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Evaluating the Feasibility of an Affordable Housing and Community Centre: A Case Study from Rural Ontario

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Issue Dedication:

This issue of the JRCD is dedicated to Cheryl Williams who passed away suddenly in 2010. She was in the first semester of her PhD program in Nursing at the University of Saskatchewan at the time of her death. Her co-authored paper in this issue is based on her master's thesis research. Pammla Petrucka was Cheryl's advisor. It was Pammla's wish to publish this peer-reviewed article in honour of Cheryl's work and her family.

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Evaluating the Feasibility of an Affordable Housing and Community Centre: A Case Study from Rural Ontario

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Abstract

This case study analyzes the feasibility of building an affordable housing and community services complex in rural Ontario. Lessons were learned about project scope, task order and importance, financial feasibility and potential funding sources, the importance of professional expertise, relationships with key partners, and governance.

While the concept of affordable housing and a community centre has appeal and would benefit the community, it is not, as currently envisioned, financially viable. The addition of government grants and a reduction in the proposed project size and scope have the potential to make the project feasible.

Keywords: feasibility analysis, affordable housing, public private partnerships, rural Ontario, not-for-profit governance

1.0 Introduction

Moving from concept to reality is a challenge for all capital projects. When the project contains a low income housing component, is located in a rural community, and has a relatively grand scope, the challenges become even greater. This case study describes the process the authors followed to determine the feasibility of a proposed mixed use commercial building as researchers and consultants to a rural housing committee. It evaluates several aspects of the project development phase, placing a particular emphasis on assessing the financial feasibility and reviewing governance arrangements.

In 2009, a group of committed citizens in a rural Ontario town¹ of 4,000 residents formed a housing committee. The committee was led by the executive director of a local social services agency and was composed of a broad stakeholder base of municipal representatives, potential commercial tenants, local builders,

¹ To abide by research ethics clearance requirements, the town is not identified by name in this article.

representatives from several not-for-profit agencies and other interested parties. It identified the need for more affordable housing in the local community, particularly for people who require some support in living independently. The housing committee was aware that the population of their town was generally older and earned approximately \$10,000 per year less than the provincial average.

The housing committee obtained \$20,000 in seed funding from the Canada Mortgage and Financing Corporation and set to work. They created a mission statement and seven core concepts which provided the proposal framework. The mission statement focused on collaboration to create an accessible, supported housing and multi-use complex. The core concepts included: a central location; a socially integrated atmosphere; a variety of ownership and rental options for tenants; on-site space to offer support services to tenants requiring such services, a focus on environmentally responsible technology and green features; the use of local resources, and the promotion of local investment and ownership.

The housing committee proposed the creation of an 84,000 square foot commercial building, which would include 30 residential units, community centre space, retail space, and on-site support services for residents. The residential units would be a mix of affordable housing, market-rent apartments, and market-priced condominiums. A preliminary budget was prepared with an estimated building cost of \$18 million. It was also based on a rate of return that private investors in the project could expect to earn 8-9 percent. It is noted that this return is two percent less than the minimum investment return of 10%, which the housing committee determined was needed for the project to be viable (called the "hurdle rate"). The capital cost was substantial for this rural community, and considerably more expensive than other capital projects that focus exclusively on the affordable housing component.

The proposal development phase included creating conceptual drawings with a local builder, preparing a virtual tour, conducting numerous presentations throughout the community, soliciting expressions of interest from potential residential and commercial tenants, developing some preliminary costing estimates, and exploring several potential building sites.

The proposal identified a second phase in the development process which had the following components: conducting environmental studies on land options, developing a comprehensive financial management plan, assessing ownership options, and securing funding.

With funding from the local Community Futures Development Corporation, the housing committee engaged The Monieson Centre, Queen's School of Business to further develop the financial management and governance components. The Centre coordinates multidisciplinary applied research. Findings are shared with academic, business, government, and community audiences. A research team was formed, comprising a professor with experience in economic development, a professor of commercial real estate, a project manager with start-up experience in the social services sector, and a research assistant. The team created a research plan, obtained research ethics clearance from the affiliated university, and had monthly meetings with the housing committee throughout the eight month engagement. The research plan had four main components: a literature review; research interviews; a financial feasibility analysis; and a review and presentation of options for the organization's structure and centre ownership.

2.0 Literature Review

The research team completed a literature review to identify potential investment models, funding opportunities, as well as the likely impact of green buildings and green technologies. They searched leading journal databases and conducted a broad Internet search using a variety of search keywords related to public-private partnerships in keeping with the specific direction of the housing committee. A broader literature review expanded the keywords to include social and affordable housing so as to elicit more information about similar, not-for-profit projects.

The Canadian Council for Public-Private Partnerships (CCPPP) defines a Public-Private Partnership (P3) as “a cooperative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards” (CCPPP, 2010). P3s are identified as one of the most important business structures to fill the gap between federal/provincial government financial and technical capacity and infrastructure deficit. According to a CCPPP poll (2008), 61% of 2,000 adult respondents agree it is time to use P3s to address the infrastructure deficit. The poll results show that a demand for P3 is even stronger for small communities (i.e., fewer than 5,000 inhabitants). However, almost all P3 projects in Canada are large-scale projects providing public infrastructure.

The literature indicates public private partnerships (P3s) have a long history in developed countries, but mainly for large-scale infrastructure construction projects (e.g., health services, transportation, utilities, telecommunications, water supply, and broadband). No academic papers were found that referred to the use of the public private partnership model for housing projects.

Based on the literature review, the research team concluded P3s were not a viable option based on the small size of the project relative to most P3s (minimum of \$25-30 million). The literature highlighted the complexity of implementing P3s (Crauser, 2003), a minimum expected rate of return of 10-15%, the focus of P3s to have a direct population benefit to the community at large (CCPPP, 2008), reduced access to P3 options during times of financial crises, and the need for government capital investment in order for P3s to be successful (Infrastructure Partnerships Australia, 2009).

The review identified multiple funding sources for social housing projects. These included government grants, fundraising campaigns, and a variety of debt financing options through commercial banks, community credit unions, and pension funds. Non-traditional financing sources such as insurance companies and pension funds (Abadie, 2008) were possible.

Government support plays a critical role and can take on various forms including subsidies, grants or loans to fill gaps in lending capacity for the social housing projects (Infrastructure Partnerships Australia, 2009). Governments can support lower debt costs and less complex debt covenants by backing the project (Roth, 2009). Support through in-kind land donations, property tax relief, and development charge relief are other options. Successful social housing projects also benefit when they demonstrate a solid case for investing in communities and the potential for community investment to benefit local businesses. Harji (2008) suggests social housing projects should be evaluated based on both financial (i.e., return on investment) and social return (i.e., access to affordable housing and improving the living conditions of low income households). Ontario’s affordable housing strategy

(Ontario Ministry of Municipal Affairs and Housing, 2010) provides direction and flexibility for municipalities to address affordable housing in their communities.

Green construction and operation was a core concept for the housing committee. The overall tradeoff between increased capital costs and long-term energy savings associated with “building green” is an important factor to consider. Apartment buildings, because of their shared space for hallways, air supply, elevators, etc., are less energy efficient than detached single-family houses. Energy-efficient technology (e.g., state of the art heating and cooling systems) is often more expensive to install, although grants may be available to support this.

Leadership in Energy and Environmental Design (LEED) is a rating system used to certify that new buildings are constructed according to best-in-class “green” and sustainable building strategies and practices (U.S. Green Building Council 2014). New buildings earn points toward different levels of LEED certification (i.e. Bronze, Silver, Gold or Platinum) according to various factors such as building materials, the construction techniques, design features, and technology. The importance of encouraging developers to build “green” buildings is supported by the fact that buildings produce up to 35 per cent of all greenhouse gases, and construction and demolition activities generate 35 per cent of landfill waste (U.S. Green Building Council 2014).

Brooks and Campanelli (2011) report new LEED Silver and Gold buildings typically cost 1- 2 percent more to build than conventional “non-green” buildings. LEED Platinum buildings may have a construction cost premium of closer to 5 percent. Kats (2005) analyzed 40 LEED certified buildings and found them to have average (mean) construction costs of 2.0 percent greater than comparable conventional buildings. Broken down by level of certification, this ranged from 0.7 percent higher construction costs for standard LEED certification, to as high as 6.8 percent greater for LEED Platinum. A 2007 study carried out jointly by two real estate industry publications (National Real Estate Investor, 2007) found green buildings cost between 1% and 2% more to build than conventional structures. Approximately one quarter of developers, however, reported their green construction cost premium to be 10% or more.

Lower operating costs result in a return on the investment in green technology over time. There would be an opportunity to incorporate some efficiency into the initial construction (e.g., an insulated concrete form) while allowing options for future energy-saving technology to be developed in phases over time. It was unlikely that a full green building would be possible with the current funding.

It is safe to conclude that any additional cost associated with “building green” is quickly recovered in energy savings. Also, many tenants are willing to pay higher rent in order to occupy a green building. This is often because these buildings are commonly more aesthetically pleasing and/or the tenants desire to be socially and environmentally responsible. Even more practically speaking, in most commercial leases, the tenants pay for their entire utility cost, so any energy savings provided by a green building are passed 100 percent on to the tenants.

With respect to governance structures, the literature review identified organizations managing housing projects are often registered as not-for-profit corporations overseen by a board of directors. Many have a community advisory committee composed of local residents, stakeholders, and municipal government

representatives. The literature review identified that, regardless of the adopted governance structure, social housing projects require commitment from all engaged parties, e.g., municipal government, community development organizations, private financial institutions, and housing experts.

To supplement the literature review, semi-structured telephone interviews were conducted. The key stakeholders included community agencies, potential investors, and government personnel involved in housing or infrastructure projects. The interview questions asked about experience with public private partnerships, financing options, governance models, and how to gather community support. The interview respondent pool was based on organizations identified in the literature search and the professional contacts of the research team. Approximately twelve interviews were conducted, each ranging from 20 to 60 minutes. Additional interviews were conducted until the content of successive interviews no longer produced substantive new information. The findings were compiled using qualitative techniques and were categorized according to themes.

3.0 Financial Feasibility Analysis of Development

The housing committee wanted to know if its proposed plan was financially viable. Using the literature review, interviews, and expertise of the research team, a number of observations were made about the possible ways to obtain funds for construction and whether or not the funds would be sufficient to generate an acceptable return.

Securing adequate funds for acquiring the land, construction, operations, and reserves for facility reinvestment would be a major challenge. This would be especially difficult for a new organization without a large equity base. The potential sources of funds included debt financing, equity investments, grants, and donations. To be viable, revenue would have to exceed on-going expenses. In the proposed building, revenues would be “capped” due to lower rural market rates and strict government rules on rent supplement programs for affordable housing, which usually need to be approved in advance. Therefore, a viable budget was needed that limited long-term debt to the greatest degree possible and supported on-going operations. Compared to other affordable housing projects, the current project appeared to be expensive, likely because it was broader than just housing. Other projects with 30 residential units had total costs of \$4-5 million, compared to a projected construction cost for this project at over \$18 million.

Debt financing and equity financing were both reviewed. Debt financing appeared to be a viable option for capital projects of this type. Usually, an organization would secure construction financing, which would roll over into a longer term, higher interest-rate loan once the building phase is complete. For construction financing, lenders would typically insist on an interest rate of prime plus 3.5 percent, although negotiated rates of prime plus 2.5–3 percent appear possible for lower risk projects. Potential lenders to projects of this type seek a return that is comparable to other investments with a similar risk rating. They rarely offer discounted interest rates to projects simply because they are socially responsible. One option to improve the risk rating of a project (and therefore possibly negotiate a lower interest rate) is to have a backer to secure the building loan. Municipalities appeared to be the backer of choice.

Interest rates have been at historic lows. However, they will certainly rise in the future and will potentially represent a significant portion of the total project cost.

Potential sources of debt financing include traditional banks, credit unions, mortgage-based bonds, social enterprise funds, Canada Mortgage and Housing Corporation (CMHC), insurance companies, and community loan funds. Negotiating arrangements for debt financing requires expertise, so suitable financial and legal counsel would be important.

The interviews revealed no successful equity financing of similar projects, due to the low expected returns. Likewise, the literature review did not provide many options for equity investment or public/private partnerships for projects below a value of \$25 million. Equity investors expected a higher rate of return (12 percent or more) than forecast for this project. It would be possible for commercial tenants to pay some construction costs in exchange for reduced rents over a multi-year period, thereby providing a form of equity financing, but this was not expected to involve a significant amount of money.

Affordable housing projects depend on additional funding sources, such as grants or no-interest loans by government and donations. Donations could be made by various government sources, through other community organizations, or by individuals. Grant monies are an important consideration. They become available on an irregular basis and projects poised to “catch the wave” reap the benefits. While funding might be generated at multiple levels of government, responsibility for affordable housing rests with municipalities. Zero- or low-interest loans appear to be available for small amounts (e.g., CMHC’s \$100,000 loan/grant offering.)

Donations-in-kind by a municipality appear to be part of most affordable housing projects. Local governments may discount or waive development fees as a way to support the project. Organizations sometimes negotiate a reduction in property taxes. This appears to be a key component of long-term project viability, as it reduces on-going operational costs. An assessment of a property’s value would sometimes be negotiated through the Province of Ontario run Municipal Property Assessment Corporation (MPAC). Some municipalities have surplus land and use this through a “housing first” policy to support affordable projects.

With sufficient goodwill and political support, municipalities may provide short-term bridge financing with a zero- or low-interest loan. With respect to purchasing land, there are precedents for a seller and buyer to work with a municipality in a tripartite agreement so that the municipality would cover the loan if the buyer defaulted. In the absence of a comprehensive and viable construction strategy, caution would need to be exercised regarding acquiring land since it is not a liquid asset.

Securing donations from individuals and the community appeared to be a component of every project. Registering as a charitable organization would be helpful, as it allows donors to receive a tax receipt. Projects often receive small donations from many people and other community organizations, although this depended on significant volunteer resources. Larger donors (i.e., those giving over \$10,000 each) would be more difficult to find. Fundraising efforts for similar projects collected between \$500,000 and \$1,000,000. There is a strong preference to use volunteer or in-house efforts for fundraising over hiring a “professional fundraiser” because grass roots fundraising activities appear to have an added bonus of fostering community engagement and support for projects.

Capital investment from the building owners or potential tenants would be other options to explore. Even with substantial government support, the majority of affordable housing projects identified as examples generated between 10 and 30 percent of the construction costs. Capital requirements would be reduced by transferring some of the initial investment and potential debt servicing costs to others. For example, if commercial tenants paid for their leasehold improvements at the beginning, this could reduce capital costs. Likewise, selling housing units as condominiums would also reduce capital requirements.

3.1 A Sample Case Analysis

The project under consideration in this case study was estimated to cost \$18 million. While the initial review suggested that the development would yield a rate of return of between 8 and 9 percent, it was important to verify the assumptions and calculations. A more thorough analysis was therefore carried out on the proposed development, assuming a total of 52 units. These consisted of 14 bachelor apartments, 12 one-bedroom apartments, 18 two-bedroom apartments and eight condominiums. The number of units was increased beyond the original 30 in the client's terms of reference, with the client's permission, in order to increase the likelihood that the project would be financially viable.

The three most widely accepted financial measures of the value and feasibility of a real estate development are Cash-on-Cash Return (CoC), Net Present Value (NPV) and Internal Rate of Return (IRR).

Cash-on-Cash Return is the ratio of the cash flow that a real estate investment provides (on an after income tax basis) to the initial equity investment made. From that, cash flow is determined by subtracting from the Net Operating Income (essential rent collected from tenants) both income tax and the amount of debt (money borrowed). It is normally calculated only for the first year of a project, and is therefore one of the simplest indicators of return to calculate. For this project, CoC Return was determined to be -14.0 percent.

The Net Present Value (NPV) of this proposed project was determined by discounting the forecast Total After-Tax Equity Flow (the real value of the project after the subtraction of income taxes owing on the value gain) in each year by an industry standard of 12 percent. This process of "discounting" converts all future values to their more useful present value, i.e., the value of the project in the monetary terms of the present.

The Internal Rate of Return (IRR) is a measure of the investment return of a real estate project that corrects for various flows of equity and debt in and out of the project according to when they occur. In other words, it weighs those investments according to how long they are "internal" to the project, making it a relatively simple, yet acceptably accurate measure of return for real estate developments. The calculated IRR of 20.5 percent, indicated the project would not be profitable. Because the NPV was \$3,200,000, both key indicators concurred with each other and this project was deemed to not be financially feasible.

In order to see if any form of the project might make financial sense, ten key inputs were varied within a reasonable range, one at a time, while holding all other variables constant. This kind of analysis is called "sensitivity analysis", and its results are summarized in Table 1. The 10 variables are shown in the left column of the table. The next three columns, from left to right, are the results based on the most likely

scenario, the worst case and the best case, respectively. For example, the best case was calculated by making each of the variables their most favourable values (at one end of their reasonable range). For each, the calculated NPV and CoC is shown. IRR was invalid for each of the ten individual sensitivity analysis conditions because there were multiple changes in the direction of the cash flows during the time period of the analysis. Therefore, IRR is not shown in Table 1.

Table 1. *Sensitivity Analysis on Key Measures of Return*

Variables	Base Case	Worst Case	Best Case
Total Development Cost	\$17,916	\$15,000	\$21,000
Cash-on-Cash Return	-15.4%	-15.4%	-15.4%
NPV	-\$3,592	-\$3,856	-\$3,314
Retail & Office Lease Rate	\$15/sq.ft.	\$12/sq.ft.	\$18/sq.ft.
Cash-on-Cash Return	-15.4%	-17.8%	-13.1%
NPV	-\$3,592	-\$4,267	-\$2,918
2 Bedroom Unit Apt to Condo Ratio	12 to 8	4 to 16	20 to 0
Cash-on-Cash Return	-15.4%	-16.8%	-14.0%
NPV	-\$3,592	-\$2,998	-\$4,186
Condo Sale Price	\$140	\$160	\$120
Cash-on-Cash Return	-15.4%	-15.4%	-15.4%
NPV	-\$3,592	-\$3,449	-\$3,735
Vacancy Rates (3)	10%	5%	15%
Cash-on-Cash Return	-15.4%	-14.0%	-16.9%
NPV	-\$3,592	-\$3,177	-\$4,008
Operating Expenses			
(% of Gross Potential Rental Income, GPRI)	18%	14%	22%
Cash-on-Cash Return	-15.4%	-14.3%	-16.6%
NPV	-\$3,592	-\$3,260	-\$3,925
Loan-to-Value Ratio	0.8	0.7	0.9
Cash-on-Cash Return	-15.4%	-7.4%	-39.6%
NPV	-\$3,592	-\$4,283	-\$2,901
Interest Rate (%)	6.0	5.0	7.0
Cash-on-Cash Return	-15.4%	-12.6%	-18.3%
NPV	-\$3,592	-\$3,193	-\$4,005
Grants and Donations	\$650	\$1,200	\$0
Cash-on-Cash Return	-15.4%	-14.8%	-16.1%
NPV	-\$3,592	-\$3,218	-\$4,034
Year 10 Cap. Rate (for Reversion Sale)	0.085	0.06	0.11
Cash-on-Cash Return	-15.4%	-15.4%	-15.4%
NPV	-\$3,592	-\$2,437	-\$4,222

Rounded to the nearest '000, except lease rates

None of the options transformed the project into a financially feasible one. However, when all of the variables were given their most favorable values simultaneously, this combined best case scenario (albeit highly unlikely to occur) was financially feasible. It had a negative cash-on-cash return of -3.9 percent, but a modestly positive NPV of approximately \$94,000 and an IRR of 12.5 percent (i.e., greater than the minimal acceptable threshold of 5 percent).

A pro forma financial feasibility analysis uses measures of return, such as CoC, NPV, and IRR, to predict the financial feasibility of a real estate project based on best estimates of all cash flows (both expenses and income) and when they occur. This was done for the proposed project using Excel spreadsheet software. It considered the projected construction, operating, and financing costs of the project, as well as its forecasted revenue stream over a 10-year holding period. In order to accurately capture the capital value of the building, as well as its appreciation over time, the analysis assumed the property would be sold at the end of the holding period. Cash flows were adjusted using an industry standard discount rate of 12 percent.

Building and lot parameters provided by the client were key inputs in the pro forma spreadsheet. Hard and soft costs of development were derived from extensive schedules of building-specific costs provided by Altus Group (2010) and the Toronto Real Estate Board (2009). Other key inputs and assumptions came from either the client or commercial real estate industry reports, or research team contacts.

Table 2 summarizes the 10-year pro forma analysis. It identifies the gross potential rental income (GPRI), which is derived by the sum of the revenues from each size category of apartments (rent for each category multiplied by the number of each). Subtracting five percent vacancy yielded the effective gross income (EGI). From that were deducted operating expenses (using the industry standard of 18 percent of GPRI) and municipal real estate (property) taxes, to calculate the net operating income (NOI). GPRI, operating expenses and real estate taxes were all assumed to increase at a historical average rate of three percent per year over the 10-year holding period.

These calculations were based on an overall project value of \$17.9 million, less a starting equity investment of \$13.8 million. The \$17.9 million project value was reduced by a \$0.5 million land value and a \$1.6 million contingency fund to yield a depreciable base of \$15.8 million. The analysis also assumed project financing at an interest rate of 6 percent for a 20-year term.

After-Tax Equity Reversion refers to cash (equity) flows into the project from the sale of all or some parts of the building. In this case, this comes from both the sale of the condominium units in year 1 and the sale of the non-condo portion of the building in year 10 (based on a typical and arbitrary holding period of 10 years).

The capital cost allowance (CCA) schedule calculated the amount of depreciation that Canada Revenue Agency (CRA) would allow to be deducted from the income on which income tax must be paid annually. It was assumed that the maximum allowable CCA deduction would be made each year.

The taxable income of the project in each year was calculated by subtracting the interest payments and CCA deduction from the NOI. Multiplying the taxable income by the income tax rate gave the amount of income tax that must be paid each year. Subtracting total debt payment from NOI yielded before-tax cash flow for each year. Subtracting from this the income tax payable determined the after-tax cash flow for each year.

In this case, there was a need for financing to cover initial cash flow requirements,

as significant funds would be spent before any revenues (rental payments) were generated. Bridge financing and contingency planning (typically 10-15 percent) would be essential. Repayment of no interest loans, if available, would also need consideration with respect to cash flow requirements.

Table 2. Ten Year Pro Forma, Depicting Years 1, 5, and 10

Projected Cash Flow (in '000s)	Year 1	Year 5	Year 10
INCOME TAX PAYABLE			
Gross Potential Rental Income (3% growth)	\$995	\$1,120	\$1,298
- Vacancy Allowance (5%)	\$50	\$56	\$65
= Effective Gross Income	\$945	\$1,064	\$1,233
- Operating Expenses (3% growth)	\$179	\$202	\$234
- Real Estate Taxes (3% growth)	\$45	\$50	\$58
= Net Operating Income	\$721	\$812	\$941
- Interest	-\$829	-\$730	-\$570
- Capital Cost Allowance - Building	-\$474	-\$763	\$0
- Capital Cost Allowance - Fixtures	\$0	\$0	\$0
= Taxable Income	-\$581	-\$681	\$371
x Commercial Tax Rate (fed & prov.)	33%	33%	33%
= Income Tax Payable	\$192	\$224	-\$123
AFTER TAX CASH FLOW			
Net Operating Income	\$721	\$812	\$941
- Debt Payments	-\$1,204	-\$1,204	-\$1,204
= Before-Tax Cash Flow	-\$483	-\$392	-\$263
- Income-Tax Payable	\$192	\$225	-\$126
= After-Tax Cash Flow	-\$291	-\$167	-\$386
TOTAL RETURN			
After-Tax Cash Flow	-\$291	-\$167	-\$386
- Equity In (estimated at \$3.453 million)	\$0	\$0	\$0
+ After-Tax Equity Reversion	\$1,120	\$0	\$ 1,210
= Total After Tax Equity Flow	\$829	-\$167	\$825

4.0 Organizational Structure and Governance Models

The research team engaged in a preliminary conversation with the housing committee regarding governance options. The initial organizational support for the project was provided by a local social services agency that had a history of providing administrative support to other small agencies. This was a helpful beginning, but inadequate for a project of the proposed size and scope. The intent was to create a governance structure with as much flexibility as possible for the future, while creating a legal structure that would allow the board to enter into legal contracts.

The Queen's Business Law Clinic was contacted, which then prepared a report reviewing multiple governance options. The preferred option was to incorporate as a not-for-profit corporation as it had maximum flexibility. There could be significant advantages to this structure, including greater community awareness of the project, the ability to enter into legal contracts, eligibility to apply for various grants, improved capacity to fundraise, and liability protection for volunteers.

Obtaining charitable status creates an advantage for fundraising as it allows donors to obtain a receipt eligible for tax deductions. There are specific criteria for achieving charitable status. Because this designation might preclude the inclusion of condominiums in Ontario, and might not have flexibility for the proposed mix of market and subsidized rents, this option was not pursued for this particular situation. However, this option can be pursued after obtaining not-for-profit status, so the option remains.

The wide variety of housing ownership options identified in the initial proposal presented a challenge with respect to governance. Other projects identified through the literature review and interviews focused on a single ownership model (e.g., affordable housing, supportive housing, or co-ops). Legal issues could limit the variety of ownership options in a single building (e.g., condominiums and co-operatives each have their own legislation). In addition, this could hamper securing government funding opportunities to look for construction funding. For example, the Province of Ontario might be willing to provide funding for affordable housing, but not for condominiums or life leases. Legal advice from counsel with expertise in this area would be required if and when multiple ownership options were developed.

During the interviews, several other board issues came up related to delegation. A board usually has a clear vision about the project, and maintaining control of this vision helps ensure the finished project is appropriate. Specific jobs (e.g., architects, contractors, engineers) ought not to coordinate other aspects of the construction phase. Likewise, the board would need to identify someone with sufficient time and expertise to attend to matters related to accessibility and rectifying inevitable building deficiencies throughout the construction phase.

The proposed by-laws would need to ensure that once construction had been completed and tenants moved in, a governance mechanism would be in place to allow tenants to be involved in the on-going management of the building. Day to day property management could be contracted out as it is separate from the on-going governance responsibility.

5.0 Housing Project Implications

This case study highlights several key lessons, and associated recommendations, regarding affordable housing and capital projects that are being developed in rural communities.

- *Recommendation 1: Be realistic in your expectations.* This would be a large project from an absolute dollar perspective in a rural community. In a city, the difference between a \$5 million and \$18 million project would not have been so significant from either a financing or construction perspective. Starting small or working within a phased approach toward a larger, long-term goal supports success. If the initial project is large in scope, planning and implementation becomes more detailed, requires additional expertise, and takes more time. The project in this study had an ambitious mission and was complicated, embracing seven core concepts, several of which significantly increased its complexity from both a financing and governance perspective. The project would have been more feasible had it been smaller in scope and less complex.
- *Recommendation 2: Defer major commitments until feasibility is assured.* Creating a plan, ensuring financial feasibility, and creating a viable

governance structure are early steps in the process. In this study, the housing committee spent considerable time searching for possible locations for the centre, which took resources and time away from other more important tasks. With respect to land, potential carrying costs, liquidity, and zoning issues need to be considered prior to finalizing an offer to purchase.

- *Recommendation 3: Evaluate financial feasibility.* The importance of a strong technical financial analysis is indisputable. In this case study, the preliminary return on investment was estimated at 8-9 percent. Yet the detailed analysis carried out by the research team had a negative net present value for every reasonable scenario. Evaluating financial feasibility includes looking at capital costs, financing costs, and operating costs individually and in the aggregate. Revenues must exceed expenses. To reduce expenses, sources of and rates for debt financing may need to be negotiated at an early stage. It is essential to keep a cushion for changes in interest rate and cost overruns. Government funding, and a reduction or waiver of property taxes, appears to be of paramount importance.
- With respect to capital costs, constructing a building of this type in a rural area can be expected to cost more than in an urban setting, especially if the specialized labour required for green building practices is lacking. Investments in green technology during construction may support reduced operating costs. However, careful consideration must be given to who benefits from the savings accruing from energy-efficient buildings, as well as “building green” project feasibility. Implementing clear procurement processes will support best practices, assist in cost control, and be welcome by funders.
- *Recommendation 4: Obtain appropriate professional expertise.* Large capital projects require specialized skills and expertise for planning, risk management, managing obligations, obtaining appropriate legal counsel, and project management. They are essential and may be more costly to obtain than in urban areas if travel is required.
- Just as hiring an architect with relevant experience is necessary, hiring an experienced project manager with expertise with similar projects may be of great merit. This expense is usually worth the cost. It is important to ensure that appropriate skilled labour is used in the construction phase also. Using local talent should be considered a bonus, not a pre-requisite for all aspects of a community project, as it likely that skills beyond the usual and customary activities of the local human resource pool will be needed.
- *Recommendation 5: Develop relationships with government and other key partners.* Government support is an essential component of a successful capital project such as this. There is no substitute for the political will of an elected champion. Invest generously in fostering relationships with government leaders at all levels. Community leaders who support the project can also have significant influence and leverage other resources on a capital project, particularly in a rural community.
- *Recommendation 6: Ensure good governance.* Successful projects depend on excellent leadership. In interviews, it was clear that projects that

succeeded did so because of a committed board and a lead person (a champion) investing significant time and effort. It is essential to develop governance capacity during the construction phase and to continue it over time. Incorporation as a not-for-profit organization appears to be the model used most commonly in similar projects. It is critical to handle legal structures with care and to ensure implementation of a legal structure that works in the short-term (prior to the end of construction) and long-term (when housing and community services are being provided).

6.0 Conclusions

The affordable housing project under consideration was not financially feasible because of its large size and complexity. It would be especially challenging to build in a rural area due to both supply and demand factors. In rural communities, there are often fewer capital resources and less professional expertise for uncommon and/or large initiatives. Building costs are often higher due to transportation costs and the need for specialized labour.

Likewise, potential lower demand may increase vacancy rates and a lower cost of living may reduce revenue potential relative to an urban area. In the final analysis, low rental revenues are unlikely to cover the capital and financing costs of the building.

However, if capital and financing costs can be kept to a minimum through government support, it may be financially feasible. Ultimately, this would assist rural communities who need more affordable housing. This case study highlights key financial and non-financial considerations. By building relationships with multiple levels of government, engaging appropriate professional expertise, and “thinking big while acting small” (proceeding one phase at a time), the energy of committed community members can be harnessed to bring rural housing projects to completion.

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