Housing Secretariat Finance & Acquisition Action Plan

Overview

The Housing Sustainability and Investment Roadmap identified four pillars of activity to address Hamilton’s affordable housing shortage: 1) support new construction; 2) acquisition of at-risk private market rental housing; 3) preserve and maintain existing affordable housing; and 4) increase housing with supports. The City has been working with the Canadian Housing Evidence Collaborative (CHEC) to develop a framework and program focused on Pillar #2: acquisition of at-risk private market rental housing.

This secon pillar of the HSIR was emphasized due to research that for every new affordable rental unit that was being built, the City of Hamilton was losing 23 affordable units through inflation of rents, large rent increases for vacant rental units, and renovations/renovictions. Between 2011 and 2021, Hamilton lost over 16,000 rental units with rents below $750. The intent of the acquisition pillar was to develop a framework and plan that would assist the purchase of private rental buildings that were at risk of being sold (with significant risk of major rent increases) by community sector non-profit providers to protect the affordability of the units over time.

The proposed framework and program were developed over the first eight months of 2024, and included feedback from an internal City advisory committee with representatives from Finance and Corporate Services, Corporate Real Estate Office, Municipal Land Development Office, Housing Services, with additional feedback from CityHousing Hamilton and the Hamilton Community Foundation. The non-profit membership of Hamilton is Home was also consulted.

The attached framework and brief from CHEC is fairly technical in nature, as it includes financial modelling of different scenarios and types of assistance the City could include in an acquisition assistance program. It also reviews examples of four other similar Canadian programs (Toronto, Montreal, Nova Scotia, and British Columbia).

Key Findings of the CHEC Technical Backgrounder

- The Brief acknowledges that the federal government has announced the Rental Housing Protection Plan, which includes significant support for acquisition of at-risk private market rental housing ($477 M in grants, and up to $1 B in low interest loans). This plan is not expected to roll out until 2026, thus a municipally led pilot program for the next two years would equip the City to maximize any federal assistance.

- The Brief suggests the objective of this program should be to assist community and non-profit housing providers to purchase private market units that are at-risk of being sold or lost for other reasons. Community non-profit housing providers protect the affordability of rents over time, as they are unlikely to raise rents above the rate of inflation due to their corporate mandates. One of the first steps of the program would be to pre-qualify non-profit providers who have the capacity, experience, and expertise in undertaking due diligence to acquire private assets and operate as affordable housing.

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- The Brief identifies 3 primary financial mechanisms available to municipalities to assist non-profit acquisition: 1) capital grants (e.g. max $100,000 per unit); 2) waiving (permanently or for a finite period) property taxes; and 3) providing rent supplements to all, or some, units. The Advisory Committee also suggested exploring two additional tools: 4) providing municipal low interest financing (e.g. Hamilton Future Fund); and 5) expropriation. [1] Within the capital grant option, this could separately include a base level renovation grant as most existing older properties have some degree of need for imminent capital renewal. These five tools are not mutually exclusive and can be layered in different ways to maximize the impact of investment.

- The City of Toronto launched Canada's only Social Debenture Framework[2] in 2022. This framework created social bonds, repayable over a 20 year timeframe, that have been invested in the creation of affordable housing. To date, $450 million in social bonds have been issued. Given the unique legislative framework that the City of Toronto operates under, this option was not explored in depth for this brief. However, the Steering Committee recommends a feasibility study of a municipal bond program or similar tool for Hamilton as part of the HSIR's 2025 Program of Work.

- These five municipal tools can help to leverage *non-municipal* financing and funding in two ways: 1) federal low-rate financing (when it becomes available), and 2) securing 3rd party patient equity social impact investment (e.g. Hamilton Community Foundation programs or community bonds).

- The detailed financial modelling recommends targeting properties that have existing rents at or near 100% of CMHC average market rents because it requires the least amount of financial assistance. Over ten years, these units will become increasingly affordable (at year 10, they could be at 80% of CMHC average market rents). Deeper affordability can be accomplished through the provision of rent supplements, but to purchase deeply affordable units requires a much larger capital grant.

- Providing assistance via a *combination* of a capital grant, property tax exemption, and rent supplements are the most cost-effective mix of mechanisms (as opposed to only capital grants, or only property tax exemptions). This mix reduces the initial capital grant and spreads costs over a longer period.

- As a reference, 11 private market mid-size rental buildings (143 total units) were sold in Hamilton over the past two years, averaged a price of $218,000 per unit. Based on this information, the Brief suggests acquiring an annual target of between 40-100 units.

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[1] Normally the program would pursue acquisition via a market process, although could also include soliciting opportunities prior to these being listed for sale. Expropriation would be used only in an instance where an existing owner refuses to comply with occupancy and maintenance standards.

[2] City of Toronto Issues Fourth Social Bond.

Housing Secretariat Finance & Acquisition Action Plan

Recommendations for a Pilot Hamilton Finance and Acquisition Action Plan:

After careful analysis and consultation, we are recommending the creation of a two-year pilot Finance and Acquisition Action Plan. This program will not only result in the preservation of up to 100 affordable rental units, but will build Hamilton’s readiness to maximize the federal Rental Housing Protection Plan when it rolls out. To implement the two-year pilot program, the following steps are required:

1) Use a pre-qualification process to prioritize non-profit housing providers who can bring a minimum level of equity (e.g 10% of cost) to the purchase, which would reduce the municipal capital grant and overall costs of the purchase. This pre-qualification process will prioritize non-profit organizations with experience in acquiring properties, capacity to operate the additional units, and who are able to maximize the value and impact of the program.

2) Establish a two-year pilot Acquisition Assistance Program fund to support pre-qualified non-profit organizations to acquire up to 100 private market units with average market rents. Based on a projected average capital assistance grant of $50,000 per unit, the two year capital budget would be $5 million[3]. The components of the program will include:

    a. a capital grant: assume average of $50,000 per unit, with a maximum of $100,000 per unit; lower cost projects will be prioritized;
    b. a ten-year property tax exemption on the acquired properties,
    c. an accompanying annual operating budget for 40 rent supplements to deliver deep affordability ($300,000 annualized).

3) Develop and implement a transparent process by Q2, 2025 to evaluate proposals by non-profit organizations to acquire at-risk private rental housing. This could be a Request for Proposals, Expression of Interest, or similar process.

4) Develop and implement an evaluation strategy for the two-year pilot to determine impact and program adjustments that would improve the effectiveness of the program.

5) Use the two-year pilot program to prepare for the federal Rental Housing Protection Plan, and explore the potential benefits of additional tools such as expropriation or municipal low-interest loans (e.g. Hamilton Future Fund).

6) Conduct a feasibility study of the creation of a Hamilton-based Social Debenture or Municipal Bond program to support affordable and supportive housing construction.

[3] To be referred to the 2025 Capital budget process.

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Developing an acquisition framework and policy for City of Hamilton: Technical Report

Executive Summary

The City’s Housing Investment Sustainability Roadmap (HSIR) identifies four pillars of activity to address Hamilton’s affordable housing shortage, the second of which highlights the need to create and implement an acquisition assistance program. This program’s objectives are to support community sector non-profit providers in purchasing existing rental assets in order to preserve existing low-moderate rents as well as helping to expand the scope and impact of community-based asset ownership in Hamilton

A federal acquisition funding initiative, the federal Rental Protection Program, has been announced, but is not anticipated to be operational until 2026. It is recommended that the City adopt a pilot program to both accelerate acquisitions in Hamilton and to generate insight on how to subsequently integrate with a federal initiative, which can stretch the impact of City funding.

A variety of financial mechanisms are currently available to the City and these can be effectively employed to support acquisition by non-profits. These include:

- Capital grants;
- Waiving (permanently or for a finite period) property taxes.
- Providing rent supplements or housing benefits to all, or some units

These can help to lever additional financing and funding through:

- Federal low-rate financing
- Securing 3rd party patient equity social impact investment.

The background analysis below determines that targeting properties in which existing rents are at or near 100% of the CMHC Average Market Rent (AMR) requires the least amount of financial assistance. A property in which the existing rents are at 100% of the CMHC AMR, once acquired and operated by a non-profit will become increasing affordable with rents 10 years from now below 80% of the CMHC AMR, and below 60% of potential full market (if purchased and operated by a market investor).

A review of recent multi-unit apartment sales reveals 11 private market mid-size rental buildings (143 total units) were sold in Hamilton over the past two years at an average a price of $218,000 per unit. Based on this information, this brief

suggests acquiring a target of up to units over the next 2 years, and used $225,000 cost as the basis for cost estimates of the proposed policy.

Examining the potential mechanisms outlined above, a detailed calculation for a City rental acquisition program indicate that providing support via a combination of grant, property tax exemption and rental assistance is the most cost-effective mix of mechanism. Together this would impose a smaller initial capital expenditure than if only a capital grant is used, and it would spread expenditures over a longer period for a more incremental fiscal impact.

In order to support non-profit acquisition of 100 units:

- a City budget of $5 million is proposed,
- augmented by an annual rental assistance budget of $300,000 to fund rent supplements or housing benefit (potentially via the Canada-Ontario Housing Benefit initiative, funded by the National Housing Strategy, for which Hamilton receives an annual allocation).

To implement the fund, the City should establish a program guideline prescribing the maximum available capital grant (suggest $100,000/unit) although the average grant might be lower at $50,000 depending on the rents in target acquisition properties, and the proportion against which rent supplement assistance is also provided. This should be augmented with rent supplements to preserve affordability of any existing very low rents, while increasing rental income and financing leverage. Finally, providing a property tax exemption (this could be time limited for 10 years and funded via an annual offsetting transfer) further enhances financing capacity and consequently lowers the amount of capital grant required.

Potential non-profit acquisition proponents should be accredited via a pre-qualification process and facilitated by the city via staffing to provide technical assistance in due diligence as part of the acquisition process.

As the City works though implementing a rental acquisition policy it should engage with the federal government on accelerating access to low rate federal loan financing; the province of Ontario to request exemption (or provincial offsetting grant) from provincial land transfer tax to support non-profit acquisition; and the Hamilton Community Foundation as a potential investment partner providing patient social impact investment, all of which will enhance this policy and help to manage down the potential costs to the City.

1.0 Background

The erosion of existing moderate rent properties has been identified as a serious challenge to the success of the City’s Housing and Homeless Action Plan and the Housing Sustainability Investment Roadmap (HSIR). Losses of existing low-moderate rent affordable units occur as a result of either demolition and redevelopment in intensifying areas (such as LRT the corridor), which causes absolute loss; or as a result of rents inflating to higher less affordable levels. The McMaster University Canadian Housing Evidence Collaborative (CHEC) has documented this erosion, relative to newly created affordable housing and determined that in Hamilton, for each new affordable unit constructed 23 units under $750 and 31 under $1,000 are lost.

Intervening in the market to enable non-profits to purchase low-moderate rent properties can help preserve these units and by transferring ownership to non-profits can decommodify and protect against the market pressures that cause rents to rise substantially. Accordingly, the City is seeking to establish a supporting policy framework to enable non-profit acquisition of existing low-moderate rent rental properties that might be at risk.

The policy framework may also encompass purchase of existing properties in areas of intensification as holding property. Once acquired the building may continue to operate as is and provide a site for future redevelopment by a non-profit, under which new affordable replacement units can be ensured.

This brief first reviews recent experience in other jurisdictions. It then frames options based on targeting a continuum of affordability and then examines the possible mechanisms that could be included in a City Rental Preservation Policy. It then determines the budgetary requirements for the City to fund an acquisition program within its suite of affordable housing initiatives.

1.1 Jurisdictional scan

A number of jurisdictions – municipalities and provinces – have recently adopted acquisition policies, which provide some insight to assist considerations in Hamilton. At the municipal level both Montreal and Toronto are frequently cited. BC and Nova Scotia also have initiatives.

Section 5 provides more detailed background descriptions for each.

These four examples reflect differing affordability impacts. The more generous grant amounts in British Columbia and Toronto allow non-profits to acquire properties with low rents and more constrained borrowing capacity. The Nova Scotia approach is more limited to moderate affordable closer to the CMHC market average rents. Montréal’s program enables both. In Montreal, the City is an active participant, only subsequently passing the property on to non-profit ownership and operation. In the other jurisdictions the funding program supports and facilitates, but acquisitions are instigated and performed by a non-profit who is the ultimate owner-operator. Note that in an Ontario context a two-stage process where City first purchases and subsequently transfers on to a non-profit would trigger the land transfer tax twice, an undesirable expenditure (unless Province is willing to exempt such transfers – a request that could be directed to province).

1.2 Potential Federal program

Budget 2024 announced a new federal initiative to create a funding mechanism to support non-profit acquisitions. This proposes to fund $477 M in grants and provide access to low-rate finance with $1 billion loan authority. Details remain to be determined but initial consultations indicate this will seek to emulate the British Columbia fund approach with funds allocated to an independent entity to manage and disburse. However, the flow of funds identified in the budget, plus initial discussions with federal officials suggest that this is unlikely to be in place before late 2025, early 2026.

Once implemented this can be an important parallel source of both capital grant and low-rate loans and as such could augment a City fund and extend limited City resources further. In the interim, the City can implement a modest initiative, and then expand once the federal program is in place.

1.3 Setting some parameters on acquisition options

An illustrative case study acquisition is used here to identify challenges as well as potential mechanisms that can enable non-profit acquisition.

As noted above, the existing rents in the property are an important consideration, especially when low. When discussing rents, we often use the term Average Market Rent (AMR). This is based on an annual CMHC survey. This CMHC AMR is a statistic based on current rents in all units – the vast majority of which have not changed tenancy and are thus protected by rent control; meanwhile large increases would have occurred in the roughly 1 in 5 units that have changed hands. So, the CMHC AMR is a blend of existing controlled rents and higher turnover rents. As such it does not reflect the rent that someone seeking a rental would pay today. In contrast data published by Rentals.ca is based on currently advertised available units and is ONLY for new tenancies (turnover units). Consequently, it more realistically captures the rents for new tenancies. This rent level is much higher than the CMHC AMR.

In Hamilton in 2023, the CMHC average 2-bed rent non-turnover rent was $1,540; for units that changed hands it was $2,058, and the rental.ca level was $2,198. As a result, even at 100% CMHC AMR, rents are moderately affordable and 30% lower than potential market.

For this reason, we can benchmark an acquisition policy with targets set relative to CMHC AMR, recognizing that even at 100% rents remain moderately affordable (albeit above that which people on OW or low wage can afford).

It is important to note that the intent of this acquisition approach is to protect and preserve existing moderately affordable housing, so we first need to determine the rent levels that a policy will seek to target – as above deeply affordable existing very low rent vs. moderate affordable nearer to CMHC AMR, or a mix of each.

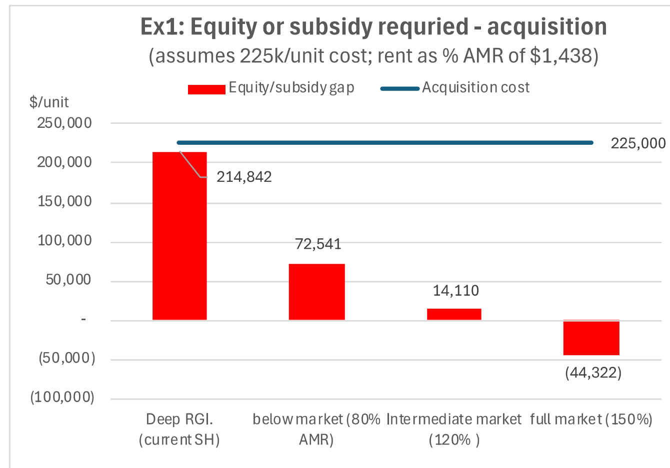
The price to purchase an existing asset is based on its potential to generate income for the property owner. But despite low rents, a vendor will typically price the sale at much higher *potential* full market rent – which assumes all units turnover quickly, or a purchaser immediately evicts to renovate then moves rents to full market (an issue branded as “renoviction”). As such the asset is over-priced relative to its value based on the capitalized value of *current* net income. Purchasing such a property can effectively protect existing low rents and tenancies but requires a much higher level of grant subsidy because the low rents do not support debt financing.

For a property with rents already near or above the CMHC average rent the vendor will price the sale closer to the capitalized value of the existing higher net income. This will enable the purchaser to borrow a larger amount and thus require less equity (or in case of a non-profit, a grant subsidy).

In framing a policy, the City can consider whether to target deeply affordable or moderately affordable, recognizing that this will impact the subsidy cost to the city.

The subsidy required at a continuum of rent (affordable) levels is illustrated in Example 1 below. This first determines how large a loan the net income can support and specifies the remaining difference from price as the equity (grant) required. If targeting deep affordable, a grant almost equal to the full acquisition cost is required. So, for example, with rents at 120% AMR little or no subsidy is needed (although lenders will not grant a mortgage at 100% of cost, so some minimal equity would still be needed). With high rents at 150% AMR the

property would theoretically require no equity (so appears in exhibit as minus $44,000). In practice a lender will not lend at 100% of value, so some level of equity is still required, but this is not relevant to current discussion.



It is worth noting that a property with rents today at 120% of CMHC AMR, if operated by a non-profit (with no need to generate surplus, beyond some operating reserves) would gradually lag the market increases. In ten years from now operated this way the rents would be only 90% of the then CMHC AMR, and as such 40% below full potential market.

While the City may want to set some policy priorities, and may be sympathetic to support acquisitions that preserve existing very low rents, this would impose a much higher subsidy cost. Properties with very low rents may also not be in a sound state of repair, so require additional investment to update. So careful assessment and due diligence is critical as part of an acquisition process.

1.4 Potential supporting policies

As suggested above, an investor (here the City or a non-profit) will seeking to maximize loan leverage by borrowing against existing and future net income. The amount that can be borrowed (via a mortgage loan) will always be less than the full cost to buy, so the purchaser will require some level of equity. And this will vary, based on current rent and net income, as illustrated in Ex 1.

For a private investor, they will augment the maximum mortgage with their own equity. Going forward, as rents and net income rise, this generates the return on equity, and a purchaser will assess the potential to increase revenues to generate a minimal level of return, as part of their purchase decision.

For a non-profit the decision process is different. They are generally seeking an “in-kind” return in the form of lower rents, rather than increased cash flow.

That said, an organization seeking to expand their portfolio, via acquisitions would be wise to target modest increase in rents as a way to build equity. This then creates capacity to borrow against the asset as a way to source capital to purchase additional properties. In this sense the City policy should embrace the concept of social enterprise and improving self-sufficiency.

Rather than not for profit, this is a culture of “profit for purpose” to enable increased and revolving equity.

As described in jurisdictional scan (see Section 4), the primary form of assistance used is a grant. There are however additional mechanisms that can help, and more particularly can reduce the amount of capital grant required.

These include:

- Low-rate financing
- Waiving (permanently or for a finite period) property taxes.
- Providing rent supplements or housing benefits to all, or some units
- Securing 3rd party patient equity social impact investment.

Low-rate loan finance: As proposed in the pending federal program, and utilized in Montreal, one way to increase the portion covered by a mortgage is to secure a lower borrowing rate. The ability to access low-rate federal finance can secure financing at 100-150 basis points lower than an insured loan, and thus increase the maximum loan at same amount of payment by 5% to 8%.

While the City could potentially draw on its credit rating and borrow on behalf of a non-profit at a below market rate, (as Montreal has done), this will impact the City’s overall borrowing capacity. With the pending availability of federal low rate financed this may not be necessary.

Waiving or exempting property taxes: this is a mechanism used in Toronto (city designates the property as a municipal capital facility) and recently a policy also adopted in Ottawa. Removing the expense of property taxes reduces operating expenses and consequently increases net operating income (NOI). So, the project can borrow a larger loan with the increased NOI, which then reduces equity/grant required.

Providing rent supplements: Most useful where existing rents are well below AMR, providing a rent supplement that can immediately raise rents to 80-100% AMR and will similarly increase effective NOI and thus increase borrowing leverage. And at same time, this protects lower income tenancies that cannot afford higher rent levels, and can act to preserve their affordability, as well as the ongoing property affordability.

Securing 3rd party patient equity social impact investment: This would seek support from external sources, such as the Hamilton Community Foundation, which has already supported some acquisition with patient capital. This can augment City capital (reduce per unit grant) but does require increasing rent revenue as a way to repay this impact equity and associated interest.

2.0 Modelling examples of acquisition

The impact of these various mechanisms has been modelled using an illustrative acquisition proforma. This is built from an actual project, but some numbers have been adjusted to anonymize the property.

This is a 20 -unit property, with an acquisition price of 230,000 per unit. After transaction costs and an allowance for capital improvements, the total cost is $250,000/unit. The existing

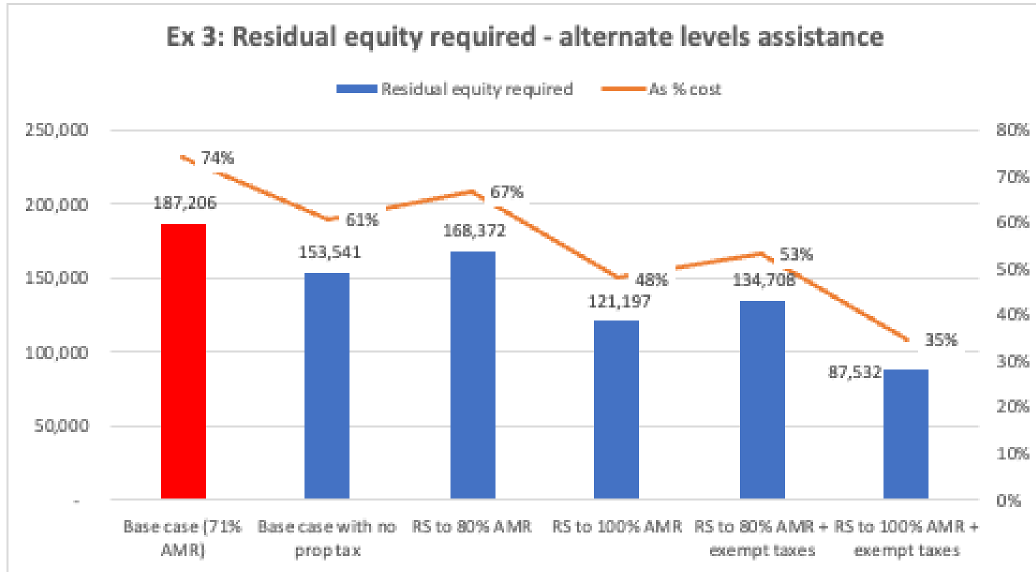
rents are quite low, average just 71% of the CMHC AMR, which is 53% of full potential market.

Exhibit 2: Determining maximum financing capacity and residual equity		
Rent level	Current (71% AMR)	per unit
Gross effective revenue (incl vacancy loss)	247,277	12,364
Operating Expenses excl property taxes)	97,000	4,850
Property taxes	48,000	2,400
Annual capital reserve @4% gross effective	9,891	495
Total operating expenses	154,891	7,745
Net Operating income (NOI) yr 1	92,385	4,619
Available to secure mortgage at 1.2 DCR	76,988	3,849
Maximum loan financed (at rate and amortization)	1,295,881	64,794
Residual equity required	3,744,119	187,206

Based on current rents and normalized operating expenses (Exhibit 2), including property taxes, the annual net operating income is just over $92,000 ($4,619/unit). At a debt coverage ratio of 1.2 (a safe conservative level) the property can leverage a mortgage loan (5.25%, 40-year amortization) of just under $1.3 million ($65,000 per unit). Given the acquisition cost of $250,000/unit this requires residual equity of $3.74 million ($187,206/unit).

Using this illustrative base case, we can examine the impact of the range of mechanisms, alone and in combination. The following simulations are undertaken, and presented in Exhibit 3:

- Exempt property taxes – this increases NOI by the tax amount of $48,000 and improves financing leverage resulting in a net equity/grant required of $153,500 per unit.
- Providing rent supplements at either 80% of AMR or 100% AMR, raises rent revenue from the current level, which is only at 71% AMR. With minimal rent at 80% AMR the equity required is 168,300; at 100% of AMR, it drops to $121,000.
- Combining both a property tax exemption and a revenue guarantee at 80% or 100% AMR further increases leverage and reduces the residual equity (grant) required to only $87,500.



Across these options, rent supplements to 100% have the largest single effect in lowering grant needed. However, this also shows that if rents in the acquired property are already near 100% AMR, exempting property taxes alone can be very effective and results in the least level of grant assistance ($87,500).

2.1 Acquisition price impacts equity required

Note that the amount of residual grant determined here is premised on the rent level in each scenario and utilizes rent supplements to bring rents up to 80% or 100% AMR – this will create an ongoing subsidy cost. It is also possible that an acquired property may have existing rents already at or near 100%. So, the grant required with rents at that level would be the same as those presented in Ex 3, but without the need to also fund ongoing rent supplements.

This is an important point that relates to how an acquisition policy is directed and the price level targeted. If the targeted properties have very low rents (but is not priced accordingly), large capital grant or ancillary assistance is needed. But if the target property already has rents at or near AMR a more modest subsidy and combination of mechanisms is possible.

2.2 Increasing rents but also increasing affordability

In generating these simulations rents and affordability are projected over the next 20 years. It is assumed that operating costs increase at the rate of inflation (here assumed at 2%), and property rents increase at the same 2% rate of inflation.

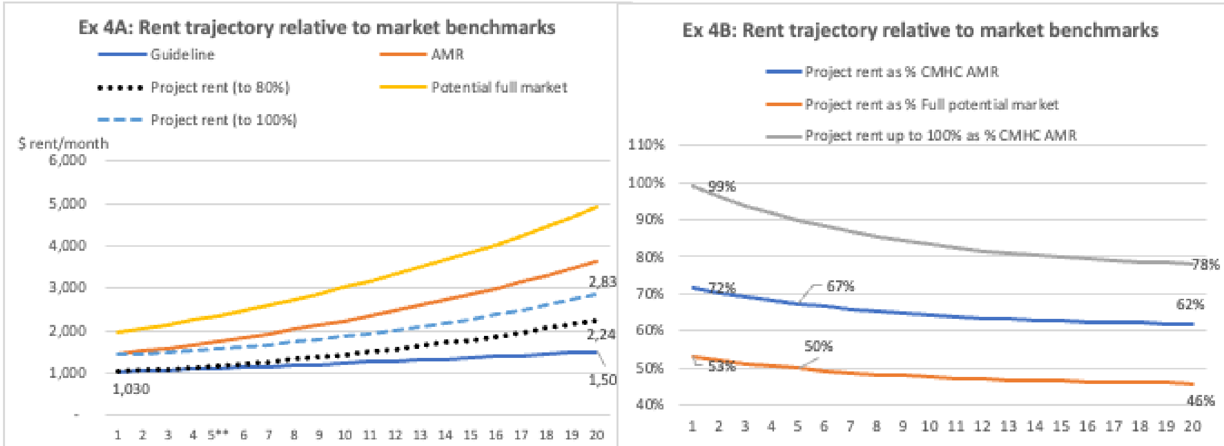
Meanwhile, reflecting recent trends, market rents increase at 5%. So, in relative terms, while actual nominal rents do rise, they increasingly lag the market rate of increase and in relative terms decline. As shown in Exhibit 4B, as a percentage of both the CMHC AMR, and of full potential market (i.e. what rents would be if property purchased by a private investor, maximizing rents at turnover) we see property rents falling to 62% of CMHC AMR, and 46% of

full market.

2.3 Recycling surplus and equity gain

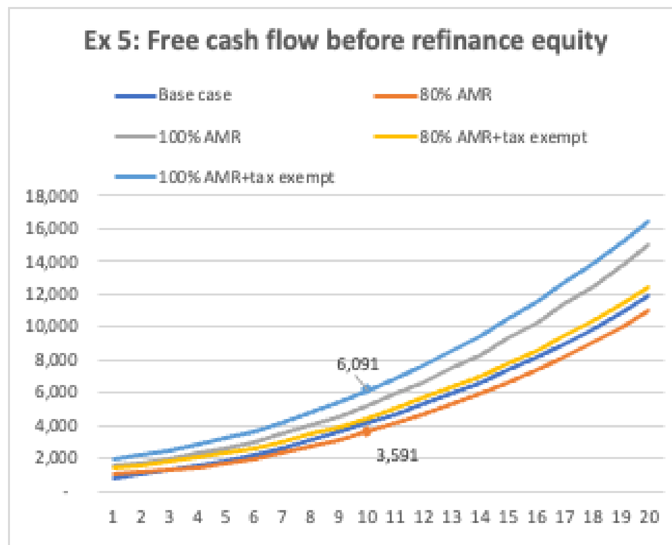
The fact that rents rise, and concurrently affordability improves, has the benefit of generating growing operating surplus and building equity. This in turn creates the opportunity to then leverage and recycle this gain to support additional acquisitions.

Exhibit 5 illustrates the growth in cash flow over 20 years even when rents are maxed at 80%



AMR, because the AMR is inflating the project rents still rise and generate increasing levels of annual surplus, reaching almost $3,600 per unit in year 10; with rents at 100% AMR plus the benefit of the property tax exemption, the annual surplus in year 10 is just over $6,000.

This suggests that permanent exemption may not be critical, a 10-year exemption (or grant in lieu of taxes for 10 years) may suffice. Ending the exemption (of grant) would, however, reduce capacity to finance and recycle equity into a future acquisition or to attract social impact investment.



2.4 Attracting social Impact investment

A fourth potential mechanism examined involves attracting additional external funding in the

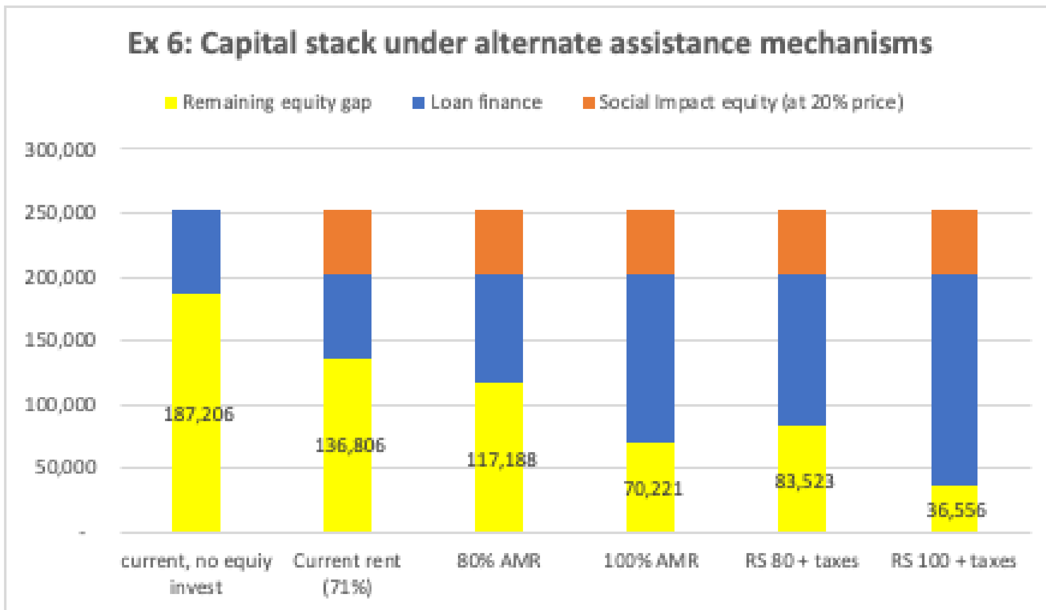
form of patient social impact equity. There is an opportunity to partner with the social investment sector (including organizations like the Hamilton Community Foundation), which could reduce the call on City funds and stretch limited City funding over more units.

Such social impact investors are often willing to provide more flexible terms and provide patient capital; however, they do require a return on investment as it is this yield that funds their granting activities. The ability to attract impact investment is dependent on the capacity to repay the impact equity (and compound interest) at some reasonable point in future. Here a 10- year refinancing and payout is assumed.

Under this scenario, social impact equity is invested to cover 20% of the acquisition cost, and this substantially reduces the subsidy required from the City. This requires a return of 4.5% (effectively 100 basis points below the cost of the mortgage interest) with simple interest compounded at a balloon payout plus the original equity amount at the end of year 9. With modestly rising rents (still lagging market rent increase rates), the illustrative project generates a sufficient surplus to refinance the project and payout and end of year 9.

Replicating the same five funding mechanisms and scenarios and adding a 20% social impact patient investment results in a substantial reduction in the remaining equity gap City funding required (Exhibit 6).

This shows that with a combination of tax exemption, rents at 100% AMR (either at time of acquisition or via a rent supplement) and social impact capital the City required capital grant could be lowered to only $36,500 (compared to $187,000 in base case).



Potentially a repayment guarantee from the City could further strengthen the attraction (mitigate any perceived risk) of such an investment for the social impact capital partner (e.g. the Hamilton Community Foundation).

3.0 Estimating cost and scale

Drawing on these options the potential fiscal impacts on the City are determined. Subsidy costs will reflect a number of considerations:

- Anticipated or planned number of acquisitions per year;
- The existing average rent level in the target acquisition properties;
- The type and mix of mechanisms offered (as above includes capital grant, tax exemption, rental assistance);
- Whether the initiative includes partnering with social impact investment;
- Option to access pending federal program (lower loan rate and additional grant).

3.1 Potential volume of annual acquisitions

Review of recent sales activity provides some insight into how many properties might be targeted in any year. Data for the last 5 years (2019-2023) identify the number of transactions and units along with sales values in Hamilton. Properties with fewer than 10 units are predominantly semi- detached. *The optimal target is those with 10-40 units as these offer greater economies of scale and most reasonable pricing*. Over the past two years (2022-2023) 11 properties between 5 and 40 units, containing 143 units sold with an average per unit cost of 218,000 (MLS sales data).

Although this excludes potentially privately sourced opportunities, *it suggests that a realistic target might be 2-3 properties and 40-100 units in any year.* These parameters are used to estimate potential city subsidy costs.

3.2 Examining potential costs across two rent scenarios.

The actual rents in any transaction will vary, but as noted earlier, even lower-rent properties tend to be priced, based on *potentia*l, rather than *actual* rents and net operating income (NOI). To estimate low and high subsidy requirements, here we assume two cases – one with rents at only 65% of CMHC AMR; the other at 99%.

The base case is similar to the that in the previous illustration except for a change in rents and unit mix (here the mix is 10 one-bedrooms, 8 two-bedrooms and 2 three-bedrooms).

For each case, the city cost for each potential mechanism is determined. Note that for the capital grant, this imposes a one-time expenditure; however exempting taxes and funding rent supplements create an ongoing expenditure. To account for the ongoing cast flows of rent supplements the present value of 10 years of supplements is used. And annual tax exempted amounts are calculated for 10 years. [1]

So, the modelling encompasses a low rent (acquire at 65% AMR) high rent case (acquire at 99% AMR) with five scenarios or options:

- Option 1 Waive property taxes
- Option 2: Rent supp up to 80% AMR
- Option 3: Rent supp up to 100% AMR

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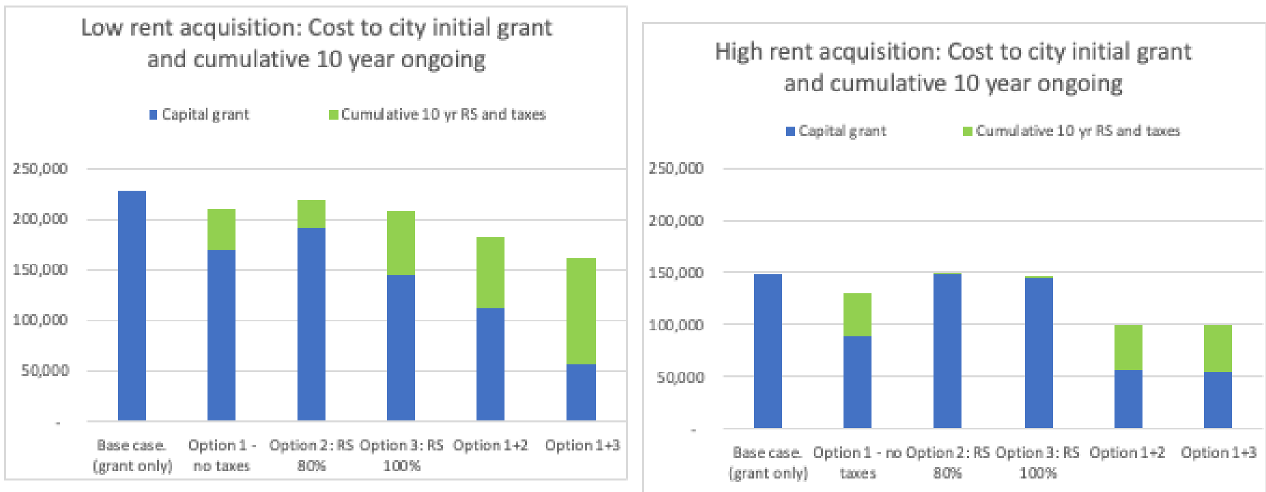
[1] Here the forgone tax revenue is identified as an annual cost, as if covered via a tax grant from City. This more fully accounts for that revenue loss, and if actually paid as an offsetting grant, can be term-limited, and paid for only the first 10 years, after which the property would commence paying taxes, based on increased cash flow.

- Option 1+2 Waive taxes **plus** Rent Supp at 80%
- Option 1+3 Waive taxes **plus** Rent Supp at 100%

As reviewed earlier, the subsidy is greatest when existing rents are low. And similarly, when rent supplements are used to both protect affordability and strengthen cash flows the aggregate accumulated cost for the rent supplements is greater for the lower rent property.



As illustrated in the charts above:

- In the lower rent property (65% AMR) the aggregate city contribution (immediate plus cumulative) falls from $227,000 in the base case to $161,000 for the combined three stacked mechanisms;
- For the higher rent (99% AMR) acquisition the same aggregate costs begin at $130,000 in the base case to $105,000 for the combined three stacked mechanisms.

Note while presented here as equivalent up-front costs – the actual fiscal impact is spread over time with an initial capital expenditure and then on-going annual subsidy (to cover rent supplements and property tax loss of revenue).

Assuming a budget sufficient to cover acquisition of 100 units in one year, the associated City cost for each of the two cases (low-rent acquisition and high-rent acquisition) are summarized in Exhibit 7 (Detailed underlying calculations are provided in Section 5):

Scaling up: City subsidy required per 100 units/yr			
	Case 1 (Rents at 65% AMR at acquisition)		
		initial grant. ($ Mill)	annual subsidy (RS+tax)
	Base case (grant only)	22.74	-
	Option 1 - no taxes	16.85	420,000
	Option 2: RS 80%	19.20	270,768
	Option 3: RS 100%	14.50	630,960
	Option 1+2	11.25	690,768
	Option 1+3	5.60	1,050,960
	Case 2 (Rents at 99% AMR at acquisition)		
		initial grant. ($ Mill)	annual subsidy (RS+tax)
	Base case (grant only)	14.73	-
	Option 1 - no taxes	8.84	420,000
	Option 2: RS 80%	14.73	18,120
	Option 3: RS 100%	14.50	18,120
	Option 1+2	5.66	438,120
	Option 1+3	5.60	438,120

This illustrates the trade-off between a single one-time grant versus lower grant with ongoing annual payments. The property tax exemption is included here, although this does not require an annual subsidy – this represents revenues not collected by the City.

Ex 7 also confirms that the fiscal impact on the City is much less when the target property rents are moderate, and already at or near CMHC AMR (here at 99%), compared to supporting acquisition of properties with much lower and thus more affordable rents.

In reality properties identified for acquisition are likely to have some blend of low and higher rents because the rents for long term tenants have been constrained by rent controls, while in units that have recently turned over rents will already have been raised. As such the two illustrative cases used here bracket potential low-high subsidy requirements, and the average is likely reasonably representative of the subsidy expenditure that will be required, should the City implement these options.

Scaling up: City subsidy required per 100 units/yr			
	Average of two cases	initial grant. ($ Mill)	annual subsidy (RS+tax)
	Base case (grant only)	18.74	-
	Option 1 - no taxes	12.85	420,000
	Option 2: RS 80%	16.97	144,444
	Option 3: RS 100%	14.50	324,540
	Option 1+2	8.46	564,444
	Option 1+3	5.60	744,540

The most cost -effective option for the City is to offer the combination of capital grant alongside property tax exemption and rent supplements (Option 1+3 in table). Under that combination the cost to support non-profit acquisition of 100 units will require a capital budget of roughly $5.6 million plus annual subsidy commitment of around $750,000 (includes cost of tax exemption). If the cost (foregone revenue) of the tax exemption is excluded the ongoing annual cost declines to $325,000.

This reflects the cost of one round of acquisitions of 100 units – if repeated in subsequent years (all or a portion of 100 units) the same capital budget would be required for each tranche, while the annual rent supp cost will gradually escalate as each layer of an additional rent supps is added.

3.3 Potential opportunities to reduce City subsidy required

The earlier review highlighted two complementary initiatives that can be quite significant in helping to manage the City expenditure for an acquisition program. These are a partnership with social impact investors, most likely the Hamilton Community Foundation, which has already identified a willingness to invest in acquisition and other affordable housing ventures. The second is the potential to draw on the pending federal acquisition initiative.

A partnership with the Community Foundation could introduce a layer of patient social equity, which then lowers the City capital grant required. This would not impact the ongoing annual subsidy required, mainly for rent supplements – which would remain at around $325,000 (excluding any accounting for tax exemption); but it would substantially lower the required capital grant, from $5.6 million to only $1.5 million. This relies on modest annual rent increases that can build up an operating surplus to service the required interest and repayment of the patient social impact equity.

The second potential complementary opportunity is the pending federal Rental Acquisition Fund. While details remain to be determined, this proposes a combination of grant and low-rate loan here assumed at 4% amortized over 50 years, vs 5.25% amortized over 40 years).

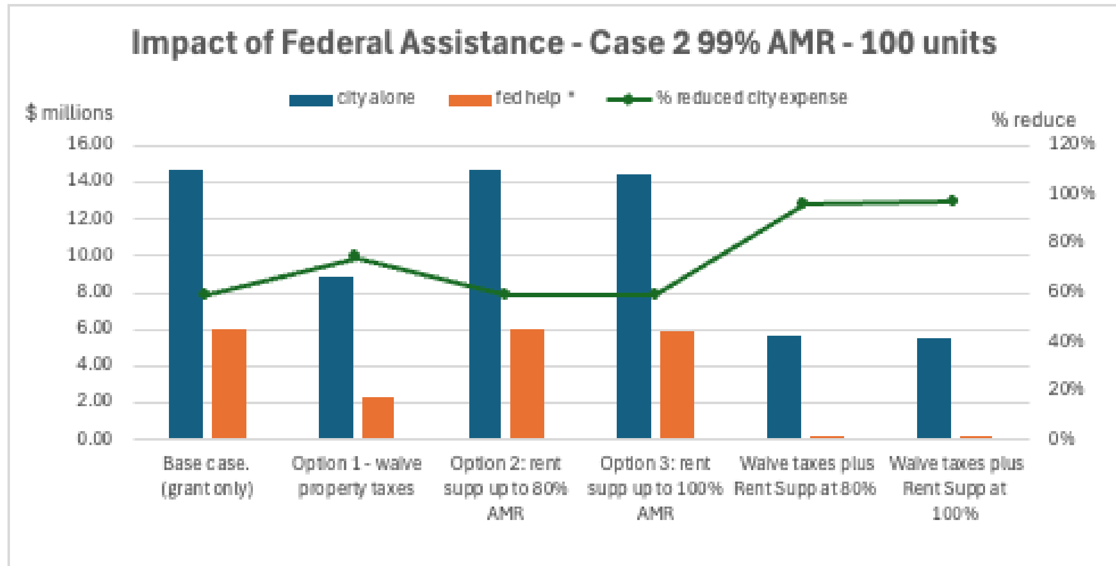
Accessing low-rate financing alone has a very substantial positive impact in increasing potential to borrow, and thus reduces the capital grant required.

In case 1 (65%) the potential leverage per unit is increased by roughly $50,000 per unit, and under the combined City mechanisms results in a grant requirement of less than $5,000 per

unit (and this could be cost shared with the federal program).

At the higher rent at acquisition (case 2 at 99% AMR), the capital required is almost entirely eliminated (ignoring any lending requirement for a minimum amount of down payment).

So, this essentially leaves only the ongoing annual rent supplement subsidy cost as a City expenditure.



Note however that it is unlikely the federal initiative will be in place until 2026, so in the interim a City program can be important in support current acquisitions.

3.4 Ancillary Supporting Measures

Alongside a funding mechanism, a City policy should also establish guidelines and parameters to provide a framework within which interested non-profit organizations can participate in acquisitions. This should include an accreditation process with qualifying criteria, such as sound board expertise, governance and proven property management capacity.

The guideline must also frame the level of assistance potentially available – highlighting any maximum, such as a $100,000 per unit maximum; and the availability of rent supplements (ideally funded 80-100% AMR)

Not all potential acquisitions makes financial sense, and the organization should have the capacity (board and staff expertise) to undertake necessary due diligence in reviewing acquisition target properties.

For non-profits, acquisition involves immediate costs, including the need to fund a deposit as part of the offering process, and costs for due diligence such as building inspections and lender application fees. It would be beneficial to provide initial advances to qualifying proponents to help cover these costs

4.0 Supporting Documentation: Acquisition Programs in Other Jurisdictions

Existing programs have been identified and reviewed in Montreal, Toronto, British Columbia and Nova Scotia. Each is briefly profiled below.

4.1 Montreal

Montreal initially used a broader program to support acquisitions in 2018 providing both capital grant and low-rate loan finance. This has subsequently been expanded with a formal acquisition policy including a new bylaw creating a right of first refusal. The City has identified neighbourhoods where existing rentals are relatively affordable and notified all property owners that in event they intend to sell, the City will have a pre-emptive right of first refusal to match any offer, or to negotiate ahead of a private sale. To date the City has supported the acquisition of 27 properties. This does however require a substantial financial commitment (the initial capital budget was set at $50M in 2018 and has since been increased to $195M). It also requires considerable work to formally notify all existing multi-unit property owners.

This policy includes purchase of existing occupied properties as is, some for redevelopment, as well as some land banking, on behalf of non-profits. Once purchased, the property ownership is transferred to existing non-profit housing operators – so in Montreal case the process is instigated and delivered by the City, with subsequent transfer. A current proposal before council is to discount the market price paid by the city down to 60% of market, so an implicit contribution equal to 40% of market value that City paid initially.

4.2 Toronto

Toronto’s Multi-Unit Residential Acquisition (MURA) Program was implemented in 2021 following on from an initial 2018 pilot to assist non-profit acquisition of some rooming house properties. Distinct from the Montreal program, Toronto relies on pre-qualified non-profits to initiate and execute the purchase, with the support of a range of city mechanisms. These include capital grant and forgiveness of property taxes (by designating the property as a municipal capital facility). When renovations are required the City permit fee is also waived. Subject to annual budgets, the City provides housing benefits for at least of 20% of MURA units.

The initial budget was set at $10M per year for 2 years and this has now been augmented with a commitment of a further $51M for 2024-2026.

Apartment building acquisitions and renovations are eligible for up to $200,000 in funding per dwelling unit and multi-tenant rooming house properties are eligible for up to $150,000 per dwelling. 20% of annual funding allocations under the Program are directed to support the acquisition of market rental properties by Indigenous housing organizations to create permanent affordable rental homes for Indigenous residents.

Toronto employs a competitive proposal call process, administered annually by the Housing Secretariat. Through this process, successful proponents will be pre-approved for funding, giving them certainty to pursue acquisitions. Up to 10% of the maximum approved funding allocation can be advanced to the successful non-profit and Indigenous proponents within 60 days to be used as deposit funding. An additional $25,000 in funding is available to each

proponent to be used for pre-acquisition services such as preparing Building Condition Assessments and Property Appraisals.

4.3 Nova Scotia

Nova Scotia announced an initiative in summer 2022. Under the new Community Housing Acquisition Program (CHAP), community housing providers can access up to $10 million in repayable loans to support the purchase of existing rental units. Loans are on amortization of 30 years at the government fixed rate. No additional grant or assistance is provided, meaning that purchasers must have some reserves to provide equity as loan is maximized at a debt coverage ratio of 1.15 and a loan-value ratio at 95% of value (100% for supportive housing projects).

With loans only, this program only works on properties with higher rents (i.e. 100%-120% AMR) vs. deeply affordable rents because a solid cash flow is required to service the loan debt. Since few non-profits have the necessary equity, only one project has been funded to date, confirming that to be effective for non-profit purchasers, some level of grant is required.

4.4 British Columbia

In late 2022, drawing on an anticipated budget surplus, BC announced the creation of a Rental Protection Fund, allocating $500M to capitalize the fund. The fund is an incorporated entity formed by the three community housing sector organizations in BC (Co-op, Non-Profit, and Indigenous) and managed internally by a professional staff. The Fund pre-qualifies eligible non-profits seeking to purchase an existing rental asset and provides both technical assistance in the acquisition process and funds capital grants to provide necessary equity. Non-profits must separately secure mortgage finance.

The province expects a minimum 2,000 units, implying a max grant of $250,000/unit, although this is not a formal strict maximum. Two initial purchases in Vancouver involved grants of between $220,000 and $245,000 per unit, so this required a significant pot of capital, which uniquely BC has, to achieve any scale impact.

5.0 Supplementary detailed financial assessment of illustrative cases

Subsidy cost to city/unit

Case 1 (Rents at 65% AMR at acquisition)						Addition al benefit with patient social impact equity			
	Capital grant	Annual rent supp	Annual Property tax loss	Cumulative 10 yr RS and taxes	Cumulative 10 yr RS and taxes plus original grant	Patient investment equity (Max)	Reduced city grant	Net cost to city with SI equity	% reduced City cost
Base case (grant only)	227,389	-	-	-	227,389	32,203	195,187	195,187	14%
Option 1 - no taxes	168,477	-	4,200	42,000	210,477	45,754	122,723	164,723	22%
Option 2: RS 80%	192,022	2,708	-	27,077	219,099	23,742	168,280	195,357	11%
Option 3: RS 100%	144,975	6,310	-	63,096	208,071	38,725	106,249	169,345	19%
Option 1+2	112,481	2,708	4,200	69,077	181,558	37,293	75,188	144,265	21%
Option 1+3	56,024	6,310	4,200	105,096	161,120	52,276	3,747	108,843	32%
Case 2 (Rents at 99% AMR at acquisition)									
	Capital grant	Annual rent supp	Annual Property tax loss	Cumulative 10 yr RS and taxes	Cumulative 10 yr RS and taxes plus original grant	Patient investment equity (Max)	Reduced city grant	Net cost to city with SI equity	
Base case (grant only)	147,341	-	-	-	147,341	11,166	136,176	136,176	8%
Option 1 - no taxes	88,428	-	4,200	42,000	130,428	38,246	50,182	92,182	29%
Option 2: RS 80%	147,341	181	-	1,812	149,153	12,287	135,054	136,866	8%
Option 3: RS 100%	144,975	181	-	1,812	146,787	34,494	110,480	112,292	23%
Option 1+2	56,630	181	4,200	43,812	100,442	31,375	25,255	69,067	31%
Option 1+3	56,024	181	4,200	43,812	99,836	29,396	26,628	70,440	29%

Scaling up: City subsidy required per 100 units/yr

Case 1 (Rents at 65% AMR at acquisition)			with social impact equity		
	initial grant. ($ Mill)	annual subsidy (RS+tax)	initial grant. ($ Mill)	annual subsidy (RS+tax)	Annual with no accounting for Tax exempt
Base case (grant only)	22.74	-	19.52	-	-
Option 1 - no taxes	16.85	420,000	12.27	420,000	-
Option 2: RS 80%	19.20	270,768	16.83	270,768	270,768
Option 3: RS 100%	14.50	630,960	10.62	630,960	630,960
Option 1+2	11.25	690,768	7.52	690,768	270,768
Option 1+3	5.60	1,050,960	0.37	1,050,960	630,960

Case 2 (Rents at 99% AMR at acquisition)			with social impact equity		
	initial grant. ($ Mill)	annual subsidy (RS+tax)	initial grant. ($ Mill)	annual subsidy (RS+tax)	
Base case (grant only)	14.73	-	13.62	-	-
Option 1 - no taxes	8.84	420,000	5.02	420,000	-
Option 2: RS 80%	14.73	18,120	13.51	18,120	18,120
Option 3: RS 100%	14.50	18,120	11.05	18,120	18,120
Option 1+2	5.66	438,120	2.53	438,120	18,120
Option 1+3	5.60	438,120	2.66	438,120	18,120

Scaling up: City subsidy required per 100 units/yr

Average of two cases	initial grant. ($ Mill)	annual subsidy (RS+tax)	initial grant. ($ Mill)	annual subsidy (RS+tax)	
Base case (grant only)	18.74	-	16.57	-	-
Option 1 - no taxes	12.85	420,000	8.65	420,000	-
Option 2: RS 80%	16.97	144,444	15.17	144,444	144,444
Option 3: RS 100%	14.50	324,540	10.84	324,540	324,540
Option 1+2	8.46	564,444	5.02	564,444	144,444
Option 1+3	5.60	744,540	1.52	744,540	324,540

With federal Assistance - Acquire at 65% AMR						
	Subsidy cost to city/unit					
		Capital grant	Annual rent supp	Annual Property tax loss	Cumulative 10 yr RS and taxes	Cumulative 10 yr RS and taxes plus original grant
	Base case. (grant only)	227,389	-	-	-	227,389
	Option 1 - waive property taxes	168,477	-	4,200	42,000	210,477
	Option 2: rent supp up to 80% AMR	192,022	2,708	-	27,077	219,099
	Option 3: rent supp up to 100% AMR	144,975	6,310	-	63,096	208,071
	Waive taxes plus Rent Supp at 80%	112,481	2,708	4,200	69,077	181,558
	Waive taxes plus Rent Supp at 100%	56,024	6,310	4,200	105,096	161,120
low rate finance		Capital grant	Annual rent supp	Annual Property tax loss	Cumulative 10 yr RS and taxes	Cumulative 10 yr RS and taxes plus original grant
	Base case. (grant only)	224,812	-	-	-	224,812
	Option 1 - waive property taxes	148,764	-	4,200	42,000	190,764
	Option 2: rent supp up to 80% AMR	179,158	2,708	-	27,077	206,235
	Option 3: rent supp up to 100% AMR	118,426	6,310	-	63,096	181,522
	Waive taxes plus Rent Supp at 80%	76,482	2,708	4,200	69,077	145,559
	Waive taxes plus Rent Supp at 100%	3,604	6,310	4,200	105,096	108,700
Fed 50% share grant						
	Base case. (grant only)	112,406	-	-	-	112,406
	Option 1 - waive property taxes	74,382	-	4,200	42,000	120,582
	Option 2: rent supp up to 80% AMR	89,579	2,708	-	27,077	119,364
	Option 3: rent supp up to 100% AMR	59,213	6,310	-	63,096	128,619
	Waive taxes plus Rent Supp at 80%	38,241	2,708	4,200	69,077	114,225
	Waive taxes plus Rent Supp at 100%	1,802	6,310	4,200	105,096	117,407
acquire 100 units						
	Base case. (grant only)	11.24	0.00	0.00	0.00	11.24
	Option 1 - waive property taxes	7.44	0.00	0.42	4.20	12.06
	Option 2: rent supp up to 80% AMR	8.96	0.27	0.00	2.71	11.94
	Option 3: rent supp up to 100% AMR	5.92	0.63	0.00	6.31	12.86
	Waive taxes plus Rent Supp at 80%	3.82	0.27	0.42	6.91	11.42
	Waive taxes plus Rent Supp at 100%	0.18	0.63	0.42	10.51	11.74
100 units with fed help (acquire at 99% AMR)		city alone	fed help *	% reduced city expense		
	Base case. (grant only)	22.74	11.24	51%		
	Option 1 - waive property taxes	16.85	7.44	56%		
	Option 2: rent supp up to 80% AMR	19.20	8.96	53%		
	Option 3: rent supp up to 100% AMR	14.50	5.92	59%		
	Waive taxes plus Rent Supp at 80%	11.25	3.82	66%		
	Waive taxes plus Rent Supp at 100%	5.60	0.18	97%		
	* low rate finance + 50% share grant					

With federal Assistance - Acquire at 99% AMR						
	Subsidy cost to city/unit					
		Capital grant	Annual rent supp	Annual Property tax loss	Cumulative 10 yr RS and taxes	Cumulative 10 yr RS and taxes plus original grant
	Base case. (grant only)	147,341	-	-	-	147,341
	Option 1 - waive property taxes	88,428	-	4,200	42,000	130,428
	Option 2: rent supp up to 80% AMR	147,341	181	-	1,812	149,153
	Option 3: rent supp up to 100% AMR	144,975	181	-	1,812	146,787
	Waive taxes plus Rent Supp at 80%	56,630	181	4,200	43,812	100,442
	Waive taxes plus Rent Supp at 100%	56,024	181	4,200	43,812	99,836
low rate finance		Capital grant	Annual rent supp	Annual Property tax loss	Cumulative 10 yr RS and taxes	Cumulative 10 yr RS and taxes plus original grant
	Base case. (grant only)	121,482	-	-	-	121,482
	Option 1 - waive property taxes	45,433	-	4,200	42,000	87,433
	Option 2: rent supp up to 80% AMR	121,482	181	-	1,812	123,294
	Option 3: rent supp up to 100% AMR	118,426	181	-	1,812	120,238
	Waive taxes plus Rent Supp at 80%	4,386	181	4,200	43,812	48,198
	Waive taxes plus Rent Supp at 100%	3,604	181	4,200	43,812	47,416
Fed 50% share grant- residual city cost						
	Base case. (grant only)	60,741	-	-	-	60,741
	Option 1 - waive property taxes	22,717	-	4,200	42,000	68,917
	Option 2: rent supp up to 80% AMR	60,741	181	-	1,812	62,734
	Option 3: rent supp up to 100% AMR	59,213	181	-	1,812	61,206
	Waive taxes plus Rent Supp at 80%	2,193	181	4,200	43,812	50,386
	Waive taxes plus Rent Supp at 100%	1,802	181	4,200	43,812	49,995
acquire 100 units						
	Base case. (grant only)	6.07	0.00	0.00	0.00	6.07
	Option 1 - waive property taxes	2.27	0.00	0.42	4.20	6.89
	Option 2: rent supp up to 80% AMR	6.07	0.02	0.00	0.18	6.27
	Option 3: rent supp up to 100% AMR	5.92	0.02	0.00	0.18	6.12
	Waive taxes plus Rent Supp at 80%	0.22	0.02	0.42	4.38	5.04
	Waive taxes plus Rent Supp at 100%	0.18	0.02	0.42	4.38	5.00
100 units with fed help (acquire at 99% AMR)		city alone	fed help *	% reduced city expense		
	Base case. (grant only)	14.73	6.07	59%		
	Option 1 - waive property taxes	8.84	2.27	74%		
	Option 2: rent supp up to 80% AMR	14.73	6.07	59%		
	Option 3: rent supp up to 100% AMR	14.50	5.92	59%		
	Waive taxes plus Rent Supp at 80%	5.66	0.22	96%		
	Waive taxes plus Rent Supp at 100%	5.60	0.18	97%		
	* low rate finance + 50% share grant					