CHRA Congress Session Series 2023

Protecting Tenants and Affordability: Exploring the efficacy of property acquisition

SUMMARY AUTHOR

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Joseph Daniels, Acquisition Strategy Coordinator, Housing Assessment Resource Tools (HART)

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This paper is a summary of the session "Protecting Tenants and Affordability: Exploring the efficacy of property acquisition" which took place on April 20, 2023, during the Canadian Housing and Renewal Association's Congress in Winnipeg.

The session exposed the rapid pace with which Canada is losing its affordable rental housing stock. Notably, the panelists proposed housing acquisition as a critical element to help meet the need of affordable housing in Canada. During the session Jill Atkey, Andy Broderick, Joseph Daniels and François Giguere presented their experiences in tools for acquisition and made the case for a national property acquisition program. The discussion was moderated by Christina Maes Nino.

Setting the stage for Acquisitions for Affordable Housing

The first speaker was Joseph Daniels from Housing Assessment Resource Tools (HART). Drawing on HART's recently published report on acquisition for affordable housing, his presentation set the stage for the audience to understand why Canada needs a national property acquisition strategy and provided six best practices for building an acquisition program.

According to HART's analysis on the 2016 Census, Canada "has a deficit of 1.7 million homes affordable to households making less than median income" (Daniels et al., p.8). Moreover, due to the current trend of rental housing buildings being purchased by speculators and large corporations to develop and increase rental rates, for every affordable housing unit created through the National Housing Strategy, four are lost. The net loss of affordable housing makes it difficult to achieve the goals of the National Housing Strategy.

Given that it is easier to maintain affordability than to achieve it once it has been lost, Joseph conveyed urgency in stopping the losses and offered the development of an acquisition strategy as a solution to stabilize affordability where it remains. Such strategy would not only tackle the affordable housing deficit, but would have further social policy benefits such as mitigating gentrification and preventing displacement and homelessness, promoting climate justice, and strengthening the non-market housing sector. Another benefit to note is that acquisition programs are cost-effective, requiring 50-70 percent of the costs of new construction.

The six promising approaches highlighted in the session provide a pathway that all governments can adopt to develop acquisition programs:

1. Systematically identify buildings based on criteria. Recommend governments and housing providers work together to identify buildings beyond the traditional ways.
2. Set strong affordability parameters for acquired properties. Focus on growing affordability over time. For example, the City of Toronto's MURA program operationalizes the idea of permanent affordability by requiring that for 99 years the average rent of the property does not exceed 80% of average median rent AMR.
3. Create streamlined, sustained, and dedicated funding, prioritizing grants. The funding must prioritize grants to cover the gap between market value and affordability. Acquire at the speed of the market.
4. Build capacity of the non-profit sector. Support on capacities such as asset management and purchase negotiation are crucial for housing providers to expand their portfolios.
5. Fund and coordinate programs across all scales of government, including the private sector.
6. Deliver acquisition programs alongside supportive policies and legal powers. This might

include strengthening rent supports. Recommended best practices set the direction towards which all governments should aim to enable acquisition as a policy tool.

Finally, Joseph mentioned that current policy infrastructure in Canada remains uneven in the field of acquisition; it must be pushed in the direction of places such as the US, Europe and Asia, where acquisition is entrenched in their housing strategies.

A Promising Acquisition Program: BC's Rental Protection Fund

Bringing most of the six recommended best practices to life, Jill Atkey, talked about the recently announced $500-million BC Rental Protection Fund. The fund aims to assist with the purchase of a minimum of 2000 rental homes over three years that are currently being lost to rising rents, conversion, or demolition. The Fund is expected to go live on June 30, 2023.

Through this $500-million endowment, a combination of grants and financing will work to assist non-profits to acquire homes. The grant amount will be dependent on the building factors such as location, building condition, and regional balance, among others.

Eligible properties will be those currently held by the private market that are at risk of redevelopment due to potential sale or significant rent increase. The Fund will be administered by a new society formed by the BC Non-Profit Housing Association (BCNPHA), Co-operative Housing Federation B.C. (CHFBC), and the Aboriginal Housing Management Association (AHMA).

The grants will be structured as forgivable loans likely to be set at around a 20-year term. Fund administrators are confident they can trust in the mission drive of the non-profit and co-op housing sectors to protect affordability beyond those 20 years. No loan payments will be required during those 20 years, and they could be forgiven at maturity if conditions are met.

Jill openly mentioned some criticism they have received since the funding announcement by the private sector about the fund being anti-redevelopment. Redevelopments will happen in properties acquired through the program, yet they are looking to maintain affordability of any redevelopment through a renegotiated loan agreement and by relying on the mission of BC's affordable housing societies.

The program will have three stages of approval designed for societies to move quickly on acquisitions. Their requirement will also align with the requirements of the primary lender. The stages are:

1. Underwriting of the non-profit society. This first stage will act as a pre-qualification, where the fund will look at the condition and asset management plans of current assets, and whether the applicant has the capacity to take on new assets.
2. Qualifying buildings. The second stage involves a non-profit determining the eligibility of a building before putting in an offer.
3. More significant underwriting. The final stage will require elements such as appraisals, building condition assessments, environmental assessments, and examining pro formas and cash flow, among others.

Multi-Funding Strategies: New Market Fund

The next speaker of the session was Andy Broderick from New Market Funds. He spoke about the need to build multi-funding strategies for property acquisition. New Market Funds is a multi-fund manager created in 2013. This unique team combines community housing experience with capital markets experience. They currently manage $85 million in capital from foundations, financial institutions, and other groups.

New Market Funds provides strong community-based partners access to capital, while also providing private investors with community-based investments. Part of their goal is to get private capital more aligned with housing affordability. They also believe the non-profit sector must learn how to use the skills and tools of the private sector to engage in thoughtful conversations that will bring resources to support the work of the non-profit sector.

Andy called attention to different actors that are often at the able when embarking on an acquisition project. Governments are a good partner that needs to be at the table, but they are not always consistent as programs change over time. For-profit firms are good when it comes to execution but they don't have commitments to affordability. The strength of non-profit housing providers is on delivering and maintaining affordability, despite not always knowing how to execute. New Market Funds are positioning themselves between all these actors by being not only a bridge but also a constant and reliable source of lending.

New Market Funds manages an affordable rental housing fund to assist with housing acquisition. This fund invests in the acquisition of for-profit apartments to preserve affordability via conversion to non-profit ownership. This capital also has the benefit of helping to activate financing that was not there before.

At the end of his presentation, Andy advised housing providers looking to acquire buildings to bring in as much subsidy as they can to bring the rents down and to not stop the purchase if the starting rents are not as low as they want them to be. The rents in the future will only go up based on the true costs of running a building and not because of the market forces; therefore, if they look at the next 10 years, their affordability profile will eventually be better than the market. In that sense, he encouraged the room to watch closely for long-term benefits of purchasing existing housing.

SOLIDES' acquisition trajectory

François Giguere brought some of Andy's point to life by talking about the story of SOLIDES, and how building acquisition has helped the organization grow their housing stock quickly an exponentially.
He started his presentation by recounting how his organization had to acquire and change skills when entering the field of soon-to-be affordable housing. Worthy of note is that they had to change their relationship with time, as their affordability targets are not linked to a mortgage repayment time (e.g., 25 years), as they are set in perpetuity. Since a non-profit with a strong affordability mission socialized not only the buildings but also the land, even if some of buildings get decommissioned, whatever gets built on that land will be useful to the public.

In that sense SOLIDES' main objective is to socialize buildings using the most appropriate tools. The first tool they used was to get a municipality to endorse part of the loan to purchase their first building. Over time, they bought a second building, and then a third using social housing programs. Eventually their portfolio grew to the point in which they were able to use it as equity to access bank loans. SOLIDES is now able to purchase housing using their own buildings as assets. They no longer need to access grants, endorsements, or any government support.

While purchasing buildings without government support provides them with freedom of operations and refinancing, it is worth mentioning that it doesn't enable the organization to do certain things, such as rent-geared-to-income, building new housing, or doing major repairs. The way their strategy works is to keep the rents as they are, with minimal increase, and over time, they become affordable. François made it clear that this approach can help ease the problem of affordable housing disappearing over time, but by no means does it replace the need of good government programs to develop social housing.

Another good practice from SOLIDES is that when they buy a new building, they don't operate it individually, but add it to their portfolio, which allows them to maintain affordability by letting established buildings pay for the deficit of newly acquired buildings.

SOLIDES is now the largest non-for-profit landlord in Quebec. They own 11,000 apartments and their next target is to bring all their rents to 75% market rents.

References

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