Proposal to Leverage

Section 95 Properties

to

Create New Affordable

Rental Housing

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Executive Summary

Hamilton East Kiwanis Non-Profit Homes Inc. (Kiwanis Homes) is a Registered Charitable, Not-For-Profit organization which has been providing affordable housing to families in the Hamilton area since 1982. Currently Kiwanis Homes is the third largest social housing provider in Hamilton, owning and/or managing approximately 1000 units, consisting of apartment buildings, townhouses and single family dwellings. As a housing provider which focuses on providing service to families, almost all Kiwanis Homes units consist of two or more bedrooms.

Approximately 260 of the units managed by Kiwanis Homes were purchased from the federal government under Section 95 housing agreements. Two hundred and two of these units are directly owned by Kiwanis Homes while the remaining 62 units are owned by McGivney Community Homes Inc. Most of these units are single family dwellings, duplexes and triplexes primarily located in Wards 3 and 4 and within 800 metres from the new proposed LRT line. These homes are currently designated for use as rent geared to income units (RGI).

Commencing in May 2017 and stretching over each of the subsequent five years, the mortgages for these Section 95 units will be paid in full. At that time these houses will no longer be subject to the historical operating agreement with the City of Hamilton. While these units will ostensibly belong to Kiwanis Homes Inc. and McGivney Community Homes Inc. we strongly believe that they are a collective asset which can be utilized for the common benefit of the City of Hamilton in meeting its long-term affordable housing goals. Kiwanis Homes believes that these units represent an opportunity for our organizations to leverage these assets to derive sufficient financing to develop approximately 1000 new, mixed use rental units, of which at least 50% would be designated as affordable. This would equate to an investment in new affordable housing for the City of Hamilton in the amount of approximately $200 million over the next 5 to 10 years. Further, we believe that this plan can be accomplished without losing the 260 units from the city's pool of affordable housing units.

Kiwanis Homes Inc. also believes that this plan will neither require the expenditure of City funds to accomplish nor require the need for ongoing operational funding from any level of government to maintain.

Kiwanis Homes recognizes that our organization does not possess the necessary internal capacity or project management experience to effectively implement a project of this scope. We are therefore requesting the support of the City of Hamilton, as our primary partner and beneficiary of this proposal. Specifically, we are seeking assistance with the development of a plan that effectively meets the needs of all community stakeholders.

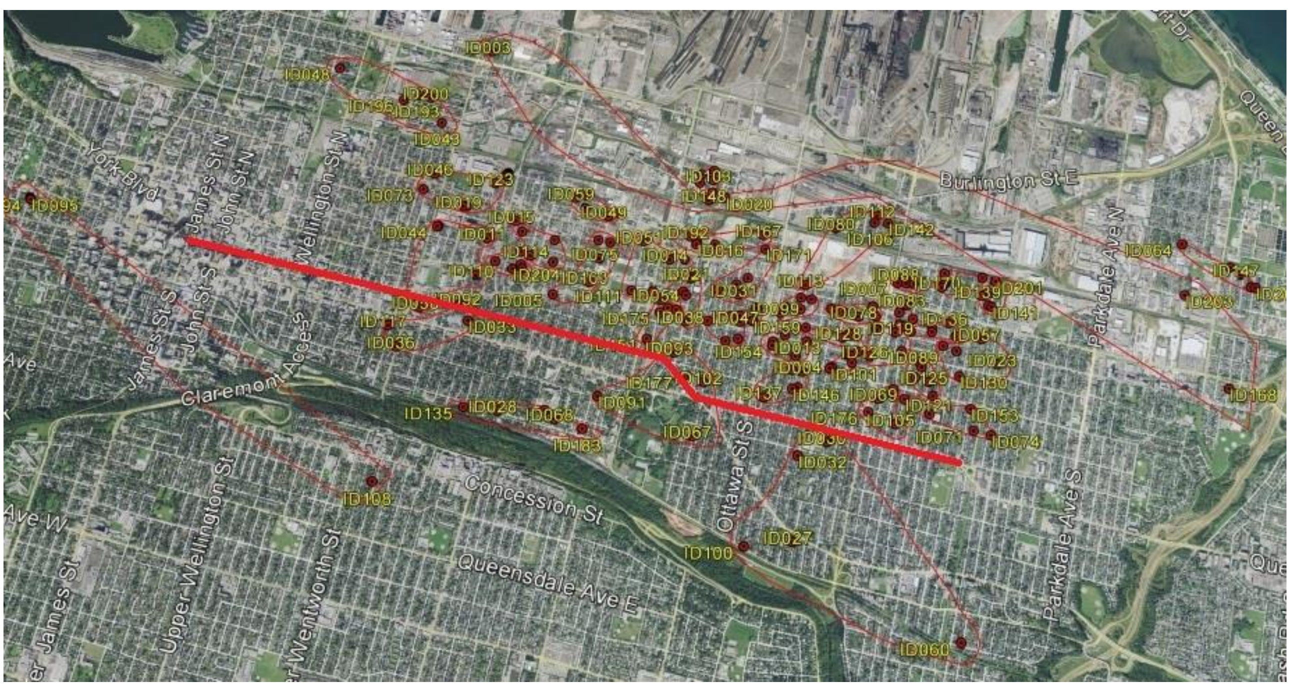
Organizational Profile:

Hamilton East Kiwanis Non-Profit Homes Inc. (Kiwanis Homes) is a Registered Charitable, Not-For-Profit organization which has been providing affordable housing to families in the Hamilton area since 1982. Currently, Kiwanis Homes is the third largest social housing provider in the Hamilton area, operating approximately 1000 units, consisting of apartments, townhouses and single family dwellings. As a housing provider which focuses on providing service to families, all Kiwanis Homes units consist of two or more bedrooms. We also offer modified and fully accessible units in many of our complexes.

In addition to managing approximately 800 of its own units, Kiwanis Homes manages an additional 185 housing units on behalf of two other local organizations: McGivney Community Homes Inc. and Ancaster Village Non-Profit Homes Inc. Approximately 260 of the units were purchased from the federal government through the Canada Mortgage & Housing Corporation (CMHC) under Section 95 housing agreements. Two hundred of these units are directly owned by Kiwanis Homes while the remaining 62 units are owned by McGivney Community Homes Inc. All other units owned or managed by Kiwanis Homes operate under the auspices of the Housing Services Act.

With the exception of a twelve unit apartment building located on Barton St. East, all of the Section 95 units are single family dwellings, duplexes and triplexes. Approximately 90% of the units are located in Wards 3 and 4, and most are within 1 kilometre from the new proposed LRT line (*refer to Figure 1*). These homes are currently designated for use as rent geared to income units (RGI) and residents are selected from the centralized social housing waiting list.

Figure 1: <u>Map of Kiwanis Homes Scattered Units with LRT Route Indicated</u>



Section 95 units were purchased with 35 year mortgages. Funding agreements were tied to directly to the mortgage expiry date. Therefore,the funding agreements relating to all Kiwanis Homes Section 95 units will expire upon full discharge of the individual mortgages.

Table 1 outlines the mortgage expiry dates by allocation for units owned by Kiwanis Homes, while Table 2 outlines the same information for McGivney Community Homes Inc.

Table 1: Mortgage Expiry Dates – Kiwanis Homes Inc.

Allocation	**Number of Units**	**Mortgage expiry date**
Allocation A01	30 9	May 1, 2017 September 1, 2017
Allocation A02	28 scattered units 06 scattered units	January 1, 2018 June 1, 2018
Allocation A03	12 apartment units	October 1, 2018
Allocation A04	49 scattered units	August 1, 2019
Allocation A05	27 scattered units	June 1, 2020
Allocation A06	41 scattered units	April 1, 2021
TOTAL:	**202 Units**	

Table 2: Mortgage Expiry Dates – McGivney Community Homes Inc.

Allocation	**Number of Units**	**Mortgage expiry date**
Allocation M02	18 scattered units	November 1, 2017
Allocation M03	44 scattered units	February 1, 2021
TOTAL:	**62 Units**	

Long-Term Organizational Assessment:

For thirty-four years Kiwanis Homes Inc. has worked within the social housing sector providing affordable housing units to individuals and families in the City of Hamilton. Many of the properties owned by Kiwanis Homes were acquired as newly built complexes. After twenty-five years of operation, however, they are beginning to show signs of wear and tear. As with many other housing providers, the organization has begun to experience significant shortfalls in revenue versus the need for expenditures on capital repairs. One need look no further than Toronto Community Housing or City Housing Hamilton to realize that these issues are endemic across the social housing landscape. Understanding the environment in which we operate and the challenges under which we are constrained, therefore, are keys to forward thinking and future planning.

The environment and challenges which Kiwanis Homes faces can be characterized as a series of crises.

1. **Crisis of Equity**
    - While we own assets of an approximate insurable value of $150 million, we are prohibited from leveraging this equity in order to raise funds internally to complete renovations.
    - The outstanding mortgages on all properties at December 2015 were $38 million. There is a potential difference of $112 million in equity which could be leveraged for ongoing maintenance and repairs.

2. **Crisis of Reserve Fund Allocation**
    - We are required to maintain reserve funds in order to complete any capital repairs which occur at our properties.
    - The funds for these capital reserves are fully derived from our municipal funding partners.
    - A review of our most recent building condition assessments suggest that we require an amount three times greater than our current capital reserves funding to maintain our units.
    - As of December 2013, our MMAH reserve fund stood at approximately $1,250,000. As of December 2015 this same reserve fund stood at approximately $900,000. .
    - This situation is further exacerbated by the impending requirement for us to complete some fairly substantive health and safety repairs to one of our buildings.
    - At this rate of expenditure, this fund will be depleted within two years.

3. **Crisis of Segmentation**
    - While our MMAH reserve is approaching a crisis situation, globally Kiwanis Homes continues to possess $3.5 million in reserve funds.
    - This amount is allocated across five different reserve funds, access to which is limited to the specifically assigned portfolio.
    - For our MMAH portfolios, our annual reserve fund shortfall is approximately $380,000. Across all portfolios, however, this shortfall drops to $38,000 annually.
    - Essentially, while we likely have the funds to accommodate significant repairs, we cannot utilize them where they are most needed.

4. **Crisis of Funding**
    - Kiwanis Homes' Hamilton properties are solely funded from a single funding source: the City of Hamilton.
    - Fund allocations are based on provincially imposed benchmarks which may or may not reflect the local fiscal realities.

- There are both positive and negative aspects to this. For example, our actual annual expenditure for insurance is less than the allocation we are given. On the other hand, pest management costs have risen substantively higher than what is allocated.
- Budgeting, therefore is based on responding to externally imposed values and deferring work until it is absolutely necessary.

5. Crisis of Infrastructure

- There have been no new developments by Kiwanis Homes in approximately twenty years.
- All investment has been limited to repair and upkeep of existing facilities.
- The majority of our portfolios are older than 25 years of age. This means that they are showing significant signs of wear and are not energy efficient.
- Much of our CMHC portfolio consist of single family dwellings which are low density and are high cost to maintain.

6. Crisis of Revenue Generation

- As a result of our status as a 100% RGI social housing provider, our capacity to pursue alternate revenue streams is significantly limited as all new tenants must be taken from the ATH centralized waiting list.
- While research suggests that "housing first" models of interventions are the most effective and cost-effective interventions for a variety of issues, we cannot develop formal partnerships with support service organizations to provide housing on an as-needed basis. This precludes us from accessing any alternate revenue streams to assist us in making up for funding shortfalls.
- Our inability to derive or access any other revenue streams means that we are entirely dependent on the decisions external groups make for any extraordinary expenses which arise.

Conclusion:

Without a significant systemic change to the social housing framework, we project that Kiwanis Homes will experience significant financial challenges within the next three to five years similar to those currently being experienced by other larger municipal social housing providers. The roughly two hundred Section 95 units owned by Kiwanis Homes represent a potential "game changer" to this assessment as they represent the lone significant asset which can be leveraged by the organization to counter this ongoing systemic funding shortfall.

Affordable Housing as a Viable Option to Rent-Geared-to-Income:

At present the 202 units operated by Kiwanis Homes have been benchmarked by the City of Hamilton, effectively making them de facto HSA units. This was a very positive action at the time and facilitated Kiwanis Homes in its capacity to maintain the units, as it solidified the funding base. Without this action it is doubtful that many of the units would currently be in a habitable state. While there is no question that the intervention by City of Hamilton staff was instrumental in assisting the organization in remaining viable, as the operating agreements expire on these units over the next five years the question changes from "how do we maintain these units" to "how can we most effectively leverage these assets for long-term community benefit?"

By way of explanation, the definition of affordable housing is based on the level of rent that is charged for the unit. This calculation is based on a comparison of the average market rent in a particular area. A rent which is at the 80th per centile of average market rent level, therefore, is considered affordable. What is defined as affordable, however, may vary from city to city. For instance, as rents are generally higher in Toronto, so would the level of affordable rent.

The rent levels presented in Table 3 represent the 80th, 65th and 50th rent percentiles for Hamilton in 2016, which are referred to as Levels 1, 2 and 3 respectively. On a cautionary note, this information is garnered from CMHC, which reports information based on census data for the Greater Hamilton area which may include Burlington and Grimsby. The figures specific to the City of Hamilton may be somewhat different.

Table 3: CMHC 2016 Affordable Rent levels for Hamilton

Bachelor/Studio			1 Bedroom			2 Bedroom			3+ Bedroom		
Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
690	629	595	985	850	762	1,250	1,100	968	1,574	1,331	1,205

The funding revenue derived by Kiwanis Homes during 2015 for our Section 95 portfolio was as follows:

Revenue	
Residential rents	1,110,780
Government subsidy	1,123,998
Other	1,608
Total:	2,236,386

The mortgage related expenses for the period are $462,813. Therefore once all mortgages are paid in full the required annual revenue would be $1,773,573 in 2015$.

Table 4 below breaks down this revenue on a per-unit basis.

Table 4: Current Per-Unit Revenue based on 2015 Audited Financial Statement

Total Annual Revenue:	2,236,386
Number of CMHC Units:	202
Average Per Unit Allocation:	11,070
Average Monthly Per Unit Allocation:	923
Average Monthly Per Unit Required with mortgage payment excluded:	732

In a nutshell, in order for Kiwanis Homes to maintain a level of funding at an equivalent level to that which we currently receive from the City of Hamilton, we would be required to charge an average monthly rent of $732. When we further factor in the information that all Kiwanis Homes units are two bedrooms or larger, then an average return of $732 is actually well below the Level 3 category of affordability.

As previously stated, at present this portfolio has been benchmarked as RGI. The transition from RGI to affordable housing, therefore, may well impact the residents currently residing in these units. A survey of the Kiwanis Homes portfolios however suggests that 100 or 50% of the units are currently already paying market rent. Based on this fact, the transition process could likely be coordinated in an orderly manner over the next five years.

In fact, if we consider the ODSP shelter allowance as outlined in Table 5, many of our RGI tenants may be able to transition to affordable housing without the need for any additional subsidy beyond the maximum shelter allowance.

Table 5: ODSP Maximum Monthly Shelter Benefit

Benefit Unit Size:	**Maximum Monthly Shelter Allowance**
1	479
2	753
3	816
4	886
5	956
6 or more	990

Conclusion:

The option of transitioning the Section 95 housing stock from the current 100% RGI status to an affordable housing project could be accomplished without compromising current revenue levels and likely creating the opportunity of increasing long-term potential revenue. This would be accomplished without the need for ongoing operational subsidies from the City of Hamilton.

Feasibility of Development of New Affordable Housing Properties:

Transitioning the Section 95 units from RGI to affordable housing may lead to increased operational revenue but will not derive sufficient revenue to create new rental properties. To accomplish this goal we will need to leverage the assets through sale or refinance.

We have outlined a number of potential options which would create the opportunity to generate funds for investment in new residential development.

1. **First Time Affordable Home Buyers Program** – As recently as last year, the City of Hamilton operated a down payment assistance program. The specifics of the program were:
   - Applicants had to have a combined income less than $75 000.
   - Applicants also had to be pre- approved for a mortgage and be renting in Hamilton for at least 6 months.
   - 22 homes were purchased.
   - Average price of home purchased was $206, 000.
   - Average income of participants was $51, 000.

   Kiwanis Homes is presenting the option that a similar initiative could be provided to current residents of social housing providers. The sale of units would be facilitated through the provision of a 5% forgivable down payment by Kiwanis Homes, the City of Hamilton and/or other funding partners. The monthly payment on a $190,000 mortgage is $999. This equates to a Category 3 level of affordability for a two bedroom home.

   Pros:
   - This plan would preserve affordability of all units by transferring affordable rental units to affordable home owner units.
   - The social housing units freed up through home ownership could be utilized to accommodate families displaced through the sale of the property.
   - The program could be implemented without the requirement for the investment of any funds by the City of Hamilton.
   - The plan could result in an increase in of up to 1000 new rental units in Hamilton over the next 5 to 10 years.
   - The initiative would not adversely affect the ATH waiting list.

   Cons:
   - Kiwanis Homes and/or its partners would be required to retain $2 million in forgivable down payment loans. The net revenue derived from the project to invest in new development would be lessened by this amount.
   - Some families may be displaced although will likely not lose their RGI status.

2. **Sale of units at market value** – While this is not a preferred option of Kiwanis Homes, there appears to be some external traction with the concept of selling single family dwellings to reinvest in higher density housing units.

   If an average sale price of $200,000 per unit was derived through this process, a cumulative total of $40 million raised. This revenue could like be leveraged to borrow an additional $120 million, bringing the total revenue available to invest in redevelopment to approximately $160 million. By way of comparison, the total insurable value of the entire Kiwanis Homes' 800 unit housing portfolio is approximately $150 million.

   Pros:
   - The plan would maximize the revenue generated from these assets.
   - A greater amount of funds could be reinvested in developing a greater number of new rental units.

   Cons:
   - The City of Hamilton would lose these units from its pool of affordable homes.
   - The sale of the units will adversely affect the number of units available for RGI.
   - All families currently residing in these units will be displaced.
   - The open sale of this number of units in a confined geographic area will likely have unforeseen impacts on property values.
   - The initiative will have a negative impact on the ATH waiting list.

3. **Remortgage of Properties** - through the remortgaging of these properties. If all 202 units were remortgaged to a level of $50,000, the organization would acquire $10 million to invest in new development. The impact of this remortgage would result in an increased per unit cost of $263 per month. This would take the average breakeven rent cost from $732 to $995/month. This amount is still at or below the Level 3 category of affordability in most cases.

   Pros:
   - This plan would preserve affordability nature of all units.
   - No units would be lost as affordable housing.

   Cons:
   - The gross revenue derived from this initiative would be significantly lessened thereby creating fewer new rental units.
   - The level of affordability would decrease significantly in order to service the debt.
   - A number of families will likely be displaced due to an inability to accommodate the higher breakeven rent level.
   - The initiative will have a negative impact on the ATH waiting list.

4. Private/Non-Profit Development Partnership

It is doubtful that the City of Hamilton's long-term affordable housing targets can be accomplished without some degree of private sector investment. There is however a financial dissonance between the goal of private development (wealth creation/return on investment) and affordable housing (housing security). Without significant front-end development incentives, therefore, it may be difficult to recruit private partners.

Kiwanis Homes has explored the possibility of partnerships with private developers with the view of sharing development costs based on a joint ownership partnership. This alternative would focus on the development of mixed usage projects with 70% to 75% of the units being market rent units and 25% to 30% being designated as affordable units. The investment of Kiwanis Homes' funds would decrease the amount of financing required to build the development, thereby, allowing for the maintenance of long-term affordable units.

For example:

A 100 unit project costing $20,000,000 would require a minimum equity investment of $1,000,000

If we assume annual operating costs of 500,000, this would equate to the following revenue levels to service the debt and all operating costs: 138,545/month = $1385 avg. rent/unit

If the amount of equity invested was raised to $5,000,0000 the amount of revenue required to service the debt would be as follows: 118,200/month = $1182 avg. rent/unit.

This would equate to an average of Level 2 affordability for 2 bedroom units and Level 3 affordability for 3 bedroom.

As property management duties could also be provided by Kiwanis Homes, this could realize an additional $45,000 in revenue for property management fees.

Pros:

- This plan would create new mixed-use affordable housing units across a broader spectrum of the city.
- This initiative would complement any of the options presented above.

Cons:

- The level of complexity for partnership agreements could lead to long-term issues.
- Partner buyout clauses may affect the number of affordable units on the long-term

Variations on a Theme:

1. **Community Land Trust (CLT)** – CLT's provide an alternative as a way of maintaining long-term affordability of housing units while still raising funds for redevelopment. Essentially the land and the improvements on the land would be considered separate products. The revenues or incentives derived through the disposal of the land or the improvements on the land can be reinvested in new development.

   By having the land administered by a CLT, limitations can be potentially be placed on the amount of profit that the owner of the improvements can derive from their resale. A secondary benefit is that a potential buyer would only need to obtain financing to purchase the improvements to the land and not for the purchase that land itself, thereby further increasing affordability.

2. **Donation of Land by the City of Hamilton for Affordable Housing Development** – Similar to the CLT option, should the City of Hamilton make city owned land available for affordable housing development at no or limited cost, the amount of financing required to develop new units would be significantly lowered. If we assume that approximately 25% of the cost of any new development is associated with the acquisition of land, lowering this cost will consequently serve to lower the per unit cost of the development.

3. **Lease of City-Owned Land** – Rather than donating or selling city-owned land, the City of Hamilton could choose to retain ownership and lease the land for development purposes for a fixed period of time. Once the lease term expires, the land and improvements on the land would revert to the city. From a financing perspective, a 99-year lease appears to be considered similarly to ownership by lending institutions, while a 60-year lease, though still potentially acceptable would have an impact on the level of financing.

Conclusion:

Single family dwellings are not an ideal alternative for affordable or social housing units. They are fundamentally low density and require higher per-unit ongoing maintenance costs. Conversely, they have potentially the highest rate of return per bedroom on the real estate market. These two factors alone would suggest that divesting the stock of single family dwellings likely makes the most economic sense.

The sale of social housing units does, however, have a broader social impact on our community that cannot be ignored. We recommend striving to balance these two somewhat conflicting priorities. This would be accomplished by the sale of these units to current residents of social housing. Should all units not be sold through this process, consideration can be given to other priority community groups or organizations.

While this may not result in the greatest return on these units it will likely result in the lowest social impact for the affected neighbourhoods and families.

Conclusions:

Over the past 35 years, Kiwanis Homes has capably stewarded our assets to provide affordable housing to the residents of the City of Hamilton. This was initially completed in partnership with the Government of Canada, then the Province of Ontario and most recently with the City of Hamilton. These homes could not have been maintained and these families housed without a close, collaborative partnership with each of these levels of government.

While these units ostensibly belong to Kiwanis Homes Inc. we strongly believe that these units are a collective asset for our partners and the community. They are a potential resource which can be utilized for the common benefit of the City of Hamilton in meeting its long-term affordable housing goals.

Kiwanis Homes believes that these units represent an opportunity for our organization and the City of Hamilton to leverage these assets for investment in new, mixed use, affordable housing units. If both Kiwanis Homes and McGivney Community Homes Inc. were to participate in this initiative, we could derive investment in new affordable housing for the City of Hamilton in the amount of approximately $200 million over the next 5 to 10 years. Further, we believe that this plan can be accomplished without losing the 265 units from the city's pool of affordable housing units.

Kiwanis Homes Inc. also believes that this plan will neither require the expenditure of City funds to accomplish this plan nor require ongoing operational funding from any level of government to remain sustainable.

Kiwanis Homes recognizes that our organization does not possess the necessary internal capacity or project management experience to effectively implement a project of this scope. We are therefore requesting the support of the City of Hamilton, as our primary partner and beneficiary of this proposal. Specifically, we are seeking assistance with the development of a plan that effectively meets the needs of all community stakeholders.

Respectfully Submitted by:

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