

**REPORT TO HOSPITALS AND HOUSING COMMITTEE  
MEETING OF WEDNESDAY, JULY 3, 2024**

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**SUBJECT     Michigan Square Redevelopment Project Budget Amendment**

**ISSUE SUMMARY**

BC Housing Management Commission (BCHMC) requires a resolution from the Capital Region Housing Corporation (CRHC) Board of Directors to authorize the execution of the financing and mortgage documents relating to the budget amendment on the Michigan Square Redevelopment project.

The Policy to Determine Delegation of Authority for the CRHC requires that all documents relating to mortgages valued over \$500,000 be approved by the CRHC Board.

**BACKGROUND**

In December 2021, the CRHC Board approved the Michigan Square Redevelopment Mortgage Registration and Final Budget of \$37.0 million (M) which included \$10.9M in grants, a \$1.0M equity contribution from the CRHC's Portfolio Stabilization Reserve, and land equity of \$2.8M. As outlined in the *Capital Plan Status Report, First Quarter 2024*, the project is experiencing a budget shortfall due to increased borrowing costs.

**ALTERNATIVES**

*Alternative 1*

The Hospitals and Housing Committee recommends to the Capital Region Housing Corporation Board:

- 1) That the resolutions, attached as Appendix A and Appendix B and required by BC Housing Management Commission to authorize the execution of the Loan and Mortgage documents for the Michigan Square Redevelopment project (PID 001-225-197) be approved; and
- 2) That the Chief Administrative Officer be authorized to do all things necessary to effect the project and take such steps as are required to conclude the construction, financing and operation of the Michigan Square Redevelopment project.

*Alternative 2*

That this report be referred back to staff for additional information based on the Hospitals and Housing Committee's direction.

**IMPLICATIONS**

*Financial Implications*

Of the total project budget approved in 2021, \$0.4M was allocated to interim construction financing. This figure was based on the BCHMC preferred financing rates. At the time, the interim borrowing rate was 0.80% and was forecast to escalate to 1.65% over the course of construction. At the time, the forecast take-out financing rate was 3.55%. Currently, the interim borrowing rate is 5.63% and the forecast take-out financing rate is 4.69%. At project completion, the short-term financing and interest costs accrued through construction will be converted to take-out financing in the form of a repayable mortgage.

The increased borrowing rate equates to a budget impact of approximately \$1.2M. CRHC staff and BCHMC were able to close the equity gap and maintain debt servicing levels by adjusting rent levels on the near-market homes as well as adjusting the operating subsidy. As a result, the approved Michigan Square Redevelopment project budget of \$37.0M must be amended to \$38.2M.

**Table 1: Approved Capital Budget & Recommended Updates for Building A - Regional Housing First Program (RHFP)**

| Building A- RHFP<br>(53 Units) | Project Budget<br>Approved 2021 | Proposed   | Increase |
|--------------------------------|---------------------------------|------------|----------|
| Gross Capital Budget           | 20,392,850                      | 21,111,921 | 719,071  |
| Equity:                        |                                 |            |          |
| Land Equity                    | 1,536,818                       | 1,536,818  | -        |
| CRHC Equity                    | 1,000,000                       | 1,000,000  | -        |
| CMHC Equity                    | 4,500,000                       | 4,500,000  | -        |
| Regional Housing Trust Fund    | 950,000                         | 950,000    | -        |
| Victoria Housing Reserve Fund  | 620,000                         | 620,000    | -        |
| Total Equity                   | 8,606,818                       | 8,606,818  | -        |
| Mortgage Debt Required         | 11,786,032                      | 12,505,103 | 719,071  |

**Table 2: Approved Capital Budget & Recommended Updates for Building B - Community Housing Fund (CHF)**

| Building B- CHF<br>(44 Units) | Project Budget<br>Approved 2021 | Proposed   | Increase |
|-------------------------------|---------------------------------|------------|----------|
| Gross Capital Budget          | 16,630,070                      | 17,065,103 | 435,033  |
| Equity:                       |                                 |            |          |
| Land Equity                   | 1,253,182                       | 1,253,182  | -        |
| BCH- CHF Grant                | 4,667,960                       | 4,667,960  | -        |
| Regional Housing Trust Fund   | 145,000                         | 145,000    | -        |
| Total Equity                  | 6,066,142                       | 6,066,142  | -        |
| Mortgage Debt Required        | 10,563,928                      | 10,998,961 | 435,033  |

**Table 3: Total Approved Capital Budget & Recommended Updates for Buildings A + B**

| Buildings A+B                 | Project Budget<br>Approved 2021 | Proposed   | Increase  |
|-------------------------------|---------------------------------|------------|-----------|
| Gross Capital Budget          | 37,022,920                      | 38,177,024 | 1,154,104 |
| Equity:                       |                                 |            |           |
| Land Equity                   | 2,790,000                       | 2,790,000  | -         |
| CRHC Equity                   | 1,000,000                       | 1,000,000  | -         |
| CMHC Equity                   | 4,500,000                       | 4,500,000  | -         |
| BCH- CHF Grant                | 4,667,960                       | 4,667,960  | -         |
| Regional Housing Trust Fund   | 1,095,000                       | 1,095,000  | -         |
| Victoria Housing Reserve Fund | 620,000                         | 620,000    | -         |
| Total Equity                  | 14,672,960                      | 14,672,960 | -         |
| Mortgage Debt Required        | 22,349,960                      | 23,504,064 | 1,154,104 |
| Estimated Subsidy / Year      | 198,641                         | 269,286    | 70,645    |

\*Legend:

Regional Housing Trust Fund (RHTF)

Victoria Housing Reserve Fund (VHRF)

Canada Mortgage and Housing Corporation (CMHC)

Despite the impacts associated with the increased cost of borrowing, construction costs are within budget with a small surplus remaining in the construction contingency budget. If any surplus remains at project completion, the balance will be applied against the borrowing cost budget to reduce rents to the extent possible.

A project budget increase of \$1.2M will necessitate an amendment to the 2024-2028 CRHC Major Capital Plan, which the Board approved on December 13, 2023. A separate report detailing this amendment will be presented to the Board for consideration.

## **CONCLUSION**

The Michigan Square Redevelopment project budget has a shortfall of approximately \$1.2M, due to increased borrowing costs that are affected by escalated interest rates over the course of construction. The equity gap was closed, and debt servicing requirements will be met through adjustments to the near-market rent levels and an increased operating subsidy. As a result, a budget amendment is required and updated resolutions are required to reflect the increased budget and mortgage values.

**RECOMMENDATION**

The Hospitals and Housing Committee recommends to the Capital Region Housing Corporation Board:

- 1) That the resolutions, attached as Appendix A and Appendix B and required by BC Housing Management Commission to authorize the execution of the Loan and Mortgage documents for the Michigan Square Redevelopment project (PID 001-225-197) be approved; and
- 2) That the Chief Administrative Officer be authorized to do all things necessary to effect the project and take such steps as are required to conclude the construction, financing and operation of the Michigan Square Redevelopment project.

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| Submitted by: | Don Elliott, MUP, BA, Senior Manager, Regional Housing                       |
| Concurrence:  | Kevin Lorette, P. Eng., MBA, General Manager, Planning & Protective Services |
| Concurrence:  | Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer                        |
| Concurrence:  | Ted Robbins, B. Sc., C. Tech., Chief Administrative Officer                  |

**ATTACHMENTS:**

Appendix A: Draft Certificate Resolution of Director – CHF  
Appendix B: Draft Certificate Resolution of Director – RHFP