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TO: Planning and Housing Committee

DESTINATAIRE : Comité de l'urbanisme et du logement

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DATE: November 8, 2024

8 novembre 2024

FILE NUMBER: ACS2024-SI-HSI-0014

SUBJECT: **Affordable Housing Acquisition/Preservation Fund**

OBJET : **Fonds d'acquisition ou de préservation de logements abordables**

PURPOSE

The purpose of this memo is to respond to Motion 2024-OCC-CCS-0035 moved at Council on April 17, 2024. This motion directed staff to assess the merits of a City of Ottawa Acquisition/Preservation Fund and strategy, inclusive of a fund dedicated to acquiring affordable housing, including land, similar to the City of Toronto's Multi-Residential Acquisition Fund (MURA) and the City of Hamilton's Affordable Housing Funding (AHFP) program, by Q3 2024. The review is to include engagement with local sector partners, including but not limited to the Ottawa Community Land Trust (OCLT) and Ottawa Community Housing Corporation (OCHC), the City of Toronto's Multi-Residential Acquisition Fund (MURA) and the City of Hamilton's Affordable Housing Funding (AHFP) program, by Q3 2024. Staff were directed to report the findings of this assessment in alignment with the affordable housing long-range financial plan update and 2025 budget.

EXECUTIVE SUMMARY

The City of Ottawa explored the viability of establishing a dedicated Acquisition and Preservation Fund for affordable housing, following Council's direction in April 2024. This memo aims to evaluate the success of an acquisition fund to address the loss of affordable housing and consider models like Toronto's Multi-Residential Acquisition Fund and Hamilton's Affordable Housing Funding Program. These programs allow municipalities and non-profit housing organizations to quickly acquire affordable rental properties, in some cases, preventing them from being redeveloped into market-priced units. However, the business case for each acquisition must be considered carefully given the age and condition of the property, operational sustainability, maintenance costs and the stability of the rental revenue stream. These considerations must be weighed against the funding investment into new and the corresponding impact net new unit development can have on upcoming federal and provincial funding streams.

The report outlines key considerations including financial analysis of acquisition versus new construction. The findings suggest that while acquisitions can sometimes be a feasible option, challenges identified by local providers include high upfront costs, competition in the real estate market, and decisions must be based on the condition assessment of the property. For example, older properties often require significant capital repairs, impacting overall affordability. Financing, the time it takes to secure the property, feasibility screening, pre-purchase conditions, capital acquisition and post-purchase retrofits can all add complexity and risk to these opportunities. However, in certain cases, a municipal funding source to support acquisitions can complement private financing, while also allowing for legal agreements to be held on title to guarantee long-term affordability.

The memo confirms that the City's current housing funding programs already support acquisitions, but the focus of investment has primarily been, and should continue to be, directed towards accelerating new construction through capital funding investment. Likewise, staff resources have been geared to delivering new affordable and supportive housing, in alignment with provincial and federal funding, which is contingent on meeting targets for new construction. It is important to note that acquisitions do not count towards new units and therefore do not increase overall rental stock.

Staff anticipate that CMHC will be announcing details of a federal acquisition fund in the near term, to fulfill a commitment announced in Budget 2024, which included $1.5 billion to launch a new public acquisition fund. It is staff's recommendation to continue to focus resources on the delivery of new affordable housing units until details of the federal public acquisition fund become available, as this program may negate the need for a municipal acquisition fund or may have specific conditions of funding that need to be considered

BACKGROUND

The lack of affordable housing supply has been a growing concern in urban areas across Canada, including Ottawa. The 2021 Core Housing Need analysis indicates that

9.4% of households in Ottawa are in core housing need, meaning that housing costs account for more than 30% of their gross income and there no alternative homes in their community that they could afford. The majority of households in core housing need are renters. In recent years, there have been efforts made at all levels of government to address housing affordability, mainly through increasing supply.

Loss of Existing Affordable Housing Units

At the Planning and Housing Committee meeting on March 27, 2024 committee members discussed the loss of affordable housing across the city, which included research undertaken by the Canadian Housing Evidence Collaborative (CHEC), which claimed that the City of Ottawa is losing 31 affordable private-market rental units for every one new affordable unit added to the rental housing stock. The findings looked at rents between$750 and $1000 per month. However, the benchmarks in the study do not reflect the change in inflation or the increase in the shelter component of the Consumer Price Index. This means that keeping the rent static for comparison, is not an accurate representation of affordability today.

Although there is reason to challenge the study’s findings, staff agree that it is likely that the rate of loss of market affordable units exceeds the rate at which new affordable units are constructed. This is partly a function of the age and location of private building stock. Buildings are generally older and subject to longstanding rent control, often located within the urban areas of the City that are undergoing redevelopment and intensification. While the CHEC research notes that 849 new affordable housing units were constructed in Ottawa between 2011 and 2021, the City’s records indicate that 1816 non-profit affordable and supportive units were constructed during that period, although some rents may now exceed the $1000 threshold that CHEC defines as affordable. Since 2022, another 563 new affordable and supportive housing units have been constructed. In addition, a total of 1227 affordable units are either funded or under construction as of October 2024.

Building on the CHEC report, the Alliance to End Homelessness Ottawa (ATEHO) engaged Steve Pomeroy to develop a brief report on Developing an Acquisition Framework and Policy. The major recommendations of the report are summarized in Document 3. The recommendations from the ATEHO report were considered through this review.

What is an Acquisition Fund?

An acquisition fund is a dedicated pool of capital created by a municipal, provincial, or federal government or non-profit entity that can be used to purchase affordable and mixed-income housing property directly, or to issue low-cost loans or grants to enable acquisition by a non-profit organization. The fund enables local communities and non-profit or developers to act quickly and opportunistically to acquire buildings as they become available, rather than having to wait for traditional public funding cycles to come through with permanent financing.

Action Ottawa Program

The City of Ottawa already has a program through which acquisitions, along with other tools can be considered and advanced. Through its Action Ottawa program, the City encourages and supports the creation and retention of affordable rental units across the city with the use of municipal funding, fee relief and access to funding from other levels of government. The program provides financial assistance for new construction, acquisitions, conversions, as well as rehabilitation of existing rental buildings that are vacant or uninhabitable.

For example, in 2022, the City supported the African Canadian Association of Ottawa (ACAO) with a forgivable loan ($350,000) and a short-term interest-free loan ($606,000) to acquire a semi-detached property on Pinecrest Road to provide African Canadian families with affordable rental housing.

The City also allocated Section 37 funding to the Ottawa Community Land Trust (OCLT) for the purchase of a six-unit affordable rental building at 887 Kirkwood Avenue with $800,000 in contributions in late 2023 and 2024 as a pilot. In addition, Holland Properties was provided a short-term interest free loan ($3.37M) to acquire and renovate a thirty-unit rental property at 161 Presland Road in 2019. In 2021, the City provided funding to the Shepherds of Good Hope for the conversion of a domiciliary hostel to 57 supportive housing units located at 1095 Merivale Road, as well as to Cornerstone Housing for Women for the conversion of an office building to 46 supportive housing units located at 44 Eccles using municipal and provincial funding.

The City’s 2003 Action Ottawa program guidelines are currently being updated to provide clarity for staff and applicants. These guidelines are planned for revision in 2025/2026.

Federal Budget 2024

In the 2024 budget, the federal government expressed its intention to launch a new $1.5 billion Canada Rental Protection Fund, to be administered by the Canada Mortgage and Housing Corporation, to protect the stock of affordable housing in Canada. The Fund is to provide $1 billion in loans and $470 million in contributions to affordable housing providers to acquire units and preserve rents, preventing those units from being redeveloped into unaffordable condominiums or luxury rental units. Staff have consulted with CMHC staff regarding any further details, but at this time the program remains in development.

Housing Pledge and Housing Accelerator Fund (HAF)

In March 2023, Council approved the Municipal Housing Pledge (ACS2023-PRE-EDP-0009), which commits the city to achieving the housing target set out by the province, which is 151,000 new units by 2031. Further, the Ontario-Ottawa agreement establishes that the City will receive provincial funding in 2024-2026 if it achieves at least 80% of its **new** housing supply targets. Based on permits issued in 2023, the City received $37.5M in provincial Building Faster Funds. Through its approved investment plan, $24.5M is being directed towards the construction of new non-profit affordable housing.

In March 2023, CMHC launched the Housing Accelerator Fund with $4 billion in funding from the 2022 federal budget. The program's goal is to accelerate the supply of **new** housing while removing barriers to encourage local initiatives to build more homes faster. The City is committed to investing in 2,067 new affordable housing units by 2026 to achieve the housing targets, and to ensure the final tranche of HAF funding is received in 2027.

In March 2024, Council approved the HAF Spending Plan (ACS2024-PRE-EDP-0035), which allocates 90% of the first three tranches of these federal funds towards the construction of new non-profit affordable housing. Receipt of the fourth and final tranche of HAF funding, $44M is largely dependent on the City achieving residential building permit targets of 37,500 units by the end of 2026.

Given the City's federal and provincial commitments to deliver new market and affordable housing supply, as well as the future provincial and federal funding that is dependent on achieving building permit targets, staff are recommending that any available HAF funds for affordable housing be directed towards **new** construction.

DISCUSSION

The implementation of a dedicated acquisition fund that supports the preservation of existing affordable rental stock does aligns with the Ten-year Housing and Homelessness Plan's primary goal to provide that "everyone has a home." One of the Plan's key priorities is affordable housing asset preservation, and it recommends exploring the creation of a grant and/or loan program with the community housing and private sectors to create or preserve affordability in the existing housing stock. Such a fund could facilitate expedited offers to purchase properties when existing affordable housing is at risk of being lost.

However, provision of a dedicated source of funds for acquisition of existing affordable rental stock would require establishment of a dedicated capital funding source and program criteria. Current housing programs are focused on advancing funding to non-profit housing developers for the delivery of **new** construction, which contributes towards achieving provincial and federal housing target commitments, reducing the risk of becoming ineligible for future federal HAF and provincial BFF funding.

Scan of Acquisition Funds in Canada

There are several provinces and cities in Canada that have allocated funds for acquisition of existing rental units. The province of British Columbia created a $500 million Rental Protection Fund to provide one-time grants to non-profit housing organizations to cover equity gaps to support securing private financing; Quebec allocated $120 million that was paired with $31 million from private foundations to enable housing co-ops, non-profit organizations, and housing authorities to secure long-term financing to build or acquire and renovate approximately 1,500 affordable and family housing units; and Nova Scotia's Community Housing Acquisition Program (CHAP) provides non-profit organizations, charities, and housing cooperatives with up to 95–100% equity loans to acquire properties that have at least five self-contained units (or private rooms in a rooming house) and where at least 30% of units have rents at or below average AMR.

At the municipal level, in 2020, the City of Montréal adopted a by-law to exercise its right of first refusal to buy multi-residential properties and applied it to 350+ pre-selected sites across the city. Toronto has been running its Multi-Unit Residential Acquisitions (MURA) Program since 2020. Currently, MURA has $40 million in annual funding that is supported by the City's vacant home tax. The MURA program provides grants of $200,000 per apartment unit (or $150,000 per rooming house dwelling room) for a purchase and/or renovation. To be eligible for the program rents must be provided at a weighted average of 80% of AMR, with no single unit exceeding AMR, with an affordability period of 99 years.

The City of Hamilton is considering a 2-year pilot program to support the acquisition of 100 units. Preliminary analysis suggests that the average grant per unit might be in the $50,000 range if rents are set at or below AMR. Both Toronto and Hamilton staff emphasized the importance of relying on experienced housing partners to acquire and operate projects that do not rely on operational funding or rent subsidies. They highlighted that their acquisition programs complement the construction of new affordable units. More details of these provincial and municipal programs are provided in Document 1.

Benefits and Challenges of an Acquisition Fund

The benefits of an acquisition fund program relate to the preservation of affordable rental housing stock. Acquisition of existing rental buildings could be an effective means of growing and strengthening of the community housing sector without requiring these non-profit housing providers to engage in new development, which often is not among their core organizational competencies. Other indirect benefits include cost effectiveness in terms of building materials and land development and related due diligence, as well as a positive impact on climate change due to the reuse and rehabilitation of existing buildings, reducing waste directed to local landfills.

The limited supply in high-demand areas and resulting market competition that can inflate the purchase price remain a challenge. Acquisitions also imply a high initial investment as all equity funding is required upfront as compared to new builds where funds are disbursed over the construction period. In some cases, acquired properties require significant renovation and maintenance to meet acceptable housing standards (building code and accessibility). In addition, some non-profit housing providers may not have the experience or expertise to effectively undertake the due diligence required to support an acquisition and to negotiate effectively with the private sector property owners. Overall, given the risk associated with these purchases, to date there is a lack of funding and financing programs offered by other levels of government to support such acquisitions and renovations. Furthermore, other levels of government are highly focused on expanding the supply of housing and affordable housing to meet high levels of new household formation related to immigration and other factors.

Considering the challenges and risks, a thorough analysis of a provider's financial capacity and operational viability would need to be done prior to committing funds to an acquisition. More details of these benefits and challenges are discussed in Document 2.

Financial Analysis
The financial viability of an acquisition depends on several factors, including the initial acquisition cost, any necessary financing of the property, depth of affordability of rents and the resulting rent revenues, the condition and age of units, operating costs and net operating revenues.

A value for money assessment of directing city capital funds to new construction versus the acquisition of existing affordable rental stock has been considered by staff. Table 1 provides a comparison of the two scenarios, showing the cost to the City (equity required) for rents provided at 50%, 80% and 100% of AMR.

TABLE 1: Affordability level and City capital funding

Rent/Affordability	Equity funding required to construct new	Equity funding required to acquire existing*
50% AMR	$360,000	$260,000
80% AMR	$260,000	$180,000
100% AMR	$200,000	$120,000

*Assumes per unit cost of an existing unit is $300,000 based on recent acquisitions.

The assumptions of this analysis are based on new affordable units that do not include land cost or where land is provided or acquired by the City; and the acquisition of existing rental units is from the private market. Modelling assumed a wide range of portfolio mix from 100% affordable units to 10% affordable units and the remaining 90% rented at market rent.

The modelling output showed that while the per unit equity funding requirement is approximately $200,000 for new construction where all units are affordable at 100% AMR, the estimated equity funding needed is reduced by approximately 50% ($105,325) where half of all units are rented at AMR and the remainder are rented at market rents.

In comparison, affordable units available for purchase in the private market are typically less expensive as compared to new construction. Existing rental units have an estimated equity funding requirement of approximately $120,000 when 100% of units are rented at AMR and approximately $70,000 where 50% of units are rented at AMR and the remainder are at market rent. While the initial equity requirement for new construction is higher, these developments qualify for various funding and financing programs that are stacked to fund the total project. These projects qualify for forgivable loans of up to $75,000 per unit under CMHC's Affordable Housing Fund (AHF) and Federation of Canadian Municipality (FCM) Green Municipal Fund (GMF) grants as new construction can achieve high levels of energy efficiency and accessibility. New units also qualify for 50-year amortization loans and discounted interest rates. Currently, the acquisition units do not qualify for these programs unless there are significant renovations performed.

In addition to upfront capital funding, the older units can cost additional operational funding for capital repairs. Specifically, the older a unit, the more the acquisition cost is likely to become comparable to a new build because capital repair costs need to be included in the upfront capital funding requirement from the City. Alternately, the capital repair cost is funded through operational subsidies in addition to capital contributions that create additional operational funding pressures on the City.

A mixed portfolio approach entails looking at the building as a whole, and not on a per unit basis, with various levels of affordability within. This means there is a mix of affordability, where some units are market and others are affordable. Over time, all units would gradually move towards affordability because rent increases would be limited to the provincial guidelines. Ottawa Community Housing Corporation (OCHC) has successfully tested a mixed portfolio approach for acquisition. Early this year, OCHC acquired 311 townhouse units from the Minto group located at Chesterton Bowhill and Tanglewood, of which 214 units are rented at or below AMR. Flexibility to allow for this kind of mixed portfolio approach is a consideration when determining funding criteria, as a more restrictive approach may limit feasibility.

Ottawa Community Land Trust Acquisition Pilot

In early 2023, the Ottawa Community Land Trust (OCLT) approached the City with their interest in contributing to affordable housing stock with the use of community bonds by (1) acquiring existing affordable rental buildings that are at risk of being lost, and (2) developing new residential units on vacant lands. Following this, in June of 2023, the OCLT proposed to acquire a 6-unit low-rise apartment building at 887 Kirkwood Avenue, constructed in 1955, and submitted a business case to Housing staff, which also sought City funding to support the acquisition. The viability of the business case for the purchase of the $1,706,295 property was based on several funding sources, including $250,000 from a philanthropic gift, $560,000 from a conventional mortgage, and $511,191 from the selling of community bonds, with the remaining balance of $400,000 as a request to the City to fund the gap. Staff supported the business case and positioned this initial OCLT acquisition as a pilot project to be monitored annually, and $400,000 in Ward 15 Section 37 funds were allocated to the acquisition as a forgivable loan through a contribution agreement.

The six-unit building consisted at the time of acquisition of two 1-bedroom units and four 2-bedroom units with rents averaging 63% of Average Market Rent (AMR), serving low-income households. The conditions of the contribution agreement require OCLT to maintain the current tenants in the building and increase rents only as permitted under provincial guidelines. As provided for in their business case, and to ensure project viability, OCLT is permitted to increase rents up to 80% of AMR upon turnover of tenants. The contribution agreement also requires that, upon turnover, units will be made available to households from the City's Centralized Waitlist or Below Market Rent Waitlist. The term of affordability is ninety-nine (99) years.

The community bond campaign was not launched until Q2 2024, therefore, the OCLT acquired the site with section 37 funds, the philanthropic gift, and a $969,000 line-of-credit supported by VanCity. After acquiring the Kirkwood property, the OCLT reassessed the project's viability and determined that it would not generate sufficient revenue to support the level of debt generated. Shortfalls were based on a revised expectations of parking revenues, miscalculations of costs associated with mortgage interest and servicing the community bonds, as well as an assumption that additional properties would be acquired quickly to build capacity and to allow properties to cross-subsidize each other.

The OCLT recently requested a second allocation of Ward 15 section 37 funding for the Kirkwood property, which has been provided through an amendment to the original contribution agreement. As a result, the City has funded 47% of this acquisition, at a cost of $133,333 per unit. OCLT will benefit from tax-free status for the units as a not-for-profit owner and has also requested rent supplement subsidies for all six units upon their turnover, representing an additional City operating pressure.

Staff have been monitoring the viability of the OCLT business model in light of the financial shortfall from their initial property acquisition. However, the OCLT has recently advised staff of their very successful community bond campaign that was launched in Q2 of this year. The success of the bond campaign has allowed OCLT to purchase a second ten-unit property on 366 Brant Street, which is approximately 65 years old, and they have requested a third section.37 allocation which will be provided with up to $150,000 of Ward 12 funds. This represents only a $15,000/unit City investment. However, OCLT will also request tax free status and additional rent supplements. Also, as an older building (50+ years old), the property will typically require an additional investment of $3,000 per unit per year for capital lifecycle repairs.

Staff recommend continuing to treat the OCLT acquisitions as a pilot project and closely monitor the operational viability, long term sustainability and strength of their current business model before significant City capital is diverted from new affordable housing construction to separate acquisition fund.

Consultation with Non-Profit Housing Sector

As directed by Council, staff consulted with Ottawa Community Housing Corporation (OCHC), and the Ottawa Community Land Trust (OCLT) to consider the feasibility of an acquisition fund. These organizations have recent experience in acquiring existing buildings to maintain and deliver affordable housing. Staff also met with a representative of the Alliance to End Homelessness Ottawa.

The three stakeholder groups agreed there are benefits to having a dedicated acquisition fund, and highlighted that some financing programs, such as those offered through CMHC allow non-profit organizations to benefit from lower financing rates than market developers. When public funding through an acquisition fund is stacked with low-interest rate financing, affordability of the units is more easily maintained.
The city would need to be prepared to assist with the acquisition of varying sizes of buildings, unit types, and levels of affordability that each provider is prepared to deliver. A future acquisition fund program would need to have clear criteria and a straightforward process for applications to enable quick real estate decisions and confirmations of sale.

It was clear from these discussions that local experience in acquiring buildings will be critical in helping form an effective acquisition process and ensure that any criteria established to set geographic priorities based on local need or social objectives act to guide, but not block implementation. Moving forward, if funds are identified to support a dedicated acquisition fund, a focus group with experienced stakeholders such as OCHC, Alliance to End Homeless in Ottawa and OCLT should be struck to provide needed input to develop the program guidelines.

CONCLUSION

In addition to a new capital funding pressure representing the equity component of a property acquisition, an acquisition fund program must also consider costs associated with building retrofits and repairs. Moreover, the pilot acquisition project of the Ottawa Community Land Trust indicates that new operating funding pressures are also created through the acquisition of a low-rent building. In both of their property acquisitions, the OCLT's current business model requests that rent supplements up to 100% of AMR be provided for every unit upon tenant turnover. The rent supplement would pay to the OCLT the difference between the current rent and AMR. While the acquisition of a private market low rent building is intended to maintain low rents for its tenants, those low rents are not sustainable and any landlord, including a not-for-profit landlord such as OCLT must charge at least AMR rents to be operationally viable.

Where Toronto has used its vacant unit tax proceeds to fund its acquisition program, Ottawa has directed its VUT proceeds to fund its Affordable Housing capital contributions to support the delivery of new non-profit affordable units. The draft revision to the Affordable Housing Long Range Financial Plans confirms the need to rely on the VUT for the purpose of funding the City's affordable and supportive housing targets set out in the 10 Year Housing and Homelessness Plan.

Ottawa has made substantive commitments to the federal and provincial governments towards the issuance of new housing and affordable housing permits prior to the end of 2026, and future provincial and federal funding relies on meeting these building permit targets. Staff have concerns with the ability to concurrently create and adequately fund and operate a retention program for existing stock under current financial and resource availability.

Information is not available at this time on any future funding programs that may become available from other levels of government to help support an acquisition program. Staff recommend waiting for further details to be released on the federal acquisition fund announced in Budget 2024 before undertaking any further work on a City of Ottawa acquisition fund. Further analysis of the detailed design of a federal acquisition fund would better inform Council's decision related to the necessity of a municipal fund, as well as inform the design of a fund to best achieve Council's priorities related to Affordable Housing.

Therefore, staff recommend that existing funding and resources be directed towards increasing and expediting the construction and delivery of new construction of affordable housing in line with commitments made under the Municipal Housing Pledge and Housing Accelerator Fund; and that staff continue to explore opportunities for new funding sources and review housing programs to support acquisitions and report back to committee when funding is identified to support a dedicated acquisition program, if appropriate.

Debbie Stewart, General Manager, Strategic Initiatives Department

SUPPORTING DOCUMENTATION

Document 1 – Scan of Acquisition Funds in Canada
Document 2 – Benefits and Challenges of an Acquisition Fund
Document 3 – Summary of Alliance Acquisition Framework and Policy report

Document 1 – Scan of Acquisition Funds in Canada

There are several provinces and cities in Canada that have acquisition funds, and these are listed below.

British Columbia's (BC) rental protection fund
Early this year, BC created a $500 million Rental Protection Fund that provides one-time grants to non-profit housing organizations towards the acquisition of rental buildings. Many of these properties are older rental housing buildings, which have lower market rents on average due to their age and condition. The funding is intended to be combined with non-profit organizations securing private financing to help fund their acquisition, along with rental revenue to cover financing and building operations costs. The management of the fund is done by a separate entity, the Housing Protection Fund Society, comprised of the BC Non-Profit Housing Association (BCNPHA), the Co-operative Housing Federation BC (CHFBC), and the Aboriginal Housing Management Association (AHMA).

Affordable housing: build, acquire, and renovate in Québec
In 2021, the Government of Canada, the Government of Québec, the Fonds de solidarité FTQ, and Ivanhoé Cambridge made $120 million available to cooperatives, non-profit organizations, and housing authorities to build or renovate affordable housing. In addition, the Lucie and André Chagnon Foundation, Fondaction, the Mirella and Lino Saputo Foundation, and the J. Armand Bombardier Foundation are contributing a total of $31 million. The pooled $151 million was intended to enable housing co-ops, non-profit organizations, and housing authorities to secure long-term financing to build or acquire and renovate approximately 1,500 affordable and family housing units in Québec. The Association des groupes de ressources techniques du Québec (AGRTQ) is responsible for overseeing the projects arising from this partnership.

Nova Scotia's Community Housing Acquisition Program (CHAP)
CHAP was launched in July 2022 as a dedicated provincial acquisition program. The program provides non-profits, charities, and housing cooperatives with up to 95–100% loans to acquire properties. The maximum loan amount per project is $10 million. It targets properties with at least five self-contained units (or private rooms in a rooming house) where at least 30% of units have rents at or below average AMR. The program has supported 335 affordable and permanent supportive housing units to date.

Acquiring Single-Room Occupancy (SRO) Properties: Vancouver and British Columbia
In 2007–2009, the Province of British Columbia invested $147 million into the purchase of 13 single-room occupancy (SRO) properties via its Single Room Occupancy Initiative. The province of BC had previously acquired 24 SRO properties. The program, a public-private partnership, funded renovations and turned the properties over to non-profit societies with agreements and maintenance funding to manage them as long-term supportive housing for 15 years. In 2020, the City of Vancouver launched the ambitious SRO Purchase Plan to purchase and renovate all remaining private SRO properties (2,500 rooms).

Right of First Refusal to Purchase Multi-Family Properties: Montréal

A Right of First Refusal program gives a state entity the first option to purchase rental housing that becomes available for sale, preventing the loss of key affordable properties. On March 26, 2020, the City of Montréal adopted a by-law to exercise its right of first refusal to buy certain properties and applied it to 350+ pre-selected sites across the city. Its goal is to provide an opportunity to create or maintain affordable rental housing, to maintain diversity in neighbourhoods, and to combat gentrification-induced displacement. The right of first refusal applies to pre-selected properties for ten years. The City of Montréal has 60 days to indicate its intention to purchase after receiving notice from the seller. In circumventing a bidding process, the municipality reimburses the unsuccessful buyer’s expenses incurred when negotiating the deal. The program has an annual allocation of approximately $10 million; however, only one six-storey apartment building has been purchased to date.

Toronto’s Multi-Unit Residential Acquisitions (MURA) Program

MURA originated from a Rooming House Acquisition Pilot Project that the City of Toronto launched in 2020. The pilot morphed into MURA in 2021 with a stronger focus on multi-unit residential and to "facilitate the purchase and conversion of at-risk private market rental housing to permanently affordable rental homes" by the City, non-profit housing providers, and Indigenous community organizations.

Funding allocation

The city has steadily increased the program’s funding with $21.5 Million provided in 2023 and $40 Million in 2024. They have also established a funding cap per project for an amount of $12 Million.

Source of funds

MURA funding used to come from the City’s Development Charges (DC) Reserve Fund, the City’s Land Acquisition Reserve Fund, and an allocation from the Ontario Housing Priorities Initiative. At the start of the program, the City of Toronto had secured two years of financing; after that period, staff proposed seeking continued funding from the federal and provincial governments. Currently, the program is fully funded by the vacant home tax as DCs are no longer available as a funding source.

Incentives: MURA and the Open-Door Program

Funding is offered as a grant that covers $200,000 per apartment unit (or $150,000 per rooming house dwelling room) for purchase and/or renovation. Program recipients can also access additional incentives through the Open-Door Program. These incentives include waivers for permit fees and property taxes.

Administering Open Door Incentives in MURA

Toronto City Council approved the Open-Door Program in 2016 to accelerate affordable rental housing construction by providing city financial contributions in the form of capital funding, fees, charges, and property tax relief, and fast-tracking planning approvals. The Open-Door Incentives are permitted to be stacked with MURA funds in 2021 through a council report.

The City’s Legal Services provides tax relief by updating the Municipal Housing Capital Facility By-law. Subject to availability, the Executive Director, Housing Secretariat re-direct an allocation of federal and/or provincial funds towards this initiative under existing or future delegated authorities.

As per the 2021 Open Door Program guidelines, the Open-Door Program incentives are also available separately from MURA for private developers creating new affordable rental housing.

Affordability and typology target

Toronto requires that MURA-funded properties remain affordable for a 99-year term. The program defines affordability such that no single unit may exceed 100% of the average market rent (AMR) and the overall project may not exceed a weighted 80% of AMR. The program targets multifamily housing units.

The MURA program is open to acquiring a variety of building typologies. Until 2024, the program specified a minimum of six and maximum of sixty units as a requirement to be eligible for the program. They are now looking to remove the maximum requirement and have specified that the maximum funding they could provide to one project is $12 Million, regardless of its unit count.

Process of MURA grants

MURA offers funding via direct grants rather than loans, which allow for deeper levels of affordability. However, the grant funding is provided as a 99-year forgivable loan, in which the outstanding balance is reduced by 1% each year. To be eligible, non-profits must apply through a competitive process. Within 60 days of pre-approval, 10% of the funding is forwarded to organizations to use as needed for up-front costs like deposits and acquisition expenses. An additional $25,000 in funding is made available to each successful proponent to be used for pre-acquisition services such as preparing Building Condition Assessments and Property Appraisals. The city does not take on responsibility to inspect or conduct any due diligence on buildings, pre-acquisition, they rely on their competitive process to canvas for proponents that have experience in existing buildings. Once organizations have selected a building, the city streamlines approvals and transfers funding to complete the transaction within 30 days.

Lessons from MURA

Staff steering the MURA program expressed the importance in reviewing the competition submissions thoroughly, including ensuring their staff possess a level of experience in acquiring older buildings, capacity to take on any renovations, the project’s overall operational viability, and any pre-existing affordable housing agreements with the city also plays a role in the evaluation. The MURA staff member also expressed the benefits of appointing a specific staff member to a successful proponent and being the point person to report and evaluate their progress.

<u>Hamilton Finance and Acquisition Strategy</u>

Hamilton has been working on a Finance and Acquisition Strategy with the target of bringing a report to Council in Q4 2024. Although it is still in development, Hamilton anticipates bringing the new program with funding options to Council.

Funding allocation
Hamilton staff is tentatively considering a 2-year pilot program to support the acquisition of 100 units. Preliminary analysis suggests that the average grant per unit might be in the $50,000 range.

Source of funds
Hamilton has not yet finalized the source of funding for acquisitions.

Affordability and typology target
To date, Hamilton staff are considering a program that focuses on acquiring buildings for rents at Average Market Rent (AMR). In the assessments to date, affordable targets do not meet project feasibility, when considered alongside costs associated with financing and capital for repairs and renovations. In order to provide affordable units, Hamilton staff might consider recommending other measures such as tenant-focused rent supplements. Upon registering the affordable housing agreement, the city would ensure that rents remain the same for existing tenants but upon turnover are increased to AMR rents. Hamilton staff are reviewing the building typology and make up of dwelling sizes to be acquired in this program through their Housing Needs Analysis.

Process of Hamilton acquisition grants
Like MURA, Hamilton is anticipating launching a pre-qualification process to find 5 to 6 non-profit groups prior to selecting buildings to acquire. This would allow for a thorough review of each groups capacity to take on a building as well as allow for a more nimble and quick acquisition process.

Lessons learned so far with Hamilton
As mentioned with MURA, Hamilton staff will focus to ensure the nonprofit partners in the Acquisition Strategy will have extensive experience in construction and renovation of buildings, while also being able to demonstrate a viable project. Hamilton is looking to launch the program as a pilot by late 2024 to determine its success and uptake required to continue the program, subject to council approval.

Document 2 – Benefits and Challenges of an Acquisition Fund

Based on the learning from the previously funded acquisition project, review of other acquisition programs in Canada, consultations with industry, and discussions with Toronto and Hamilton staff, there are several merits and challenges of an acquisition fund that are listed below.

Merits

1. Increased Access to Housing: Acquisition funds can enable organizations to purchase existing properties for conversion into affordable housing units, expanding the available housing stock. Having this program developed in-house at the City could foster stronger relationships with the housing sector and allow the city to ensure its individuals on a City approved waitlist are provided affordable housing.

2. Speed: Acquiring existing properties can be quicker than building new ones, addressing housing needs more rapidly. This would help the city achieve its goal of 5,700 new affordable housing options by 2030, as detailed in the 10-Year Housing and Homelessness Plan.

3. Cost-effectiveness: Purchasing existing units might be more cost-effective than constructing new ones in terms of building materials and pre-development due diligence. This does not consider the need for repair, rehabilitation and modernization that may be required given age and condition of this low-end of market housing.

4. Preservation of Existing Communities: Acquiring properties within existing communities can help preserve neighborhood character and stability, without introducing an influx of new residents.

5. Climate consideration: The use and rehabilitation of existing buildings can also divert waste being added to local landfills and minimize the demand for new materials, resulting in reduced CO_2 emissions with fabrication and transportation of materials. The National Research Council of Canada established guidelines for whole-building life cycle assessment to assist in determining when an existing building may have reached its lifespan (National guidelines for whole-building life cycle assessment (canada.ca)).

Challenges:

1. Limited Supply: The availability of suitable properties for acquisition may be limited, particularly in high-demand areas, which could constrain the effectiveness of such funds.

2. High Initial Investment: Acquiring properties may require a significant initial investment, potentially limiting the scale of the program. An initial investment could consist of several building inspections and appraisals of any works that may be required, to evaluate the viability of acquiring the building followed by its actual acquisition. The upfront investment for an acquisition project would be much higher than a new development, which typically consists of several milestone payments and steps to ensure the project is done accordingly. Further, the city may play a larger role in ensuring the suitable partner is able to secure long-term financing from other sources, than it typically would in a new development.

3. Maintenance and Rehabilitation Costs: Existing properties may require significant renovation and maintenance to meet affordable housing standards, adding to the overall cost. The sort of maintenance could vary from ensuring some units are accessible or reconfiguring the building to meet the needs of the affordable or supportive housing the provider is intending to provide (e.g: single room occupancy and/or communal rooms).

4. Continued monitoring: Once properties are acquired and a housing provider is identified, there may be a need to work with the provider to ensure that projects remain viable. Tenants often cannot afford rents that would be needed to cover the carrying cost of a mortgage, operating costs and capital repair costs, which necessitates the addition of rent subsidies or other operating subsidies to ensure the ongoing financial viability of the housing.Recent acquisition projects that the city has been involved with have proven to come with its challenges and require time and additional funding to ensure they are viable.

5. Market Competition: Competition from private buyers or developers may drive up property prices, making it difficult for affordable housing initiatives to acquire suitable properties.

6. To date, there are very little funding programs available from federal and provincial governments to assist in acquisition of existing affordable units. In its 2024 Budget, the Government of Canada announced a new Canada Rental Protection Fund, where they are set to provide $470 million in grants over a span of five years as well as up to $ 1 billion in loans to support the retention of affordable housing across the

country. However, the details of this new program are still unclear, and it is uncertain whether the dollars would flow directly to housing providers or to municipalities to disperse accordingly. It was highlighted in consultation with OCHC and Alliance to end homelessness in Ottawa that although it is a provincial mandate to preserve affordable housing in a state of good repair in addition to the to the construction of new affordable units there is currently no program available from the province to exclusively fund the acquisition of affordable housing units in Ottawa to preserve affordability.

These merits and demerits underscore the need for careful planning and coordination when implementing acquisition funds for affordable housing. A thorough analysis of a provider's financial capacity and operational ability would need to be done prior to committing to an acquisition.

Document 3 - Summary of Alliance Acquisition Framework and Policy report

Background

The Alliance to End Homelessness Ottawa (ATECHO) has engaged Steve Pomeroy to develop a brief report on Developing an Acquisition Framework and Policy for the City of Ottawa**.** The intention is to provide recommendations from the sector perspective, release the report by the end of September 2024, and share it with members of the Council ahead of the City report on Affordable Housing Acquisition Fund to the Planning and Housing Committee. The report includes a scan of other acquisition funds and financial analysis to support the acquisition fund. The report highlights the loss of market affordable housing in Ottawa and proposes a few funding mechanisms to purchase such units to preserve. Also, the report acknowledges that the City should embrace acquisition and building new as a comprehensive strategy.

Recommendations

Below is a summary of the recommendations found in the draft report. City staff's response to the recommendations is provided in italics.

1. Low-rate loan financing to increase the portion covered by a mortgage is to secure a lower borrowing rate. This could increase the maximum loan amount by up to 20%. This might not be required given the forthcoming availability of federal low-rate financing.

   In its 2024 budget announcement, the federal government indicated an intention to develop an acquisition fund program to directly fund non-profit organizations. The program is in the development stage.

2. Waiving or exempting property taxes will reduce operating expenses and consequently increase net operating income (NOI); therefore, a project can borrow a larger loan.

   *In July 2024, the Council approved a report (*ACS2024-FCS-REV-0003*) to provide tax exemption to affordable housing through an updated Municipal Capital Facilities By-Law.*

3. Renovation grants to update and replace aging capital items in existing old properties. This could be a one-time upfront grant that can ensure that such funding is in place and augments the capital budget with specifically targeted capital assistance.

   The City has modelled the impact of the age of a unit on capital repair costs. The result shows the repair cost significantly increases with building age. For example, a 10-year-old building would require approximately $80 per unit per year for capital repair, while this amount increases to $3,100 per unit per year for a 50-year-old building.

4. Providing rent supplements where existing rents are well below AMR will increase effective net operation income (NOI) and thus increase borrowing leverage.

   The City analysis has also shown that deeper affordability comes at a cost: either higher upfront capital funding to bridge the gap between loan and available equity or ongoing subsidies to increase the mortgage capacity of the housing provider.

5. Securing 3rd party patient equity social impact investment**.** This would seek support from external sources, such as the Ottawa Community Foundation, other social impact investors, or the OCLT Community bonds. This could reduce the required per-unit funding from the City; however, this would require modestly increasing rent revenue to repay this impact equity and associated interest.

   The OCLT started a community bond campaign in late May 2024. To date, they have raised $1,458,500. A portion of this was invested in the 887 Kirkwood property that was acquired by OCLT in October 2023. The City has contributed $800,000 from S. 37 funds to this acquisition to make the project financially sustainable.

6. The report has modelled a combination of the funding options discussed above and proposed a $5 to $12 million acquisition budget to provide a one-time capital grant as a baseline scenario; however, stacking rent supplements and property exemption could bring this amount down to $2.15 million. This funding could acquire up to 100 units with a maximum contribution of $100,000 per unit, subject to the availability of rent supplements to fill the fill the gap between existing rent and 100% of AMR.

   The City analysis and consultation with Toronto, Hamilton, and Industry arrived at a similar conclusion that a $5 to $10 million acquisition fund could be useful to preserve market units. However, given the current funding constraints and new permit commitments, the City recommends deferring consideration of an acquisition fund until such time as additional funding sources can be secured. Instead, staff encourage prioritizing the use of available affordable housing funds and resources towards the delivery of new affordable units with the objective of meeting unit target commitments set out in the federal Housing Accelerator Fund agreement and the provincial Housing Pledge and Ottawa-Ontario agreement.