

# Social Housing & Health Project: A Financial Tool

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**SHARE Innovation Event-** September 16, 2016

Affordable Housing Development: Built Form, Design and Partnerships



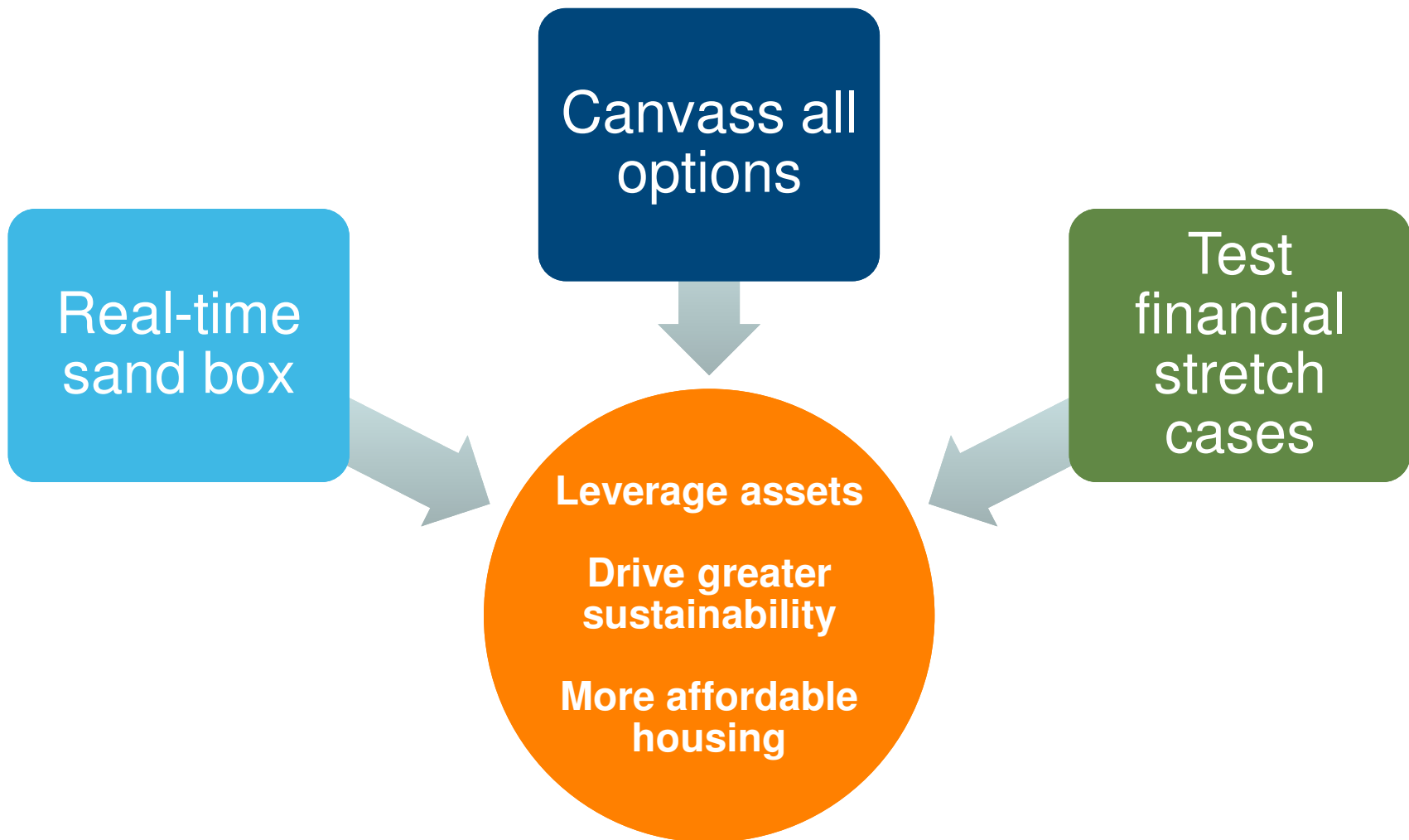
# Context

- NE LHIN and the Northern Ontario Services Deliverers Association (NOSDA), HSC and the Canadian Mental Health Association Manitoulin-Sudbury, are working in partnerships with other key community stakeholders to explore the development of innovative housing with health supports in Northern Eastern Ontario.
- **Project objective:**
  - Development of a financial modelling tool to assist the NE LHIN, SM and HPs to develop, sustain, enhance and grow the affordable housing supply.



*Financial tool to analyze and assess a potential range of innovative funding mechanisms to aid in the development/creation, renovation or re-purposing of social housing.*

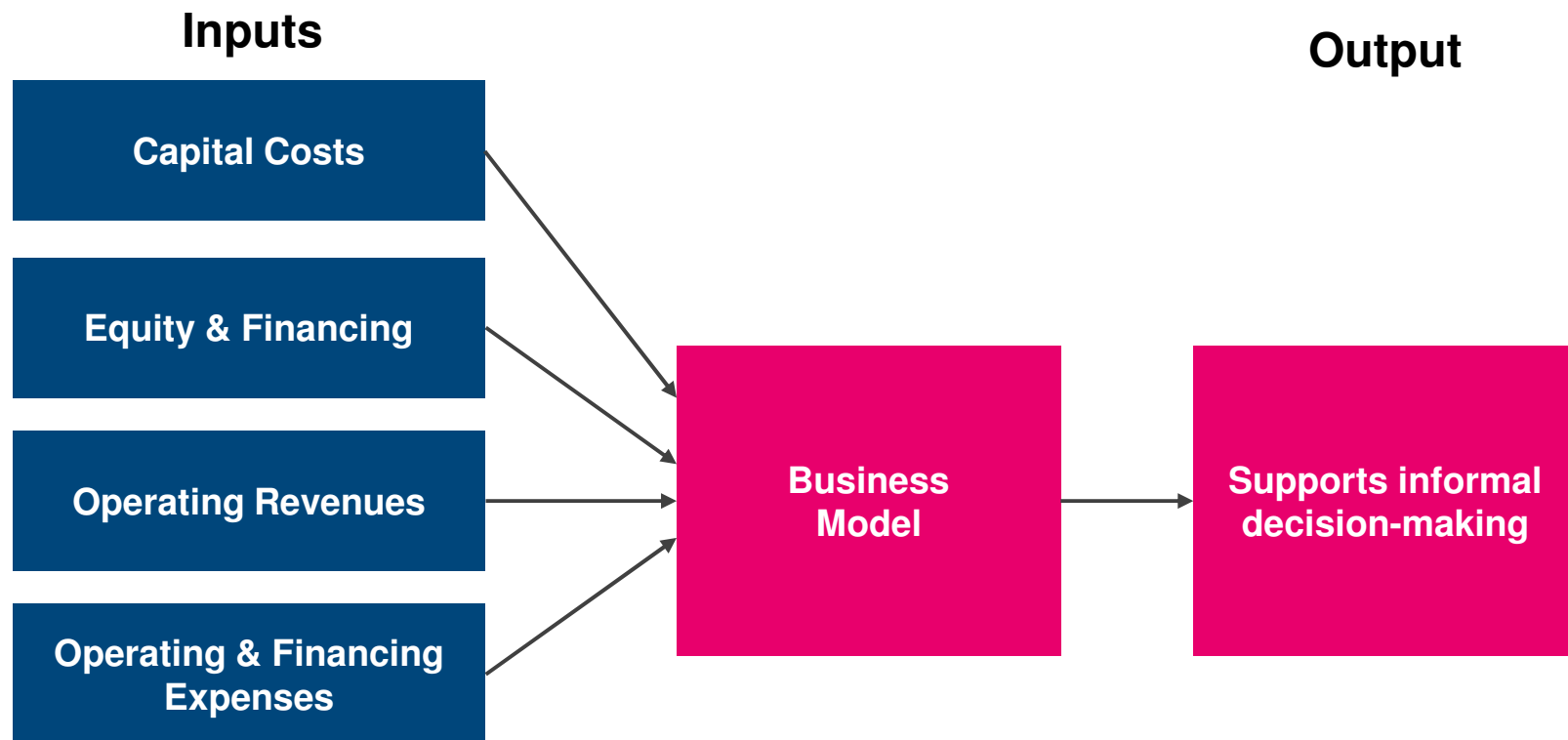
# What Kind of Business Model?



## Tool Functionality & Benefits

- Enables scenario building:
  - “What ifs”
  - Inputs are common to most development projects
- Helps maximize incentives and breaks, identify opportunities and bring funders on board to possibilities
- Supports informed decision-making

# Business Model

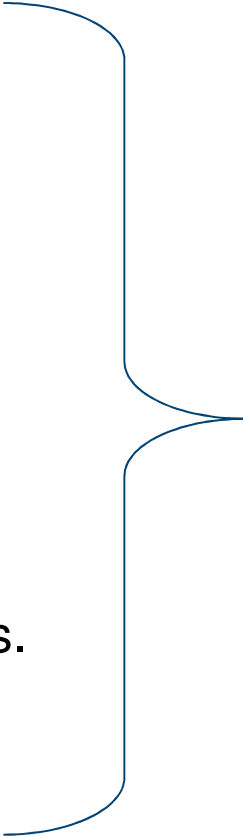


# Scenarios

Base model of a new build and the financing the project

1. Additional revenue by utilizing rental space for service providers
2. Additional municipal incentives
3. Sub-debt
  - Utilizing equity stake to finance another project

## Base Model

- Small community with growing number of aging residents
  - Longstanding non-profit willing to address the need
    - \$250K in community fundraising, donations
    - Interest in creating 'community hub' vs. residence only
    - Equity: \$500K
- 
- 34 affordable seniors' units
  - Community-style living centre (e.g. community gardens)

## Base Model, cont'd

- Funding requested from MMAH and CMHC
- Municipality has offered land parcel
- Allocated operating expenses:
  - Maintenance
  - Reserves
  - Property management fee per unit



# Key Components

- Project capital cost
- Project funding
  - Proponents equity
  - Grants (federal, provincial, municipal, other)
  - Gifts/donations
  - Debt financing
- Project operating budget
  - Revenue
  - Expenses
    - Building expenses
    - Operational expenses
- Debt Service Coverage Ratio (financial viability)
  - Ability to finance the project and service the principal and interest

## Definition of Debt Service Coverage Ratio (DSCR)

The amount of free cash flow available to meet annual interest and principle payments on all debt

$$\text{DSCR} = \frac{\text{Net Operating Income (EBITDA)}}{\text{Total Debt Service}}$$

- <1.0: Not enough cash flow to cover loan and interest payments
- ≥1.2: Financially sustainable

Project Name:

**Senior Complex  
Proposal  
Scenario ( A ) - Base Model of a New Build and the Financing the Project**

Blue cells are input fields.  
Black cells are calculated fields.

<b>General Information</b>				
Site Area (hectares)			18	
Parking (spaces)			-	
Enclosed Parking (spaces)				
Total Floor Area (Gross Floor Area in sq ft or m <sup>2</sup> )			29,000	
Net Residential Floor Area (sq ft)			23,146	
Base Construction Cost per sq ft (without contingency)			232	
Base Construction Cost per sq ft (with contingency)			243	
<b>Type of Units to be Provided</b>	<b>Number</b>	<b>Rent</b>		<b>Unit Size (sq ft)</b>
Unit Type and % of AMR	30	\$ 520.00	\$ 187,200.00	one bedroom - 650 sq ft
Unit Type and % of AMR	4	\$ 600.00	\$ 28,800.00	two bedroom - 900 sq ft
Unit Type and % of AMR	0	\$ -	0	
Total Number of Units	34		\$ 216,000.00	

**Scenario ( A ) - Base Model of a New Build and the Financing the Project**

**General Information**

Name	Senior Complex Proposal		
Address	<hr/>		
Site area	ha	18	
Gross floor area	sq ft	29,000	
Net residential floor area	sq ft	23,146	
Base construction cost (without contingency)	\$/sq ft	-	232
Base construction cost (with contingency)	\$/sq ft		243
Units		34	

**Capital Cost**

Land	donated	\$	51,000	1%
Soft costs		\$	1,054,870	15%
Construction costs and "FF&E"		\$	5,370,000	76%
Additional costs (contingency)		\$	577,576	8%
Total		\$	7,053,446	100%

**Funding**

Equity (land)		\$	500,000	7%
Grants / Municipal, Provincial, Federal loans		\$	4,856,903	69%
Other funding (Donations/Sponsorships)		\$	250,000	4%
External debt required		\$	1,446,543	21%
Total		\$	7,053,446	100%

**Operating Budget**

Net revenue		\$	218,904	100%
Expenses		\$	114,223	52%
Annual surplus / cash available for debt service		\$	104,681	48%

Implied debt service payment (3.60%, 30yr amort)

79,051

Implied DSCR

1.32x

greater than 1.2X

Expected rate on bank mortgage  
Term (years)  
Amortization (years)

3.60%  
n/a  
30

External debt required	1,446,543
Term	30 years
Benchmark	2.10%
Spread	1.50%
Annual rate	3.60%
Pmts/year	4
Implied annual payment	79,051
Assumed DSCR	1.00x
Annual surplus	104,681
Annual surplus after DSCR	104,681
Difference	-
Annual surplus after DSCR	104,681
Implied annual payment	79,051
Surplus/(deficit)	25,630
External debt required	1,446,543
Implied debt after DSCR	1,915,546
Surplus/(deficit)	469,003

<b>Project Capital Cost</b>				
<b>1. LAND</b>			Cost	(actual/quote/estimate)
a) Land Cost ( price paid )			\$ -	Donated
Geotechnical			\$ -	
Legal Fees			\$ 51,000	estimate
Survey			\$ -	
<b>Subtotal #1: Land Cost</b>			<b>\$ 51,000</b>	
<b>2. SOFT COSTS</b>				(actual/quote/estimate)
a) Legal Fees (other than land)			\$ -	
b) Municipal Approvals and Permits				
Building Permit Fees ( 2015 )			\$ 75,000	estimate based on similar projects
Development Charges ( 2015 new )			\$ 200,000	estimate
Parkland Levy			\$ -	
c) Consultants				
Architectural			\$ 322,200	estimate
Mechanical and Electrical			\$ -	
Phase 1 (Structural)			\$ 7,500	estimate
Landscape			\$ 125,000	estimate
Survey (Planning Consultant)			\$ 10,000	estimate
Cost Consultant ( for mortgage Lender )			\$ -	
Development Consultant			\$ 220,170	estimate
d) Disbursements marketing			\$ -	
e) Utility Fees (Hydro, Gas)			\$ -	
f) Government Signage			\$ -	
g) Construction Loan Interest During Construction			\$ -	
h) Insurance During Construction			\$ 50,000	estimate
i) Taxes During Construction			\$ -	
j) Organizational/ Management			\$ -	
k) Audit Cost			\$ -	
l) Other: Mortgage draw fees , Lender Fees			\$ 45,000	estimate
<b>Subtotal #2: Soft Costs</b>			<b>\$ 1,054,870</b>	
<b>3. CONSTRUCTION COSTS</b>			Cost	(actual/quote/estimate)
a) Construction ( see estimate )			\$ 5,370,000	estimate based on similar projects
b) Construction Management Fee			\$ -	
c) Stoves and refrigerators			\$ -	
d) Laundry Equipment			\$ -	
e) Furnishings and equipment			\$ -	
<b>Subtotal #3: Construction</b>			<b>\$ 5,370,000</b>	
<b>SUB-TOTAL EXPENDITURES (PLEASE ADD SUBTOTALS 1+2+3)</b>			<b>\$ 6,475,870</b>	
<b>4. ADDITIONAL COSTS</b>				(actual/quote/estimate)
a) Rent Loss During Construction ( n / a )			\$ -	
b) HST ( Net, based on 3.95% effective )			\$ 253,782	
c) Contingency: ( 5.0% )			\$ 323,794	estimate
<b>SUBTOTAL #4 - ADDITIONAL COSTS</b>			<b>\$ 577,576</b>	
<b>Total Capital Cost</b>			<b>\$ 7,053,446</b>	

**Project Funding**

<b>ANTICIPATED EQUITY AND FUNDING</b>				
<i>(including this funding application)</i>			<b>TOTAL</b>	<b>Description</b>
<b>PROPONENT EQUITY</b>			\$ 500,000	
<b>GRANTS</b>				
Grant 1	Investment in Affordable Housing Initiative (IAH)		\$ 4,856,903	
Grant 2	Municipality - Waiver of Fees		\$ -	
Grant 3	Other		\$ -	
Grant 4	HST Rebate		\$ -	
<b>TOTAL GRANTS</b>			\$ 4,856,903	
<b>External Funding Required</b>				
<b>Community - Corporate &amp; Other Donations</b>			\$ 250,000	
<b>Individual Gifts</b>			\$ -	
<b>Events, Lotteries, etc</b>			\$ -	
<b>External debt requirement</b>			\$ 1,446,543	
<b>TOTAL EQUITY, FUNDING and FINANCING</b>			\$ 7,053,446	

## Project Operating Budget

### ANTICIPATED ANNUAL REVENUES

a) Income from Rent - Unit Type and Total #	Per Month	Annual Income
30 Unit Type (% of AMR)	\$ 6,240	\$ 187,200
4 Unit Type (% of AMR)	\$ 7,200	\$ 28,800
0 Unit Type (% of AMR)	\$ -	\$ -
<b>Gross Rental Revenue</b>		<b>\$ 216,000</b>
Share Space Rental		\$ -
Less Vacancy Loss (%)		\$ 6,480
Net Rental Revenue		\$ 209,520
Plus: Laundry, Vending, other		\$ 9,384
Partnerships		\$ -
Other		\$ -
<b>Total Rental Revenue</b>		<b>\$ 218,904</b>

### ESTIMATED ANNUAL EXPENDITURES

	Description
<b>Building</b>	
a) Management ( 5.0% )	\$ - 10,386
b) Building operating costs, R & M, Snow ( \$1100 p.u. )	\$ - 37,400
c) Utilities ( heat, electricity, water ) (for common areas)	\$ - 10,200
d) Property taxes ( residential rate )	\$ - 34,000
e) Insurance	\$ - 5,100
f) Replacement Reserves ( 4% rents )	\$ - 8,381
g) Misc. , Contingency	\$ -
h) Other - Property Management	\$ - 8,756
<b>Sub-Total - Building</b>	<b>114,223</b>
<b>Operational</b>	
i) Operations	-
<b>Sub-Total - Operational</b>	<b>-</b>
<b>Total Operating Costs</b>	<b>\$ - 114,223</b>
<b>Annual Surplus / Cash Available for Debt Service</b>	<b>\$ 104,681</b>

**OPERATING BUDGET**

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	2017	2018	2019	2020
<b>REVENUE</b>																
<b>One Bedroom Suites (30)</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>
1 Bdm Rent	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	187,200	190,944	194,763	198,658
1 Bdm Meal	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0
1 Bdm Meal 2nd occ	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0
1 Bdm Services	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0
<b>Two Bedroom Suites (4)</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>
2 Bdm Rent	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	28,800	29,376	29,964	30,563
2 Bdm Meal	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0
2 Bdm Meal 2nd Occ	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0
2 Bdm Services	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0
Parking	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0
<b>Total Suite Revenue</b>	<b>\$18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>216,000</b>	<b>220,320</b>	<b>224,726</b>	<b>229,221</b>
<b>Occupancy Rate</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Share Space Rental	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Coin Operated Laundry	782	782	782	782	782	782	782	782	782	782	782	782	9,384	9,572	9,763	9,958
Revenue - Other Supportive Services/Partnerships	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guest Suite Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Union Gas Rebate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Municipal Contribution	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sponsorship	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<i>Less Vacancy Loss (%)</i>	<i>540</i>	<i>540</i>	<i>540</i>	<i>540</i>	<i>540</i>	<i>540</i>	<i>540</i>	<i>540</i>	<i>540</i>	<i>540</i>	<i>540</i>	<i>540</i>	<i>6,480</i>	<i>6,610</i>	<i>6,742</i>	<i>6,877</i>
<b>TOTAL REVENUE</b>	<b>\$18,242</b>	<b>18,242</b>	<b>18,242</b>	<b>18,242</b>	<b>18,242</b>	<b>18,242</b>	<b>18,242</b>	<b>18,242</b>	<b>18,242</b>	<b>18,242</b>	<b>18,242</b>	<b>18,242</b>	<b>218,904</b>	<b>223,282</b>	<b>227,748</b>	<b>232,303</b>



<b>EXPENSES</b>	<b>Jan-17</b>	<b>Feb-17</b>	<b>Mar-17</b>	<b>Apr-17</b>	<b>May-17</b>	<b>Jun-17</b>	<b>Jul-17</b>	<b>Aug-17</b>	<b>Sep-17</b>	<b>Oct-17</b>	<b>Nov-17</b>	<b>Dec-17</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Mortgage	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-	-
<b>Building</b>																
(a) Management fees (5%)	866	866	866	866	866	866	866	866	866	866	866	866	10,386	10,594	10,806	11,022
(b) Bldg Maintenance (grouped all building operating costs)	3,117	3,117	3,117	3,117	3,117	3,117	3,117	3,117	3,117	3,117	3,117	3,117	37,400	38,148	38,911	39,689
Water/Sewer (Municipal services)	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-	-
Snow Removal	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-	-
(c) Utilities	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-	-
Electricity/Hydro	850	850	850	850	850	850	850	850	850	850	850	850	10,200	10,628	11,075	11,540
Gas/Fuel	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-	-
(d) Property tax	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	2,833	34,000	34,680	35,374	36,081
(e) Insurance	425	425	425	425	425	425	425	425	425	425	425	425	5,100	5,202	5,306	5,412
(f) Replacement Reserve																
(g) Contingencies	698	698	698	698	698	698	698	698	698	698	698	698	8,381	8,548	8,719	8,894
(h) Misc. - Contingency																
(h) Other - property management	730	730	730	730	730	730	730	730	730	730	730	730	8,756	8,931	9,110	9,292
<b>Sub-Total - Building</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>114,223</b>	<b>116,732</b>	<b>119,300</b>	<b>121,930</b>
Operational																
(i) Operations:																
Salaries and benefits (Schedule 1)	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-	-
Meals	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-	-
All other expenses....(rows collapsed)	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-	-
<b>Sub-Total - Operational</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL EXPENSES</b>	<b>\$9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>9,519</b>	<b>114,223</b>	<b>116,732</b>	<b>119,300</b>	<b>121,930</b>
<b>NET PROFIT/(LOSS)</b>	<b>\$8,723</b>	<b>8,723</b>	<b>8,723</b>	<b>8,723</b>	<b>8,723</b>	<b>8,723</b>	<b>8,723</b>	<b>8,723</b>	<b>8,723</b>	<b>8,723</b>	<b>8,723</b>	<b>8,723</b>	<b>104,681</b>	<b>106,550</b>	<b>108,447</b>	<b>110,372</b>

**Cost increases expected in the future**

2018 CPI or cost increase                   2% for illustrative purposes only  
2019 CPI or cost increase                   2%  
2020 CPI or cost increase                   2%

Annual CPI for utilities                   4.2%  
Line items for support services inflow and cost outlay

## Base Model

<b>Capital Costs</b>	<b>\$7M</b>
<b>Funding</b>	<b>\$7M</b>
<b>NET OPERATING INCOME</b>	<b>\$104K</b>

### Assumptions

- Annual Rate: 3.6%
- Term: 30 years

**Debt Service Coverage Ratio:  
1.32**

## Scenario 1: Rental Income

<b>Capital Costs</b>	<b>\$7M</b>	
<b>Funding</b>	<b>\$7M</b>	
<b>NET OPERATING INCOME</b>	<del><b>\$104K</b></del>	<b>\$134K</b>

### Assumptions

- Annual rate and term same as base model
- Additional rent revenue from service provider of \$32K

**Debt Service Coverage Ratio:**  
~~**1.32**~~ **1.70**

## Scenario 2: Municipal Incentives

<b>Capital Costs</b>	<del>-\$7M</del>	<b>\$6.7M</b>
<b>Funding</b>	<del>-\$7M</del>	<b>\$6.7M</b>
<b>NET OPERATING INCOME</b>		<b>\$104K</b>

### Assumptions

- Access to municipal subsidies
- Negotiation with municipality has resulted in forgiveness of development costs

**Debt Service Coverage Ratio:**  
~~1.32~~ 1.42

## Scenario 3: Sub-Debt at 7.5%

**Capital Costs** **\$7M**

Equity	<del>-\$500K</del>	\$250K	<b>\$250K for new project</b>
Sub-Debt		\$250K	

**Funding** **\$7M**

**NET OPERATING INCOME** **\$104K**

### Assumptions

- Equity is reduced in order to leverage another property
- Original debt remains with original value and characteristics
- The reduction in equity of \$250K is replaced with sub-debt with a coupon of 7.5%

**Debt Service Coverage Ratio:**  
~~1.32~~ 1.05

## More Models in Excel Tool

### **Retrofit**

- The model has the ability to factor in additional costs required for retrofits
- Any additional grants and new financing attached to the retrofits
- Any expense savings driven out of the new retrofit

### **Innovative Strategic Partnerships**

- Inflows from strategic partnerships can offset Operating Costs to enhance the sustainability of the project

## Next steps:

- ‘Bench test’ and modify the financial analysis tool, with a view to maximize its utility for communities/organizations considering developing innovative housing in Northeastern Ontario.
- Apply this financial model tool to the Northwest LHIN and DSSABs in North Western Ontario.
- Drill down webinar on usability of the tool- SHARE Webinar.

# Thank you



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