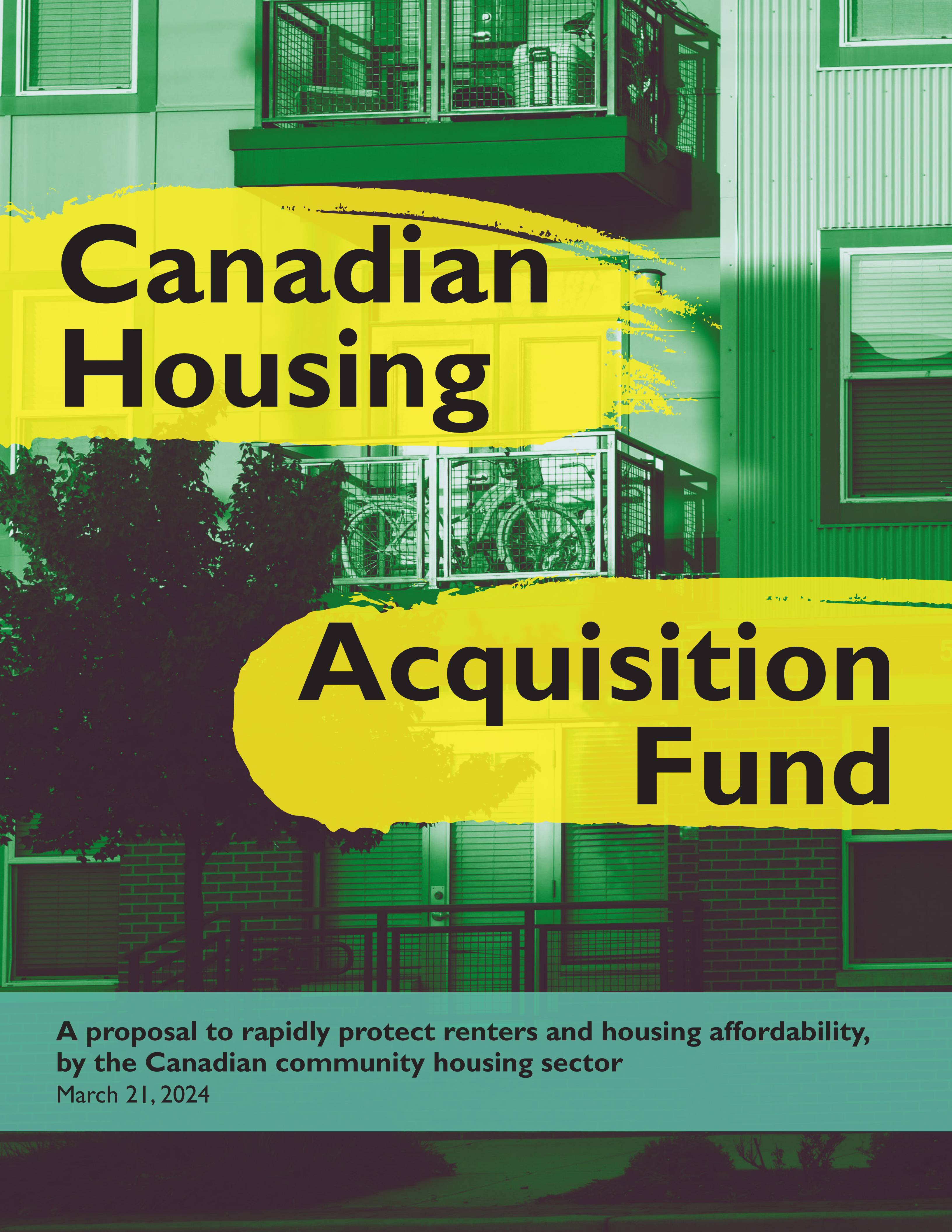


Canadian Housing Acquisition Fund

A proposal to rapidly protect renters and housing affordability, by the Canadian community housing sector

March 21, 2024

Summary

We are losing affordable housing faster than we can build new homes.

The community housing sector is uniquely positioned to protect renters and affordable housing supply.

Rental Protection Fund

We can do so quickly and have demonstrated proof of concept with the British Columbia Rental Protection Fund.

The Canadian Housing Acquisition Fund Inc. is prepared to scale nationally to acquire 10,000 homes by 2026 and 100,000 homes by 2034.

Canadian Housing Acquisition Fund

A broad coalition of the community housing sector, social impact investors and the private sector is urgently calling for federal investment and contributions to enable pan-Canadian acquisition through the Canadian Housing Acquisition Fund Inc.

We have established a solution ready to deliver acquisition capacity that is cost-effective, fast, scalable, and flexible. We aim to leverage government support alongside impact investments to protect affordable rental housing and increase the scale of the community housing sector.

The Ask

Initial Federal Investment in the Canadian Housing Acquisition Fund over two years.

- **$2.5 billion** in low-interest loans, to be administered through the Fund.
- **$500 million** of Government contributions, delivered as grants through the Fund.

Leveraged with:

- **$400-600** million private social impact investment.
- Provincial, Territorial & Municipal support.

The Impact

- **Protect at least 10,000 affordable homes within 2 years**, with the opportunity to scale to **100,000 homes** by 2034.
- Stabilizing rents and protecting tenancies for **over 20,000 Canadians** within two years.
- Recapitalization of **$1 billion** in new market housing supply.

Context

The most-affordable housing we have is the affordable housing we've already got — preserving existing rental units is one of the fastest and most impactful ways to address the national housing crisis quickly and meaningfully.

Canada is losing affordable rental housing much faster than it is building, and rent is becoming unaffordable for an increasing number of low-and middle-income households. Essential workers, newcomer families, young graduates and students will see the situation worsen in coming years even as home building accelerates. Indigenous households are unjustly overrepresented in housing need and homelessness. Research shows Indigenous households are twice as likely to fall into core housing need and once in need, are more likely to remain in housing need. Clearly, Canada needs a robust mechanism to preserve homes where people can live affordably to prevent housing precarity and homelessness.

With reliable federal funding made available to non-profits, co-ops and Indigenous-led housing across the country, there is an opportunity to purchase rental units from the private sector to protect renters and affordable housing supply. In addition, an acquisition fund would allow the community housing sector to build up its asset base to enable continuous renewal and development of community housing supply.

Housing as Infrastructure

By the Canadian Infrastructure Bank's (CIB) definition, an Infrastructure Project is a physical asset which, through its operations, generates an incremental, direct shared benefit or positive externality that accrues beyond the asset's owner.

Community housing is more than a social good. It's also an economic necessity and it is key to tackling Canada's productivity problem. If Canada were to match our global peers by ensuring that community housing makes up at least 7 per cent of total housing supply, national productivity would rise between 5.7 and 9.3 per cent and GDP and would increase by $67 billion to $136 billion (source).

When it's available, community housing keeps its residents healthier, happier, safer and more self-reliant – $10 invested in community housing can save $20 in other areas such as justice, health and social services.

> "First, we must use all federal tools available, including the CIB, and work in partnerships with other levels of Government and the private sector to address Canada's national housing shortage."
>
> - Minister Sean Fraser, [Statement of Priorities and Accountabilities Canada Infrastructure Bank (Sept 2023)]

Canadian Housing Acquisition Fund Inc.

This sector-led Fund was established to rapidly:

- Receive and underwrite low-cost debt – and grant dollars in a centralized manner.
- Build a robust pipeline of qualified, eligible community housing providers across Canada to acquire more housing stock.
- Build a professional intermediary network to assist individual non-profits, co-ops and Indigenous-led housing providers in successfully acquiring and preserving low- and moderate-rent properties.
- Attract private and social impact investment, enabling investment at scale into a managed fund, extending the scale and impact of public investment.

Governance and Operations of the Canadian Housing Acquisition Fund

The Fund:

- Is a pan-Canadian federally incorporated non-profit founded by the Canadian Housing and Renewal Association, Co-operative Housing Federation of Canada, National Indigenous Collaborative Housing Inc. and the Rental Protection Fund.
- Has a leadership and governance structure to support For Indigenous, By Indigenous affordable rental housing acquisition and operation as a core part of its mandate.
- Builds on the success of the Rental Housing Fund, a $500 million fund that is fully operational, working effectively with investors and grantees to close acquisition deals in British Columbia.
- Will hire a CEO with expertise in real estate development to oversee a staff of skilled investment and asset management professionals from the real estate investment industry.
- Will establish an Investment Committee to recommend investment deals based on requisite real estate, community, and underwriting experience.

- Establishes pre-qualified community housing organizations and ensures organizational capacity to acquire and successfully operate buildings. Pre-qualified community housing organizations bring forward potential acquisitions to be assessed by the investment advisory committee for recommendation to the CEO.
- The Canadian Housing Acquisition Fund will allocate proportionate equity/financing to BC's Rental Protection Fund for allocation in that province and collaborate with other provincial programs as they emerge.

Leverage & "Crowding-In" Capital

- A key element of the Fund is its "stackability" – the ability to "crowd-in" other capital, public and private, to enable community-based acquisition of affordable rental housing.
- We expect to aggregate **$400-600 million of social impact capital** from private and institutional investors to help initiate this fund.
- Ongoing efforts to partner with provincial governments could also help to increase the leverage against the initial federal commitment.

Greatest potential for non-budgetary impact is to maximize use of lowest cost capital.

Administration & Program Efficiency

- To move with the speed of the market, and to aggregate additional capital, it is critical that the federal government capitalize the Fund to operate accountably outside of government.
- It is essential that the model is structured to effectively guarantee the flow of funds, in line with the accelerated acquisition timelines and minimize the need for conditional offers to purchase.
- Streamlined funding delivery allows non-profits to access funds quickly and equitably, with minimal complexity, regardless of geography or institutional relationships while maintaining effective underwriting and asset management.
- The Fund would be authorized to approve loans administratively that meet the goals of the program and the established terms and criteria under a contribution and financing agreement with the Government of Canada.

Federal Commitment

Two key funding elements are required, regardless of federal funding source, all of which would flow through the Fund as a centralized aggregator – a single point of contact for all parties involved. These include the following, sized for the needs associated with securing at least 10,000 units across Canada in two years. These figures are net of government administration/monitoring costs. For years 3-10, the Fund will propose an updated funding and financing request to the Federal government to reach our ambition of 100,000 homes by 2034.

$2.5 billion in Low-Cost Debt

Provide concessional interest rates to catalyze investment and facilitate acquisition by the community housing sector, immediately stabilizing properties, and reducing pressure to raise rents. Note that higher rates require a larger equity contribution and/or fewer units.	• 1.2 DCR • 40-year AM • LTC up to 120%

$500 million Rapid Impact Grants

A combination of debt and grants are required to acquire properties, while maintaining affordable rents and keeping buildings in a good state of repair. In some cases, private social impact capital may be able to bridge the equity gap alone, but in many cases, the property's cash flow will be insufficient to cover the interest associated with that capital, so grants will be required. Particularly in those buildings with:

- Deeper affordability/lower rents (~ 80% AMR and below)
- Higher operating costs, perhaps due to geographic dispersion (rural, northern etc.)
- Greater renewal/repair costs in areas of high need or limited supply.

These grants would be delivered through the Fund as Rapid Impact Grants, specifically geared to help bridge that gap and serve as a "strike fund" of sorts. Grants would be available on an average of $75,000 per door when needed, tied to the above metrics, ensuring that equity is available to maximize impact. Start-up and fund administration costs would be drawn from the grant allocation as working capital.

With the Fund able to serve as an aggregator, these funds can be pooled from multiple Government sources if needed, such as:

- A blend of grant dollars and public equity
- A blend of CIB Equity Contributions leveraged with CMHC Retrofit Grant dollars

Given these key considerations, there are two potentially viable paths through which federal borrowing capacity could be facilitated, each with different benefits or trade-offs.

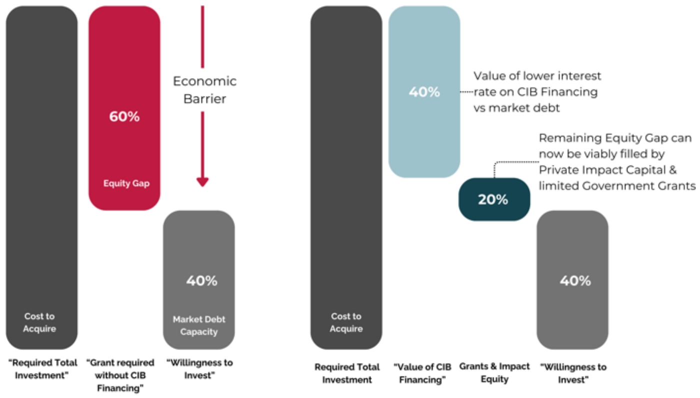
1. The Canadian Infrastructure Bank
2. CMHC, in an Affordable Housing Fund/Co-Investment-type model

While MLI Select is currently being accessed to support acquisitions, in absence of a dedicated Acquisitions/Preservation stream and delegated delivery model, it is not well suited to the unique conditions present for acquisitions and therefore not a viable long-term solution.

Canadian Infrastructure Bank: an innovative example

Capitalizing the Fund outside of government means that targets, outcomes, terms, and other requirements can be tailored to acquisitions rather than new development models. The CIB allows flexibility for evolution over time as sector capacity grows and private capital investment increases.

Like CIB's ZEB, Retrofit and ICII programs, the model would establish standardized investment and loan terms for smaller projects eligible for CIB financing. The Canadian Housing Acquisition Fund would be responsible for administering that financing and funding.

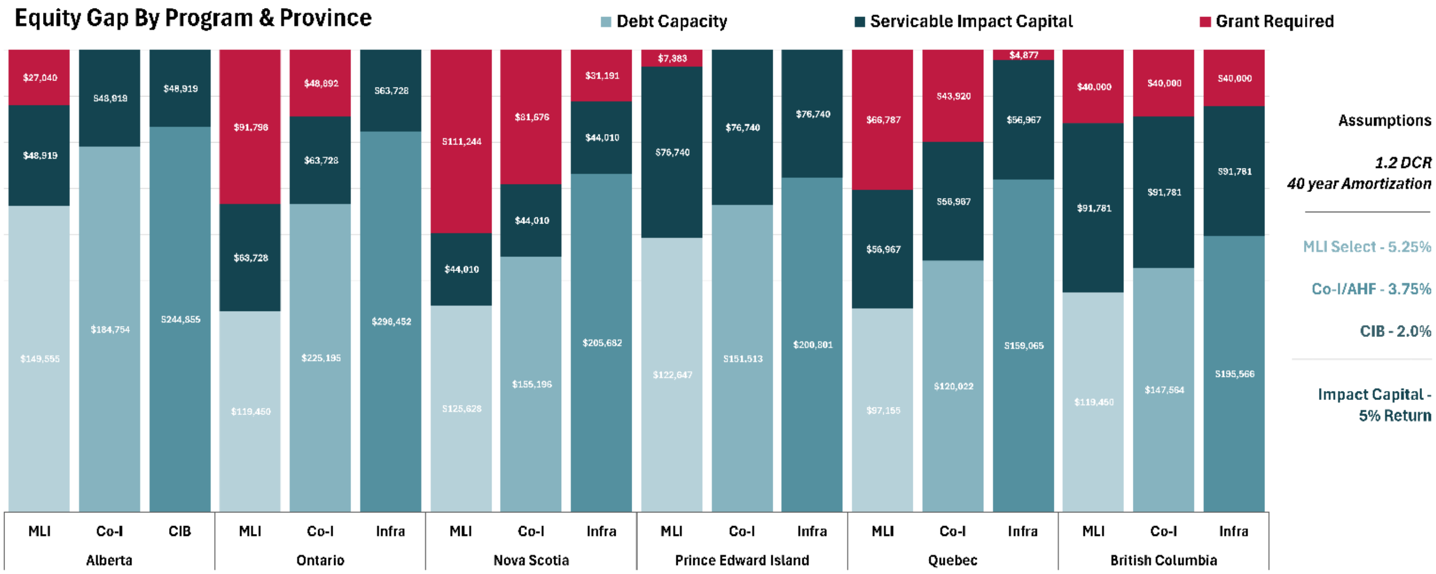


Impact of CIB Financing modelled on current data for pipeline of 8000+ units across the country ready to deploy, represented in CIB framework.

CIB prices its products based on the financing gap that exists, while ensuring private and institutional investors earn market appropriate returns for the risks they bear, making this a model well suited to the dynamics and risk profile of acquisition.

Maintaining affordable rents means lower net operating income and borrowing capacity for a community housing organization. This results in a sizable equity gap and means that the organization cannot obtain sufficient private investment to deliver rapidly and at-scale. The lower the loan rate, the greater the leverage, minimizing the grant equity required and addressing structural lending barriers. But similarly, upfront grant contributions provide a greater compounding investment in the long-term growth of the sector through redevelopment.

The following chart, using actual illustrative case studies (pipeline properties) across provincial jurisdictions, reveals just how significant low-rate financing can be in reducing residual capital (equity required). The low rates and flexible terms from an entity like the CIB have *by far the greatest impact and is the preferred source of loan finance.*



Repayment Terms & Recycling Capital

At the end of the term, the property can be refinanced through insured loans, allowing the funds to be recycled.

> "Because infrastructure assets are long-lived and help facilitate other activities, infrastructure projects represent both a bet on the future and a decision about the future. Therefore, planning any infrastructure project to deliver the greatest public benefits requires governments look beyond "what is" to "what can be."
>
> \- Legislative Review of the Canada Infrastructure Bank Act

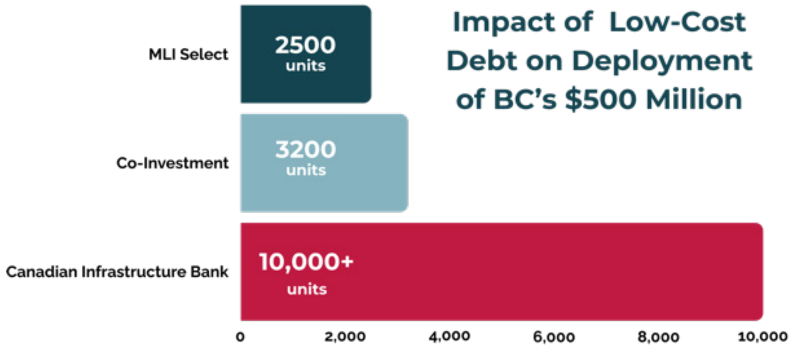
Deployment-Ready Pipeline

The Canadian Housing Acquisition Fund has a deployment-ready pipeline of **8,000 units** that are ready for acquisition. These comprise about 90 properties in both primary and secondary markets across the country, with rents averaging ~95% of average market rent.

Included in this pipeline is a proportion of the BC Rental Protection Fund's active pipeline and a portfolio of properties that Canada's five largest publicly traded residential REITs (Canadian Apartment Properties REIT, Boardwalk REIT, Killam Apartment REIT, InterRent REIT and Minto Apartment REIT, collectively Canadian Rental Housing Providers for Affordable Housing) would consider vending into the Fund.

Rental Protection Fund

The impact of this model on the number of units secured with the Province of BC's $500m Rental Protection Fund would be transformational and set a **compelling example to incentivize other Provinces to commit their own dollars** to be leveraged through the Canadian Housing Acquisition Fund.



The Rental Protection Fund has pipeline of qualified acquisitions that already exceeds its initial 2000-unit mandate, and over 80 community housing sector applicants – in less than 6 months since launching applications. The demand is significant and impact could be extended with greater leverage.

Real Estate Investment Trust (REIT) Portfolios

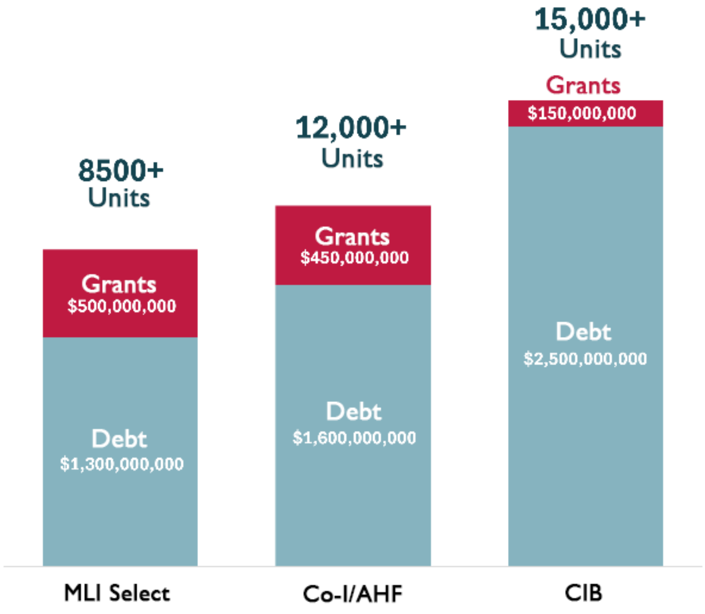
REIT properties are strong candidates for acquisition, are comparatively more cost-effective to purchase, and there are many benefits to be gained from a collaborative, portfolio-scale acquisition pipeline. This would also generate sales proceeds which they would redeploy to support an ongoing reinvestment in rental housing. Meanwhile the older assets would be sold to the community housing sector and facilitate the immediate scaling up of the Canadian Housing Acquisition Fund.

This impact could be further extended with consideration from complementary tax incentives to mitigate costs but more importantly, incentivize all types of owners to sell their properties into the community housing sector. This would put the community housing sector at a competitive advantage in the market for property acquisitions allowing them to scale more quickly.

The multiplying impact of these key components of the deployment-ready pipeline would:

- **Ensure the rapid scaling up of impact.**
- **Create even greater leverage of the federal grant dollars.**
- **Result in smaller cost per door to government.**

This could mean more than 15,000 units secured (under CIB) or more than 12,000 units secured (under CMHC AHF) through these leverage opportunities, versus the baseline 10,000 units (or less than that under MLI Select) and greater leverage of federal grant dollars.



Conclusion

A pan-Canadian housing acquisition facility is the missing piece of the National Housing Strategy. The policy imperative to stem the loss of affordable housing supply and protect renters through acquisition is well-established, and this proposal answers how to respond to this challenge rapidly and comprehensively. The community housing sector has a strong track record of building, acquiring, and protecting affordable housing to meet community needs. In fact, much of today's community housing supply was acquired from the private market through government programs that started and ended decades ago. As proponents, we have extensive experience and capability in community housing development, acquisition, asset management and operation.

With disproportionate and unjust housing need and homelessness affecting Indigenous households, we also have the leadership and governance structure committed to For-Indigenous, By-Indigenous housing acquisition and operation as a core part of our mandate.

The Canadian Housing Acquisition Fund Inc. builds on the proof of concept established by the Rental Protection Fund in British Columbia. The BC Fund struck rapid agreement with the Government of British Columbia and was operational within months. We are positioned to leverage and scale quickly from the BC experience. In comparison, government administered and delivered programs take years to get from budget commitments to delivery – we cannot afford to wait.

To be successful, an acquisition facility must be able to raise and aggregate capital from multiple sources, it must have deep relationships with purchasers and sellers to transact deals quickly and prudently, and it must have capacity and experience to start-up and operate on the urgent timescales needed to confront the housing crisis. The Canadian Housing Acquisition Fund brings all these advantages to the table, and more. Now all that is needed is a federal commitment to activate this high impact proposal.

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