



**CITY OF HAMILTON**  
**HEALTHY AND SAFE COMMUNITIES DEPARTMENT**  
**Housing Services Division**

<b>TO:</b>	Chair and Members Emergency and Community Services Committee
<b>COMMITTEE DATE:</b>	September 21, 2023
<b>SUBJECT/REPORT NO:</b>	Housing Charge and Operating Subsidy for 272 Caroline St. S. Housing Co-operative Inc. (HSC23059) (Ward 2)
<b>WARD(S) AFFECTED:</b>	Ward 2
<b>PREPARED BY:</b>	Carin Finch (905) 546-2424 Ext. 4837 Brian Kreps (905) 546-2424 Ext. 1782
<b>SUBMITTED BY:</b>	Michelle Baird Director Housing Services Division Healthy and Safe Communities Department
<b>SIGNATURE:</b>	<i>Michelle Baird</i>

**RECOMMENDATIONS**

- (a) That the City enter into an agreement for housing charge supplements for 10 households and an operating subsidy for 272 Caroline St. S. Housing Co-operative Inc. on such terms and conditions as provided for in the Term Sheet attached as Appendix "A" to report HSC23059 along with any ancillary documentation and amendments in a form satisfactory to the City Solicitor and the General Manager, Healthy and Safe Communities Department, or their designate be authorized and directed to execute and administer the agreement; and,
- (b) That an increase to the 2024 Housing Service division budget of \$122K to support 10 housing charge supplements and an operating subsidy for 272 Caroline St. S. Co-operative Inc. be referred to the 2024 Tax Operating Budget process.

**EXECUTIVE SUMMARY**

Built in 1936, 272 Caroline St. S. is a privately-owned rental three-storey walk-up building consisting of 21 units. The majority of the tenants have resided there for a number of years, and they have benefited from rent control keeping their rents at a reasonable rate.

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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.

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In December 2022, the tenants learned that the building had been put up for sale and they banded together to form a tenant association. They were concerned that a private developer would purchase the building and increase rents significantly. They developed a plan to purchase the building and operate it as a non-profit housing co-operative that would offer affordable rents.

The tenants pooled some of their own money for the down payment on the purchase of the building. They are also receiving financial contributions from the Hamilton Community Foundation, Community Housing Transformation Centre, and philanthropic community supporters. They partnered with the Co-operative Housing Federation of Canada, as well as the Golden Horseshoe Co-op Federation to assist them in incorporating as a Co-operative and in the acquisition of the building.

In April 2023, 272 Caroline St. S. Co-operative Inc. (the Co-op) signed an agreement of purchase and sale with the current owner and have until April 2024 to close the deal. They have already completed an appraisal, title report, a building condition assessment, a structural engineering assessment, an environmental assessment, as well as a designated substance survey.

In order for the Co-op to make the operating budget work, the project requires an annual subsidy of \$62K. This is the result of the small equity contribution they were able to contribute, the high cost of borrowing and the operating costs associated with the building. In order to reduce the housing charges on 10 of the units to Rent-Geared-to-Income levels, they need supplements valued at approximately \$60K annually.

**Alternatives for Consideration – See Page 5**

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial:

Based on the proforma provided for the Co-op, the project will require an operating subsidy of \$62K to be sustainable. This operating subsidy will generate net operating income equal to 5% of revenues that will be directed to reserves to support fluctuations in operating costs while agreements are reviewed. This operating subsidy is contingent upon also providing housing charge supplements. This is estimated to be \$60K calculated as the shortfall of current rents collected by tenants, who are considered Rent-Geared-to-Income (RGI) eligible, and Average Market Rent (AMR). Both the operating subsidy and housing charge supplements are recommended to be referred to the Housing Services 2024 tax operating budget.

Staffing: Not Applicable

Legal: None

## **HISTORICAL BACKGROUND**

272 Caroline Street South is a privately-owned building that was put up for sale. The existing tenants banded together to form a tenant association, in order to purchase the building, and incorporate it as a not-for-profit housing co-op.

On March 29, 2023, the association was officially incorporated as 272 Caroline St. S. Housing Co-operative Inc. (the Co-op).

The Co-op signed an agreement of purchase and sale with the owner of the building and negotiated a 12-month closing period (ending February 2024).

The Co-op has completed their due diligence items and have completed a proforma in order to ensure their financial viability.

The tenant association has also managed to secure funding to cover the cost of the due diligence fees, as well as part of their down payment.

At the June 15 meeting of the Emergency and Community Services Committee a motion was approved to provide a forgivable loan in the amount of \$84,000 to the Co-op from the Ward 2 Special Capital Reinvestment Reserve (108052) for the purpose of providing down payment assistance for the purchase of the property municipally known as 272 Caroline Street South Hamilton and to be paid upon the closing of the sale of the property to the Co-op.

A Building Condition Assessment was completed on the building in May 2023. It uncovered some needed repairs. The main urgent repairs needed include the fuse panels and ungrounded circuit wiring, foundation cracks, hot water boiler replacement, some corrosion on the main water lines, and friable asbestos in basement pipe wrap, laundry room ceiling, and crawl space. The building also does not have a backflow preventer installed which will need to be completed immediately.

There are a number of other capital items that were identified as needing replacing within the next two to five years including window replacement, roof replacement, chimney repairs doors, and fire escape stairs. The Co-op board has prepared a capital plan to address these repair issues.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

The Housing Sustainability and Investment Roadmap is a “whole of Hamilton, whole of City government” approach designed to respond to new and growing pressures along the housing continuum to deliver best possible affordable housing outcomes for Hamiltonians.

Part of this Roadmap is the acquisition of affordable housing, as well as preservation of existing affordable housing. This will add 10 affordable units to the current housing stock which when vacant, will come off the waitlist. This will also preserve and maintain the 11 affordable market units in the building.

## **RELEVANT CONSULTATION**

The Co-op members have been consulted to ensure that the information in this report is accurate.

Finance and Legal have been consulted with their comments incorporated into the report.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION**

The Housing Sustainability and Investment Roadmap noted that Hamilton's housing market lost almost 16,000 lower rent units between 2011 and 2021. Between 2011 and 2016 the number of rental units in Hamilton below \$750 decreased by 10,400; with a further 5,500 lost between 2016-21. These findings provided the rationale for including the acquisition of existing affordable housing as one of its four pillars. Supporting the acquisition of 272 Caroline Street South by its tenants for the purposes of creating a non-profit housing co-operative represents a significant step in realizing the Housing Sustainability and Investment Roadmap vision.

The tenants of 272 Caroline Street South have worked with local and national industry experts to develop a strategy to finance the purchase and ongoing affordability of the building. The plan would see 10 of the 21 units subsidized at Rent-Geared-to-Income and the balance maintained as affordable housing (with housing charges targeted at a maximum of 125% of average market rent). It should be noted that people who live in non-profit housing co-operatives are "members," not "tenants" and they pay "housing charges," not "rent."

They secured approximately \$234,000.00 in funding from 5 sources which helps make the purchase possible, but still leaves an annual operating deficit. In order to further reduce the housing charges from 125%, the housing charges must be subsidized. It is estimated that the cost of subsidizing the housing charges would be \$60K/year. Providing the housing charge supplements would mean that 10 of the existing tenants would receive housing charges geared-to-income. It also means that as those tenants leave, future vacancies would be filled from the Access to Housing waitlist.

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In order to make the proforma (budget) for the purchase and operation of the building work at the stated levels of affordability, they need to an operating subsidy of \$50K annually.

The acquisition of this building represents a good value for money. Currently, new construction costs are approximately \$550K per unit. This project to purchase would cost \$225,000.00 per unit which is considerably lower than the cost of construction.

**ALTERNATIVES FOR CONSIDERATION**

**Recommendation**

- (a) That funding in the amount of \$52K be provided in 2024 and \$56K in 2025 to 272 Caroline St. S. Cooperative Inc. to be placed in their Replacement Reserve for building repairs to be funded from the projected 8% annual increases to the Municipal Capital Grant for Social Housing; and,
- (b) That the General Manager, Healthy and Safe Communities Department, or their designate be authorized and directed to execute and administer an agreement for the capital reserve contribution for 272 Caroline St. S. Co-operative Inc. in accordance with the Term Sheet attached as Appendix "B" to report HSC23059 along with any ancillary documentation and amendments in a form satisfactory to the City Solicitor.

**APPENDICES AND SCHEDULES ATTACHED**

Appendix "A" to Report HSC23059 – Rent Supplement Operating Subsidy Term Sheet

Appendix "B" to Report HSC23059 – Term Sheet for Capital Reserve Contribution