

FRAMING THE CHALLENGE

Photo courtesy of Jesse Colin Jackson

RETROFIT ADVISORY GROUP SUMMARY



**TOWER RENEWAL
PARTNERSHIP**

CONTEXT

The ILEO United Way team and CMHC have convened during the fall-winter 2023-2024 the Retrofit Advisory Groups to address the following challenge:

“How might we design concrete and practical solutions that motivate private building owners to meet future decarbonization regulations via deep retrofits in a manner that maintains housing security for tenants?”

Older apartments is home to millions of Canadians. Built in the apartment boom of the 1960s and 70s, and supported through policy, public finance and planning regimes, this ‘legacy’ housing was built with the aim of providing decent and more affordable homes for an expanding urban population and in doing so largely solved the post-war housing supply crunch, which is similar to the one in which we find ourselves today.

These legacy apartment towers represent a housing inheritance that has been the backbone of the rental housing system ever since and represents the vast majority of purpose built rental housing found in our cities today.

In some regions this housing is affordable, with legacy private apartment rental buildings providing rents below regional median or average levels. This is the case in the Greater Golden Mile, home of some of the Toronto region’s more affordable rental housing, much of it private.

For additional information, please click links below

[FULL CMHC PRIMER PRESENTATION FOR WORKSHOP](#)

IT IS AFFORDABLE.

IT IS AGING.

IT IS UNDER THREAT.

IT CAN BE TRANSFORMED.

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CONTEXT

Apartment Supply: Successful Historic Programs

During the post-war boom, Canada experienced a surge in high-rise rental housing construction, peaking in the 1960s and 1970s. During this period, multi-unit rental housing developments outpaced single-family home construction nationwide. This substantial supply, made possible through targeted housing delivery programs, remains the backbone of the rental housing system today.

Between 1946 and 1984, the Canadian Federal government used a series of programs to incentivize apartment construction by providing private sector support through tax relief, below-market financing, and grants. Four major rental housing programs were designed to accelerate supply:

- The Limited Dividend Program (LD) 1945 - 1975
- The Assisted Rental Program (ARP) 1975-1978
- The Multi Unit Residential Building Program (MURB) 1975 -1981
- The Canada Rental Supply Program (CRSP) 1982 - 1984

The first two programs contained affordability requirements, enabling private sector affordable housing development during a booming market. The latter two projects did not have such requirements; instead, they aimed to encourage apartment development of any type in a weaker economic environment. **Together, these programs supported the development of over half a million apartment units across Canada.** At the close of these programs in 1984, rental development nearly stopped.

Today, our goal is to use similar tools to enable investment to sustain and enhance this aging legacy housing stock while concurrently expanding supply.



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CONTEXT

The Growing Risk of Housing Loss

The most distressed legacy housing is at risk, with some buildings beginning to fail.

Two examples include 650 Parliament Street in Toronto and Mackenzie House in Hay River, Northwest Territories. Both of these buildings experienced electrical fires that led to full building evacuations for extended periods, resulting in local crises related to rehousing. In Toronto, over one thousand residents were displaced for over a year. In Hay River, the building has remained empty since its 2019 fire. **If this trend continues, the housing system will struggle to absorb the loss and adequately rehouse those displaced.**

Investment tools that both stabilize and enhance aging apartment housing are critical for ensuring the long-term housing security of Canadians.



CBC Article, *Few answers on Hay River highrise fire, 1 year later*, (Gabrielle Sky Landrie) 2020

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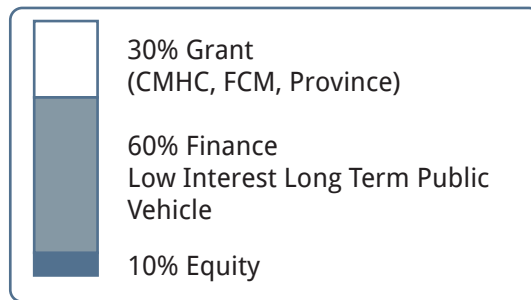
CASE STUDIES & MODEL DEVELOPMENT

Not for Profit Retrofit

Repositioned Affordable Asset

\$200,000/ UNIT

Finance Stack:



Corporate Reserve Fund

Loan Service

Energy Reduction
50% Utility Bills (8% Total Operating)
Maintenance Spending Reduction

20% Operational Savings



10% Rent Uplift

Introduction of 20% Market Units (100MMR)
80% 70MMR Deeply Affordable Units

Use of NOI (Net Operating Income - Year 1)

90% Debt Service
10% Reserve Fund

Not-for-profit retrofits have been achieved by expanding project debt capacity (through lowered operation costs and marginally increasing rents), the use of low-interest and long term Government backed finance products, and through access to direct public equity contributions (from CMHC, FCM, City and Provincial Partners). **This direct public investment has preserved thousands of housing units from going off-line and helped to kick-start Canada's low-carbon retrofit industry.**

Retrofit investments in private housing presents a paradox: How can substantial capital be directed toward asset renewal without raising rents, in a manner attractive to asset managers, that accounts for project risks, and does not freeze capital otherwise invested elsewhere? Doing so will likely require significant public support. **Our project is to outline under which terms doing so would be attractive and effective.**

FOR PROFIT RETROFIT
Repositioned Private Asset

CONSIDERATIONS:

1. Taxes account for 15%-25% of operation expense.
2. Free NOI is reinvested with target ROI or taken as a dividend.
3. Debt taken on assets is used for investments inside or outside housing portfolio.
4. Rent increase at turnover primary source of revenue uplift



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CASE STUDIES & MODEL DEVELOPMENT

GAPS AND TOOLS: \$833/MONTH

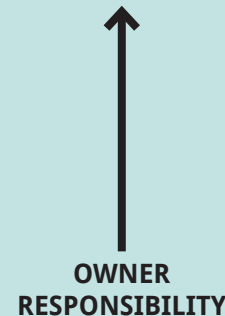
Assuming a capital cost of \$200,000 per unit as an upper limit for a comprehensive deep retrofit that includes deferred maintenance and capital repairs of a distressed asset, the cost per month, without borrowing interest, over twenty years would be \$833. Using a 4.5% debt product, the cost would be \$1,265 per month. If a project were financed by direct equity, and assuming a 5% annualized Return on Investment, the costs would be \$1,319 a month.

The core question of this project: Who pays for this monthly increase? What portion is from owner equity? What portion is financed through operations savings? What portion is through public support? And what portion comes from renters?

Further, what form should public support take? Is it a retrofit tax incentive? Direct Equity contribution? A rent supplement? Outlining the roles of private and public actors, and the key terms of support, initially as it relates to the GGM and later proposing potential broader solutions, is an output of this project.

CAPITAL SOURCE

PUBLIC GOALS



- Direct Grant
- Retrofit Tax Credit
- Carbon offset Tax Credit
- Stock Transfer to NRP
- Low Interest Finance
- Remortgage Tool
- Equity Investment
- Income Supplement
- Building Performance Regulations

A variety of existing and potential tools should were explored - which are more effective for owners and public expenditure? What are we missing? How can these work together? This is our assignment.

\$833/UNIT/MONTH

\$1,265/UNIT/MONTH (@4.5%)

\$1,319/UNIT/MONTH (5% ROI)

In simple terms, our challenge is to determine how \$833/unit/month can be raised to cover retrofit costs, assuming a 20 year horizon. Which actor pays, how and when?

\$833/UNIT/MONTH



GAP (\$773/MONTH)

UTILITY SAVINGS 7% (\$60/MONTH)

FUNDING GAP

Using a baseline building for illustration, current debt capacity, potential utility savings and remaining gap are shown (top). Additional tools in filling the gap are tested for illustration purposes (bottom).

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OUR FOCUS

- Homes and buildings account for **18% of national GHG emissions** with existing buildings being more energy inefficient than new builds.
- Currently, **76% of Canada's rental units are more than 36 years old**. Aside from a small amount of social/affordable housing, much of this purpose-built rental housing is owned and managed by the private sector.
- **Older market rental housing is a valuable source of affordable housing**, but because this stock is aging it needs considerable retrofit. However, **due to their lower rents, many do not have the financial capacity to modernize** their housing for health, comfort, and climate.
- Should there be GHG regulations within the next 5-10 years, **the market is at risk of losing these affordable buildings if it is not financially viable for current owners to undergo deep retrofits** to meet the requirements or for them to pay the penalties for not complying with decarbonization regulations. In this case, affordability is at risk due to redevelopment or above guideline rent increases.
- **Renovating these buildings will also contribute to community health and resiliency**; as major climate events become more likely these improvements to building envelope and cooling systems will mitigate adverse health effects (including death) for vulnerable populations during heat waves.
- Beyond health impacts, the **energy savings from deep retrofits have the potential to increase operational savings of owners by about 10%** and for individual tenants by about \$60/month/unit

To note: the cost to deeply retrofit a unit is approximately \$200,000 while the cost of building new affordable unit is approximately \$550,000 /unit



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