Draft Discussion Paper
For an Affordable Housing Fund

CANADIAN RENTAL
HOUSING PROVIDERS
FOR AFFORDABLE HOUSING

DRAFT: February 28, 2023

ForAffordable.ca
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EXECUTIVE SUMMARY

The purpose of this discussion paper is to set out important terms and considerations for the establishment of an affordable housing fund (the “AHF”), or funds, to acquire existing apartment rental properties and maintain rents in these properties at affordable levels indefinitely. This discussion paper is not exhaustive and does not include all items to be addressed in creating an AHF; instead, it attempts to provide information and context that will be useful for policymakers.

Housing in Canada is becoming increasingly unaffordable, especially in large urban centres. Canada Mortgage and Housing Corporation (“CMHC”) estimates that we need to build an additional 3.5 million homes by 2030, over and above currently planned construction, to restore affordability.

However, developing new supply takes time. Challenges with municipal approvals and construction timelines mean it can take anywhere from three to ten years to bring new projects to market. Developing affordable supply is even more challenging due to the high cost of developing in urban environments. New affordable housing is not economical without some level of government support. There is no simple solution to create affordability. It will require multiple levels of government and the private sector to work in a coordinated fashion to be successful.

An AHF is a policy option that can deliver affordability immediately. With funding assistance from the federal government, an AHF would target the purchase of apartment buildings with rents at or near affordable levels. Once the AHF owns the property, it could maintain rents at affordable levels indefinitely. An AHF does not address the supply of housing but does help maintain affordability for a specific sector of the housing market on a cost-effective basis for taxpayers. Existing affordable units can be acquired at a significant discount to the cost of developing new rental units.

Five of Canada’s largest multi-residential REITs (the “REIT Group”) — consisting of Canadian Apartment Properties REIT, Boardwalk REIT, Killam REIT, InterRent REIT and Minto Apartment REIT — have been working collaboratively on affordability and other housing policy ideas. You can learn more at https://foraffordable.ca/.

This discussion paper draws on existing research on the idea of an AHF.[1] The REIT Group has provided sample data from actual properties to inform the economic analysis in this paper.

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[1] See Pomeroy, Steve, “Augmenting the National Housing Strategy with an Affordable Housing Acquisition Program,” June, 2020.

The federal government could fund the acquisition of apartment properties by one or more AHFs at a cost of approximately $110,000 per unit. A $1 billion investment could fund the acquisition of between 9,000 and 10,000 units (depending on location). CMHC, through existing and custom-developed mortgage insurance programs, could reduce this investment. An AHF could operate without requiring further investment through careful acquisition and financial planning. An AHF may have an opportunity to purchase a significant portfolio directly from the REIT Group as certain REITs execute their strategy of selling older properties to invest in newly developed properties. Finally, the federal government has additional tools that it can use to incent existing apartment owners to vend their properties into an AHF, allowing this vehicle to scale quickly.

1) ITEMS FOR DISCUSSION

Affordability Definition

For this discussion paper, affordability is based on the definition used by CMHC for its MLI Select mortgage insurance product. This definition uses a custom index that sets out the median income for renters in major markets. Affordable rents must not exceed 30% of the annual median renter's income. Median renter income and affordable rents for a sample of markets in Canada are set out in Table 1. A complete list of median renter income by all cities in Canada is included in the Microsoft Excel workbook that accompanies this discussion paper.

Table 1

City	Median Renter Income	30% x Median Renter Income	Median Monthly Affordable Rent
Toronto	$53,900	$16,170	$1,348
Montreal	$43,600	$13,080	$1,090
Vancouver	$66,900	$20,070	$1,673
Ottawa	$61,400	$18,420	$1,535
Calgary	$69,500	$20,850	$1,738
Edmonton	$66,600	$19,980	$1,665
Halifax	$49,900	$14,970	$1,248

Understanding the Economics of Target Properties for the AHF

The economics of different apartment properties vary as a function of geography, built form (high-rise versus ground-oriented), and in-place rents, among other things.

To provide a starting point for the economic discussion and analysis in this paper, the REIT Group has provided data from a sample of four properties (two from Ottawa, one from Toronto and one from Brampton). This data is summarized in Table 2. Actual data for properties that an AHF ultimately acquires will vary depending on several things, including valuation terms, debt financing levels and interest rates. Regardless, the data provided in Table 2 helps to establish order-of-magnitude estimates for several variables relating to the AHF. If this analysis proves useful, it could be expanded to include properties from other geographies.

Table 2

	Average Per unit	Total Sample Data	Sample Property Data			
Property			#1	#2	#3	#4
Location			Ottawa	Ottawa	Toronto	Brampton
Affordable rent for location			$1,535	$1,535	$1,348	$1,693
Actual in-place average rent	**$1,588**	$1,588	$1,504	$1,523	$1,391	$1,874
Units	**1**	669	122	226	138	183
Revenue	**$19,058**	$12,749,888	$2,201,812	$4,130,376	$2,303,017	$4,114,683
Less vacancy allowance (3%)	**(572)**	(382,497)	(66,054)	(123,911)	(69,091)	(123,440)
Effective gross income	**$18,486**	$12,367,392	$2,135,758	$4,282,501	$2,233,926	$3,991,243
Property operating costs	**2,878**	1,925,476	306,710	550,163	480,842	587,761
Property taxes	**1,668**	1,115,618	104,060	452,953	181,726	376,879
Utilities	**2,767**	1,850,846	353,012	899,660	299,365	298,809
Total operating expenses	**$7,312**	$4,891,940	$763,782	$1,902,776	$961,933	$1,263,449
Net operating income	**$11,174**	$7,475,452	$1,371,976	$2,379,725	$1,271,994	$2,727,794
NOI margin (%)	***60%***	60%	64%	56%	57%	68%

General comments on Table 2:

- The table depicts the affordable monthly rent for each market and the average in-place rents at each property.
- Ideally, all in-place rents would be affordable in any acquisition; however, limiting acquisition targets to that criterion would severely limit the universe of potential acquisitions for the AHF.
- Practically speaking, a good guideline for acquisition candidates would be to have the majority of the rents in the property at affordable levels. All properties in the data table meet this criterion and would be considered good candidates for an AHF.
- The table sets out revenue, an allowance for vacancy, property operating costs, property taxes, and utilities for each property. The data is then totalled and used to create an average amount per unit. The average amount per unit will be used later in this discussion paper to scale an AHF and determine the investment required.
- The table stops at each property's net operating income ("NOI"). Details regarding appropriate reserves for repairs, maintenance, financing costs, and general and administrative costs are set out in subsequent sections.

- The range of NOI margin percentages is quite wide (from 54% to 68%). This is to be expected as different property types (high-rise versus ground-oriented), different geographies, and different rent levels will contribute to variations in NOI margin.
- Overall, a 60% NOI margin is a reasonable overall assumption for the AHF. This is slightly below the average of the REIT Group's total portfolios, but that is to be expected. Although over half of the REIT Group's units meet the affordability requirement, the remainder of their properties have higher rents, which generally produce higher NOI margins.

Valuation of an Acquisition

An AHF should conduct appropriate levels of due diligence around property acquisition. This includes, but is not limited to, an opinion of value provided by an accredited appraiser and a building condition report prepared by a qualified engineer that assesses the buildings' major systems and identifies near-term repair requirements.

For this discussion paper, we have used basic estimates and assumptions to determine the value of an average unit from the data in Table 2. A common method for determining the value of multi-residential rental properties is the direct capitalization method. This method uses a forecast of the property's next year's NOI (based on certain assumptions and normalizing adjustments) and divides that NOI forecast by an applicable market capitalization rate (cap rate) to determine gross property value. Any near-term capital repairs the property would require would then be deducted to arrive at a final value.

Table 3 sets out the NOI for an average unit (data from Table 2) and capitalizes it at a cap rate of 3.75%, which is a reasonable assumption for illustration.[2] Actual cap rates for a specific property will be determined by considering recent market data and any unique details for a specific property. A deduction representing 2.5% of the gross value is made as an allowance for potential near-term capital repairs. Again, this is only for illustration, and any actual deduction will be based on a building condition report and negotiations between the AHF and the vendor.

[2] This NOI used in this example is based on historic results as opposed to a proper forecast. This has been done simply for convenience. Regardless, it is useful for demonstration purposes.

Table 3

VALUATION	
Net operating income	$11,174
Capitalization rate	3.75%
Gross property value	$297,975
Less: Capital repair adjustments (2.5%)	7,449
Property fair value	$290,526
Implied fair value per unit	$290,526

The analysis in Table 3 shows that an average unit with a monthly income of $1,588 per month will have a market value of approximately $290,000.

Financing for an Acquisition

Although all levels of government can contribute to the financing of affordable housing, this discussion paper is targeting the federal government for the funding of an AHV. The federal government could provide 100% of the funding for an AHF, or it could invest money alongside not-for-profit housing providers, community foundations and other philanthropic sources. Ideally, it should seek organizations that can deliver on a reasonable number of units. Achieving reasonable scale in different geographies is important for cost-effective operations and management.

An AHF could also use debt financing from third-party lenders, with the support of CMHC mortgage insurance, to help lower the amount of direct government investment required. This discussion paper assumes that an AHF uses debt financing from commercial lenders supported by mortgage insurance through CMHC's MLI Select product.

MLI Select provides borrowers with improved mortgage terms based on achieving certain criteria for affordability, energy efficiency and greenhouse gas reductions, and accessibility. Borrowers can qualify based on an individual criterion (for example, affordability), and they can stack achievements in all criteria for better results. A summary table with terms and benefits is provided in Appendix 1.

This discussion paper assumes that the AHF would get the maximum points available for MLI Select mortgage insurance. This includes an insurance premium of 1.00%, an amortization period of 50 years, and a debt service coverage ratio[3] of as low as 1.1x.

The calculation of mortgage financing used in this discussion paper is set out in Table 4.

Table 4

MORTGAGE CALCULATIONS		
Net operating income		$11,174
Debt service coverage ratio		1.30 x
Income available for debt payments		$8,595
Canada Mortgage Bond rate		3.40%
Credit spread		0.50%
Interest rate		3.90%
Loan term (years)		10
Amortization period (years)		50
Total potential loan amount		$189,970
Plus CMHC insurance fee	1.00%	1,900
Provincial sales tax on fees	8.00%	152
Total loan amount		$192,022
Monthly payments		$724
Annual payments		$8,688
Implied loan-to-value ratio		66%

General comments on Table 4:

- The NOI from an average unit (from Table 2) is used to determine the operating income available for mortgage payments.
- To determine the actual income available for mortgage payments, we have assumed a debt service coverage ratio of 1.30x. This assumption leaves $8,595 per year for mortgage payments.

[3] The debt service coverage ratio is defined as the ratio of a property's annual NOI divided by its annual mortgage payment obligations (including both principal and interest). A debt service coverage ratio of 1.1x means that a property's annual NOI is 10% higher than its annual mortgage payments.

- As noted above, borrowers can get down to 1.1x debt service coverage with MLI Select and generate more mortgage financing. However, an AHF will need a reasonable amount of cash flow, after mortgage payments, to allow for things like repairs and maintenance and the general and administrative costs of operating the AHF. This is discussed in more detail later in this discussion paper.

- Furthermore, the AHF would benefit from additional operating income to mitigate any sudden changes in input and operating costs. For example, recent price shocks in natural gas markets (arising principally from the war in Ukraine) and the sudden rise of inflation (on both labour and materials) are developments that an AHF will need to be able to deal with to be successful. Borrowing at too low a debt service coverage ratio would leave the AHF with little capacity to deal with financial uncertainties.

- Interest rates for CMHC mortgages are often determined using the Canada Mortgage Bond (CMB) as a reference rate plus an applicable credit spread.

- A 10-year mortgage term is assumed here, with the applicable CMB rate of 3.40%[4] and the estimated credit spread of 0.50% for an all-in interest rate of 3.90%. Note that both CMB rates and credit spreads vary regularly, and the all-in interest rate at any point in time can change and affect the amount of mortgage proceeds available and their cost.

- A 50-year amortization period is assumed, which is the maximum available under MLI Select.

- Based on these assumptions, an average unit in the AHF could be eligible for approximately $189,970 in mortgage financing. CMHC fees and applicable taxes are typically added to the mortgage amount resulting in a total mortgage amount of $192,022 for an average unit.

- Based on our valuation in Table 3, these mortgage proceeds result in a loan-to-value ratio of 66%.

Additional comments on debt financing:

- This discussion paper assumes that the AHF would be able to borrow from commercial lenders using MLI Select mortgage insurance.

  This assumption would need to be tested in the market. The debt service coverage ratios of properties in the AHF will be static over time as rents will not

[4] CMB rate as at February 3, 2023.

increase by more than guideline increases over time. This is different from typical apartment properties where rental rates reset to market rates (higher or lower, but generally higher) after an existing tenant leaves and a new tenant enters a lease.[5] All else being equal, a lender will choose to loan against a property with rising rents over a property with static rents. Lenders may fill their loan books with market-rate properties before lending to an AHF. Based on preliminary discussions with a Schedule I Canadian bank, an AHF should be able to arrange CMHC-insured financing on favourable terms.

- The federal government and CMHC could develop a mortgage product specifically for AHFs. For example, if it were to fund the mortgages directly rather than relying on commercial mortgage lenders, CMHC could offer special mortgage enhancements not available to market-rate buildings, such as a waiver of insurance premiums, interest-only loans (no principal payments), and lower (or no) credit spreads. CMHC funds its Rental Construction Financing Initiative ("RCFI") in this manner.

- Finally, it would be highly advisable that any AHF have some source of liquidity to deal with short-term cash variations and requirements. Many operators accomplish this through a revolving line of credit[6] that provides them with access to cash on short notice to deal with unexpected events. This line of credit can be paid down with surplus cash over time.

<u>Additional Proforma Considerations</u>

As noted above, an AHF should limit the amount of debt financing used to assist in the acquisition of a property such that it is left with sufficient financial flexibility to pay for other items.

Table 5 restates the revenue, operating expenses, and NOI (from Table 2) and then deducts mortgage payments (calculated in Table 4), a reserve for major repairs, and an allowance for general and administrative costs (discussed more fully below).

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[5] This is the case in rent-controlled markets in Canada. Rent controls are a matter of provincial jurisdiction and Canada's largest markets including Ontario, Quebec and British Columbia all have some form of rent control. In non-rent-controlled jurisdictions landlords can increase rents at the end of each lease term based on market conditions. Regardless, the assumption is that the revenue stream from a market rental building will grow over time and that the revenue in the AHF will stay relatively flat.
[6] Revolving means that borrowers can draw available funds from the line of credit and repay these borrowings when they have additional funds. Monies can be borrowed, repaid and then reborrowed on an ongoing basis.

Table 5

PROFORMA INCOME, EXPENSES AND RESERVES		
Revenue		$19,058
Less vacancy allowance	3%	(572)
Effective gross income		18,486
Property operating costs		2,878
Property taxes		1,668
Utilities		2,767
Total operating expenses		7,312
Net operating income		11,174
NOI margin (%)		*60%*
Annual mortgage payments		8,688
Reserve for major repairs		1,561
General and administrative		924
Annual profit		$0
Implied reserve/suite/year		$1,561

General comments on Table 5:

- Debt financing significantly reduces the amount initially required to purchase a property but requires the borrower to make regular mortgage payments. An AHF will need to allow for this if it uses debt financing.

- An AHF should include a reserve for major repairs in its budgeting and financial planning. The majority of the rental housing stock in Canada was developed in the 1960s and 1970s, which means that the average age of the housing stock is quite old. Despite their age, older buildings can still be good investments if the purchaser plans for the repair and replacement of major building systems and factors these into the investment.

- For example, a roof system may have an average useful life of 25 years. If an AHF is acquiring a property with a 15-year-old roof, it will need to budget for a roof replacement in 10 years. Similar analysis needs to be done for all major building systems, including heating and plumbing systems, elevating devices, and windows and building envelopes.

- Spending on these types of replacements tends to be lumpy in nature. For example, using the example above, an owner pays for the replacement of an entire roof only once every 25 years. However, it is prudent for an entity like an AHF to build a reserve in the intervening years to ensure adequate funds are available when a major system needs repair or replacement.[7]

- An allowance of $1,561 per unit per year has been included as a capital reserve. Readers should not read too much into the precision of that amount. The intention was to come in at approximately $1,500 per unit, which is a reasonable allowance, on an ongoing basis, for an older building (for illustrative purposes). An AHF will need to work with the engineer performing the building condition report at acquisition to set out the appropriate reserve for each property.

- The actual reserve amount of $1,561 in Table 5 was arrived at by adjusting the amount of debt financing used on acquisition up to the point where enough funds were left over to provide for an adequate reserve and an allowance for general and administrative expenses.

- An allowance of 5% of revenue was set aside for general and administrative costs to run the AHF. The property operating costs set out in Table 2 include employee costs for property management. However, an AHF will need to provide staffing for leasing, asset management, accounting and financial reporting, and the ongoing administration of the fund.

- The proforma shows that an AHF operating based on the assumptions set out herein would operate at zero profit.

The Purchase of a Property (Equity Requirements)

Debt financing will not be sufficient to acquire properties for an AHF. Additional equity funding will need to be provided by government.

Table 6 sets out the sources and uses of funds for the purchase of an average unit.

[7] This is consistent with reserve funds that are required in condominium buildings.

Table 6

SOURCES AND USES		
Property purchase		$290,526
Land transfer tax and closing costs	3.00%	8,716
CMHC insurance costs		2,052
Total uses		$301,293
CMHC insured loan		$192,022
Equity investment/Government Funding		109,271
Total sources		$301,293
Equity investment per suite		$109,271

General comments on Table 6:

- The property purchase price of $290,256 was calculated in Table 2.
- An allowance for land transfer tax and other closing costs was included. Land transfer taxes vary by province (or municipality) and, in some cases, will be higher than the general allowance included here.
- CMHC mortgage insurance costs and taxes were calculated in Table 4.
- The CMHC-insured loan amount was calculated in Table 4.
- The equity investment/government funding requirement is the amount required to equate the sources and uses of funds at acquisition.
- The cost to the federal government to acquire an average rental unit for an AHF is approximately $110,000.
- A summary of all the tables presented in this discussion paper for an average unit is included in Appendix 2.
- A summary of all of the tables presented in this discussion paper, assuming a $1 billion investment by the federal government, is included in the next section.

2) AN AHF BASED ON A $1 BILLION INVESTMENT BY THE FEDERAL GOVERNMENT

Using the analysis set out in this discussion paper, we can determine that a $1 billion investment by the government could create an AHF with approximately 9,152 units.

Non-Profit Worksheet - $1 Billion Investment

(text in blue denotes a variable)

1 - SAMPLE BUILDING		
Affordable monthly rent		$1,588
Suites		9,152

2 - PROFORMA INCOME, EXPENSES AND RESERVES		
Revenue		$174,411,500
Less vacancy allowance	3%	(5,232,345)
Effective gross income		169,179,155
Property operating costs		26,339,460
Property taxes		15,261,047
Utilities		25,318,555
Total operating expenses		66,919,062
Net operating income		102,260,093
NOI margin (%)		*60%*
Annual mortgage payments		79,511,155
Reserve for major repairs		14,289,980
General and administrative		8,458,958
Annual profit		$0
Implied reserve/suite/year		$1,561

3 - VALUATION	
Net operating income	$102,260,093
Capitalization rate	3.75%
Gross property value	$2,726,935,812
Less: Capital repair adjustments (2.5%)	68,173,395
Property fair value	$2,658,762,417
Implied fair value per unit	$290,526

4 - MORTGAGE CALCULATIONS		
Net operating income		$102,260,093
Debt service coverage ratio		1.30 x
Income available for debt payments		$78,661,610
Canada Mortgage Bond rate		3.40%
Credit spread		0.50%
Interest rate		3.90%
Loan term (years)		10
Amortization period (years)		50
Total potential loan amount		$1,738,525,289
Plus CMHC insurance fee	1.00%	17,385,253
Provincial sales tax on fees	8.00%	1,390,820
Total loan amount		$1,757,301,362
Monthly payments		$6,625,930
Annual payments		$79,511,155
Implied loan-to-value ratio		66%

5 - SOURCES AND USES		
Property purchase		$2,658,762,417
Land transfer tax and closing cost	3.00%	79,762,873
CMHC insurance costs		18,776,073
Total uses		$2,757,301,362
CMHC insured loan		$1,757,301,362
Equity investment/Government Funding		1,000,000,000
Total sources		$2,757,301,362
Equity investment per suite		$109,271

3) OTHER CONSIDERATIONS

Acquiring Properties

The acquisition market for apartment properties is highly competitive. An AHF will find itself competing with private market players for acquisitions. Given the strong investment demand for apartment properties, it is common for brokers, looking to deliver the best result for their clients, to run formal auction bidding processes for the sale of an asset. In these circumstances, an AHF would find itself at a disadvantage. Market-rate investors would model revenue growth in their acquisition proformas, whereas an AHF would not, and it is likely that the market-rate investor would be able to pay more for a property. Two things could help an AHF access the property market.

First, an AHF may be able to make direct property purchases from the REIT Group. Several members of the REIT Group are in the process of selling older properties to provide funds for the acquisition of newly built properties. This is generally referred to as recycling capital and is a common practice in the REIT sector. The REIT Group could negotiate the sale of a significant portfolio of properties (with most units at affordable rents) directly to an AHF. The terms would be consistent with the above mentioned process where value is based on a third-party appraisal, and an engineer would provide a building condition report. This approach would allow an AHF to achieve scale almost immediately.

Second, the federal government has additional tools that could help an AHF to succeed. Tax policy could help level the playing field (or even tilt it in favour of an AHF) by providing a tax credit to vendors on the sale of an apartment property to an AHF.[8] Many older apartments have a very low-cost basis for tax purposes and are subject to substantial capital gains taxes upon sale. Allowing apartment vendors to sell to an AHF on a tax-preferred basis will encourage these transactions and allow AHFs to gain scale quickly. This structure is already in place in Canada for the donation of publicly-traded securities directly to a charity. The concept could be adapted for apartment transactions to an AHF.

Operating Properties

There are a large number of highly capable non-profit housing operators in Canada.[9] The scale of these operators' activities is largely constrained by resources to acquire properties. An AHF could provide funding to these operators and leverage their existing

[8] See Pomeroy, Steve, "Augmenting the National Housing Strategy with an Affordable Housing Acquisition Program," June, 2020.

[9] See membership the Community Housing Transformation Centre (https://centre.support/about/#Partners).

management structures and expertise. The ability to use existing operators to manage the properties means funds can be deployed more quickly and with lower risk.

Appendix 1

How the MLI Select point system works

Use the charts below to help you determine your MLI Select score.

Existing properties - Point Distribution

Affordability – Rent Levels (10 year affordability commitment[1])			Energy Efficiency and GHGs Reductions over current performance			Accessibility[2]	
50 points	70 Points	100 Points	30 Points	50 Points	100 Points	20 Points	30 Points
40% of units at 30% of median renter income	60% of units at 30% of median renter income	80% of units at 30% of median renter income	15% reduction	25% reduction	40% reduction	Min. 15% of the units are considered accessible in accordance with the CSA standard B651-18 **OR** Min. 15% of units are universal design. **OR** The building receives Rick Hansen Foundation Accessibility Certification (60%-79% score)	Min. 15% of units are considered accessible in accordance with the CSA standard B651-18 and Min. 85% of units are universal design. **OR** 100% of units are universal design **OR** 100% of units are accessible in accordance with the CSA standard B651-18 **OR** The building receives Rick Hansen Foundation Accessibility Certification "Gold" (score of 80% or better)

Existing properties - Insurance Flexibilities

	Premium	LTV	DCR[3]	Amortization	Rental Achievement	Recourse or Limited Recourse	Replacement Reserve
Min. 50 pts	Fees and premiums at-a-glance	Up to 85%	Min. 1.1	Up to 40 years	May Apply	Recourse	Discretionary
Min. 70 pts		Up to 95%		Up to 45 years			
Min. 100 pts				Up to 50 years		Limited-Recourse	

Appendix 2

Non-Profit Worksheet - Based on an "Average Unit"

(text in blue denotes a variable)

1 - SAMPLE BUILDING

Affordable monthly rent		$1,588
Suites		1

PROFORMA INCOME, EXPENSES AND RESERVES

Revenue		$19,058
Less vacancy allowance	3%	(572)
Effective gross income		18,486
Property operating costs		2,878
Property taxes		1,668
Utilities		2,767
Total operating expenses		7,312
Net operating income		11,174
NOI margin (%)		*60%*
Annual mortgage payments		8,688
Reserve for major repairs		1,561
General and administrative		924
Annual profit		$0
Implied reserve/suite/year		$1,561

3 - VALUATION

Net operating income	$11,174
Capitalization rate	3.75%
Gross property value	$297,975
Less: Capital repair adjustments (2.5%)	7,449
Property fair value	$290,526
Implied fair value per unit	$290,526

4 - MORTGAGE CALCULATIONS

Net operating income		$11,174
Debt service coverage ratio		1.30 x
Income available for debt payments		$8,595
Canada Mortgage Bond rate		3.40%
Credit spread		0.50%
Interest rate		3.90%
Loan term (years)		10
Amortization period (years)		50
Total potential loan amount		$189,970
Plus CMHC insurance fee	1.00%	1,900
Provincial sales tax on fees	8.00%	152
Total loan amount		$192,022
Monthly payments		$724
Annual payments		$8,688
Implied loan-to-value ratio		66%

5 -SOURCES AND USES

Property purchase		$290,526
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Total sources		$301,293
Equity investment per suite		$109,271