

Pro-Forma Financial Modeling for Affordable Housing



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When discussing affordable housing, many of us have difficulty understanding the financial complexity of any building project. Currently, we have many factors working against affordability:

- High cost of construction materials.
- Shortage of labour resulting in higher costs to find skilled trades.
- High cost of vacant land, especially as Ontario is promoting increased density in established neighbourhoods, thus driving up the value of land for the benefit of landowners and developers.
- Increasing interest rates as the government is trying to rein in inflation.
- Demands of investors for higher returns on their investments (REITs)

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However, even with these factors, it is possible to build affordable housing with collaboration between municipalities, regions, private developers and builders and not for profit housing corporations.

The financial model attached makes several big assumptions and cannot be taken as a business case as that would require much more expertise and thus costs, neither of which our group has access to. In addition, the impact of Ontario's Bill 23 - "Build More Homes Faster" has not been taken into consideration due to the unknown factors which will affect this pro-forma.

The financial assumptions are noted but based on real market data. Also, the income deciles were produced for the Collingwood Affordable Housing Task Force by NBLC Consultants and based on 2016 Census data and then extrapolated to estimate 2021 income levels.

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Some notes:

- ▶ Municipalities are essentially not for profit entities and need to balance their budgets.
- ▶ Revenues come in several forms:
 - ▶ Tax levies based on MPAC assessed property values
 - ▶ Development charges (municipal and regional) for new developments with funds applied to build infrastructure like roads, water supply, sewage treatment and storm water management.
 - ▶ User fees – for use of recreational facilities, parking etc.
- ▶ Where charges are waived, revenues must be made up elsewhere. Hence if development charges are waived, other building developments will have to pay more. The other option that can be used is to defer development charges or other incentives to be collected in the event the property moves out of the affordability category.

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Net income:

In the pro-forma, the projects show a small financial profit in all cases. There are many strategies a developer will use to reduce costs to ensure net positive annual cash flow, which usually can be achieved through innovative financing and increased scale.

Financing:

- ▶ We have assumed 25% equity in this project which translates into 75% financing. Typically, a bank will lend on the full land value and construction costs, but once the project is complete will only finance 75 – 80% of end value. CMHC insurance is available for multi-unit projects.
- ▶ Where a NFP developer uses a social finance instrument such as a community investment bond, this will provide down payment or equity portion in the project. It should be noted that a community investment bond will need to provide the investor with a return, albeit often lower than bank financing.
- ▶ If the NFP developer is a charity, (Redwood Park Communities, Habitat for Humanity), donations will be accepted for which charitable tax receipts will be issued, thus lowering finance costs and improving affordability.

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Hybrid Models

There are several options to make a project sustainable and an asset in the community:

- ▶ Mixed use - ground floor commercial attracts higher rents/sq ft, but at greater risk to the landlord. ie: coffee shop, bakery, daycare center, convenience store.
- ▶ Mixed income levels - a project can be more feasible if there is a mixture of market rent, 20% lower than market, 30% lower than market etc. Reduced rents will attract more favourable CMHC financing rates and greater possibility for municipal concessions. The summary page at the end of this presentation shows two scenarios - one which assumes the whole project is affordable rents, one which shows 50% affordable.
- ▶ Alternative financing models - There are several alternative financing options available, including Community Bonds, VanCity Community Investment Bank, New Market Funds etc.

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Household Incomes in Town of Collingwood and Affordability Thresholds

	Decile Group	Owner Income	Renter Income	Affordable Rental	Affordable
		(2021 estimate)	(2021 estimate)	Rate (monthly)^	Purchase Price^^
Low Income	1st	\$28,900	\$15,764	\$394	\$83,331
	2nd	\$43,351	\$21,894	\$547	\$134,231
	3rd	\$57,363	\$27,587	\$690	\$189,635
Moderate Income	4th	\$70,609	\$36,345	\$909	\$248,642
	5th	\$83,746	\$43,351	\$1,084	\$313,956
	6th	\$98,524	\$51,671	\$1,292	\$390,981
High	7th	\$119,324	\$61,304	\$1,533	\$486,023
	8th	\$145,597	\$74,441	\$1,861	\$627,911
	9th	\$190,480	\$96,335	\$2,408	\$896,823

Notes/Source: ^Assumes 30% of gross income is available for monthly rent. ^^Assumes 30% of gross income is available for accommodation costs.

Accommodation costs include mortgage (25 years, 4% fixed 5-year rate, 10% down payment, 1.14% property tax payment).

Source: NBLC Consulting, Report to Collingwood Affordable Housing Task Force - November 2021

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Impact of financial concessions on affordability

	% of Market Rents	1BR rent	2BR Rent	Annual net income 100% affordable	Annual net income 50% affordable	Income Thresholds (Collingwood)
Proforma - market, no concessions	100%	\$1,500	\$2,300	\$28,953	\$28,953	7th - 9th affordability threshold *
Pro-Forma - zero land cost	90%	\$1,350	\$2,070	\$12,693	\$20,823	6th - 8th affordability threshold *
Pro-forma zero land, waived dev chgs	85%	\$1,275	\$1,955	\$19,636	\$24,294	6th - 8th affordability threshold *
Pro-Forma zero land, waived dev chgs, 2% financing discount	60%	\$900	\$1,380	\$16,264	\$32,621	4th - 6th affordability threshold *
Pro-forma zero land, waived dev chgs, 2% financing discount, 50% realty taxes.	55%	\$ 825	\$1,265	\$30,207	\$93,599	4th - 6th affordability threshold *

* Refer to affordability thresholds provided by NBLC Consultants to Collingwood Affordable Housing Task Force, Nov 2021 *