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MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING
HOUSING DIVISION

Social Housing *mortgage news*

Inside this issue

Welcome to the Summer issue of the social housing mortgage newsletter, prepared by the Housing Funding and Risk Management Branch of the Ministry's Housing Division.

In keeping with previous issues, the newsletter continues to share information on social housing financing.

This issue provides an overview of different life-cycle costs of owning real estate, explains how the Municipal Property Assessment Corporation (MPAC) assesses social and affordable housing properties, and provides some essential information that Service Managers and housing providers should know if they contemplate porting a mortgage.

We hope you enjoy this issue. If you have any questions regarding articles in the newsletter, please contact Erich Freiler, Manager, Housing Funding and Risk Management Branch at (416) 585-6193 or Erich.Freiler@ontario.ca.

Municipal Property Assessment Corporation – Evaluation of Social Housing Properties

Some housing sector representatives have advised the ministry that the recent MPAC assessments have resulted in higher than anticipated valuations of a number of affordable and social housing properties, which have led to higher property taxes. They wondered if this could be a result of a change in the assessment methodology to use market rent instead of actual rent to assess social and affordable housing properties.

The Municipal Property Assessment Corporation (MPAC) administers a uniform, province-wide property assessment system based on Current Value Assessment in accordance with the provisions of *the Assessment Act.* MPAC provides municipalities with a range of services, including the preparation of annual property assessment rolls, which are used by municipalities to calculate property taxes.

In 2012, MPAC conducted a province-wide assessment update under Ontario's four-year cycle, updating the assessments of all properties in the province. MPAC found that property assessment values increased by approximately 5-6% across the Province. The new assessments are expected to be phased-in over four years (2013-2016).

The Ministry of Municipal Affairs and Housing has contacted MPAC and confirmed that there have not been any changes to the methodology. Social and affordable housing properties have always been valued using the same principles as other residential rental properties - potential gross income (based on fair market rent) and the sale of similar properties in the area. MPAC has applied this methodology consistently for many past assessment cycles.

Porting Social Housing Mortgages: Why and How?

Service Managers and housing providers are routinely looking at prepaying and refinancing their mortgages to support investments in social housing repair and redevelopment activities. An alternative to discharging a mortgage is porting a mortgage to another property. This article aims to help Service Managers and housing providers understand what is involved in porting a mortgage.

Porting a mortgage means transferring the existing mortgage with all of its existing terms and conditions from one property to another property. Mortgages can only be ported to an existing social non-profit property that is part of the Canada—Ontario Social Housing Agreement (SHA) portfolio, which is free and clear of encumbrances. There could be many reasons prompting a provider to port a mortgage.

For example, some owners of Section 26 and 27 projects (financed with closed 50-year CMHC mortgages) may wish to sell or repurpose their properties while avoiding costly prepayment penalties associated with the early discharge of closed mortgages. Porting may allow these owners the ability to move the mortgage to another property and assume the operating agreement.

If Service Managers and housing providers are contemplating a porting transaction, they should prepare necessary documentation as follows:

Section 26 and Section 27 projects

- A Business Case that explains the provider's rationale for porting, as well as the Project Operating Agreement.

The ministry will then contact Canada Mortgage and Housing Corporation (CMHC) Loans Administration staff to seek appropriate approvals for porting the mortgage. CMHC will notify the ministry what additional documentation it needs to make a decision. After reviewing the documentation, CMHC may provide approval. CMHC would provide a template for the assumption of the Project Operating Agreement for the new property.

National Housing Act-insured projects that are part of the Ontario Competitive Financing Renewal Process

- Copy of title search, which is free and clear of any encumbrances;
- Current MPAC assessment and/or fair market appraisal provided by a real estate agent;
- Proof that the new property has sufficient equity to cover the mortgage (e.g. recent assessment of Loan to Value);
- A recent picture of the property;
- An environmental site assessment, if applicable;
- A Business Case that explains the housing provider's rationale for requesting to port the mortgage.

Once the ministry receives the documentation, the ministry will contact CMHC's MBS staff and CMHC's NHA staff to seek appropriate approvals for porting the mortgage. After reviewing the business case, CMHC may provide approval and issue instructions to the lender's solicitor. Housing providers will be asked to be responsible for their legal fees and the lender's legal fees. The lender may also require the housing provider to pay for title insurance.

CMHC Direct Lending - financed projects

- A Business Case that explains the housing provider's rationale for porting;
- Current MPAC assessment and/or fair market appraisal provided by a real estate agent;
- A recent picture of the property;
- An environmental site assessment, if applicable;
- Proof that the property in receipt of a mortgage has sufficient equity to cover the mortgage.

Ministry staff will work with CMHC staff on the porting process. If CMHC approves the housing provider's request to port a mortgage, the ministry will amend the Certificate of Insurance and substitute the new municipal address of the property. The ministry will also remove the former property from the SHA and add the new property. The housing provider will also have to amend the fire insurance endorsement as it relates to the new property.

Important Considerations

All housing providers and Service Managers should plan ahead of time for the porting transaction and give the Ministry of Municipal Affairs and Housing and the Canada Mortgage and Housing Corporation sufficient time (i.e. at least 8 weeks) to review the documentation and issue appropriate instructions.

In some cases, the property may have a "No Dealings Indicator" registered on title. The "No Dealings Indicator" is governed by Section 118 of *the Land Titles Act*, which states that a party may impose restrictions on selling, transferring, charging or mortgaging the lands. The ministry will prepare a form of release and will provide a Service Manager's Consent Form to allow the registration of new mortgage on title.

Housing Funding and Risk Management staff will happily assist housing providers and Service Managers who are looking to make informed decisions about porting a mortgage.

Life-cycle Costs of Owning Real Estate

Many social housing properties in Ontario built between the 1950s and 1995 were developed with the assistance of different levels of government where governments provided one-time or ongoing subsidies to housing providers to help pay for the initial capital costs (e.g. Federal/Provincial housing programs).

But there are more than initial capital costs in social and affordable housing. A rental apartment building will consume multiple times its initial capital cost over its useful life. The total costs of social and affordable housing are life-cycle costs / total costs of ownership which include: 1) initial capital acquisition costs, 2) financing costs and 3) operational costs. This article aims to briefly sum up the costs of owning real estate and to outline some measures for reducing the life-cycle costs.

Initial capital acquisition costs

Initial capital acquisition costs include all costs necessary to develop a housing project. These costs include land, construction, developer fees, and other soft costs such as bridge financing, architectural fees, engineering fees, legal fees, permit costs and closing costs. Many of these costs get rolled into a mortgage.

Financing costs

Financing costs include interest payments, financing fees charged by financial institutions, and administrative fees to complete the financing process. For some social housing properties, the loan interest rate is fixed for the entire duration of the mortgage (e.g. projects developed under Sections 26 and 27 of the *National Housing Act*). In other cases, financing costs vary, as owners of social housing properties renew their mortgages periodically at prevailing market rates.

Operational Costs

Operational costs can be the largest expenditure piece of owning a piece of property. Operating costs include taxes, insurance, utilities, landscaping, maintenance and repairs, cleaning and carpeting, materials and supplies and staffing costs as well as regeneration/renewal costs. All of these costs are funded through the property's operating budget and capital budget. Having a good asset management program can preserve the building asset, help to achieve the maximum building life expectancy and reduce the overall life-cycle costs.

Unexpected failure of a building component can result in a housing provider having to pay premium rates for labour and materials. A preventive approach, on the other hand, involves anticipating failures and planning and budgeting for replacements at a lower cost before the failure occurs.

There are a few measures that housing providers can do to lower their utilities bills, avoid costly emergency repairs, and extend the life of HVAC (heating, ventilation, air conditioning), plumbing and electrical systems. These include:

- A regular inspection of buildings and building components (e.g. electrical outlets, roofs, water heaters, windows);
- A regular inspection of rental units. Check bathrooms and kitchens where leaks can cause costly damage. Also look for signs of mildew, mold, or water damage. Change the batteries in smoke and carbon monoxide detectors;
- A regular cleaning schedule for HVAC and building exterior components. Regularly replace HVAC filters and filters in dryers and ventilation systems so that the systems run more efficiently and become less susceptible to breakdowns.

Adopting a preventive approach can mean extra work and extra money outlays for housing providers. However, it can reduce the life-cycle costs, time and inconvenience in the long run.