

Rental Construction Financing



A project that is either, purpose built residential rental, or of mixed use between residential rental and non-residential rental, that offers affordable residential rents, accessible units, greater energy efficiency and reduced greenhouse gas emissions, and can demonstrate long term financial viability without subsidies could be eligible for CMHC insured direct financing. The minimum eligible loan size is \$1 million and the minimum project size is 5 units.

CMHC rental construction financing provides low cost funding to eligible borrowers during the most risky phases of product development (construction through to stabilized operations). Eligible borrowers include municipalities, not-for-profit developers, and for-profit developers. CMHC mortgage loan insurance is included and provides access to preferred interest rates lowering borrowing costs for the refinancing of multi-unit residential properties and facilitates renewals throughout the life of the mortgage.

Projects that qualify for funding under the Rental Construction Financing initiative will benefit from greater underwriting flexibilities.

Is your multi-unit project eligible for rental construction financing?

Check out the Rental Construction Financing website at cmhc.ca/financinginitiative for further information on this initiative.

PROPERTY TYPE AND SIZE

- Construction of new rental affordable housing.
- Rental properties with a minimum of five units.
- Fully self-contained units only.
- Primary use is residential.
- Non-residential component not to exceed 30% of total gross floor space nor 30% of total cost.
- Permanent housing (long-term stay).
- Standard Apartment. Excludes Retirement, Long-Term Care, Student Housing, Single Room Occupancy facilities and supportive housing.

MINIMUM ELIGIBILITY REQUIREMENTS FOR PRIORITIZATION SCORING

Financial Viability

- Borrowers will have to demonstrate their financial and operational ability to carry the project without ongoing operating subsidies that would be required to maintain viability and to provide evidence of the financial viability of the proposed project itself, as well as capacity to deal with development risks such as cost over-runs and delays in construction.

Affordability

The project must fulfil one (1) of the following Affordability criteria.

- **Criteria A:** The total residential rental income of the project must be at least 10% below its gross achievable residential rental income as supported by an independent appraisal report; and a minimum of 20% of the units must be affordable with rents at or below 30% of the median household income in the subject market (available on Statistics Canada website below).
<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110000901>
- **Criteria B:** The affordability requirement may be met if the proposal has been approved under other housing programs/initiatives (federal, provincial, territorial, or municipal) that provide support for development of affordable rental housing such as capital grants, municipal concessions or expedited planning processing.

In all cases, affordability must be maintained for a minimum of 10 years from the date of first occupancy of the project.

Energy Efficiency

- Projects will be expected to achieve a minimum 15% decrease in energy intensity and Greenhouse Gas (GHG) emissions relative to the 2015 model building codes. (i.e. 2015 National Energy Code for Buildings or the 2015 National Building Code).

Accessibility

- Projects will be expected to meet a minimum accessibility requirement that 10% of units within the project meet or exceed the local accessibility standards as prescribed by the Municipality or Province/Territory, or in the absence of the aforementioned, the accessibility requirements of the 2015 National Building Code.
- Access to the project and its common areas will be barrier free.

OTHER SOCIAL OUTCOMES FOR PRIORITIZING SCORING PROPERTY TYPE AND SIZE

Fostered Collaboration: Partnerships/Other Government Supports

- Are other non-profit or for-profit developers, Urban Aboriginal Groups or Municipalities, involved in this project? Is support provided in a form such as Grants, Concessions on property taxes and/or concessions on levies, Waiver of development cost charges or other provincial/municipal fees, Expedited Approvals, Waiver of community amenity contributions, Land donation?

Transit Oriented Eligibility

- Does the Project offer access to public transit including any alternative forms (parking spots for car sharing service, shuttle bus service, direct connection to underground path system, etc.)?

MINIMUM LOAN

\$1,000,000

MAXIMUM LOAN TO COST

- Residential Loan Component- from up to 90% - 100% Loan to Cost.
- Non-residential Loan Component- up to 75% Loan to Cost.

100% Loan to cost is for projects offering the greatest social outcomes of affordability, accessibility, energy efficiency, stacking of government programs, and transit orientation.

ADVANCING

The loan may be advanced up to 100% of costs during construction. No rental achievement applies.

MINIMUM DEBT COVERAGE RATIO REQUIREMENTS

- 1.10 (for residential loan component).
- 1.40 (for non-residential loan component).

Applications will be qualified with an interest that is the higher of 2.00% or the CMHC indicative 10-year fixed rate plus a 100 bps (1.00%) spread. Note that the spread is determined by CMHC and is subject to change from time to time.

INTEREST RATE

Fixed Rate Option

- 10 year term (begins at first loan advance).
- Fixed rate locked in at beginning of term.
- Interest only payments financed by the loan during construction through to occupancy permit.
- Interest only payments paid by the borrower from occupancy permit until 12 consecutive months of stabilized effective gross income (Stabilization).
- Principal and interest payment from Stabilization to end of term.
- Closed to prepayment.

Hybrid Option (Floating and Fixed Rate – at the discretion of CMHC)

- 10 year term (begins at first loan advance).
- Floating interest rate during construction.

- Fixed rate at occupancy permit.
- Interest only payments financed by the loan during construction through to occupancy permit.
- Interest only payments paid by the borrower from occupancy permit until Stabilization.
- Principal and interest payment from Stabilization to end of term.
- Closed to prepayment.

AMORTIZATION

Up to 50 years, no premium surcharge.

SECURITY TYPE

First, second, and pari passu mortgages are permitted.

RESERVE REQUIREMENTS

None required.

PREMIUMS

- Premium is not payable by the borrower.
- PST on premium (as applicable) is payable by the borrower.

APPLICATION FEES

- Payable at time of underwriting.
- Residential portion: \$200 per unit for first 100 units, then \$100 per unit thereafter to a maximum of \$55,000 per loan.
- Non-residential portion: 0.30% of the non-residential loan amount if it exceeds \$100,000.

BORROWER ELIGIBILITY

Eligible Applicants include but are not limited to:

- Private entrepreneur/builder/developer.
- Public or private non-profit housing organization.
- Rental co-operative (NOTE: equity co-ops are not eligible).
- Municipality.

Property Management Experience: at least 5 years' experience operating a housing property of similar type and size.

Credit and Repayment History: at least break even cash flow over past 5 years with excellent credit and repayment history.

Construction Management Experience: have successfully completed a similar project on time and within budget. Alternatively, borrowers must enter into a fixed price contract with a general contractor who has experience building projects of similar size, cost, building form and construction type in the same market area. Borrowers must have a demonstrated ability to withstand unexpected increases in construction cost.

For newly formed groups, alternate covenants, collateral and mitigation may be considered.

BORROWER NET WORTH

The borrower must have minimum net worth equal to at least 25% of the loan amount being requested, with a minimum of \$100,000. Flexibility in CMHC's standard net worth requirements may be available.

GUARANTEE REQUIREMENTS

The borrower and guarantor must provide their covenant / guarantee for 100% of the loan during construction and rent-up. After rent-up, when the project has achieved the rental income used in the underwriting of the loan, the loan may become non-recourse to the borrowers and guarantors for deficiency after enforcing the security on default.

In all cases, CMHC may require additional risk mitigation measures as it deems appropriate (e.g. equity retention, replacement reserves, collateral security, personal guarantees).

DOCUMENTATION REQUIREMENTS

To be provided at time of underwriting by Service Provider. Refer to the Documentation Requirements Fact Sheet.

CMHC mortgage loan insurance provides access to preferred interest rates lowering borrowing costs for the construction, purchase and refinance of multi-unit residential properties and facilitates renewals throughout the life of the mortgage.

