




CITY OF HAMILTON
HEALTHY AND SAFE COMMUNITIES DEPARTMENT
Housing Services Division

TO:	Mayor and Members Committee of the Whole
COMMITTEE DATE:	April 8, 2020
SUBJECT/REPORT NO:	Municipal Incentives for the 90 Carling Street Rental Project (HSC20009) (Ward 1)
WARD(S) AFFECTED:	Ward 1
PREPARED BY:	Kirstin Maxwell (905) 546-2424 Ext. 3846 Greg Witt (905) 546-2424 Ext. 4818
SUBMITTED BY:	Edward John Director, Housing Services Division Healthy and Safe Communities Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That Hamilton 90 Carling Street Municipal Housing Project Facilities By-Law, attached as Appendix “A” and Term Sheet for Municipal Housing Project Facilities Agreements – 90 Carling Street, attached as Appendix “B” to Report HSC20009, regarding Municipal Incentives for the Carling Street Rental Project, be approved contingent upon 1649626 Ontario Inc. obtaining funds from Canada Mortgage and Housing Corporation in the amount of \$5.68 M;
- (b) That, upon execution of one or more Municipal Housing Project Facilities and Loan Agreements between the City and 1649626 Ontario Inc.:
 - (i) The City Solicitor be directed to register the Premises as defined in the Municipal Housing Project Facilities and Loan Agreements; and,
 - (ii) The cost of the financial incentives, in the amount of the planning application fees and building permit fees, as identified in the Municipal Housing Project Facilities and Loan Agreements, be charged to Project ID 6731741609;
- (c) That the by-law to amend Municipal Housing Facilities By-Law No. 16-233, attached as Appendix “C” to Report HSC20009, be approved.

EXECUTIVE SUMMARY

1649626 Ontario Inc. ("1649626") is planning to develop a 7-storey mid-rise rental apartment building with 100 residential units (34 one-bedroom, 12 one-bedroom plus den, 40 two-bedroom and 14 three-bedroom suites) at 90 Carling Street. A total of 10 units will be affordable rental units. The project will include bicycle storage, a fitness facility, roof-top patio, meeting room, and storage lockers.

This report seeks Council's authority to enter into one or more Municipal Housing Project Facilities and Loan Agreements ("MHPFAs") with 1649626 to enable the provision of financial incentives to make 10% of the units affordable.

Staff recommend that the City provide a set of incentives valued at \$34,634 for the project. In exchange, 1649626 will construct and maintain 10 rental housing units that will remain affordable for 15 years at 125% CMHC Average Market Rent (AMR). The total cost of the affordability to 1649626 will be \$750 K (net cost of \$715 K). This City contribution will leverage an estimated contribution from CMHC of \$5.68 M.

If 1649626 does not receive the financing conditions from CMHC required for the project, the proposed incentives may not proceed.

The value received by the city for this project is not only in the affordable units, but the addition of rental units to the housing stock and the increase in property taxes for the new building.

Alternatives for Consideration – See Page 9

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial:

Table 1: Summary of Incentives – Total Value

Incentive	Total Value	Type
Building Permit Fee Offset	\$15,740	Forgivable Loan
Planning Approval Application Fee Offset	\$1,019	Forgivable Loan
Cash-in-Lieu of Parkland Dedication Exemption	\$17,875	Forgivable Loan
TOTAL VALUE	\$34,634*	

*Figures are estimates based on staff consultation with the City of Hamilton's Corporate Services and Planning & Economic Development Departments

Planning Fee and Building Permit Fees Forgivable Loan

Planning application fees (for Site Plan Approval) and building permit fees for the affordable units total approximately \$16,759. The proposed incentive is in the form of a forgivable loan with terms as set out in Appendix “B” in lieu of the terms contained in the City’s External Loan Guidelines, with the costs of the planning application fees and building permit fees being offset by funds from Project ID 6731741609.

Cash-in-Lieu Parkland Dedication

The required Cash-in-Lieu of Parkland Dedication for the affordable units at 90 Carling St. is approximately \$17,875. While Cash-in-Lieu of Parkland Dedication can be exempted without an offset, the amount will be added to the mortgage registered on title to secure compliance with the terms of the agreement, which are set out in Appendix “B” attached to this Report.

Staffing: N/A

Legal: Ideally the registration of the MHPFAs 1649626 on the title of the property would ensure that any sale of the Property would be subject to the MHPFAs. However, the Land Registry Office may refuse to register the agreements. Accordingly, this report provides for an amendment to subsection 5(d) of By-law No. 16-233 to add wording that the requirement to register the MHPFA’s on title is at the discretion of the Land Registry Office.

A forgivable loan in the dollar amount of the incentives will be secured by a collateral mortgage registered on title to provide an incentive that the terms of the agreement are met for the duration of the affordability commitment, demonstrated through annual reporting to the Housing Services Division.

The key terms of the agreement are attached as Appendix “B” to Report HSC20009 and will form the basis of the agreement. The agreement will be in a form satisfactory to the City Solicitor and content satisfactory to the General Manager, Healthy and Safe Communities Department. The terms of the agreement include the forgivable loan. Loan terms have been set to maximize the number of affordable housing units while ensuring the project remains viable.

HISTORICAL BACKGROUND

In 2013, Council approved the City’s 10-year Housing and Homelessness Action Plan (“Action Plan”) which sets a development target of 300 new affordable rental units per year to meet population increases. Hamilton is currently not meeting its targets.

In 2014, 1649626 reached out to Housing Services Division staff exploring opportunities to develop an affordable housing project at 90 Carling Street. 1649626 has been committed to building rental project affordable units since that time, but it is only now that, with municipal incentives and the CMHC Rental Construction Financing Program, such a project can be financially viable.

On August 5, 2019, 1649626 applied to the Canadian Mortgage and Housing Corporation's (CMHC) Rental Construction Financing Program. The application was developed with the support of the Housing Services Division and is awaiting a final decision. Council's decision on the proposed incentives forms part of the application.

On October 31, 2019, 1649626 purchased the 90 Carling Street property.

On November 19, 2019, 1649626 applied to the Canadian Mortgage and Housing Corporation's (CMHC) SEED funding Program. The application was developed with the support of the Housing Services Division and is awaiting a final decision.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Housing and Homelessness Action Plan

Hamilton has an undersupply of affordable rental housing units. To address its housing crisis, the Council endorsed a 10-Year Housing and Homelessness Action Plan with the first outcome area to increase the supply of affordable housing. The City is currently falling below its targets for development of new units.

Municipal Act, 2001

Under the *Municipal Act, 2001*, s. 106, municipalities are not permitted to provide financial benefits to commercial enterprises, which is called bonusing. There are two legal mechanisms by which municipalities can provide incentives in certain circumstances, such as for affordable housing: a Community Improvement Plan adopted under the *Planning Act*, and a Municipal Capital Facilities agreement. Staff recommend the second mechanism for the 90 Carling Street project as it can be site specific.

The *Municipal Act, 2001* authorizes a municipal council to enter into agreements with commercial organizations for the provision of municipal capital facilities to provide assistance which may include: giving or lending money and charging interest; giving, lending, leasing or selling property; guaranteeing borrowing; providing the services of employees of the municipality; and exempting from all or part of the taxes levied for municipal and school purposes land or a portion of it on which municipal capital facilities are or will be located.

This authority can be applied to various classes of municipal capital facilities, including municipal housing project facilities to provide affordable housing. This approach is used by other Ontario municipalities, including the City of Toronto, to incentivize the development of affordable rental housing by the private sector.

To deem a property or portion of a property a municipal housing project facility, in this case 20 of the 100 units, the units must meet the definition of affordable rental housing in the City's Municipal Housing Facility By-law No. 16-233. The by-law requires rents to be at or below 125% of CMHC AMR for a minimum of 15 years. Only the units that meet the by-law requirements can be included in the municipal housing project facility. To enter into a municipal capital facility agreement for affordable housing, referred to as a municipal housing project facilities agreement, the *Municipal Act, 2001* requires that Council pass a by-law permitting the City to enter into the agreement.

RELEVANT CONSULTATION

Corporate Services Department - Legal Services Division ("Legal")
Legal staff have provided advice and assisted in the development of all documents pertaining to this report. Legal will continue to assist with the development of the municipal housing project facilities agreement, mortgage registration, and aspects of administration of the agreements.

Corporate Services Department – Taxation Division ("Taxation")
Taxation was consulted regarding the development of the alternative option of providing tax exemptions.

Corporate Service Department – Financial Planning, Administration, and Policy Division ("Finance")
Finance reviewed this report and confirmed the financial components.

Planning & Economic Development – Development Planning Division ("Planning")
Planning has worked with 1649626 collaboratively to assist the developer in navigating the planning process. Planning provided advice in the development of this Report.

1649626 Developments
The proposed incentives were negotiated with 1649626.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Test Case for Private Sector Investment in Mixed Market/Affordable Rental Housing Development

While Hamilton's non-profit housing has successfully built the substantive number of 1,011 affordable housing units over 15 years and are committed to aggressive plans to

build many more, participation of the private sector is also necessary to tackle Hamilton's affordable housing crisis. Leveraging private sector investment and expertise can not only create even more units than the non-profit sector alone but can also create units that meet different needs.

This project is therefore an ideal, small-scale test case for promoting private investment in affordable rental housing. A City investment of approximately \$35 K can leverage private sector funds and federal funds through the CMHC Rental Construction Financing Program, to produce a mixed income rental development of 100 units, 10 of which are affordable, in an area of the city most in need of purpose built rental units and affordable housing. The project will be evaluated on the basis of its financial viability, the CMHC Co-Investment funding it receives, the success of the tenant selection process, and the annual review.

Financial Challenges of Rental Construction

Rental housing construction is not viable in Hamilton without some form of subsidy or uniquely advantageous financial conditions. Even with today's favourable interest rates and high market rents, the costs of labour, land, materials, charges, fees, and taxes exceed projected revenues. Lenders do not finance projects that are not financially viable. Demand for rental units has far surpassed the development of new units. In the 1990's, 3,249 rental units were built in Hamilton; over the past decade only 1,465 rental units have been built.

For rental housing developers who intend to offer units at below market prices, rental revenues are fixed and suppressed below market rates. This creates a significant financial gap. The value of leveraging private sector developers for affordable housing projects is that under the right conditions, they can close this gap over the long run; however, they need a subsidy to maintain affordable rents over the short term. Returns on equity are achieved at a slow pace, typically over 15 to 20 years.

CMHC Rental Construction Financing Program Requirements for Municipal Incentives

The 1649626 project is only viable as a result of CMHC's Rental Construction Financing Program in concert with municipal incentives. This program provides favourable financing to viable rental construction projects that have municipal support for affordable units and meet certain conditions for size, affordability, accessibility, environmental sustainability, and transit access. Successful proponents are determined on a points system whereby the more points a project receives, the more favourable the financing conditions in terms of interest rate, Loan-to-Value, Debt Coverage Ratio, etc. requirements.

The most favourable financing terms are awarded to projects approved "under another affordable housing program or initiative (federal, provincial, territorial or municipal). This

can include capital grants, municipal concessions or expedited planning processing.” The more municipal concessions the project receives the more points they obtain under the program, the better the financing conditions, the more units that can be offered at affordable rents and for a longer period. With the suite of municipal concessions proposed, 1649626 can provide 10 units, 10% of the project, at 125% of AMR, for 15 years.

The project was awarded an ERASE Redevelopment Grant, but the agreement expired in 2017. The proponents are expected to reapply for the grant which would also be considered a municipal concession for the purposes of the CMHC financing, but the value of the potential grant is unknown at this time.

CMHC is estimated to contribute a total of \$5.68 M to the project over the first 10 years in capital grants and the cost of providing financing at below market interest rates.

CMHC is also providing a higher level of financing than is available in the market which increases their risk. A modest City contribution can leverage significant contributions from the private sector and CMHC.

Costs and Risk Assumed by 1649626

By providing an additional 100 units of purpose-built rental housing stock in Westdale, the project will assist with some of the challenges resulting from the demand for student housing. As a mixed income building intended to provide housing for a diversity of people, including seniors and some students, the project will reduce stigma and improve acceptance of affordable housing.

1649626 is also taking on significant risk by pursuing this project. Rental housing development of any sort is risky, with margins too low to absorb significant unexpected costs or market shifts. Even small increases in interest rates in the multiple years between the development of the pro forma and construction completion have significant financial implications. Risk is high at the present time with reports of construction costs increasing by approximately 1%/month. Interest rates are declining in the wake of the Covid-19 crisis, but the impacts on construction costs are unclear. It is 1649626's long-term vision, willingness to defer financial reward, and commitment to the community that has created their persistence, and the depth of their financial and market knowledge, and ingenuity, that has made this project possible.

For the above reasons, rental construction with affordable units initiated by the private sector is rare. Private sector developers frequently approach staff about potential affordable rental housing projects, but when they realize the financial realities of affordable rental projects, communications generally stop.

Tenant Selection for the Affordable Units

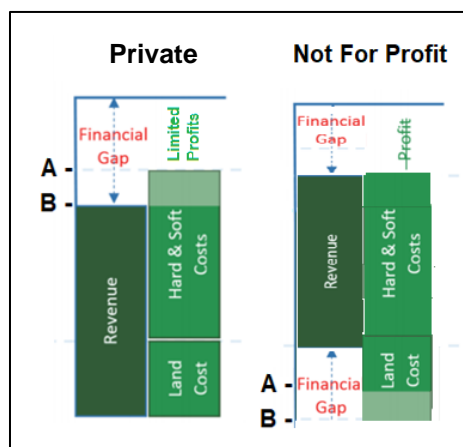
1649626 will receive referrals for tenants of the affordable units first from the Housing Services Division, with the target market being tenants living in Rent-Geared-to-Income (RGI) units in social housing in Hamilton who are currently paying market rent. This will free up RGI units for households on the wait list.

CMHC AMR is based on existing tenancies and is thus substantially less than average rents at turnover. A professional third-party appraisal based on comparable units estimated that one-bedroom units in the 1649626 project would rent for approximately \$1,550 on the open market, which is \$250 more than 125% AMR for the housing market zone, \$350 more than 125% AMR for the whole city. Units at these rents are in short supply in Hamilton and bridge the gap between market rents in social housing and rents in the private market.

Making the Case for Providing Tax Exemptions for Affordable Units

Figure 1 illustrates the difference between the challenges faced by private sector and not-for-profit developers when constructing affordable housing projects. The gap between point A and point B highlights these differences. To explain, non-profit affordable housing developers are typically subsidized through capital grants and development charge exemptions as they are undercapitalized during the pre-development period and need access to capital to leverage financing for construction. Tax exemptions are a more suitable incentive for private sector affordable housing developers as, while they often have access to sufficient development capital, they need assistance to make affordable rents viable for the long term. In either case, returns on equity are achieved at a slow pace, typically over 15 to 20 years.

Figure 1 – Differentiating Between the Financial Gaps in Private Sector and Not-For-Profit Affordable Housing Developments



It is important to entice private sector investment in affordable housing which includes exploring a full range of approaches such as tax exemptions. With the very limited amount of funding available for affordable housing development and repairs, Housing Services Division staff do not recommend utilizing its existing budget at this time; however, tax exemptions are a viable approach to creating affordable housing and Council could choose to identify a budget source to support them.

Conclusion

This is a test project with the goal of creating a replicable successful model for private sector investment in affordable rental housing. The project is dependent on City financial support that is a fraction of the total CMHC contribution of approximately \$5.68M. The CMHC Rental Construction Financing Program is a nation-wide opportunity, and project viability is more challenging in Hamilton than many other municipalities. If Hamilton is to see other private sector rental projects with affordable units, the City must be supportive of such projects.

As a mixed-income development, the proposal would also serve to address the stigma and foster the overall acceptance of affordable housing developments.

ALTERNATIVES FOR CONSIDERATION

Council could provide a more robust range of incentives such as a property tax exemption for the affordable units, under the Municipal Housing Project Facilities By-law and agreement. In exchange, the City could receive a total of 20 affordable units for an affordability period of 15 years.

Pro:

By Council approving the tax exemption as an additional incentive, the City would receive an additional 10 affordable units for a period of 15 years.

Con:

By Council approving the tax exemption as an additional incentive, the City would incur costs in the form of forgone tax revenue estimated at \$696 K over 15 years based on 2019 tax amounts; \$604 K in municipal taxes, and \$92 K in provincial education taxes. Only the municipal portion would be forgone revenue to the City for which a funding source would need to be identified, but the education portion would be forgone revenue to the Province with no financial impact on the City. Property taxes would remain fully payable on the 80 market rent units that are also being developed.

SUBJECT: Municipal Incentives for Affordable Housing Units in the 90 Carling Street Project (HSC20009) (Ward 1) - Page 10 of 11

Financial:

Table 2: Summary of Incentives – Total Value

Incentive	Total Value	Type
Building Permit Fee Offset	\$31,480	Forgivable Loan
Planning Approval Application Fee Offset	\$2,038	Forgivable Loan
Cash-in-Lieu of Parkland Dedication Exemption	\$35,750	Forgivable Loan
Municipal Property Tax Exemption 15 years*	\$695,792	Exemption
TOTAL VALUE 15 YEARS	\$765,060**	

*Figures are estimates based on staff consultation with the City of Hamilton's Taxation Division, Corporate Services Department

**Calculated based on 2019 figures, not net present value

Staffing: N/A

Legal: The are no additional legal implications for this option. For a full description of legal implications, see page 3.

Should this option be approved, the City Clerk would be required to:

- (i) Notify the Honourable Bill Morneau, Minister of Finance, in writing, of Council's approval to exempt eligible affordable housing units in the 1649626 Ontario Inc. 90 Carling Street project from taxation; and,
- (ii) Notify the Municipal Property Assessment Corporation (MPAC) and the secretaries of any affected school boards of Council's approval to exempt eligible 1649626 Ontario Inc. housing units at 90 Carling Street from taxation.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

Healthy and Safe Communities

Hamilton is a safe and supportive City where people are active, healthy, and have a high quality of life.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

Built Environment and Infrastructure

Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report HSC20009: Hamilton 90 Carling Street Municipal Housing Project Facilities By-law

Appendix “B” to Report HSC20009: Term Sheet for Municipal Housing Project Facilities and Loan Agreements between the City of Hamilton and 1649626 Ontario Inc.

Appendix “C” to Report HSC20009: By-Law to Amend the Municipal Housing Facilities By-law No. 16-233