



3H PROPERTIES GROUP INC.

Preservation – a Deeper Dive

Recap

June 15, 2022

Thank you for joining us for our fireside chat with Iman Novin, Founder of Novin Development, focusing on the multifamily development sector in California, and Patricia Roset-Zuppa, Vice-President Policy at the Canada Mortgage and Housing Corporation (CMHC). The discussion focused on the preservation and construction of affordable housing in both the U.S. and Canada, with themes including government affordable housing programs, the need for larger ecosystems involving public, private, and not for profit players, and creative financing methods.

Highlights From the Fireside Chat:

Preservation's Role in Solving the Housing Crisis

In Canada, enormous challenges with the lack of affordable housing impact many Canadians, a fact that was highlighted during COVID era when people were encouraged to stay home which was not possible for the most vulnerable populations.

In California, when housing is purchased by value-add speculative investors, vulnerable populations are disproportionately impacted. There has been a renaissance in past 5-6 years among developers and policy makers to preserve unsubsidized housing, which brings a variety of benefits to the developer such as faster timelines and lower costs.

It is obvious that our two countries need to take a holistic approach to housing including preservation, not a quick fix. Since one sector does not have all the answers, a toolkit approach is needed to ensure affordable supply is available.

CMHC National Housing Co-Investment Fund

CMHC's National Housing Co-investment Fund offers low-cost financing and contribution funding focused on vulnerable populations. The program is designed to bring other partners to the table, and Patricia stated CMHC realized it is sometimes difficult for not-for-profits (NFPs) co-sponsors to raise money. A new (lending + contribution) co-op program is in place to ensure the program is as accessible as possible with the application process soon to be streamlined. This program is key to growing and protecting the community housing sector.

Role of CMHC and Governments

CMHC provides funding for the following programs focused on:

- Supply (new or existing) – renovation of affordable housing
- Rental support for households
- Support for build capacity of housing sector
- Rental construction financing initiative for purpose-built new and existing rental housing
- Mortgage loan insurance or
- Contributions (grants/subsidies)

The Rapid Housing Initiative was created in response to the acute housing needs, especially for the homeless, enabling preservation through the acquisition of old hotels and other types of buildings, and by enabling modular housing,

On the supply-side, CMHC supplies rental support through the Canada Housing Benefit as incomes are not keeping pace with rents. This program is delivered to vulnerable populations but is currently insufficient to meet existing needs.

With respect to the preservation of affordability, Patricia emphasized that we must look at how governments can partner with the private sector to ensure affordability.

Data, research, and innovation are an integral part of the National Housing Strategy. The aim is to build an ecosystem of development solutions. Patricia stated we need to understand the complexities of the housing sector and enable others to deliver solutions that are most effective based on who we want to impact, and also how to best influence decision makers. An all-hands on deck approach is needed, and there is still much work to do.

U.S. Approach to Affordable Housing

California offers Low-Income Housing Tax Credit Programs to incentivize construction of affordable housing, but these programs are currently oversubscribed. Iman takes advantage of another program, the Property Tax Welfare Exemption, which maintains affordability of the housing by reducing rents for units occupied by lower income household (earning below 80% of the Area Median Income).

Iman believes it is key to work with local NFPs and mission-aligned investors to purchase and remove properties from the speculative market and have 10-year plan for how the property might eventually transition to tax credit syndication or receive U.S. federal Housing and Urban Development financing down the road.

Employers in the San Francisco Bay area are very concerned about the 235,000-unit shortfall in affordable rentals. Large employers are partnering with mission-driven investors and NFPs to provide low interest rate financing to build housing for their employees. These partnerships ensure resources exist to compete with market-focused investors when properties hit the market for sale.

With 75% of low-income housing residents in the Bay area at risk of losing their homes, Iman would like to see the useful life of U.S. public housing extended after 55-year deed restrictions, and more focus on dollars and resources to buying market-driven housing that benefits existing residents.

CMHC's Intersectional Lens on Policy and Partnerships

Provinces and territories (PTs) are CMHC's primary partners as these jurisdictions have their own funding mechanisms and understanding of local priorities and needs. CMHC has 9-year funding agreements with

each PT, and the new multilateral framework for the vision of National Housing Strategy prioritizes those who are most vulnerable. This human rights-based approach to housing is a shared responsibility with the PTs and each player has complementary roles.

PTs directly deliver programs to develop the social housing and new affordable housing sectors, and they oversee land use planning and development targets for new home construction. CMHC also works with and funds municipal projects to expand housing stock.

Role and obligations for private sector to provide affordable housing

Patricia underscored that the depth of affordability for workforce housing is different from affordability for low-income Canadians. Low-income housing requires different partnerships to build housing and link it to wraparound support services that must be coordinated to set up residents for success.

We need more than NFPs and governments to be involved — private industry is needed to build needed housing stock. Affordable housing requires participation from market rate institutions to build and preserve enough affordable housing as the growth and interest exists. Examples of high profile moves in this area are Scotiabank announcing a \$10 billion program to mobilize funds for affordable housing in 2021, and Google and Apple's billion-dollar investments in affordable housing.

There are ways to make profit on affordable housing. What is needed is a socially conscious developer who is content with a lower return, for example, 5% instead of 20%. That developer must be committed to double or triple bottom line, and more capital is available to sponsors who have that mindset. This is a more stable and risk-adjusted way of investing in real estate while also doing good. Socially conscious developers, hospitals, technology companies and others are all creating funds focused on preserving affordable and workforce housing. Partnerships at all levels of government are needed to make this happen, witness the Joint Powers Authority used in the Bay area where government bonds are issued to raise funds for workforce housing to purchase apartment buildings built from the 1980's to now. Creative financing is balanced with positive outcomes for residents to create public benefit.

Where to Go from Here

Partnerships with a variety of players are key to the success to form a strong affordable housing ecosystem and diversity the countries affordable housing toolbox.

It's obvious we need scale preservation and rehabilitation work upwards. Securing financing and funding needs to go beyond local communities to regional, state and federal-level solutions. Tenant advocacy groups and community development financing institutions need to develop the capacity, along with sponsors interested in this work, to learn about tax incentives and strengthen partnerships.

Follow us on social media to continue the conversation and learn more about our next event on **Optimization vs Maximization** with Bob Drizis of Peakhill Capital, Jeff Thomas of KingSett Capital and Jordan Hoodendam, P.Eng. of Zon Engineering. This Webinar will discuss improving quality of life, health, and wellness for tenants through environmental and energy solutions and new innovative construction techniques, while providing a reasonable and fair return to investors.