HOUSING RESEARCH REPORT

Innovative Financing Approaches/Potential Financing Options for Affordable Housing:

A Critical Literature Review

Canada

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Innovative Financing of Social and Affordable Housing Across Canada

Tony Wellman
October 2016
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Executive Summary

Canada has a continuing need for considerable funding to both build new affordable housing and to preserve or rehabilitate the existing affordable housing stock. The situation has stimulated the emergence of some alternative financing approaches as well as more creative use of traditional approaches. Innovative financing can occur either at the *individual project* level, i.e. initiatives to get a *specific* project off the ground, or at the *macro level*, to create a source of funding or a mechanism available for different projects.

This report briefly describes ten types of relatively recent housing finance innovations, and provides examples of how they have been used, usually in the Canadian housing system:

1. **Social finance** initiatives such as social impact bonds, social impact investing, and housing funds.
2. **Soliciting donations** through special need groups, foundations, faith-based groups, philanthropists, clubs, charitable groups, community groups, as well as crowd funding from the general public.
3. **Tapping into existing equity** of a housing project in order to get a better borrowing rate for maintenance and rehabilitation.
4. **Preserving land for affordable housing through** Community Land Trusts.
5. **Restructuring loan payments,** such as through shared equity mortgages.
6. **Real Estate Investment Trusts (REITs) for affordable housing** in the U.S.
7. **New partnership initiatives** to aid housing providers.
8. **Life leases,** a form of tenure between ownership and renting.
9. **Energy Saving Performance Agreements** to finance retrofitting.
10. **Funding from new taxes,** such as tax on real estate speculation.

To demonstrate how and where these financial vehicles have been used, 24 housing projects are introduced.

Summarizing the new funding approaches, the author discusses the potential for social investment bonds, points out that partnerships are crucial, underlines the importance of increasing the supply of land in urban areas, and addresses fund-raising, including electronic means of crowdfunding.

The report demonstrates that alternative funding sources may be useful in three contexts: to improve access to affordable housing, to construct new social housing units, and to maintain/rehabilitate existing units.

Résumé

Le Canada éprouve des besoins constants et considérables en matière de financement destiné à construire de nouveaux logements abordables et à préserver et remettre à neuf le parc de logements abordables existant. Cette situation a provoqué l'émergence d'approches alternatives de financement, de même qu'une utilisation plus créative des approches traditionnelles. Des modes de financement novateurs peuvent être utilisés à l'échelle *des projets individuels*, c'est-à-dire pour la construction d'un ensemble de logements en *particulier*, ou à *grande échelle*, soit pour créer une source de financement ou un mécanisme utilisable pour différents ensembles.

Ce rapport décrit brièvement dix types d'innovations relativement récentes dans le domaine du financement de l'habitation et donne des exemples de leur utilisation, habituellement dans le système de logement du Canada :

1. **Initiatives de financement social** comme les obligations à impact social, l'investissement à impact social et les fonds pour le logement.
2. **Sollicitation de dons** par des groupes ayant des besoins spéciaux, des fondations, des groupes confessionnels, des philanthropes, des clubs, des organismes de bienfaisance, des groupes communautaires, de même que par le financement collectif auprès du public en général.
3. **Dégagement de l'avoir propre foncier** d'un ensemble d'habitation dans le but d'obtenir un meilleur taux d'emprunt pour des travaux d'entretien ou de rénovation.
4. **Conserver des terrains destinés à la construction de logements abordables** par l'intermédiaire de fiducies foncières communautaires.
5. **Restructurer le remboursement d'un prêt,** notamment par l'intermédiaire de prêts hypothécaires avec participation à l'avoir propre.
6. **Société de placement immobilier (SPI) pour le logement abordable** aux États-Unis.
7. **Nouvelles initiatives de partenariats** pour venir en aide aux fournisseurs de logements.
8. **Baux viagers,** un mode d'occupation entre la propriété et la location.
9. **Ententes de rendement énergétique** pour financer les coûts de modernisation.
10. **Financement provenant de nouvelles taxes,** comme la taxe sur la spéculation immobilière.

Pour démontrer comment et où ces véhicules financiers ont été utilisés, 24 ensembles immobiliers sont présentés.

L'auteur résume les approches de financement, traite du potentiel des obligations à impact social et rappelle l'importance des partenariats. Y sont également soulignées l'importance d'accroître l'offre de terrains en zones urbaines et les façons de récolter du financement, notamment le financement collectif en ligne.

Ce rapport démontre que d'autres sources de financement peuvent être utiles dans trois contextes : pour améliorer l'accès au logement abordable, pour construire de nouveaux logements abordables et pour entretenir/rénover des logements

Errata in Web Hyperlinks

Links to web sources have been updated and are active as of August 2018, with the following exceptions:

p.35 *The Affordable Housing Handbook*, Halifax Regional Municipality is no longer available online.

p.36 *Suggestions for the Design of a Low Income Housing Tax Credit Program in Canada* is no longer available online; electronic copies available on request from ONPHA.

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INTRODUCTION

Canada has both a shortfall of affordable housing and a need for considerable funding to preserve and rehabilitate the existing affordable housing stock. The situation has stimulated the emergence of some alternative financing approaches as well as more creative use of traditional approaches.

Changing economic circumstances, advances in financial and high tech sophistication and expanding options to give back either through voluntary or charitable means all make this an appropriate time for stakeholders to look at how they can facilitate or best utilize these new ways of financing affordable housing.

In response to the changing world of housing finance, a number of papers have already been produced in Canada and internationally with a goal of making the alternatives more widely known and their benefits more widely enjoyed. This document is indebted to and draws heavily from that literature, as well as from CMHC's extensive material on affordable housing, and that available from provinces, municipalities and their associated agencies, and non-profit and cooperative housing associations. Principle sources are identified in the annotated bibliography.

Innovative Financing can be categorized as that dealing at the *individual project* level, i.e. initiatives and efforts which are used to get a *specific* project off the ground or maintain its viability, and initiatives designed at the "macro" level to create a source of funding or a mechanism to be available for different projects.

In this paper, project examples and initiatives are grouped under the following headings although many could be fitted under more than one heading since they have elements of each.

1. **Social finance (bonds and related initiatives)**

   A number of new approaches -- and new terms to describe them -- are emerging. These include bond issues for affordable housing including the more innovative social impact bonds, other social impact investing and affordable housing funds.

2. **Raising Donations**

   Contributors may include: associations dedicated to specific special need groups (a project may already be sponsored by one), foundations, faith-based groups, wealthy philanthropists, clubs, associations, charitable groups, community groups and the general public. Crowd funding is an important new entry to the options.

3. **Refinancing for maintenance and rehabilitation**

   New initiatives to help projects get a better rate on refinancing and tap into equity of the project are emerging.

4. **Getting land, and preserving land for affordable housing**

   Many affordable housing projects benefit from donated land, intensification on already owned land, or land at preferred prices. Community Land Trusts are a fairly new-to-Canada way of holding, supplying and preserving land for affordable housing use.

5. **Initiatives to assist in restructuring loan payments**

   Past experiments with deferred payment mortgages have often resulted in hardship and default at renewal when rates rose. The shared equity mortgage attempts to address the problems with the concept.

6. **Real Estate Investment Trusts for affordable housing?**

   REITs for affordable housing haven't managed to get off the ground in Canada but there is a good one now in the US, the example of which may raise optimism for replication in Canada.

7. **New partnership initiatives to aid housing providers**

   Partnerships have always been a prerequisite in affordable housing, and facilitating partnerships has always been a priority with CMHC. Initiatives to help partnering are developing at all levels of government. In other developments, specialized institutions put together and operated by partnerships among stakeholders are offering the expertise and resources to guide existing projects in managing their finances.

8. **Life lease: an alternative way of funding**

   Life lease as a form of tenure is attracting interest in parts of the country. There are a number of ways in which the financing can be structured. These are discussed briefly in this section

9. **Financing retrofits through Energy Saving Performance Agreements**

   Under this type of agreement, which has now been used for social housing, up-front capital is not required since investors get their payment from energy savings achieved

10. **Funding from taxes on real estate speculation**

    Given the recent initiative in BC, this option is included in the list.

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1. SOCIAL FINANCE (BONDS AND RELATED INITIATIVES)

Bonds are increasingly being used to raise funding for affordable housing, by governments, non-profits, and for-profit enterprises.

The issue of bonds by governments at any level to finance social housing is in itself not innovative. Monies at governments' disposal for lending are sourced from revenues and bond issues etc. However, the separation of housing bonds from other bond issues and their issue by government housing related agencies can give more flexibility to those entities.

For non-profit organizations, raising funds through bond issues can also give the organization increased scope, flexibility and autonomy in funding new construction, renovation, upgrades and new projects as opposed to going to financial institutions and government for loans. It also requires a level of expertise, as well as front end expenditures to establish credibility, an acceptable credit rating, and to solicit investors, making it more suitable to coalitions of non-profits. Where implicit or explicit government backup exists for the organization doing the issuing, bonds can provide funding at attractive rates.

Both for-profit social finance funds and non-profits offering bonds target those seeking a market return but with positive social outcomes. In a social impact bond, investors' returns are tied in part to the achievement of savings due to the social impact of the funded initiative. The bond requires a government or other body prepared to pay out to the investors for the savings, and investors motivated by the idea of achieving a definable social impact from their investment. There must be agreement on how the savings will be measured and independent assessment of the actual benefits achieved.

Under the first Canadian use of a social impact bond, the province of Saskatchewan was the government party and the area chosen was supportive housing (see 1.4). Ontario is contemplating possible pilot projects, and one of the two top possibilities involves housing and support for the homeless (see 1.5). In October 2016, the federal government announced its first venture into social impact bonds with an initiative in the health field designed to help seniors manage high blood pressure.

The following capsule descriptions highlight a housing bond issued by a non-profit organization, several government-initiated housing bonds, three Canadian experiments in social-impact bonds, and two investment funds.

HOUSING BONDS

1.1 YWCA Toronto Community Housing Bond

Back at the end of 2011, the YWCA issued a housing bond of $1 million to the Muttart Foundation, an Edmonton based trust. The Muttart Foundation supports the voluntary and charitable sector through funding of such things as startup and operations, research, advocacy, public discussions and input to policy development.

The money was earmarked for the capital cost of the new YWCA Elm Centre, intended to supply 300 affordable apartments for single low-income women, women with children, women living with mental health and addiction issues and families of Aboriginal ancestry.

1.2 The Housing Finance Corporation, UK

While not a Canadian entity, the Housing Finance Corporation (T.H.F.C) in the UK is included in this list since it provides a model with some of the elements that the non-profit and cooperative housing sector, including Housing Partnership Canada would like to see in their proposed Canadian Housing Bank. Since it was formed in 1987, T.H.F.C has raised close to $.5 billion for UK housing associations. Through its subsidiary Affordable Housing Finance (AHF) it funds itself through bonds (public issues and private placements) and borrowings from the European Investment Bank and makes loans to providers of social housing for new development, repairs and improvements and regeneration of existing stock

AHF's obligations under the terms of its financing and the obligations of its (Registered Housing Provider) borrowers are guaranteed by the Government. The scheme has been designed to allow Registered Housing Providers to access cost effective funding to act as stimulus in the building of affordable housing.

1.3 Infrastructure Ontario Loan Program, for detailed guidelines, see: http://www.infrastructureontario.ca/Infrastructure-Lending/

Infrastructure Ontario (IO) raises funds through issuance of bonds on capital markets using the Province of Ontario credit rating. The mandate of infrastructure Ontario was expanded with the 2008 budget to include social and affordable housing providers.

The monies raised from bonds are re-lent at competitive rates. As of 2014, IO had issued $712 million in loans for affordable housing and $257M for social housing projects.

Ontario housing providers, including local housing corporations, municipal and private non-profit housing corporations and co-operative housing providers may apply for an IO Loan. Eligible expenditures include: new construction, Facility renovations (including roofs, mechanical and electrical system upgrades), plumbing and HVAC projects, energy efficiency projects such as updating windows, doors, lighting and appliances, and accessibility improvements.

SOCIAL IMPACT BONDS

1.4 Sweet Dreams, Saskatchewan – a Social Impact Bond

(text extracted from a release of the province of Saskatchewan, June 21, 2016)[1]

[1] https://www.saskatchewan.ca/government/news-and-media/2016/june/21/sweet-dreams-project

Sweet Dreams provides vulnerable mothers with a safe place to live with their children while they receive parenting support, access to educational opportunities and the chance to develop employable skills so they can best care for their families.

Sweet Dreams was made possible by a $1 million Social Impact Bond between the Government of Saskatchewan, EGADZ (the service provider), Conexus Credit Union, and social benefactors Wally and Colleen Mah – the first of its kind in Canada. The initiative also received a total of $535,000 in funding from the federal government, the city and private donors.

The five-year goal of the project is to keep 22 children out of foster care by keeping them safely with their mothers continuously for more than six months after participating in the program. The spring 2016 periodic review from an independent assessor confirmed that 21 children and their mothers had achieved this to date, significantly reducing the likelihood of those children having to come into care in the future. The pilot project is set to continue until 2019.

The Sweet Dreams project is expected to result in savings to the Government of Saskatchewan of between $540,000 and $1.5 million over five years. These savings are based on the cost of children in care of the minister of Social Services. This figure does not include any other potential savings related to health, criminal justice and any future social assistance.

The municipality says that the approach allows governments and communities to proceed with social innovation projects more quickly while also increasing the accountability and transparency of the project.

1.5 Mainstay Housing – A Social Impact Bond proposal being reviewed by Ontario[2]

Mainstay Housing is one of the two proposals on the final shortlist in Ontario's search for a pilot social impact bond initiative. The government release reads: "The Social Impact Bond idea proposed by Mainstay Housing aims to provide stable housing and intensive support to 100 chronically homeless individuals. The program would focus on individuals struggling with mental illness who have been homeless for five years or more. To help tenants stabilize and transition from intensive site support to moderate support, while retaining their tenancy rights, the proposed program would involve two years of intensive, customized, on-site support followed by a one-year period helping participants move to a more sustainable level of care within the community".

1.6 Social Finance for Supportive Housing (text drawn from ESDC report)[3]

This proposal, submitted in response to the National Call for Concepts for Social Finance issued by Economic and Social Development Canada proposes developing housing for people living with mental disorders, including seniors, for whom poor living arrangements translate to chronic health challenges and greater levels of violence and imprisonment. The concept seeks

[2] https://www.ontario.ca/page/piloting-social-impact-bonds-ontario-development-path-and-lessons-learned

[3] http://www.edsc.gc.ca/eng/consultations/social_finance/report/index.shtml

to use social finance strategies (e.g., a Social Impact Bond) to develop 10,000 supportive housing units over the next five to seven years.

MaRS, a project team of supportive housing providers, the Mental Health Commission of Canada (MHCC), and other partners would assess feasibility, development, execution and evaluation, and ultimately identify investors and service providers to develop the units, implement rent supplements and deliver support programs. This initiative would use a blend of private and philanthropic capital and government support to acquire/build housing, fund rent supplements and operate support programs.

OTHER SOCIAL FINANCING METHODS

1.7 New Market Funds http://newmarketfunds.ca/

New Market Funds is a social impact fund promising investors to "deliver market competitive investment performance with long-term community benefit" It has established a Rental Housing Fund to invest in purpose-built, multi-family affordable rental housing in partnership with non-profit operators.

The Fund's first investments are in the 358 unit affordable housing development in Vancouver described below under *Vancouver Community Land Trust Foundation*. The Fund will provide approximately 9% of the $120 million combined value of the developments.

The fund has attracted investments from leading institutions and individuals, including Bealight Foundation, Hamilton Community Foundation, The J.W. McConnell Foundation, the Lawson Foundation, The Michael Young Family Foundation, Tides Canada Foundation, Trico Charitable Foundation, and Vancity Community Foundation.

1.8 Trillium Housing http://trilliumhousing.ca/

Trillium Housing is an investment fund that partners with developers of affordable housing aiming for attractive returns to investors as well as a social impact. Its mandate is creating, developing, managing and investing in affordable housing properties, and holding mortgages generated from them. Trillium promises to "track and report its positive social impact by measuring housing affordability and purchaser household incomes, housing satisfaction, and long term family financial situation".

A distinctive element of Trillium is its shared equity second mortgage (see also examples in section 5 below) which is payment free and due only when the home is sold or rented out. At that time, Trillium takes a proportionate share of the appreciation in the value of the property. Trillium has completed the initial offering for the Trillium Housing Fund through a private placement raising aggregate proceeds.

The board of Trillium includes the Executive Director of the Ontario Non Profit Housing Association (ONPHA and the Executive Director of Mainstay Housing who is also a Director of the Canadian Housing and Renewal Association (CHRA).

2. RAISING DONATIONS

Fund raising can be a significant source of financing for new development, ongoing operations, and adding new facilities for supportive housing. Common fund raising activities include sales, fashion shows, competitions and concerts etc. Some imaginative ventures have created significant start up, construction and ongoing funding.

Effectively raising donations takes a lot of work. CMHC's document "Philanthropic Support for Affordable Housing" is designed to help housing providers develop and implement an effective strategy to maximize contributions[4]. Elements of the process include:

- "Build a Profile, to provide tangible marketing value to corporate and government partners, and, as a result, increase the number and amount of sponsorships, donations and grants.
- Build Relationships—The participation of high profile, influential corporate and community volunteers is pivotal to the success of major fundraising campaigns
- Build Partnerships
- Build Community—Affordable housing projects that address the housing and social needs of a remote rural community, specific ethno-cultural group, or a religious congregation are more likely to receive philanthropic support from within their constituency
- Target a variety of funding sources in the funding campaign, recognizing that perseverance is necessary and realistic about how long it will take to raise significant funding".

Crowd funding is increasingly being used across the world to raise funding for different initiatives and for start-up companies. Estimates for funds raised from crowdfunding worldwide in 2015 are in excess of US$30 billion.

Crowd funding has grown rapidly in recent years. It is basically a phenomena made possible through the internet. Crowd funding websites "portals" list initiatives/causes seeking funding, giving details of how the money raised will be spent. Those interested can give directly through the site. Funding targets are identified, as is progress towards these targets, and donors can see how much has been raised so far.

While it is often used for donations, it may also be used for equity in a startup or an existing enterprise, for repayable loans, or for rewards. In January 2016, new regulations were introduced in a number of provinces governing crowd funding for equity, providing better protection to investors.

Real Estate crowd funding is emerging in Canada, with real estate crowdfunding websites advertising the opportunity to invest in residential real estate without the problems involved in being a landlord.

[4] http://publications.gc.ca/collections/collection_2011/schl-cmhc/nh18-1-1/NH15-370-2000-eng.pdf

A number of housing observers have suggested that crowd funding may be an effective way raise funds for affordable housing. Projects 2.1 and 2.2 achieved significant funding through long term efforts and creativity.

2.1 Isfeld Villa, Winnipeg Beach, Manitoba ftp://ftp.cmhc-schl.gc.ca/chic-ccdh/Project%20Profile%20-%20Profil%20de%20l'ensemble/Isfeld-Villa-EN.pdf

Isfeld Villa, also known as Gateway Foundation Inn is a two-storey, fully wheelchair-accessible building with 32 units geared to affordability and independent living to enable local seniors to remain in the community.

Gateway foundation worked for ten years to make it happen, and raised $225,000 towards the $4.84 million capital cost of the project. A particularly innovative initiative was the purchase of a catering business for weddings, shows and socials. The group ultimately secured funding from the federal and provincial governments in 2009 to complement its own fund raising efforts.

2.2 L'Arche, Lethbridge https://www.cmhc-schl.gc.ca/en/maintaining-and-managing/managing-affordable-housing/affordable-housing-project-profiles#! Enter "Alberta", Click Search, and then scroll down the alphabetical list.

L'Arche, Lethbridge, which was completed in 2013 involved the conversion of a convent to affordable, accessible, supportive housing for adults with intellectual disabilities. The project provides accommodation for five adults with intellectual disabilities and five live-in assistants.

Its sponsor, of the same name, is a member of the International Federation of L'Arche, a faith-based organization composed of more than 130 member communities supporting adults with intellectual disabilities in 40 countries.

Through local fund raising efforts, the group received $147,000 from individuals and businesses, nearly $100,000 from churches, community groups and corporations, and over $80,000 from a dinner fundraising event with Rudy Wiebe, a Governer General's Award-winning author. Total cost of the project was $1.5 million.

2.3 Crowd funding: One House Many Nations, Indiegogo, Idle No More, https://www.indiegogo.com/projects/bring-home-one-house#/

Idle No More are conducting crowd funding to raise money for individual homes for First Nation people on the Indiegogo crowdfunding portal. Specific items are listed for which donors can contribute. For example, they ask for 12 donations of $25 for the estimated cost of $300 for drywall sheets. The website keeps a running total of how many donors have offered. The initiative had raised over $30,000 as of December 2015.

3. REFINANCING FOR MAINTENANCE AND REHABILITATION

Achieving the best available interest rate on renewal can significantly enhance viability, making more operating funds available. Refinancing can be an effective way of tapping into the equity of a project to obtain funds for rehabilitation, or even new units. When combined with extension of amortization or lower interest rate, this could be achieved without an increase in debt payments.

The following initiatives, one from the co-operative housing sector and one from a provincial government illustrate different ways of achieving low interest rates on renewal and refinancing.

3.1 Co-operative Housing Federation Refinancing Program,

http://www.chfcanada.coop/enterprise-services/refinancing

In 2013, the Co-operative Housing Federation of Canada (CHF) launched the "Co-operative Housing Refinancing Program". The program is designed to enable cooperative housing projects to refinance with an extended amortization and draw on the equity in their property for rehabilitation, renovation and improvements. The initiative is available across the country except Quebec and BC (where the provincial cooperative federations offer similar programs). The loans arranged by CHF are with credit unions and are secured by the property and assignment of rents. The mortgage agreement comes with a comprehensive asset management plan, including the scope of repair work, a year-by-year roadmap for capital projects, and short- and long-term financial projections of revenues, expenses, reserves and debt services. CHF charges a fee for taking the housing coops through the process and subsequent monitoring and services

The number of projects that have benefited is now well into the double digits, with project sizes ranging from around 20 to in excess of 100 units

3.2 Ontario Competitive Financing Renewal Process

The Ontario Competitive Financing Renewal Process was established in 1992. It is overseen by Ministry of Municipal Affairs and Housing (MMAH) and the Ontario Financing Authority (OFA). Under the initiative, every month, social housing mortgages that are held with financial institutions and that are coming up for renewal are offered for tender to National Housing Act-approved lending institutions. Housing providers indicate their preferred mortgage term (e.g. 5 years, 10 years) and the mortgages are grouped on that basis. Lenders submit bids and the OFA selects the winning tender with the lowest interest rate.

The process achieves highly competitive rates. In October 2015, the Ontario Competitive Financing Renewal Process obtained an interest rate of 1.85% for a 5-year fixed term, and a rate of 2.66% for a 10-year fixed term.

4. GETTING LAND AND PRESERVING LAND FOR AFFORDABLE HOUSING

Land trusts remove land from the speculative market and preserve its use for purposes considered worthwhile to the community. While many land trusts are dedicated to conserving land and protecting it from development of any kind, community land trusts have been established specifically to bank and preserve land for affordable housing, and to develop the housing itself.

The trusts will lease land (often for 99 years) rather than sell it, thus owners own the physical buildings but not the land. The intent is that the land be available in perpetuity for affordable housing for those of modest or low income. Aside from homeownership, community land trusts have experimented with rental, rent to own, and housing cooperatives.

CMHC's has published information on Community Land Trusts in Canada including the advantages, issues, and case studies,[5] and critical success factors for them, based on 8 Canadian and 4 US case studies[6].

Land trusts are a relatively recent phenomenon in Canada but have a long history in Europe. They fund their property acquisitions typically through contributions from local governments, religious groups, charitable foundations and individuals. Their relative newness in Canada, and lack of an experience base has meant that some attempts to establish them have floundered. They need a wide range of expertise – leadership, fund raising, legal knowledge, and they need to be able to explain their concept and identify the community support.

Unclear legal standing including difficulties in obtaining charitable status and thus the ability to issue tax receipts to donors has been cited as problems.

Two very different community land trusts are listed below.

4.1 Denman Community Land Trust Association

www.denmanaffordablehousing.org/DCLTA/Welcome.html

Denman Community Land Trust Association (DCLTA) was formed in 2009. The initiative was largely in response to soaring property prices as a result of an influx of wealthy people. Community members, concerned that the speculation was dispossessing long term residence with limited means formed the Trust to hold land in perpetuity and make it available for housing for those of low income.

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[5] ftp://ftp.cmhc-schl.gc.ca/chic-ccdh/RHSE-PenRSE/63913.pdf

[6] http://publications.gc.ca/collections/collection_2011/schl-cmhc/nh18-1-2/NH18-1-2-123-2005-eng.pdf

The Trust Association's stated objectives include "make affordable housing available to a full spectrum of residents who qualify as low income earners, to charge rents which do not exceed 30% of the tenant's income, to offer a rural solution, and to avoid taking on a crippling debt load". DCLTA received seed funding for an affordable senior citizens project in December 2015

4.2 Vancouver Community Land Trust Foundation[7], https://www.cltrust.ca

Vancouver Community Land Trust Foundation, was established in 2014 by the Cooperative Housing Foundation of BC. As its first initiative, it is partnering with the co-op and non-profit housing sectors, the City of Vancouver, BC Housing and Vancity Credit Union to create 358 affordable homes on four sites owned by the City of Vancouver. Construction is underway with the first 48 homes scheduled for completion in March 2017, and the remainder early in 2018.

The City is providing 99-year leases on the sites to the Land Trust. The Land Trust is working with co-op and non-profit housing providers to develop the non-market housing, which will then be operated by the partners.

[7] The initiative is discussed further under "Putting it all together". A comprehensive Case study of VCLTF was prepared by Kristin Patten of UBC. Access to electronic book at: http://www.worldcat.org/title/vancouver-community-land-trust-foundation-examining-a-model-for-long-term-housing-affordability/oclc/939555070#borrow

5. INITIATIVES TO ASSIST IN RESTRUCTURING LOAN PAYMENTS

Deferral of interest payments/mortgage payments for buyers or developers through alternative mortgage instruments has been a commonly used mechanism historically, in particular where interest rates were high, to ease access to ownership, or to enable developers to offer affordable rental units.

It has its risks, as demonstrated by the Assisted Home Ownership Program and Assisted Rental Programs in the 70's in Canada, and more recently in the US. In both cases, the increasing payments at renewal resulted in borrowers facing hardship. The result was high default, difficulties for mortgage insurers and market failure

More recently, the "shared equity mortgage" has addressed some of the problems in the use of payment/interest deferral for home owners by structuring ultimate repayment at sale.

Shared equity financing typically involves a second mortgage for which the investor, instead of receiving monthly payments, defers his return until a later date, e.g. on sale of the property, amortization of the first mortgage, or a fixed number of years after purchase.

At that time, the investor receives his money back plus a percentage share in the property appreciation equivalent to the original second mortgage amount as a percentage of the original purchase price. Those providing the funding may be non-profit organizations, private investors, developers, governments at any level, housing funds or family (often a more informal arrangement in that case). A number of non-profit organizations have been established to offer these shared equity loans. Two of these are *Options for Homes* and *INHOUSE.*

5.1 Options for Homes, https://www.cmhc-schl.gc.ca/en/maintaining-and-managing/managing-affordable-housing/affordable-housing-project-profiles#!

Enter "Ontario", Search, and then scroll down the alphabetical list.

Options for Homes is a non-profit Toronto-based non-profit corporation operating since 1993. It employs a no-frills approach, i.e. no gyms, pools etc. This reduces the cost of construction by around 15 per cent. It sells the home at market value (which is roughly 15 per cent more than the cost price) to a lower income household. The profit is used to provide an interest free second mortgage. When it is repaid, Options' share of the appreciated value of the unit is used for additional affordable housing projects.

Since its creation, Options for homes has helped over 3,500 individuals through this mechanism.

5.2 INHOUSE Attainable Housing Society,

https://www.cmhc-schl.gc.ca/en/maintaining-and-managing/managing-affordable-housing/affordable-housing-project-profiles#! Enter "Alberta", Search, and then scroll down the alphabetical list.

Homeowners who qualify enter a shared equity relationship in which INHOUSE, a not-for-profit arm of the developer, New Urban, provides the down payment for approximately 25 to 35 percent of the price, leaving the borrower to finance the other 65% through a mortgage which is provided to the purchaser. When the owner sells, 65 per cent of the proceeds of sale go to the owner, and the other 35% is given to INHOUSE.

At McPherson Place in Calgary, of the 160 units in the development, 102 were offered for sale under INHOUSE's shared equity model. The remaining 58 units were sold to the City of Calgary to be offered for rental by the Calgary Housing Authority at affordable rates.

5.3 Accès Condos, Montreal, http://accescondos.org/en/about/

The Accès Condos program is an initiative of Société d'habitation et de développement de Montréal (SHDM), a paramunicipal non-profit organisation.

Under the program, purchasers need to provide only a $1,000 down payment on an accredited condominium unit, and SHDM will provide a purchase credit of 10% of the purchase price of the property. Purchasers agree to repay the purchase credit together with a percentage of the increase in value of the home on resale, or on increase of the mortgage, leasing of the property, or end of the amortization period.

The program was launched by SHDM in 2005. More than 3,600 affordable units have been accredited through agreements with developers. Projects are selected by tenure based on specific performance criteria, including affordability and quality.

6. REAL ESTATE INVESTMENT TRUSTS (REITs) FOR AFFORDABLE HOUSING

A REIT is a vehicle which enables investors to invest in a portfolio of rental projects. These are acquired by the REIT, which has a professional management team to achieve efficiencies in operation, making for an attractive return to investors through the REITs publicly listed partnership units. Returns to investors take the form of monthly cash distributions and appreciation in unit values. Private REITs also exist, which, insulated from the volatility of the market, offer a more stable valuation.

REITs that focus on residential properties are relatively new in Canada, with the first two being formed in 1997. There are now over 6, with a total portfolio of around 100,000 units, primarily multi-unit residential.

REITs have tax advantages. They are not taxed on profits, which are only taxed in the hands of unit holders when distributed. In addition, tax on the depreciation portion of the dividend is deferred until the sale of the unit and taxed as capital gain.

Canadian residential REITs, as do REITs in general, promise investors predictable and growing monthly cash distributions and unit values. Part of this though is intended to be achieved through improvements aimed at increasing rents. REITs with a social purpose, with an intent to place a high priority on maintaining the affordability of projects could be a useful addition to the affordable housing picture.

While the simplest model would involve purchasing private low rent units on the market, other models could conceivably include the actual investment in or purchase of existing non-profit housing at the close of operating agreements.

As of now there are no REITs with an overriding social purpose in Canada, but a good example from the U.S. is described below.

6.1 The Housing Partnership Equity Trust (US),

http://hpequitytrust.com/

The Housing Partnership Equity Trust (HPET) was formed by 12 nonprofit organizations in the Housing Partnership Network, an association of leading entrepreneurial housing and community development nonprofits in the US. The Housing Partnership Network subsequently became the operator of the Trust, and the 12 initiating members became partners in it, identifying potential projects.

Given the credibility of the Housing Partnership Network, HPET has been able to attract funds at preferred rates from major corporations and foundations including Citibank, the Ford Foundation, the MacArthur Foundation, Morgan Stanley, and Prudential Insurance Company. The REIT targets multi-unit rental for low to moderate income households. Its growing portfolio of projects contained a total of 2,750 units as of July of 2016.

7. NEW PARTNERSHIP INITIATIVES TO AID HOUSING PROVIDERS

Partnerships are essential in achieving affordable housing. Those involved in partnerships may include non-profit and charitable organizations, governments and government agencies at any or all levels, independent housing corporations and land trusts, investor groups, associations of all kinds, faith base groups, local businesses, educational institutions etc. Building partnerships for the creation of affordable and social housing is a time consuming and complex process.

Partnerships may provide a range of benefits including: donations or preferential pricing of land and/or buildings, loans, cash grants and donations, in kind contributions including labour, exemptions from development fees and municipal taxes, business expertise, expertise in affordable housing creation and in catering to special needs, as well as access to support services and other voluntary organizations.

In its document, “Building Your Team”, CMHC identifies suggested activities in the different stages of putting together and managing partnerships[8]. Some of these are:

- Identify areas where partnering would strengthen your housing objectives, e.g. complementary knowledge and, experience, financial resources, available land, etc.
- List the potential partners–government agencies, individuals, community organizations, and businesses–that fit your criteria.
- Develop a business plan that will “sell” your organization to your potential partner(s).
- Learn about each partner’s mission, vision, core values, organizational goals and objectives. Meet with them, negotiate, explore.
- Develop partnership mission, vision and values statements and mutually agreed upon goals and objectives.
- Identify each partner’s roles and responsibilities for the partnership.
- Seek financial and legal advice before entering a formal partnership arrangement.
- Establish a regular review/ evaluation process

Recognition of the importance of partnerships in bringing affordable housing projects into being has brought governments at all levels into the role of facilitating them. Over and above partnerships at the project level, associations of housing providers have recognized the value of partnering among themselves to create vehicles to assist projects financially and otherwise. (See 7.2).

[8] https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/cmhc/pdfs/content/en/building-your-team.pdf?sv=2017-07-29&ss=b&srt=sco&sp=r&se=2019-05-09T06:10:51Z&st=2018-03-11T22:10:51Z&spr=https,http&sig=0Ketq0sPGtnokWOe66BpqguDljVgBRH9wLOCg8HfE3w=

7.1 Community Partnership Initiative (British Columbia) – Interim/takeout financing, source: http://www.bchousing.org/Initiatives/Financing

The Community Partnership Initiative is administered by BC Housing, a Crown Corporation owned by the Government of British Columbia. Through the initiative, BC Housing partners with municipalities, non-profits, and other community groups to provide affordable housing *without the need of ongoing subsidie*s. The initiative provides interim (i.e., bridge) financing to the for-profit and non-profit sector for the development of affordable housing, including for new construction and the purchase of existing buildings to preserve affordability. On completion, BC Housing also arranges take-out financing through a competitive selection process, inviting bids from lenders, and arranges CMHC mortgage insurance.

BC Housing uses funds from the BC Ministry of Finance and breaks even on interim loans by charging interest, loan administrative fees and other related expenses. Interim financing may be approved for up to 100% of costs.

Since 2001, the initiative has contributed over 4,000 new units of affordable housing ranging from family and seniors housing, to drug and alcohol recovery centres, transition homes for women and children fleeing violence, and residential care homes.

7.2 ENCASA Financial: Pooled Investment Funds for Housing Providers,

encasa.ca/

ENCASA Financial is an initiative of BC Non-Profit Housing Association (BCNPA), the Co-op Housing Federation of Canada (CHF Canada), the Co-operative Housing Federation of BC (CHF BC) and the Housing Services Corporation (HSC)

ENCASA is designed to help housing providers to better manage their cash flows and investment of their revenues to ensure optimal returns. It offers housing providers professionally managed mutual funds tailored to maximize their returns on operating funds and to match investment terms to future replacement reserve requirements. In support of this, ENCASA also provides access to individuals who know social housing, as well as those who understand the investment world. BCNPA report that nearly 900 housing providers have invested more than $490 million in the funds

8. LIFE LEASE: AN ALTERNATIVE WAY OF FUNDING

Life leases can match the needs and cash flows of seniors with limited income but some equity (often from sale of their home) and limited income. Affordability is often enhanced by contributions of land and money from sponsors. Under a life lease, the lessee provides a lump sum payment in return for a legal agreement entitling him or her to occupy the home for life (or until they are no longer capable of living there). The lessee also makes monthly payments to cover maintenance, operating and management expenses, and in some cases a rent payment.

There are a number of different models for Life Lease. Briefly, these are[9]:

- Declining Balance Lease—the refund of entrance fees, when a lease is terminated, declines over time in fixed amounts. Under this model the fee is really a form of prepaid rent.
- Fixed Value Lease—the original entrance fee is refunded at lease termination less a fee for administrative expenses in some cases.
- Index-Based Lease—in this model residents are able to earn a return on their investment. An additional amount based on an index, e.g. Consumer Price Index, is returned along with the original entrance fee.
- Market Value Lease—a resident's unit is sold on the open market. Depending on the state of the residential real estate market, a resident may gain or lose equity
- Zero Balance- No residual value is repaid to the occupant or their estate at the time of departure or death. Consequently, the purchase price for an interest of this type of life lease is least expensive relative to other forms.

The purchase price and method of calculating the redemption value varies within each model.

8.1 Cedar Valley Manor, Mission, BC.

https://chic.cmhc-schl.gc.ca/uhtbin/cgisirsi.exe/?ps=BN1trnxuOv/CHIC/X/60/502/X Type Cedar Valley and then follow the link.

Cedar Valley Manor Home is a life-lease initiative of MASH, a non-profit association of local churches and seniors' organizations partnering with a private sector enterprise. The municipality of Mission waived community amenity contributions for rezoning the project and donated a strip of land that allows residents to walk directly to a nearby park. Unit owners pay a modest fee for the maintenance of common areas, but per unit maintenance costs on the new building are much lower than for an aging single home. Utility costs and property taxes are also lower. If the owner does need to sell (perhaps to move to supportive housing) they get 95 per cent of the original value. If the unit's value has gone up, then the seller receives up to half of the difference–the exact amount depends on the length of ownership. MASH re-markets the unit. To keep the units affordable for subsequent purchasers, MASH will increase the price by only half of the market index.

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[9] Drawn from CMHC Research highlight, Life Lease Housing in Canada: A Preliminary Exploration of some Consumer Protection Issues , with the addition of "zero balance lease". ftp://ftp.cmhc-schl.gc.ca/chic-ccdh/RHSE-PenRSE/63255.pdf

9. FINANCING RETROFIT THROUGH ENERGY SAVINGS PERFORMANCE AGREEMENTS

Social housing projects with antiquated, aging and inefficient energy and water systems can achieve significant cost savings from retrofit. Front end capital costs can however be high and this, with uncertainties about the effectiveness of a specific retrofit initiative are a deterrent to taking action.

An energy performance contract with payment tied to subsequent actual savings in energy costs can be a possible way around this conundrum. This type of financing arrangement is offered by Energy Service Companies (ESCOs). ESCOs offer contracts in which they accept payment for retrofitting a building from subsequent realized savings in energy costs. The contract they offer covers development, design and installation of energy efficient systems as well subsequent monitoring and verification of savings.

ESCOs have been active in the non-residential sector for many years. Their involvement in the residential sector is more recent. A CMHC study in 1997 examining the potential for ESCOs in multi-unit residential markets including social housing felt that their absence in this sector might have been due to insufficient scale and replicability compared to hospitals, schools and commercial buildings, approval processes, and inability to control occupant behavior (no financial incentive to save energy)

Notwithstanding this, in recent years, the imperative to cut down on energy costs, and the need for alternative forms of financing has meshed with concerns about climate change giving a stimulus to energy performance contracts for social housing retrofit. The financing mechanism has been used successfully by BC Housing, and Toronto Community Housing for retrofits of social housing projects. This development mirrors a widening use of energy performance contracts in social housing in European Union countries

9.1 Toronto Atmosphere Fund: Robert Cooke Cooperative Housing

http://taf.ca/wp-content/uploads/2016/10/Robert-Cooke-Coop-Case-Study.pdf

The City of Toronto established the Toronto Atmospheric Fund (TAF) in 1991 with a $23 million endowment from the sale of a City-owned property. The agency's mandate is to finance local initiatives to combat global warming and improve air quality in Toronto.

One of its many current initiatives involves providing $4.2 million in financing and grants for energy efficiency retrofits in seven Toronto Community Housing Corp (TCHC) buildings. The retrofits are projected to reduce greenhouse gas emissions by 30% and achieve 20% reductions in energy costs. They will be structured as energy savings performance agreements (ESPAs)

One of the first projects retrofitted through a TAF ESPA was the Robert Cooke Cooperative Housing Project, a 13-storey apartment complex, built in 1992. By 2012, many of the building's fresh air and heating systems were in significant need of renewal, and other opportunities for energy savings were not being implemented due to capital constraints.

TAF paid 100% of the retrofit costs in exchange for a share of the verified energy savings over a 10-year term. After the end of the term, 100% of the savings and retrofit equipment will be retained by Robert Cooke. The measures implemented included replacing existing boilers for hot water and space heating, installing low flow aerators and toilets, replacing appliances, and conducting an indoor lighting retrofit.

An engineering service provider, was hired to implement the retrofit, as well as develop a measurement and verification plan. Through an insurance contract, the provider guaranteed 90% of the expected utility cost savings.

With a net project cost of $468,000, TAF aimed to achieve a minimum of $65,000 annual utility cost savings. Actual savings were $92,888 - a 20% reduction. GHG emissions were also reduced by 30%.

10. FUNDING FROM TAXES ON REAL ESTATE SPECULATION

With speculators and real estate flipping contributing to escalating house prices, the idea of special taxes to recover some of the gains and plough them back into affordable housing obviously has appeal. A number of other countries have tightened up tax rules to curb speculation and in particular ensure that foreign investors are subject to the same tax rules as domestic buyers.

10.1 Funding from Foreign Buyers Tax in BC

Monies raised from British Columbia's 15% foreign buyers tax implemented in August 2016 will be used to provide affordable rental housing.

The monies will form a part of the proposed $500 million that the province will be providing to create nearly 3,000 rental units geared to low-to-moderate income renters, seniors, young people, students, adults with developmental disabilities and Indigenous people.

PUTTING IT ALL TOGETHER

Maximizing donations

The Report on Blended Financing prepared by the MaRS Centre for Impact Investing and the Housing Services Corporation[10][11] suggested that 2-10% of income for supportive housing projects comes from philanthropic sources, (including individual donations and major gifts, foundation and corporate grants, and money raised by fundraising campaigns and events) and that these were a growing proportion of project revenues. Courses on fundraising are available on line and through continuing education, non-profit associations, and local colleges which may offer certificate programs.

The section 6 example (crowd funding) illustrates a whole new way of doing it, which some believe may transform the raising of funds for socially worthwhile initiatives.

The number of crowd funding sites on the web is growing fast. Competition for funds among those listing on these sights is growing with it. Housing providers and their associations should develop a strategy to ride the wave of crowd funding. While there are merits in listing affordable housing crowd funding ventures on the more general large web portals, partnering to create an affordable housing web portal and promoting it could be very helpful to those developing or operating affordable housing projects, in particular those devoted to special need housing.

The opportunities for bond financing and social investment funds

While donations and grants have provided an essential ingredient of funding for supportive housing, this is always a very limited pool, restricting the flexibility and activities of organizations. Further, over the last few decades, shortfalls of capital have been exacerbated by a drying up of, and an unpredictability in government funding. As a consequence, non-profits in all fields have begun looking at bonds as a way of securing funding for operations.

For non-profit organizations, typically, the cost, time and expertise required to meet the regulations and requirements of a public issue are prohibitive. The alternative, a private placement of bonds cuts down on these obstacles. Under a private placement to investors selected by the organization, disclosure and reporting requirements, underwriting fees, and other costs are eliminated or significantly reduced.

Additionally, while bank loans carry very precise terms and repayment obligations, in private placements, housing providers can seek to negotiate more flexible or tailored financing

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[10] Blended Financing for Impact: The Opportunity for Social Finance in Supportive Housing March 2013, see bibliography

[11] Also see: International environmental scan [electronic resource] : Social finance for affordable housing : Final report ftp://ftp.cmhc-schl.gc.ca/chic-ccdh/Research_Reports-Rapports_de_recherche/2017/RR_MaRS_International_Enviro_Scan_webfile.pdf

schedules and arrangements that match their needs and are acceptable, or perhaps more attractive to investors. Innovative social impact bonds are also a possibility.

Bond issues for affordable housing and other social goods open up a previously under-utilized source - organizations, foundations and individuals that have money to invest but would like to see it serve a social benefit in addition to giving them an acceptable yield.

The examples listed above in section 2 illustrate the various configurations (see Table 1)

Table 1: Possibilities - Types of Organizations and Bonds

Organization	Type of Bond
Infrastructure Ontario Loan Program (1.3)	Public Issue (housing just one eligible category)
Housing Finance Corporation, UK	Public Issue, specialized on housing
YWCA Toronto (1.1)	Private issue. Standard
Sweet Dreams, Saskatchewan (1.4)	Private Issue. Social Impact Bond
Social Finance for Supportive Housing (proposal) (1.6)	"social finance strategies (e.g. social impact bond)"

While private issues are considerably easier and less costly to do than public issues, expertise *is* still required, and there are costs and time involved which make the option less attractive for smaller housing providers, and more likely for associations. Capacity Build Consulting estimated[12] that the time taken from the initial decision to proceed, to securing investor commitment could range from ten months to two and a half years and costs for basic consultant and legal support work would be upwards of $50,000.

There are potential negatives and risks to bond financing compared to mortgages. These are that bonds do not amortize (therefore the full debt is still in place at the end of the term), and that replacement financing is not guaranteed at the end of the term. Issuers may therefore be at the mercy of the market for refinancing the full debt when interest rates rise.

Increasing the supply of social impact bonds (SIBs) for housing

Recognition of the importance of housing in individual and societal well-being, and the potential savings in public expenditures from affordable and supportive housing has made it one of the preferred items for those enthusiastic about the merits of social impact bonds. The first social impact bond in Canada (see Sweet Dreams, Saskatchewan in 1.4) involved supportive housing for vulnerable mothers and their children. Of the 83 submissions the Province of Ontario received in its 2014 call for proposals for Social Impact Bonds[13], 23 percent were

[12] Community Bonds, A non-profit financing tool., Capacity Build Consulting, January, 2013, http://capacitybuild.ca/wp-content/uploads/2013/10/CommunityBonds-WhitePaper.pdf

[13] See Piloting social impact bonds in Ontario: the development path and lessons learned, Province of Ontario, https://www.ontario.ca/page/piloting-social-impact-bonds-ontario-development-path-and-lessons-learned#section-3

housing related, and one of the two proposals which have been shortlisted, is for supportive housing (see 1.5, Mainstay Housing).

The interest by the provinces of Saskatchewan and Ontario in trying out SIBs for housing is encouraging. The recently announced federal government/MaRS SIB initiative involving the management of hypertension will increase the likelihood of more SIB use in the housing field too. A merit of social impact bonds is that the mechanism draws focus on the specific societal impacts and costs projected, ensures that all the elements are in place (related support services) and leads to an assessment and verification of the extent to which suitable housing achieves results[14]. In 2013, Deloitte and the MaRS Centre for Impact investing consulted with a group of 80 potential investors and found a high level of interest in the concept, with over 90 percent of respondents indicating that they would participate, or would want to learn more about participating in a Canadian Social Impact Bond[15].

Risks with social impact bonds arise from their newness and complexity. While the concept is similar to that of energy performance savings agreements (ESPCAs), measurement of actual benefits achieved is not as simple or tangible, and the benefits are typically long term. Further, whether successful outcomes are due to the program being funded or would have occurred anyway may be uncertain. An SIB proposal involving supportive housing, by Eco Trust Canada, submitted in response to the Federal Government's Call for Innovative Concepts in Social Finance provides a useful framework which may assist others in structuring housing related SIBs[16].

The Potential for Partnerships

As discussed earlier, partnerships are crucial in creating and managing affordable housing projects and they are the norm.

Examples 7.1 and 7.2 go above the project level, one of them - administered by a provincial government- the Community Partnership Initiative of BC Housing - has taken on the formidable task of bringing parties together to create affordable rental housing that does not require capital grants or ongoing subsidies from BC Housing.

As discussed earlier, BC Housing provides interim financing and then manages a competitive selection process for takeout financing. The initiative has produced close to 60 projects with various partnership arrangements involving non-profit groups, developers, municipalities, and other donors.

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[14] See https://www.saskatchewan.ca/government/news-and-media/2016/june/21/sweet-dreams-project

[15] Social Impact Bonds in Canada: Investor insights, Deloitte and the MaRS Centre for Impact Investing, https://impactinvesting.marsdd.com/resource/social-impact-bonds-canada-investor-insights/sibs-in-canada-investor-insights-1/

[16] Pay-for-Performance Partnerships A Case Study in Funding for Supportive Housing, Geordan Hankinson and Colin Stansfield, prepared for Eco Trust, http://www.refbc.com/sites/default/files/PayForPerformancePartnerships.pdf

The provision of interim financing up to 100% of the cost of completing construction and the promise of below market takeout financing has enables BC housing to be a catalyst in getting parties together, and getting projects off the ground.

Example 7.2, ENCASA, is an example of a partnership to help housing providers better manage their funds to achieve efficiencies and higher returns on their working capital. What is unique about this partnership is that it is a formal and continuing partnership through the joint ownership of ENCASA Financial - by four parties. Under the arrangement, The Housing Services Corporation owns 40% of the outstanding shares and the three other partners, the Cooperative Housing Federation of Canada, the Cooperative Housing Federation of BC, and the BC Non-Profit Housing Association own 20% each.

While very different in nature, both of these initiatives illustrate the opportunities for partnering in facilitating the creation and operation of affordable housing.

Land - increasing the supply for affordable housing

The case studies listed in section 4 focused on Land Trusts, a relatively new phenomenon in Canada. What is evident from CMHC case studies and project profiles, is the many other ways in which land is being made available, for example, through donation or through preferred sale. Sources of land include:

- Schools, churches - both in terms of donated land, low cost land with sale reserved for non-profits, and shared land (other services often available).
- Intensification of existing non-profits/coop projects - adding units on unused land
- Land provided by governments at different levels

Active partnerships between non-profit and coop associations and governments to identify potential sources of land would help release land for social housing projects, as would exploring the potential for unit additions on existing social housing project sites. Landowners of all kinds, including school boards, churches, charitable groups could be solicited for the possibility of land sale, donation or land sharing.

Incentives to bring land on stream can be provided by municipalities. Under Toronto's Open Door program policy, the city promises to fast track permit approvals, development fee exemptions and municipal tax waivers for new non-profit and private rental housing projects if they are affordable for a minimum of 25 years.

For affordable ownership, the city's Home Ownership Assistance Program can provide $25,000 in funding per unit to help cover development charges and other fees. Developers must be non-profit groups, such as Habitat for Humanity, or building on public lands.

<u>Community Land Trusts</u>

Land trusts primarily ensure that land is protected and preserved for public enjoyment, environmental reasons or in some cases, affordable housing. A major impediment to their growth has been the difficulty of achieving funding, and this has hampered their viability and survival.

Even for the case of the Vancouver Community Land Trust, while the Trust had been in existence for over 20 years, it had not developed any new housing until recently.

However, the model adopted in the first development by the Vancouver Community Land Trust is somewhat different from the normal land trust model. Under this initiative, the Land Trust does not own the land but is leasing it from the City (at a substantial discount and with affordability requirements written into the lease). The Land Trust then enters into operating agreements with each of the non-profit providers to operate housing there. No subsidies are provided by the province. The model enables the city to see its land used for the long term for affordable housing by an organization with experience and credibility in the field. The project has attracted the social impact investor New Market Funds, and is currently underway.

The particular Land Trust model employed in this initiative may prove of interest to other cities. Saskatoon reports that it is looking at the feasibility of a unique trust model in which a new non-profit entity might hold ownership and rental units in trust, removing them from the influence of the market while allowing residents to benefit by earning some equity.

Shared Equity and other alternative mortgage instruments

Recent tightening in the rules for qualifying for a homeowner mortgage will restrict access to ownership in order to protect buyers in the event of rate increases. As discussed, shared equity mortgages and deferred payment schemes, if structured appropriately with repayments well downstream, could perhaps help first time buyers without creating hardship if interest rates rise.

However, conditions in the calculations for mortgage eligibility may also restrict shared equity arrangements. Specifically, due to the higher loan to value ratio (when the equity loan is taken into account) the buyer is more likely to be in a negative equity position if prices decline, which of course also creates a higher propensity to default.

Is there a role for REITs in affordable and social housing?

REITs that are involved in the residential sector often have acquired low-rent, poorly managed and neglected multi-unit rental housing, with a view to applying professional management skills, upgrading the units and increasing rents. While this can be an effective way of preserving the stock and bringing it up to standard, it is not necessarily a formula for ensuring the supply of low rent accommodation. However, a REIT with a social mission, funded through social finance may be very beneficial.

The example of Housing Partnership Equity Trust (HPET) in the US suggests that perhaps efforts in Canada to create a REIT with a social mission to draw funds into, and preserve affordable housing may be worth supporting.

Associations, housing providers, developers and provincial housing agencies may wish to consider how the achievement of the 12 entrepreneurial housing and community development non-profits in creating the HPET could be replicated here. While there would be complexities, the parties may wish to consider whether such a REIT could take on a role of acquiring some of the non-profit projects after the expiry of their operating agreements, freeing up capital for new non-profit developments.

Life leases

West of the Ontario-Quebec border, life lease is no longer an alternative financing mechanism but has entered the mainstream. Only Manitoba though has comprehensive legislation for life lease (passed in 1999), and the need for it in other provinces has been pointed out by CMHC and others with a view to ensuring greater consumer protection. Ontario has issued a very detailed resource guide "Questions and Answers for people considering life lease housing" which could provide a model for other provinces. Life lease is a relatively new concept in Canada and some of the early ventures experienced some viability problems. The absence of legislation in all but Manitoba means that there are some gaps in consumer protection. However, the life lease option is now meeting the needs of seniors, and providing a popular alternative to renting or condominium purchase for seniors with some equity and modest retirement incomes.

Non-profits east of the Ontario-Quebec border may wish to explore the option to increase choice for seniors.

Financing for retrofits

Several of the financing alternatives covered have application to retrofit. This can include use of funds raised through bonds by Social Housing Agencies, or other non-profit or government agencies such as the Ontario Infrastructure Program, as well as the use of funds raised through refinancing initiatives such as the Cooperative Housing Federation Refinancing program or the Ontario Competitive Financing Renewal Process.

Tailored specifically to retrofit are Energy Performance Savings Agreements under which Energy Service Companies (ESCOs) forgo any front-end funding and take their payments from energy savings achieved. As indicated, ESCOs have been slow to move into residential construction. A barrier to the use of these arrangements for multifamily residential buildings, including social housing has been the perceived difficulty in influencing occupant behavior. The importance of fostering occupant buy-in and encouraging responsible energy use was recognized in both BC and in Toronto with communication and education strategies. The Robert Cook Cooperative Housing Case Study (9.1) concluded that *"future projects should involve residents early in the design process regarding in-suite retrofit measures so there is an opportunity to address concerns and educate residents on the benefits of a particular measure".*

The successes achieved by BC Housing and in Toronto through the Toronto Atmospheric Fund suggest that there is considerable potential for Energy Performance Savings Contracts for social housing in other jurisdictions.

APPLICABILITY OF FINANCING ALTERNATIVES

Some of the examples presented have relevance to each of affordable homeownership, creation of new rental projects, and finance for ongoing operations, maintenance and rehabilitation. The table below illustrates the scope of the various strategies

	Access to affordable ownership	**New social housing**	**Ongoing viability, maintenance, rehab**	**Comments**
Alt mortgages/ shared equity	✓	Mechanism of deferred payment of second mortgage till refinancing may have some potential		Apparent cross purpose with new mortgage rules
Social Finance: Bonds, Social Investment Funds	✓	✓	✓	First Canadian social impact bond has been successful
Partnerships	✓	✓	✓	Essential ingredient for all.
Donations/Fund raising	Limited, although used by Habitat for Humanity	Good for special need projects including seniors.	Best for specific upgrades, replacements	Land donations or below market land often available
Life lease	Alternative to ownership	Some potential to provide an alternative		
Various renewal or refinancing options			Can free up equity for repairs etc. as well as lower monthly payments	Currently available for coops, Also in Ontario for non-profits.
Community Land Trusts	Can set price, affordability conditions	✓	Land trusts could also acquire existing affordable housing	
Retrofit Energy Performance Agreements			✓	ESCOs no longer just in non-residential
Real Estate Investment Trusts		Strong potential exists.		Not yet a factor in Canada
Crowd Funding	Crowd funding possibilities abound, limited by the imagination			
Funding from real Estate tax	Application of real estate taxes on flips, speculators etc. could be a source of funding for affordable and social housing.			Precedent set by BC

STEPS THAT COULD BE TAKEN TO INCREASE THE FLOW OF FUNDING INTO AFFORDABLE HOUSING

The following actions would help in encouraging wider use of the various alternatives.

1. Pilot projects using Social Impact Bonds in housing, perhaps led by government and third-sector partnerships, could be effective and instructive precedents for wider use of these funding instruments.

2. A resource book for housing providers and charitable groups with guidance on structuring and promoting Social Impact Bonds for affordable and supportive housing would facilitate their use.

3. Establishment of a REIT for affordable and social housing, funded through the private placement of bonds with foundations, corporations and other investors seeking investments with worthwhile social outcomes could parallel the structure used in the U.S. Associations of non-profit or cooperative housing are the logical starting point for such an undertaking.

4. Programs to assist housing providers in refinancing and achieving the best possible rates on mortgage renewal would be a capital-free way for provinces and municipalities to support long term operations of existing social housing.

5. Similarly, to enable social housing projects to draw prudently on their equity for revitalization, the rules and guidelines for refinancing of NHA mortgages may need to be more flexible.

6. A crowd funding internet portal specifically designed for local housing providers and charitable groups to raise money for affordable and supportive housing could be established through non-profit umbrella organizations or the cooperative sector.

7. Many existing social housing projects have excess land. Intensification, where appropriate, should be promoted by non-profit and cooperative housing associations to stimulate construction of new units on existing sites.

8. Identification and release of spare land for social housing development is an effective way for governments and public-sector agencies at all levels to contribute to affordable housing.

9. Parameters for shared equity schemes need to be developed and used in pilot projects in order to demonstrate that this tool can enhance affordability, even under tighter mortgage rules.

10. The land-lease model employed in Vancouver with Vancouver Community Land Trust can be a way of putting municipalities' surplus land in use for affordable housing.

11. Energy Performance Saving Agreements are a way of financing retrofits without the need for front-end capital or borrowings. This approach needs to be championed by Provinces, municipalities, and housing associations for those housing providers in solid operating situations.

APPENDIX: ANNOTATED BIBLIOGRAPHY

Harnessing the Power of Social Financing, May 2013, Human Resources and Skills Development Canada, http://www12.hrsdc.gc.ca/servlet/sgpp-pmps-pub?lang=eng&curjsp=p.5bd.2t.1.3ls@-eng.jsp&curactn=dwnld&pid=7401&did=1

This report, by HSDC describes the response to the departments “Call for Concepts”, an invitation to organizations and individuals from across Canada to bring forward ideas for social finance to address social challenges. HSDC promised guidance to selected responses. What is interesting from our point of view is that of the 154 proposals submitted, 14 related to housing. Specifically mentioned in the document are: Aboriginal Savings Corporation of Canada/J.W. McConnell Family Foundation’s proposed ***First Nations Housing and Infrastructure Fund***, a concept for accelerating investment in these areas, and ***Social Finance for Supportive Housing*** *Working group’s* concept to fund 10,000 housing units for people living with mental illness.

Affordable Housing Ideas: Financing and Tenure, Affordable Housing Centre, CMHC, https://www.cmhc-schl.gc.ca/en/inpr/afhoce/afhoce/afhostcast/afhoid/index.cfm

Discusses strategies and presents case studies relating to financing private and non-profit rental, ownership and other quasi ownership affordable housing options. Strategies discussed are: Community Land Trusts, Housing Trust Funds, Providing Land, Revolving Loan Funds, Shared Equity, Social Enterprises

Affordable Housing Project Profiles, CMHC
https://www.cmhc-schl.gc.ca/en/maintaining-and-managing/managing-affordable-housing/affordable-housing-project-profiles#!
Provides a comprehensive database of Affordable Housing Project Profiles, searchable by province/territory, client /resident type/ construction type/ tenure/federal housing program or assistance. The database is designed to provide and stimulate fresh ideas and new approaches to create affordable housing sector, by detailing solutions that have worked. Currently the database has close to 300 project profiles.

Innovative Financing of Affordable Housing, International and UK perspectives, Joseph Rowntree Foundation (Kenneth Gibb, Duncan Maclennan and Mark Stephens), March 2013 https://www.jrf.org.uk/report/innovative-financing-affordable-housing

This report looks at what can be learned from international best practice and within the UK to help support expanded financing of affordable housing. It examines a number of international examples. The examples make evident the importance of differences in institutional context across countries. The authors in fact caution against transferring ideas from other countries without a full understanding of different institutional, policy and legislative frameworks.

They conclude that combining subsidies from different tiers of government and agencies, allows for a more discretionary and flexible use of subsidy. They note increasing interest in real estate investment trusts, sale and leaseback vehicles and tax credit models. They also see merit in the Canadian "silent mortgage" as a way to help access to first time ownership.

UK literature Review (also from Joseph Rowntree Foundation – in same publication as listed above)

The authors found the following approaches recommended in the literature: encourage pension funds to invest, REITs, shared equity, tax preferred bonds, guaranteed coop housing bonds. The other one they identified has not been suggested in other literature in this revue – it is for incentive taxes and regulations to encourage land to be brought forward by owners

The review concluded that no simple solutions had been identified that seemed capable of producing low cost housing without subsidy.

Blended Financing for Impact: Opportunities for Social Finance in Supportive Housing, MaRS Centre for Impact Investing, and the Housing Services Corporation, March 2013 Corporation, https://www.marsdd.com/wp-content/uploads/2013/03/MaRS_BlendedFinancingforImpact_2013.pdf

This report looks at blended funding, i.e. financing from a range of sources. It provides some examples detailing how it was done for specific projects.
Relevant recommendations:

- Amend the Income Tax Act to establish a profits "destination test" treatment of related business, to serve as the primary regulatory mechanism for social enterprises established and run by charities and non-profit organizations.
- Employ existing federal or provincial government capital-raising institutions and facilities to raise financing for a Supportive Housing Capital Fund, to support acquisition, development of, and efficiency improvements for supportive housing providers.
- Provide tax exemption or tax credits for affordable housing investments, or include affordable housing as an investment category for new or existing community economic

development fund incentives, to encourage investors to finance new supportive housing projects.
- CMHC mortgages should allow easy extension of amortization periods and increasing balances without significant restrictions or financial penalty.

Affordable housing solutions 15 successful projects (Fanis Gramenos, CMHC),
https://www03.cmhc-schl.gc.ca/catalog/productDetail.cfm?cat=34&itm=3&lang=en&sid=JGHnpa2WhxEGwMXBrqX3ffoQDm3HNlLqKq5JBwHww9ylpz9HnWZjqf1Uw92SeMus&fr=1474765620591

Fanis Gramenos's study looked at 15 successful projects. His analysis included an assessment of the level of affordability achieved. He found that the projects relied on various measures to reduce project cost and enhance affordability.
These included:
- land acquisition at below market prices;
- land donations;
- leased land owned by a municipality;
- deferred payments for land
- increased site density;
- charitable organization tax status;
- private donations; financing at low interest rates; provincial rent supplements;
- partnerships.

Financing Housing Solutions: BC Housing, http://www.bchousing.org/Initiatives/Financing

This section of BC Housing's website describes their two financing initiatives. Of these, the Community Partnership Initiative is described in this paper (7.1). Links are provided to several case studies.
The other initiative, the $250 million Housing Endowment fund (now fully subscribed) was set up in 2007 and supported more than 40 innovative housing projects for those most in need. Future earnings of the Fund have been committed to provide housing and support services for more than 2,200 people who would otherwise be homeless.

Affordable Housing Handbook, Halifax Regional Municipality,
https://www.halifax.ca/qol/documents/AffordableHousingHandbook.pdf
This document provides information on Halifax Regional Municipality's housing finance initiatives (as well as those of the federal, provincial, and municipal government. Included is a comprehensive list (with some detail) of private and corporate charitable foundations that support community projects.
Of particular interest is *Land Donations and Below Market Value Sales,* whereby HRM periodically donates surplus land to non-profit groups. Affordable housing providers are eligible to request that the municipality sell them land at less than market rates. The municipality has in the past financed the land sale through deferred payments.

Innovative Solutions for Affordable Housing, City of Saskatoon, 2008

https://www.saskatoon.ca/sites/default/files/documents/community-services/planning-development/neighbourhood-planning/housing/City%20of%20Saskatoon%20Housing%20Business%20Plan%202013%20-2022.pdf

This link leads to an informative chart, which, designed to show and briefly explain the City of Saskatoon's initiatives to encourage affordable housing. It provides a useful illustrative checklist of the types of actions municipalities can undertake in this field, including such things as tax abatements, rebates, bonuses, etc.

Suggestions for the design of a Low Income Housing Tax Credit Program in Canada **prepared for The Ontario Non-Profit Housing Association by Steve Pomeroy Focus Consulting Inc.** February 2007 (No longer online, contact ONPHA for an electronic copy)

As part of its election platform the Conservative party identified a tax credit program as a possible way to encourage investment in and construction of affordable rental housing. This brief examines the Conservative proposal together with the extensive experience of the US Low Income Housing Tax Credit. More specifically, it looks at how a made in Canada program, drawing on the US experience utilize the capacity of both the non-profit and private sectors

Crowdfunding and Affordable Housing

October 17, 2012, Community Housing Capital,
Paul Dombowsky, Founder and CEO Ideavibes

https://www.downtowndevelopment.com/pdf/Crowdfunding%20Whitepaper%20-%20Ext.pdf

This report provides a useful discussion of crowd funding – how it works, the different online crowd funding sites and how it might be used as a vehicle to fund affordable housing. It compares project based and unit based crowd funding, and discusses the different mechanisms: 1. Simple donation – tax receipt and do good feeling benefit 2. Impact Investment with low level return (dividend or interest) 3. Impact Investment with reasonable return (dividend or interest) 4. Investment with market return

Philanthropic Support for Affordable Housing (2000)

ftp://ftp.cmhc-schl.gc.ca/chic-ccdh/RHSE-PenRSE/62470.pdf

This CMHC document provides sponsors of affordable housing with information on the philanthropic sector, including a selection of "best practices" from across Canada, and practical advice, to help sponsors evaluate the potential for fundraising and understand the steps required for successful fundraising campaigns. It identifies other initiatives which could be undertaken to encourage philanthropic support of affordable housing.

Alternative Sources of Capital for Social and Affordable Housing, BC Housing,
prepared by Maggie Carlson, HSC
https://www.bchousing.org/research-centre/library/housing-affordability/alternative-sources-capital-social-affordable-housing
The author reviews and analyses different models of alternative capital for social and affordable housing. The report is intended to provide practical information about the feasibility of implementing different approached. Four models were selected, and nine case studies were conducted.

cmhc.ca