Appendix 1:
Opportunities for Alternative Financing

June 2020

"Access to capital has been one of the critical issues affecting the health and long term viability of social and affordable housing."[1]

Traditionally, affordable non-market housing has been developed through funding provided by the Federal and Provincial governments. The lack of ongoing consistent capital has been one of the key constraints impacting the expansion of the affordable housing sector. To offset this challenge, alternative financing models have been explored throughout Canada, the United States, and other parts of the world, in search of a method to improve the self-sustainability of the affordable non-market housing sector, and to reduce reliance on government funding.

Affordable housing is perceived to carry a higher level of risk for banks and investors. As the units developed are provided at below market value, the revenue received is reduced, and equity can be tied up for a longer period of time. These conditions make it less desirable for banks to invest in affordable housing in comparison to market housing. Alternatively, affordable housing may not be substantially impacted market rental vacancy rates, providing a solid steady modest return for investors.

In December 2018, Canada Mortgage and Housing (CMHC) published its findings on *Innovative Financing Approaches/Potential Financing Options for Affordable Housing*[2], providing information on the following options:

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

---

[1] B.C. Housing. Alternative Sources of Capital For Social and Affordable Housing
[2] Wellman, Tony (2016). Innovative Financing Approaches/Potential Financing Options for Affordable Housing:

10. **Funding from new taxes**, such as tax on real estate speculation.

This literature review focused on alternative ways to foster affordable housing development and is easily accessed as a reference document.

This report will focus on options that could mobilize private, philanthropic, and social capital within the St. Albert context. As with all other aspects of affordable housing, there is no one financial tool or incentive that would be suited towards the development of all forms of non-market housing.

Traditional Financing Methods

Four funding streams of funding have traditionally been used to create affordable housing:

1. **Capital Grants** – provided through the federal, provincial or municipal governments. Grant project recipients must align with the funding criteria specified by the level of government providing the grant, which may come with certain obligations related to the funding.
2. **Equity contributions** – equity contributions may be in the form of land, cash, or funding provided by another partner.
3. **Operating subsidies** – A level of government provides contributions towards housing program costs, or the cost of housing operations. Subsidies can be in place of, or in combination with a capital grant.
4. **Financing** – the remaining cost of a project is typically financed, through debt paid through operating revenues. Borrowers must provide evidence that projected revenues will cover projected costs within the accepted debt service ratios. Financing costs savings could be realized through lower interest rates; a reduced mortgage term increased operating revenue, or reduced development and operating expenses.

ALTERNATIVE FINANCING STRUCTURES

Alternative financing structures require familiarity with the investment market. It takes a significant amount of effort to assemble and obtain approvals to implement in comparison to the processes required for accessing traditional bank financing. As most alternative and traditional bank financing methods require funds to be repaid with interest, alternative financing opportunities would most likely only be pursued if additional funding is needed to make up the difference between the amount of financing that can obtained through traditional sources, and development costs.

Social Impact Bonds

Social impact bonds harness private investment capital to deliver a social service. Generally funded by governments through a "pay for performance" model, private investors finance social programs receiving a return when they meet targeted objectives. If social outcomes are achieved, the government pays back the investors at a predetermined rate of return, justified through achieved cost savings as a result of the intervention. Control over how the service is delivered rests with the lead private sector partner responsible for the development and delivery of the program. All risk is undertaken by the investor.

Level of complexity: High. Time consuming to implement - could take up to 18 – 24 months to create a bond issue.

Social Infrastructure Bonds were considered in Alberta in 2014 under Premier Redford through the proposed Social Innovation Endowment Account, to explore the creation of social impact bonds. This initiative was terminated when Premier Redford left power.

Applicability to St. Albert – low. No models have been implemented in Alberta.

Fundraising - Resolve Calgary

Resolve Calgary was a six-year fundraising campaign that was a first of its kind collaboration between nine partner agencies, with the common goal to create affordable rental housing with support services for up to 3,000 vulnerable and/or homeless Calgarians. The campaign was successful in housing 1,825 individuals, by raising $74 million dollars. Another $28 million was contributed to designated projects by the Government of Alberta.

Community buy-in was essential to the success of this campaign, and involved leadership from builders, insurance companies, oil and gas companies, banks, and law firms as fundraising champions.

Implementation Requirements: Requires a high level of effort. This type of campaign increases community awareness of local issues, and relies on community collaboration to collectively solve the issue.

Applicability to St. Albert: Fundraising is a lot of work. Fundraising champions are needed to establish credibility and maintain momentum over a defined fundraising period to be successful. A campaign of this type could be supported by St. Albert community groups and organizations but may require a broader fundraising scope in a community the size of St. Albert.

Community Bonds

Community Bonds are a proven social finance tool, used by not-for-profits and co-operatives to generate a social and financial return for a social or environmental purpose. This tool raises capital from potential investors by offering an investment return while benefiting the community. Bonds are generally used to help finance the purchase of a fixed-asset, like a new space, or major equipment.

Bonds are provided as an interest-bearing loan which must be repaid on time with interest to investors. Typically bonds are used to provide financing at a lower rate than could be obtained by the organization on traditional financial markets, or to bridge the gap between traditional financing and the amount of money required to accomplish the agency's goal. At the end of the bond term, the community investor either receives their investment back from the organization, or the organization may offer the investor a new bond. The choice is up to the investor.

Community Bonds are not regulated by the government and are provided through an exempt market. Depending on structure of the community bond, supporters can be offered an RRSP eligible investment opportunity.

Applicability to St. Albert: Good. Takes time to set up and solicit investors in alignment with applicable regulations. Bond issues would be developed and implemented by the organization requiring the funding.

New Market Funds Incorporated

New Market Funds is a hybrid investment firm combining the financial power or the private sector and the social purpose investing. 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.

This fund invests in purpose-built stabilized multi-family affordable rental housing partnerships with existing housing operators. Investments are risk adjusted, and offer market-rate returns. Investors include community foundations, private foundations, other institutions and corporations. New Market offers four funds focused on affordable housing, non-profit development, social enterprises, and co-operative enterprises. An investment fund of $25 million is dedicated completely to new affordable housing.

Equity is provided in three different ways:

1. Fill the equity gap to complete the project
2. Provide additional equity to expand the project
3. Invest to allow community partners to take equity out of a stabilized project to fund future projects

A large number of the fund's investments are in BC with partnerships between the Catalyst Community Developments Society, and the Vancouver Community Land Trust.

In May 2018, the Victoria Capital Region District (CRD) Hospitals and Housing Committee was directed to examine options to support the establishment of a program or structure capable of investing in affordable housing, while also providing a modest return to investors interested in social purpose real estate. Staff commissioned New Market Funds Inc. to undertake this work on behalf of the CRD to assess affordable housing investment structures that could leverage financing to support new affordable projects within the greater Victoria Capital Region. Through an investment fund model, the financing considered a blend private and public capital, leveraging available capital at the fund level, to create a model that was scale-able and replicable. The investment model was based on the premise that the region would build or acquire 2,300 units of affordable housing over a 5 year period at an estimated cost of $480 million as a financing vehicle for these purposes.

The study[3], reported that long-term affordability is more practical where the multi-family investment captures the developer premium (13% +/-), achieved when the developer is responsible for the design, development, and operation of the project, allowing for refinancing at the completion stage, utilizing take-out financing to fund future projects.

The study also noted that a narrow geographical focus is not typically of interest to non-local investors, but could be of interest to local investors. The report examined the implementation of a social purpose Real Estate Investment Trust (REIT); however a publicly traded REIT would need a trust unit offering of greater than $100 million.

[3] Capital Region District Hospitals and Housing Committee (June 5, 2019). Agenda Item 19-541 Affordable Housing Investment Study. Appendix A: New Market Report Page 15.

Applicability to St. Albert: Funding could potentially be accessed from the New Market fund, depending on whether the potential development would align with the funds' performance goals. The exploration by the Victoria CRD to establish a private REIT shows that a $100 million trust unit offering exceeds St. Albert's requirements, but could be more applicable to the Edmonton Metropolitan Region.

Community Investment Funds

Community Investment Funds[4] are locally sourced and controlled pools of investment dollars through investors within a specific community or geographical area. Community Investment Funds (which could include RRSP eligible investments) raise capital from the sale of investment shares to provide debt or equity financing to qualified groups. The investment is paid back with interest or through a return on equity. Shares can be used to invest in local initiatives such as affordable housing, local jobs, and social enterprises. While similar to community bonds, investment funds could provide an alternative funding source to a number of community organizations within an established geographical area.

Edmonton Community Foundation – Social Enterprise Fund

The Social Enterprise Fund (SEF) is a sustainable $10.5 million endowment fund that provides financing and technical assistance to social enterprises and affordable housing projects through the Edmonton Community Foundation. While the fund is based in Edmonton, it will offer loans, grants, investments, and technical assistance to bridge the gap between traditional grants, philanthropy, and traditional capital financing instruments to organizations across Alberta.

The SEF will finance charitable organizations, cooperatives, and non-profit corporations engaging in social enterprises and affordable housing projects that need bridge financing, mortgages, guarantees, and other financial products not available to them elsewhere.

Applicability to St. Albert: Good. The SEF will invest in projects that meet its financing objectives throughout Alberta and is already established in the Edmonton area.

Community Contribution Companies

British Columbia is the only province in Canada that has the legislation to permit a Community Contribution Company (CCC) legal structure that operates as a hybrid corporation, bridging the gap between a for-profit business and a non-profit enterprise.

[4] Amyot, Sarah. (July 2014). Community Investment Funds How-to Guide.

Dividends can be paid to shareholders limited to 40% of the CCC's annual profits. This model would not be applicable to St. Albert as this type of legal structure is not permitted in Alberta.

HPC Investment Corporation

The HPC Investment Corporation is a dedicated lending institution for affordable housing providers in Canada. HPC offers long-term, low interest money to build and renew affordable housing by enabling providers to leverage their assets, and take advantage of 30-year+ fixed rate loans, by adding up the financing needs of the sector, borrowing from capital markets, and then re-loaning back to the sector. The first round of borrowing in 2019 was valued at $33 million for projects in Alberta and BC. Proposals are evaluated based on a range of criteria. Including the project's ability to meet community housing goals, be financially sound, and demonstrate an adequate degree of risk mitigation.

Applicability to St. Albert: Good. Loan applications are subject to financial assessment and approval.

Energy Performance Contracts

Energy Performance Contracts have been used to deliver energy upgrades through an alternative financing arrangement between an organization and an energy service company. This approach could assist housing operators with capital improvement expenses that could be repaid from realized energy cost savings, should the City proceed with creating a municipal energy service company. After the payout period has been completed, the organization would benefit from ongoing cost savings from reduced utility expenses. As an alternative financing strategy, this method would assist housing organizations with a way to finance energy improvements without upfront costs, generating future cost savings for the housing operator.

Applicability to St. Albert: Good. Would require a partnership with an energy service company as part of the implementation model.

GRANT SOURCES

FCM – Sustainable Affordable Housing Fund

The Federation of Canadian Municipalities (FCM) Sustainable Affordable Housing Fund is being delivered through FCM's Green Municipal Fund, through Government of Canada funding.

Program Launch May 15, 2020
Available amount: $300 million

Grant objectives: To retrofit existing affordable housing units or construct energy efficient new builds that emit lower greenhouse gas emissions.

Purpose: To support Canadian housing providers, non-profits, co-ops, and municipalities in planning and delivering retrofit projects and new construction with significant energy efficiency measures.

- Reduce energy and greenhouse gas intensity
- Increase energy and housing affordability
- Improve building quality, and increase comfort, health and quality of life for residents
-

Applicability to St. Albert: Good. Funding availability is based on application timing, and the amount of funding remaining to be allocated.

Canada Mortgage and Housing Corporation (CMHC)

CMHC offers a number of programs to encourage the development of affordable housing. Application processes may be open during a specific time period, or can be accepted on an on-going basis depending on specific programs offered.

Seed Funding: The Seed Funding Program supports affordable housing through interest-free loans and/or non-repayable contributions. There are two funding streams: one for new construction/conversions; and one to preserve existing community housing projects. Applications are accepted on a continuous basis and are assessed based on program fit, and proposed outcomes in alignment with intended achievements of the National Housing Strategy. The program provides a maximum loan of up to $350,000 and a maximum contribution of $150,000.

Rental Construction Financing: The Rental Construction Financing Initiative (RCFi) provides low-cost loans encouraging construction of rental housing across Canada where the need is clearly demonstrated. This program will provide up to $13.75 billion in loans for the construction of 42,500 units and will run from 2017 to the end of 2027.

The loan offers:

- a 10-year term (closed to pre-payment) and a fixed interest rate locked in at first advance for certainty during the most risky periods of development
- up to a 50-year amortization period
- CMHC mortgage loan insurance that is effective from first draw and for the duration of the amortization period to simplify loan renewal. The borrower does not pay the premium, only the PST if applicable
- up to 100% loan to cost for residential space and up to 75% loan to cost for non-residential space (depending on the strength of the application)
- interest only payments financed by the loan during construction through to occupancy permit
- principal and interest payments are due after 12 months of stabilized effective gross income.

National Housing Co-Investment Fund – New Construction: The National Housing Co-Investment Fund prioritizes partnerships between governments, non-profits, private sector, among others and provides low-cost loans and/or forgivable loans. The focus of this fund is to develop energy efficient, accessible and socially inclusive housing for mixed-income, mixed-tenure and mixed-use affordable housing uses. Projects must have support from another level of government **(**such as municipalities, provinces and/or territories, Indigenous government) to ensure a coordination of investments.

CMHC accepts applications for this Program on a continuous basis. At the end of each month, CMHC will review and prioritize the applications received. The review will result in three alternative options: the application could be selected to proceed for further assessment; retained for the next prioritization window; or declined.

Summary

While the information provided within this report is not exhaustive, a number of options could be considered for alternative financing. The primary focus of alternative investment measures would be to obtain bridge financing to assist with the difference in funding available through traditional loans and grants, and the overall project cost.

Alternative financing strategies require a level of competency and familiarity with financial markets to develop financial instruments in alignment with regulatory requirements, and to attract investors. As the City does not intend on owning or developing housing on its own accord, the most beneficial way the City could contribute to alternative financing would be to implement programs that could provide a benefit to all housing stakeholders. The City would have the option to underwrite loans to housing partners; however this measure would impact the City's credit limit and borrowing capacity.

Energy performance contracts could be utilized as an alternative funding option to foster efficiencies in building operational costs over the long-term through a municipal energy service company.

Grant opportunities will continue to emerge in response to the National Housing Strategy and other government programs and initiatives. While an exhaustive list could be developed at a specific point in time, grants are typically time sensitive, and may not be applicable when referenced in the future.

The simplest and most direct way the City can support affordable housing development is to have funding and resources such as land readily available to respond to grant and development opportunities applicable to the City and its community partners.

References:

Amyot, Sarah. (July 2014). *Community Investment Funds How-to Guide*

B.C. Housing. (2014). *Alternative Sources of Capital for Social and Affordable Housing*

Capital Region District Hospitals and Housing Committee (June 5, 2019). *Affordable Housing Investment Study*. Retrieved from: https://crd.ca.legistar.com/LegislationDetail.aspx?ID=16082&GUID=173E1F4B-7F29-4001-814E-0ED904C4AA46

Capital Region District Hospitals and Housing Committee (June 5, 2019). *Appendix A: New Market Report.* Retrieved from: https://crd.ca.legistar.com/LegislationDetail.aspx?ID=16082&GUID=173E1F4B-7F29-4001-814E-0ED904C4AA46

Gillard, Geoff (2014). *Social Finance: A CHRA Congress Session Case Study*.

HPC Housing Investment Corporation website. https://www.housinginvestment.ca/

MaRS Centre for Impact Investing. (2014). *Social Impact Bonds in Canada: Investor insights*.

Thomas, Mike. (2018, June 23). Resolve Campaign a huge success. *Calgary Sun,* retrieved from: https://calgarysun.com/life/homes/resolve-campaign-a-huge-success.

Wellman, Tony. (2016). *Innovative Financing Approaches/Potential Financing Options for Affordable Housing*: