



# Rental Housing Acquisition Guide

*December 2025*





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## About New Market Funds

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New Market Funds (NMF) is a Certified B Corp dedicated to creating lasting benefits for communities across Canada. Through proprietary funds and as a third-party fund manager, NMF works to provide innovative capital solutions for community partners who create long-term impact with a focus on affordable housing equity, community real estate development, community lending, and co-operative enterprise investment.

The New Market Funds platform includes **NMF Rental Housing Fund I and II, Community Forward Fund, Canadian Co-operative Investment Fund, New Commons Development** and **New Commons Housing Trust**. Since 2015, through its Rental Housing Fund I and II, NMF has helped finance the development and acquisition of more than 2,248 units of rental housing across six provinces in collaboration with community-based organizations.

## Expanding Non-Market Housing in Canada

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The open real estate market currently provides 96% of rental housing in Canada. Over the last 20 years, rental housing has increasingly become a preferred asset class for institutional investors, driving up property values and, with them, rents charged. The result is that rents are largely determined by the property's asset value and entirely disconnected from household incomes. The net result is Canadians are often paying rents far greater than 35% of their monthly household incomes, resulting in increased impoverishment.

The best way to counter this growing trend is to move more of the rental housing stock into non-profit ownership. Non-profit housing providers are committed to long-term affordability, ensuring that rents remain tied to local incomes and the actual costs of operating and maintaining the housing. Growing the stock of non-profit owned housing represents a good long-term investment in stabilizing, and ultimately reducing, rents compared to those set by private owners whose rent charges are driven by the increasing market value of the property. Supporting the acquisition of existing private rental properties by non-market actors, such as non-profits and housing co-operatives, is therefore a key strategy to preserve and protect affordability.

There is ongoing debate about what portion of Canada's rental housing should be non-profit owned. The range discussed goes from a low of 7% which aligns with the OECD (Organization for Economic Cooperation and Development)

average, to a high of 20% proposed by a CHRA (Canadian Housing and Renewal Association) campaign launched at their 2025 conference. To reach even the 7% target, up from the current 4%, Canada would need to facilitate the transfer of approximately 150,000 units from private to non-profit ownership. Assuming an average of 50 units per development, this represents about 3,000 transactions. Even achieving this modest goal will require a major commitment of resources and a significant focus from non-profits and co-operatives to purchase rental housing and permanently protect it from future real estate market pressures.

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*To reach even the 7% target (aligned with the OECD average), up from the current 4%, Canada would need to facilitate the transfer of approximately 150,000 units from private to non-profit ownership.*

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# Introduction & Risk Management

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New Market Funds (NMF) is a small Canadian fund manager working with the non-profit housing sector to help structure and finance these transactions. In 2021, NMF launched NMF Rental Housing Fund II, making the expansion of Canada's non-profit and co-operative portfolio through acquisitions a core strategy, following the success of the NMF Rental Housing Fund I, which invested in non-profit and co-operative owned housing across Canada.

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*Since 2015, through its Rental Housing Fund I and II, NMF has helped finance the development and acquisition of more than 2,248 units of rental housing across six provinces in collaboration with community-based organizations.*

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In partnership with local non-profits and co-operatives, NMF invests to help these organizations acquire and preserve at-risk rental properties, ensuring these homes remain affordable and continue to serve their communities in perpetuity. The goal is to deliver

lasting community benefits by expanding the non-profit housing stock, preventing tenant displacement, and providing safe, affordable housing for families. Since 2015, through its Rental Housing Fund I and II, NMF has helped finance the development and acquisition of more than 2,248 units of rental housing across six provinces in collaboration with community-based organizations.

This Rental Acquisition Guidebook is directed largely to non-profits and co-operatives considering ways to expand their housing portfolio through acquisitions. Governments, charities, philanthropic organizations, and social impact investors may also find value in understanding how they can support expanding Canada's non-market housing supply. Consider this guide an introduction that works to provide practical information that hopefully can be adapted, refined, and improved to help expand non-profit ownership of rental housing and begin reconnecting local incomes with local housing costs, creating significant and permanent affordability in communities across Canada.

Every real estate acquisition involves risk including possible financial underperformance, unexpected capital, and operational or regulatory complications. The goal should be to use thoughtful planning and proactive management to significantly reduce risk and protect your organization's mission and resources.

At New Market Funds, a Risk-Return-Impact Framework allows the evaluation of a transaction through an integrated approach, and do so iteratively, revisiting it at critical steps of the transaction process. This tool contributes to effective risk management and proactive problem-solving through mitigation strategies, while also guiding structured recommendations and decisions. Non-profits should develop their own risk frameworks to guide their work.

The following risk areas are considered:

- Financial performance risk
- Property management risk
- Property condition, capital, and deferred maintenance risk
- Environmental risk
- Social risk
- Reputational risk
- Financing and refinancing risk (including interest rate risk)

As you progress through the guidebook, a number of these areas of risk will hopefully be clarified. Remember that avoiding all risk means avoiding all opportunity. Well-managed risk enables sustainable impact. Poor risk management threatens not just individual properties, but your organization's ability to continue serving your community long-term. The goal is not risk elimination: it's thoughtful risk management that protects your organization while advancing your purpose.



*182 Jameson Avenue, Toronto, ON, acquired by New Commons Housing Trust Society  
Photos courtesy of Colliers*

**SECTION 1:**  
**Sourcing**  
**Acquisitions**

# Sourcing Acquisitions

For New Market Funds identifying and conducting a preliminary evaluation of a rental housing property to acquire involves engaging with the community partner and their capacity, the community need and market conditions, and, at a high level (in this early stage), the property characteristics and physical condition.

Once the key acquisition criteria have been identified, a broad network of multi-family real estate brokers can be engaged to identify potential opportunities. The knowledge of the neighborhood that community-based non-profits possess can also provide access to off-market and pre-market opportunities that are not broadly available and generally should help them to identify properties that better align with their mission objectives.

## The “Who” – Partners & Target Communities

### Community Partners & Organizational Capacity

An organization’s ability to purchase and steward a rental housing building is defined by:

- **Partner Capacity:** Prior transaction experience is valuable, but a potential partner’s mission and values, governance structure and decision-making processes, operational track record, growth trajectory and ambitions, team composition, and leadership succession planning are also key.

- **Operational Strategy:** For organizations with existing portfolios, historical performance and management practices need to be reviewed. Does the community partner have adequate resources, staffing, and other infrastructure to support growth, or a credible plan to build this capacity? What technical assistance or resources might enhance their likelihood of success?
- **Financial Position:** Understanding the financial health of a potential community partner is fundamental to any strong partnership. The potential partner’s liquidity, equity position, and financial capacity to support costs related to the transaction process, stabilization, and ongoing asset management requirements should be analyzed and understood. Some ability of partners to contribute additional equity at acquisition, during refinancing, or for capital improvements is welcomed but not a critical requirement. The assessment should focus on ability to manage long-term financial sustainability as well as immediate capital availability.
- **Key Stakeholder Relationships:** Understanding if a potential partner has existing strong relationships with provincial and municipal governments, philanthropic organizations, local service providers, their bank or credit union, and other area non-profits or property management providers is also helpful in determining their capacity to deliver and sustain quality affordable housing.

## Target Communities

Non-profit partners should identify the people they want to serve based on their existing mission or plans to serve a specific population in need of housing. Such groups may include families, single-parent households, women fleeing violence, people living with disabilities, recent immigrants, newcomers, and refugees, Indigenous, Black Canadians, people of colour, LGBTQIA2S+, students, seniors, and veterans. It may just be work force housing designed to work with all these groups and more. Additional considerations must include the level of affordability, accessibility, access to services, unit types, and size.

## The “Where” – Communities, Neighbourhoods, and Market Conditions

### Market Size

Larger markets are generally less risky than smaller markets. If possible, given the non-profit’s mission, focus on properties in the top 30 Census Metropolitan Areas (CMAs). If a smaller market must be engaged, understand the additional risk, which may include a higher vacancy rate, slower absorption, and greater volatility.

### Market Demand

Work to determine rental market demand and average rents. Key market indicators include vacancy rates, average and market rents compared to area median income, average rent increases, population growth, and depth of affordability required.

## Additional Market Dynamics

Identify trends that may affect long-term affordability and community stability, such as shifts in neighbourhood land use patterns, introduction or discontinuation of transit corridors, or the development of new construction projects, displacement risk, and demographic changes. Understanding these dynamics helps anticipate both risks and opportunities for preserving affordability.

### Location, Walkability, & Neighbourhood Fit

Understand neighbourhood amenities that support residents, including access to public transportation, walkability metrics, proximity to essential amenities, including schools, grocery stores, healthcare facilities, parks and recreation spaces, and community services. Develop a specific focus on certain amenities based on the needs of the people that will be served.

### Regulatory and Funding Environment

Be familiar with specific provincial and municipal regulations affecting rental affordability, including local or provincial rent control, allowable rent increases, and tenant protections. Does the city or province have ongoing government funding programs, incentives, or regulatory requirements that may support or constrain the acquisition and ongoing operations of affordable housing?

## The “What” – Property Characteristics and Physical Attributes

### Rent Analysis and Affordability

- **In-Place Rents:** The property’s in-place rents should be compared against average and median market rents, as well as the affordability relative to area median household incomes (AMI). Rents are deemed affordable when they do not exceed 30% of a household’s pre-tax monthly income. NMF Rental Housing Fund II targets acquisitions with rent levels that serve households that earn 80% or less of the area median income.
- **Current Rents vs. Market Rents:** Another critical metric is the spread between the current rents charged and the market rents for a similar unit (the “gap-to-market”). Properties with a 30% or greater discount to market rents are considered particularly strong prospects. If purchased by a non-profit, these properties can provide meaningful affordability. Ironically, it is just this gap-to-market that also attracts institutional buyers because the rents can be increased by 30% after the purchase boosting investor returns. Properties with the biggest gap-to-market are generally the most at risk for conversion to market-rate housing.
- **Additional Affordability Criteria:** If the acquisition includes funding from municipal, provincial, or federal governments or philanthropic capital, additional affordability goals may have to be accommodated into the evaluation of a

property, the underwriting, and the stewardship plan.

### Building Condition and Capital Requirements

Building age and physical condition directly determine the required capital investment for a property. A high-level evaluation of this should be done as part of this initial screening of potential properties. Know that should you move forward on a specific property, a full “Building Condition Assessment” (BCA) and appraisal will be completed to allow a purchaser to confirm and adjust assumptions. At this stage, having a general sense of the level of upgrades needed for a property will be helpful for successfully identifying the true cost of the acquisition.

### Accessibility

As appropriate for the population that is to be served, review the buildings and units for accessibility. Standards vary by province, and certain funders may have specific requirements. Some consideration should be given to the fact that if this property is acquired, it will become a community asset and should meet the needs of the community it is targeted to serve.

### Energy Efficiency and Building Performance

At a high-level, assess opportunities to improve the property’s energy efficiency and reduce its carbon impact. The goal should be to identify available energy retrofit programs and efficiency incentives that might be able to be used to reduce the building’s impact on the environment, extend building lifespan, and push down operating costs to support lower rent profiles.

**SECTION 2:**  
**Building an  
Acquisition  
Pro Forma**

# Building a Pro Forma

A pro forma is the financial model used to test the viability of a potential property acquisition. An initial pro forma acts as a roadmap, documenting that a deal is financially sound before committing significant resources to due diligence work.

## Core Components of a Pro Forma

The model is structured around key financial inputs for the transaction:

### Sources & Uses

Outlining all costs required to complete the acquisition (Uses) and the funding that will cover these (Sources), these must balance.

- Uses typically include the purchase price, transaction costs, financing fees, immediate capital repairs and reserves, and land transfer tax; and
- Sources include mortgage financing, equity contributions, grants, and other funds.

### Operating Revenues

All projected income, including rental income, commercial income, ancillary income (parking, laundry, storage), and any applicable subsidies or rent supplements.

### Gross Operating Income

Operating revenues less any vacancies or uncollected income.

### Operating Expenses

Projected costs to operate the property: utilities, maintenance, property management, insurance, property taxes, and reserves for renovations.

### Net Operating Income (NOI)

Gross Operating Income less operating expenses.

### Financing Assumptions and Costs

Details the financing structure, including loan amounts, interest rates, amortization periods, and debt service coverage requirements. Monthly or annual financing costs are projected and deducted from NOI.

### Other Performance Ratios

The Debt Service Coverage Ratio (DSCR) is calculated as:  $\text{Net Operating Income} / \text{Total Debt Service}$ .

Using this information and conservative assumptions that truly reflect the likely reality for rental growth, operating expense inflation, and refinancing, the pro forma projects the property's performance over 20 years or more. Sensitivity tests can be built into the model to see how the property might perform under various scenarios and analyze the project's viability under different economic conditions.

# Stages in the Pro Forma Process

Developing a pro forma is not a one-time exercise. The Pro Forma is an evolving document that becomes more accurate and useful as the understanding of the property and the documentation of this understanding grows. This iterative approach typically follows three stages:

## 1. Initial Screening

The first pro forma relies on the broker's offering memorandum and publicly available data such as market data, tax assessments, and rent rolls. This preliminary version helps you determine whether the opportunity warrants further investigation and resources.

## 2. Due Diligence Refinement

After the property is under contract and the buyer goes through early due diligence, including conducting property inspections, reviewing actual operating statements, verifying tenant leases, assessing capital needs, and assessing our own projections, the pro forma is updated to reflect real conditions rather than assumptions. This stage often reveals critical issues or opportunities not apparent in initial materials. These issues may lead you not to move forward with the purchase or to renegotiate the price or other purchase conditions.

## 3. Final Underwriting

Before closing on the acquisition (buying the property), the pro forma should incorporate all verified information, including finalized financing terms, any subsidy arrangements, and accurate capital improvement budgets. This final version becomes the baseline for measuring post-acquisition performance.



*379 & 388 Hargrave Street, Winnipeg, MB, acquired by New Commons Housing Trust Society  
Photo courtesy of Cushman & Wakefield Stevenson*

**SECTION 3:**  
**The Purchase  
Contract**

# The Contract

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After determining what kind of property to pursue, who it will serve, where it should be, and specifically which properties could perhaps be successfully purchased and serve low- and moderate-income stakeholders, as an organization, you need to decide you want to buy a specific building and what terms under which the purchase will occur. This starts with an evaluation of your organizational capacity to manage the transaction and secure internal approvals. Following this assessment, you prepare an offer, and if accepted, legal council drafts and you negotiate the Agreement of Purchase and Sale (APS).

## Step 1: Confirming Organizational Readiness

Before seeking approval for an acquisition, assess whether your organization has the capacity to successfully execute an acquisition and how to successfully fill any gaps. These can include many items; the two most important are below.

### Dedicated Leadership

Identify a specific staff member or well-defined team responsible for managing the acquisition from offer through closing. This point person should have sufficient authority to make day-to-day decisions, adequate time to dedicate to the process, and clear communication channels to leadership. Acquisitions managed without clear accountability frequently encounter delays and miscommunication.

### Adequate Liquidity

Determine whether you have sufficient cash to cover pre-closing expenses without putting undue strain on your organization. As a guideline, you should have or have access to at least 10% of the anticipated purchase price before pursuing an acquisition. This ensures the organization can act quickly when opportunities arise and cover unexpected costs that may emerge during due diligence. Partnerships or financial stakeholders may provide this liquidity if required.

## Step 2: Securing Internal Approval

Before making any offer, you should ensure that your organization is ready to act make an offer. Depending on organizational size, this could mean obtaining formal approval from the management team, executive leadership, and board of directors. Moving forward without the required approvals can derail an acquisition at critical moments, damage vendor relationships, and waste valuable time and resources.

Establishing a clear decision-making framework early is critical. If it is not already obvious, map out who needs to approve what, how long each approval takes, and what information decision-makers will require. For example, does the board meet monthly or quarterly? Do certain deal thresholds require special meetings? Understanding the internal critical path prevents delays when time-sensitive requirements arise.

### Step 3: Preparing Your Letter of Intent

Once a property has been identified and organizational readiness is confirmed, the next step is formalizing your interest through a Letter of Intent (LOI).

#### What is an LOI?

A Letter of Intent is a non-binding document that outlines the key business terms of your proposed acquisition. Working with legal counsel, you will typically include:

- Proposed purchase price
- Key milestone dates (due diligence period, financing deadline, closing date)
- Deposit structure (initial and subsequent deposits, conditions on making it non-refundable)
- Any specific conditions to your situation

#### Why use an LOI?

This preliminary agreement allows both parties to align on major terms before investing in expensive legal documentation. It provides a framework for negotiation, demonstrates your seriousness as a buyer, and can significantly reduce legal costs by resolving key issues before drafting the formal agreement of purchase and sale (APS).

Remember, an LOI is typically non-binding, allowing either party to walk away without penalty.

### Step 4: Executing the Agreement of Purchase and Sale (APS)

Once terms are agreed upon in the LOI, legal counsel will draft or review the formal Agreement of Purchase and Sale (APS), the legally binding contract that governs the transaction.

#### Understanding the APS

This comprehensive legal document specifies all terms and conditions of the sale, including:

- Precise purchase price
- The deposit schedule and specifically when and under what terms a deposit becomes non-refundable
- Representations and warranties from the seller about the property's operations and condition
- Requirements that must be satisfied before closing, generally referred to as "conditions precedent"
- Seller's obligations regarding property maintenance and operations until closing
- What happens if either party defaults

The APS may be drafted by either the purchaser or vendor as specified in the LOI. Regardless of who drafts it, have your experienced real estate lawyer review the document carefully.

## Being “Under Contract”

When both parties sign the APS, the property is “under contract.” At this point, you will typically pay your initial deposit which may be held in escrow. The refundability of this deposit depends on the conditions negotiated in your agreement.

## Step 5: Managing Critical Dates and Conditions

The period between signing the APS and closing is governed by specific milestones set out in the contract that protects both parties while allowing the transaction to progress.

Missing these deadlines can jeopardize the deal or result in lost deposits.

### Timeline Framework

A typical acquisition timeline set out in a contract is:

#### **Due Diligence Period (30 days after the contract signing)**

During this initial phase, conduct all property assessments, review financial records, verify rent rolls, assess capital needs, and investigate any concerns about the property. At the end of this period, you must either waive your due diligence conditions (committing to proceed) or invoke them to renegotiate key terms or simply to terminate the agreement.

#### **Financing Period (90 – 120 days from contract signing; 60 – 90 days after due diligence waived)**

This window allows you to secure all necessary funding, including mortgages, grants, subsidy

commitments, and equity. By the financing deadline, you must waive your financing conditions, confirming you have the necessary funds to complete the purchase. If you cannot secure financing on the terms you planned, this condition typically allows you to exit the agreement and recover your deposit.

#### **Closing Period (final 30 days following the Financing Period)**

Once all conditions are waived, deposits generally become non-refundable, and both parties finalize all closing requirements. During this phase, you'll prepare for the transfer of ownership and funding.

## Important Considerations

These timelines are general guidelines: actual deadlines should be negotiated based on the specific property's complexity and your anticipated financing structure. More complicated transactions may require extended timelines.

Track all critical dates carefully and communicate them to everyone involved in the transaction.

Throughout this process, remember that sellers and brokers generally evaluate buyers based on their professionalism, responsiveness, and ability to close. Demonstrating organizational readiness, clear communication, and adherence to timelines builds your credibility in the market which may get you better access to future deals.

**SECTION 4:**  
**Due Diligence**

# Due Diligence

Due diligence is the opportunity to verify that a property physically and operationally truly matches what was presented and was used to develop projections. Essentially, it confirms that the property can meet your organization's needs. This investigation reviews financial performance, assesses physical condition and capital requirements, and uncovers any issues that could affect the property's value or operations.

When significant issues emerge, you have several options: negotiate a purchase price reduction to offset the additional costs, request seller credits or repairs, restructure deal terms, or cancel the contract entirely if the property no longer represents good value. The conditions in your Agreement of Purchase and Sale should protect your ability to exit without penalty during this period.

## Due Diligence Framework

A systematic approach allows for effective due diligence. NMF uses a comprehensive checklist organized around these key areas:

### Administrative Foundation

Create a master document that tracks and catalogues what you have received from the vendor and identifies outstanding items. Communicate with the vendor's team if expected documentation is missing.

### Financial Review

The pro forma was built on assumptions; the financial due diligence allows you to verify and validate these. The financial review should include:

- **Rent roll and lease review:** Obtain the most current rent roll and compare it to the original information provided. Verify occupancy rates, rental rates, lease renewal terms, tenant deposits held, outstanding tenant arrears, etc. You will also want to verify the level of affordability.
- **Ancillary income review:** Confirm all ancillary income sources.
- **Operating expense verification:** Review at least three years of historical operating statements and compare them to what you had previously received, comparable properties in your portfolio or market, and current year month-to-month performance. You should also look for any seasonal variations or anomalies.
- **Contracts review:** Review existing management, service, and/or government contracts.
- **Tax assessment reviews:** Examine property tax bills for the past three years and understand the jurisdiction's assessment cycle.

### Financial Records:

- General ledger detail for the prior year and year-to-date
- Accounts receivable aging to assess collection issues
- Security deposit ledgers and bank account verification
- Equipment lease obligations that will transfer
- Any outstanding liens, judgments, or claims against the property

### Physical Conditional Assessment

Understanding the property's physical state and capital needs is critical to accurate financial projections.

- **Environmental Site Assessment (ESA):** Obtain a Phase I Environmental Site Assessment to identify potential contamination concerns. If the Phase I assessment indicates further investigation is needed, complete a Phase II ESA or any other assessments required.

**Building Condition Assessment:** Engage qualified engineers or inspectors to evaluate all major building systems and components.

**Appraisal:** Engage an appraiser acceptable to your lender to evaluate the market value of the property. This will be used both to confirm market value and to support your loan application.

### Capital Expenditure History

Review records of major capital improvements over the past 5-10 years. This reveals:

- How well the property has been maintained
- What major systems have recently been replaced
- What might be nearing the end of its useful life
- Whether maintenance has been deferred

### Legal Review

Work with an experienced real estate lawyer to investigate legal matters that could affect ownership or operations. This includes:

- A Title Search and Survey
- Any recent or ongoing litigation
- Any Landlord-Tenant Matters
- Contracts that must be assumed as part of the sale

### Insurance Quote

Contact an insurance broker to obtain quotes for property insurance and review the coverage requirements, deductibles, premiums, etc., confirming that the coverage meets your non-profit's and the lender's requirements.



272-280 Caroline Street South, Hamilton, ON acquired by Caroline Co-operative  
Photo courtesy of Caroline Co-operative

## Property Management Planning:

How the property will be managed post-acquisition affects both the property's operations and your organization's capacity. Determine whether you'll:

- Manage the property with internal staff. If this is the case, the organization's management capacity to take the property on needs to be carefully evaluated. Do you need more staff to accommodate the growth?
- Or, will you contract with a third-party property management company? If hiring a property management company, obtain proposals and fee structures during due diligence so you can accurately budget these costs.

## Updating Your Pro Forma

As you gather information during due diligence, continuously update your financial model to reflect actual conditions rather than assumptions. Significant changes might include:

- Higher than expected deferred maintenance costs requiring the pre-funding of reserves
- Lower actual rental income or higher vacancy rates
- Increased operating expenses (utilities, taxes, insurance)
- Other required capital investments not initially anticipated
- Unexpected environmental remediation or legal costs

## Waive Diligence Conditions?

At the end of your due diligence period, you face a critical decision: proceed as planned, renegotiate terms (including any necessary extension of the due diligence period), or walk away.



*576 Simcoe Street, Victoria, BC*



*1410 Fort Street, Victoria, BC, acquired by New Commons Housing Trust Society*

*Photos courtesy of Devon Properties*

# SECTION 5: Financing

# Financing

Arranging finance for an acquisition is often the most complex part of the process. Unlike conventional real estate transactions, which typically rely on a single mortgage, affordable housing deals frequently require layering multiple funding sources — each with distinct terms, requirements, and timelines. Understanding these financing components and planning the deal's sources early prevents delays and ensures deal viability.

## The Capital Stack: Understanding Financing Layers

Most affordable housing acquisitions are funded by multiple sources, often referred to as the project's "Capital Stack." The position in the stack indicates the order of repayment priority and reflects the funds' "priority" (if it is paid first or last) in a foreclosure, should the deal fail. A typical structure, with 1. as the top (paid first) and 5. as the bottom (likely paid last from operating income, if at all, and generally lost in a foreclosure), includes:

1. **First Mortgage:** primary secured debt, conventional mortgage financing
2. **Subordinated Financing:** secondary debt or equity with less conventional terms
3. **Patient Capital:** deeply subordinated or unsecured long-term patient capital
4. **Grants and Non-Repayable Contributions:** funding that does not require repayment
5. **Purchaser Equity/Internal Reserves** - cash from organizational reserves or stakeholder contributions

Each layer serves a specific purpose and comes with different costs, risks, and requirements. The art of financing affordable housing lies in optimizing this stack, aligning the risk profile of the funder with the correct risk and return position among the different sources.

## 1 - First Mortgage

The first mortgage is generally the largest portion of financing sources. There are often three important mortgage terms:

- **Loan Term:** Defines how many years the lender will provide the loan before you are required to repay it. Common terms are 5 or 10 years. At the end of the term, the mortgage must be either renewed (typically at current market rates) or repaid in full. Understanding when your term expires is crucial for long-term financial planning, as interest rate changes at renewal can significantly impact affordability.
- **Interest Rate:** Determines your monthly interest costs and is typically quoted as a spread above a benchmark rate. For Canadian affordable housing mortgages, lenders quote rates as a certain number of basis points (percentage points) above the Canada Mortgage Bond (CMB) yield or the Government of Canada (GOC) bond

- yield. For example, "CMB + 125 basis points" means your rate will be 1.25% higher than the current CMB yield. Your actual interest rate is usually finalized when the mortgage funds, not when applied for, so monitor rates as your closing approaches and anticipate a buffer in your pro forma to account for fluctuations.
- **Amortization Period:** The monthly loan payment that will be required to pay the mortgage is determined by the size of the loan, the interest rate charged, and the amortization period. This is the period of time over which the repayment of the loan is calculated which is generally longer than the loan term. While the loan term may be for 10 years, the amortization period is often for 25, 35, or even 50 years. The longer amortization periods reduce the size of the monthly payments and generally increase the amount you can borrow. Note that while it allows you to borrow more, the longer amortization period also increases the interest you will pay over the term of the loan.
- **Determining the mortgage amount:** With the available term, the likely interest rate, the amortization period, and a specific property's net operating income, you can determine the amount a lender is likely to approve for a first mortgage loan. Two underwriting constraints, the debt service coverage ratio and loan to value ratio, will in the context of these other characteristics determine your maximum loan amount.
- **Debt Service Coverage Ratio (DSCR)** is determined by dividing the annual net operating income (NOI) by the annual debt service. Basically it measures how much excess cash a borrower has after paying the debt service. For example, the CMHC MLI Select Program requires a minimum DSCR of 1.1, meaning your property must generate at least 10% more income than needed to cover the expenses and the mortgage payments. This buffer protects lenders and the property against minor income fluctuations or expense increases.
- **Loan-to-Value (LTV) Ratio** is determined by dividing the loan amount by the market value of the property. Since the lender wants to be secured by a mortgage on the property, they want the market value of the property to exceed the loan amount by a specific amount. Under the CMHC MLI Select program, high-scoring properties can access mortgages up to 90% of appraised value. Most lending programs have more restrictive LTV ratios.

### CMHC Mortgage Insurance Products

Mortgages for affordable housing acquisitions can be insured by CMHC. This insurance protects lenders against borrower default, enabling them to offer better rates and higher loan-to-value ratios than they would for uninsured mortgages. A common insurance product used in affordable housing is the CMHC Mortgage Loan Insurance (MLI) Select program.

## 2 - Subordinated Financing

Subordinated financing is repaid after the first mortgage. For a property in financial difficulties, the first mortgage receives payment first from available cash flow, while subordinated debt receives payments only from any remaining funds. It also means that in a formal foreclosure action, the subordinated lender or investor is paid only after the first mortgage is fully paid off. This generally requires more flexible and conditional repayment terms. Since the subordinated lender accepts a higher risk, they will also require a higher interest rate or other repayment terms that increase their returns.

After maximizing your first mortgage, a financing gap often remains. This could be as much as 25% of the total capital required. Subordinated debt can fill a portion of this gap as can grant funding, other patient capital, and or internal equity. It takes on different forms, such as a vendor loan to the transaction or financing like a New Market Funds Rental Housing Fund II investment. Exploring options and being aware of this type of funding is important to filling that gap. It can be the most complex financing source in a transaction.

When significant issues emerge, you have several options: negotiate a purchase price reduction to offset the additional costs, request seller credits or repairs, restructure deal terms, or cancel the contract entirely if the property no longer represents good value. The conditions in your Agreement of Purchase and Sale should protect your ability to exit without penalty during this period.

## 3 - Patient Capital

Patient capital sits near the bottom of the capital stack, meaning it often may not be serviced or repaid until other sources are fully retired. It is often provided through some government related program, but more likely the source will be a local foundation that knows the non-profit and the community and can structure the funding as a program-related investment. This means they will accept lower return for the risk they are prepared to take because they want to see affordable housing in their community. This type of financing provides subordinated or unsecured long-term debt or equity with flexible repayment terms.

## 4 - Grants/Non-Repayable Funding

Even further toward the bottom of the capital stack, grants and non-repayable contributions provide funding that does not require any repayment unless there is a violation of the underlying grant agreement. These funds are generally provided by government programs and are critical to creating initial rent affordability. Additional resources for where non-repayable funding can be found are listed at the end of the guide.



*324-326 Pope Road, Summerside, PE, acquired by the Island Unity Land Co-operative*

## 5 - Purchaser Equity/Internal Reserves

Purchaser equity refers to funds contributed directly from the buyer's own resources or stakeholders, including:

- Cash from organizational reserves
- Proceeds from previous property sales or refinancing
- Capital contributions from partner organizations
- Fundraising proceeds designated for acquisitions

While minimizing such equity requirements is often required since the organization has limited resources that must be preserved for other purposes, contributing meaningful equity demonstrates commitment to lenders and other financing partners. Mission-driven funders often require purchaser equity as evidence of the organization's commitment to the project. Ideally, the deal sources will include at least 3% - 5% of this equity.

### Waiving Financing Conditions – Think Carefully

Once all the sources are identified that can deliver the objectives of the non-profit under terms that are based on reasonably conservative assumptions, the buyer should evaluate whether to waive the contract's financing conditions. This is the last step before buying the property or closing. Once you have waived financing conditions, you will usually be required to buy the property or lose your

deposits. Financing conditions should only be waived if you have received clear, legally enforceable written commitments from the providers of capital.



*Photo courtesy of FriendsQuarters Media*



*Domaine la Rousselière. Montreal, QC, acquired by Société Immobilière Mainbourg  
Photo courtesy of CBRE*

**SECTION 6:**  
**Closing & Beyond**

# Closing

At this stage, the property meets your program requirements, the due diligence requirements reviewed carefully and been waived, financing commitments based on conservative assumptions are in place and the financing conditions in your Agreement of Purchase and Sale have also been waived. With the financial conditions waived, you are ready to close:

- Deposits become non-refundable (subject to the seller meeting their obligations)
- You are legally committed to complete the purchase
- The transaction enters its final countdown toward the closing date

During the closing period, usually 30 days following condition waiver, the buyer quickly transitions from exploration and evaluation into execution and coordination.

## Closing Roadmap

Create a detailed master checklist that incorporates everything that must happen between the condition waiver and closing.

### Conditions Precedent to Funding

Lenders and capital providers often have a list of required conditions that must be met before they provide the funds, called “Conditions Precedent”. Fully understanding these conditions and what documentation must be provided to which party is essential to planning the closing.

### Legal Documentation

Work with legal counsel to review and prepare any legal documentation anticipated as part of the transaction.

### Internal Requirements

Your own organization will also have a few internal requirements, such as ensuring:

- Final board approval or delegation of approval of documents to be executed
- Internal fund transfers or draws on lines of credit for equity contribution
- Insurance policies in place for the effective date of ownership
- Property management agreements executed
- Utility account transfers arranged
- Documentation of all tenant security deposits that will be transferred to your care at closing
- Planning for the actual handing over of keys, the closing day transitioning of any contracts (including fire protection), and the receipt of personal property included in the sale
- Banking arrangements for collecting rent and paying expenses

## Closing Date

On the Closing date, provided all required conditions have been met and financing is correctly lined up, documents are signed and the title transfers to the purchaser and funds will flow to the seller from the buyer's financing sources. The building and its residents are now your responsibility as is the long-term protection of this affordable housing resource.

## Post-Closing

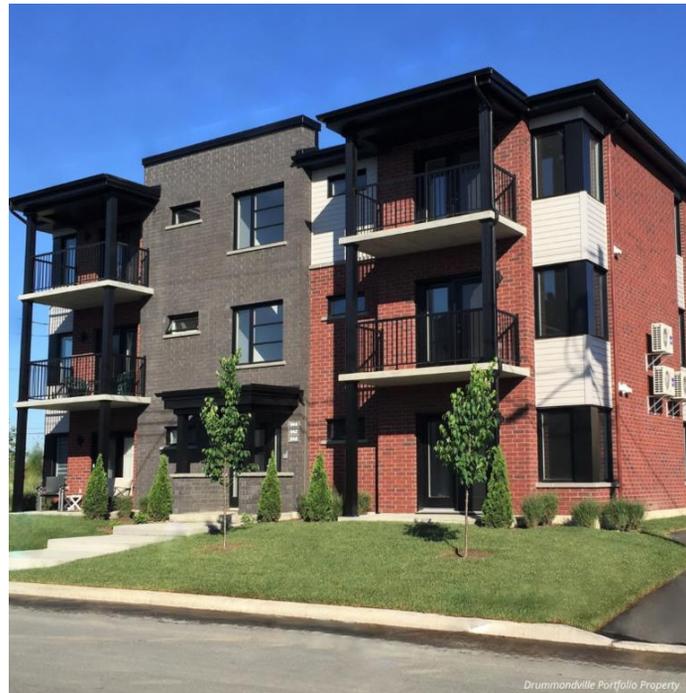
Following the closing, a few key steps of the initial transition period will involve:

- Conduct an immediate walkthrough to confirm the property's condition matches expectations
- Secure the property and change locks/codes as appropriate
- Send notices to tenants introducing your organization as the new owner
- Confirm the transfer utilities and service contracts to your name

Now the real work begins: serving your tenants well, maintaining the physical asset, otherwise making sure the property operates in alignment with your mission, and hopefully demonstrating that affordable housing can be both mission-driven and financially sustainable.



*Marie Rose Place, Winnipeg, MB, acquired by the University of Winnipeg Community Renewal Corp. 2.0  
Photo courtesy of Avison Young*



*25 rue Harry-Haworth, Drummondville, QC acquired by SOLIDES  
Photo courtesy of Colliers*

