If this information is required in an accessible format, please contact 1-800-372-1102 ext. 2564.

The Regional Municipality of Durham Report

To:	Committee of the Whole
From:	Commissioners of Planning and Economic Development, Finance, Social Services and Works
Report:	#2022-COW-7
Date:	March 9, 2022

Subject:

Regional Incentive Program for Affordable Housing, File: D19-11

Recommendation:

That the Committee of the Whole recommends to Regional Council:

A) That in order to support the Region's commitment under At Home in Durham, the Durham Housing Plan 2014-2024 and the Region's Master Housing Strategy to initiate the development of 1,000 new affordable rental housing units by 2024, a new "At Home Incentive Program" be approved and implemented to provide Regional financial assistance to increase the supply of purpose-built affordable rental housing in Durham Region, with the following key elements:

   i) Eligible projects will be selected through an open and transparent process, with special focus on the highest needs for affordable rental housing within the Region at the time of the selection process;
   ii) An interdepartmental staff committee will review applications and recommend eligible projects to be approved by Regional Council on a project-by-project basis;
   iii) Complete applications must include the submission of a business model that is feasible and sustainable;
   iv) Eligible projects may be initiated by both non-profit and for-profit organizations;

v) Eligible affordable housing rental projects under the Program will provide a minimum of 5 affordable housing units and will include:

- New construction;
- Conversion of non-residential buildings to purpose-built rental housing;
- Addition of new affordable buildings/units to existing sites/buildings;
- Community housing redevelopment that increases the supply of affordable housing units;

vi) Eligible projects must provide a minimum of 5 per cent affordable units of total units in the building, with funding tied to the number of affordable units to be constructed;

vii) Affordable units must be no more than the 100 per cent of Canada Mortgage and Housing Corporation (CMHC) average market rent for a minimum 25-year period of affordability with a preference for higher proportion of affordable units and a longer affordability period;

viii) Applicants for eligible affordable units must meet the income eligibility requirements for the Durham Access to Social Housing (DASH) wait list, or successor wait list in Durham, at the time they are selected for the affordable unit; and

ix) Selected housing providers will enter into an agreement to maintain affordable rents for the specified affordability period and continue to use the eligibility requirements for tenants;

B) That staff develop program guidelines for the At Home Incentive Program to inform complete eligibility requirements, the application process and a communications plan to ensure maximum uptake of the program in order to promote the At Home Incentive Program;

C) That the draft Municipal Housing Facilities By-law (MHFB), enabling the use of capital grants for eligible purpose-built affordable rental housing projects, be endorsed and forwarded to Regional Council for adoption as provided within Attachment #2 to this report and that the previous by-law be repealed;

D) That an “At Home Incentive Program Reserve Fund” (AHIPRF) be established through an approved by-law to provide one-time funding to new purpose-built affordable rental housing projects approved under the At Home Incentive Program, and include the following sources of funding:

i) an initial level of $5 million of seed funding to be transferred from the Regional Revitalization Program upon start-up;

ii) base funding of $500,000, which has been included in the 2022 Business Plans and Budget and subject to Regional Council approval at the time of writing this report; and

iii) annual contributions to the AHIPRF, subject to the annual Business Plans and Budget process;

E) Funding under the At Home Incentive Program may be stacked with funding from the Regional Revitalization Program, the Housing Services Development Charges Reserve Fund, and other available grant funding; and

F) The Regional Solicitor be directed to prepare the necessary by-laws.

Report:

1. Purpose

1.1 The purpose of this report is to describe and recommend a framework for a new “At Home Incentive Program” to actively encourage the creation of new purpose-built affordable rental housing projects in Durham. The Program would to be implemented under a revised Regional Municipal Housing Facilities By-law (MHFB).

2. Background

2.1 Durham has a variety of housing options available, but affordability is a barrier. Both housing prices and rents have increased significantly and there continues to be a shortfall in the delivery of purpose-built affordable rental housing. Increasing the supply of affordable rental housing helps address the needs of low-income households, including households on the Durham Access to Social Housing (DASH) wait list.

2.2 At Home in Durham, the Durham Housing Plan 2014-2024 is the Region’s long-term vision for housing which commits to a strong housing sector that offers affordable, accessible and suitable housing choices for everyone at all life stages. Ensuring that safe, adequate and affordable rental housing is available to households in Durham Region is vital. Providing for housing affordability is an essential component of a healthy and complete community.

2.3 The Region's Master Housing Strategy emphasizes a holistic and systems-level approach to the planning of community, supportive and transitional housing, as well as homelessness supports and prevention.

2.4 At Home in Durham and the Master Housing Strategy commit to initiating the development of 1,000 new affordable rental housing units by 2024.

2.5 On April 24, 2019 Regional Council directed staff to review current policies and research additional potential relief mechanisms to promote the development of affordable rental housing in Durham Region – including defining the criteria for projects to be eligible for potential relief mechanisms – and to report back to Regional Council with the results of that review and any recommended policy amendments or additions required to implement those mechanisms.

2.6 In December 2019, Regional Council authorized staff to initiate a comprehensive review for the design of a proposed Community Improvement Plan for Durham Region. In support of this request, the Region retained the services of N. Barry Lyon Consultants Ltd. (NBLC) to identify and examine various incentive programs that could be offered, as well as eligibility criteria for the evaluation of candidate projects.

2.7 Supported by a review of best practices and proforma analysis completed by NBLC, the Planning Division together with the Finance Department, the Social Services Department, the Works Department and the Office of the CAO have developed a framework for a proposed incentive program.

3. Affordable Housing Incentive Analysis

3.1 NBLC completed a proforma analysis (see Attachment #1) to estimate the funding necessary for a typical non-profit and a for-profit developer to deliver an affordable housing[1] building in Durham under different financing scenarios. These scenarios adjusted the depth and length of affordability, the proportion of the project that would be affordable, and financing conditions. The analysis factored in assumptions regarding land acquisition costs, capital costs, operating income and expenses of a

1 Affordable housing is defined in the Regional Official Plan for both ownership and rental housing. Affordable rent is the least expensive of either 30% of gross annual household income or rent that is at or below the average market rent.
The average market rent (AMR) in 2020 for apartments in Durham was $1,312 as reported in the CMHC Rental Market Survey. Affordable rental housing must be affordable for low and moderate income households, which is defined as renters with income at or below the 60th percentile of income of all rental households in Durham.

candidate project, as well as financing and other costs to inform the level of funding that would be required for a housing operator to offer affordable rents.

3.2 NBLC also prepared an analysis based on the source of capital funding, under the Canada Mortgage and Housing Corporation (CMHC) National Housing Co-Investment Fund[2], and under a conventional mortgage.

3.3 The results of the analysis revealed that a non-profit housing provider would require funding between $145,510 and $235,703 per unit for a typical 50-unit rental apartment building, in which all of the units would be affordable.

3.4 While the non-profit analysis assumed that the units would be maintained as affordable for a period of 50+ years, the for-profit analysis assumed a 25-year affordability period. The results indicate that a small number of affordable units (about 5 per cent of total units) could be created with funding between $98,175 and $137,849 per unit.

3.5 A range of financial incentives were explored including:

a) Capital grants;
b) Tax increment equivalent grants (TIEGs);
c) Deferred payment of development charges (DCs);
d) Reduced or exempt DCs or grants equivalent; and
e) Reduced or exempt development application fees.

3.6 The Development Charges Act requires municipalities to defer DCs for rental housing development[3]. Further DC relief for affordable housing projects will be considered through the Region's next DC Background Study to be presented for public consultation in early 2023.

3.7 NBLC also noted that a combination of strategies including capital contributions, ongoing operating subsidies, providing land, prezoning properties, and reducing or eliminating parking requirements can work well together as effective incentives for creating affordable housing.

2 The National Housing Co-Investment Fund supports the construction of affordable rental housing. Funded projects need support from another level of government to ensure a coordination of investments.
3 DCs for purpose-built rental housing, development charges are to be paid in six equal installments over five years, commencing the earlier of the date of issuance of occupancy permit or the date of first occupancy. For non-profit housing developments, DCs are to be paid in twenty-one equal installments over twenty years.

3.8 Capital grants are simple, transparent, and often the most helpful for building affordable housing. NBLC advises that a combination of capital contributions and operating subsidies have the greatest ability to incentivize affordable housing. Ongoing operating subsidies could be provided for non-profit projects that provide for longer periods or deeper levels of affordability.

3.9 The analysis also shows that CMHC's National Housing Co-Investment Fund is a powerful financing tool that can greatly reduce borrowing costs and overall equity requirements.

3.10 In addition to direct financial incentives, reducing or eliminating minimum parking requirements can significantly reduce project costs and improve the viability of affordable housing projects. Since underground parking can cost more than $50,000 per space to construct, reducing parking in transit-supportive and urban/walkable environments improves the business case for affordable housing while contributing to community greenhouse gas (GHG) emission reductions by encouraging the use of public transit over personal vehicles.

3.11 Affordable rental housing projects must have a business model that is feasible and sustainable over the long-term. The Region has effective experience evaluating affordable rental housing projects under several federal/provincial capital funding programs.

4. Incentive Approaches

4.1 As part of its analysis, NBLC specifically investigated two legislative approaches to offer affordable housing incentives:

a) A Community Improvement Plan (CIP), under section 28 of the *Planning Act.*
b) A Municipal Housing Facilities By-law (MHFB), under Section 110 of the *Municipal Act*.

4.2 An MHFB allows a municipality to offer financial incentives for affordable housing, as well as reduce or exempt eligible projects from the payment of property taxes and/or development charges. The MHFB also provides the added flexibility of allowing Council to make changes to programs without the need to undertake a longer review and approval process as is required under a CIP, or the added exposure of potential appeals.

4.3 Both Toronto's Open Door program and Peel Region's Affordable Housing Incentives Pilot Program use a MHFB to provide incentives for affordable rental

housing projects. There are fewer requirements to amend a MHFB, so it can be initiated and updated more quickly. To maximize flexibility and responsiveness for the proposed affordable housing incentives, the MHFB approach is preferred over the CIP approach.

5. Proposed Framework for the At Home Incentive Program

5.1 The proposed At Home Incentive Program is intended to support the development of new affordable rental housing projects. The program will provide the opportunity to increase the supply of affordable rental housing for low-income households, including households on the DASH wait list, and to grow the supply of safe, adequate and affordable rental housing.

5.2 Eligible affordable housing rental projects under the At Home Incentive Program will provide a minimum of 5 affordable housing units and will include:

a) New construction;
b) Conversion of non-residential buildings to purpose-built rental housing;
c) Addition of new affordable buildings/units to existing sites/buildings;
d) Community housing redevelopment that increases the supply of affordable housing units.

5.3 To expedite project delivery and to enable competition for Regional incentives, staff recommend that the Region publicly announce invitations for eligible affordable housing proposals through an annual call for applications. This approach can be facilitated through a registry of non-profit and private developers of affordable rental housing, which will be regularly updated by staff.

5.4 A minimum of 5 per cent of total units in eligible projects must be affordable at no more than 100 per cent of CMHC average market rent for a minimum 25-year period of affordability. However, a higher proportion of affordable units, deeper affordability and a longer affordability period will be preferred.

5.5 Eligible projects will be evaluated based on real-time community need and Regional preferences. Consideration of project eligibility will include an evaluation of the following, but not limited to:

a) financial and operational ability to carry the project and ability to meet debt coverage ratio requirements;
b) number of units and percentage of units in the project that will be affordable;
c) period of affordability;

d) depth of affordability;
e) community need, including but not limited to, targeted groups, unit size and geographic location;
f) cost per unit;
g) extent to which the project meets accessibility standards with respect to barrier-free designs, elevators and other accessibility features;
h) extent to which the project aligns with the Region's climate emergency declaration and supports implementation of the Durham Community Energy Plan, including consideration of the project's energy efficiency measures to reduce utility operating costs and its operational GHG emissions footprint; and
i) proximity to transit, community amenities and services.

5.6 To be successful in providing adequate funding for the At Home Incentive Program, base funding is necessary to ensure that a critical mass of units can be funded. To initiate the At Home Incentive Program, it is recommended that the Region establish an At Home Incentive Program Reserve Fund (AHIPRF). To activate the Program, it is recommended that $5 million from the Regional Revitalization Program Reserve be transferred to the recommended new AHIPRF.

5.7 To optimize project outcomes, the At Home Incentive Program will be stackable with other programs offered by the Region and other levels of government including but not limited to:

a) the Regional Revitalization Plan (RRP) which allows the Region to provide capital grants for private redevelopment projects, sponsored by the area municipalities within their respective Community Improvement Plan (CIP) areas. The RRP has been successful in providing capital grants to eligible revitalization projects within downtown areas;
b) the Housing Services Development Charges Reserve Fund for eligible projects; and
c) incentive programs or funding opportunities offered by federal or provincial levels of government.

5.8 To activate the At Home Incentive Program, staff will develop a set of program guidelines and administrative framework, that will include but not be limited to:

a) project eligibility requirements;
b) details of program administration, including the process for inviting and reviewing candidate affordable housing projects, processes for ensuring that affordability targets are achieved;

c) monitoring and resourcing requirements to ensure that awarded projects continue to be compliant with program requirements;
d) legal remedies in the event of a default, either during construction or once an awarded project is in operation, including repayment of Regional financial assistance or disposition of projects; and
e) a communications plan to maximize uptake of the program.

6. Financial Implications

6.1 It is recommended that the AHIPRF be established, and an appropriate by-law approved by Regional Council, to support the development of new purpose-built affordable rental housing projects approved under the At Home Incentive Program, with funding from the following sources:

i) an initial level of $5 million of seed funding to be transferred from the Regional Revitalization Program upon start-up;
ii) base funding of $500,000, which has been included in the 2022 Business Plans and Budget and subject to Regional Council approval at the time of writing this report; and
iii) annual contributions to the Reserve Fund, subject to the annual Business Plans and Budget process.

6.2 Funding under the At Home Incentive Program may be stacked with funding from the Regional Revitalization Program, the Housing Services Development Charges Reserve Fund, and other available grant funding.

7. Proposed Amendment to the Region's Municipal Housing Facilities By-law

7.1 The Region's existing Municipal Housing Facilities By-law (By-law 48-2003) needs to be amended to allow the Region to enter into individual Municipal Housing Facilities Agreements and enable incentives for eligible projects. To enter into a Municipal Housing Facilities Agreement, the amended MHFB must include:

a) a definition for affordable housing;
b) the eligibility requirements for housing units;
c) updated references to current Acts and legislation;
d) a summary of the provisions that agreements must contain, and other language as required by the Act.

7.2 An agreement under a MHFB must characterize the project, state whether the project would meet or exceed the definition of affordable housing in the by-law, detail the incentives being offered, and include other similar items.

7.3 It is recommended that Regional Council repeal By-law 48-2003 and adopt the proposed MHFB provided in Attachment #2.

8. Previous Reports and Decisions

8.1 Several reports have been prepared that provide background information related to this report:

- On September 30, 2008 Commissioners Report #2008-J-37 provided direction how the RRP would operate.
- On January 14, 2016 Commissioners Report #2016-J-1 provided an update on Regional approaches to revitalization.
- On June 4, 2019 Commissioners Report #2019-P-31 presented a review of trends and policies affecting population and employment growth within the region's urban areas through the Envision Durham Urban System Discussion Paper.
- On June 12, 2019 Commissioners Report #2019-COW-19 provided an update on the GO East Extension and Transit Oriented Development Evaluation.
- On November 13, 2019 Commissioners Report #2019-COW-25 summarized the Region's five-year review report of At Home in Durham, the Durham Housing Plan 2014-2024, including a commitment to initiating the development of 1,000 new affordable housing units over five years.
- On December 3, 2019 Commissioners Report #2019-P-47 presented a housing trends and policies including a review of affordable housing in the region through the Envision Durham Housing Planning Policy Discussion Paper.
- On December 11, 2019 Commissioners Report #2019-COW-35 authorizing a Comprehensive Review for the Design of a Proposed Community Improvement Plan for Durham Region.
- On March 2, 2021 Commissioners Report #2021-P-7 presented proposed policy directions related to all key components of Envision Durham, including initial directions for employment and housing policies.
- On June 9, 2021 Commissioners Report #2021-COW-16 provided an update on the implementation of At Home in Durham.

- On December 7, 2021 Commissioners Report #2021-P-26 presented Durham Regional Official Plan Amendment #186 to establish the policy framework for Protected Major Transit Station Areas.

9. Relationship to Strategic Plan

9.1 This report aligns with/addresses the following strategic goals and priorities in the Durham Region Strategic Plan:

a) Revitalize community housing and improve housing choice, affordability and sustainability.

b) Revitalize existing neighbourhoods and build complete communities that are walkable, well-connected, and have a mix of attainable housing.

c) Leverage Durham's prime geography, social infrastructure, and strong partnerships to foster economic growth.

d) Build awareness and community capacity to address poverty.

10. Conclusion and Next Steps

10.1 The proposed At Home Incentive Program will support the delivery of needed affordable rental housing in Durham. An updated Municipal Housing Facilities By-law will replace the existing By-law and enable the proposed At Home Incentive Program to be activated sooner and to adapt to real time need. An open application process will accelerate the delivery of needed projects in Durham bringing the Region closer to its commitment for the initiation of 1,000 new affordable rental units by 2024.

10.2 The At Home Incentive Program Reserve Fund will be established through an approved by-law to provide funding to new purpose-built affordable rental housing projects approved under the At Home Incentive Program.

10.3 Program guidelines for the At Home Incentive Program will be established to the satisfaction of the CAO and the Commissioners of Finance and Legal Services.

10.4 The federal and provincial governments have vital roles to increase the supply of affordable housing, and availability of and access to support services. They must also support local planning and service delivery related to housing and homelessness. The Region will continue to advocate for long-term, sustainable funding commitments and legislative and policy changes from upper levels of government, to support the proposed At Home Incentive Program and affordable housing in Durham.

11. Attachments

Attachment #1 Affordable Housing Proforma Analysis

Attachment #2: Draft Municipal Housing Facilities By-law

Respectfully submitted,

Original signed by

Brian Bridgeman, MCIP, RPP
Commissioner of Planning and
Economic Development

Original signed by

Nancy Taylor
Commissioner of Finance

Original signed by

Stella Danos-Papaconstantinou
Commissioner of Social Services

Original signed by

Susan Siopis
Commissioner of Works

Recommended for Presentation to Committee

Original signed by

Elaine C. Baxter-Trahair
Chief Administrative Officer

nblc
N. Barry Lyon Consultants Ltd.

Memorandum

To:	Durham Region
From:	N. Barry Lyon Consultants Limited
Date:	July 2021
RE:	Durham Region Affordable Housing Incentive Analysis

1.0 Introduction

NBLC is retained by Durham Region to assist with developing an affordable housing incentive program. To continue advancing this work, NBLC has been asked to undertake proforma analyses to understand the level of subsidy that might be necessary to advance a for-profit and non-profit development under several development and financing scenarios.

The analysis is meant to inform the level of subsidy needed and the types of subsidies that could be offered. This work expands on the incentive program best practice analysis completed by NBLC in January/February 2021.

2.0 Scenarios, Assumptions, and Methodology

Durham Region has requested an analysis of the order of magnitude subsidy necessary for a non-profit and for-profit developer to deliver an affordable housing building under several different scenarios (e.g. depth and length of affordability, proportion of project that is affordable, financing conditions, etc.).

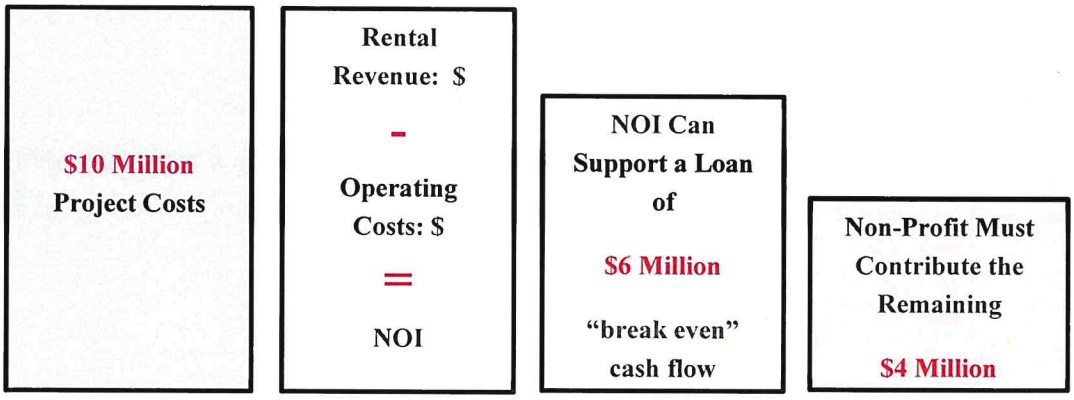
The following is a description of the development scenarios and core assumptions assessed in the analysis.

2.1 Non-Profit Analysis

Given that there is tremendous demand for affordable housing in Durham Region[1], this analysis will focus on the supply side challenges that a non-profit will likely encounter when attempting to develop a new affordable housing project. When looking to expand the supply of affordable housing, the following must be considered:

- The land acquisition cost (unless land is already owned);
- The capital costs (hard and soft costs) of building a project;
- The operating income and expenses of the project;
- The project costs that can be financed through the building's Net Operating Income ("NOI"); and
- The project costs that must be front ended through equity (e.g. total project costs – financed costs = equity requirement).

Figure 1: Project Economics Example



Most non-profits will pursue long-term and deep affordability, which limits their operating income and the debt servicing capacity, requiring that a significant amount of project costs be front ended. This is exacerbated by the fact that most of these groups have limited financial resources, limiting their ability to purchase land and develop real estate. Incentives can directly address this issue by:

- Offering operating incentives (e.g. TIEG) that can reduce operating costs and increase the amount that can be financed.
- Offering capital incentives (e.g. development charges, grants) that reduce the total project costs.
- Offering land, which would also reduce total project costs for groups that do not currently own a development site.

[1] At Home in Durham Housing and Homelessness Plan 2014 and 2019 Update

To help identify the order of magnitude financial gap that might be encountered by these groups, we have run several cash flow proforma models to illustrate the upfront capital required for a project to move forward. The analysis assumes that a non-profit will be able to cover 10% of the projected equity requirement through a cash contribution but is unable to fund the remaining amount and will seek incentives/funding for support.

Assumptions for the analysis are as follows:

- Affordable Rental Rates: 100% of the CMHC Average Market Rent ("AMR") for Durham Region for a period of 50+ years. Durham Region AMR is currently:
  - One-Bedroom: $1,179
  - Two-Bedroom: $1,351
  - Three-Bedroom+: $1,579
- Conventional Mortgage: 30-year term, 4.5% permanent loan interest rate, 1.25 debt coverage ratio.
- Co-Investment Fund: 50-year term, 2.0% permanent loan interest rate, 1.0 debt coverage ratio up to a loan to value of 95%.
  - In addition, rents will be decreased to 80% of the CMHC Median Market Rent ("MMR") for 30% of the units, a 10% premium on hard construction costs to account for the energy and accessibility requirements, and other metrics to mimic compatibility with the program.
  - The Co-Investment Fund is a low-cost financing program offered through CMHC within the National Housing Strategy. The program offers significantly lower financing costs in exchange for affordable housing as well as energy and accessibility requirements[2].
- Average unit size of 800 square feet to include both small and family size units in the project.
- An overall project size of roughly 47,000 square feet, a net to gross efficiency of 85%, and a total of 50 units (44,000*85% / 800 = 50 units). The building is three storeys (floorplate of 15,500 square feet).
- A parking ratio of 1.0, requiring 50 parking spaces provided at surface level (i.e. no underground parking).
- We assume a site size of 1.25 acres (54,500 square feet), allowing enough area for the building floorplate, parking, and landscape / open space.
  - Three storey building floorplate: 15,500 square feet

[2]https://www.cmhc-schl.gc.ca/en/professionals/project-funding-and-mortgage-financing/funding-programs/all-funding-programs/co-investment-fund-new-construction-stream

- Parking: 50 spaces * 350 square feet = 17,500 square feet

- It is assumed the non-profit will already own land.
- All other assumptions, including the full capital budget, is provided as an appendix to this memo.

Accounting for the above, the following scenarios have been assessed:

- **Scenario 1:** Conventional lender, entire building is affordable (100% AMR)
- **Scenario 2:** Co-Investment Fund, entire building is affordable (80% MMR).
- **Scenario 3:** Conventional lender, 30% of units are affordable (100% AMR) and 70% at market rates.
- **Scenario 4:** Co-Investment Fund, 30% of units are affordable (80% MMR) and 70% at market rates.

2.2 For-Profit Analysis

Relative to non-profit organizations, a for-profit developer is more capable of allocating equity into a development project (e.g. land acquisition and the up-front equity not covered by the construction/permanent loan) to earn a cash flow over the life of the building. Developers often use the Internal Rate of Return ("IRR") to assess the viability of a rental development opportunity. The IRR assesses the rate of growth that an investment is expected to generate by accounting for the initial capital investment (e.g. development costs), the cash flow of the building over a defined number of years, and the expected asset value in the future (**Table 1**).

Table 1: IRR Example

Year-0	-$105,000	Expenditure
Year-1	$8,000	Cash Flow
Year-2	$11,000	
Year-3	$14,000	
Year-4	$14,000	
Year-5	$115,000	Exit Value
	10.7%	IRR

The analysis follows a similar methodology as illustrated in **Figure 1**; however it is assumed the developer will contribute the equity requirement. Two scenarios are then assessed, one where the building is developed at 100% market rates, and one where the building is developed with affordable housing as detailed to follow. An estimate of the IRR is then calculated for both scenarios to understand how the profit yield is negatively affected by providing affordable housing. We then estimate the subsidy necessary for the IRR in the affordable scenario to match the IRR in the 100% market scenario. The effect of the subsidy is therefore to allow a developer to provide affordable housing while also achieving the return they would have experienced had the project advanced at

market rates. An effective incentive program, which is voluntary in nature, allows a developer to offer affordable housing and be "made whole" through the receipt of incentives.

The following scenarios were assessed:

- Port Perry in Scugog:
  - An overall project size of roughly 47,000 square feet, a net to gross efficiency of 85%, and a total of 50 units (47,000*85% / 800 = 50 units). The building is three storeys (floorplate of 15,500 square feet).
  - A parking ratio of 1.0, requiring 50 parking spaces at surface level.
  - We assume a site size of 1.25 acres (54,500 square feet), allowing enough area for the building floorplate, parking, and landscape / open space:
    - Three storey building floorplate: 15,500 square feet
    - Parking: 50 spaces * 350 square feet =17,500 square feet
- Kedron in Oshawa:
  - An overall project size of roughly 94,000 square feet, a net to gross efficiency of 85%, and a total of 100 units (94,000*85% / 800 = 100 units). The building is six storeys (floorplate of 15,500 square feet).
  - A parking ratio of 1.0, requiring 100 parking spaces at surface level.
  - We assume a site size of 1.7 acres (74,200 square feet), allowing enough area for the building floorplate, parking, and landscape / open space:
    - Six storey building floorplate: 15,500 square feet
    - Parking: 100 spaces * 350 square feet = 35,000 square feet
- Downtown Oshawa:
  - An overall project size of roughly 200,000 square feet, a net to gross efficiency of 85%, and a total of 213 units (200,000*85% / 800 = 213 units). The building is 12 storeys.
  - A parking ratio of 0.7, requiring 150 parking spaces, of which 100 will be underground.
  - We assume a site size of 1.15 acres.
- Affordable Rental Rates: 100% AMR for Durham Region for a period of 25 and 50 years. 5% of units are assumed to be affordable.
- Market Rental Rates: NBLC has conducted market research to understand market rents and land values. These are presented in the financial appendix.
- Conventional Mortgage: 30-year term, 4.5% permanent loan interest rate, 1.25 debt coverage ratio.

3.0 Summary of Findings

3.1 Non-Profit Analysis

The results of the financial analysis are displayed below in **Table 2**, with the full capital budget and proforma available in the Financial Appendix. The following describes the results:

Table 2

Non-Profit Affordable Housing Subsidy Analysis				
	Non-Profit 100% Affordable Conventional Loan Scenario 1	**Non-Profit 100% Affordable Co-Investment Fund Scenario 2**	**Non-Profit 30% Affordable Conventional Loan Scenario 3**	**Non-Profit 30% Affordable Co-Investment Fund Scenario 4**
% Affordable	100%	100%	30%	30%
CMHC AMR	100%	80%	100%	80%
Total Units	50	50	50	50
Market Units	0	0	35	35
Affordable Units	50	50	15	15
Minimum DCR	1.25	1.00	1.25	1.00
Interest Rate	4.50%	2.00%	4.50%	2.00%
Amoritization	30	50	30	50
Stabilized NOI	**$408,852**	**$360,893**	**$568,899**	**$601,984**
Loan Amount	**$5,327,796**	**$11,340,561**	**$7,413,387**	**$18,916,513**
Total Development Costs	**$20,422,413**	**$21,424,475**	**$20,422,413**	**$21,424,475**
Eligible Loan	$5,327,796	$11,340,561	$7,413,387	$18,916,513
Value of Land Contribution	$2,000,000	$2,000,000	$2,000,000	$2,000,000
Equity Required	**$13,094,617**	**$8,083,914**	**$11,009,026**	**$507,962**
Equity Covered (10%)	**$1,309,462**	**$808,391**	**$1,100,903**	**$50,796**
Capital/Incentive Required	**$11,785;155**	**$7,275,522**	**$9,908,123**	**$457,166**
Per Unit	$235,703	$145,510	$198,162	$9,143
Per Affordable Unit	$235,703	$145,510	$660,542	$30,478

- Each scenario illustrated in **Table 2** is an identical development concept, however the financing and affordability requirements differ.
- As communicated in **Section 2.1** of this Memo, the analysis requires that the total project costs be covered by a combination of the construction/permanent loan and an equity contribution. It is assumed that the non-profit already owns land, with an estimated value of $2.0 million, which can be provided as equity into the project. It is also assumed that the non-profit could cover 10% of the total equity commitment, with the rest being required through funding and incentives.
    - For example, in Scenario 1, the project might have an NOI of $408,850 at stabilized occupancy, which could support a loan of $5.3M. Once the land value and 10% equity contribution are accounted for, there is an outstanding amount of $11.78M, or $235,700 per unit.

- The eligible loan increases significantly in Scenario 2 because of the Co-Investment Fund financing conditions, allowing the non-profit to borrow more money (lower DCR and longer amortization) at a reduced interest rate. This directly lowers the equity requirement from $11.78M to $7.27M, despite the project accommodating the same proportion of affordable units (100% affordable), lower rents (80% AMR), and higher capital costs to accommodate the energy and accessibility requirements of the Co-Investment Fund.
- In Scenario 4, the Co-Investment Fund combined with the introduction of market rents, results in a very modest subsidy of only $30,500 per affordable unit.

- The results of the analysis therefore suggest that the Co-Investment Fund is a powerful financing tool that can greatly reduce borrowing costs and overall equity requirements. A mixed-income project that can secure the Co-Investment Fund could be viable without any additional subsidy or funding. It is also noted that there are capital grants available through this program, however none have been assumed in this analysis.
- The above confirms the general experience with Co-Investment Fund to date, which has been very popular amongst non-profits, housing corporations, and municipalities seeking to build deeply affordable housing. However, the Co-Investment Fund is highly competitive and not every project will be able to successfully secure funding.
- It is possible to incentivize a non-profit project that is proceeding under a conventional loan; **however this is more expensive due to the project being able to secure less debt and therefore requiring more up-front equity. The results also illustrate that a mixed-income building would** require less equity overall, $11.78M in Scenario 1 vs $9.9M in Scenario 3. The equity requirement is reduced in Scenario 3 because only 30% of the building is affordable, which increases the NOI of the building due to the introduction of market rents, allowing the developer to secure a larger loan. However, if the $9.9M is isolated to only the 15 affordable units, the subsidy needed per affordable unit is significantly higher than Scenario 1. This is because the entire equity burden falls on only 15 affordable units in Scenario 3 rather than all 50 units in Scenario 1.
- The subsidy range identified by **Table 2** is generally in line with our findings across the Province with similar assignments. The concept evaluated is also considered "prototypical" across Durham Region (e.g. land is already owned, soft costs are relatively similar across the Region, parking is at surface level, market rents in similar contexts would be similar, etc.). Locational factors that would influence the results of the analysis would include land value (this analysis assumes land is already owned) or more urban forms of development (e.g. underground parking).

3.2 For-Profit Analysis

The results of the financial analysis are displayed in **Table 3**, with the full capital budget and proforma available in the Financial Appendix. The following describes the results:

Table 3

For-Profit Affordable Housing Subsidy Analysis			
	Port Perry Scugog	Kedron Oshawa	Downtown Oshawa
% Affordable	5%	5%	5%
CMHC AMR	100%	100%	100%
Total Units	50	100	213
Market Units	47	95	202
Affordable Units (5% Affordable)	3	5	11
Return Metrics			
IRR at 100% Market Rates	5.40%	5.61%	5.06%
IRR at 95% Market Rates (25 Years)	5.33%	5.54%	4.99%
IRR at 95% Market Rates (50 Years)	5.28%	5.49%	4.94%
Subsidy to Match Market IRR			
25 Year Affordability	-$294,525	-$600,277	-$1,513,969
per affordable unit	**-$98,175**	**-$120,055**	**-$137,634**
50+ Year Affordability Period	-$480,538	-$932,777	-$2,572,334
per affordable unit	**-$160,179**	**-$186,555**	**-$233,849**

- As communicated in Section 2.2 of this memo, a for-profit developer will purchase land and allocate equity to a rental project in exchange for a long-term cash flow. Therefore, if the IRR of the project is sufficient, a developer can advance the development. The IRR calculated in **Table 3** includes the initial capital investment, the cash flow ("NOI") over a 30-year period, and an estimate of the asset value at the end of this term.
- The inclusion of affordable housing will directly impact the IRR of a project in several ways:
  - **Reduced Revenue and NOI:** Offering affordable homes will directly reduce the revenue of a building. Given that operating costs will remain similar for market and affordable units, the NOI of the building is reduced for each year that the units remain affordable.
  - **Building Value:** The building value at the end of the 35-year term is estimated by dividing the future NOI by a capitalization rate.
    - **25-Year Affordability Period:** These units reduce the NOI of the project for the period of time they are offered at below-market rates. However, since they revert to market rates at the end of year-25, they would not negatively influence the value of the building at year-35, as the NOI of the project in year-35 would be comprised entirely of market rents.
    - **50+ Year Affordability Period:** These units reduce the NOI of the project for the period of time they are offered at below-market rates. They will also remain

affordable at year-35, therefore reducing the estimated value of the building at this time and further impacting the IRR of the project.

- As illustrated by **Table 3**, the IRR in each scenario decreases as affordable housing is required. The IRR decreases further when affordable housing for 50-years is required, which is due to the discussion provided above.
- The subsidies noted in **Table 3** reflect the amount necessary for a project to match the IRR that could be achievable if no affordable housing were provided. This subsidy ranges from approximately $98k - $137k and $160k - $233k per affordable unit for a 25-year and 50-year affordability period, respectively.
- Despite the recent growth in rental rates within Durham over the past several years, construction costs have also been rapidly increasing. This is likely influencing the modest IRR calculated for each scenario. While developer expectations vary significantly, typically we would expect to see an IRR above 6%-7% as being necessary to motivate a developer to advance a rental project. These results likely explain the relative lack of rental development activity in the Region as identified by the At Home in Durham Plan.
- The analysis assumes the developer would proceed with a conventional loan. However, it is important to note that there are funding opportunities available to developers seeking to build affordable housing. This could include the Co-Investment Fund, however this program is more common for non-profits and housing corporations seeking to develop low-income housing (and therefore accounted for under the non-profit scenario in **Table 2**). However, the Rental Construction Financing Initiative also offers low-cost loans in exchange for affordable rental housing. If either of these programs were pursued, the IRR identified in **Table 3** would improve, as the equity requirement and ongoing debt servicing costs would decrease. However, it is important to note that the National Housing Strategy funding is limited, and not every project will successfully secure funding. It is therefore important to design the incentive program so that it can stack with other funding sources, but not entirely rely on them.

4.0 Conclusions and Directions

The analysis provides numerous considerations for Durham Region as they consider advancing an affordable housing incentive program.

- The subsidy necessary for a project to advance will be heavily dependent on the specific characteristics of the proposal and the motive/expectation of the developer. Any shift in density, parking requirements, rental rates, financing, development costs, profit expectations, affordability depth/length, available equity, and many others will influence the subsidy required.
- Incentivizing non-profit and for-profit developers will have different advantages and disadvantages. While non-profits want to build affordable housing and will often pursue longer and deeper affordability as their mandate, they also often lack resources, equity, and overall ability

to advance a complicated real estate development. Conversely, for-profit developers are more readily available to build a project but will require an adequate subsidy to cover the impact of providing affordable housing or they will not voluntarily seek out funding.

- The analysis in this memo illustrates that there is an opportunity to incentivize an affordable housing project, however an adequate budget must be secured to ensure a critical mass of units can be funded. A budget that can only subsidize a handful of units will likely be insufficient to attract interest from both non-profit and for-profit organizations.
- When considering the types of incentives to offer, it generally does not matter to the development community how the funding is provided, so long as it adequately covers the gap needed to advance the project. For example, if a project requires $150k per unit, it is not a concern if the incentive is provided as a capital grant or a combination of incentives tied to fees and charges (e.g. development charge waiver, TIEG, building permit fees, etc.).
- Notwithstanding the above, a combination of capital contributions as well as ongoing operating subsidies (e.g. TIEG) have demonstrated the greatest ability to incentivize affordable housing[3]. The combined effect of reducing development costs as well as the ongoing operating budget can significantly improve the outlook and viability of an affordable housing project.
- Providing land to the development community in exchange for an affordable housing development can also be a highly effective strategy for encouraging the delivery of affordable housing. The **municipality can offer land at a reduced purchase price in exchange for affordable housing and other benefits. If this avenue is selected, long-term and deep affordable rental housing should be** required.
- In addition to direct financial incentives, reducing or eliminating parking requirements can also significantly reduce project costs and improve the viability of affordable housing projects. While the Port Perry and Kedron case studies in **Table 3** have surface parking, the Downtown Oshawa case study accommodates 100 underground parking spaces. This significant capital cost directly influences the lower IRR and higher subsidy needed relative to the other two scenarios, which could be significantly improved through the provision of less parking. An underground parking space can often cost more than $50,000 to construct. This strategy will be most effective in transit-supportive and urban/walkable environments.
- The roles and responsibilities of upper and lower-tier municipalities should also be considered. For example, incentives such as parking reductions, cash-in-lieu of parkland, planning application / building permit fees, and other similar items are primarily or fully within lower-tier powers. Similarly, while the Region does charge property taxes, the administrative burden primarily falls on the lower-tier, which would be the case for any TIEG. Durham should therefore consult with the lower-tier municipalities as the program continues to advance.

---

[3] NBLC Affordable Housing Best Practice Analysis

- Establishing an incentive program that allocates funding through a competitive process is becoming increasingly common in Ontario. This allows a municipality to review each application received and allocate funding to the project that best meets the objectives of the program. The municipality can establish eligibility requirements that must be met (e.g. affordability depth and length), as well as other criteria (e.g. environmental performance, provision of services/amenities, locational attributes, etc.) to score and assess applications to determine the best project(s) to receive funding.

5.0 Financial Appendix

Table(i): Capital Budget and Assumptions

Durham Region AH Analysis

All inputs are as of the expropriation date. Black text indicates a hard coded number, blue text indicates a calculation within the model, Green indicates an assumption from another consultant as noted in the comments to the right.

Every reasonable effort has been taken to ensure that the information, analysis, conclusions, and recommendations in this report are accurate and timely. No responsibility for the information, analysis, conclusions, or recommendations is assumed by N. Barry Lyon Consultants Limited or any of its employees.

		Non-Profit Housing - Oshawa	Market AH Housing - Scugog Port Perry	Market AH Housing - Oshawa Kedron	Market AH Housing - Oshawa Downtown	Comments
Site and Project Statistics						
Site Area	*sq. ft.*	54,500	54,500	72,000	50,000	from work plan
	sq. m.	5,063	5,063	6,689	4,645	
	Ac.	1.25	1.25	1.65	1.15	
	ha	0.51	0.51	0.67	0.46	
Building Footprint	*sq. ft.*	15,667	15,667	15,667	16,667	from work plan
Surface Parking Area	*sq. ft.*	17,500	17,500	35,000	17,500	350 square feet per space
Underground Parking Area	*sq. ft.*	0	0	0	35,000	
Lanscape Area	*sq. ft.*	21,333	21,333	21,334	15,833	residual site area
Base Site Statistics						
Gross Floor Area	*sq. ft.*	47,000	47,000	94,000	200,000	from work plan
	sq. m.	4,366	4,366	8,733	18,581	
Net to Gross Efficiency Ratio		85%	85%	85%	85%	nblc assumption
Net Saleable/Leaseable Floor Area	*sq. ft.*	39,950	39,950	79,900	170,000	
	sq. m.	3,711	3,711	7,423	15,794	
Building Height	*storeys*	3	3	6	12	from work plan
Average Net Unit Size	*sq. ft.*	800	800	800	800	from work plan
	sq. m.	74	74	74	74	
Total Residential Units		50	50	100	213	
Suite Mix						from NBLC market analysis, for DC calculation
Studio & 1-Bedroom		50%	50%	50%	50%	
2-Bedroom & 3-Bedroom +		50%	50%	50%	50%	
Parking						
Residential & Visitor Parking Ratio	*per unit*	**1.00**	**1.00**	**1.00**	**0.70**	**from work plan**
Total Parking Stalls Constructed		50	50	100	150	
Surface/Structure Stalls		**50**	**50**	**100**	**50**	**from work plan**
Underground Parking Stalls		**0**	**0**	**0**	**100**	
Development Timing and Variables						
Market Revenue Inflator	*per year*	2.0%	2.0%	2.0%	2.0%	nblc assumption
Capitalization Rate (Market)		4.00%	4.00%	4.00%	4.00%	nblc assumption
Capitalization Rate (Affordable)		5.00%	5.00%	5.00%	5.00%	nblc assumption
Approvals and Marketing		1.5	1.5	1.5	1.5	nblc assumption
Construction Period		1.5	1.5	2.0	2.5	nblc assumption
Period to Stabilization		2.0	2.0	2.0	2.0	nblc assumption
Development Time		3.0	3.0	3.5	4.0	
Stabilization Time		5.0	5.0	5.5	6.0	
Discount Rate		6.0%	6.0%	6.0%	6.0%	nblc assumption
Revenue Assumptions						
Vacancy & Bad Debt	*of gross potential income*	3.0%	3.0%	3.0%	3.0%	nblc assumption
Parking Stall Rent	*per stall, per month*	$50	$50	$50	$70	nblc assumption
Operating Expense Ratio (market)	*of gross potential income*	35.0%	35.0%	35.0%	35.0%	nblc assumption
Operating Expense Ratio (affordable)	*of gross potential income*	50.0%	50.0%	50.0%	50.0%	nblc assumption
Annual Operating Expense Inflator	*per year*	2.0%	2.0%	2.0%	2.0%	nblc assumption
Market Rents	*per sq ft. per month*	$2.50	$2.60	$2.75	$3.00	nblc assumption
Average Market Rent	*total per month*	$2,000	$2,080	$2,200	$2,400	based on average 800 square foot unit size
Affordable Rents (100% AMR)						
One-Bedroom	*total per month*	$1,179	$1,179	$1,179	$1,179	from CMHC - Durham Wide
Two-Bedroom	*total per month*	$1,351	$1,351	$1,351	$1,351	from CMHC - Durham Wide
Average	*total per month*	$1,265	$1,265	$1,265	$1,265	average base on 50/50 split of one and two bedroom units
Co-Investment Rents (80% MMR)						
One-Bedroom	*total per month*	$955	$955	$955	$955	from CMHC - Durham Wide
Two-Bedroom	*total per month*	$1,043	$1,043	$1,043	$1,043	from CMHC - Durham Wide
Average	*total per month*	$999	$999	$999	$999	average base on 50/50 split of one and two bedroom units
Cost Assumptions						
Hard Construction Costs						
Above Grade Construction Costs						
Apartment - Hybrid Construction	*per sq.ft.*	$230	$230	$230	$230	Altus provides range of $195 - $265
Cost Premium for NHS Funding for Affordable Units	*per sq.ft.*	$253	$253	$253	$253	10% premium to account for energy and accessibility requirements
Apartment - Concrete up to 12 storeys	*per sq.ft.*	$273	$273	$273	$273	Altus provides range of $230 - $315
Underground Parking Costs	*per sq.ft.*	$145	$145	$145	$145	Altus provides range of $130 - $60
Surface Parking Costs	*per sq.ft.*	$18	$18	$18	$18	Altus provides range of $10 - $25
Landscape and Open Space	*per sq.ft.*	$20	$20	$20	$20	nblc assumption
Site Prep and Servicing	*per sq.ft.*	$20	$20	$20	$20	nblc assumption
Cost Inflator	*per year*	2.0%	2.0%	2.0%	2.0%	nblc assumption
Contingency	*% of hard costs*	10%	10%	10%	10%	nblc assumption

Table(i): Capital Budget and Assumptions Continued

Durham Region AH Analysis

All inputs are as of the expropriation date. Black text indicates a hard coded number, blue text indicates a calculation within the model, Green indicates an assumption from another consultant as noted in the comments to the right.

Every reasonable effort has been taken to ensure that the information, analysis, conclusions, and recommendations in this report are accurate and timely. No responsibility for the information, analysis, conclusions, or recommendations is assumed by N. Barry Lyon Consultants Limited or any of its employees.

		Non-Profit Housing - Oshawa	Market AH Housing - Scugog Port Perry	Market AH Housing - Oshawa Kedron	Market AH Housing - Oshawa Downtown	Comments
Soft Costs						
Planning Application Fees						Assumes zoning and site plan application is required - Local and Regional Fees
ZBL	*base*	$12,093	$12,365	$12,093	$12,093	Zoning Fee for application with more than 3,000 m2
Site Plan Application	*base*	$3,983	$8,180	$3,983	$3,983	
Site Plan Application	*per unit*	$336	$415	$336	$336	
CA Review	*base*	$10,000	$10,000	$10,000	$10,000	
Development Charges (+ Impost and education Fee)						Local and Region DC
Apartments 1 Bed and Bach.	*unit*	$27,933	$25,707	$27,933	$27,933	Oshawa includes CIL parkland
Apartments 2 + Bedrooms	*unit*	$40,995	$32,377	$40,995	$40,995	
Section 37	*per unit*	$0	$0	$0	$0	nblc assumption
Parkland Dedication Rates (cash-in-lieu)	*% land value*		5%			
Building Permit Fee	*Per sq. m*	$13.91	$13.43	$13.91	$13.91	Local area rates
Property Tax Rate (during construction)		2.14%	1.83%	2.14%	2.14%	Local area rates
Property Value	*per unit*	$40,000	$25,000	$40,000	$50,000	estimate
Property Value	*total*	$2,000,000	$1,250,000	$4,000,000	$10,650,000	estimated appraisal value based on land comps
Property Value	*per sq.ft. GFA*	$43	$27	$43	$53	
Consultants, PM, Legal, Insurance, Marketing	*% of hard costs*	13.5%	13.5%	13.5%	13.5%	nblc assumption
Lender's Administrative Fee	*total costs*	0.80%	0.80%	0.80%	0.80%	nblc assumption
Construction Loan Interest Rate	*term*	4.50%	4.50%	4.50%	4.50%	nblc assumption
Miscellaneous Fees	*per sq.ft.*	$1	$1	$1	$1	other unaccounted for fees (revisions, minor variance, etc.)
HST Rate	*year*	13%	13%	13%	13%	per CRA
HST Rebate	*unit*	$24,000	$24,000	$24,000	$24,000	per CRA - max rebate permitted
Cost Calculations						
Hard Costs						
Building Construction Cost - conventional lender		$11,135,916	$11,135,916	$22,271,832	$56,143,148	
Parking Costs		$315,483	$315,483	$630,967	$5,543,492	
Landscape Costs		$439,530	$439,530	$439,537	$326,214	
Site Prep/Servicing Costs		$1,122,863	$1,122,863	$1,483,422	$1,030,150	
Contingency		$1,301,379	$1,301,379	$2,482,576	$6,304,300	
Total Hard Cost		**$14,315,172**	**$14,315,172**	**$27,308,334**	**$69,347,304**	
	sq. ft.	**$305**	**$305**	**$291**	**$347**	
	unit	**$286,303**	**$286,303**	**$273,083**	**$325,574**	
Soft Costs						
Development Charges		$1,775,154	$1,495,880	$3,550,307	$7,562,154	
Cash-In-Lieu of Parkland Dedication		$0	$62,500	$0	$0	Included in DC calulation for Oshawa
Section 37 Fees		$0	$0	$0	$0	
Planning Application Fee						
ZBA		$12,458	$12,738	$12,458	$12,458	
SPA		$21,410	$29,802	$38,716	$77,829	
CA		$10,301	$10,301	$10,301	$10,301	
Building Permit Fee		$62,568	$60,409	$125,137	$266,249	
Miscellaneous Fees		$56,143	$56,143	$74,171	$51,507	
Property Tax		$136,471	$72,961	$321,601	$988,323	
Consultants, PM, Legal, Insurance, Marketing		$1,932,548	$1,932,548	$3,686,625	$9,361,886	
Lender's Administrative Fee		**$146,578**	**$144,388**	**$281,021**	**$701,424**	
Construction Loan Financing Costs		**$498,696**	**$491,245**	**$1,262,695**	**$3,922,478**	Assumes 75% debt; 25% equity
HST		**$2,654,914**	**$2,612,565**	**$5,121,009**	**$13,028,378**	
HST Rebate		($1,200,000)	($1,200,000)	($2,400,000)	($5,112,000)	
Total Soft Cost		**$6,107,241**	**$5,781,481**	**$12,084,041**	**$30,870,987**	
	sq. ft.	**$130**	**$123**	**$129**	**$154**	
	unit	**$122,145**	**$115,630**	**$120,840**	**$144,934**	
Total Development Cost		**$20,422,413**	**$20,096,653**	**$39,392,375**	**$100,218,291**	
	sq. ft.	**$435**	**$428**	**$419**	**$501**	
	unit	**$408,448**	**$401,933**	**$393,924**	**$470,508**	

nblc

Table(ii): Non-Profit Equity Requirement Calculations

Durham Region AH Analysis

	Non-Profit 100% Affordable Conventional Loan	Non-Profit 100% Affordable Co-Investment Fund	Non-Profit 30% Affordable Conventional Loan	Non-Profit 30% Affordable Co-Investment Fund
Scenarios/Stats/Assumptions				
Gross Floor Area	47,000	47,000	47,000	47,000
Net Floor Area	39,950	39,950	39,950	39,950
# Units	50	50	50	50
# Market Units	0	0	35	35
# Affordable Units	50	50	15	15
Market Rental Rate (psf per month)	$2.50	$2.50	$2.50	$2.50
Affordable Rental Rate (psf per month)	$1.58	$1.25	$1.58	$1.25
Average Rental Rate (psf per month)	$1.58	$1.25	$2.22	$2.12
Rental Rate 2018 (psf per year)	$19.0	$15.0	$26.7	$25.5
Revenue Inflator (Pre and During Construction)	2%	2%	2%	2%
#Parking Spaces	50	50	50	50
Parking Revenue (per stall per month)	$50	$50	$50	$50
Parking Revenue (per stall per year)	$600	$600	$600	$600
Discount Rate	6%	6%	6%	6%
Cap Rate	5.00%	5.00%	5.00%	5.00%
Costs				
Hard Cost (7% premium applied to Co-Investment)	$14,315,172	$15,317,234	$14,315,172	$15,317,234
Soft Costs	$6,107,241	$6,107,241	$6,107,241	$6,107,241
Total	$20,422,413	$21,424,475	$20,422,413	$21,424,475
Permanent Loan Eligible				
Minimum Debt Coverage Ratio	1.25	1.00	1.25	1.00
Stablized NOI	$408,852	$360,893	$568,899	$601,984
Maximum Annual Debt Service to Support DCR	$327,082	$360,893	$455,119	$601,984
Interest Rate (permanent loan)	4.50%	2.00%	4.50%	2.00%
Amortization	30	50	30	50
Max Loan to Cost	0.75	0.90	0.75	0.90
Loan Amount	$5,327,796	$11,340,561	$7,413,387	$18,916,513
Actual Loan to Cost %	26%	53%	36%	88%
Annual Loan Payment	-$327,082	-$360,893	-$455,119	-$601,984
Limiting Factor of Loan Amount	DCR	DCR	DCR	DCR
Funding Sources				
Development Costs	$20,422,413	$21,424,475	$20,422,413	$21,424,475
Construction Loan	$5,327,796	$11,340,561	$7,413,387	$18,916,513
Value of Land Contribution	$2,000,000	$2,000,000	$2,000,000	$2,000,000
Developer Equity (Cash)	$13,094,617	$8,083,914	$11,009,026	$507,962
Per Unit	$261,892	$161,678	$220,181	$10,159
Per Affordable Unit	$261,892	$161,678	$733,935	$33,864
Developer Equity (%)	*74%*	*47%*	*64%*	*12%*
Total	$20,422,413	$21,424,475	$20,422,413	$21,424,475

Table(iii): For-Profit Equity Requirement Calculations

Durham Region AH Analysis

	Scugog - 100% Market	Scugog - 95% Market	Kedron - 100% Market	Kedron - 95% Market
Scenarios/Stats/Assumptions				
Gross Floor Area	47,000	47,000	94,000	94,000
Net Floor Area	39,950	39,950	79,900	79,900
# Units	50	50	100	100
# Market Units	50	47	100	95
# Affordable Units	0	3	0	5
Market Rental Rate (psf per month)	$2.60	$2.60	$2.75	$2.75
Affordable Rental Rate (psf per month)	$1.58	$1.58	$1.58	$1.58
Average Rental Rate (psf per month)	$2.60	$2.54	$2.75	$2.69
Rental Rate 2018 (psf per year)	$31.2	$30.5	$33.0	$32.3
Revenue Inflator (Pre and During Construction)	2%	2%	2%	2%
#Parking Spaces	50	50	100	100
Parking Revenue (per stall per month)	$50	$50	$50	$50
Parking Revenue (per stall per year)	$600	$600	$600	$600
Discount Rate	6%	6%	6%	6%
Cap Rate	5.00%	5.00%	5.00%	5.00%
Costs				
Land Cost	$1,250,000	$1,250,000	$4,000,000	$4,000,000
Hard Cost (7% premium applied to Co-Investment)	$14,315,172	$14,315,172	$27,308,334	$27,308,334
Soft Costs	$5,781,481	$5,781,481	$12,084,041	$12,084,041
Total	$21,346,653	$21,346,653	$43,392,375	$43,392,375
Permanent Loan Eligible				
Minimum Debt Coverage Ratio	1.25	1.25	1.25	1.25
Stablized NOI	$873,762	$853,696	$1,845,972	$1,807,607
Maximum Annual Debt Service to Support DCR	$699,009	$682,957	$1,476,778	$1,446,086
Interest Rate (permanent loan)	4.50%	4.50%	4.50%	4.50%
Amortization	30	30	30	30
Max Loan to Cost	0.75	0.75	0.75	0.75
Loan Amount	$11,386,084	$11,124,609	$24,055,070	$23,555,132
Actual Loan to Cost %	53%	52%	55%	54%
Annual Loan Payment	-$699,009	-$682,957	-$1,476,778	-$1,446,086
Limiting Factor of Loan Amount	DCR	DCR	DCR	DCR
Funding Sources				
Development Costs	$21,346,653	$21,346,653	$43,392,375	$43,392,375
Construction Loan	$11,386,084	$11,124,609	$24,055,070	$23,555,132
Value of Land Contribution	$1,250,000	$1,250,000	$4,000,000	$4,000,000
Developer Equity (Cash)	$8,710,569	$8,972,044	$15,337,306	$15,837,243
Developer Equity (%)	*47%*	*48%*	*45%*	*46%*
Total	$21,346,653	$21,346,653	$43,392,375	$43,392,375

Table(iv): For-Profit Cash Flow and IRR Calculation Example

Scugog - 100% Market

Net Operating Income Calculation to Stabilization	0	1	2	3 (stabilization)	36
Annual Rental Increase			2.0%	2.0%	2.0%
Vacancy Rate and Bad Debt		40.00%	10.00%	3.00%	3.00%
Operating Costs (% of Rent)		35%	35%	35.0%	35.0%
Revenue from rent		$1,322,732	$1,349,187	$1,376,170	$2,645,318
Revenue from parking		$31,836	$32,473	$33,122	$63,669
Vacancy + Bad Debt		-$541,827	-$138,166	-$42,279	-$81,270
Operating Costs		-$474,099	-$483,581	-$493,253	-$948,145
Annual Net Operating Cash Flow (before debt - Total Cost)	**-$21,346,653**	**$338,642**	**$759,913**	**$873,762**	**$33,591,440**
Debt Service		$0	$0	-$699,009	$0
Annual Net Operating Cash Flow (with debt - Total Equity)	**-$9,960,569**	**$338,642**	**$759,913**	**$174,752**	**$33,591,440**

	Unleveraged
Asset Value at End of Term	**$33,591,440**
Unleveraged IRR	**5.40%**

Scugog - 95% Market

Net Operating Income Calculation to Stabilization	0	1	2	3 (stabilization)	36
Annual Rental Increase			2.0%	2.0%	2.0%
Vacancy Rate and Bad Debt		40.00%	10.00%	3.00%	3.00%
Operating Costs (% of Rent)		35%	35%	35.0%	35.0%
Revenue from rent		$1,291,625	$1,317,458	$1,343,807	$2,583,108
Revenue from parking		$31,836	$32,473	$33,122	$63,669
Vacancy + Bad Debt		-$529,385	-$134,993	-$41,308	-$79,403
Operating Costs		-$463,211	-$472,476	-$481,925	-$926,372
Annual Net Operating Cash Flow (before debt - Total Cost)	**-$21,346,653**	**$330,865**	**$742,462**	**$853,696**	**$32,820,029**
Debt Service		$0	$0	-$682,957	$0
Annual Net Operating Cash Flow (with debt - Total Equity)	**-$10,222,044**	**$330,865**	**$742,462**	**$170,739**	**$32,820,029**

	Unleveraged
Asset Value at End of Term	**$32,820,029**
Unleveraged IRR	**5.28%**

Change Needed to Match Market IRR

Annual Net Operating Cash Flow (before debt - Total Cost)	**-$20,866,115**	**$330,865**	**$742,462**	**$853,696**	**$32,820,029**

Unleveraged IRR - Market	5.40%
Unleveraged IRR - Affordable	5.28%
Unleveraged IRR Adjusted to Match Market	5.40%
Total Costs	-$21,346,653
Total Costs to Match Market IRR	-$20,866,115
Subsidy Needed	-$480,538
Subsidy Needed per Affordable Unit	**-$160,179**

Attachment #2

By-law Number XX-2022

of The Regional Municipality of Durham

Being a by-law for the provision of municipal housing facilities.

Whereas The Regional Municipality of Durham is a service manager under the Housing Services Act, 2011, S.O. 2011, c. 6, Sched. 1;

And Whereas, the Region has adopted a Housing and Homelessness Plan pursuant to the Housing Services Act, 2011 for the purposes of making affordable housing available and to prevent homelessness for all Durham residents;

And Whereas pursuant to section 110 of the Municipal Act, 2001, S.O. 2001, c. 25, as amended, the council of a municipality may enter into agreements for the provision of municipal capital facilities by any person;

And Whereas Ontario Regulation 603/06, as amended, sets out the classes of municipal capital facilities for which municipal councils may enter into agreements pursuant to section 110 of the Act;

And Whereas Ontario Regulation603/06, as amended, provides that municipal housing project facilities is a class of municipal capital facilities for the purpose of section 110 of the Act;

And Whereas Ontario Regulation 603/06, as amended, provides that the council of a municipality may not enter into an agreement under section 110 of the Act, unless it first enacts a municipal housing facility by-law;

And Whereas Council is desirous of enacting a municipal housing facility by-law to permit Council to enter into agreements for the provision of municipal housing project facilities;

And Whereas, Council passed By-law 48-2003 being the Municipal Housing Facilities By-law on July 9, 2003;

AND WHEREAS, Council now wishes to repeal By-law 48-2003 and replace it with a new and updated Municipal Housing Facilites By-law in order to facilitate the provision of Affordable Housing in the Region;

Now therefore, the Council of The Regional Municipality of Durham hereby enacts as follows:

1. In this by-law:

    a) “Act” means the Municipal Act, 2001 S.O. 2001, c.25, as amended, and its regulations;

    b) “affordable housing" means affordable rental housing as set out in section 2 of this by-law;

    c) “Region” means The Regional Municipality of Durham;

d) “area municipality" means the municipality or corporation of the Town of Ajax, the Town of Whitby, the Township of Brock, the Township of Uxbridge, the Township of Scugog, the City of Pickering, the Municipality of Clarington, and the City of Oshawa;

e) “Commissioners” means the Commissioners of Finance and Social Services, or their Commissioner delegates;

f) “Council” means the Regional Council of The Regional Municipality of Durham;

g) “Clerk” means the person appointed by Council pursuant to section 228 of the Act;

h) “CMHC” means the Canada Mortgage and Housing Corporation;

i) “average market rent" means the average monthly rent by unit type as determined in the annual survey of rents for the prior calendar year published by CMHC for the area municipality in which the municipal housing project facility is situated. If the average market rent for a unit type or for an area municipality is not published by CMHC, the "average monthly rent" will be the average monthly rent as determined by the Region;

j) “household” means individuals and families who will be or are residing in a housing unit within a municipal housing project facility;

k) “household Income” means the annual income from all sources of all persons who comprise a Household;

l) household income limit” means the maximum household income that a household can have to be eligible for placement on the wait list;

m) “housing project” means a project or part of a project designed to provide or facilitate the provision of residential accommodation, with or without any public space, recreational facilities and commercial space or buildings appropriate thereto;

n) “housing unit” means a unit in a housing project for use as residential accommodation;

o) “unit type” means the type of housing unit within a municipal housing project facility or potential municipal housing project facility, measured by the number of bedrooms;

p) “housing provider” means a person who operates a housing project and with whom the Region has entered into or will enter into a municipal housing project facilities agreement under section 3;

q) "wait list" means the Durham Access to Social Housing wait list or such other wait list as may be adopted by the Region for the purposes of selecting households for community or affordable housing;

r) “municipal housing project facilities” or "municipal housing project facility" means the class of municipal capital facilities prescribed by paragraph 18 of section 2 of Ontario Regulation 46/94, as amended;

s) “municipal housing project facilities agreement” means a municipal housing project facilities agreement between the Region and a housing provider for the provision of municipal housing project facilities pursuant to a by-law passed by Council pursuant to subsection 110(1) of the Act;

t) “guideline” for any calendar year means the rent increase guideline as determined and published annually by the Minister of Municipal Affairs and Housing under the Residential Tenancies Act, 2006, S.0. 2006, c.17, as amended, or any successor thereto; and

u) “arm’s Length” means arm’s length as defined under s. 251 (1) of the Income Tax Act, R.S.C. 1985 (5th Supp.) c. 1, as amended.

2. For the purposes of this by-law, and of all municipal housing project facilities agreements, “affordable housing” and "affordable rental housing" mean units with monthly occupancy costs that are less than or equal to the average monthly rent for that unit type

3. Subject to section 4, Council may pass by-laws permitting the Region to enter into municipal housing project facilities agreements with housing providers, pursuant to subsection 110(1) of the Act, for the provision of the municipal housing project facilities.

4. The Region shall not enter into a municipal housing project facilities agreement unless it has determined that:

a) Council has enacted a by-law authorizing the entering into of the municipal housing project facilities agreement for the provision of the municipal housing project facility;

b) all of the housing units to be provided to households that are eligible for housing units as part of the municipal housing project facilities agreement meet the definition of affordable housing as set out in section 2;

c) The Region is a service manager under the Housing Services Act, 2011; and

d) the municipal housing project facilities agreement to be entered into contains the provisions set out in section 8.

5. Upon passing of a by-law referred to in section 3, the Clerk shall give written notice of the by-law to the Minister of Finance or successor, as set out in the Act.

6. A household shall be eligible for a housing unit within a municipal housing project facility if, at the time the household is selected for the unit, it is on the wait list, or is not on the wait list but has household income within the allowable limit to be on the wait list.

7. Housing units subject to a municipal housing project facilities agreement shall not be rented or sold to the officer or director of the housing provider, or any individual not at

arm's length to the housing provider or shareholder, officer or director of the housing provider unless the housing provider is a non-profit co-operative as defined in the Co-Operative Corporations Act, R.S.O. 1990, c. C35, as amended.

8. The municipal housing project facilities agreements shall include, but shall not be limited to, the following provisions:

   a) the term of the agreement;

   b) the number of affordable housing units being provided;

   c) each affordable housing unit to be provided in the municipal housing project facility meets the definition of affordable housing set out in section 2;

   d) each housing unit to be provided shall be made available only to eligible households, in accordance with sections 6 and 7;

   e) the Region may register the agreement on title;

   f) the conditions attached to the financial or other assistance given to the housing provider;

   g) the conditions respecting the sale, transfer, mortgage, or assignment of the municipal housing project facility;

   h) the housing provider shall be required to report annually and submit documentation to the satisfaction of the Commissioners;

   i) the consequences if the housing provider fails to comply with the terms and conditions of the agreement, which may include that the housing provider pay to the Region the financial assistance that has been provided to the housing provider; and

   j) other terms and conditions satisfactory to the Commissioners and the Regional Solicitor, which may include, but which are not limited to, any and all forms of property transactions together with any and all general or specific security as the Commissioners and the Regional Solicitor consider necessary or desirable.

9. A municipal housing project facilities agreement may, with respect to the provision, lease, operation or maintenance of the municipal housing project facilities that are subject to the agreement:

   a) provide for financial or other assistance at less than fair market value or at no cost to the housing provider, which assistance may include:

      i) giving or lending money and charging interest;

      ii) giving, lending, leasing or selling property;

   b) exempt land or a portion of it on which a municipal housing project facility is or will be located from payment of all or part of the development charges imposed by the Region pursuant to the Devlepment Charges Act, 1997;

   c) subject to subsections 110(15), (17), (18) and (19) of the Act, exempt land or a portion of it on which a municipal housing project facility is or will be

located from all or part of the taxes levied formunicipal and school purposes.

10. Upon Council enacting a by-law under section 3 of this by-law, and subject to the requirements of any such by-law, authority is delegated to the Commissioners to:

    a. enter into municipal housing facilities agreements with non-profit and private developers of affordable housing.

    b. apply for and enter into agreements with the federal and provincial governments to receive provincial and/or federal financial or other support for the municipal housing project facility; and

    c. enter into agreements with area municipalities for the purposes of funding, which may include financial or other assistance, from the area municipality to the Region to facilitate the delivery of the municipal housing project facility.

11. Despite the repeal of By-law 48-2003, none of the provisions of this by-law shall impact municipal housing project facility agreements entered into under the authority of By-law 48-2003.

This by-law may be cited as the Municipal Housing Facilities By-law.

By-law 48-2003 is hereby repealed.

By-law read a first time this Xth day of X, 2022.

By-law read a second time this Xth day of X, 2022.

By-law read a third time this Xth day of X, 2022.

_____

J. Henry, Regional Chair and CEO

_____

R. Walton, Regional Clerk