impact investing × affordable housing

CHRA Congress
Session Series 2019

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Canadian Housing and Renewal Association
CHRA ACHRU
A Home for the Housing Sector

BC HOUSING

THIS SUMMARY

This is a summary of the workshop session 'Impact Investing for Affordable Housing Projects', which took place in Victoria, BC on April 3, 2019 at the Canadian Housing and Renewal Association's 51st National Congress on Housing and Homelessness.

The session explored innovative approaches to financing moderate to middle-income affordable housing projects, including identifying challenges and opportunities for impact investing.

WITH THANKS

With thanks to BC Housing for their generous support for this initiative.

BC HOUSING

Cover page graphic courtesy of Vivacité.

Impact investing approaches have shown to catalyze community housing developments and build capacity within the sector across Canada.

WHAT IS IMPACT INVESTING?

Impact investing, also known as social finance, is an approach to investing that seeks to generate positive social impact and, in most cases, a financial return for its investors.

The Impact Investing Spectrum

The following diagram, adapted by Vancity, provides an overview of where impact investing approaches are situated in relation to a broader continuum of investment approaches.

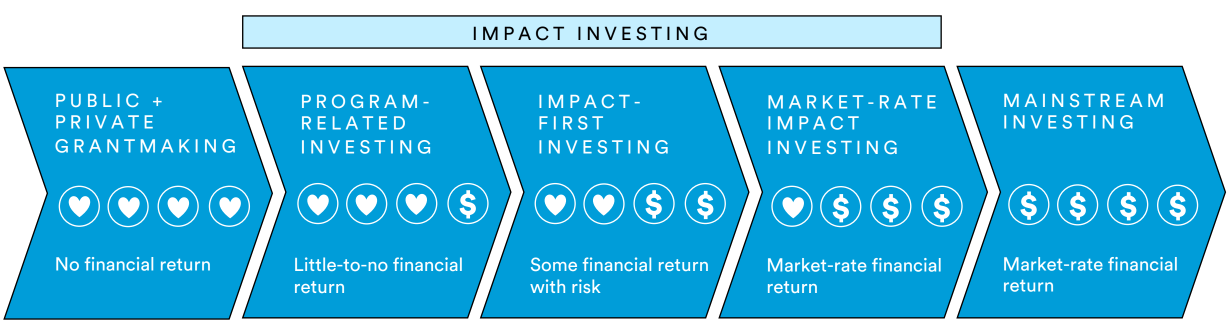
According to the spectrum, impact investing can include **program-related investing** (with little-to-no financial return, but a strong focus on social/environmental outcomes), **impact-first investing** (motivated by social/environmental outcomes), and **market-rate impact investing** (with a market-rate financial return).

WHY AFFORDABLE HOUSING?

In Canada's fastest-growing cities, increases in rents and home prices are outpacing wage growth. Organizations like Vancity and Vivacité have observed a market gap, where investor return expectations are misaligned with local housing needs.

Government funding for affordable housing development and ongoing operation can be unpredictable. This reality contributes to the backlog in housing supply across the country.[1]

The promising practices highlighted in this summary provide a snapshot of the use of impact investing in affordable housing development, as a response to this need.



This type of investing is primarily aimed at achieving social impact.	For example, investing part of an endowment into acquiring and owning shares in a real estate project.	This type of investing is motivated by social and/or environmental outcomes, balanced with a financial return for investors.	This type of investor is still seeking comparable market-rate investment returns, but prioritizes an opportunity for a market-rate impact investing opportunity.	This type of investing does not have a prioritization for a social impact.

***Figure 1:** Impact Investing Spectrum; Adapted by Vancity*

[1] BC Rental Housing Coalition, "An Affordable Housing Plan for BC," Housing Central, 2017.

Impact investing can support the provision of affordable housing along the continuum, across the development process.

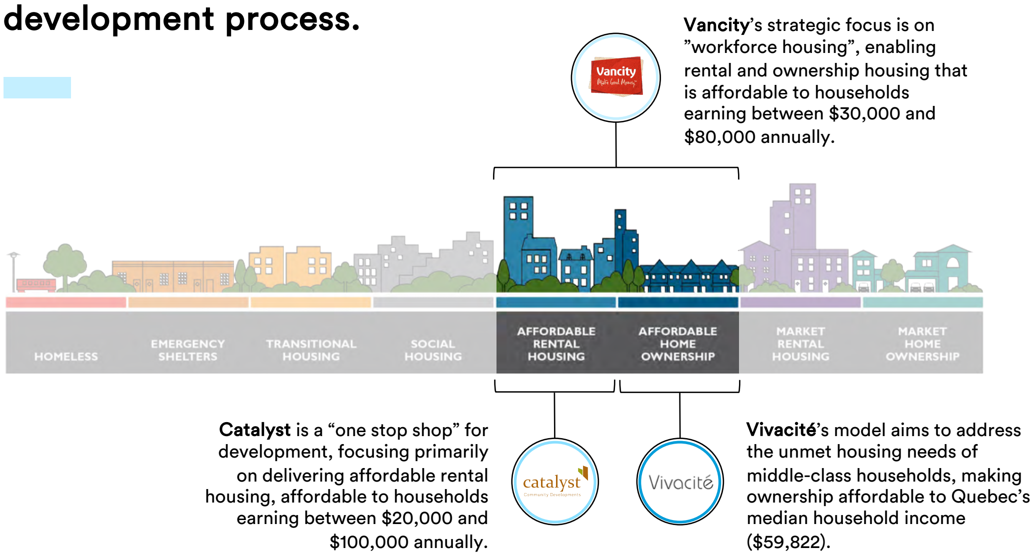


***Figure 2:** Housing Continuum, Adapted from CMHC, 2017*

FRAMEWORK AND PHILOSOPHY

Impact investing models and approaches are often built on a desire to redefine wealth-creation in our communities. In the case of the affordable housing examples outlined in this summary, this means creating access to housing, building community assets, growing capacity, and advocating to all levels of government.[2]

The following key findings from "The Role of Social Investment in Canadian Affordable Housing" help situate impact investing in non-profit affordable housing development within the broader goals of the community housing and social enterprise sectors:[3]

- **Non-profits with land are significant social investors in the community housing sector**: contributions of land assets towards non-profit and social purpose development is a critical initiative toward maintaining community ownership of its assets for long-term or perpetual community benefit and affordability.
- **Social investment is complementary to the existing financial ecosystem**: this type of investment can be layered-in strategically with other sources of government funding, while freeing up public capital for projects aiming to achieve deep affordability needs.
- **Investor decision-making must be understood and challenged**: to scale the model, there should be a focus on helping social investors understand the performance potential and impact of the model, in relation to existing investment options and approaches.
- **Impact investors can be community partners** in affordable housing development, bringing new markets, social enterprise, and assets to the table.

> We can't just keep doing pilot projects; we know what we need to do—the opportunity is to scale; to make impact investing the norm in affordable housing real estate development.
>
> *- Kira Gerwing, Vancity*

[2] Kira Gerwing, "Impact Investing for Affordable Housing Projects" (presentation, CHRA Congress, Victoria, BC, April 3, 2019).
[3] Katrina May, "The Role of Social Investment in Canadian Affordable Housing," Catalyst Community Developments, Fall 2018.

Several impact investing approaches are demonstrating positive community impact in Canada.

VANCITY

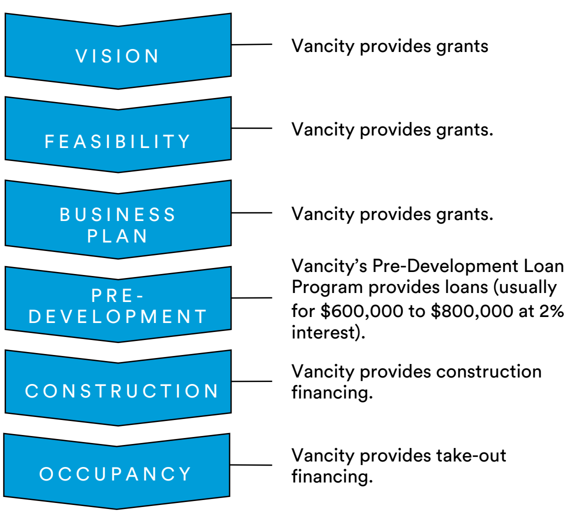
Vancity is a **values-based financial co-operative**, committed to reinvesting 30% of its profits back into communities, through a community investment program and through direct dividends to its members.[4]

Impact Real Estate Program

The goal of Vancity's Impact Real Estate Program is to use community investments to facilitate three outcomes:

1. Retain community ownership of lands
2. Address housing affordability challenges
3. Invest in environmentally-sustainable buildings

Vancity invests in all six stages of the real estate process.



Pre-Development Loan Program

Community developers can take advantage of Vancity's pre-development loan program when their project is ready for approvals, has site control, and has assembled a development team and a viable business plan.

VIVACITÉ

Vivacité is a Montreal-based organization offering a shared-equity homeownership model that allows households to access ownership housing without a down-payment. The homes are kept affordable in perpetuity, to continue to support more families over time.[5]

Accessing Homeownership

Vivacité invests a 20% down-payment in the home. The future owner takes out a mortgage for 80% of the value of the home. The owner also pays a transaction fee of $1,250 to Vivacité. Both parties sign a deed of covenant to ensure perpetual affordability (equivalent to a ground lease). Vivacité holds a second mortgage.

Resale

When the family wants to sell the house, Vivacité finds new owners who meet their qualification requirements (income level, owner-occupant, and suitability of the home). The family gets back what they've built in equity in the home, plus 25% of the market appreciation of the home.

Perpetual Affordability

With 75% of the share of market appreciation upon sale of a home, Vivacité reinvests a portion for a new down-payment for the next owner and the remaining is used to build a new home.

A Portfolio Approach

Instead of building the model on a project-by-project basis, Vivacité takes a portfolio approach, with 240 units spread across 7 buildings in rural markets (10%), suburban areas (40%) and urban areas (50%).

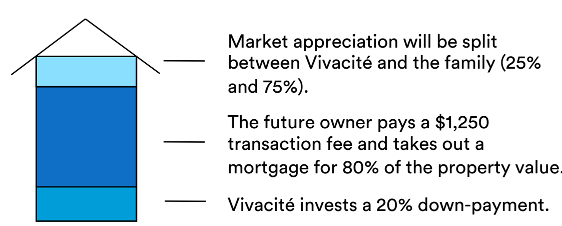


***Figure 3**: The Vivacité Model, Adapted from Vivacité*

[4] Kira Gerwing, "Impact Investing for Affordable Housing Projects" (presentation, CHRA Congress, Victoria, BC, April 3, 2019).
[5] Marie-Sophie Banville, "Impact Investing and Affordable Housing: Vivacité" (presentation, CHRA Congress, Victoria, BC, April 3, 2019).

Lessons learned: infusing affordable housing development with impact investing...

The presenters' experience studying and implementing impact investing approaches in affordable housing brought about several lessons learned:

- **Opportunities for social investment in affordable housing must be increased.** Increasing these opportunities requires streamlining and standardizing processes, building capabilities and capacity within organizations interested in utilizing impact investing in their development process.[6]
- **Finding and convening social impact investors can be a challenge.** Catalyst Community Developments found success in leveraging its network and working with like-minded organizations, such as Vancity. Other promising partners may include foundations with specialized funds and the general public. Highly-visible financing alternatives such as crowdfunding, community bonds, and dedicated RRSPs are also being explored.[7]
- **Resources should be spent raising awareness and scaling through partnerships.** To move from incremental, project-by-project growth, to transformational growth, partnerships are being forged into long-term strategic alliances. Sharing knowledge, resources, and expertise and standardized processes, such as legal costs and contracts where possible.[8]
- **Impact investing is not necessarily about innovation.** When innovative projects are unable to find traditional financing, they often go to impact investing. This is not necessarily the mission of impact investing. Impact investing can be used to realize more traditional housing development projects.[9]
- **Time is of the essence.** The current alignment between government, academia and the community housing sector speaks to the urgency of the opportunity to increase the capacity of the sector to deliver social purpose real estate projects.[10]
- **Advocacy is important**. It is critical to share knowledge and have people and organizations be aware of what opportunities exist.
- **Playing the role of the developer comes with its challenges.** In the case of Vivacité, the organization was the developer. This involved navigating complex legal structures, following a demanding construction schedule, and ensuring that new projects were continuously added to the development pipeline.[11]
- **Being the developer and operator does have its advantages.** If you are the developer-owner, you can realize some of the gains from the development project. You are acting as an impact investor to increase the affordability over the duration of operations. This role also allows you to re-finance down the road (usually at the 5-to-10-year mark). When you are the developer, you can also ensure that your values are aligned with the project's goals and intent.
- **A portfolio approach may be beneficial.** In the case of Vivacité, the organization found it beneficial to look at their entire development portfolio to assess project feasibility and viability. This allowed more viable projects to subsidize less-viable projects.

[6, 7, 8, 9, 10] Katrina May, "The Role of Social Investment in Canadian Affordable Housing," Catalyst Community Developments, Fall 2018.
[11] Marie-Sophie Banville, "Impact Investing and Affordable Housing: Vivacité" (presentation, CHRA Congress, Victoria, BC, April 3, 2019).

Please note that this summary document does not provide an overview of the Catalyst Community Development model, as Katrina May's presentation was focused primarily on her Master's research. You can learn more about the Catalyst model by visiting https://catalystcommdev.org.