

Executive Summary



Arcadis was retained by WoodGreen Community Services and Building Industry and Land Development Association (BILD) to conduct a research study in support of a Provincially backed Affordable Housing Revolving Fund (AHRF).

INTRODUCTION



The study provided an analysis of funding opportunities, identified how a revolving fund could address current issues, and provided a test-case scenario using a WoodGreen affordable housing project pro forma.



The study provided key findings & recommendations based on Arcadis' research. These recommendations will help inform a future business case analysis for implementation of the AHRF.

THE PROBLEM

Ontario is currently experiencing an escalating housing affordability crisis, with affordable housing and purpose-built rental developers playing a critical role in helping address the shortage of affordable housing units. However, securing reliable predevelopment funding, including upfront equity investment capital, is a challenge. This funding is essential for initiating and advancing affordable housing projects.

Currently, there is not sufficient or effective funding to cover both predevelopment and upfront investment capital - both of which are critical to anchor the construction of affordable housing.

The existing financing system, which includes the Province of Ontario, has a significant gap in upfront financing. These gaps hinder the progress of affordable housing developments, which can delay construction and lead to increased costs accessing upfront financing. To address this gap, the Province has made recent changes in an effort to streamline the process through legislation, however, easily-accessible funding for predevelopment work is still needed to help promote developing affordable housing.

For this exercise, Arcadis defines "Predevelopment" as all planning approval-related work in addition to applying for gap financing. Does not include initial viability.

The new Federal Government reaffirmed the national goal of producing 500,000 new housing units annually.

Altus Group Estimates the cost of development time delays is between \$2,600 and \$5,500 per month per unit.

THE OPPORTUNITY

There have been a number of incentives aimed at accelerating the construction of affordable housing. The City of Toronto and Federal Government's announced \$2.55b in funding to build 4,831 rental homes - 22% of which will be affordable, and the Province is also investing in housing enabling infrastructure through the Municipal Housing Infrastructure Program and Housing-Enabling Water Systems Fund. That said, while commitment to funding has increased, there is still opportunities for the Province to back a new Provincial-level AHRF.

An AHRF could play a pivotal role in meeting these ambitious targets, reinforcing the government's commitment to supporting affordable housing and alleviating the housing crisis throughout the province by:

- Backing a low-interest loan to affordable housing developers that covers predevelopment costs and upfront investment capital, enabling them to overcome high initial borrowing costs and bridge the gap in financing necessary to initiate construction.
- Helping to reduce the risk to development by providing a reliable and accessible early financing.
- Providing certainty to affordable housing developers to allow them to confidently pursue viable affordable housing projects without the uncertainty of securing initial funding.

THE SOLUTION

AN AFFORDABLE HOUSING REVOLVING FUND

Lessons Learned from Case Studies

- Arcadis conducted a review of existing North American revolving funds and existing Canadian funding opportunities to help establish the framework for a revolving fund
- Successful revolving funds require substantial initial investment and transparency to be adaptable to ever-changing economic environments
- Collaboration among governments, housing agencies, and affordable housing developers is crucial
- Annual fund replenishment may be needed to prevent fund depletion
- Revolving funds are unsuitable for initial viability assessment due to repayment risks from unviable projects
- Failed revolving funds lacked transparent management, application reviews, money allocation, and repayment process

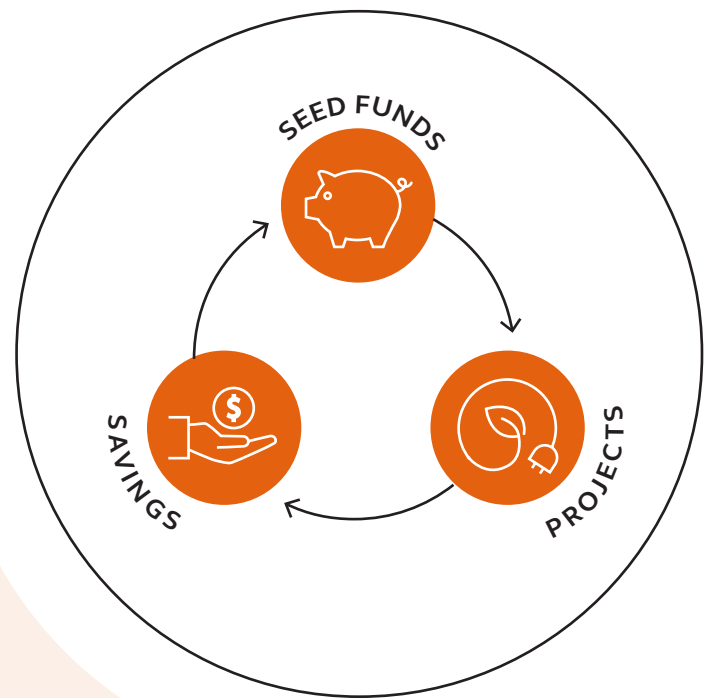
Existing Funding Sources

- Five predevelopment affordable housing fund opportunities: CMHC (three programs) and FCM (two programs) offer \$30k grants up to \$350k interest-free loans – insufficient for predevelopment needs
- Eligibility is focused on NFPs, affordable housing developers, governments, and indigenous groups
- Regional/Municipal incentives mainly include Development Charge and Tax exemptions/delays – some are obsolete thanks to changes from Bill 23 and now Bill 17

THE PROPOSED SOLUTION

AFFORDABLE HOUSING REVOLVING FUND (AHRF)

- The creation of a Provincially-backed affordable housing revolving fund for predevelopment work and applying for additional gap financing
- Eligible work includes detailed due diligence, consultant & planning-related work and fees, and applying for additional funding
- The fund can provide low-interest loans to help overcome high initial borrowing costs and provide access to upfront investment capital
- The revolving fund can be set-up to provide a variety of loan amounts, interest rates, and payback schedules
- Proceeds from the loan repayments flow back into the fund and become available to lend again over time



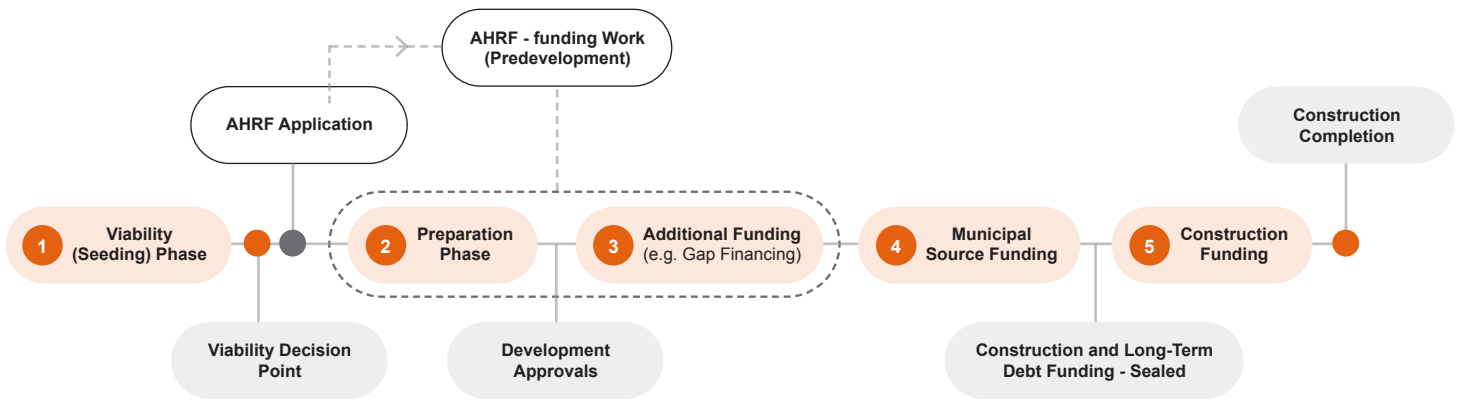
KEY CONSIDERATIONS

- **Multiple Sources Needed** - AHRF funding will need to be stacked with existing incentives and funding opportunities
- **Collaboration** between parties (including government), in the affordable housing development value-chain is critical for success
- **Third Party and Transportation process** will be required for fund management & deployment
- **Flexibility** to define the framework with respect to initial funding amount, repayment, interest rates, and funding mechanisms
- **Eligible Work** - AHRF is not suitable for initial viability, would cover Predevelopment and upfront investment capital
 - Viability (Seeding) Phase: initial due diligence & viability - to be addressed via grants/donations
 - Preparation Phase: predevelopment work - to be covered by AHRF
 - Additional Funding Phase: gap financing - to be covered by AHRF

THE FRAMEWORK

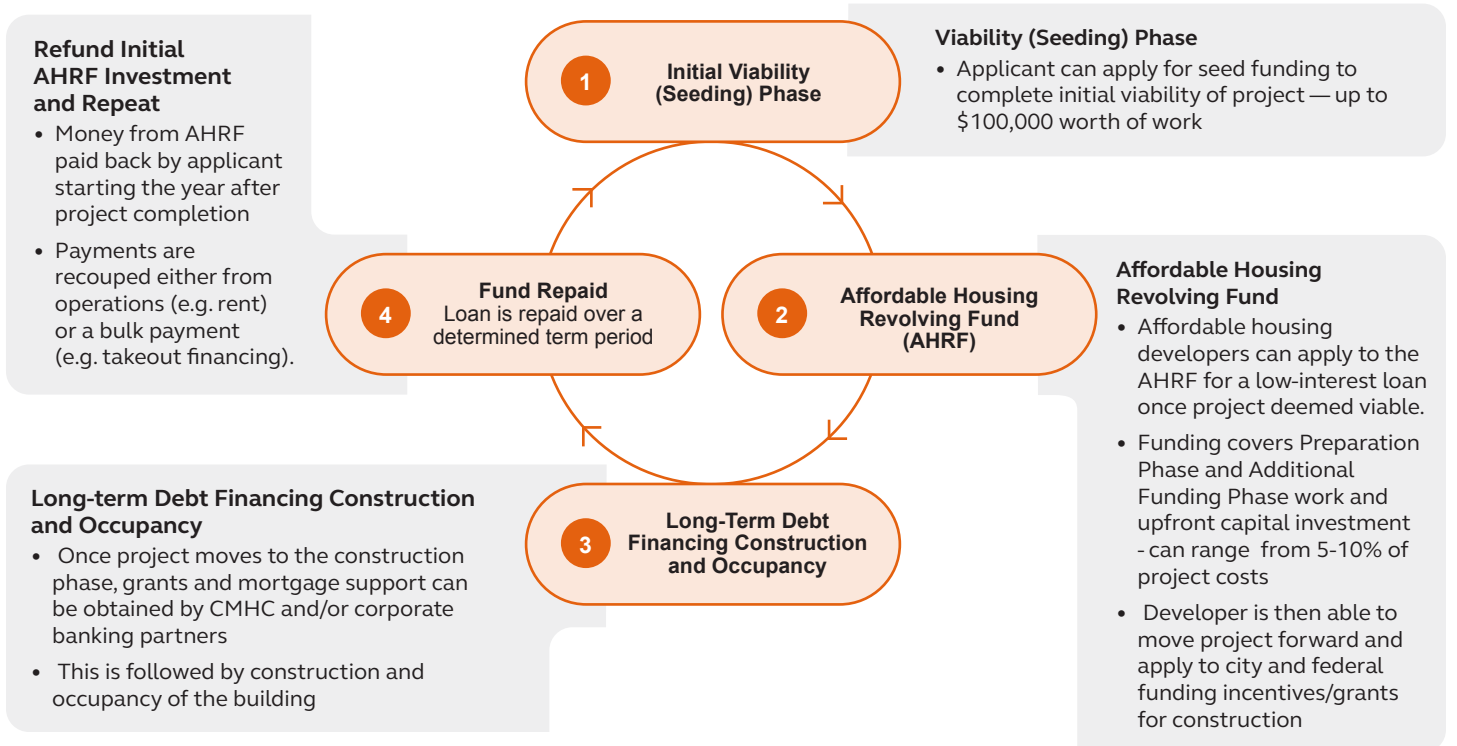
HOW WOULD AN AHRF CYCLE FIT WITHIN THE APPROVALS PROCESS?

The proposed AHRF would be available for projects that have passed an initial viability phase (Step 1 in the image below). The AHRF would fund the remaining Predevelopment phases (e.g. Steps 2 & 3), in order to unlock Municipal Funding (Step 4) before applying to Construction Funding (Step 5) and moving to construction:



THE AHRF CYCLE

The below graphic illustrates the revolving nature of the AHRF: money borrowed by an applicant is then paid back to the fund for an agreed-upon term and interest rate, starting one year after project completion:



DETAILS FOR IMPLEMENTATION

There are a number of details for implementation which require further investigation to best position the proposed AHRF for success.

CONSIDERATION	IMPLEMENTATION NOTES
Who will be the overseeing body of the AHRF?	Arcadis recommends that the fund be managed by a third party in order to make use of industry best-practices in fund management while ensuring the equitable distribution of funds and supporting the fund's viability.
How and by whom will the initial investment be funded?	In addition to funds provided by the Province, outside investment could be permitted. It would need to be determined what amount of funds could be raised by outside investment and the expected rate of return of the participants.
Who will be eligible to apply for the fund?	Non-profits and Affordable Housing Developers (including purpose-built rental developers) would be the prime targets for eligibility of the AHRF. It could be opened to private developers who meet a strict criteria of affordability definitions for their applicable projects.
What is the optimal structure and management of the AHRF?	The fund could be managed like an endowment fund, with only a portion of the reserve being used for active project to avoid depletion and generate interest. The timing for investors to re-coup their investment should be planned to avoid early withdrawals.
How will the “revolving” aspect of the fund function?	It must be determined how repaid loans (plus interest) will be recycled and re-distributed to future applicants. If third party investment is permitted, it will need to be determined how will investors receive their return on investment.
What is an appropriate loan amount (for each project)?	Arcadis, through discussion with WoodGreen and BILD GTA, suggest that the funds could represent between 5% and 10% of a project's total cost of development. The loan amount would be subject to available funds to avoid depleting the fund before repayment.
What interest rates are feasible?	Arcadis recommends that the interest rates for loans be fixed for the term length but that the interest rates are set based on the prevailing market conditions at the time of loan agreement. Arcadis recommends that the rates remain below market rates to benefit the non-profits and Affordable Housing Developers applying to the AHRF.
What is the repayment agreement?	Shorter loans are less risky but may not provide enough money for large projects. There could be a fixed loan term for all projects or a flexible repayment structure for each one to ensure the fund revolves effectively.
Fund application requirements and review process	It will need to be determined what information is needed to mitigate risks. Apart from site details like ownership and project vision, the fund will need to identify what financial info and risk analysis are required, who will review applications and how funds will be awarded.