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Social Finance

A CHRA Congress Session Case Study

BC Housing

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INTRODUCTION

This paper builds on a panel discussion, held at the Canadian Housing ad Renewal Association's (CHRA) 2013 Annual Congress, titled *Social Finance for Affordable Housing*. It highlights the roles that different forms of social finance played in developing three affordable housing communities, and concludes by identifying lessons that other housing providers might draw from these projects to apply to their own work.

The first project was developed by the YWCA Toronto, and provides affordable rental housing for low-income women and women-led single-parent households. A community bond was used to raise $1 million in flexible development capital.

The second is currently being developed by OCISO Non-profit Housing in Ottawa, and is designed to meet the affordable rental housing needs of the large families common to immigrant households. The Community Forward Foundation, a new national social finance non-profit, provided a critical $400,000 bridge loan to cover pre-development costs.

The third project was developed by the Westbank Corporation, a private developer. The affordable condominiums provide affordable homeownership opportunities to low-income residents of Vancouver's lower east side. The project's affordability was facilitated in part by financing from VanCity, a credit union that makes social impact investment integral to its business model.

WHAT IS SOCIAL FINANCE?

Definitions of social finance are numerous, but the MaRS Centre for Impact Investing offers one that is both clear and concise.

Social Finance is an approach to managing money that delivers social and/or environmental benefits, and in most cases, a financial return. Social finance encourages positive social or environmental solutions at a scale that neither purely philanthropic supports nor traditional investment can reach.

The most active social finance practitioners have been credit unions and community foundations, though banks and other mainstream financial institutions, and members of the wider private sector, have participated where financial cases have been especially strong or where social missions have connected with their social corporate responsibility goals.

AFFORDABLE HOUSING PROVIDERS ARE SOCIAL ENTREPRENEURS

The Canadians and Canadian organizations providing, using and managing social finance tools are often referred to as social entrepreneurs, and non-profit housing developers and providers are among Canada's most experienced social entrepreneurs. Specific entrepreneurial activities are numerous, but most universally, revenue from units rented at or near market rates is used to subsidize units offered at below market rents, and equity accumulated in buildings is (as regulations permit) used to leverage financing for renovations and portfolio growth.

Full reliance on grants to build and manage affordable housing is no longer the norm. Affordable housing development today requires skilled, determined and innovative practitioners who are savvy players in Canada's expanding social economy.

YWCA Toronto, Elm Centre- Community Bond Financing

Project Overview

The Elm Centre is a mixed housing project developed by the YWCA Toronto, a large multi-service agency run by and for women and girls. With an annual operating budget of $28 million generated from government grants and contributions, philanthropy and earned revenue, the YWCA Toronto's four program areas are employment and skills development, girls' and family programs, advocacy, and housing and supports.

The Elm Centre project, located in downtown Toronto, was completed in 2011 almost $1 million under its $79 million budget. At 300 units, this very large social housing development is rented to three distinct client groups:

- 150 units to low-income women, rented at 95% of the Canada Mortgage and Housing Corporation (CMHC)-determined market rent for comparable units;
- 100 units to women with serious mental health issues who pay 30% of their net income on rent, with the difference between their rent and market rent made up by rent supplements from the Ontario Ministry of Health;
- 50 units to female-led Aboriginal families, including 10 for women fleeing violence. They also pay 30% of their net income on rent, with their rent supplements provided by the City of Toronto.

Community Bond

A community bond is an investment pool that a non-profit or charity creates to draw on the capacity of supporters to directly support the organization's work. While mainstream bonds are registered with the appropriate securities commission, registration is not a requirement. The YWCA Toronto's bond is structured and operates like a registered bond, but is not registered. Whether or not an organization chooses to register its bond may depend on how potential investors view the organization's risk profile.

Registering the bond reduces investment risk in several ways, including imposing regular financial reporting requirements. Registration also adds to bond development and management costs, which is why organizations might prefer not to register. Like all bonds, the YWCA's pays dividends to investors at regular intervals and has a fixed term. The YWCA's bond pays an annual dividend of 4% and the term is 10 years.

In the YWCA Toronto's case not registering the bond did not deter investment. While the initial concept was to offer investment opportunities in $50,000 increments with a $1 million investment target, a single investor jumped on the opportunity to secure the full available investment of $1 million. The way the investment was structured, particularly the term and rate of return, and the issuer's fiscal picture proved more important to the investor than whether the bond was registered. The YWCA Toronto was able to demonstrate that it had a healthy balance sheet and was a skilled and prudent fiscal manager. As part of its investment risk assessment, the investor determined that the YWCA should not secure more than a total of $2 million in community bond investment, and made this limitation a condition of its investment.

Critical too was the fact that all other financing for the project was in place, allowing the bond investor to review the full project prospectus confident in its reliability. The risk-reward profile the YWCA Toronto presented was favourable enough to secure the investment, as was its social mission track record, which is what attracted the investor to the organization.

While the $1million bond was a small part of the total project budget, its benefits exceeded its size. One of the common challenges of developing a social housing project is managing cash flow as financing is released at times or under conditions that cause temporary cash shortages. The bond was released early and there were no restrictions on the project expenses to which it could be applied, which helped bridge temporary cash shortages. The confidence the bondholder demonstrated in the project was also used to reassure other more risk-averse investors and the organization's board of directors when the project hit inevitable bumps. Finally, now that the model has been used once it will be easier to deploy when the right opportunity presents itself in the future.

Ottawa Community Immigrant Services Organization Non-profit Housing Corporation, 140 Den Haag, Bridge Loan

Project Overview

The Ottawa Community Immigrant Services Organization (OCISO) was created in 1978 to assist newcomers to Canada settling in Ottawa. In 1991 it created a housing development and management organization named OCISO Nonprofit Housing Corporation (OCISO NHC). OCISO NHC's creation was driven by frustration that the housing needs of immigrants were not being effectively addressed. Many immigrants require larger homes than those normally rented by affordable housing providers, and require homes located within easy proximity to other core services commonly required by immigrants.

140 Den Haag, currently under development, is OCISO NHC's third project. The opportunity sprung from the potential availability of free land. The City of Ottawa, through the Government of Canada's Surplus Federal Real Property for Homelessness Initiative (SFRPHI), was making land available to developers who would use it to address homelessness and affordable housing shortages in Ottawa. OCISO NHC submitted a development proposal for the land that would see a 73-unit development, including ten 4-bedroom and seven 3-bedroom townhomes to better serve the needs of large immigrant families. The proposal was accepted.

Making units in the $19 million project available at rents affordable to low-income households is primarily facilitated by development subsidies (free federal land, along with waived municipal land transfer, planning, building permit, development, park land and school board fees and costs) and operating subsidies (municipal rent subsidies). 65-70% of the units will be rented at rent-geared-to-income and below-market rates.

Design was also important to achieving the affordability targets. Constructing the 8-story structure around red steel rather than concrete also reduced construction costs without compromising structural integrity. Green construction, equivalent to a LEED Silver standard, will reduce operating costs.

Bridge Financing and the Community Forward Fund

Putting an affordable housing project together is always a complex undertaking, but this project's launch required accommodating the surplus federal land program's timeline by achieving the (almost) impossible- having a site plan approval and foundation building permit approved in six months rather than the typical one year. Making matters more complicated, not yet having secured the rent subsidies or municipal fee waivers, banks were not prepared to advance development capital in an acceptable timeframe. Facing the very real risk of losing the project before it really began, OCISO NPH approached the newly formed Community Forward Fund (CFF) with the request that it finance the site control and building plan costs, thus allowing the project to advance while other necessary financial commitments were secured. CFF rapidly approved a $400,000 bridge loan, the pre-development work was done within the 6-month timeframe, the land and project financing were secured, and in April, 2013 the project broke ground.

The CFF is Canada's first national non-profit social impact lender to, and facilitator of loans for, other non-profits and charities[1]. Its lending requirements and terms are more flexible and patient than those of traditional lenders, and loans are offered in forms that include working capital and short-term loans. Key to the CFF's lending approach is its commitment to assessing loan risk based on a greater number of factors than is typical to the lending industry, opening up the potential to lend to organizations that would not otherwise qualify. For example, in the case of OCISO NPH, CFF recognized other funders' commitments to fund the project when the pre-development is successfully completed as a form of security.

The CFF also offers a range of financial coaching services and assessment tools to help non-profit and charitable organizations grow their financial management and growth skills and capacity. Currently registered with the securities regulators, and therefore able to operate in, Newfoundland and Labrador, the CCFAC aspires to extend its reach to every province as its lending capacity expands.

CFF's $400,000 bridge loan to OCISO NPH was fully repaid in February, 2013. OCISO NPH notes that many non-profits, including housing providers, are not as knowledgeable or savvy about debt financing as they should be. Opportunities for lenders like CFF to invest in the renewal of affordable housing projects, including those coming to the end of their operating agreements, are numerous.

Westbank Corporation, 60 West Cordova, Private-Non-profit Impact Investment Collaboration

Project Overview

60 West Cordova was developed by the Westbank Corporation, a private condominium developer, in partnership with the Portland Housing Society, Habitat for Humanity and the Vancity credit union. The 10-story new-build development in Vancouver's Downtown Eastside contains 108 one- and two-bedroom units ranging from 531-785 square feet. Units were priced between $219,000-$381,000, which is well below the price of comparable condos in the downtown (as much as $150,000 per unit).

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1 Community Foundations of Canada's (CFC) membership is comprised of almost 200 community foundations spread across every province, but unlike CFF, CFC is not a direct lender.

Westbank was attracted to the project as an opportunity to give back to the community where it had a history of developing some of the city's most luxurious accommodation, and as an opportunity to find innovative ways of making quality housing more affordable.

The project was targeted to people who lived, worked, or volunteered in the Downtown Eastside neighbourhood, and who could not ordinarily afford to buy a home. The units were marketed directly to this target group. Vancity held a first-time homebuyers seminar to educate potential buyers about the financial responsibilities of owning a home, and representatives were on site at the sales office to offer assistance and advice.

Vancity's first involvement in the project was as the landowner, though it also contributed to the project's affordability by structuring mortgage financing in an unconventional manner that accommodated the development's and the homebuyers' particular needs. The deep affordability of the units made it feasible for Habitat for Humanity and the Portland Housing Society, a non-profit that houses adults whose physical and/or mental health, behavioural or substance abuse issues make them hard to house or at risk of homelessness, to participate in the project. Habitat for Humanity, which helps low-income families break the cycle of poverty through affordable homeownership, was allocated four units for sale to its partner families, and the Portland housing Society purchased 8 units that it will manage on an ongoing basis for its clients.

Project design was also key to achieving this project's affordability targets. The building has no associated parking, and tenants are encouraged to participate in Vancouver's car sharing program. The targeted nature of the project meant that little traditional marketing was required, with earned media and word of mouth providing the necessary promotion. No show suite was created, in-house sales people were used in lieu of outsourcing sales to a real estate broker, the units were finished with slightly more modest materials than would be installed in luxury units, and the developer accepted a substantially lower rate of return than is the norm as part of its impact investment.

A permanent condition of unit purchase is participation in building management and maintenance duties. To preserve the building's affordability purchasers must live in the unit for at least one year prior to re-selling it.

Vancity's Unconventional Mortgage Financing

The combination of remarkable cost savings realized by the project's development team and Vancity's commitment to make the affordability threshold for this project as low as possible, resulted in financing being made available to applicants earning under $40,000 per year. This target would be unthinkable under normal circumstances for comparable housing in downtown Vancouver. A 10% deposit was required from buyers of each unit, but Vancity reduced the direct deposit requirement of each buyer participating in its mortgage program to as little as 5%[2]. Vancity also offered a special cash-back mortgage that helped potential owners who could not afford the five percent deposit. Members who qualified for this cash-back mortgage paid two per cent down and received the remaining three per cent up-front from Vancity. The mortgage terms were 5+ years to promote long-term stability for the buyers.

2 Buyers were not restricted to Vancity for mortgage lending.

CONCLUSION

The social and impact finance space is growing rapidly, and is putting the onus on non-profits, coops and charities to learn when and how to access and use these tools. Affordable housing providers, for all the restrictions and conditions placed on how they use and leverage capital assets, are in particularly strong positions to secure and make use of social financing. For both lenders and borrowers, experience working with one another and the expertise that develops will feed the innovation necessary to better leverage the potential of social finance to address Canada's affordable housing need.

The three projects described above presented offer important lessons for both lenders and borrowers.

1. Impact investors, whether private, non-profit or institutional, require creativity and flexibility to realize success. This includes expansion of means to securitize and structure investments and loans.
2. To engage fully in social finance, non-profits, coops and charities must become more familiar and comfortable with equity and debt financing, including the security and fee requirements that even flexible and patient investors and expect.
3. The timing, terms and form of an investment can be more important than its size. Small, smart investments can pay big social dividends while managing investor risk.
4. Readiness and the ability to act quickly to seize fleeting opportunities maximizes social investment impact.
5. Social finance will extend the impact of government investment in affordable housing, but will not replace it.

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The **Canadian Housing and Renewal Association (CHRA)** *is the national voice for the full range of affordable housing and homelessness issues and solutions across Canada. We have over 275 members who collectively house and shelter hundreds of thousands of Canadians, and provide housing support to many more. CHRA provides a home for the housing sector and for all who believe that every Canadian should have a decent, adequate and affordable place to call home.*

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