

**REPORT TO HOSPITALS AND HOUSING COMMITTEE
MEETING OF WEDNESDAY, FEBRUARY 03, 2021**

SUBJECT Royal Oak Square Refinancing

ISSUE SUMMARY

The Capital Region Housing Corporation's (CRHC) commitment to mortgage financing requires the approval of the CRHC Board of Directors, and the authorization of the Board to permit any two members of the Executive Committee to sign all documentation required to fund the mortgage.

BACKGROUND

The Regional Housing First Program (RHFP) was established in 2016 to facilitate the creation of suitable affordable rental housing in the capital region through a Partnering Agreement with the Capital Regional District (CRD), BC Housing Management Commission (BCHMC) and Canada Mortgage and Housing Corporation (CMHC). Each party committed an initial \$30 million (M) in 2016 and an additional \$10M in 2020 to address escalating land acquisition and construction costs.

As part of the \$40M CRD commitment to the RHFP, the CRHC is contributing \$4.5M to be sourced through refinancing existing properties whose mortgages have matured. On August 12, 2020, the CRD Board approved the \$4.5M allocation through the RHFP towards the redevelopment of Michigan Square that will see 97 new affordable rental units developed within two – 4 storey apartments in James Bay.

The CRHC sought mortgage financing proposals from seven financial institutions. The proponents were requested to submit their financing proposals based on a pledge of collateral from the Royal Oak Square and Portage Place properties as required. Mortgage financing was targeting a 25 year amortization with a 5 year initial term. In addition, all fees and document requirements were requested so that CRHC would be able to calculate the overall cost of the mortgage.

All proponents submitted responses. The responses were assessed based on a total cost of financing basis. The most competitive total cost of financing submission came from the Toronto-Dominion Bank, whose proposed terms are as follows (rates are subject to change based on future general economic conditions):

Toronto-Dominion Bank

CMHC-insured mortgage: \$4,500,000

25 years with a 5 year initial term

Proposed financing rate: 1.25%

Total Cost of Financing - Effective Rate (includes impact of all fees): 1.27%

TD application fee: \$6,750

CMHC insurance premium: \$76,500

ALTERNATIVES

Alternative 1

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

That staff be authorized to apply for, accept and execute all documents related to a \$4,500,000 Canada Mortgage and Housing Corporation insured mortgage with the Toronto-Dominion Bank.

Alternative 2

That the Royal Oak Square Refinancing report be referred back to staff for additional information based on Hospitals and Housing Committee direction.

IMPLICATIONS

The Toronto-Dominion Bank CMHC-insured mortgage is the most competitively priced option based on an assessment of the mortgage interest rate, although these interest rates are estimates only and will not be confirmed until the loan application is submitted and processed closer to the date of funding in mid-2021. Also the application fee is a key component of the cost of procuring funding impacting the total cost of financing. After detailed review of all submissions, the Toronto-Dominion Bank is considerably more competitive compared to all other proposals submitted on a total cost of financing basis. The CMHC application process takes approximately four to six months to complete. The application process is led by the bank selected to fund this project.

The approximate mortgage payments required by this refinancing are anticipated to be \$215,000 per year. Royal Oak Square had operating cashflows in 2019 of \$288,000, which would represent a debt servicing ratio of 1.3, and should satisfy the lender's requirements. If operating cashflows at Royal Oak Square do not meet lender requirements, CRHC may be required to encumber Portage Place as additional collateral. Portage Place had operating cashflows of \$120,000 in 2019.

By pursuing a CMHC-insured mortgage, the Royal Oak Square and Portage Place (if required) properties' equity will be encumbered and hence not available for other uses. The benefits of the CMHC-insured mortgage are access to extremely low interest rates and more forgiving debt covenants governing the mortgage contract. The proceeds of the mortgage on these properties will be available to finance the construction of the Michigan Square project.

CONCLUSION

CRHC has committed to allocating \$4.5M as part of the CRD's overall contribution to the RHFP. Staff have obtained competitive bids from a variety of financial institutions to borrow the equity from the Royal Oak property. The Toronto-Dominion Bank CMHC-insured mortgage option is the most financially competitive option received on a total cost of financing basis.

RECOMMENDATION

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

That staff be authorized to apply for, accept and execute all documents related to a \$4,500,000 Canada Mortgage and Housing Corporation insured mortgage with the Toronto-Dominion Bank.

Submitted by:	Don Elliott, Senior Manager, Regional Housing & CRHC
Concurrence:	Rianna Lachance, BCom, CPA, CA, Acting Chief Financial Officer
Concurrence:	Kevin Lorette, P.Eng., MBA, Acting Chief Administrative Officer