CMHC / EY
2024 Rental Housing Development Study

Disclaimer

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Glossary of Terms

ACLP = Apartment Construction Loan Program

Capitalization Rate (Cap Rate) = Metric used to assess the return on investment of a property. It is calculated by dividing the property's net operating income (NOI) by its current market value or purchase price.[1]

Cash-on-Cash Return = A rate of return ratio that calculates the total cash earned on the total cash (equity) invested in a deal. It is defined as cash flow before tax (i.e., cash flow after financing) in a given period, divided by the equity invested as of the end of that period. Cash-on-cash return is a levered (i.e., after-debt) metric, whereas the "free and clear" return is its unlevered equivalent. Cash-on-cash return is a metric used by real estate investors to assess potential investment opportunities. It is sometimes referred to as the "cash yield" on an investment.[2]

Cash-on-Cash Return = Annual Net Cash Flor / Investor Equity

Debt Service Coverage Ratio (DSCR) = Refers to the permitted level of free-flow cash that a project is required to project in order to meet funding eligibility requirements.[1]

Development Yield = Development yield, or yield on cost, is a benchmark that investors utilize to assess a project based on its cost and potential return. To calculate it simply divide the net operating income by the project's total cost. [1]

Development Yield = Net Operating Income/Total Project Cost

Internal Rate of Return (IRR) = The IRR calculation is based on projected free cash flows. The IRR is equal to the discount rate which leads to a zero Net Present Value (NPV) of those cash flows. Important therefore is the definition of the free cash flows.[3] There are two main types of free cash flows which can be referred to:

Unlevered free cash flows (free cash flows to firm) = EBIT * (1-tax rate) – CAPEX + Depreciation Change in Net Working Capital

Levered free cash flows (free cash flows to equity shareholders) = Unlevered free cash flows + change in financial debt – interest + correction for effective taxes paid

EBIT = Earnings before Interest and Taxes

CAPEX = Capital Expenditures

MLI = Mortgage Loan Insurance

Net Operating Income (NOI) = Total income of generated from the property minus the operating expenses, but before deducing debt payments, capital expenditures and taxes.[1]

Overall Project Margin = Project margin is the profit ratio that remains after sales completion and the payment of all the expenses.[4]

RCFI = Rental Construction Financing Initiative

1= Investopedia, 2024
2= Reliant Management, 2024
3= eFinancialModels, 2024
4= ProfitCo, 2024

Study Background

- In 2023, CMHC sought to deepen its understanding of the motivations and perspectives that drive new rental housing development by commissioning EY to conduct the nationwide Rental Housing Development Survey. This initial survey provided CMHC with invaluable insights, enhancing their understanding of the rental housing development community and enabling more effective alignment of their funding programs/mortgage loan insurance programs with market demands.
- Since that time, market conditions have evolved, increasingly favoring the viability of rental housing. However, substantial challenges in feasibility remain. Today, the increasing viability of purpose-built rental development is significantly supported by CMHC’s mortgage loan insurance program and National Housing Strategy funding programs. These initiatives are crucial, offering essential support for the production of much-needed rental housing and playing a pivotal role in addressing Canada's pressing housing needs.
- With the landscape continuing to evolve, CMHC has partnered with EY once again in 2024 to conduct a follow-up Rental Housing Development Survey. This year's survey aims to sharpen our focus on the challenges faced by rental housing developers, especially in accessing CMHC programs. By providing deeper insights into these challenges, we aim to enhance and expand the impact of CMHC's programs, thereby boosting the supply of new purpose-built rental housing throughout Canada.

“We need to fill that supply gap that we have, in order to get back to affordability.”

— Aled ab Iorwerth, CMHC’s Deputy Chief Economist

Research Questions / Survey Respondents

Survey Overview: Understanding Rental Developers Motivations

- Building upon our previous survey, EY aimed to delve deeper into rental housing developers' motivations for pursuing new purpose-built rental projects, as opposed to the traditionally more profitable condominium developments. Additionally, we sought to gain insights into how their perspectives, motivations, and development strategies have evolved over the past year.
- By gaining a better understanding of developers' motivations, CMHC can position itself more effectively to assess the future design of its product offerings and provide guidance on the design of policy-related programs.

Survey Timeline and Response Rate

- **Survey Duration**: February 19, 2024, to March 8, 2024
- **Audience**: Sent to our internal distribution list of Canadian rental housing developers and investors
- **Response Rate**: 96 responses received, up from 73 responses in 2023[1,2]

Survey Results

- A sample survey and the comprehensive results of our survey have been included in this document as an Appendix.

Residential Market Sentiment
▸ How impactful have recent government decisions been in encouraging the development of new rental housing? ▸ What are rental developer's long-term outlook on the feasibility of rental development?
Development Strategy
▸ What strategies are being used by rental developers to respond to current market conditions? ▸ How have rental development strategies changed over the past year? ▸ What challenges to rental development are most impactful?
Investment Decision-Making
▸ What project return metrics are most important to rental developers in their decision-making process? ▸ How do the different goals of market participants influence what metrics are used? ▸ What time-horizon are rental developers using in their decision-making process?
Project Funding
▸ How is the current market impacting financing strategies and how are rental developers responding? ▸ What challenges are rental developers facing when sourcing project financing? ▸ How do project financing strategies differ across developer typologies?
CMHC Programs
▸ What is the level of knowledge and understanding of CMHC programs amongst the development community? ▸ What steps could CMHC take to improve current programs to have a greater market impact? ▸ How important are CMHC programs to the rental development community?

1=Of the 96 responses, 69 completed 100% of the survey, 13 completed 50-99% of the survey, and 14 completed 10-49% of the survey. Surveys less than 10% complete were filtered out of analysis
2=Respondents by units built in last 10 years: 0 units (18%), 0-99 units (17%), 100-999 units (27%), 1,000-4,999 units (30%), 5,000-9,999 units (3%), 10,000 (6%)

Summary of Key Findings

Our survey has provided us with a number of key findings, helping to better understand the sentiments and actions of rental housing developers and investors

Improved Market Sentiment for Rental Development

- A shift in market sentiment has occurred among Canadian rental developers. With the slowing of rate hikes and construction cost increasing more slowly, 60% of surveyed developers now express long-term optimism for rental development feasibility, evidenced by a notable increase in their development pipelines, with 52% reporting pipelines exceeding 1,000 units, up from 43% in 2023. However, optimism varies by developer scale and region, with smaller-scale developers and those in high-cost areas like British Columbia and the Greater Toronto Area displaying less optimism compared to those in Quebec, where conditions are currently more favorable for rental development.

Long-Term Investment Horizon Remains Prevalent but is Shortening

- While a long-term investment approach remains prevalent, our 2024 survey indicates a growing preference for shorter investment periods. Now, 65% of developers favor an investment horizon of less than 10 years, a notable increase from previous years. This change, influenced by improving market conditions, suggests a strategic adjustment by developers to capitalize on more immediate opportunities, particularly in regions with lower cap rates like Ontario and British Columbia.

Dominance of Financing Costs in Investment Decisions

- Financing costs and availability have emerged as the most significant factors influencing investment decisions among rental developers nationwide, surpassing material costs. This trend reflects the evolving market dynamics, including rising debt costs and a stabilization in construction cost growth. Even larger organizations with better access to capital now prioritize financing conditions, highlighting its pivotal role in shaping rental development strategies across various markets.

Disparity in Funding Accessibility Amongst Developers

- A significant 85% of rental developers report difficulties in obtaining project funding, with smaller developers particularly affected. While 65% of developers managing less than $100 million in assets face severe challenges in sourcing funding, only 27% of those managing over $1 billion report similar difficulties. This disparity is exacerbated by smaller developers having to source construction loans with lower Loan-to-Cost ratios, indicating a necessity for higher equity contributions despite the availability of financing programs like those offered by CMHC. These findings highlight an uneven capital market environment, where larger projects are preferred by major lenders, potentially intensifying funding challenges for smaller-scale developers.

CMHC Funding / Insurance Crucial in Supporting Rental Development

- An overwhelming 95% of survey respondents are considering CMHC funding or insurance products to support their rental projects, up from 75% last year. This marked increase underscores the essential role of CMHC's low-cost government support. Given the current high rates from conventional lenders, CMHC's favorable financing conditions are proving critical in sustaining the viability of the rental development sector in Canada.

Streamlining CMHC Programs

- Developers call for faster CMHC approval processes to match the long revenue cycles of rental projects. They also suggest revisions in the underwriting process to include potential future rents and the ability to count land as equity, addressing critical needs of non-profit and socially focused developers who are often 'land-rich, cash-poor'. These changes would enhance the viability and speed of affordable housing developments.

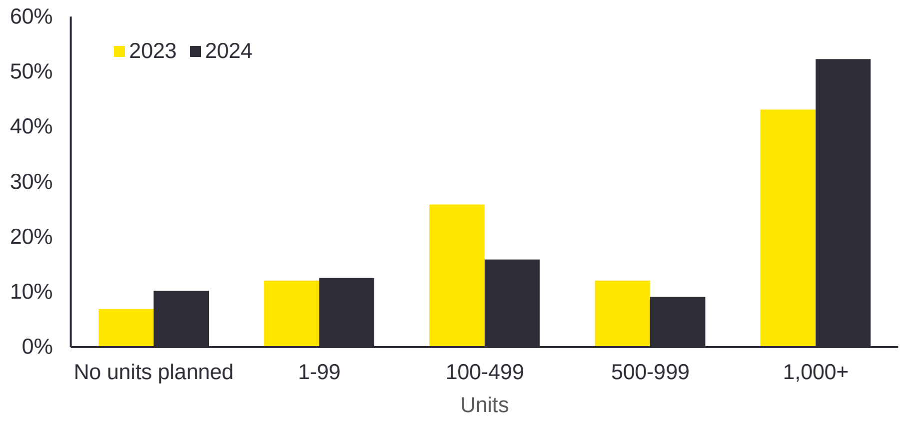
Rental Construction Market Sentiment

Improving market conditions have seen long-term rental development sentiment improve nation-wide, with developers increasing their pipeline of rental units

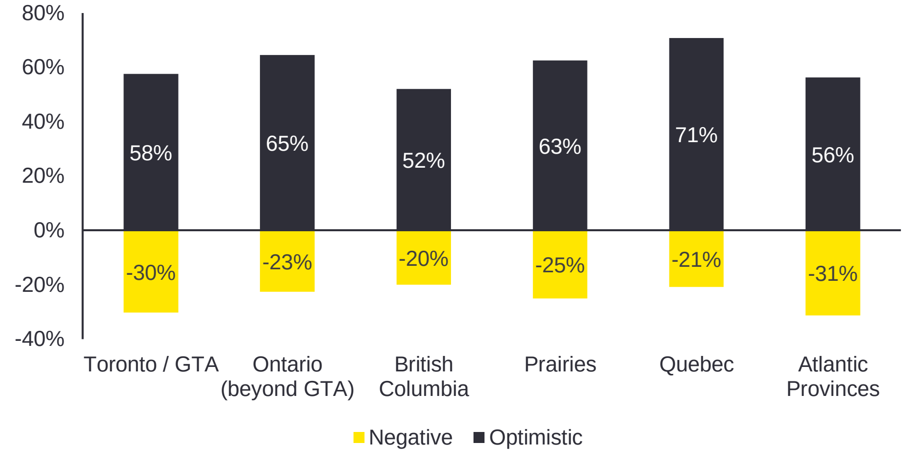
- EY's previous survey (conducted in early 2023), was amidst a rate-hike cycle with the Bank of and surging material and labour costs, which fostered a generally negative sentiment among Canadian developers about rental construction feasibility. However, with rate hikes now slowing, the Bank of Canada signaling potential cuts in the near term, and cost escalations moderating, market sentiment among rental developers has brightened. Sixty percent of survey respondents expressed optimism about rental development feasibility in the long-term. This positivity was underscored by an increase in developers' pipelines—52% reported a pipeline of over 1,000 units, up from 43% in 2023.
- While overall market optimism is promising for new supply, it varies among industry players. Smaller-scale developers tend to be less optimistic compared to their larger counterparts, who enjoy benefits such as economies of scale, better access to capital, and lower debt exposure, which collectively foster greater optimism. This discrepancy is especially notable in rental housing development due to higher upfront costs compared to condominium projects. Similarly, respondents with larger asset volumes exhibit greater market optimism than those with smaller portfolios.
- Market sentiment varied by geography as well. Respondents in British Columbia and the Greater Toronto Area (GTA) reported below-average market optimism. These regions are known for having some of the highest land prices in Canada, potentially dampening optimism due to narrower margins for rental development and the challenge of financing high land costs. Conversely, Quebec demonstrated the highest level of market optimism, driven by favorable rental market conditions, such as recent rent escalations, which have increased the feasibility of rental development.

Key Insight: Developer sentiment reflects a cautious optimism amidst evolving market conditions, highlighting the need for targeted strategies to support rental housing development across diverse geographical and scale-based contexts.

Share (%) of Respondents by Development Pipeline (<5 Years)



Long-Term Outlook on Rental Development Feasibility



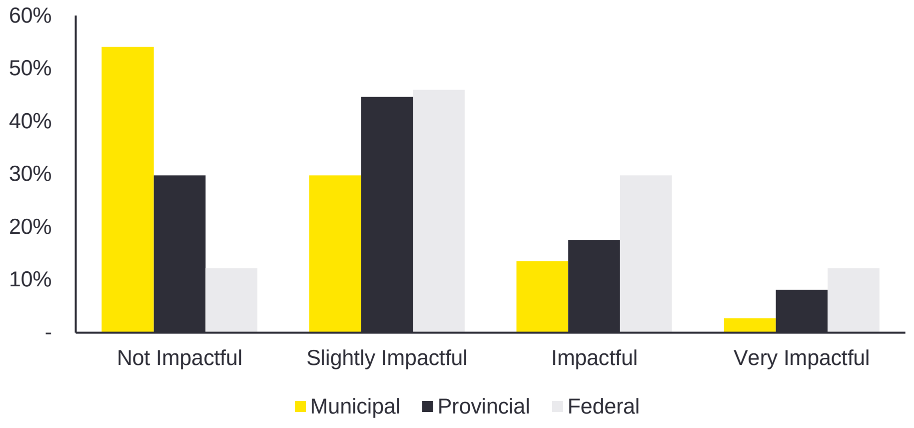
Rental Construction Market Sentiment

Government policies to encourage the development of new rental housing are contributing to the improved market sentiment.

- Recognizing the documented shortage in rental housing, governments at all levels have implemented new policies and programs to expand housing supply. The federal government, in particular, has taken a more active role in the housing market, introducing several policy changes aimed at increasing new housing supply. This includes the repeal of HST on new rental housing construction in Fall 2023, with 70% of respondents indicating this change will positively influence their long-term investment strategy. Provincial and municipal governments have also shown interest in creating a supportive policy environment for new rental housing development, resulting in rental housing starts accounting for 36% of total starts nationwide in 2023, the highest share since at least 1990.
- In response to this increased governmental support, rental housing developers nationwide are exploring new rental projects and revisiting previously stalled ones. Coupled with the noted increase in the development pipeline, this indicates the positive impact of government housing policies in recent years.
- However, survey respondents did not view all governmental policy responses with the same level of optimism. Notably, very few respondents viewed recent municipal policy changes positively. Municipal governments in Canada tend to have more constrained fiscal capacities to incentivize rental development compared to federal and provincial governments. Moreover, many policy levers available to municipalities are subject to provincial discretion. This emphasizes the need for higher levels of government intervention in addressing the housing supply crisis.

Key Insight: Governmental policies stimulating rental housing development underscore the imperative for coordinated, multi-level interventions to tackle the housing supply shortage.

How Impactful Have Recent Government Actions Been on Improving the Feasibility of Rental Development?



Ranking of Developer's Responses to New Government Supply-Focused Policies

1. Explore the feasibility of additional projects
2. Revisit rental proposals that were put on hold
3. Consider shifting from condominium to rental tenure
4. Advance projects previously not considered feasible

Development Strategy

Acquisition of Raw Land is Preferred Development Strategy Across the Board but Little Appetite for Repurposing of Non-Residential Assets

- The acquisition of raw land consistently ranks as the most relied-upon development strategy across various geographies, as it is often perceived as the least complex. However, the densification of many of Canada's cities has prompted developers to consider alternative strategies, such as the intensification of existing sites and the acquisition of land with excess density. This strategy is particularly favored by public REITs, many of which already possess substantial land holdings across the country utilized for non-residential purposes. These sites are often well-capitalized by existing uses, minimizing upfront land acquisition costs.
- Repurposing non-residential assets, like converting offices to residential use, faced mixed views as a development strategy across markets. While logical in principle, challenges exist: the land value must exceed the value in its current office use for viability. Despite office cap rate expansion and declining valuations, this condition remains unmet for many assets, discouraging developers from pursuing this untested strategy without significant potential upside.

Ranking of Development Strategies by Geography

Development Strategy	Canada (2024)	Canada (2023)	Toronto / GTA	Ontario	British Columbia	Prairies	Quebec	Atlantic Provinces
Acquisition of Raw Land	**1**	**1**	1	1	1	1	1	1
Site Intensification of Existing Sites	**2↑**	**3**	2	2	3	2	4	3
Acquisition of Land w/ Excess Density	**3↓**	**2**	3	3	4	4	5	2
Reposition of Ageing Assets	**4**	**4**	4	4	2	5	3	4
Acquisition of New Purpose-Built Assets	**5**	**5**	5	5	5	3	2	5
Repurposing of Non-Residential Assets	**6**	**n/a**	6	6	6	6	6	6

Ranking of Development Strategies by Value of Assets Under Management

Development Strategy	Canada (2024)	Canada (2023)	$0-$20M	$21M-100M	$101M-$250M	$251M-$500M	$501M-$1B	$1B+
Acquisition of Raw Land	**1**	**1**	1	1	1	2	1	1
Site Intensification of Existing Sites	**2↑**	**3**	2	3	4	3	2	2
Acquisition of Land w/ Excess Density	**3↓**	**2**	3	2	2	5	3	4
Reposition of Ageing Assets	**4**	**4**	4	6	6	1	5	3
Acquisition of New Purpose-Built Assets	**5**	**5**	6	5	4	4	4	5
Repurposing of Non-Residential Assets	**6**	**n/a**	5	4	5	6	6	6

Key Insight: Developers, particularly public REITs, are increasingly leveraging existing land holdings for intensified development, capitalizing on built-in equity and minimizing upfront land acquisition expenses amidst the densification of urban areas in Canada.

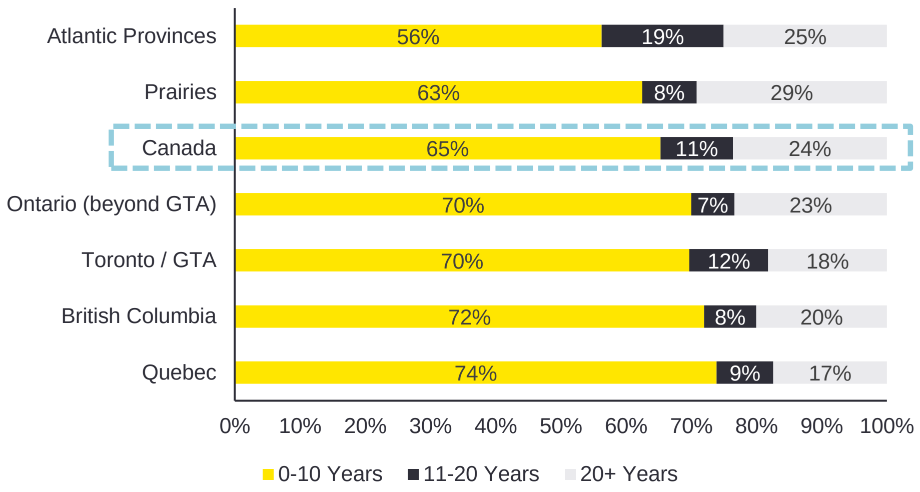
Development Strategy

Rental developers continue to take a longer-term investment strategy, largely dictated by the strength of the local market

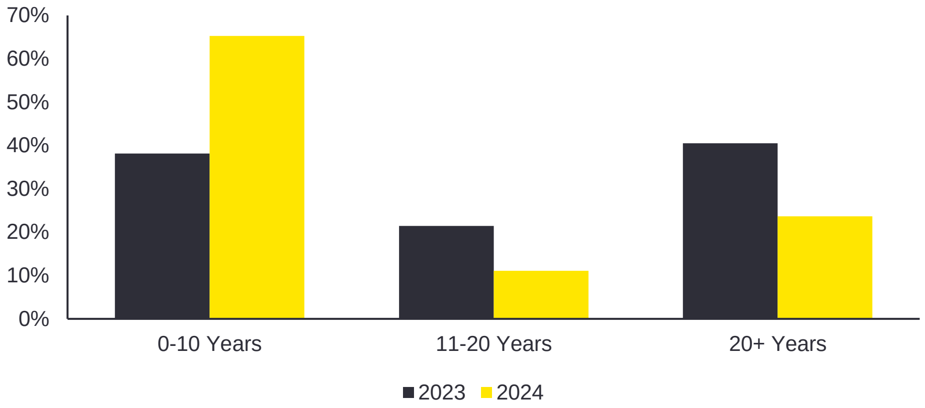
- Due to the capital-intensive nature of new construction, rental housing developers have historically favored a longer-term investment horizon. This is particularly evident among institutional investors and family offices, prioritizing long-term cash flow and inter-generational wealth, respectively. During market downturns, this emphasis on a longer-term outlook intensifies, as value creation primarily relies on asset appreciation over time, bolstered by forecasts of sustained rental demand. Our survey validates this trend, with only 12.5% of respondents currently pursuing a develop-and-sell strategy, compared to 24% before 2020. This pattern remains consistent across all regions and developer types.
- However, our survey highlights a slight shift in developers' investment horizon alongside the prevailing develop-and-hold strategy in rental development. In 2023, 41% of developers favored a 20+ year investment horizon, with 38% opting for less than a 10-year horizon. This trend reversed in 2024, with 65% favoring an investment horizon of less than 10 years. Improving market conditions likely drive this shift, as developers adopt a more optimistic outlook, enabling consideration of shorter investment horizons.
- In regions with higher cap rates indicative of softer market sentiment, developers are more inclined to adopt a longer-term view compared to regions with lower cap rates. This is apparent in the Prairies and Atlantic provinces, both of which have multi-family cap rates exceeding the national average. Conversely, Ontario and British Columbia have multi-family cap rates below the national average, with respondents in these regions indicating a preference for shorter investment horizons.

Key Insight: While rental housing developers historically favored a longer-term "develop and hold" strategy, there's a noticeable shift towards shorter investment horizons, influenced by improving market conditions. These outlooks also vary by market area.

Rental Developers Investment Horizon by Province



Investment Horizons in 2024 vs 2023



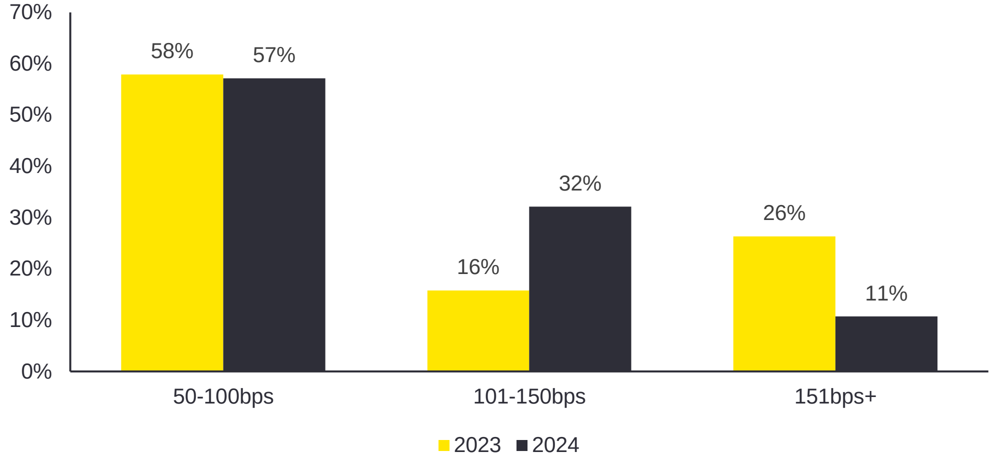
Investment Decision Making

Return metrics and targets have remained consistent over the past year for rental developers, even with changing market dynamics.

- When assessing capital allocation, comparing a project's development yield to market cap rates remains crucial for many organizations. If constructing a new rental asset cannot generate a superior return, developers will seek existing assets with lower risk returns. Our survey revealed that half of respondents prioritize this comparison between development yield and capitalization rates.
- Organizations establish a target spread between development yield and capitalization rates, representing the risk premium for new development versus purchasing existing assets. Our survey found that the majority (57%) of respondents are targeting a spread between 50 and 100 bps, a trend consistent with last year's findings. Conversely, respondents aiming for a spread of 150 bps or more decreased compared to last year. The narrowing spread doesn't necessarily signal a shift in rental developers' risk appetite but reflects cap rates rising due to rising capital costs and contracting development yields as construction costs outpace rent growth. With increased capital costs, investors will need greater NOI yield to cover debt payments, which pushes cap rates up.
- For developers that are continuing to invest in the construction of new rental housing, our survey indicated that their preferred financial return metrics, notably development yield, remained unchanged from last year. Furthermore, respondents expressed similar short-term and long-term return expectations, with target ranges for levered and unlevered Internal Rate of Return (IRR) remaining consistent over 3-year and 10-year horizons.

Key Insight: In the rental housing market, comparing development yield to market cap rates informs capital allocation decisions, with narrowing spreads indicating changing market dynamics influenced by factors like rising capital costs. Developers continue to maintain a consistent focus on development yield as a primary performance metric, suggesting stability in investment strategies.

Target Spread Between Cap Rates and Development Yield (% of Respondents)



Ranking of Financial Performance Metrics

Metric	Rank (2023)	Rank (2024)	Range of Return (2024)	Average Minimum Target (2024)
Development Yield	1	1	5% - 11%	6.5%
Overall Project Margin	2	2	11% - 20%	12.2%
10 Year Levered IRR	4	3↑	10% - 20%	11.1%
Cash-on-Cash Return	3	4↓	6% - 12%	8.1%
3 Year Levered IRR	5	5	10% - 20%	12.0%
10 Year Unlevered IRR	6	6	7% - 12%	8.3%
3 Year Unlevered IRR	7	7	7% - 12%	7.6%

Investment Decision Making

Financing costs and availability are the most important factor impacting respondent's investment decisions

- Our survey revealed a heightened importance placed on financing costs and availability by rental developers, ranking as the top factor nationwide in their investment decision-making process, marking an increase from its second-place ranking last year behind materials costs. This shift can largely be attributed to changing market conditions over the past year, including rising debt costs and a slowdown in construction cost growth. Even among larger organizations with enhanced access to capital and favorable funding terms, financing costs and availability emerged as the most influential factor shaping investment decisions. This underscores the critical role of project financing in rental development feasibility across all developer types, given the substantial upfront capital requirements and delayed returns characteristic of rental projects.
- In lower-priced rental markets, such as the Prairies and the Atlantic Provinces, respondents scored market conditions as a less important investment decision-making factor. Given the comparatively lower rental rates in these regions, investors tend to adopt a longer-term perspective, meaning they would put less emphasis on today's market conditions. With lower immediate revenue potential, investors expect gains primarily through long-term asset appreciation rather than short-term rental income.

Ranking of Factors Impacting Investment Decisions by Market Area

Investment Factors	Canada (2024)	Canada (2023)	Toronto / GTA	Ontario	British Columbia	Prairies	Quebec	Atlantic Provinces
Financing Cost and Parametres	1↑	2	1	1	1	1	1	1
Market Conditions	2↑	3	2	3	3	4	2	4
Materials Cost	3↓	1	3	3	2	3	4	2
Labour Cost & Availability	4	4	4	4	4	3	5	3
Regulatory Environment	5↑	6	5	5	5	5	4	5
Availability of Land	6↓	5	6	6	6	6	6	7
Grant Funding	7	n/a	7	7	7	7	7	6

Ranking of Factors Impacting Investment Decisions by Value of Assets Under Management

Investment Factors	Canada (2024)	Canada (2023)	$0-$20M	$21M-100M	$101M-$250M	$251M-$500M	$501M-$1B	$1B+
Financing Cost and Parametres	1↑	2	1	1	2	1	1	1
Market Conditions	2↑	3	5	4	1	2	2	2
Materials Cost	3↓	1	2	2	3	3	4	3
Labour Cost & Availability	4	4	3	4	5	4	4	5
Regulatory Environment	5↑	6	5	5	4	5	5	4
Availability of Land	6↓	5	6	7	6	7	6	6
Grant Funding	7	n/a	7	6	7	6	7	7

Key Insight: Financing costs and availability, as well as market conditions, play a critical role in shaping investment decisions for rental developer, typically being the key factors on project viability.

Project Funding

Sourcing project funding remains significant challenge, with this challenge most impacting smaller organizations with less access to capital

- The sourcing of project funding remains a significant concern for all participants, as indicated by 85% of respondents citing difficulty obtaining funding. These challenges stem from various factors including interest rates, government regulations and fees, and construction costs, mirroring the main funding challenges identified in last year's survey.
- However, these funding challenges are not evenly distributed. Smaller developers face more pronounced difficulties, with 65% of respondents managing less than $100 million in assets finding sourcing funding to be very challenging. In contrast, only 27% of larger organizations, managing over $1 billion in assets, reported difficulty in obtaining funding.
- Similarly, our survey revealed that smaller-scale developers are currently sourcing construction loans with lower Loan-to-Cost (LTC) ratios than larger-scale developers, indicating higher equity contributions despite their utilization of CMHC funding/mortgage loan insurance programs. While this trend was also observed among smaller-scale developers before 2020, the current market conditions also show LTCs declining across the board. This shift is likely influenced by minimum debt coverage requirements. As interest rates and construction costs remain high, meeting debt payments becomes increasingly challenging, prompting developers to inject more equity into projects.
- This highlights the uneven playing field in the capital markets, with many major lenders displaying a preference for larger-scale projects, posing significant funding challenges for smaller-scale developers. If larger lenders continue to restrict their exposure to real estate markets, as observed in some cases, these challenges could intensify for smaller-scale builders, who play a crucial role in Canada's housing ecosystem.

Key Insight: There is the disparity in accessing project funding between smaller and larger developers, with smaller developers facing more significant challenges. These findings highlight the potential implications for the housing ecosystem if smaller-scale builders continue to face obstacles in securing financing, emphasizing the need for equitable access to funding across the industry.

Relative Challenge of Securing Project Financing

Assets Under Management	Not Difficult	Somewhat Difficult	Very Difficult
$0-$20M	20%	20%	60%
$21M-100M	14%	14%	71%
$101M-$250M	0%	63%	38%
$251M-$500M	0%	70%	30%
$501M-$1B	9%	64%	27%
$1B+	33%	40%	27%
Total	**15%**	**46%**	**39%**

LTC in Typical Rental Project (Current)

Assets Under Management	<60%	60%-69%	70%-79%	80%-89%	90%+
$0-$20M	13%	50%	38%	0%	0%
$21M-100M	20%	0%	40%	20%	20%
$101M-$250M	0%	25%	25%	13%	38%
$251M-$500M	0%	0%	40%	40%	20%
$501M-$1B	9%	18%	27%	27%	18%
$1B+	0%	13%	53%	13%	20%
Total:	**5%**	**18%**	**39%**	**19%**	**19%**

LTC in Typical Rental Project (<2020)

Assets Under Management	<60%	60%-69%	70%-79%	80%-89%	90%+
$0-$20M	0%	33%	67%	0%	0%
$21M-100M	0%	0%	50%	50%	0%
$101M-$250M	0%	0%	75%	13%	13%
$251M-$500M	0%	30%	10%	30%	30%
$501M-$1B	9%	9%	36%	36%	9%
$1B+	0%	7%	67%	13%	13%
Total:	**2%**	**14%**	**51%**	**22%**	**12%**

Project Funding

CMHC and government programs are critical in enabling new rental housing development given the challenging funding landscape

- Amidst the ever-increasing challenges associated with sourcing project funding, CMHC’s role in encouraging and supporting rental development has become more significant than ever before. A striking 95% of survey respondents indicated they’re currently considering securing CMHC and/or other government funding for their projects, including CMHC mortgage loan insurance programs, representing a notable increase from 75% reported last year. Similarly, respondents highlighted government funding sources as the third most common source of project funding in this year's survey, marking a rise from the fifth most common source reported last year.
- The widespread utilization of CMHC funding/mortgage loan insurance for rental housing development underscores the pivotal role of CMHC's programs within the market, as many projects would likely be unviable without low-cost project funding. In fact, two-thirds of respondents expressed the belief that rental development becomes unviable once construction interest rates[1] exceed 7.0%. Given the prevailing construction financing rates from conventional lenders, it is evident that CMHC's more favorable loans are significantly bolstering the rental development sector in Canada.

Key Project Fundings Sources

Rank	Funding Source	% of Respondents
1	Bank loan(s), or other financial institutions	95%
2	Firm's/Shareholder's cash resources	90%
3	Government funding source	53%
4	Public sector financing	33%
5	Syndicated loan	28%
6	Capital market financing	25%
7	Vendor takeback financing	22%
8	Offshore financing	4%

Most Significant Challenges to Obtaining Project Funding

Rank	Funding Challenge	% of Respondents
1	Interest Rates	92%
2	Government regulations and fees	90%
3	Construction costs	87%
4	Inflation	72%
5	Market conditions	66%
6	Access to labour	57%
7	Access to capital	53%
8 - 9	Startup financing / Securing land	18% - 26%

Key Insight: CMHC and government programs are critical in supporting and enabling new rental development projects amidst the increasingly challenging landscape of sourcing project funding. This underscores the dependency of many projects on low-cost government support and highlights the significant impact of CMHC's programs in sustaining the viability of the rental development sector in Canada.

1=Construction financing refers to the loan taken during the construction period, whereas permanent financing refers to the loan taken once a project is complete. Typically, permanent financing is at lower rates.

CMHC Programs

By lowering the costs of financing and minimizing debt payments, CMHC programs help to expand feasibility of rental development

- Unsurprisingly, given the significant impact of financing costs on the feasibility of rental housing development, respondents clearly indicated that the most attractive features were the more favorable loan terms provided by CMHC programs. Both lower interest rates and longer amortization periods compared to those offered by traditional lenders significantly reduce financing costs, thereby enhancing project feasibility. This preference was evident across all market areas and among developers of all sizes.
- Higher LTC ratios were also viewed favorably by respondents, albeit to a lesser extent than lower interest rates. By offering higher LTCs, CMHC enables developers to minimize their equity contributions, which can be advantageous for smaller organizations with limited financial resources. However, with debt payments increasing, meeting required debt coverage ratios becomes more challenging for developers. Debt coverage ratios scored relatively low in our survey, a trend observed even among smaller, more financially limited organizations.

Key Insight: CMHC's lower interest rates and longer amortization periods compared to traditional lenders, significantly reduce financing costs and enhance project feasibility across all market segments and developer sizes.

Most Attractive Attributes of CMHC Programs

Metric	2023 Mean Ranking	2023 Rank	2024 Mean Ranking	2024 Rank
Low-cost loans (low interest rates)	1.88	1	1.88	1
Long amortization periods	2.38	2	2.37	2
High loan-to-cost ratios	2.74	3	2.57	3
Debt coverage ratio	3.82	4	3.62	4
Enables social initiatives	4.44	5	4.57	5

**Respondents were asked to rank, in order, each attribute from 1-5 (1 being the most attractive)*

Most Attractive Attributes of CMHC Programs by Value of Assets Under Management

Metric	$0-$20M	$21M-100M	$101M-$250M	$251M-$500M	$501M-$1B	$1B+
Low-cost loans (low interest rates)	2.5	1	2	1	3	2
Long amortization periods	2.5	3	3	2	2	3
High loan-to-cost ratios	1	2	1	3	1	1
Debt coverage ratio	4	4	4	4	4	4
Enables social initiatives	5	5	5	5	5	5

CMHC Programs

Prolonged timelines and inflexible underwriting conditions are viewed as the least attractive features of CMHC's funding/insurance programs

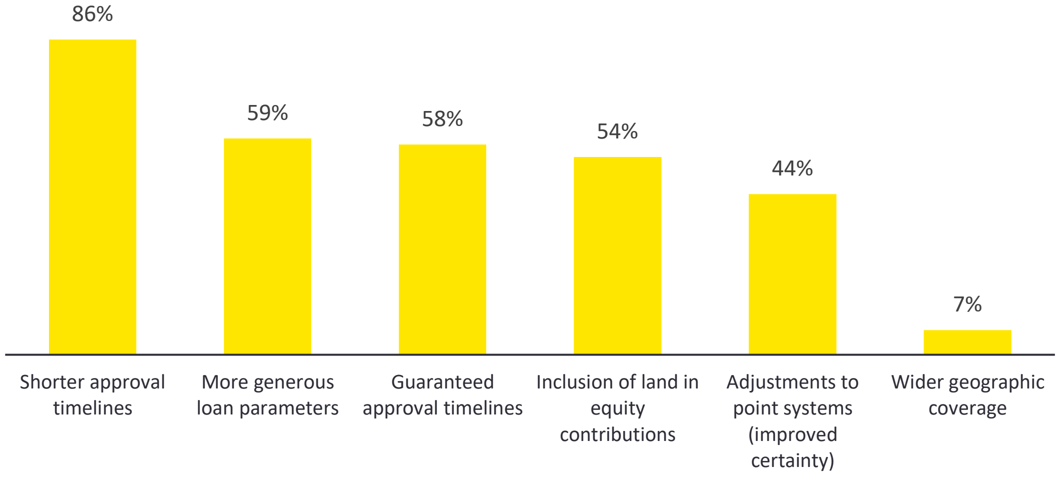
- The prolonged timelines associated with obtaining CMHC funding/insurance were identified as the least attractive attributes of CMHC programs. For rental developers, where project revenues take years to materialize, there is an even greater emphasis on reducing the time to development. Guaranteed approval timelines and shorter approval periods were viewed as meaningful changes CMHC could implement to enhance their loan products.
- Many written responses to our survey also highlighted concerns that CMHC's underwriting process did not accurately reflect market rents when assessing applications. Specifically, several respondents suggested that CMHC needed to consider future rents, not just current rents.
- Another important finding was the preference for CMHC to consider the inclusion of land as equity as part of the total construction cost when underwriting loans. This strategy is often valuable for many 'land-rich, cash-poor' market participants, who may be pursuing social initiatives such as affordable through rental housing development. For example, a non-profit developer that has acquired land through donation might not be able to use the land's unencumbered value as an equity contribution in an affordable housing project. Consequently, they would need to seek project equity in the market.

Key Insight: While rental developers were highly dependent on CMHC programs to buoy project feasibility, there are a number of areas which could be improved to further expand the impact of CMHC's programs.

Least Attractive Attributes of CMHC Programs

Metric	2023 Mean Ranking	2023 Rank	2024 Mean Ranking	2024 Rank
Prolonged timelines	1.44	1	1.63	1
Inflexible conditions	2.13	2	1.98	2
Scoring of ESG criteria	3.69	3	3.44	3
Construction bonding conditions	4.06	4	4.12	5
Future outsourcing of mortgage admin activities	4.13	5	3.81	4

Most Meaningful Changes CMHC Could Implement to Improve Loan Products



Areas for Improvement

Our survey provided a number of insights into areas CMHC could look at improving their programs

Key Insight: Our survey respondents offered diverse suggestions on how CMHC could enhance its current loan programs. While recognizing the uniqueness of each developer's circumstances, there were several additional comments that CMHC should take into account to broaden the effectiveness of their programs.

Expansion of Existing Programs

- The constrained funding pool for CMHC funding programs implies that not all applicants meeting the criteria would qualify, introducing a level of uncertainty for potential applicants, which might lead them to eschew CMHC funding programs. Expanding the pool of available funding would enable CMHC to provide greater certainty to applicants, thereby amplifying the reach and effectiveness of their programs.

Consider Future Rents When Evaluating Debt Coverage

- Many respondents highlighted that CMHC's practice of using current rents to calculate a project's debt coverage often diminishes their project's eligibility for CMHC loans. With the recent upsurge in rental pricing, many developers believed it would be more fitting to factor in future rental rates, provided they were reasonably supported by a market study

Provide Stability in Program Offerings

- The continuously evolving loan products from CMHC were a point of frustration for some respondents. Understanding CMHC requirements was often perceived as complex, and with shifting requirements, respondents feared they might lack the consistency to effectively leverage the programs.

Lower Affordability Requirements

- The increasing costs of development and operations are making it increasingly challenging to meet affordability targets required to qualify for CMHC funding programs. Respondents indicated that in such a supply–constrained market, the expansion of rental supply at any price point should be viewed positively.

Continue to Educate Approved Lenders

- Some survey respondents indicated frustration in dealing with CMCH-approved lenders, as they felt they did not fully understand the program requirements and application process. Continued education for CMHC-approved lenders could help ease some of these challenges.

Lessen Cash Equity Requirements

- Rental development inherently demands larger equity contributions compared to condominium development. Some perceive CMHC's cash equity requirements as overly restrictive, particularly in scenarios where developers aim to contribute land as equity (e.g., Joint Venture partnerships, non-profit developers, long-term land owners). By reducing this requirement, CMHC could facilitate the expansion of rental development feasibility.

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