

Centre for
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Impact Investing

Investing in Affordable Housing: BC, Canada, and the World

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1.0 EXECUTIVE SUMMARY

Housing—one of the basic needs in a society—has become an increasingly contentious issue as the gap between housing costs and incomes grows in cities around the world. Sauder S3i, at the University of British Columbia, is located in Vancouver—a city that is ranked the third least affordable city in the world¹. This paper examines a range of alternative approaches to addressing housing affordability, drawing on best practices from around the world.

Exploring some of the ways in which countries around the world, including Denmark, Austria, Scotland and the US, have approached affordable housing, this report attempts to understand what lessons Canada could learn. Solving the housing affordability crisis requires a deeper understanding of the structural market mechanisms and public policy changes that have caused it, including declining investment by the Federal government over the last 30 years. The report also presents and evaluates some of the recent legislative steps that governments have taken to tackle this issue. Reliance on rental assistance and measures to tax speculative investment have had no real impact on the underlying supply of affordable housing and supply side measures, which cities and the Federal and Provincial governments can influence through planning and permitting and by leasing land they control for affordable housing development. While the downtowns of many cities in Canada have higher density, even in the Vancouver, neighbourhoods with single family homes have low density and have been treated as off limits for densification.

Since it is highly unlikely that public investment alone will address the housing affordability issue, the report explores a number of options that mobilize private, philanthropic and foundation capital to expand the pool of investment capital. At face value, conventional private developers, who also have to purchase the underlying land are not in a position to develop affordable rental housing. One study indicated that a private developer in Toronto would need to generate \$2200 per month in rental income to meet the same return on investment they would receive from a sale, whereas the threshold for affordability is closer to \$930 per month. This is not simply an issue of the profit goals of private developers; underlying land costs, development fees, community amenity contributions, construction costs, and limited supply all contribute to the underlying cost base of development.

This report closes by recommending specific interventions that could address affordable housing in Vancouver and Canada in ways that can involve private investors and impact investors. The report examines: the potential for equity Real Estate Investment Trusts (REITS); land trusts, such as the Vancouver Community Land Trust Foundation, supported by New Market Funds; and, tax incentives

¹ 13th Annual Demographia International Housing Affordability Survey: 2017. Retrieved from: <http://www.demographia.com/dhi.pdf>

from the US, like the Low Income Housing Tax Credit, which has mobilized \$100 billion into affordable housing. The report also examines the potential for new corporate structures called Community Interest Corporations, which already exist in BC in a modified form as Community Contribution Companies, to provide reasonable returns to investors while maintaining a locked social mission to support affordable housing. Housing affordability is a concern for most Canadians, and the impact investing sector has a real opportunity to address this issue. However, the success of these interventions requires work at the nexus of the public and private sector, necessitating strong involvement from both sides, creativity, and a willingness to apply new and innovative models that ensure cities remain vibrant and diverse.

2.0 INTRODUCTION

2.1 WHAT IS AFFORDABLE HOUSING?

In Canada, housing is defined as affordable if a household's shelter costs are equal to or below 30% of that household's income before tax.² The continuum of housing that is defined as affordable spans a range from government-sponsored emergency shelters, to supportive housing for the elderly, to non-market affordable rental housing, and low-end market housing ownership.

Alternatives to normal market housing have traditionally been subsidised rental housing provided by governments, or non-profits, at rates designed to solely cover the operating costs of the properties. They were deemed *social housing* because of the emphasis on social subsidies. Affordable housing has now expanded to include the low-end of the market as well as below-market housing (which is housing offered at below-market value). Affordable housing now addresses the broader issue of lack of access to the housing market in a time of increasing gaps between incomes and housing prices in major cities around the world. As this gap increases, and the costs of shelter continue to outpace Canadian's salaries—with residents often paying much more than 30% of their combined household income towards shelter—Canada is struggling to find solutions that enable their citizens to live within the cities they work. This paper explores what countries across the globe are doing to address this same problem in the hope that it will provide insight as to whether there is an opportunity for investors to help solve the affordable housing crisis in Canada and elsewhere.

² Shelter-to-income cost ratio. Retrieved from: http://www.cmhc-schl.gc.ca/en/inpr/afhoce/afhoce_021.cfm

3.0 AFFORDABLE HOUSING LANDSCAPE

The definitions and availability of affordable housing vary across municipalities, regions, and countries. This section provides an overview of affordable housing across Canada and other selected countries around the globe.

3.1 ACROSS CANADA

AFFORDABLE HOUSING PROVISION

As of 2014, around 69% of Canadians were homeowners, and 25% lived in private (standard) rental housing. The social and affordable housing sector comprises approximately 4-5% of the rental market, and has been shrinking since 2014.³ One in four (25.2%) Canadians in occupied private dwellings experience a *housing affordability problem*, defined by Statistics Canada as spending more than 30% of their income towards shelter.⁴

FUNDING FOR AFFORDABLE HOUSING PROVIDERS

Federal and provincial support for social housing was originally delivered through a series of programs between 1946 and 1993. Continuing federal funding through the Canada Mortgage and Housing Corporation (CMHC) is based on long-term agreements of 25-50 years, generally timed to end when mortgages on the properties are paid off; the majority are scheduled for 2020. This date is approaching fast, which puts the future of federal support for housing affordability into question.⁵

Since 2011, the federal government has been funding affordable housing via the Investment in Affordable Housing (IAH) initiative.

Since the end of direct interventions in 1993, much of the responsibility for building affordable housing has been delegated to provinces and municipalities. Federal tax incentives for purpose-built housing were eliminated in the 1970s and 1980s, mainly to close loopholes related to investments.⁶ In light of the increasing visibility of housing affordability issues, the 2016 federal budget dedicated \$300 million

3 *Homeownership and Shelter Costs in Canada*. Statistics Canada. Retrieved from <https://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-014-x/99-014-x2011002-eng.cfm>

4 *Shelter cost and housing affordability by housing tenure for non-farm, non-reserve dwellings, Canada (2011)*. Canada Mortgage and Housing Corporation. Retrieved from <https://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-014-x/2011002/tbl/tbl03-eng.cfm>

5 *Federal Government Spending on Housing*. Canada Mortgage and Housing Corporation. Retrieved from https://www.cmhc-schl.gc.ca/en/corp/nero/jufa/jufa_016.cfm, http://www.chfcanada.coop/eng/pdf/EAO_October_2012.pdf

6 Lee, Marc. (2016). *Getting Serious About Affordable Housing: Towards a Plan for Metro Vancouver*. Retrieved from <https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2016/05/CCPA-BC-Affordable-Housing.pdf>

nationally over five years towards the *Expanding Affordable Housing Initiative (EAH)*. More details about the budget can be found in Appendix A.

ISSUES WITH ACCESS TO AFFORDABLE HOUSING

While the EAH initiative is expected to result in the construction of 4,000 new affordable housing rental units over the next five years, this increase must be put in the context of a longer decline in federal affordable housing investments and expiring social housing agreements. The number of federally-supported households declined from 623,700 in 2008 to 525,000 households in 2016.⁷

Access to affordable housing as well as affordability ratios vary by region, with a larger percentage of individuals burdened in major cities. Housing affordability in Canada deteriorated slightly in the final quarter of 2015, primarily due to the significant rise in home-ownership costs in Vancouver and Toronto.⁸ As a measure of this trend, the Royal Bank of Canada (RBC) housing affordability measure for the aggregate of all housing types in Canada rose to a five-year high of 46.7% in the fourth quarter of 2015.⁹ Housing affordability in Vancouver and Toronto is expected to continue deteriorating in the near term, broadening regional disparities. Increasing demand for affordable housing may place pressure on existing supply.

3.2 COMPARISONS AROUND THE GLOBE¹⁰

When looking at how Canada can move forward in its goal of improving affordable housing it is important to examine other countries' strategies for combatting this issue. Four leading countries with differing approaches to affordable housing are described below.

3.2.1 AUSTRIA

Austria consistently supplies affordable housing to their population without direct national government involvement in the construction of new housing. The key driver is that the limited-profit housing associations know that they will get direct subsidies yearly, as the subsidy funding comes from a direct, unchanging proportion of the nation's income tax.

⁷ Shapcott, M. *Federal affordable housing investments: Critical to national social and economic investment plans* The Wellesley Institute. Retrieved from http://www.wellesleyinstitute.com/wp-content/uploads/2012/08/wellesleyinstitute_prebudget2012housing.pdf

⁸ RBC Housing Affordability Report. Retrieved from <http://www.rbc.com/newsroom/reports/rbc-housing-affordability.html>

⁹ Similar to the affordability shelter definition, the housing affordability measure indicates the percentage of mean pre-tax income to service the costs of owning a home, here aggregated across all housing types. Retrieved from <http://www.rbc.com/newsroom/news/2016/20160229-housing-affordability.html>

¹⁰ Somerset, GB: Wiley-Blackwell (2014).: *Real Estate Issues: Social Housing in Europe* (1).. ProQuest ebrary. Web. 14 June 2016.

AFFORDABLE HOUSING PROVISION

Similar to Canada, the Austrian national government does not actively participate in financing new affordable housing construction. Only 1% of new affordable housing construction is currently financed by the government. The majority of the affordable rental housing is constructed and maintained by limited-profit housing associations who have their management and financial conduct regulated. The companies have an obligation to reinvest their profits in affordable housing, their profits are limited, and the rent for the affordable housing should only cover costs. In 2014, there were 200 limited-profit housing companies operating in the nine Austrian regions. Municipalities do contribute to the construction of affordable housing, but to a much lesser extent.

FUNDING FOR AFFORDABLE HOUSING PROVIDERS

The government provides housing subsidies to support the affordable housing sector. The housing subsidy funds are financed by a fixed proportion of the total income tax collected each year as well as a small portion of corporation tax. This funding is then split among the nine regions of Austria. These regions are responsible for deciding how that funding is distributed within their respective regions. They have the power to decide upon many aspects of affordable housing in their own area that include, but are not limited to: the schemes, forms, and terms of subsidies; the definition of recipients of affordable housing; and, the quality standards imposed on affordable housing.¹¹

ISSUES WITH ACCESS TO AFFORDABLE HOUSING

Technically, there are nationwide formal limits on who can access affordable housing; however, these limits are high enough to cover 80-90% of the population. The affordable housing system also gives priority to people in employment who have sufficient income and job security, with the result that the current system does not play a strong role in aiding households in the Austrian society that have very low income or are without a job. To combat this, most municipally-provided affordable housing is now used to provide emergency dwellings for these households on a non-permanent basis. Austria also has a separate program for the homeless.

3.2.2 DENMARK

Denmark has taken a strong stance on affordable housing. The government supports the current housing stock with subsidies and provides funding for new stock in the form of mortgages. Affordable

11 Amann, W., Mundt, A. *The Austrian System of Social Housing Finance*. Retrieved from http://www.iut.nu/FindOutMore/Europe/Austria/Socialhousing_finance_Amman_Mundt.pdf

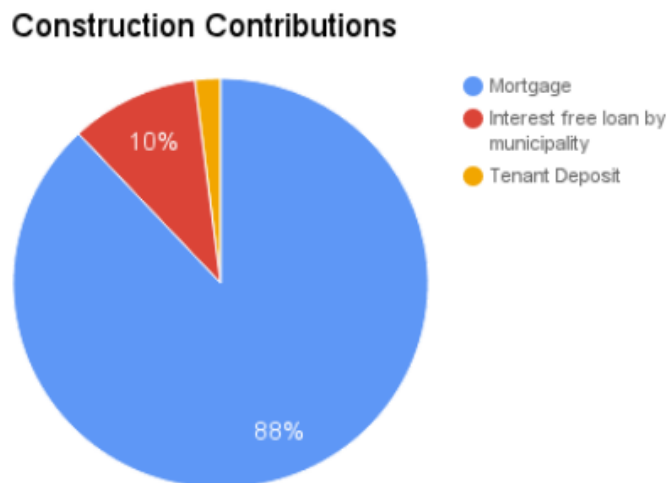
rental prices are independent of market fluctuations and follow historical costs. Denmark has also created a promising new fund that will provide financing assistance for further affordable housing development and renovation of the current stock.

AFFORDABLE HOUSING PROVISION

Affordable housing in Denmark consists of housing for rent at cost and is provided by non-profit housing associations (HAs). HAs are semi-autonomous and are regulated and subsidised by the state, but are owned and collectively organised by the association members themselves. The actual tenants have the right to the majority of seats on the HA boards. Local or national authorities do not directly deal with affordable housing provision, as it is under the purview of HAs. By law, these affordable housing units are rented at cost (which are based on historic costs). For this reason, rental rates do not respond to market forces and rent for older affordable housing is much cheaper than rent for newer affordable housing.

FUNDING FOR AFFORDABLE HOUSING PROVIDERS

New affordable housing construction is financed by three parties: 88% is financed by a mortgage serviced by the Federal government; the municipality pays 10% of the cost upfront in the form of an interest-free loan for base capital; and, the remaining 2% is covered by tenant deposits.



New affordable housing construction contributions

Debt repayments are set by law at 3.4% of initial building cost and are paid by the tenant. This money goes to the government, which services the mortgage. The level of payment is independent of the actual interest rate, which means in times of low nominal interest rates the government can make a profit on affordable housing.

ISSUES WITH AFFORDABLE HOUSING PROVISION AND REPAIR

As in most developed countries, one of the main issues in Denmark is finding substantial funding for essential building repair and new building construction. Recently, renovations and repairs to affordable housing have begun to be partially financed by the National Building Fund for Social Housing (NBFSH). One of the main drivers of this fund was the way Denmark calculates rental costs (based on historical costs). In the 1940s, affordable housing construction boomed and this construction was largely financed by 50-year loans. These loans are now repaid but the rental costs are still calculated as if there was a loan to be serviced. As such, there is a surplus of profit from the older affordable housing stock. Over 50% of this surplus goes into the NBFSH to continue financing improvements to existing affordable housing stock and to aid in the financing of new stock. This fund is self-sustaining as it is financed directly from the current, and growing, affordable housing stock.

3.2.3 NETHERLANDS

Affordable housing in the Netherlands is provided entirely by housing associations (HAs). These HAs are financially independent of the government and as such have grown in size and power with minimal regulation in place to control their actions. They remain financially viable by selling and buying properties much like a for-profit company, albeit with some restrictions. After the 2008 financial crisis, the biggest HAs suffered tremendously, which has encouraged them to consider innovative ways to attract more private funding.

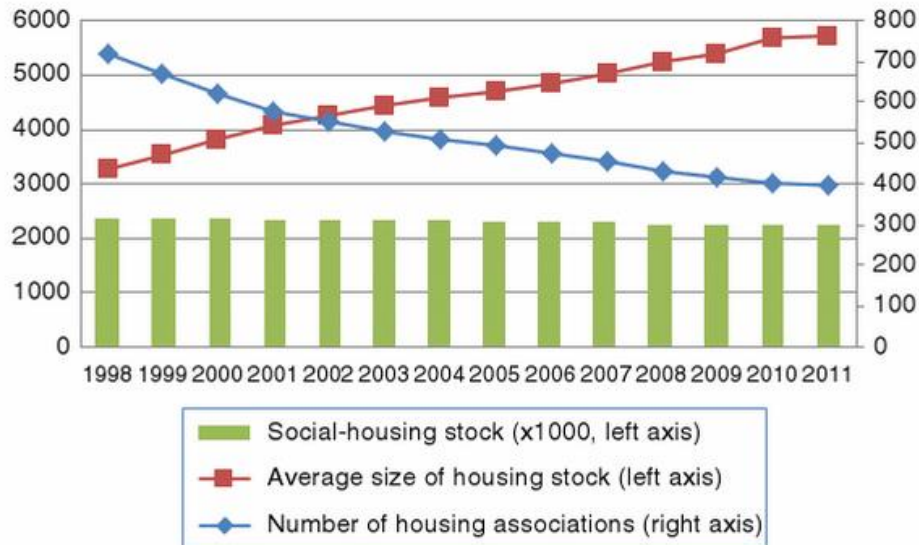
AFFORDABLE HOUSING PROVISION

Affordable housing units account for 32% of all dwellings in the Netherlands and these are owned almost exclusively by HAs. HAs in the Netherlands are technically considered non-profit organizations. Affordable rentals operated by HAs have maximum controlled rental prices that are based on the property valuation. HAs are also obliged to allocate 90% of their affordable rental units to households with an annual income below 33,000 euros.

OPERATIONS OF HOUSING ASSOCIATIONS

Due to legislation changes in the 1990s, HAs are now financially independent of the central government. HAs are allowed to freely buy and sell the housing stock that they own in the open market. They sell vacant properties in the open market. Tenanted properties must first be offered to tenants who can choose to buy, continue renting, or move out. The profits from the sale of affordable housing units go towards purchasing other units or towards construction of new affordable housing.

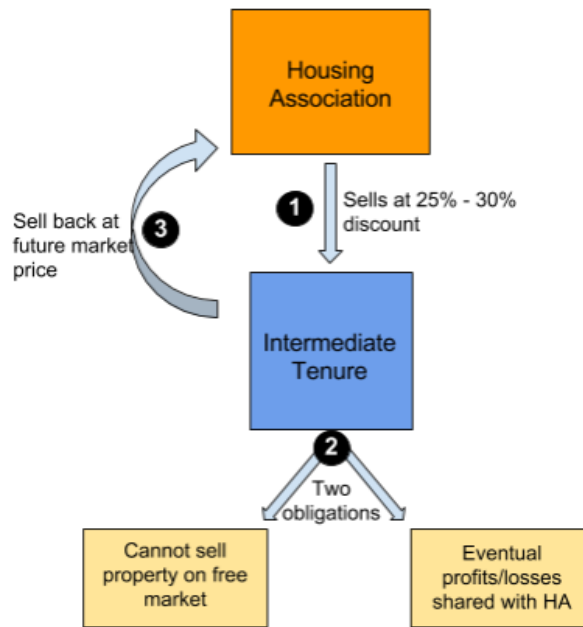
The buying and selling activities of HAs generally keep the affordable housing stock in the Netherland at a status quo. Meanwhile, HAs have gradually been forming into larger conglomerates as large HAs purchase smaller ones.



Social Housing in Europe (1). Somerset, GB: Wiley-Blackwell, 2014. ProQuest ebrary. Web. 14 June 2016

ISSUES WITH HOUSING ASSOCIATIONS

After the financial crisis of 2008, many of these large HAs found themselves in significant debt with a few recording losses of over \$1 billion. Due to this history, there is much debate about how much power the HAs should have now that they have been given financial autonomy. Key issues surround the purchasing and selling of affordable rental units, the lack of obligations to refurbish current affordable rental stock, and the movement to enforce a Right-to-Buy for long-term residents similar to Scotland and the UK. The HAs also have a pressing need to bring in more temporary private equity in order to help them refinance after suffering from multiple years of post-financial crisis losses. One strategy they have used is called Shared Social Ownership, described within the figure, below:



Housing association structure

The HA receives much needed cash flow from the discounted sale of rental properties. They also receive a portion of rent during the time when the intermediate tenure holder owns the property. The intermediate tenure has an obligation to sell the property back to the HA at a specified time in the future at that market price, which will give the intermediary a net profit from the entirety of the transaction.

3.2.4 SCOTLAND

Scotland’s affordable housing is provided by a mix of HAs and municipally-run council housing. As with the rest of the UK, Scotland currently operates a Right-to-Buy policy for affordable housing. However, due to a lack of investment in the construction of new affordable housing, Scotland ended their Right-to-Buy policy in August 2016. To combat the lack of new stock, Scotland is creating innovative new ways to attract private investment into affordable housing.

AFFORDABLE HOUSING PROVISION

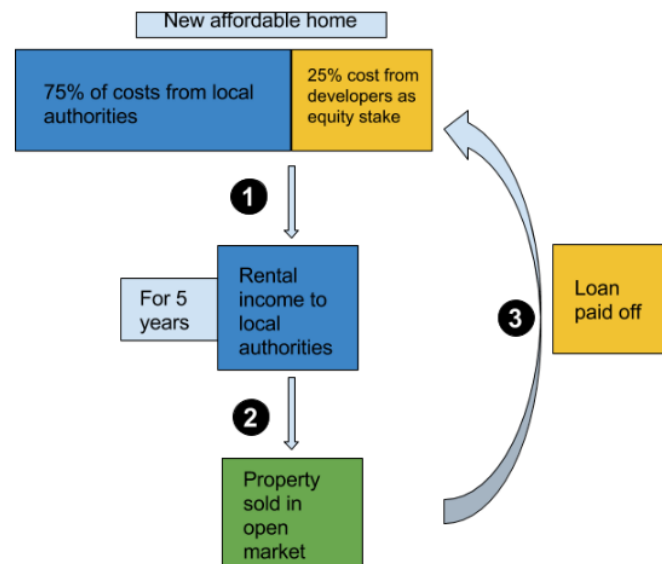
Scotland’s affordable housing is provided by two types of organizations:

- Council housing (CH) which is affordable housing owned by local authorities and supported by government revenue subsidies
- HAs which are non-profit organizations supported by capital grants from the government

Landmark legislation was passed in 2001 establishing a right to settled accommodation for every household (this refers to an entire family). It was seen as a new precedent for the rights of the homeless. Since then, CHs have been primarily used to provide temporary accommodation for those in need prior to their assessment for permanent accommodation. The HA then allocates all vacant homes to those in greatest need of accommodation.

FUNDING OF HOUSING PROVISIONS

Scotland’s CHs and HAs rely heavily on government support, so Scotland has tried to develop instruments to attract private investment. One such vehicle is the National Housing Trust. It was created with the goal of providing 1000 new affordable homes, described below.



National Housing Trust structure

In this scheme, private investment funds 25% of the development cost as a loan. After five years of the home being used for affordable housing, the home is then sold in the open market and the revenue from the sale is used to pay off the private investor’s loan plus interest. This scheme provides immediate affordable housing relief and takes some financial pressure off of the local authorities.

RIGHT TO BUY DISCUSSION

Until recently, Scotland had a Right-to-Buy policy. The Right-to-Buy allowed tenants the right to purchase an affordable unit that they lived in for an extended period of time at a deep discount; in August of 2016, this Right-to-Buy was terminated for all CHs and HAs.¹² The Deputy First Minister of

¹² *Right to Buy*. (2016) Scottish Government. Retrieved from <http://www.gov.scot/Topics/Built-Environment/Housing/16342/rtb>

Scotland, Nicola Sturgeon, says that this was a necessary move in order to “safeguard social housing stock for future generations.”¹³ Right-to-Buy laws still exist in other parts of the UK.

3.3 IN BRITISH COLUMBIA

Within Canada, British Columbia (BC) has significant housing affordability issues, in particular in Canada’s least affordable city, Vancouver.

AFFORDABLE HOUSING PROVISION

In BC, the total social and cooperative housing in the region was 50,349 units as of 2014.¹⁴ To put this in perspective, BC Stats estimated 1,885,755 households lived in private dwellings in 2014—meaning that approximately 3% of all BC households were served by social and cooperative housing.¹⁵ The majority of social housing units in BC are run by 700 non-profits; although some are operated by BC Housing and the Metro Vancouver Housing Corporation.¹⁶

FUNDING OF HOUSING PROVISION

The BC government’s preferred intervention in housing is providing rental assistance for families and seniors so that they can live in accommodation that would otherwise be unaffordable. There has been a 30% growth in the number of individuals on rental assistance since 2011, while the amount of independent social housing has essentially remained flat (0.3%).¹⁷

The province has made a recent shift towards a “housing-plus” approach. The Canadian Centre for Policy Alternatives argued in 2010 that this implied that all funding for new units had gone towards housing with supports—meaning either housing for homeless people with addictions, mental health challenges, or assisted living for seniors. While a necessary social service, this addresses a separate issue from affordability.¹⁸

13 *Right to Buy to be Scrapped in Scotland*. (2013) BBC. Retrieved from <http://www.bbc.com/news/uk-scotland-23155904>

14 Metro Vancouver Housing Data Book (2015). Retrieved from http://www.metrovancouver.org/services/regionalplanning/PlanningPublications/MV_Housing_Data_Book.pdf.

15 *Household Projections*. BC Government. Retrieved from <http://www.bcstats.gov.bc.ca/StatisticsBySubject/Demography/Households.aspx>

16 Lee, Marc. (2016). *Getting Serious About Affordable Housing: Towards a Plan for Metro Vancouver*. Retrieved from <https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2016/05/CCPA-BC-Affordable-Housing.pdf>

17 *Three-Year Service Plan 2015-2018*. BC Housing. Retrieved from http://www.bchousing.org/resources/About%20BC%20Housing/Service_Plans/2015-18_Service_Plan.pdf

18 Klein, S and Copas, L (2010). *Unpacking the Housing Numbers: How much new social housing is BC building?* Canadian Centre for Policy Alternatives. Retrieved from <https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2010/09/CCPA-BC-SPARC-Unpacking-Housing-Numbers.pdf>. Note that this argument was not directly cited.

RECENT INITIATIVES

The BC Liberal government announced in February 2016 that it would spend \$355 million over the next five years to build up to 2000 affordable housing units. However, this announcement has been criticized. The funding is from the sale of BC Housing buildings (i.e., already designated for social housing and government owned) to non-profits through the Non-Profit Asset Transfer Program. The historic commitment is also less of a change when measured yearly; one critique compared the 400 units per year to the building starts between the mid-1970s and early 1990s, when BC built between 1000 and 1500 units of social housing per year.¹⁹ The BC government is currently seeking expressions of interest in affordable housing partners to create housing for low-to-moderate income families across the province.²⁰

FOREIGN BUYER'S TAX

During July 2016, the BC government also announced an Additional Property Transfer Tax of 15% on foreign nationals or corporations that purchase property in the Greater Vancouver Regional District.²¹ This has been popularly described as a “Foreign Buyer’s Tax” instituted in response to a report showing that 10% of Vancouver home sales were driven by offshore buyers that used property primarily as a vehicle for investment. The tax was also imposed in response to a widespread public outcry that Vancouver was becoming largely unaffordable for its own residents as housing prices have outstripped wage growth.²²

During the months following the introduction of the tax, house sales from foreign buyers fell as anticipated, cooling a frothy Vancouver market. This effect continued through the end of 2016 and into the start of 2017, with Vancouver seeing a decelerated pace in price growth relative to Victoria and Toronto, its provincial and national counterparts in overheated housing markets. Both Victoria and Toronto saw a steady growth in housing prices during this period, which suggests that the new mortgage rules aimed at cooling housing markets nationally, which were instituted around the same time as the BC tax, were ineffective.²³

19 *Critics say B.C. government's housing investment is not good enough.* (2016, February 12) Global News Hour at 6pm Retrieved from <http://globalnews.ca/video/2515853/critics-say-b-c-governments-housing-investment-is-not-good-enough>; <https://ccapvancouver.wordpress.com/2016/02/13/bc-housing-announcement-mostly-spin-and-little-substance/> Additionally, “affordable” housing may not be all for low-income individuals: according to the new definition of social housing used in the City of Vancouver, only one third of social housing has to be available to single people whose income is under \$36,500.

20 BC Housing. Retrieved from http://www.bchousing.org/Media/Stories/2016/04/14/12176_1604140914-216

21 <http://www2.gov.bc.ca/gov/content/taxes/property-taxes/property-transfer-tax/understand/additional-property-transfer-tax>

22 <http://www.metronews.ca/news/vancouver/2016/07/26/10pc-of-vancouver-home-sales-from-offshore-buyers.html>

23 <http://globalnews.ca/news/3201112/bc-foreign-buyers-tax-vancouver-home-prices/>

However, this effect has waned with Vancouver housing prices seeing an uptick of 5% from the three months after January 2017. Although the tax was seen to have an effect during a year when Vancouver saw a dramatic increase in housing prices, the tax is now seen to have had only a temporary effect.²⁴ Compounding perceptions that the tax has failed is the fact that foreign capital was redirected to other markets in Seattle, Toronto, and Calgary during the same time the tax was instituted.²⁵

In addition, this uptick has come at a time when the provincial government has also loosened the reins on the tax itself, allowing refunds for those on working permits and those that have applied for citizenship/permanent residency, increasing criticism that the government realized too late that the unintended consequences were too great requiring ex-post changes.²⁶

The Ontario government has also followed suit and instituted a 15% Non-Resident Speculation Tax, along with a proposed set of 16 measures designed to cool the housing market in the Greater Toronto Area.²⁷ The tax in particular applies to a larger area than in Metro Vancouver, covering the entire Greater Golden Horseshoe Area. What is notable about the wider set of measures is that they were designed with the recognition, and in an attempt to rectify, some of the issues surrounding lacklustre development and a throttled supply of housing. Indeed, this has been one of the primary causes of overheated markets, but these measures are inadequate for reducing the red-tape, bureaucratic barriers, and land-use controls that cause these supply-side problems.

FIRST-TIME HOMEOWNER'S LOAN

The previous BC government also opened applications for the BC Home Owner Mortgage and Equity Partnership Program (HOME). This offers first time homebuyers earning a household income below \$150,000 an interest free loan of up to \$37,500 for five years (5% of the purchase price of a home, with a maximum price of \$750,000).

The reception to the loan has been mixed and economists have argued that it will simply fuel demand in an already overheated and undersupplied market.²⁸ ²⁹ However, it has been noted that the program is only serving a small subset of the market, and the effects from the Foreign Buyer's Tax have still

24 <http://business.financialpost.com/personal-finance/mortgages-real-estate/vancouver-housing-market-rebounds-from-tax-impact-with-prices-up-5-in-three-months>

25 <http://www.ryerson.ca/content/dam/citybuilding/pdfs/2017/CBI%20POLICY%20PAPER-In%20High%20Demand-March20171.pdf> - Page 28

26 <http://www.theglobeandmail.com/real-estate/vancouver/bc-relaxes-foreign-buyer-tax-offers-refunds-to-those-with-work-permits/article34337503/>

27 <http://www.torontosun.com/2017/04/20/ontario-to-tax-non-resident-foreign-housing-buyers-15>

28 <http://www.theglobeandmail.com/report-on-business/millennial-bc-buyer-im-sick-of-living-in-a-basement/article34637420/>

29 <http://vancouver.sun.com/news/local-news/b-c-government-offers-down-payment-loans-to-first-time-homebuyers>

been spilling over to the current period. Any effects are unlikely to be seen in the short-term, and the fact that applications to HOME only represent 5-6% of total transactions further underscores the uncertainty surrounding the full impact of the program currently.

With regards to those who have accessed, or attempted to access the loan, reception has been equally mixed. There have been some positive stories of first-time homebuyers using the loan to top-up on down payments. Nonetheless, there is a common theme for these homebuyers: parents (who often hold significant equity in their primary residence) usually support their children in purchasing their first home, whether by contributing to the down payment or by co-signing the mortgage.^{30 31}

These issues signal that there are some deeper, more fundamental problems with the housing markets in British Columbia, and Vancouver in particular, that have been left unaddressed. Although the provincial government has taken steps to identify and correct them, there is still a lot to be done to tackle the structural issues that have led to the situation the province is in today. This suggests that these deep-seated issues are likely to remain, at least in the short-term, and that the Foreign Buyer's Tax and First-time Homeowner's Loan are likely to be only a temporary salve for a persistent problem.

30 <http://www.metronews.ca/news/vancouver/2017/05/02/buying-a-650000-condo-with-help-from-the-bc-government.html>

31 <http://www.theglobeandmail.com/report-on-business/millennial-bc-buyer-im-sick-of-living-in-a-basement/article34637420/>

4.0 SPOTLIGHT ON AFFORDABILITY ISSUES AND SHORTFALLS OF AFFORDABLE HOUSING IN VANCOUVER AND BC

Vancouver stands out from Canadian cities as having the greatest need for more affordable housing; therefore, a large part of the affordability debate within the province is centred on the city. The Canada Mortgage and Housing Corporation defines “core housing need” as the share of the population living in housing that is overcrowded and/or in need of major repairs, or that costs more than 30% of pre-tax income. By this standard, 144,720 households in Metro Vancouver—more than one in six—were in core housing need in 2011. This was the highest by far of any Canadian city, and much higher amongst renters (almost one in three) than among owners (one in nine).³²

The affordable housing sector within BC also suffers from an array of shortfalls, which hinder BC and Vancouver’s ability to provide affordable housing to the large number of local residents who are in need.

4.1 VANCOUVER DRIVING PROVINCIAL AFFORDABILITY ISSUES

A significant part of BC’s housing affordability problems is due to the mismatch between rental demand and property supply. In 2015, Vancouver had the lowest rental vacancy rate in Canada at 0.6%.³³

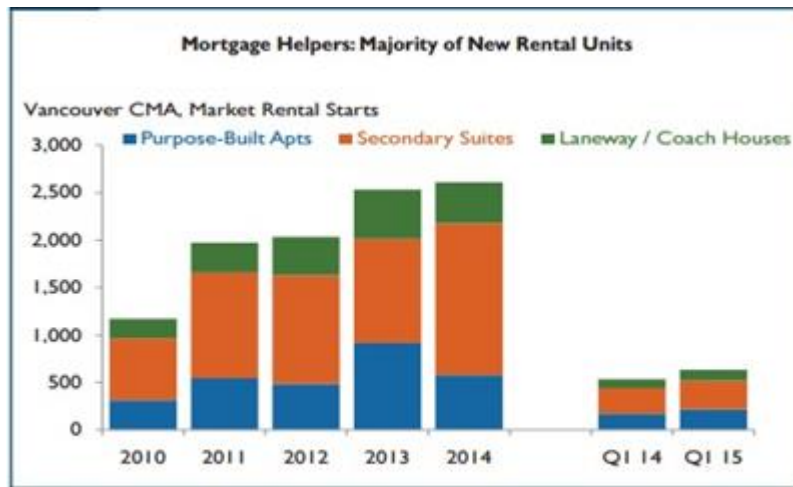
The majority of new rental units in the last five years have been secondary rental units (that include rented houses, secondary suites, rented condo units, and SROs, amongst others),³⁴ as purpose-built private rental buildings have played a declining role in rental stock since the 1970s.³⁵

32 <https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2016/05/CCPA-BC-Affordable-Housing.pdf> Data quoted from CMHC, Households in Core Housing Need, Canada, Provinces, Territories and Metropolitan Areas, 1991–2011. <http://www.cmhc-schl.gc.ca/en/hoficlincl/homain/stda/loader.cfm?csModule=security/getfile&PageID=304126>

33 <http://council.vancouver.ca/20160517/documents/rr1.pdf>

34 <http://vancouver.ca/docs/policy/housing-secondary-suites.pdf>

35 <https://www03.cmhc-schl.gc.ca/catalog/productDetail.cfm?cat=34&itm=61&lang=en&fr=1465601181365> , http://www.cmhc-schl.gc.ca/odpub/esub/64467/64467_2015_A01.pdf?fr=1466022028968



Source: CMHC Starts and Completions Survey

Source: Housing Market Outlook - Vancouver and Abbotsford CMAs Spring 2015³⁶. CMHC

Assuming an annual population growth of 1.4% in Metro Vancouver over the next two decades, the BC Non-Profit Housing Association projects an overall growth in demand for rental accommodation (overall) of between 3,907 and 5,416 new units per year over the next decade, and Metro Vancouver’s Growth Strategy projects an additional demand of nearly 11,000 rental units by 2021.^{37 38} Rising prices for detached houses also keep higher-income renters in the rental market, putting upward pressure on rental prices. Among the total estimated rental demand, nearly 8,000 rental units will be from low- and moderate-income households. These drivers suggest that without further intervention, the market will continue to be undersupplied with suitable rental property.

36 https://www.cmhc-schl.gc.ca/odpub/esub/64363/64363_2015_B01.pdf

37 <https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2016/05/CCPA-BC-Affordable-Housing.pdf>

38 <http://council.vancouver.ca/20160517/documents/rr1.pdf>



Source: Rental Market Report - Vancouver and Abbotsford-Mission CMAs - Fall 2015³⁹. CMHC

4.2.1 MARKET SHORTFALL

Vancouver’s affordable housing sector suffers from market issues on both the demand and supply side of the equilibrium.

DEMAND ISSUES

As of 2016, the wait-list of applicants for social housing was approximately 10,000 people for Metro Vancouver alone.⁴⁰ This number is expected to grow—as 80% of baby boomers who work in the private sector are about to retire without a private pension.⁴¹ It can be expected that a large number of these baby boomers will require affordable housing in the near future. If we combine this with the expected 1.4% population growth in Metro Vancouver, we clearly see that demand for affordable housing cannot be satisfied by the current market situation.

SUPPLY ISSUES

Federal government funding for new social housing development was withdrawn in 1993, which means that funds need to come from the province, non-profit companies, and/or private investment. The province and non-profit companies are unable to keep up with the current demand for funding. BC has seen an increase in rent-assistance and homeless shelters by 27% and 30% respectively over

³⁹ http://www.cmhc-schl.gc.ca/odpub/esub/64467/64467_2015_A01.pdf?fr=1466022028968

⁴⁰ <https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2016/05/CCPA-BC-Affordable-Housing.pdf>

⁴¹ http://www.sandrahamilton.ca/assets/uploads/sandra_hamilton_social_finance__could_a_social_reit_fill_the_equity_gap_in_affordable_housing_oct_2015_59814.pdf

the past five years while independent social housing stock has only seen a net increase of 0.3% over the same period. Indeed, transitional and supportive shelters have fallen by 8%.⁴² A full breakdown of these numbers can be found in the appendices. These figures are particularly concerning as demand is set to grow and potentially outstrip supply, with vulnerable populations that require affordable housing at risk of being left behind. This is a clear indicator of the need for alternative and private investment to assist the market in better matching supply with burgeoning demand.

As a general note, supply-side issues have been augmented by land-use regulations that have been limiting the growth of Vancouver's housing stock. A Fraser Institute report analyzes the effect of land-use regulation in major Canadian cities including Vancouver, and argues that increased levels of regulation in highly desirable areas of downtown Vancouver, the West Side, and North Vancouver has led to a reduced housing supply, due to the fact that land-use regulation plays a strong role in influencing where housing construction takes place. Their model suggests that reductions in regulatory constraints would generate a significant increase in residential development on the city's West Side, which has borne the brunt of rising housing prices.⁴³

4.2.2 INCREASES IN PROPERTY VALUATION

British Columbia and, specifically, Vancouver have seen incredible property valuation increases over the past year, which add to the difficulties that affordable housing providers experience.

EXTREME VALUATION INCREASES

Total property assessment in the province grew by \$130 billion in 2015.⁴⁴ Of this, 70% was attributable to increases in property assessment in the Greater Vancouver Area, which saw a \$90 billion increase over the course of 2015.⁴⁵ This represents a 16% increase in Greater Vancouver Area property valuations over the course of 2015.

WHY THIS MATTERS

While increases in property values are good for the local and provincial economy, they can create unwanted wealth gaps between homeowners and non-homeowners. Additionally, increased property values makes the process of obtaining land for new affordable housing projects more expensive and difficult than it previously was. The increased value of property for new affordable housing leads to

42 Taken from BC Housing's annual reports, found at <http://www.bchousing.org/resources>

43 <https://www.fraserinstitute.org/sites/default/files/impact-of-land-use-regulation-on-housing-supply-in-canada.pdf>

44 https://www.bcassessment.ca/Property-information-and-trends/_layouts/15/WopiFrame.aspx?sourcedoc=/Property-information-and-trends/AnnualReleasesandReports/2016%20Assessment%20Roll%20Total%20Value.pdf&action=default

45 <http://www.vancitybuzz.com/2016/01/greater-vancouver-real-estate-assessments-2015/>

higher rental rates. Higher rental costs mean that those in the community that are most in need cannot afford new rental units. The government has leveraged increased property valuations by using the property transfer tax (which includes the 15% Foreign Buyer Tax) to fund the \$500 million *Expanding Affordable Housing Initiative* (EAH) outlined previously.⁴⁶

Perversely, increased property valuations have a negative impact on homeowners, particularly pensioners, as well as SMEs who cannot cope with soaring property tax bills. This is caused by a combination of poor legislation, taxing property owners on potential of the property for development: the value of the land typically dominates an assessment, but this value is only realized when a property is sold and redeveloped. This has the effect of driving up surrounding affordable housing prices, as well as driving away valuable SMEs that are important for employment, particularly within Vancouver's weak labour market.⁴⁷ The Province does have legislation that allows those over the age of 65 to delay their property tax payments until their primary residence is sold but this does not impact younger households.

4.2.3 STRAIN ON AFFORDABLE HOUSING PROVIDERS TO MAINTAIN EXISTING STOCK

The lack of new units is not the only shortfall in the affordable housing sector. Many affordable rental organizations are also struggling to maintain their existing units at acceptable living conditions due to expiring operating agreements with the federal government.

ENDING OF OPERATING AGREEMENTS

Operating agreements have existed between social housing units and the federal government since the 1970s. These agreements were federal government subsidies designed to help pay off the social housing units' mortgages and to support upkeep and repair costs. The agreements were designed to last between 30-50 years, at which point it was assumed that the social housing units would be able to operate without subsidies due to their mortgages being fully paid off. By 2020, operating agreements representing 5,900 units are due to expire. After expiry, these social housing units will be fully responsible for financing the much-needed repairs and renovations that have been delayed while the mortgages were being paid off. The annual value of these subsidies is approximately \$200 million per year in British Columbia. If this funding stops entirely, and the agreements are not renewed, current

46 <http://vancouver.sun.com/g00/news/politics/government-unveils-details-of-affordable-housing-fund?i10c.referrer=http%3A%2F%2Fvancouver.sun.com%2Fnews%2Fpolitics%2Fgovernment-unveils-details-of-affordable-housing-fund>

47 <http://www.theglobeandmail.com/report-on-business/small-business/sb-growth/soaring-land-values-in-vancouver-spark-a-property-tax-revolt/article33672975/>; <http://vancouver.sun.com/news/local-news/metro-vancouver-homeowners-receiving-2017-assessment-increases-of-30-per-cent-to-over-50-per-cent>

social housing units will be under major financial pressure and many are projected to become inoperable as a result.⁴⁸

CITY PROVISION GROWTH SLOWER THAN GROWTH OF DEMAND

The City of Vancouver has enabled 2,275 new units of supportive housing, 2,500 units of social and 2,500 units of secured market rental housing since 2011 as part of their five year targets. While commendable, these efforts have not been able to close the gap between housing need, incomes, and affordable housing supply. The current waiting list for social housing in Metro Vancouver is about 10,000 applicants, indicating that there is still an imbalance in the market.⁴⁹

⁴⁸ Section 4.3 information sourced from this publication:

<https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2016/05/CCPA-BC-Affordable-Housing.pdf>

⁴⁹ <https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2016/05/CCPA-BC-Affordable-Housing.pdf>

5.0 BARRIERS TO PRIVATE INVOLVEMENT IN AFFORDABLE HOUSING

To date, private investors have not had a substantial impact on the affordable housing sector in Canada. While Vancity Credit Union manages a series of investments and grants for affordable housing, as part of their *Impact Lending* program, a large portion of their support is philanthropic and advisory.⁵⁰ The overall lack of private investment in the affordable housing sector in British Columbia specifically is due to two major issues that make the investment landscape unattractive to many investors:

- By definition affordable housing is rented or sold at below-market value.
- Government policy in BC has not developed in a way that enables and attracts private investment.

5.1 BELOW-MARKET RETURNS

Issues exist for rental developers and investors including higher risk, longer periods of illiquidity, and the difficulty of seeing strong returns when compared with condominium developments. These issues are accentuated further when we begin to discuss affordable rental development.

RENTAL DEVELOPMENT INVESTING LANDSCAPE

Rental development as a whole is less attractive to investors than condominium or housing development that is designed for sale to homebuyers. This is especially true in times when land and house prices⁵¹ are rising, which is the case now in British Columbia and Vancouver. Land costs and development costs are roughly the same for both rental development and condominium development, but condominium developers have a major financial advantage over rental developers. Condominium developers are able to sell the majority of the units in the condominium prior to construction. This gives developers immediate cash flow prior to the building being constructed, which allows them to finance the construction of the building more easily. This also reduces financing risk for investors as they are able to see the viability of the project before it has been constructed.⁵²

⁵⁰ <https://www.vancity.com/AboutVancity/InvestingInCommunities/StoriesOfImpact/Housing/>

⁵¹ <http://neighbourhoodchange.ca/wp-content/uploads/2012/11/Black-2012-Affd-Housing-Research-Paper-224.pdf>

⁵² https://www.onpha.on.ca/onpha/Content/PolicyAndResearch/Other_Research/Implementing_Inclusionary_Zoning_Policy_to_Facilitate_Affordable_Housing_Development_in_Ontario.aspx & <http://neighbourhoodchange.ca/wp-content/uploads/2012/11/Black-2012-Affd-Housing-Research-Paper-224.pdf>

RISK CREATES HIGH RENT PRICES OUT OF NECESSITY

Rental development is seen as riskier for investors as there is no guarantee of financial viability. Due to the increased perceived risk by investors, financing the construction of rental units becomes more expensive for developers and their equity remains tied up for longer periods of time due to the absence of pre-sales. A study undertaken by the University of Toronto Cities Centre suggested that developers in Toronto would need to set rent levels at a high level of \$2200 per month to generate a reasonable rate of return.⁵³ This translates to \$26,400 a year in rent, which would be unaffordable for anyone making under \$88,000 a year, in a city where median incomes are \$75,270. Toronto is the most comparable Canadian city to Vancouver in terms of housing prices, so it is safe to assume these numbers would be similar. This estimate of market viable rent levels far exceeds any definition of affordable housing.

AFFORDABLE HOUSING ACCENTUATES RENTAL DEVELOPMENT ISSUES

All of the above issues affect affordable rental housing the same or slightly more than at-market rental housing; however, a fourth issue arises in the form of limitations on profits. Affordable housing is defined as costing no more than 30% of a household's income.⁵⁴ The goal of affordable housing is to provide housing to low-income families, (defined as households with yearly income at less than half of the Canadian median income).⁵⁵ For British Columbia, the low-income household cut-off was \$37,050 in 2013.⁵⁶ This means affordable rent at its highest would be capped at approximately \$930/month. This gap between what rental developers need to charge to see reasonable returns in booming cities (\$2200/month) and the level that affordable rent needs to be set at to provide affordable rent to low-income families (\$930/month) is one of the main factors explaining the lack of current private investment in affordable housing. Affordable housing provides returns that are too low to offset the higher risk involved in rental development and the large up-front construction costs that exist.

These calculations assume that land purchase is included in the development cost of rental units. Where units are built on existing federal, provincial or municipal land, the main factor could be the construction cost. It is for this reason that one of the most important government policy interventions would be to release land for rental development.

53 <http://munkschool.utoronto.ca/imfg/uploads/238/1409affordablehousingproof2.pdf>

54 <http://www2.gov.bc.ca/gov/content/housing-tenancy/local-governments/defining-affordable-housing>

55 Ibid.

56 <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil108a-eng.htm>

5.2 GOVERNMENT POLICY BARRIERS

GOVERNMENT POLICY REFORM

Government policy in British Columbia does not combat the issues private investors experience when considering investing in affordable housing. As government funding for affordable housing continues to decrease, there is an increasing need for major private participation. Participation by the private sector does not seem likely without policy changes.

There is a pressing need for the provincial and federal government to adopt new policies to promote private investment into affordable housing, especially when Canadian policies are compared to policies of other governments throughout the world. New ideas for solving the housing crisis include introducing tax credits for private investors, amending other laws to incentivize private investment, creating density bonusing (which gives developers more floor space than normal in exchange for amenities and affordable housing)⁵⁷ and direct subsidies for developers, and elimination of municipal fees for local developers to reduce costs.⁵⁸ Appendix B describes these ideas in greater detail while considering the advantages and disadvantage of each. Tax credits and different tax laws are used in other countries to combat the housing crisis and are explored in the Opportunities for Private Investment section, below.

AN ARGUMENT FOR PRIVATE SECTOR INVOLVEMENT BEING POLITICALLY FAVOURABLE

Jill Black's 2012 paper⁵⁹ on private-sector development of affordable housing noted that private-sector involvement is politically favourable. Several of her interviewees noted that governments feel burned out by the long-term commitments they entered into in the 1970s and 1980s and do not want to commit to the long-term, ongoing subsidies offered in past programs. This creates an opportunity for private and philanthropic capital to play a bigger role in the delivery of affordable housing.

57 <http://vancouver.ca/home-property-development/density-bonus-zoning.aspx>

58 <https://www.ucalgary.ca/cities/files/cities/PrivateSectorEngagementAffordableHousing.pdf>

59 <http://neighbourhoodchange.ca/wp-content/uploads/2012/11/Black-2012-Affd-Housing-Research-Paper-224.pdf>

6.0 POSSIBLE INVESTMENT OPPORTUNITIES

Potential investment opportunities into the social housing sector are mainly through Real Estate Investment Trusts (REITs) and other trust vehicles. Some opportunities may be available through Community Contribution Companies (C3s).

6.1 AFFORDABLE HOUSING REITS

REITs are vehicles for property investment, typically bundling properties to offer shares to investors with returns from rental or mortgage income.⁶⁰ They may be either equity (directly acquiring properties) or mortgage (earning profit from loans) REITs. The attractiveness of REITs is in part due to their proportional investment streams, and traditional REITs are often seen as a way to hedge against inflation, thanks to their dividend payouts.⁶¹ However, the capitalization rate of a REIT, or the ratio of net operating income to property asset value, will necessarily be lower for affordable housing because of the no-to-low profit structure. This will result in more modest returns than a traditional REIT (on average, about two thirds of a REIT's expected return comes from dividends) which will be a key consideration to investors; however, this is likely to be a smaller trade-off between social and financial returns than other impact investing vehicles.⁶²

Typical key issues to establishing an affordable housing REIT include:

- Ownership of the housing and set-up costs: a bundle of properties must be transferred to a REIT vehicle, to then be floated on a stock exchange. Pooling of properties from multiple non-profit providers or local authorities requires consent of all parties.
- Separation of ownership of the social housing and the registered provider. Normally the non-profit housing provider is transferring full or partial ownership of its property to the REIT for a period of time. REITs typically have little direct relationship with government.
- A significant portfolio is required. REITs typically generate returns for investors by driving cost efficiencies through the use of professional management, property improvements, and property sales in high growth areas. For returns on an affordable housing REIT, significant economies of scale are necessary. It is estimated that the minimum level of capitalisation

60 <http://www.theglobeandmail.com/globe-investor/wrapping-your-head-around-reit-taxation/article5575073/>

61 <http://www.reuters.com/article/us-asia-realestate-inflation-idUSBRE9490BC20130510>

62 <http://www.investopedia.com/articles/04/110304.asp>

necessary to make an affordable housing REIT operable would be \$100 million.⁶³ A further list of criteria for an operable affordable housing REIT can be found in Appendix C.

6.1.1 EQUITY REITS

Equity REITs acquire properties, either for development or that are already operating, to lease or rent. They pay out the bulk of the income they collect to shareholders as dividends. The dividend distribution is designed to approximate the return a shareholder would have if they invested in the property directly.⁶⁴ A number of sample case studies are described in the remainder of this section.

CASE STUDY: HOUSING PARTNERSHIP EQUITY TRUST (HPET) - US

Housing Partnership Equity Trust (HPET)⁶⁵ is a private REIT; it is a social venture REIT established in the United States in 2012. HPET invests in multi-family properties for low- and moderate-income residents. It is a privately owned partnership of 12 non-profit members—which enables members to act quickly in comparison to for-profit buyers when looking to purchase rental properties, without needing to assemble complex financing packages. HPET is structured like a limited liability company. It is set up as a two-tier structure—where the trust acts as the upper-tier and non-profit members in the lower-tier. HPET invests in medium-to-large multi-family properties, including non-core, secondary real estate markets. It specifically targets unsubsidized affordable rental housing properties that are in good condition and cash flow positive.

CASE STUDY: HOUSES FOR HOMES (HFH) - UK

Houses for Homes ('HfH') was a pioneer of REIT development for social housing, describing itself as a specialist supplier of funded housing solutions (specifically for the elderly) to local authorities and registered social landlords.⁶⁶ HfH buys housing stock to hold in trust and leases the stock to registered providers, who pay the lease charge for the structure and lease the property to their tenants. HfH is able to drive down the cost of assets and financing as it is a listed company commissioning at a scale that allows it to access capital markets at better-than-retail rates.⁶⁷

63 http://www.sandrahamilton.ca/assets/uploads/sandra_hamilton_social_finance__could_a_social_reit_fill_the_equity_gap_in_affordable_housing_oct_2015_59814.pdf

64 <https://www.reit.com/investing/reit-basics/guide-equity-REITs>

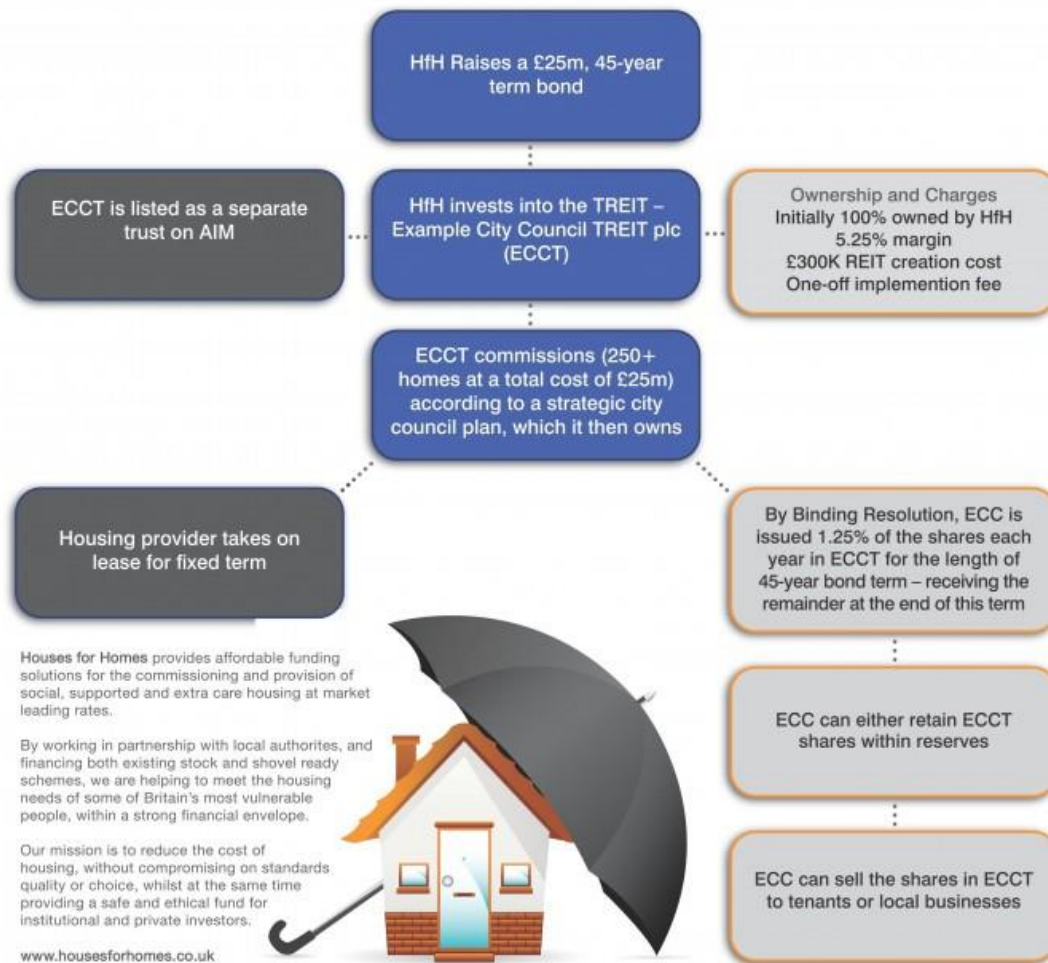
65 <http://www.housingpartnership.net/enterprises/equity-trust/>

66 <http://www.housesforhomes.co.uk/>

67 <http://www.housesforhomes.co.uk/funding/faq/>

Houses For Homes

Transfer Real Estate Investment Trust delivery model: How does it work?



Source: www.housesforhomes.co.uk

6.1.2 MORTGAGE REITS

Mortgage REITs invest in real estate mortgages or mortgage-backed securities, offering loans for the development or ownership of property and earning income from the interest on these investments as well as from the sales of mortgages. Mortgage REITs do not generally own or operate real estate and are less common. Given that Mortgage REIT revenue comes from loan interest and affordable housing providers do have access to other sources of debt financing, it may be more difficult to make the case for an affordable-housing-only Mortgage REIT.

CASE STUDY: RESPONSIBLE RESIDENTIAL INVESTMENT (RRI/) - CANADA

Responsible Residential Investment (RRI) is a limited partnership in Quebec. It acquires unsubsidized, mature, midsize, rental housing assets that need capital improvements to retain them as affordable rental housing. RRI seeks investors as limited partners. At the time of writing, RRI had not responded to questions about how many housing assets they currently control or how successful they have been obtaining investment in their concept.

CASE STUDY: THE HOUSING FINANCE CORPORATION - UK

The Housing Finance Corporation (THFC) is a financial intermediary, diversifying the risk to investors wanting to lend to registered HAs, and enabling HA borrowers, too small to get access on their own loans, to get access to capital markets. THFC obtains funds from bond issues and bank loans, raising funds for new housing development, repairs, regeneration and improvements.⁶⁸ THFC is a specialized lender acting only for social housing, and works in a group structure, with subsidiaries established to manage particular bond issues.

CASE STUDY: TRILLIUM HOUSING - CANADA

Trillium Housing is an affordable housing initiative based in Toronto, Ontario. Trillium invests in the development of entry-level ownership housing and innovative financing to enable modest-income families to own their home. While Trillium is a non-profit corporation, it offers individuals and organizations the opportunity to invest in its activities through the Trillium Housing Bond.⁶⁹

6.2 TRUSTS AND OTHER INVESTMENT VEHICLES

Housing trusts are established sources of funding for affordable housing construction, more prominent in the United States than in Canada.⁷⁰ They raise funds in a variety of ways and take applications from project candidates. Housing trusts may be:

- Finance pool trusts: established primarily to pool the funds from local government agencies, or non-profits, to achieve economies of scale and coordinated access to government funding to

68 <http://www.thfcorp.com/investing/investing-in-social-housing.pdf>

69 <http://trilliumhousing.ca/investors/>

70 <https://www.hudexchange.info/programs/htf/>

attract private developers.⁷¹ They can overcome barriers to financing by establishing leverage to secure ongoing dedicated sources of public revenue.

- Land trusts: a land trust can make development less expensive, and increase the likelihood of attracting private developers. However, there are significant tax barriers to donating land in Canada.⁷²

Local examples of housing trusts include the Regional Housing Trust Fund and the Vancouver Community Land Trust Foundation. The Regional Housing Trust Fund was established in 2005 in BC's Capital Region on Vancouver Island. With six districts contributing a total of \$638,256 annually, it aims to stabilize funding and leverage increased access to funds from provincial and federal governments and other sources.⁷³ The Vancouver Community Land Trust Foundation is explored in greater detail in the case study, below.

CASE STUDY: THE VANCOUVER COMMUNITY LAND TRUST PARTNERSHIP & NEW MARKET FUNDS

The Vancouver Community Land Trust (VCLT) is a non-profit society created in 2014 under the Cooperative Housing Association of BC. Four sites were established for affordable housing projects involving multi-sector collaboration between the co-op and non-profit housing sector, the City of Vancouver, Vancity Credit Union, and New Market Funds. Currently, construction is underway on all four sites with 358 units scheduled for completion in early 2018.⁷⁴

Key aspects of the Vancouver Community Land Trust Foundation project include:

- The use of a portfolio approach—a single organization developing and operating the four sites as a portfolio, rather than single sites held by different organizations, allowing economies of scale and cost-efficiencies in construction and operation of the four sites.⁷⁵
- The redistribution strategy of rental income between the Fraserview Housing Coop (where rents will be 90% of market), to the other sites targeting lower income individuals at lower rates

71 Note that these are primarily pooled sources of capital for non-profit development, differing from CMHC's Canada Housing Trust (CHT), which functions acquiring interests in (standard market) eligible housing loans primarily through mortgage backed securities. https://www.cmhc-schl.gc.ca/ar-ra/2013/en/mda/mda_007e.cfm

72 <https://www.ucalgary.ca/cities/files/cities/PrivateSectorEngagementAffordableHousing.pdf>

73 <http://www.caledoninst.org/Publications/PDF/556ENG.pdf>

74 <http://www.newswire.ca/news-releases/community-land-trust-partners-with-city-of-vancouver-to-build-358-affordable-new-homes-580841361.html>

75 http://newmarketfunds.ca/pdf/VCLT_Case_Study_April_2015.pdf

(the lowest being 23% of market), to a combined aggregated maximum of 76%.⁷⁶ The business model of subsidizing rent with higher rents contributes both to affordability and sustainability of the sites. This approach is uncommon in BC and the rest of Canada but increases the feasibility of financing as well as flexibility.

- The lend-lease land contribution of the City of Vancouver. The city contributed the land at the sites through a 99-year lease at a nominal rate, included as an equity contribution. This effectively removed the barriers to financing acquisition of land.
- Post-construction mid-term project equity from New Market Funds. This was noted to be key in the financial health of the project. There is a notable lack of equity available from most non-profit partners. While there was also a smaller amount of partner equity from non-profit partners and co-investor equity from BC Housing (at 4.5% and 3.8% of project financing, respectively), New Market Funds closed a financing gap by providing a tool to access investment capital that was previously unavailable. More information as to how this funding worked provided in the next section.

NEW MARKET FUNDS: SUCCESSFUL IMPACT INVESTING IN AFFORDABLE HOUSING?

New Market Funds (NMF) is a hybrid investment firm blending both the “innovative power of the private sector and the societal purpose of the charitable sector”. It is a for-profit company owned by a registered charity formed by the Tides Canada Foundation, Trico Foundation, Bealight Foundation, Vancity Community Foundation, and Le Réseau d’investissement social du Québec.⁷⁷ New Market Funds is listed on the Global Impact Investing Network (GIIN) and has recently developed the NMF Rental Housing Fund, which invests in purpose-built, stabilized multi-family affordable rental housing, Canada’s first market-based affordable housing investment fund.⁷⁸

The NMF Rental Housing Fund supported the Vancouver Community Land Trust project⁷⁹ by providing approximately 9% of the \$120 million combined value of the first four initial projects in the form of post-construction equity. The equity is to stay in each project for an estimated eight years to allow time for the co-op and non-profit owners to build their equity stake and buy out New Market Funds. The targeted annual return for fund investors is 6% net of fees, including a 4% quarterly

⁷⁶ http://newmarketfunds.ca/pdf/VCLT_Case_Study_April_2015.pdf

⁷⁷ <http://newmarketfunds.ca/nmf/wp-content/uploads/2016/05/New-Market-Funds.pdf>

⁷⁸ *ibid.*

⁷⁹ <http://newmarketfunds.ca/nmf/wp-content/uploads/2016/05/Vancouver-Community-Land-Trust.pdf> ,
http://newmarketfunds.ca/pdf/VCLT_Case_Study_April_2015.pdf

distribution.⁸⁰ According to a communication from New Market Funds for Kirsten Patten’s study of the project, NMF project equity can be characterized as “blended” investments where financial returns and community benefit share an equal status.

CASE STUDY: REAL LETTINGS PROPERTY FUND - UK

Real Lettings Property Fund was developed and is managed by Resonance, an investment management firm involved in several impact investment funds.⁸¹ The fund buys one or two bedroom flats (apartments), refurbishes them as necessary, and then leases them to Real Lettings. Real Lettings guarantees the properties will be rented and takes over management and maintenance risk for five years. The goal of the fund is to provide *move-on* accommodation for homeless individuals and families in London, UK whilst also delivering a commercial risk-adjusted return to investors.⁸² The fund closed for investment in early 2015 at £56.8 million. Currently, the fund has purchased approximately 250 homes.⁸³

6.3 HYBRID LEGAL STRUCTURES- COMMUNITY INVESTMENT COMPANIES (CICS) COMMUNITY CONTRIBUTION COMPANIES (C3S), AND LOW-PROFIT LIMITED LIABILITY COMPANIES (L3CS)

New corporate legislation has been introduced specifically in the UK, US, and Canada allowing the development of hybrid legal structures blending the corporation model with Community Investment Companies (CICs), Low-Profit Limited Liability Companies (L3Cs) and Community Contribution Companies (C3s), respectively. Hybrid legal structures can provide benefits to entities working locally and they can protect philanthropic investors from mission drift, but they do not have the same preferential tax treatment available as charitable or non-profit corporations.⁸⁴ All types of CICs and C3s are asset-locked, meaning that in addition to the limits on the recurring dividends paid out to shareholders, an organization is limited in the assets that shareholders are entitled to receive upon dissolution of the company.

80 <http://tidescanada.org/media/new-market-funds-launches-canadas-first-market-based-affordable-housing-investment-fund/>. Additionally, “the Fund caps its upside returns to protect affordability of rents, and in exchange receives significant downside protection.

81 <http://www.resonance.ltd.uk/about-us/>

82 <http://www.refbc.com/sites/default/files/S13-Alternative-Sources-of-Capital-for-Social-Affordable-Housing-Sector.pdf>

83 <http://www.reallettings.com/property-fund.html>

84 <http://www.refbc.com/sites/default/files/S13-Alternative-Sources-of-Capital-for-Social-Affordable-Housing-Sector.pdf>

COMMUNITY INTEREST COMPANY - UK

The Community Interest Company (CIC) structure was established, in 2004 in the UK, to provide a more flexible legal structure for social ventures. CICs are limited companies which operate to provide a benefit to the community they serve; however, they can distribute dividends to investors. CICs key features include:

- Community Interest Test (CIT)—determined by a government-established regulator which reviews each CICs structure and proposed social benefit
- Asset lock—the CIC is not allowed to transfer its assets to anyone other than another asset-locked CIC or charity.
- Dividend payments—are limited to 20% of share value, with an overall limit of 35% of annual profits.⁸⁵ The asset lock may not be reversed.
- Cap on dividends—the maximum aggregate dividend limits the total dividend declared in terms of the profits available for distribution. Currently, the limit is 35% of the distributable profits.⁸⁶

As of May 2016, there were over 12,000 CICs on the UK Regulators' register. Multiple Community Interest Companies are enabling the provision of affordable housing. Inclusion Housing CIC (IHC) is described in the case study, below.

CASE STUDY: INCLUSION HOUSING CIC (IHC) - UK

Inclusion Housing CIC (IHC) is a community interest company, social enterprise, and registered housing provider in the north of England. IHC provides a range of properties to for-care and person-centred supported living. IHC acts as a landlord, provides rental housing and service, and works with a private developer who arranges financing with a return for the investor.

COMMUNITY CONTRIBUTION COMPANIES - CANADA

Currently, British Columbia is the only province in Canada with a hybrid legal structure for companies that are working to solve social issues for a profit—a Community Contribution Company (C3). While this may place some limits on an organization working at a national level, the majority of housing

⁸⁵ <http://www.fin.gov.bc.ca/prs/ccq/caq.htm>

⁸⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524217/13-783-community-interest-companies-information-pack.pdf

provision is local or regional and in practice, most conventional for profit companies are incorporated provincially. Notable aspects of C3's structure include:

- Dividend payments limited to 40% of annual profits to shareholders while the bulk must be used for community purposes.⁸⁷
- Asset lock: the CIC is not allowed to transfer its assets unless to another asset-locked CIC or charity.
- Not regulated except through filing an annual report.

Both institutional and individual investors may invest in a C3, and housing providers could choose to establish themselves as a C3 to establish a subsidiary company, although this does not trigger any tax or income benefits at this stage. No affordable-housing-specific C3s are in British Columbia at this stage, but there is an opportunity, based on the experience of the UK Inclusion Housing model.

LOW-PROFIT LIMITED LIABILITY COMPANIES - US

First established in 2008 in Vermont, the low-profit limited liability company (L3C) is an American variation of a limited liability company (LLC). L3Cs can pursue profit-oriented objectives but must have an explicit primary charitable mission.⁸⁸ Key aspects of the L3C's structure include:

- Facilitation of program-related investments in socially-beneficial, for-profit enterprises, which can be recovered along with earnings to be redeployed unlike grants.
- Access to philanthropic contributions due to the ability to combine both philanthropic, private, and private foundation capital.

There are approximately 1,370 LC3s active in the US. No prominent housing provider L3C exists at the time of writing, although a housing-related consulting firm, Oystertree Consulting, operates in Louisiana.⁸⁹

87 <http://www.fin.gov.bc.ca/prs/ccc/caq.htm>

88 <https://www.flsenate.gov/UserContent/Session/2011/Publications/InterimReports/pdf/2011-210cm.pdf>,
<http://www.marclane.com/index.php?src=gendocs&ref=L3C&category=Capabilities/>

89 <http://www.oystertree.org/services/>

7.0 OTHER OPTIONS

7.1 DORMANT BANK ACCOUNTS

In many major developed countries, there is significant capital sitting in dormant, unclaimed bank accounts. In 2011, the UK government used these funds to seed impact investment through the creation of Big Society Capital.

BIG SOCIETY CAPITAL

The UK developed an innovative idea for using a portion of the unclaimed funds in their country to advance social goals. The UK did this by transferring £400 million pounds of these unclaimed funds to Big Society Capital, an independent financial institution with a social mission to grow social investments in the UK.⁹⁰ As part of the investment, Big Society Capital will use the funds to further support affordable housing development in the UK. Big Society Capital is expected to receive a total of £5-600 million from dormant bank accounts over multiple years.⁹¹

CANADA'S OPPORTUNITY

In a paper titled "Social Finance - Gap Analysis", Sandra Hamilton suggests that Canada could do something similar to promote affordable housing construction nation-wide.⁹² The Bank of Canada currently has \$656 million in unclaimed bank accounts and Canada Savings Bonds;⁹³ however, experts estimate that these assets could actually be nearing a value between \$4-7 billion when including other banking institutions. Hamilton suggests that the Government of Canada could, and should, immediately leverage several hundred million dollars of this dormant money to seed the very first country-wide Affordable Housing REIT. The REIT would be open to private investment, which would help the fund grow, spread the fund's risk, and improve the liquidity of the fund. With land values increasing in Canada, the fund could expect to see at least 3% returns yearly. This is a level of return that Hamilton believes is necessary to attract financing into an affordable housing fund.

The REIT would make use of money that is otherwise lying stagnant for the betterment of the Canadian affordable housing sector (before any multiplier effect).

90 <http://www.bigsocietycapital.com/>

91 <https://www.ppforum.ca/sites/default/files/Final%20Public%20Policy%20Forum%20Nov.22.pdf>

92 http://www.sandrahamilton.ca/assets/uploads/sandra_hamilton_social_finance__could_a_social_reit_fill_the_equity_gap_in_affordable_housing_oct_2015_59814.pdf

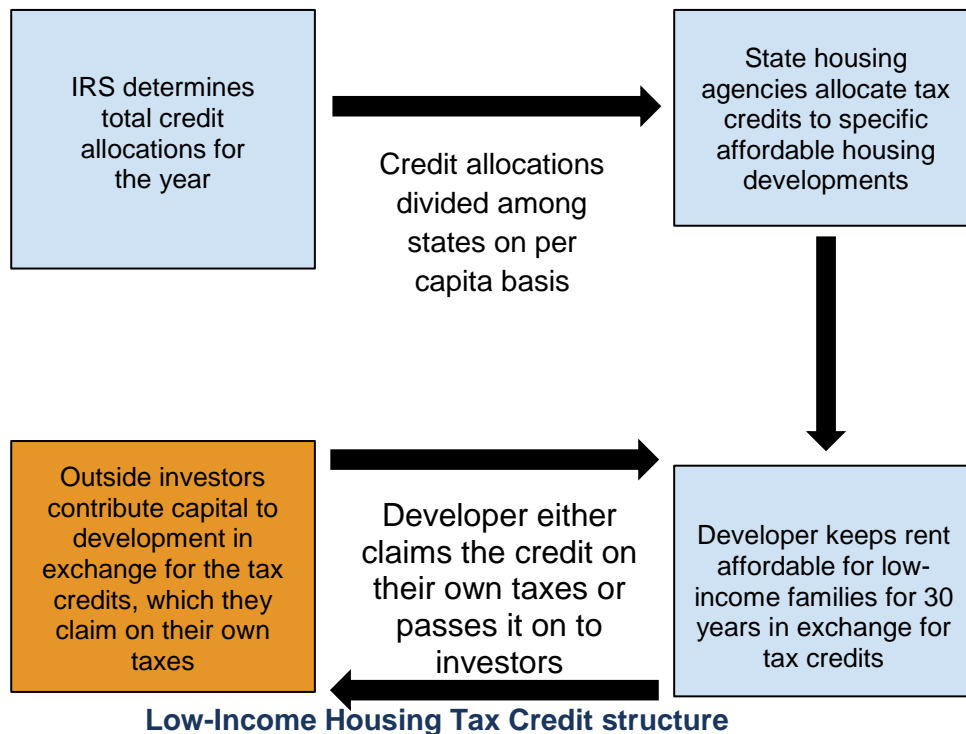
93 <http://www.bankofcanada.ca/unclaimed-balances/>

7.2 TAX CREDITS

Investors need further financial incentives if they are going to be willing to invest in affordable housing. Other countries, which have made progress in dealing with their own affordable housing issues, have used tax credits as a way to attract private capital into the affordable housing sector.

CASE STUDY: LOW-INCOME HOUSING TAX CREDIT IN THE U.S.A.

The majority of the United States' affordable housing construction has been financed by private investment through a system known as the Low-Income Housing Tax Credit.



Over the past 26 years, approximately \$100 billion in private investment has gone towards the construction of affordable housing. This has allowed private investors to finance the majority of 2.6 million affordable rental homes.⁹⁴ A similar idea had previously gained momentum under the recent Conservative government in Canada.⁹⁵ If a tax credit system such as the one above were to be put in

94 http://munkschool.utoronto.ca/imfg/uploads/239/dk_toronto_presentation_apr152013.pdf

95 <https://www.ucalgary.ca/cities/files/cities/PrivateSectorEngagementAffordableHousing.pdf>

place, it would facilitate the movement of private investment into affordable housing at a scale that is unlikely to be achieved through other comparable mechanisms.

7.3 IMMIGRANT INVESTMENT

Canada had a programme that encouraged independent immigrant investors to move to the country. The programme required qualified immigrants with a net worth of at least \$1.6 million to make an interest-free loan of at least \$800,000 to the province in which they were to reside. It was terminated by the Conservative-led government in October 2014. The programme had been criticised for not attracting long-term residents and tax-payers to Canada. It was also criticised for having a relatively low cost of entry. At the time of its termination, there were 65,000 applicants in the pipeline. In 2008, 5,687 immigrant investors moved to BC; although by 2012, the number had fallen to 2,622, partly due to the fact that Quebec's system was faster and more attractive.⁹⁶ Reinstating the immigrant investor programme at a higher threshold of \$1.5 million, held for five to eight years, to support affordable housing construction would generate \$1.5 billion for each 1,000 immigrants or \$4.2 billion at the levels of immigration seen in 2012. The investment could be modelled on the approaches described above, including New Markets Funds. Since Canada attracts around 270,000 new immigrants to Canada per annum,⁹⁷ and is likely to remain an attractive destination for immigrants, a special programme that aligns the interest of wealthy immigrants with the social goal of securing more affordable housing seems to be worthy of consideration.

96 <http://www.vancouversun.com/news/Ottawa+scraps+investor+immigrant+program/9496380/story.html>

97 <http://www.cic.gc.ca/english/resources/publications/annual-report-2016/index.asp>

CONCLUSIONS

Affordable housing is a fairly new area for impact investment. Provision of social and affordable housing has challenged governments and non-profit providers confronted with rising land prices, increasing gaps between population wealth and market housing prices, and limited funding. Private involvement has ranged from development partnerships and philanthropy to direct equity contribution on the part of New Market Funds and direct roles in provision in the United Kingdom by Community Interest Companies. New avenues for investment in affordable housing are being explored, including Real Estate Investment Trusts for affordable housing and immigrant investor programmes. To date, a limited number of equity REITs have been successful, while mortgage REITs less so. It is important to make the distinction between the successful use of private REITs by non-profit associations (such as in the United States) and an investment vehicle that offers shares to the public or even select individuals (such as New Market Funds). Investment in affordable housing is challenged by below-market returns and an (as yet) lack of favourable policy incentives, but is certainly made more viable when governments make the underlying land available on a lease basis. Future options exist in some avenues, including the Vancouver-based New Market Funds, and there is potential to bring such models to scale if other sources of capital are found.

APPENDIX A

Budget 2016 Affordable Housing Investments commitments for 2016-17 is divided into the subsequent sections (in \$ millions). Data taken from: <http://www.budget.gc.ca/2016/docs/plan/ch2-en.html>

AFFORDABLE HOUSING INVESTMENTS (M)	2016	2017	TOTAL
Doubling the Investment in Affordable Housing Initiative	\$261.6	242.8	504.4
Increasing Affordable Housing for Seniors	\$100.3	100.4	200.7
Supporting Energy and Water Efficiency Retrofits and Renovations to Existing Social Housing	\$500	73.9	573.9
Supporting Shelters for Victims of Violence	\$60.0	29.9	89.9
Tackling Homelessness	\$57.9	53.9	111.8
Additional Investments in Housing for First Nations, Inuit and Northern Communities	\$356.2	382.8	739.0
Additional Investments to Support the Construction of Affordable Rental Housing	\$13.1	72.6	85.7
Total	1349.1	956.3	2,305.4

APPENDIX B

Analysis of potential policy initiatives (Pulled directly from:

<https://www.ucalgary.ca/cities/files/cities/PrivateSectorEngagementAffordableHousing.pdf>)

Initiative	Advantages	Disadvantages
Density Bonusing (allowing developers to add additional density in exchange for certain provisions that benefit the community such as a certain percentage of affordable housing units)	<ul style="list-style-type: none"> -The ability to provide substantial affordable units -Minimal municipal involvement 	<ul style="list-style-type: none"> -Reliant on developer willingness to build higher density development -Extensive community consultation is required -Invites speculation into 'deals' between developers and municipalities
Tax Amendments (i.e. lowering the GST on new rental housing, increasing the capital cost allowance, expanding the tax-deductible soft costs within the first year of operation)	<ul style="list-style-type: none"> -Targeted incentives to construct rental housing -Advantages would apply to all developers producing new rental housing 	<ul style="list-style-type: none"> -Cost savings would occur only with the submission of a developer's income tax and therefore will not reduce initial cost
Reducing or Waiving Municipal Fees to keep costs down	<ul style="list-style-type: none"> -Could increase the production of affordable housing in high growth area -Easy to implement 	<ul style="list-style-type: none"> -Cost savings are not guaranteed to be passed along to the consumer -Savings would not necessarily be very significant
Rehabilitation of Existing non-rental stock (such as converting old schools into affordable housing)	<ul style="list-style-type: none"> -Lower capital costs compared to new construction -Approvals process generally faster 	<ul style="list-style-type: none"> -Does not necessarily increase the stock of affordable housing as units acquired for renovation are generally affordable due to their potential state of disrepair.

- Reduces the number of condo conversions
- Locations are usually good as they are in established areas close to services and amenities

Tax credits (developing a US style tax credit program)

- The private sector would potentially support a US style tax credit program
- Potential perception of greater fiscal responsibility than cash grants
- Provincial housing agencies are more flexible than a national CMHC administered program
- CRA's auditing system would make it more likely for participants to adhere to the rules
- A tax credit system is potentially inefficient depending on how the administrative costs are compared to direct subsidies
- Support by the private sector is debatable as it may be construed as a de-facto rent control, and therefore might serve as a disincentive
- Would not adequately serve the lowest income groups that fall below 60% of the median family income in a region

Housing trusts (partnership of local non-profit groups, business and industry professionals, and government representatives that work together to increase and preserve affordable housing)

- More coordinated access to government funding
- More efficient funding can attract private developers
- Can use government funding to leverage additional financing
- Creation of a low interest lending arm
- Decision can potentially be political
- Difficult to secure a dedicated funding source

APPENDIX C

A list of criteria that is necessary for a successful affordable housing fund in Canada (From: http://www.sandrahamilton.ca/assets/uploads/sandra_hamilton_social_finance_could_a_social_reit_fill_the_equity_gap_in_affordable_housing_oct_2015_59814.pdf)

Criteria	Explanation
Liquidity	Retail investments are most easily sold if they offer liquidity while many social investments are illiquid. Solving this conundrum is crucial to the effectiveness of an affordable housing REIT
Low Risk	Low market returns must be matched with a low risk investment. Government backed instruments would improve marketability of an affordable housing REIT.
Mainstream	The investment needs to be normalised if it is hoping to attract mainstream money
Marketable	The fund should be RRSP eligible. Investments can be marketed as creating the catalytic capital needed to attract outside match funding to stimulate the development of affordable housing in the investor's home region.
Target ROI	3% APR should be the goal to attract significant funding. This would maintain slightly better returns than a low interest GIC.
Tax Relief	When private individuals step in to address societal problems while taking pressure off the public purse tax credits should be offered to those willing to commit patient capital for periods in excess of 10 year terms.
Scale	To be efficient the fund must be well capitalised - \$100 million minimum.