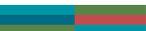




Alternative Sources of Capital for Social and Affordable Housing





Overview

Access to capital has been one of the critical issues affecting the health and long term viability of social and affordable housing. What happens when governments have limited funding to invest in social and affordable housing initiatives? BC Housing in partnership with Housing Services Corporation and the Real Estate Foundation of BC conducted research on six alternative models of bringing capital into the sector to address growing demand for social and affordable housing.



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Social/Affordable Housing Real Estate Investment Trust

Can a Real Estate Investment Trust (REIT) be used as a way to bring money into the social/affordable housing sector? REITs typically generate returns for their investors by driving cost efficiencies through the use of professional management by making property improvements which generate higher rents and by property sales in high growth markets. These methods make REITs successful in the private market, but present challenges in the affordable housing sector, as it usually generates a lower return for investors. Organizations in the US, Canada and the UK have been exploring different REIT models for investment in affordable housing. They are overcoming the challenges, while also responding to the needs of investors.

Affordable REITs in the US, Canada and UK

US: The Housing Partnership Equity Trust (HPET) was established in 2012 as a private REIT for use by members belonging to the Housing Partnership Network (HPN), a Boston-based association for high-performing affordable non-profit housing developers across the United States. HPET received a \$100 million initial investment from foundations, lenders and member equity investments. HPET invests in its members acquisitions that are unsubsidized affordable rental housing properties that are cash flow positive and in good physical condition. To date, HPET has closed three transactions for its members in three different secondary housing markets and has preserved 557 units of affordable rental housing.

Canada: Canada has three organizations pursuing the establishment of an affordable housing REIT, although none has been successful in attracting the right level of investment. Their models are slightly different; one looking to acquire naturally affordable rental housing buildings, and another seeking investors in affordable ownership projects and another looking for non-profit partners.

A social or affordable housing Real Estate Investment Trust (REIT) is a tax efficient mechanism for investment in social or affordable housing properties. These REITs can either be a publicly listed trust that allows investors to purchase units of income-producing real estate assets or they can be privately held for members of the trust.

UK: The UK's first social housing REIT, Houses4Homes (H4H), was established in 2013 and will be listed on London's Alternative Investment Market (AIM) stock exchange.

The affordable REITs are making progress. Key factors driving their success include that they are mission-oriented towards preserving housing affordability and have experienced real estate professionals running them. There are critical challenges in pursuing a REIT as a vehicle for investing in affordable housing: a) who owns the property and b) how much it costs to establish the REIT. All of the case studies point to how long it takes to establish a new untested REIT vehicle and the need to incubate in a host organization.

Any organization interested in trying to use a REIT as the way bring in money to rehabilitate older stock must be willing to forgo full or partial ownership of their stock forever or for a time-limited period. Existing social housing providers may be disinterested in doing this. Successes have happened when partners are not interested in directly owning the stock and are only seeking access to funding. The ownership question may be less of an issue for a new housing organization. HPET gets around this issue by providing a closed system in that the building owners are also members. The HPET model is also very effective at allowing its members to diversify their own real estate holdings while also focussing on their mission of retaining affordable housing.

In closing, REITs can provide an excellent way of introducing private sector capital into the affordable housing sector when property ownership is not an issue, when a host organization is willing to incubate the idea and when there is a dedicated group of people interested in preserving housing affordability for low and moderate-income households.

Author: Margie Carlson, Housing Services Corporation, *ALTERNATIVE SOURCES OF CAPITAL*. To obtain a copy of the full report, please visit www.bchousing.org/aboutus/publications/research/reports

2 Hybrid Legal Structures

Does a new hybrid corporate legal structure make it easier for affordable housing organizations to raise money for new housing or redeveloping existing housing? This is the question at the heart of the intersection of affordable housing and social enterprise. In 2013, British Columbia became the first province in Canada to enact law that supports social enterprise businesses: “Community Contribution Company” (or C3) is a for profit company structure that must have a social purpose as its primary goal. BC modelled the C3 form after the Community Interest Company (CIC) legal structure which has been available in the UK for social enterprises since 2004. As of December 2013, there were 7,670 CIC’s in England compared with 160,000 charities.

Social enterprises want to attract investors so they can achieve their social goals, but existing corporate forms have presented challenges. Non-profits can’t issue shares or pay dividends, which makes it difficult to attract investors. For-profit firms pay dividends, but shareholders may not share the company’s willingness to contribute to social causes. The C3 model attempts to bridge these issues by putting limits on shareholder dividends and by making it a requirement to have a social purpose. There is no national corporate law that covers social enterprise and in BC. These structures are so new that a reasonable assessment of their success is not yet possible. Let’s look to the UK to see how CICs have been working for affordable housing organizations.

Case Study – Inclusion Housing in UK

The critical question is, do housing CICs attract investment for social good? The answer would be yes, but there are some important considerations. There are only a handful of CIC businesses in the UK that work in the affordable housing sector and those that do are relatively small.

Hybrid legal structures are new company forms that can generate a profit that can be used for social purposes. They are subject to a restriction on the dividends they can pay shareholders, are usually subject to an “asset lock” and must publicly report how they are benefitting their community on an annual basis.

Inclusion Housing is a CIC, a social enterprise, and a registered social landlord based in the north of England that works with and on behalf of vulnerable people. They provide a range of properties to suit the care package and person-centered plans such as supported living, registered and respite care. Inclusion Housing enters into partnership with local councils, housing associations or other entities to bring supported housing mix into larger housing developments.

One of the learnings from the UK is that a housing association might set up a CIC as a subsidiary to take advantage of a new branding for its own social enterprises, perhaps in response to community pressure at the start of a new development. The unfortunate part is that the CIC structure does not offer any significant advantages than existing legal forms for the provision of social housing. While Inclusion Housing is growth-oriented and does ensure community benefit, to achieve its success it has had to develop multiple partnerships. It works with a for-profit private developer and a range of local councils and organizations. The benefit comes from accessing grant, private capital and partnership development, but although the housing gets built, money continues to accrue back into the private sector through the for-profit developer and the funding still happens through traditional forms of lending.

Institutional investors like pension funds have no policies in place to assess lending options for Community Interest Company (CIC)’s in England or Community Contribution Company (C3)’s in BC. While politically potent, the new legal forms have not created a storm of alternative sources of money generally or specifically for housing. C3 should not be viewed as a cure-all for bringing money into the housing sector. They can however, be a powerful branding and political statement about the interests of the founding organization to ensure community benefits occur.

Author: Margie Carlson, Housing Services Corporation, *ALTERNATIVE SOURCES OF CAPITAL*. To obtain a copy of the full report, please visit www.bchousing.org/aboutus/publications/research/reports

Capital Raising & Lending Facilities

What if Canada had a specialized lending facility for social and affordable housing? Canada has been grappling with government retreat from grant funding for new social housing since the 1990's. Although small funding pots continue to be available, the heady days of significant housing programs are not coming back. Canada's social housing system has traditionally relied on Canada Mortgage and Housing Corporation (CMHC) mortgage insurance with mortgages being held by banks and supported by a web of insurance agreements between governments which protect the banks and hold CMHC harmless. CMHC is supportive of social and affordable housing but the system has its good points and its drawbacks. In the vacuum of no substantial grant funding for housing, there has been no influx of private money for building new or renovating existing social housing. Instead provincial government agencies have picked up the slack. For example, BC Housing is an insured lender under the National Housing Act. Both BC Housing and Infrastructure Ontario are providing low-interest loans for non-profits and co-ops in their respective jurisdictions.

Case Study – The Housing Finance Corporation in UK

Despite government retreat, a special purpose lending facility, the Housing Finance Corporation (THFC) has been flourishing in the UK. THFC was established in 1988 to provide a source of private capital for not-for-profit housing associations. It directly raises longer-term bond finance and lends that money on a secured basis for long fixed-terms. It operates without direct government control or subsidy. Currently rated as A+/stable/A-1 by ratings agencies, THFC's loan book stood at £3,12m in 2013 and has a 100% repayment rate on the part of its borrowers. Whereas a bank intermediates between savers and borrowers by entering into separate transactions

A capital lending facility is a financial intermediary that borrows funds in the capital markets and lends that money specifically to social or affordable housing providers. Typically, these facilities offer specialized or aggregating services to organizations that cannot access the markets on their own due to scale or capacity issues.

with each, with all the risk that entails, THFC does not intermediate in the same way. THFC acts as credit principal and borrows/lends on similar terms. THFC's success relies on several key factors such as the size of housing sector which provides a large pool of potential clients, sophisticated borrowers (housing providers) who can manage complex loans, the housing provider's loan repayment capacity which is based on the government-funded housing benefit program and a stable regulatory regime which gives comfort to investors.

Establish a Canadian Capital Lending Facility – Opportunities and Challenges

There is nothing like the THFC in Canada where the housing sector is significantly smaller than the UK sector and without a housing benefit program which provides guaranteed revenue into the system. If the Canadian housing sector is to become more self-reliant, then establishing a lending facility for social and affordable housing purposes is a good idea. But, the facility must respond to what the system is like here. The Canadian housing sector is composed of a handful of larger government-owned entities and thousands of small community-based housing organizations that have vastly different needs than larger ones. At issue are the scale and capacity of housing providers, their debt carrying capacity and the variability of regulation in different provinces.

The prospect for establishing a Canadian capital lending facility will require a thoughtful approach. Access to money to build and renovate housing is what the sector needs and one could be established with two key functions: a) raising funds in the capital markets and lending those funds to housing providers, like THFC does and b) services for smaller housing providers to help them quantify and decide on their capital needs, loan requirements and debt carry capacity. There is no question about the need for a lending facility in Canada, however, the key question is how should it be established and how can it be adapted to operate in a small market with many small players with varying capacity?

Author: Margie Carlson, Housing Services Corporation, *ALTERNATIVE SOURCES OF CAPITAL*. To obtain a copy of the full report, please visit www.bchousing.org/aboutus/publications/research/reports

4 Housing Bonds

What if Canadian housing providers issued housing bonds to increase housing supply? Bond issues are an efficient means of raising money for housing and can raise more money than mortgages. Funds can be freely used including for redevelopment or new construction. They are often non-renewing and have long repayment terms (e.g. 25-30 years). Interest rates for bonds are comparable to equivalent-term mortgages. Unsecured bonds are based on the financial health of the organization itself; in contrast, mortgages and secured bonds are limited by the asset value of the subject property. Bonds can also be arranged via a public bond offering or through a private placement with one investor. Public bonds can take 6-12 months to arrange and require expensive specialized financial advisory services. Private placements, on the other hand, can be arranged relatively quickly without needing specialized services. Public bond offerings are rated by a credit rating agency such as Standard and Poor's. The rating attests to the credit worthiness of the issuer and is the key factor in determining the interest rate.

Public Housing Bond Offerings

The UK housing sector has been accessing the public bond market since 1987 when North Housing Association (NHA) raised £65 million. About 35 housing associations have issued public bonds since that time and have ratings from ratings agencies. Several public housing authorities in the U.S. have also issued corporate debt. In both countries, social housing is seen as a viable, reasonable and solid low-risk investment for institutional investors.

Why hasn't this happened in Canada yet? The answer is multi-fold – scale, readiness, adequate cash flow and debt carrying capacity are the top four that come to mind. Canada has only one example; Toronto Community

Housing bonds are a debt that a housing organization issues and promises to repay over a specified period of time. They can be listed publicly and sold to investors in the market or privately held by one institution. They are a widely used financing instrument by private sector organizations as well as governments.

Housing Corporation (TCHC) broke new ground when it raised \$450 million from two 30-year bond issues to deal with its capital repair backlog. Both issues, in 2007 and 2010, had more potential buyers than bonds. One critical success factor was that investors recognized that TCHC is owned by the City of Toronto. This helped to solidify investor confidence that TCHC would represent a solid, long-term, low-risk investment.

A major limitation for the Canadian sector in future public bond offerings is that the market may require a minimum \$100-150 million to interest institutional investors looking for big long-term deals. In Canada, there are very few organizations that have the scale, capacity or cash flow to support a bond of that size.

Private Housing Bond Placements

Private bond placements may offer a reasonable alternative to public bonds, as the minimum requirement can be significantly smaller than a public bond offering. There are no Canadian examples of a private bond placement but in the UK, private placements are as common as public offerings. It is of note that Canada Life Investments regularly arranges private placements in the UK social housing sector. In December 2013, they arranged a £40 million private placement with Derwent Homes (UK) that took two months to arrange.

Despite turmoil in the debt market from time to time, highly rated bond issues (AAA and AA class) are always in demand. There is definite interest on the part of institutional investors to invest in the social housing sector in other countries and TCHC was able to show that the same interest exists in Canada. In closing, there is little in the way of having other large housing organizations in Canada issuing corporate debt either publicly or privately. For smaller housing providers in Canada, the bond market will always be out of reach, as they do not have the scale, capacity or revenue to support one.

Author: Margie Carlson, Housing Services Corporation, *ALTERNATIVE SOURCES OF CAPITAL*. To obtain a copy of the full report, please visit www.bchousing.org/aboutus/publications/research/reports

Community Investment Funds

Community Investment Funds (CIFs) are valuable tools in raising capital to invest in community economic and social development. These vehicles have a long history of community economic development financing across the globe and an established track record of success. CIFs strengthen local economies, increase local engagement in economic activity, and revitalize local communities.

Canadian examples of successful community investment vehicles have demonstrated outcomes in increasing investment in locally owned businesses, contributing to job creation, and generating new sources of capital for housing and other community services. There is a solid evidence base to build on to expand this dynamic approach to retaining local investment capital in local communities, particularly investments in tax deferred retirement savings (RRSPs). Currently, four Canadian provinces (Nova Scotia, Prince Edward Island, New Brunswick, Manitoba) have established Community Economic Development Investment Fund (CEDIF) programs or enabling legislation. Collectively these programs have raised hundreds of millions of dollars from local investors and in some cases have had a profound impact on redirecting outward-bound investment and RRSP flows toward local projects.

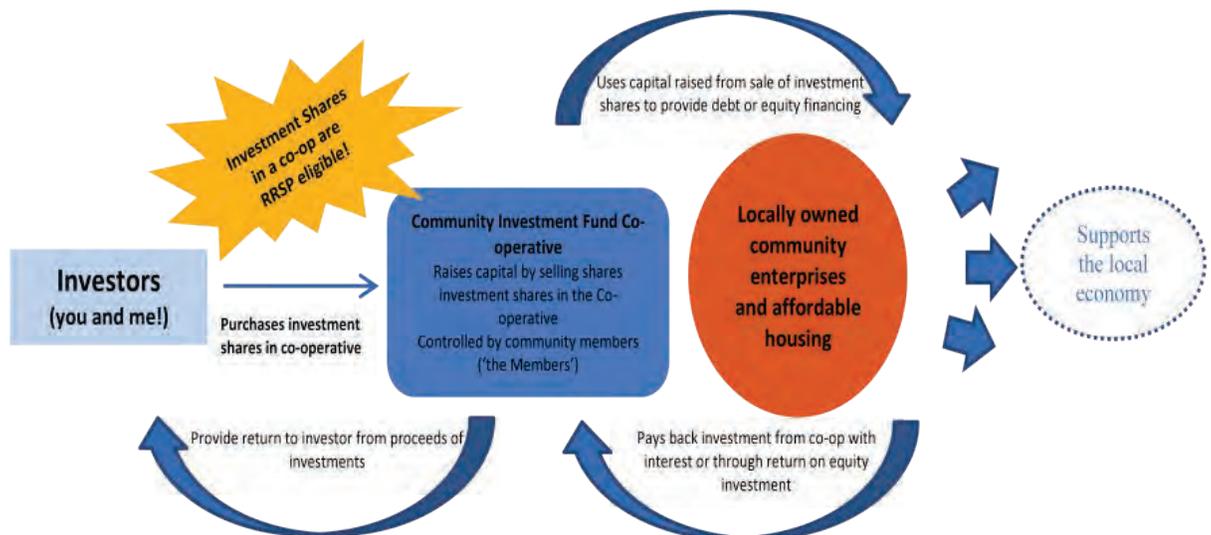
Community Investment Funds (CIFs) are locally sourced and controlled pools of capital that are capitalized by individual investors within a specific geography or community. The proceeds of CIFs are directed towards a range of businesses and organizations that help achieve policy objectives such as job creation, small and medium sized business development, and affordable housing.

Case Study – Vancouver Island Community Investment Cooperative: An Emerging Community Investment Fund

The Vancouver Island Community Investment Co-operative (or Community Investment Fund) is designed to address two pressing needs on Vancouver Island: a need among affordable housing and social enterprise developers to access diversified sources of capital and a growing demand among local investors to see their investment dollars at work in their own community. The CIF aims to contribute significantly to achieving affordable, family and workforce housing targets set by local, regional and provincial governments and to business diversification, growth and expansion in the region.

Author: Sarah Amyot, Marika Albert, Rupert Downing, *COMMUNITY SOCIAL PLANNING COUNCIL, COMMUNITY INVESTMENT FUNDS: LEVERAGING LOCAL CAPITAL FOR AFFORDABLE HOUSING*
To view or download a copy of the full report, visit: www.communitycouncil.ca/reports.html

How it Works at a Glance:



6 Social Impact Bonds

Social Impact Bonds (SIBs) are a powerful new tool to jumpstart funding for innovative social programs. SIBs allow governments to support programming that has strong preventative aspects to it, paying only for long term performance, as opposed to short term delivery. Private investors provide the risk capital necessary to finance programming, enabling government to pay only for long term positive outcomes. At the time of this study a SIB had yet to be launched in Canada. A feasibility study was undertaken to determine if a SIB could be used to fund the creation of supportive housing in BC. Four key criteria were examined: analyzing the political will for such a SIB, its potential measurable impact, quantifiable economic benefit, and the capability of service providers to deliver supports according to a prescribed model.

Research findings suggest that the high level requirements for a supportive housing focused SIB are in place, and the full report outlines the specific ways the model could be deployed in BC. The SIB outlined in the full report would enable government to de-risk an investment into new service delivery, performance management, and outcomes measurement tools that could ultimately shape how existing service delivery systems function for individuals dually diagnosed with severe addiction and mental illness. The SIB would be a contained lab where adaptations to existing models could be tested and proven while new data on how to best serve this population could be collected and analyzed. Our hope is that this report can catalyze a collective effort to deploy this innovative social financing tool, capitalizing on the opportunity for real and sustained positive social impact.

The Social Impact Bonds model is built on privately funding a service intervention in the short term that accrues savings to the public in the long term. If outcome targets are met, a portion of these public savings are returned to the private investors who provided the operating capital necessary to fund the initial intervention. SIBs finance immediate program delivery with the long term savings that accrue from program outcomes.

Case Study – Canada’s First SIB: Sweet Dreams

In May 2014, Saskatchewan’s provincial government announced the launch of Canada’s first social impact bond. The Government of Saskatchewan, Conexus Credit Union, Wally and Colleen Mah, and EGADZ, took advantage of this innovative model of social funding to open “Sweet Dreams,” a supported living home for at-risk single mothers in Saskatoon.

With the ultimate goal of helping families transition back into the community, the Sweet Dreams project will provide single mothers with children under the age of eight who are at risk of requiring services from Child and Family Services with affordable housing and support while the mothers complete their education, secure employment, or participate in pre-employment activities.

Under the SIB agreement, EGADZ will receive \$1 million from private investors to deliver the program and achieve the desired social outcome, which is to keep children out of foster care. Investors will be repaid from projected savings to the Government of Saskatchewan of between \$540,000 and \$1.5 million over five years.

Author: Geordan Hankinson, Colin Stansfield, Ecotrust and RADIUS, *PAY-FOR-PERFORMANCE PARTNERSHIPS, A CASE STUDY IN FUNDING FOR SUPPORTIVE HOUSING*

To view and download a copy of the full report, visit: www.ecotrust.ca/communities/socialfinance

Project Partners

BC Housing

BC Housing develops, manages, and administers a wide range of subsidized housing options across the province of British Columbia in Canada. We partner with private and non-profit housing providers, other levels of government, health authorities, and community groups to increase affordable housing options for British Columbians in greatest need. BC Housing also helps bring about improvements in the quality of residential construction in B.C. and helps strengthen consumer protection for buyers of new homes. For more information, visit www.bchousing.org



Housing Services Corporation

The Housing Services Corporation is a province-wide, non-profit organization that supports the sustainability and management of Ontario's affordable housing sector. For the past 12 years, HSC has worked hand-in-hand in partnership with landlords, housing providers and municipalities to help develop and maintain safe, affordable and vibrant neighbourhoods. For more information, visit www.hscorp.ca



Real Estate Foundation of BC

The Real Estate Foundation of BC is a philanthropic organization with a mission to transform land use attitudes and practices through innovation, stewardship, and learning. The Foundation's grants program supports non-profit organizations working on progressive projects that address environmental and urban issues. Since 1988, the Foundation has approved more than \$67 million in grants to create positive change for BC communities. For more information, visit www.refbc.com





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