

First Unitarian Church: Preliminary Feasibility Summary



November 2021

Introduction

The First Unitarian Congregation of Ottawa (First Unitarian) is exploring opportunities for future new development on the church campus, including affordable housing. First Unitarian engaged Cahdco to conduct a feasibility analysis in two phases. Phase one identified the need for affordable housing in Ottawa, and summarized case studies of similar projects. Phase two of feasibility focused on determining key parameters for a successful project on the First Unitarian site, which could include a mix of housing options. Understanding that First Unitarian is looking to receive a financial return from a site development project, Theia Partners joined Cahdco as a co-consultant for the phase two study.

During this second phase of preliminary feasibility a working group from First Unitarian was formed to work with Cahdco and Theia Partners as they undertook various activities, including: reviewing and refining First Unitarian's vision and principles for the site; identifying potential project partners; and an analysis of a high-level hypothetical test case study. The findings from this phase of work are summarized in this brief and associated attachments, for consideration by the First Unitarian Congregation.

The City of Ottawa has recognized that we are in both a climate crisis and a housing crisis. First Unitarian has a very unique opportunity to address both of those issues through facilitating development of a rarely used, gravel parking lot on their site. A development on site could afford the Church with the opportunity to secure long-term financial sustainability in the face of congregational aging, while providing housing for a diversity of people.

Executive Summary

- There is a shortage of housing in Ottawa, and the First Unitarian site is ripe for development;
- It is possible to provide both affordable housing and a revenue stream for the Church through development on the site;
- The recommended strategy is a two-building solution consisting of a market building and a non-profit affordable housing building; *
- The land for that non-profit should be donated at \$0 (either via land-lease or outright transfer);
- The market building can provide well-in-excess of \$100,000 per year, which could be used to support Church mission and/or philanthropic activities.

* An updated planning opinion and/or meeting with City planning staff is recommended to confirm that a project, such as that presented in the hypothetical case study herein, aligns with the intend and policies of the City's new Official Plan for development in this area.

Housing Needs Summary

Cahdco undertook a needs assessment, to summarize the need for affordable housing in Ottawa (**Appendix A**). The City of Ottawa 10-Year Housing and Homelessness Plan 2018 Progress Report reported that nearly 8,000 individuals used shelters, including 1,078 families. There are over 12,000 households on the centralized wait list for affordable housing, and people wait for up to 8 years for an affordable unit. On average, only about 100 units of affordable housing are built each year. This demonstrates that the need greatly outweighs what is currently being developed.

According to the City Housing Needs Summary (2019), if the current housing construction rates continue with the same trend, it is estimated that by 2031 there will be a gap of approximately 18,000-19,000 dwellings available in Ottawa.

In this scenario, average apartment rents would be expected to rise by 41% in the period between 2018 and 2031. This would result in almost 25,000 more households living in unaffordable dwellings by 2031.

The need for affordable housing affects individuals from all walks of life. Through the National Housing Strategy, CMHC has identified key priority groups for affordable housing development.

A vacancy rate between 3-5% is the minimum for a rental market to be considered "healthy". For years, the vacancy rate in Ottawa was below 2%, signaling a lack of rental housing supply in the market. The vacancy rate jumped to 3.8% in late 2020, reportedly due to reduced immigration and student rentals during the pandemic. Ottawa vacancy rates are expected to fall again in the coming years, as activities return to normal following the pandemic. New rental housing development in general will contribute to overcoming this challenge.

The Unitarian campus is in a prime location that could supply many families and individuals with access to rental housing in a central location, close to services, amenities and transit.



NEARLY **8,000** INDIVIDUALS USED SHELTERS LAST YEAR, INCLUDING **1,078** FAMILIES



OVER **12,000** HOUSEHOLDS ARE ON THE CENTRALIZED WAIT LIST FOR UP TO **8** YEARS



ON AVERAGE, JUST OVER **100** UNITS OF NEW AFFORDABLE HOUSING ARE BUILT EACH YEAR

Figure 1: Housing Need in Ottawa

Development 101

Market Housing Takeaways

1. Developments are regulated by the City, and key financial metrics are set by lenders.
2. It is possible to leverage land value to generate a positive return.
3. Despite relatively low margins on a project of this scale, leverage through loans can generate significant annual returns.
4. Market developers have capacity and expertise to take on greater risk and provide a loan guarantee (required by any lender); however, a reasonable return would be expected for taking on this risk, effort and expense.
5. Lenders require a minimum Debt Coverage Ratio (typically around 1.3, or 30% higher than the debt service), which determines the surplus.
6. Excess surplus can support other philanthropic endeavors, such as a fund to subsidize individual rents, fight poverty in the community, advance reconciliation or sustainability, etc.

Affordable Housing Takeaways

1. Affordable housing will not yield a financial return for the Church.
2. Free or below-market land is required for a feasible project.
3. All projects need grants, financing and equity, even with free land.
4. Most affordable housing is non-profit owned and operated, often in stand-alone buildings.
5. Affordable housing is often low-rise in scale due to construction costs, funding availability and organizational capacity.
6. Non-profit housing providers often target higher environmental standards to reduce operating costs and align with organizational values.
7. Affordable housing generally has a lower parking demand.

For more details on the Development 101, refer to [Appendix B](#).

Affordability Summary

According to the 2016 Census, nearly 12% of households in Ottawa were experiencing core housing need. Core housing need occurs when a household must spend more than 30% of pre-tax income to pay for the median rent of local housing that meets all adequacy, affordability, and suitability standards. Since 2006, average monthly rent has increased by more than 23% for one-bedroom units, 21.3% for two-bedrooms, and 19.9% for three-bedrooms.

Figure 2 illustrates the different rent levels for a 1-bedroom apartment in Ottawa in 2020. CMHC defines the Average Market Rent (AMR) for an area, determined by looking at all of the rental rates for all apartments in the given area including new builds and old apartments that may not be in very good condition. To come up with an affordable rent we often hear Below Market Rent (BMR), which is often 70-80% of AMR.

Ontario Works (OW) or Ontario Disability Support (ODSP) are programs to support those that cannot afford 70% of AMR. Full market rent can be anywhere from 20-50% of AMR rates. CMHC Rental Construction Financing (RCFI) rents are typically around 10% less than full market rent.

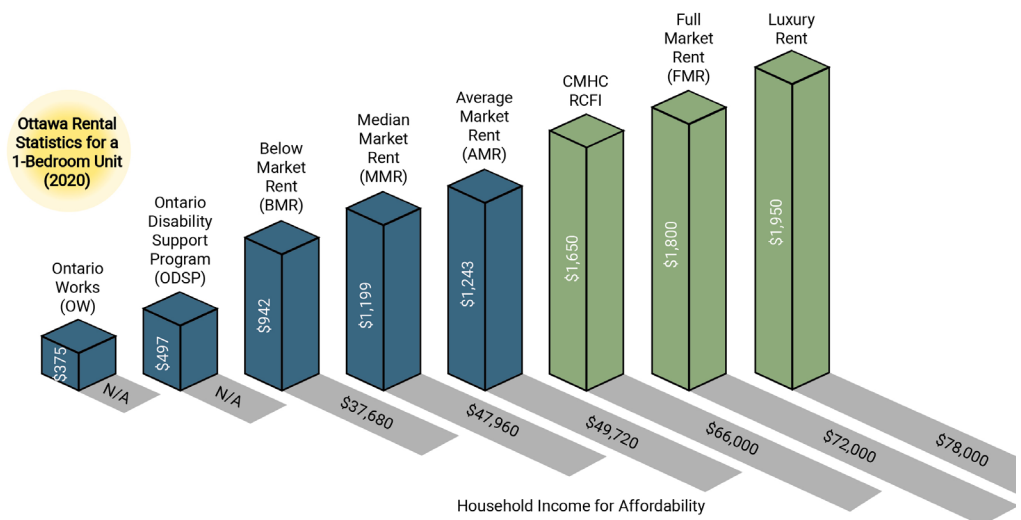


Figure 2: Ottawa Rental Statistics for a 1-Bedroom Unit (2020)



Figure 3: Project Vision and Priorities

Vision & Priorities

As part of the work plan, Cahdco, Theia, and the First Unitarian working group participated in a meeting to prioritize the goals of the development and to determine key factors for success. The outcomes of this exercise are summarized in Figure 3, with additional details provided in Appendix C.

The two core priorities for a development project on site, identified by First Unitarian working group members were:

1. The provision of affordable housing
2. A financial return of at least \$100k annually.

Hypothetical Case Study

Description & Massing

A hypothetical case study was established to illustrate a potential housing development project for the First Unitarian site. The hypothetical scenario examined as part of this feasibility assessment includes two separate buildings, based off of comparable existing projects:

- a 4-storey affordable housing building with 49 units (studios to 3-bedrooms)
- a 16-storey market building with 183 units (mix of unit types).

The market building is located on site C adjacent to the daycare. The affordable housing building is located partially on site C and site D, as illustrated in Figure 4, to maximize the unit count in a low-rise structure. Massing views of the hypothetical buildings, in context with their surroundings, is shown in Figures 5 and 6 (affordable in blue and market in purple).

Land Ownership

The land ownership structure for the project will be largely dependent on the market and affordable housing partners that First Unitarian decides to work with to undertake a project. The sections below summarize possible ownership structures for each housing type.

Affordable Housing

The land ownership structure for the affordable housing component can be either through transfer/sale or land lease. In either case, a land cost of \$0 to the non-profit partner is critical to maximizing the affordability of the project. Land ownership by the non-profit housing provider is often preferred, as it simplifies funding and financing agreements registered on the land title. A long-term land lease may be possible, though the Church would need to co-sign or be the holder of agreements with project funders and lenders to be registered on title, and increases risk for the Church.

Market Housing

Financing high-rise market residential development projects on leased land is a challenge. A preferred alternative is a Limited Partnership (LP) structure, which allows the Church to maintain a majority ownership in the land, while providing an acceptable way for the developer to achieve project financing. Every LP also has a General Partnership (GP), which has day-to-day operational responsibility for the project. The liability for the LP is capped at the value invested in the business (i.e., the land), whereas the liability for the GP is unlimited. The Church would be part of the LP only, therefore limiting their liability in the project to the land.

In the hypothetical scenario explored in this analysis, the Church would continue to be owner of +/-80% of the shares in the LP (i.e., land). The GP—in exchange for taking on the risk, assembling the cash equity, and running the project—would receive a development management fee (funded through cash equity and bank financing), and a share of the surplus profits. The LP (i.e., the Church) would receive the majority of the surplus cash, to be used to support the long-term financial viability of the Church and for philanthropy.

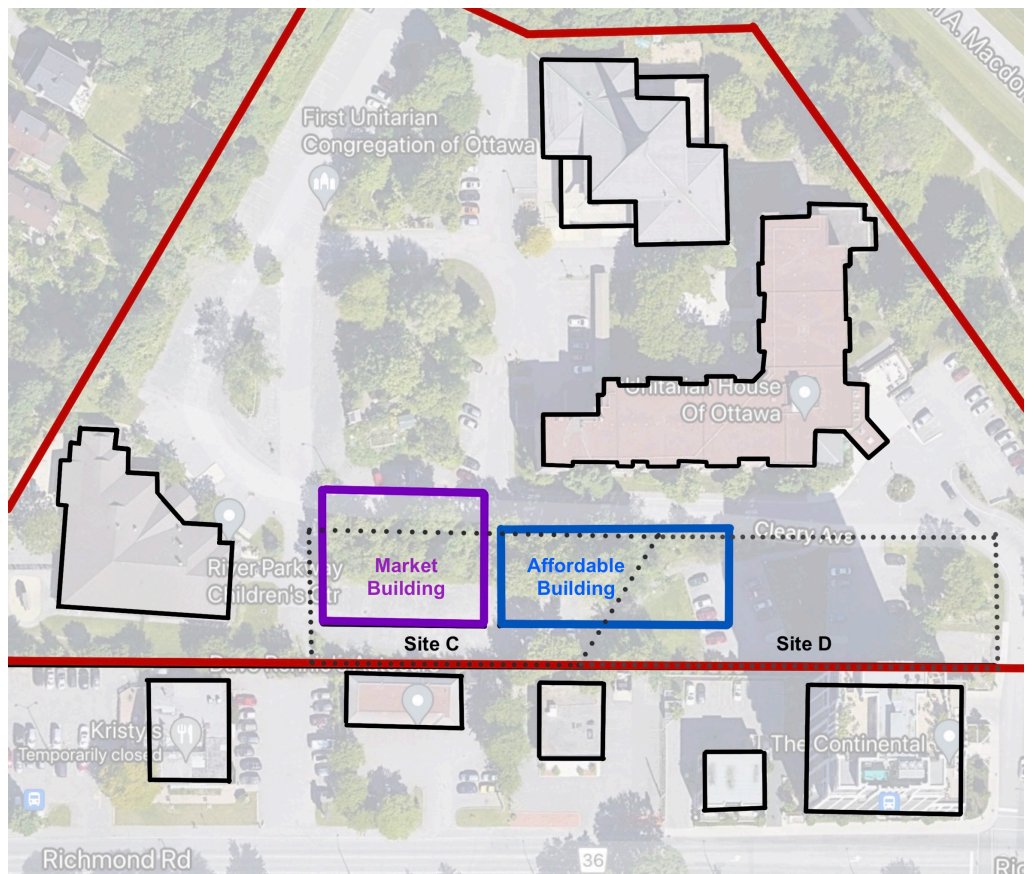


Figure 4: Plan View of Hypothetical Building Footprints on the First Unitarian Site

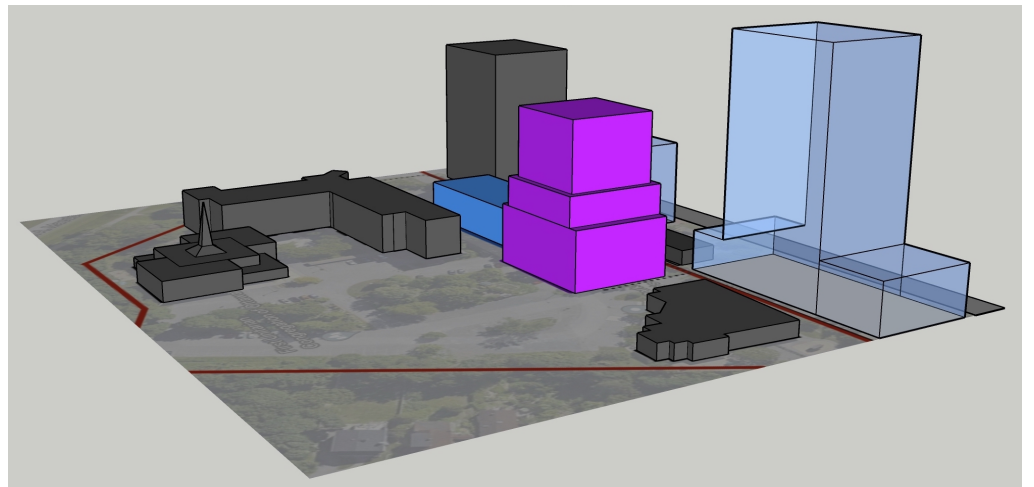


Figure 5: Aerial Perspective Looking South-East

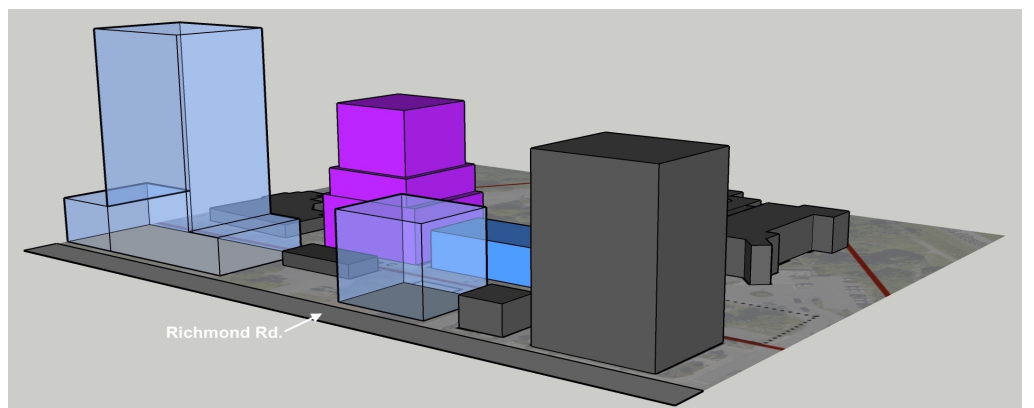


Figure 6: Aerial Perspective Looking North-West

Preliminary Financial Analysis

For the hypothetical case study, a preliminary financial analysis was conducted to determine the project feasibility and return. The sections below summarize the financial outcomes of each development component separately.

Affordable Housing

This analysis assesses the financial viability of a 4-story apartment building with 49 units, to illustrate a potential affordable housing project on the site. The financial analysis assumes that the Church transfers or leases the land to the non-profit housing provider at no cost (assumed land value and closing costs shown in **Table 1**). Additionally, the analysis assumes that the project would include a range of affordable rents, including ODSP shelter rates, BMR, and AMR units, at the proportions summarized in **Table 1**.

The capital costs, as well as funding and financing sources assumed in this analysis are summarized in **Table 1**, and are based on comparable existing affordable housing projects. Assumed funding sources include: a low-interest loan through CMHC's

Co-Investment program (50-year amortization period); a Co-Investment grant for 5% of the project costs; and a

grant from the City of Ottawa was assumed at \$150,000 per unit.

Understanding the Church's preference for a highly sustainable project, it is also assumed that funding from the Federations of Canadian Municipalities (FCM) Sustainable Affordable Housing (SAH) program would be eligible. The rent structure of a project directly impacts the proportion of capital costs that can be covered by a loan (mortgage).

Accounting for all typical funding sources and free land, any non-profit project partner would still be required to provide some cash equity to make the project financially viable. As identified in **Table 1**, this might be in the order of magnitude of \$2M depending on final finding sources.

Additional information on potential project funding and financing sources is provided in **Appendix D**.

This financial analysis demonstrates that a 4-storey, 49 affordable rental building is feasible on the First Unitarian site, assuming that the land is provided at no cost and the non-profit partner is able to bring some equity to the project.



Figure 7: Affordable Housing Precedent: MHI's The Haven Project



Figure 8: Affordable Housing Precedent: CCOC Forward Project

Table 1: Affordable Housing Building Financial Summary

AFFORDABLE HOUSING FINANCIAL SUMMARY		
UNITS	Studio - 5 Units 1 Bedroom - 22 Units 2 Bedroom - 8 Units 3 Bedroom - 14 Units Total - 49 Units	
AFFORDABILITY	ODSP - 7 Units BMR - 23 Units AMR - 19 Units	
PARKING	Surface - 7 Spaces	
PROJECT COSTS		
Land (Value + Closing Costs)	\$	3,043,441
Hard Costs	\$	16,436,049
Soft Costs (Including Financing)	\$	1,561,628
Contingencies	\$	1,810,848
HST (Including NP Rebate)	\$	523,413
Total Project Cost	\$	23,375,380
SOURCES		
Land Value	\$	3,000,000
Action Ottawa Grant	\$	7,350,000
CMHC Seed Grant	\$	52,500
CMHC Co-Investment Grant	\$	1,168,769
CMHC Co-Investment Financing	\$	9,637,585
FCM Planning Grant	\$	25,000
Total Sources	\$	21,233,854
SHORTFALL / EQUITY REQUIRED	\$	2,141,526

Market Housing

This study undertakes extensive financial modelling of a 16-storey, 183-unit market rental building to ensure that a market building such as that presented in the hypothetical case study would be viable on the site. A summary of the model is provided herein; additional details are provided in [Appendix E](#).

Unit rents include a mix of CMHC's Rental Construction Financing Initiative (RCFI) affordable rents (~10% less than full market value), full market rents (FMR), and premium rents. Assuming the proponent is successful with RCFI financing, the market project is viable and creates attractive returns for the Church.

The financial analysis assumes that the Church puts only the land into the deal as part of the LP. The market developer is responsible for all remaining equity, securing debt, and for taking on the risk of the project. A summary of the anticipated market building project costs and sources is provided in [Table 2](#).

It will take several years for a project of this size and scale to become fully occupied and stabilize, during which time no returns should be expected (this could take up to five years, though likely closer to 18 months after first occupancy for a project of this scale). Once stabilization has occurred, long-term financing is typically put in place. In the first year of stabilization, the model demonstrates a total surplus cash flow of \$587,696. A proportion of that would go to the developer-partner as asset management fees and a profit-share for taking on the risk for the project; a further proportion would go to other LP investors (a minority). Modelled net returns to the Church are estimated as follows:

- First year following stabilization: \$320,882
- At year three following stabilization: \$395,325
- At year five following stabilization: \$469,787

It is difficult to predict the state of the market and Church financial needs over a decade from now. The hope is that returns in this order of magnitude would provide a sufficient cushion to ensure the Church remains solvent indefinitely into the future, while also having surplus to use to support missional objectives.

A positive attribute of real estate is that it adjusts for inflation, and over time, as the loan gets paid off, the cash distribution should improve. There are, however, also risks associated with the modelled returns. While the modelled 50-year amortization period helps drive better affordability, it increases risks of market disruptions, and limits equity build up over the first decade. Further, the current low interest rates are subject to change, which could impact returns. Inflation, particularly related to construction pricing, is also a risk. The market developer-partner would put in place strategies to manage these risks.

Table 2: Market Rental Building Financial Summary

MARKET HOUSING FINANCIAL SUMMARY		
BUILDING STATS	183 Units 88 Parking Spaces 183 Lockers	
AFFORDABILITY	Premium Rent ~ 10% Units Full Market Rent (FMR) ~ 10% Units 10% Below FMR - Balance of Units	
PROJECT COSTS		
Hard Costs + Land	\$	64,311,208
Soft Costs (Including Financing)	\$	17,925,910
Total Project Cost	\$	82,237,118
SOURCES		
Bank Loan	\$	73,635,708
Cash + Land Equity	\$	11,329,667
Deferred Costs	\$	162,612
Lease-Up NOI	\$	(2,890,869)
Total Sources	\$	82,237,118
CHURCH NET CASH FLOW		
Year 1 Post Stabilization	\$	320,882
Year 3 Post Stabilization	\$	395,325
Year 5 Post Stabilization	\$	469,787

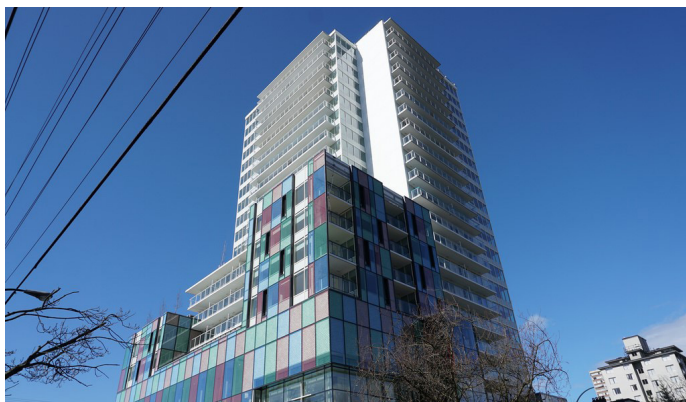


Figure 9: Market Housing Precedent: Central Presbyterian

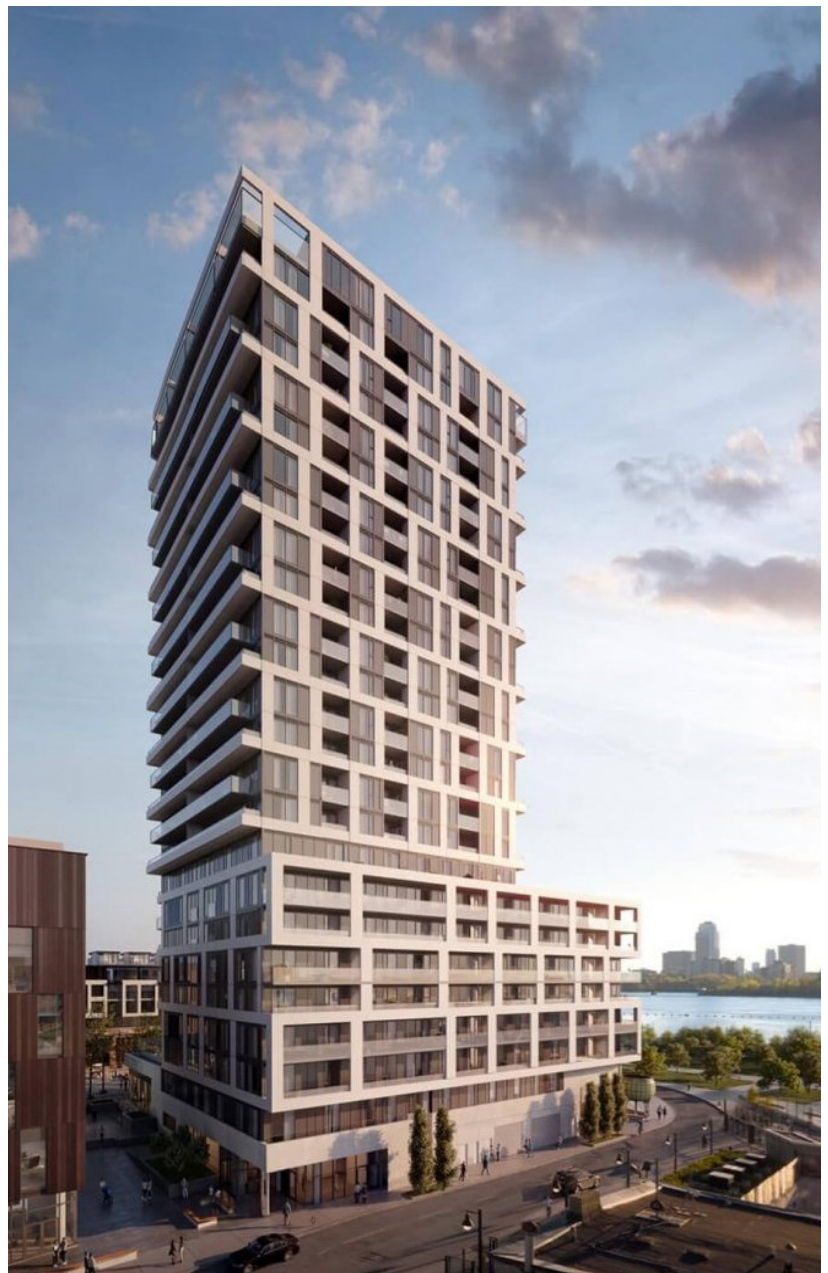


Figure 10: Market Housing Precedent: Zibi Block 206

Two Buildings vs. One

At the outset of this study, the Church indicated a preference to develop a single building on site C that would include all affordable and market components in a single structure (rents ranging from ODSP to premium market). The analysis undertaken by Cahdco and Theia instead looks at two separate buildings: one with affordable rental and one with market rental. This decision is based on the

takeaways of the development 101, and an understanding based on a number of different factors that a two-building scenario is more likely to be realized and developed.

A comparison of the benefits of a single-building project versus a two-building project is summarized in **Figure 11**. This comparison assumes that four additional floors would be added to the 16-storey

building described above to house the affordable units in a single-building scenario. While there are more distinct benefits to proceeding with the two-building scenario, as modelled herein, considerations such as selected project partner preferences and the weight that the Church gives to the various benefits in **Figure 11**, will dictate what type of project proceeds on the site.

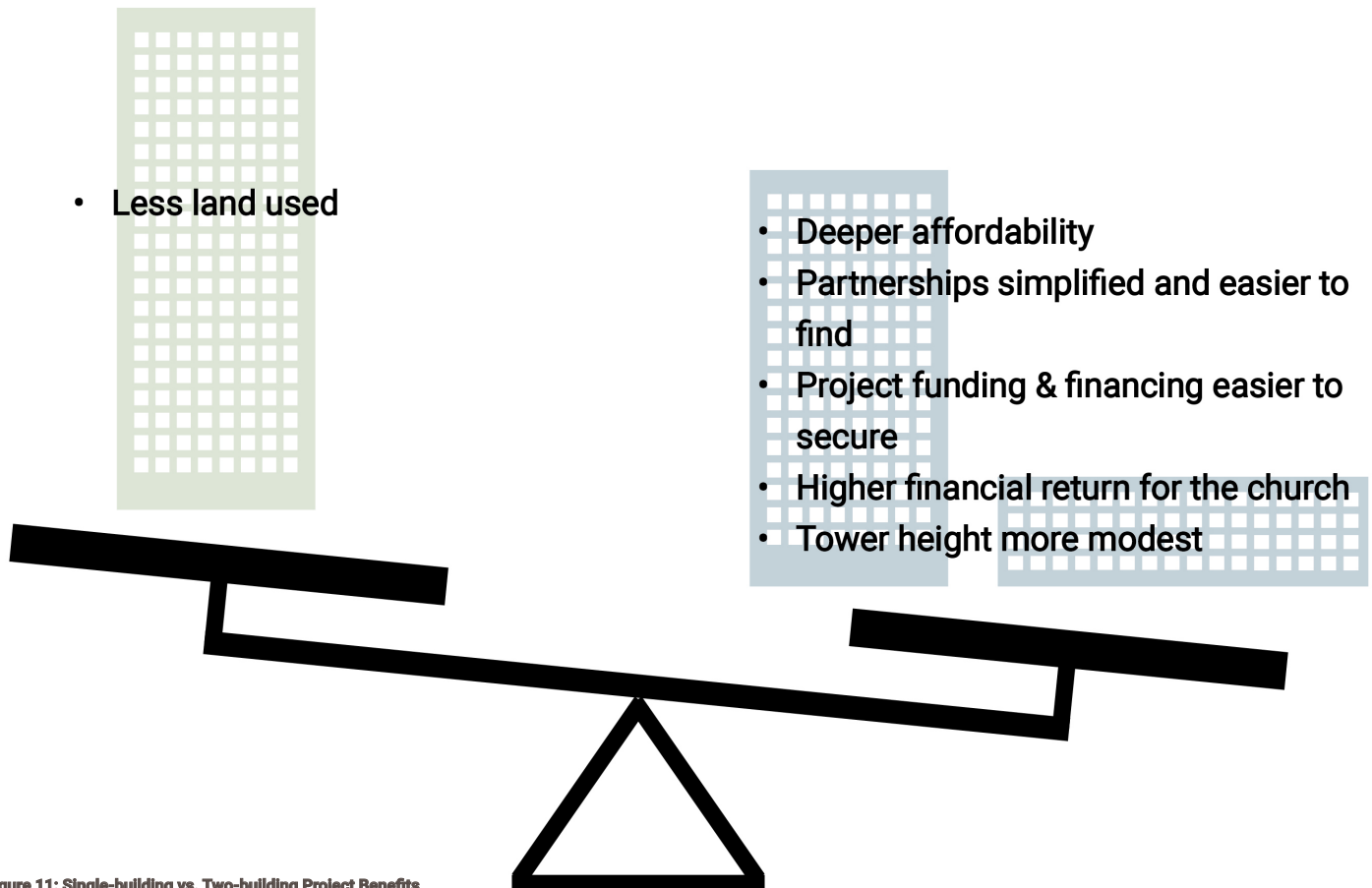


Figure 11: Single-building vs. Two-building Project Benefits

Partnerships

Partnerships are key to the success of a development project on the Church campus. First Unitarian will require both non-profit and market partners to undertake a rental residential project on their site. This section provides a summary of considerations for the Church to keep in mind when selecting project partners.

Market Housing

First Unitarian will want to partner with a market developer that will work collaboratively with the Church to develop the project. It will be important to secure a developer partner rooted in strong values that align with the Church's vision, and with a history of socially and environmentally responsible development.

Beyond the land value supplied by the Church, the project will also require cash equity and a significant amount of loan to be secured. The developer will raise the required equity, secure the financing, provide the guarantee, and for that service they would collect a percentage of the surplus cash flow from the project.

Affordable Housing

There are various roles and responsibilities that need to be filled to create and operate affordable housing. Considerations include: who will own the land; who will own and operate the housing; who will be responsible for property management; and who will provide support services (if required)?

A non-profit housing provider can typically fulfill multiple roles. Some may work with other groups in the community to provide additional services (e.g., supports). A list of potential non-profit project partners that First Unitarian can consider for the affordable housing component of a project, including a summary of what role(s) each group might take on, is provided in **Appendix F**.



Figure 12: Housing Roles and Responsibilities

Findings Summary

There is a need for rental housing in Ottawa. First Unitarian has an ambitious vision for development of their campus that could help to address this need, with clear ideals that they would like to see come to fruition. The development potential of the First Unitarian site is well suited to strive for these ideals. Through partnerships with a market developer and non-profit affordable housing provider, the Church is looking to create a project that provides affordable homes to the people of Ottawa, while also providing financial sustainability to the Church.

While the Church indicated a preference to develop a single building on site C that would include all affordable and market components in a single structure, the analysis undertaken herein instead looks at two separate buildings. Two separate buildings are more likely to be realized compared to a single-building scenario, as it will be easier to find partners that want to participate in the project, partnerships will be simplified, and projecting funding and financing will be easier to secure. Additional benefits of a two-building scenario include deeper affordability, a higher financial return for the church, and a more modest tower height.

This feasibility study analyzed a hypothetical case study featuring a 4-storey affordable rental building, and a separate 16-storey mix market rental building. The development would likely require all of site C and part of site D to accommodate the proposed buildings. The analysis found that the affordable housing component is feasible with free land. It also found the market component has the potential to deliver financial returns to the Church for long-term financial sustainability and philanthropy with First Unitarian as majority land owner.

Next Steps

If a decision is made to move forward with further exploration of a development project on the First Unitarian site, there are a number of key next steps that would form part of the next phase of work. These steps would be undertaken by First Unitarian and project partners as follows:

First Unitarian

1. Engage with Unitarian House and the Daycare
2. Identify & select project partners (MOU with non-profit and market partners)

Project Partners

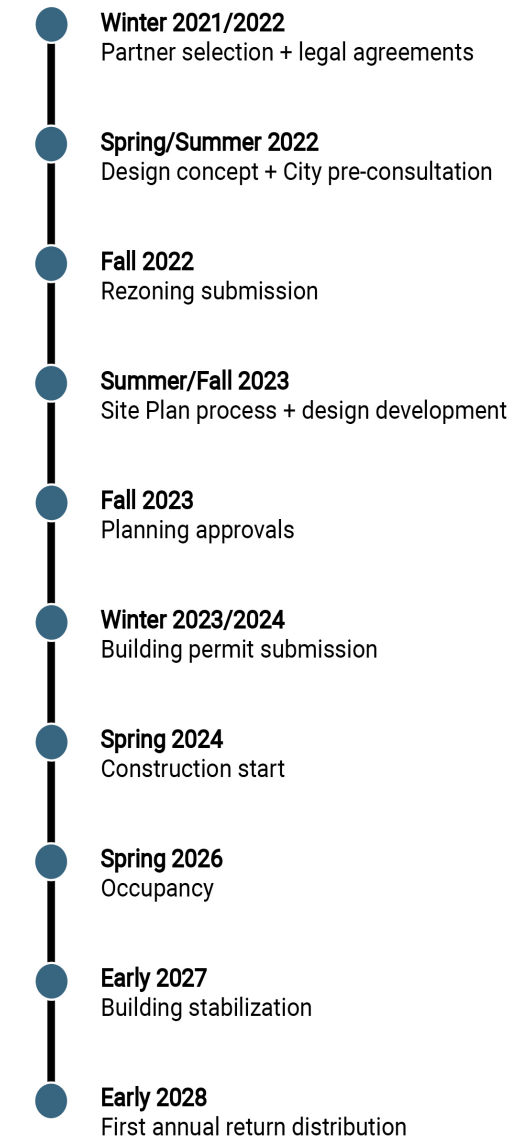
3. Engage project team: architect, planner, development consultant
4. Undertake site investigation: environmental site assessment, geotechnical, topo survey
5. Refine development concept to meet project partners' requirements
6. Refine project costing & financial pro formas
7. Meet with City of Ottawa planning staff

First U & Partners

8. Development agreements with non-profit and market partners

Timeline

It is critical to understand the length of time it would take to complete a project of this size and complexity. An initial timeline is summarized in **Figure 13**; this timeline is subject to change. Although the Church is not in immediate financial need, the timeline illustrates that this is a long process, and requires the Church to be proactive and look years into the future.



Appendices

A. Needs assessment	E. Theia's market building proposal details
B. 101 presentations: affordable and market	F. Examples of potential non-profit partners
C. Visioning JamBoard	G. Massing images - All
D. Capital funding & financing options matrix	

Figure 13: Sample Project Timeline