 1117 Gerard account for 14% of the project's total budget.[25]

- **An AHRF may expedite development timelines and therefore lower costs of getting projects "shovel ready".** A September 2024 study completed by Altus Group Economic Consulting found that the costs associated with construction delays range from $2,673 to $5,576 per month per unit depending on the municipality.[26] [27] A streamlined approach to receiving predevelopment funding may allow affordable housing developers to conduct this preliminary phase of work more expeditiously, reducing the timelines by a year to a year and a half. Based on the above Altus estimates, a reduction by a year to a year-and-a-half on WoodGreen's case study project at 1117 Gerrard Ave. E. (35-unit project) could save between $2.3m to $3.5m, which equates to a 14%-21% of the overall capital costs for this specific project.[28]

- **By securing funding through the AHRF, affordable housing developers will be able to reduce risk associated with a development through their ability to access additional funding sources quicker, and with more certainty.** Through access to more certain funding through the AHRF, affordable housing developers are able to undertake predevelopment work and upfront investment capital with more certainty and confidence to unlock subsequent money and funding from other sources for construction. This stronger financial certainty is critical to reducing risk and determining the development timelines for the project.

[25] Based on 'Gerrard Closing Budget' document received from Woodgreen: $2.308m in costs up to construction (not including land costs) against overall project cost of $16.238m (which includes land costs). $2.308 against $16.238 = 14.2%.
[26] Cost of delay range reflects the lowest (Bradford West Gwillimbury - $2,673) and highest (City of Toronto - $5,576) per month **per unit**.
[27] Costs include financing/opportunity costs, annual property taxes, construction cost escalation, and development charge escalation. (source: Altus Group Economic Consulting – Greater Toronto Area Benchmarking Study (September 26, 2024), section 3.4. (pg.24).
[28] 14-21% based on 'Gerrard Closing Budget' document received from Woodgreen – $16.238m including land value and $14.38m not including land value. $2.3m is 14% of $16.238m and $3.5m is 21% of $16.238m.

6 Considerations for Implementation of a Provincial Affordable Housing Revolving Fund

Drawing upon the analysis from the previous sections, the implementation of a Province-wide AHRF to fund the predevelopment of affordable housing projects will need to overcome various complexities which have been observed in through the case study analysis as well as the peer review of the 1117 Gerrard pro forma. In order to understand how the fund should be set up, it is critical to establish the baseline understanding:

- **Who will be the overseeing body**? Through discussions with the project team, it is our understanding that the AHRF is envisioned to be managed by a third-party entity and backed by the Government of Ontario, although details surrounding this are to be determined through further evaluation.
- **How and by whom will initial investment be compiled?** Will outside investment be permitted? If so, what is the quantum of funds to be raised by outside investment and what is the expected rate of return of the participants?
- **What are the terms of the fund for initial investors?** What are the terms surrounding initial investment? What are the terms regarding repayment to investors?
- **Who will be eligible to apply for the fund**? Will it only be limited to non-profits and other affordable housing developers, or will it also be open to for-profit developers?
- **What is eligible to be covered by the funds**? The initial proposition is that the AHRF covers the Preparation Phase. It is important to establish exactly what types of work and costing can be included in the Preparation Phase. Having a clear set of criteria established will enable a streamlined process for potential applicants.
- **What is an appropriate loan amount**? The initial proposition is that the AHRF provide between 5-10% of project costs, depending on the size of development.
- **What interest rates are feasible from the lender and borrowers' perspective**? Can the fund be flexible, similar to that of the CWSRF? Are they a fixed rate throughout the individual loans' term or do they fluctuate with market rates? If the latter, how does this translate to long-term loans – are they fixed rate or can they be renewed at certain intervals such as a mortgage?
- **What is the optimal structure and management of the AHRF?** Is there an opportunity for the fund to be structured similarly to an endowment fund, with a portion of the capital being used to fund projects, and the remainder of the fund being retailed to generate additional returns and protect against the fund's overuse. How much of the fund will be allocated to projects? Additionally, the timing of which investors can recoup their investment should be considered to guard against early fund withdrawals.
- **What are appropriate timelines for loan repayment**? Shorter term loans pose less risk to the fund, but may not allow for the lending of higher sums of money which may be required to cover all predevelopment costs. Will there be a fixed loan term that all projects are to enter into an agreement to or will the repayment structure be on a case-by-case basis? How will this impact the "revolving" aspect of the fund?

- **How will the "revolving" aspect of the fund function**? How will repaid loans (plus interest) be recycled and re-distributed to future applicants? If third party investment is permitted, how will investors receive their return on investment?

With respect to the application process, further assessment into the following questions will be required.

- **Application Submission Requirements** – What information will need to be provided to help mitigate any perceived risks? Beyond the standard site statistics (e.g. Site ownership, Project vision, development concept), what financial information (e.g. pro forma) and risk assessment analysis will be required?
- **Application Review Process & Awarding of Funds** – Who will be reviewing the applications and how will the funds be awarded? Will it be a lump sum or will it be based on the achievement of milestones in the process? awarding funds process

Appendix A – Affordable Housing Fund Application Requirements

Affordable Housing Fund Application Requirements

This section provides an in-depth overview of the following predevelopment funding sources available to affordable housing projects across Canada:

- CMHC – Affordable Housing Innovation Fund
- CMHC – Canada Greener Affordable Housing Pre-Retrofit Fund
- CMHC: Seed Funding
- FCM: SAH – Planning
- FCM: SAH – Studies

CMHC: Affordable Housing Innovation Fund

The CMHC: Affordable Housing Innovation Fund supports new ideas and approaches that will evolve the affordable housing sector and create the next generation of housing in Canada. The fund began in 2022 and was to deploy $550.8m over six years to three types of projects: Transformational; Breakthrough; and, Incremental.

Figure 10: CMHC: Affordable Housing Innovation Fund Details

Loan Types	• Contributions
Loan Amount/Range ($)	• Varies
Loan Term	• Varies
Interest Rate	• Varies (based on CMHC's cost of borrowing)
Eligible Projects	• Develop and test innovations that incorporate resource and operating efficiencies and are replicable and scalable — including financing, operating models and technologies • Get flexible financial support to test a range of innovations and leverage new partnerships • Facilitate partnerships and encourage participation from diverse stakeholders including private sector, not-for-profits, community housing organizations, co-operatives, municipalities, provinces, territories, Indigenous governments and organizations and social investment organizations
Eligible Applicants	• Municipalities, provinces and territories • Private sector developers and builders • Non-profit housing providers and community housing organizations • Indigenous governments and organizations • Any other housing provider interested in developing and testing innovative approaches to rent-to-own housing

***Note: this program may be of use to apply for to support the development of a future business plan for discussions with the Province of Ontario.**

Application Requirements

The following documentation are required as part of an application:

Figure 16: CMHC: Affordable Housing Innovation Fund Application Requirements

<table>
<tr><th>Required Section</th><th>Documents/Reports</th></tr>
<tr><td>Minimum Requirements</td><td>• Signed Integrity Declaration available on the CMHC website
• Legal and beneficial ownership structures
• Organizational structure, including identification of key individuals, their responsibilities and reporting relationships
• Incorporation documents
• IDs of owners and key individuals
• Staff Experience & Details
• Audited financial statements for the most recent 3 years</td></tr>
</table>

Supporting Documentation

Figure 17: CMHC: Affordable Housing Innovation Fund Supporting Documentation

<table>
<tr><th>Additional Documents</th><th>Documents/Reports</th></tr>
<tr><td>Innovation Details</td><td>• Innovation overview, in-depth description and evidence of innovative building technique, financing model, concept, or technology and its effects on the housing sector (e.g., lower financing, construction, operation costs, etc.)
• Impact of innovation with supporting information (e.g., feasibility study, case study, empirical evidence, proposed outcomes, detailed schedule and timelines on planning, design, execution, etc.)
• Proposed innovation-specific documentation (e.g., technical-specific, engineering reports, etc.)
• If the proposal is for the Rent-to-Own stream, additional information will be required regarding
– Sale price methodology
– Homeownership within a 5-year period</td></tr>
<tr><td>Affordability</td><td>• Outline the applicable municipal/provincial affordability definition being adhered to
• Details on the breadth of affordability (i.e., number of affordable units and as a percentage of total units)
• Details on the depth of affordability (i.e., affordable rent/price versus market rent/price)
• Details on the length of affordability period</td></tr>
<tr><td>Financial Sustainability</td><td>• Demonstrate that the required financial resources are available to support the sustainability of the project</td></tr>
</table>

	• Demonstrate how the innovation will reduce or eliminate reliance on government subsidies
Knowledge Transfer	• Details on how the proposal will support the adoption, replicability, scalability of the innovation, and on how it will capture and share information, lessons learned, and insights gained • How it will advance the capabilities of the housing sector • How the innovation might inform housing system participants, stakeholders and/or decisionmakers, or influence the next generation of innovations to improve housing affordability • The proposed method for measuring the success of the Knowledge Transfer Plan execution • How will the transfer of the information be implemented (i.e., tactics to be used to communicate the Knowledge to the appropriate audience), (e.g., article, consultation, webinars, case studies, site tour, etc.) • Details of the timelines/milestones of plan delivery at stages throughout implementation (i.e., at time of application, during funding, during implementation, upon completion, and post completion)
Partnerships & Support	• List of all forms of partnerships, whether in place or required to support the proposal, and their current statuses • Types of partnerships including financial, non-financial, in-kind, letter of intent; associated conditions of partnership/support and timing must be provided

CMHC: Canada Greener Affordable Housing Pre-Retrofit Fund

The Canada Greener Affordable Housing Pre-Retrofit Fund supports costs for completing the pre-retrofit activities needed to plan, prepare, and apply for CGAH Retrofit Funding. $19.5 million in contributions are available through a callout application-based process. The maximum contribution is $130,000 per project. Funding will be available over 3 years starting in 2023-24.

Figure 11: CMHC: Canada Greener Affordable Housing Pre-Retrofit Fund Details

Loan Types	• Low-Interest Repayable Loans • Forgivable Loans
Loan Amount/Range ($)	• $130,000
Loan Term	• N/A
Interest Rate	• N/A
Eligible Projects	• Community and affordable rental housing • Mixed income rental or mix-use with affordable rental housing • Indigenous community housing and cultural spaces

	• Shelters, transitional, and supportive housing • Single-room occupancy
Eligible Work	• A building condition assessment (BCA) report • An energy audit (ASHRAE 3 or equivalent) • An energy modelling study • Project drawings and specifications • Engineering studies • Construction cost estimates • Developing a business case to demonstrate the benefits or impact of the retrofit • Environmental site assessments or a hazardous materials report • Site surveys
Eligible Applicants	• Community housing providers (e.g. non-profit housing organizations, public housing agencies, and rental co-operatives) • Indigenous governments and organizations • Provincial, territorial, and municipal government

Figure 15: CMHC: Canada Greener Affordable Housing Pre-Retrofit Fund Application Requirements

Information Requested	Documents/Reports
Ownership	• CMHC Integrity Declaration: • Organizational Documents: • Confirmation that land is secured:
Financials	• Financial Statements:
Requested Activities	• A quote for eligible Pre-Retrofit funding activities requested, as documented on the Program Highlight Sheet.
Project Pictures	• An accurate and current picture of the building(s) is recommended.

CMHC: Seed Funding

The CMHC: Seed Funding provides interest-free loans and non-repayable contributions to develop and preserve affordable housing. It supports funding for completing predevelopment activities only related to the construction of new affordable housing supply.

Figure 12: CMHC: Seed Funding Details

Loan Types	• Interest-free Loans • Non-repayable contributions

Loan Amount/Range ($)	• Contribution: up to $150,000 • Interest-Free Loan: up to $350,000
Loan Term	• Varies
Interest Rate	• Varies
Eligible Projects	• Indigenous community housing • community and affordable housing • mixed-used market / affordable rental units • shelters, transitional housing, and supportive housing • conversion of non-residential buildings to affordable multi-residential
Eligible Work	• analysis of need and demand for the proposed project • special purpose surveys • preliminary financial feasibility • business plans • incorporation • option to purchase • registration of security • professional appraisal • site surveys • planning fees (for example, rezoning, development agreement costs) • preliminary design • project viability study • environment site assessments • geotechnical reports (soil load bearing tests) • energy modelling study (cost-benefit analysis) • accessibility modelling study (cost-benefit analysis)
Eligible Applicants	• Community housing sector (non-profit housing organizations and rental co-operatives) • Municipal, provincial and territorial governments, including their agencies • Indigenous governments and organizations • Private entrepreneurs/ builders/developers

Application Requirements

The following documentation are required as part of an application to the CMHC Seed Funding program:

Figure 19: CMHC: Seed Funding Requirements

Required Section	Documents/Reports
Minimum Requirements	• Signed Integrity Declaration available on the CMHC website • Legal and beneficial ownership structures • Organizational structure, including identification of key individuals, their responsibilities and reporting relationships • Incorporation documents • IDs of owners and key individuals • Staff Experience & Details • Audited financial statements for the most recent 3 years

Figure 21: CMHC: Seed Funding Additional Requirements

Information Requested	Documents/Reports	Notes
Proponent Organization	• Integrity Declaration • Proof of Incorporation • Consultant Agreements	• Declaration of Integrity form signed by the signing authorities from the proponent's organization. • Any document demonstrating the recipient/borrower is duly incorporated, organized, established and validly existing under the laws of its jurisdiction of incorporation, operation and organization, as the case may be. • Articles of incorporation, registration, band council resolution or any documentation that confirms your organization's legal status. • To demonstrate due authorization if you are making the application on behalf of a person or entity intending to apply for Seed Funding.
Preliminary Financial Feasibility	• CMHC Viability Assessment	Proponent should provide the following information in the Viability Assessment spreadsheet: • Proposed number of units, number of affordable units and square footage based on unit types. • Proposed rents and determination of affordability (current rent roll

		and affordability for conversion/renovation projects). • Project budget and uses of funds. • Identification of sources of funds. • Project pro forma and financial feasibility (actual project income and expenses for conversion/renovation projects).
Financial Profile	• Financial Statements	• Audited Financial statements for the last 3 consecutive years or since the beginning of your operation (whichever is less).
Land Details	• Land status OR proof of ownership (if applicable)	• Offer to purchase, option to purchase and/or property assessment notice • Copy of ownership details. • Copy of purchase and sale agreement (if applicable). • Copy of lease or lease agreement (if applicable). • Copy of all registered documents and encumbrances or agreements on title (if applicable).

Application Supporting Documentation

The following supporting documentation are not required but strongly recommended to include as part of an application to the CMHC Seed Funding program:

Figure 22: CMHC: Seed Funding Application Supporting Documentation

Information Requested	Documents/Reports	Notes
Proponent Experience	• Proponent Organization and Development Team Experience	• Housing development experience, including a brief description of projects completed and/or underway (including location, tenancy [target population, that is, seniors, families, etc.], date of construction and completion [including primary sources of capital and service financing]). Include the last three projects minimum (as applicable). • Affordable housing experience, including any vocational service experience and activities (identifying target populations, number of people served and sources of funding).

		• Property management experience (if self-managed) or property management firms used. Describe the types of housing and size of portfolio managed (as applicable). • Determine if one or more projects were successfully completed with Seed Funding in the past. If so, provide the CMHC account number(s) for the previous applications.
Need and Demand	• Determination of Need & Demand	• Evidence that supports the need and demand for the proposed type of project. • Can be confirmed through community housing plans, market studies/reports, need and demand analysis, existing housing waiting lists for the proposed project type, or as determined within a municipal, provincial or First Nation housing plan.
Affordability	• Determination of Affordability	• Provide narrative description and documentation that support your proposed level of affordability. • Example of support: Confirmation from the Municipality/Province/Territory that the project meets their affordable housing criteria
Funding Sources	• Confirmation of Funding Sources	• Confirmation/letters of support for all financing sources, including but not limited to equity (land equity), mortgages, loans (repayable and forgivable loans), grants and waivers of development charges (if applicable).
Land Readiness	• Re-zoning, ESA (if applicable)	• Confirmation on the current status of the zoning of the property. • Copy of Environmental Site Assessment Reports.
Accessibility & Environmental Efficiency	• Accessibility & environmental efficiency targets	• Description of accessibility and environmental efficiency targets. • Description of existing accessibility features and proposed improvements to accessibility features and

		environmental efficiency targets (for conversion/ renovation projects).
Priority Group & Onsite Support	• Identification of priority groups and onsite support services	• Description of how the project intends to support the needs of the targeted priority groups, and the planned number of dedicated units/beds (if applicable). • Description of how the integrated on-site support services will be provided to meet the needs of the targeted priority groups (if applicable).
Security Details	• Security details and Lawyer contact information (if required)	• Security details and lawyer contact information (this information is not required as part of the initial submission, however, proponent must submit this information if security is required by CMHC for loan registration).

FCM: SAH (Sustainable Affordable Housing) – Planning

The FCM/GMF Sustainable Affordable Housing – Planning provides grants to assist housing developers in the early stages of sustainable affordable housing development. This grant is intended to fund the development of deliverables required in applications for additional funding (e.g., GMF's Sustainable Affordable Housing (SAH) – Study grant or the CMHC Seed Funding). This grant supports initial planning phases of projects including project initiation, needs assessment, financial assessment, and identifying design consultants and contractors.

Figure 13: FCM: SAH – Planning Fund Details

Loan Types	• Grants
Loan Amount/Range ($)	• Up to $30,000
Loan Term	• N/A
Interest Rate	• N/A
Eligible Work	• Project initiation: meetings, project scoping, work plan and timelines, background review, project visioning and goal setting • Needs assessment: evaluating housing stock, resident support, preliminary review of building opportunities • Basic financial assessment: review of current budget information, tasks and scope to assess magnitude of project costs and potential savings and funding sources • Stakeholder engagement activities

	• Evaluation of energy-efficient approaches • Support to identify qualified design consultants and contractors
Eligible Applicants	• Canadian municipal governments • Municipally-owned corporations • NFPs & affordable housing providers, co-ops

Application Requirements

The following documentation are required as part of an application to the program:

Figure 23: FCM: SAH – Planning Application Requirements

Information Requested	Documents/Reports
Required Documentation	• Detailed project budget • Constating documents • Relevant letter(s) from confirmed source(s) of funding if available • Resumes of the project team.

FCM: SAH (Sustainable Affordable Housing) – Studies

The FCM: SAH-Studies fund supports studies that support the integration of energy efficiency measures and onsite renewable energy generation in existing affordable housing retrofit and new build projects. Affordable housing developers can use a study grant to assess the approaches needed to implement an eligible pilot or capital project in detail, including technical evaluations and energy models, financial options analysis, site assessments, stakeholder engagement, and detailed project planning.

Figure 14: FCM: SAH – Studies Fund Details

Loan Types	• Grants
Loan Amount/Range ($)	• $250,000
Loan Term	• N/A
Interest Rate	• N/A
Eligible Work	• Technical evaluations and energy models • Financial options analysis • Site assessments • Stakeholder engagement • Detailed project planning
Eligible Applicants	• Canadian municipal governments

	• Municipally-owned corporations • NFPs & affordable housing providers, co-ops

Application Requirements

The following documentation are required as part of an application to the program:

Figure 24: FCM: SAH – Studies Application Requirements

Information Requested	Documents/Reports
Ownership documents	• Constating documents (i.e. founding articles) of Lead Applicant/Borrower Ownership/partnership documents and organizational chart outlining the names of all related shareholders, subsidiaries, key responsibilities and entity's corporate/ reporting structures
Approvals	• Letter of support from municipality (City Manager/CAO or mayor – for non-profits and municipal corporations only)
Financials	• Proof of all confirmed sources of funding
Project team	• Resumes of five (maximum) main project leads
Project workbook	• Completed project workbook template from FCM

Appendix B – Additional Development Funding Sources

Figure 25: Additional Affordable Housing Funding Sources: Preconstruction and Construction Phase

Funding Level	Funding Body	Fund Name	Funding Type
Federal	CMHC	Apartment Construction Loan Program	Low-cost insured loan (up to $1,000,000)
		Affordable Housing Fund (New Construction)	Low-cost repayable & Forgivable loans (up to $1,000,000)
		Canada Greener Affordable Housing Retrofit Fund	Low-interest repayable loans, forgivable loans
		Co-op Housing Development Program	Forgivable loans
		Federal Lands Initiative (applicable to Federal lands only)	Non-repayable contributions
		Housing Accelerator Fund (available to Municipalities)	Non-repayable contributions
		Preservation Fund	Non-repayable contributions
	FCM (Green Municipal Fund)	SAH Pilot Projects	Grant (up to $500,0000
		SAH Retrofit	Financing – 40-65% loan & 35-60% grant combo (up to $10,000,000)
		SAH New Build Capital Projects	Financing – 40% loan / 60% grant (up to $10,000,000)
Provincial	Ontario	Ontario Priorities Housing Initiative (OPHI)	Forgivable capital loan
		Canada-Ontario Community Housing Initiative (COCHI)	Forgivable capital loan
		Ontario Building Fund (future program)	TBD (future program)
Regional/Municipal	City of Toronto	Open Door Program	Fee reduction, DC charge reduction, loan
		Pilot Community Housing Predevelopment Fund	$50,000 per RGI - interest-free loan – due on first construction financing draw.

			(Requires application to CMHC Seed Funding)
	Region of Peel	Affordable Rental Incentives Program	Grant
	City of Hamilton	ERASE Affordable Housing Grant	Grant (up to $200,0000)
	City of Kingston	Affordable Housing Capital Investment Program	Forgivable loan
	County of Simcoe	Secondary Suites Program	Forgivable loan ($30,000)
	Niagara Region	Non-Profit Affordable Housing Regional Development Charge Deferral	DC Charge deferral
		Non-Profit Regional Development Charges Grant	DC Charge reduction
	Lanark County	Affordable Housing Capital Grant	Forgivable Loan ($25,000)
	Northumberland County	Affordable Housing Grant Program	Forgivable loan ($20,000)
	City of Peterborough	Affordable Housing Community Improvement Plan Incentives • Municipal Incentive Program (municipal fees refund) • Development Charges Program (DC refund) • Tax Increment Grant Program	• Municipal fee refund • DC charge refund • Tax portion reimbursement
	Town of Collingwood	Affordable Housing Seed Funding Grant	Grant ($25,000)
	Region of Waterloo	Regional Development Charge Grant	DC charge reduction[a]
		Affordable Rental Housing Program	Grant ($125,000 per unit)[a]
	District of Muskoka	Muskoka Affordable Housing Initiatives Program (MAHIP)	Grant $15,000-$100,000 (depending on affordability period e.g. 7-25yrs)

	City of Ottawa	Tax Increment Grant Program	Up to $2,000,000 ($6,000-8,000 per unit)[29]
	City of Cambridge	Affordable Housing Reserve Fund	Grant
	City of Waterloo	Affordable Housing Grant Program	Grant
		City Development Charge Deferral	DC charge deferral
	Thunder Bay	Construction Assistance Grant	Grant (up to $30,000)
		Planning & Building Permit Fees Grant	Grant (up to $10,000)
Private (select examples)	Tapestry	Tapestry Community Capital	Loan, Grant
	New Market Funds	Community Lending (New Commons Development)	Loan
	Community Forward Fudns	Community Forward Funding	Term Loan[30], Mortgages[31], Bridge Loans[32], Revolving LOC[33] ($50,000-$1,250,000)[34]
	KingSett	Affordable Housing Fund	Loan

(a) One-time grant available to affordable housing developers.
(b) Only available to projects that have received funding through City of Waterloo Affordable Housing Strategy Program.

[29] Grant to be paid annually once project & inspections are complete & occupancy permit has been issued.
[30] 25-year amortization
[31] 25-year amortization
[32] 6-24 months
[33] Up to 5-years
[34] Fixed 5-10% interest rate based on assessed risk.

Appendix C – Pro Forma Scenario Assumptions

#	Pro forma Assumption	Assumption Made By
1	The pro forma assumes that the land component of the calculation will be a net zero cost to the developer	Woodgreen
2	The pro forma requires no subequity	Arcadis and Woodgreen
3	The takeout financing interest rates are to be updated to rates currently available to Woodgreen - 3.25%	Arcadis
4	The AHRF interest rate will be 2%	Arcadis
5	The AHRF will begin generating interest the day the fund is paid but repayment begins 1 year after close	Arcadis
6	The Takeout financing interest rate will increase 0.25% every 5 years	Arcadis and Woodgreen
7	The Average Market Rent will remain at 2018 values as hard and soft costs are also historic	Arcadis
8	The AHRF will be used to help pay the front-end costs associated with development - not hard costs	Woodgreen
9	The AHRF will be available to be used in conjunction with other funding sources (Loans and Grants)	Arcadis and Woodgreen