BRIDGING GAPS

Exploring opportunities to connect capital with affordable housing

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EXECUTIVE SUMMARY

Bridging Gaps is a study to further research on investment opportunities for affordable housing in Canada.

The study was led by Social Venture Connexion (SVX) and the Infrastructure Institute at the School of Cities (SoC), University of Toronto, in joint collaboration.

The urgent long-standing need to increase the supply of safe and adequate affordable housing across Canada has been further intensified by the pandemic. Across the nation, cities are becoming increasingly unaffordable, with many people struggling to find a stable affordable place to live. In addition to tried and true approaches, there is a need to identify new ways of delivering more affordable housing, faster. No single sector – public, private, or not-for-profit – will be able to address and overcome the obstacles to creating lasting systemic change on its own.

While all orders of government will continue to play a key role in housing policy and investing public funds in a wide variety of housing types, a blueprint to leverage private, non-profit and impact investment and equity into affordable housing remains absent. In current times, the role for private, non-profit and impact investors as stakeholders in Canada's affordable housing sector is expanding. Moving forward and in the period of a post-pandemic recovery, approaches grounded in collaboration between all sectors should be prioritized, including the leveraging of capital from private, non-profit and impact investors to complement existing government initiatives.

This report maps the journey that non-profit and private sector developers follow to build affordable housing projects, and identifies the capital and capacity barriers faced by non-profit and private sector affordable housing developers. In particular, it explores how capital and capacity barriers impact on project ideation, feasibility, and planning of affordable housing. The report concludes by providing direction for policy makers and financiers in identifying key opportunities and limitations of private and impact investment in tandem with the necessary wrap-around services that lead to successful affordable housing projects.

Developer journey & survey insights

The developer journey map created comprises three phases:

1. Project ideation & Feasibility - characterized by forming a mission and vision statement and conceiving a viable development project
    - The first phase has a non-linear experience. It involves cycling through the tasks of developing a concept, costing the concept, identifying financial sources, and assessing site criteria until a feasible plan is formed.
2. Project delivery - characterized by obtaining the necessary municipal approvals and the construction of the physical building; and,
3. Maintain (operations) - characterized by occupation and ongoing operations activity

To inform this research, a survey was carried out of 32 affordable housing developers to understand the need for capital along the lifecycle journey of developing affordable housing projects. This included a mix of non-profit and private sector developers of affordable housing. The largest capital need was in the first phase of ideation and feasibility, where project risk and uncertainty is high, substantial amounts of money are required to undertake initial feasibility and design studies with no guarantee that a project will proceed, and the sources of investment capital are limited. Nearly three quarters of respondents stated that they needed capital beyond government and philanthropic sources to get projects started. For smaller and mid-sized affordable housing developers, philanthropic sources were often needed to initiate a project; only larger affordable housing providers holding over $100M in real estate assets had sufficient access to capital to consistently initiate projects on their own.

Many organizations self-reported a lack of financial readiness, where few identified with having a high degree of financial fitness to manage both current operations and to plan for future affordable housing projects (25% of respondents). Only 15% of respondents said they had a high degree of investment readiness to raise investment capital and 68% felt they would benefit from a capital raising platform to connect investors with affordable housing project proponents.

Almost half of all respondents stated that they would benefit from wrap-around services. These included matchmaking services to connect investors and affordable housing providers, training sessions on real estate development, capital raising strategies and exposure to alternative financing.

Capacity challenges

Capacity gaps are the missing knowledge or resources needed to deliver key tasks along the affordable housing developer journey. They fell into four main categories:

1. **Lack of staff & real estate expertise:** Smaller housing developers often lack staff with the dedicated time and resources to pursue projects, even with strong board support.
2. **Land availability & acquisition:** The availability of land was one of the largest capacity gaps. Since land must also be largely discounted or free to ensure affordability, affordable housing is often built on land owned by public bodies or not-for-profits.
3. **Capital funding & financing:** The pre-development stage was often stated as the most difficult stage to fund. Difficulties faced by the not-for-profit sector include providing satisfactory recourse to secure loans.
4. **Availability of construction trades & materials:** Competition for skilled trades and construction materials is a major challenge upon entering the construction phase.

Attracting investment capital

The barriers to investment capital were not due to lack of interest from the development or lending community, as demand for socially responsible investment in affordable housing from private institutions and impact investors is growing. Rather, barriers to capital were often caused by perceptions of risk or features of the development process that introduce uncertainty and with it the return expectations of investors. Measures to mitigate these risks often require collateral that can be challenging for small affordable housing developers or non-profits to provide, often in the form of property assets or substantial financial guarantees.

Despite large demand, there is an underdeveloped market for alternative, impact financing products. As many projects are carried out in one-off or non-replicable financing scenarios, the limited adoption of these strategies and absence of formal incentives have contributed to a lack of expectations associated with affordable housing investments. In response, overcoming these barriers to attract investment capital towards projects could involve the following activities:

- Formal incentives to encourage investment earlier on in the developer journey
- Early CMHC loan insurance pre-approval to help project teams secure other sources of financing
- Investment readiness wrap-around services
- Wrap-around services that connect potential partners or investors
- Exploring opportunities for social finance products such as social bonds and housing bonds and options for community investment
- Public outreach that highlights the success of affordable housing investments and their impact to the community's social fabric

Wrap-around services

Without any major financing reforms to how capital is issued, the most effective way to address capacity gaps is through bringing on real estate expertise. However, wrap-around services can significantly help increase project feasibility. They include:

- Matchmaking for development partnerships
- Matchmaking for expertise and post-occupancy services
- Technological and digital solutions
- Training on the affordable housing process
- Outreach on the value of affordable housing investment
- Support for organizational growth
- Investment readiness supports
- Public cases, guides, and tools
- Measuring / validating impact

Key findings

In summary, Canada's affordable housing developers have significant potential to build new housing with a large pipeline of projects in development. There is also a growing supply of capital available to finance affordable housing projects in Canada, including large institutions and specialized intermediaries. However, despite growing demand, there is a significant need for alternative financing beyond conventional government and philanthropic sources. Beyond capital needs, housing developers require support through wrap-around services and expertise from consultants and specialized financing intermediaries.

While mobilizing private, non-profit and impact investment through new mediums like digital platforms or financing products can bridge capital gaps, it is only one component of a larger ecosystem that can deliver the resilient, safe, and affordable housing needed in Canada. Moving forward, building a regulatory framework that optimizes existing government resources in combination with wrap-around and professional services provides the best environment for the community housing sector to thrive.

CONTENTS

07

References

08

Appendices

1.0 INTRODUCTION

Social Venture Connexion (SVX) and the Infrastructure Institute at the School of Cities (SoC), University of Toronto, were retained by CMHC to further the research on the affordable housing journey and identify opportunities for investment.

Context

There are long-standing gaps in the provision and supply of safe, affordable housing across Canada. As of 2020, there are 333,000 households on the waiting list for subsidized housing in Toronto alone, with 10,000 people currently unhoused on any given night (City of Toronto, 2021; Fred Victor, 2021). Similar trends are observed nationwide. The COVID-19 pandemic has exacerbated the gaps in affordable housing, with Canada's infrastructure under strain from the immense pressure.

Further aggravating the affordable housing crisis is the pandemic-related economic downturn, which is projected to significantly inflict upon the provision of affordable housing. In 2020, Statistics Canada figures showed a 49.2 percent decline in investment in residential projects across Canada, as of the onset of the pandemic, rising to a 7.6% increase in residential investment in March 2021 as the recovery began to take hold (Statistics Canada, 2021).

Across the nation, cities are becoming increasingly unaffordable and require the identification of new ways to complement tried and true methods of delivering affordable housing. No single sector – public, private, or not-for-profit – will be able to address and overcome the obstacles to creating lasting systemic change. While all orders of government will continue to play a key role in investing public funds across the spectrum of affordable housing models, a blueprint for private investment and equity into affordable housing remains absent.

Private investors, non-profits and impact investors are an increasingly significant group among a broader cohort of stakeholders trying to solve Canada's severe affordable housing shortage. As their interest in affordable housing investment grows, it is critical to identify when private, non-profit and impact investment funding can be made available during the delivery of a project and the form that this capital will take. While it is not the specific focus of this report, it is worth noting that not all investors in affordable housing are created equally or deliver on the affordable housing promise. While some deliver high quality, safe, long-term affordable housing, the growing treatment of affordable multi-family housing as a profitable asset class has been connected with rising rents, evictions and gentrification (August, 2020). Of equal importance then is evaluating how private, non-profit and impact investment can build up the community housing sector, comprising not-for-profit housing providers and co-operatives, in their capacity to undertake the delivery of housing that lives up to the moment and provides truly affordable, safe, stable affordable housing.

Moving forward and in post-pandemic recovery, approaches grounded in collaboration between all sectors should be prioritized and accelerated where careful measures are in place to ensure that the housing produced is affordable and stable over the long-term. This includes the use of private, non-profit and impact investment capital to complement existing government initiatives in a manner that is streamlined and transparent.

Project Purpose

The purpose of this paper is to identify the capital and capacity barriers faced by affordable housing developers, with an emphasis on the community

Affordable Housing

Housing that costs less than 30% of a household's before-tax income. Affordable housing can be provided by the private, public and not-for-profit sectors and includes all forms of housing: rental, ownership, co-operative ownership, among other types.

To note, definitions of affordable housing vary regionally; the definition provided here is what the research has been based on.

Financing

The capital, in-kind contributions, and loans to finance the costs of building the project, costs including but not limited to professional services, planning approvals, community consultation, land acquisition, land remediation, and construction.

Funding

Revenues and grant sources to repay the initial financing. Examples of funding include government grants, sale of the units, revenues from units or capital assets (rental income), and philanthropy.

housing sector, and when these barriers impact project delivery. It provides direction for policy makers and financiers in identifying opportunities and limitations of private investment in tandem with the necessary wrap-around services that lead to successful affordable housing projects. This paper intends to provide recommendations that can complement existing CMHC-led initiatives in a manner that prioritizes the community housing sector.

The report contains the findings of the research, comprising:

- A developer journey map identifying project development stages with the needed capital and wrap-around services needed at each stage;
- Capacity gaps experienced at each stage of the development journey by affordable housing developers;
- Trends on the needs and potential for capital raising to support affordable housing as well as blended financing cases and best practices;
- Barriers to investment capital and direction on overcoming existing barriers to attract investment into affordable housing; and,
- Recommendations of wrap around services detailing the existing services, the missing gaps, and the required services

Methodology

This project reviewed past research, existing case studies, and built an initial affordable housing journey map, followed by a survey and interviews with key stakeholder groups involved in the affordable housing journey. In total, 24 stakeholders were interviewed among the key stakeholder groups, 17 of whom belonged to the not-for-profit housing sector. These participants included not-for-profit real estate developers, consultants, and financial services and institutions. Most of the respondents to the survey and interviewees were based in Ontario with a few exceptions.

From the survey and interviews, the key stakeholder groups have been defined as the following:

- Development advisors and consultants
- Funders and investors
- Asset managers and institutions
- Municipalities

Development advisors and consultants

Development advisors and consultants are the real estate experts in the delivery of affordable housing projects, with a deep understanding of the nuances and challenges of the housing industry in Canada. As capacity intermediaries, they are able to help project teams navigate through existing gaps, pain points, municipal approvals, and limitations of current solutions. Some offer professional services while pursuing development projects of their own. The development advisors and consultants consulted were mostly groups that focused almost exclusively on projects within the community housing sector.

Funders and investors

Funders and Investors are the financiers of affordable housing projects. They are often the clients of organizations or institutions offering financing products (i.e. bond) or can also be directly invested in the equity of a housing project. Many funders and investors are increasingly interested in investing in social housing projects, and comprise a mix of public and private groups (although most are private). They offer insight into minimum requirements to attract capital, limitations of current financing structures, and the appeal of an ESG framework.

Asset managers and financial institutions

This group has access to mainstream Canadian interest in capitalizing on the opportunities that the affordable housing industry can provide. Asset managers and financial institutions are critical stakeholders to involve as the ecosystem is developed and scales. Currently, Canada's affordable housing sector is underdeveloped and lacks the structures needed to involve the not-for-profit sector. As such, there are a limited number of asset managers and financial institutions focused on affordable housing. The small number of asset managers and financial institutional actors resulted in a smaller sample pool of organizations to interview compared to the other stakeholder groups.

The purpose of the engagement was two-fold:

1) To help refine the developer journey map and validate the assumptions on capital requirements and valuable wrap-around services; and,

2) To explore opportunities of matchmaking between ecosystem players to help overcome capacity and capital barriers.

2.0 DEVELOPER JOURNEY

Opportunity identified (land) → **1** Project Ideation / Feasibility → Viable development conceived

	Mission & Vision	Concept Plan	Business Plan
	1-3 months	3-4 months	4-6 months
Wrap Around Services			
Service / Resource	Training programs Networking Case studies Best practices guidelines Convening & matchmaking Self-assessment toolkit	Mentorship Networking Case studies Best practices guidelines Convening & matchmaking Professional marketplace	Feasibility checklist Networking Convening & matchmaking Best practices guidelines Financial fitness & investment readiness supports
Development Process			
Key Tasks	Unmet needs identification Land opportunity identification Project champion(s) identification Identify potential investor pool Capacity assessment (organizational & financial) Market research Community buy-in	Scoping of partners / values alignment Site investigation Identify funding / financing sources Preliminary design Planning pre-consultation Establish decision-making framework	Capital strategy Draft operating & capital budget Resource / support need identification
Goals Achieved	Rationale & support for AH project established Project vision established	Partnership / Project team formed Business case formed / approved Pre-development funds secured	
Financial Needs			
Cost	<$5,000	~$30K - $50K	~$75K - $100K
Source	Self-funded or grant supported by a foundation or philanthropy	Self-funded or grant supported by a foundation or philanthropy	Self-funded or grant supported by a foundation, philanthropy, or government

Assessing Feasibility

Assessing Feasibility

Figure 1. Affordable housing developer journey

A typical affordable housing developer journey was developed and refined throughout the course of the project.

2 Project Delivery — Completed & inspected building — **3 Maintain** — End of building life-cycle

	2 Project Delivery		3 Maintain
	Pre-development /Pre-construction	**Construction**	**Maintenance / Operations**
	6 months - 2.5+ years	1.5+ years	20-50+ years
Service / Resource	Standardized procurement process Policy & zoning toolkit Mentorship Project-specific support Financing guides Investment readiness supports	Facilities management best practices guide Tenancy management toolkit	Scaling successful projects or initiatives Evaluation of project Partnership failure analysis
Key Tasks	Land acquisition Establish ownership structure Design development Finalize capital & operating budgets Planning development application process (municipal) Establish operating agreements Identify temporary facility (if applicable)	Construction of building Ongoing project management Cost monitoring Testings and inspections	Asset management Ongoing assessment of revenue streams Building commissioning / evaluating performance Project documentation / lessons learned Property management
Goals Achieved	Legal agreements finalized Design finalized/approved Capital and operational funds / financing secured	Building ready for occupation Any additional financing secured	Housing needs met Self-sustaining operations
Cost	5% - 15% of total project costs	60% - 70% of total project costs	
Source	CMHC, government programs, foundations, self-funded, philanthropy, social investment	Financial institutions, government programs, social investment	Financial institutions, investment fund, mezzanine loan, forgivable loan, social investment, surplus revenues

Developer journey

The step-by-step walk-through of building housing from the start to completion. In this context, the developer journey starts at the ideation phase and ends once the construction is complete. Although it is recognized that the building will need to be maintained and operated, this stage is not emphasized in the developer journey.

Housing provider

Organizations or groups that build and develop housing. In the context of this report, this term is used to refer to groups focused on building affordable housing specifically.

Developer journey map

Figure 1 shows a condensed affordable housing developer journey: a step-by-step walk-through of the real estate development process typically experienced by housing providers who pursue affordable housing. It was initially created based on the case studies outlined in Appendix A and has gone through several iterations as feedback and expertise were gathered from the research interviews. The high-level nature of the diagram is intended to reflect the diverse journeys experienced, where each developer begins a project with different access to land, resources, and expertise. In total, there are three phases, namely project ideation and feasibility, project delivery, and maintenance.

The diagram has been organized to show the main activities, goals, costs and needed wrap-arounds services at each stage in a phase. The start of a new phase is marked by milestones, indicated by the blue dotted lines before the beginning of each stage. Typically the project cannot proceed without the milestone being met.

Phase 1: Ideation/Feasibility

The first phase of the affordable housing development journey is Ideation and Feasibility (see Figure 1). A project is typically initiated by the identification of a location or piece of land. Afterwards, it will move through the three stages that establish a mission & vision, a concept plan, and a viable business plan. This stage builds the foundation needed for the remaining phases and is when legal and operational agreements are made. The end of the phase is marked by a viable development project, which occurs after high-level details of the three stages have met satisfactory conditions.

Funding to initiate a non-profit affordable housing development project is often provided by philanthropic sources or drawn from existing equity of the housing developer. While high-risk, the mission/vision and initiating the concept plan have low capital needs in comparison to the remaining stages of the developer journey. So while high-risk, many development teams were able to raise adequate funding.

This is the phase with the highest number of desired wrap-around services, with matchmaking and networking as highly popular among interviewees. Other desired wrap-arounds included mentorship and education services, particularly on financial readiness and partnerships.

The ideation/feasibility phase also had the largest amount of variability in timelines, key tasks, and capital needs. Many of the main tasks occur concurrently or were revisited multiple times before a viable development project was established. Figure 2 was created in order to address the non-linearity of the first phase and further elaborated in subsection "Non-linearity of process" in this chapter.

Zoning

A tool used by municipalities for land use planning. Zoning rules dictate the usage, size and classification of the land, among other factors. Zoning laws are regulated and adjusted by municipalities.

Re-zoning refers to the changing of the existing zoning designation to allow for a change in land use, permitted heights, or other physical characteristics.

Phase 2: Project Delivery

As the milestone of a viable development project is achieved, the project moves into project delivery, the second phase of the developer journey. This phase is characterized by two stages. The first is the pre-development and pre-construction stage that comprises detailed design development and drawings, finalizing legal agreements, and successfully moving through the municipal permitting and approvals process. These soft costs are incurred for architecture and engineering, legal work and permitting before construction can begin. The second is the physical construction of the building. During this phase hard costs for materials, labour, and equipment are incurred for activities such as site prep, construction and landscaping.

The pre-development stage has been noted to be the most challenging stage to fund, where expenses can be around 30% of the total project costs and often require multiple sources to cover their capital needs. While capital needs are highest during construction, financing becomes easier to obtain after approvals are secured and final design and budget details are made. For not-for-profits, it is still difficult to secure financing for construction from conventional sources like banks. The end of this phase is marked by a physically complete and inspected building.

Phase 3: Maintain

The last phase is characterized by the occupation and ongoing operations and maintenance of the housing project. The upkeep activities and responsibilities typically follow agreements established in the first phase. While the capital need in this phase is not considered as difficult to obtain in comparison to early phases, the operational costs of a building throughout its lifetime are significantly higher. Ideally, the project can be set up to have revenue generation (i.e. from rent) that can go towards maintenance. However, in some cases where units are established with deeply affordable rents, projects remain dependent on subsidies offered by municipal or provincial programs for ongoing operations and maintenance tasks.

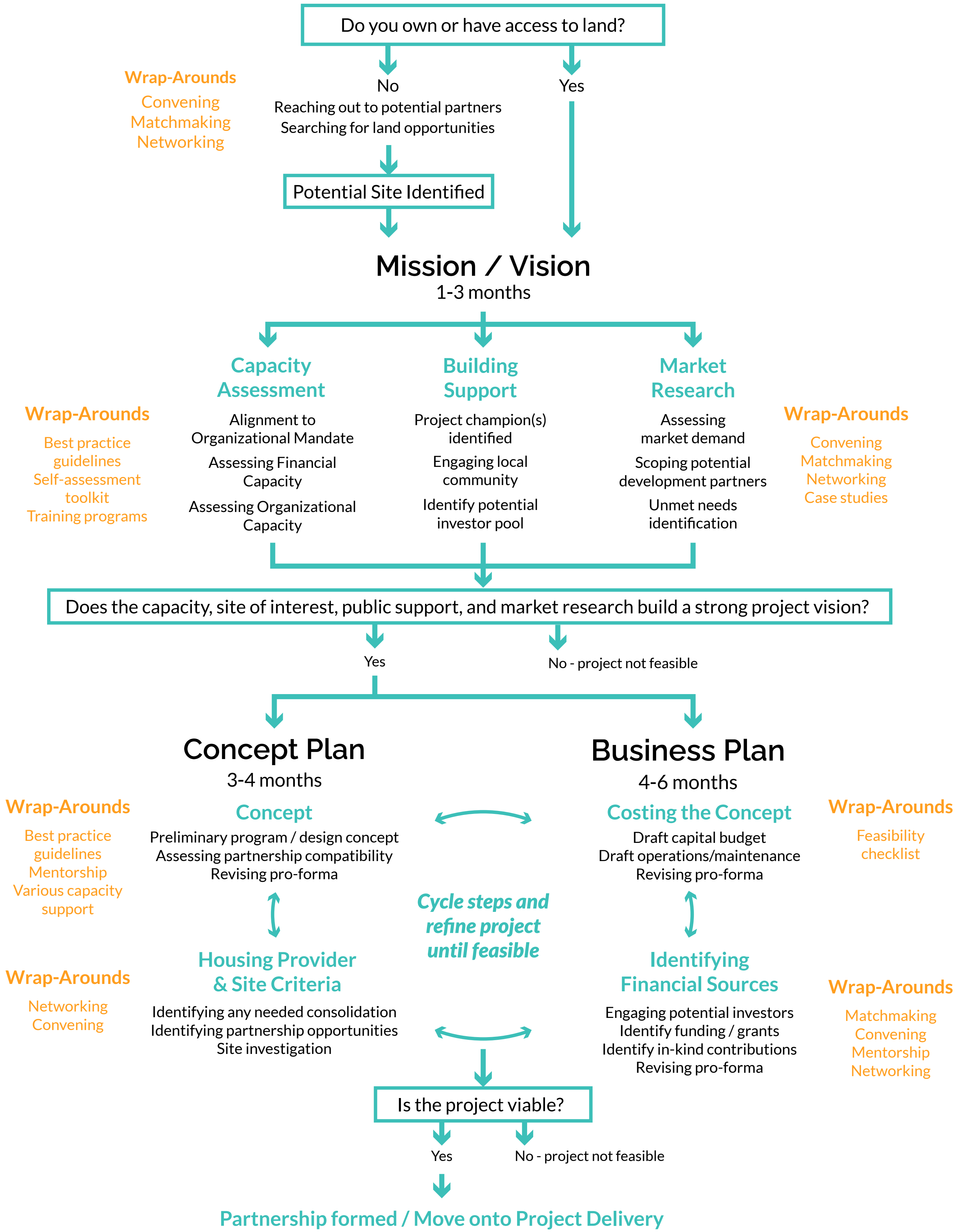

Figure 2. Flowchart of common pathways in the Ideation / Feasibility phase

Non-linearity of process

Responses from the study participants made it clear that the developer journey is not a linear process, particularly in the first phase of ideation and feasibility. In response, Figure 2 was created to add depth and showcase the potential non-linear pathways experienced. This flowchart outlines the questions asked in each stage and shows the key tasks that are often cycled through until a feasible plan is created.

Typically, the first step for a developer is to acquire ownership or access to land, where each developer will start with different ownership titles, access to assets and resources. Although this stage can formally take place later within the project, it is important for developers to understand the intricacies of the land they intend to build upon to ensure project feasibility. This includes thoroughly understanding the physical characteristics of the site and the policy context, such as heritage designations, environmental hazards, floodplains, infrastructure such as sewer lines, and zoning regulations. Wrap-around services that can help find a suitable site include convening, matchmaking and networking support. These resources will provide access to more potential partnerships and land opportunities.

The following step involves establishing the project's mission and values. This stage involves planning for capacity, identifying resources for support and beginning market research. These three activities are designed to build a foundational understanding of the project scope and are crucial to bring the project to a successful completion. Appropriate wrap-around services at this stage may include guidelines outlining best-practices and various self-assessment toolkits to better understand feasibility. Key informants within the industry have highlighted the importance of forming partnerships with mission and value alignment, rather than collaborating based on industry specializations or capacity. The self-assessment tool and compiled industry best-practices will help ensure that projects are accurately estimated, thereby allowing developers to form partnerships with mission alignment.

Depending on the project's viability, the third and final stage of developing a project scope involves the creation of a preliminary project plan. The project will still require further refinement regarding the capital requirements, financial and funding sources, the concept of the project, and the site criteria. These details, among others, would be explored through a Concept Plan and a Business Plan, both of which are designed to give more structure and clarity of the project scope. These stages are marked by cycling through the key tasks of developing a concept, costing the concept, identifying financial sources, and assessing site criteria until a feasible plan is formed. It is worth noting that with shifting market conditions, some projects are rendered not viable. Oftentimes, developers keep these projects on the sidelines until the right circumstances (i.e. new public funding program) emerge that enable them to become feasible.

There are several factors that may impact a project's timeline. A critical factor is the projected market demand, which can speed up timelines experienced by many affordable housing projects. External factors, such as grants or philanthropic funding deadlines, can greatly impact the duration and chronology of each stage. Additionally, the size and capacity of a developer will affect the timeline of their projects. Consultations with a variety of developers indicates that smaller developers tend to have longer project timelines due to capacity and resource constraints.

While the developer journey and accompanying flowchart represent the general experience of an affordable housing project team, it may not be reflective of every project, as each is vastly different in its challenges and stages.

Insights from survey

One research method involved surveying affordable housing developers for insight into the current needs and constraints of the market. This section provides a summary of the findings.

Survey quick stats

32 respondents

34% have portfolios > $100M in assets

22% have portfolios < $1M in assets

44% of surveyed projects are in feasibility stage

74% need capital beyond conventional sources

15% have a high degree of investment readiness

A survey was sent to affordable housing developers for insight into the current needs and constraints of the market. The respondents largely identified as not-for-profit organizations and were diverse in size. Most real estate portfolios from the survey participants fell in the lowest and highest value brackets, where 11 developers had assets valuing $5 million and another 11 had assets valuing over $100 million. The remaining increments had 2 developers in each range (see Figure 3).

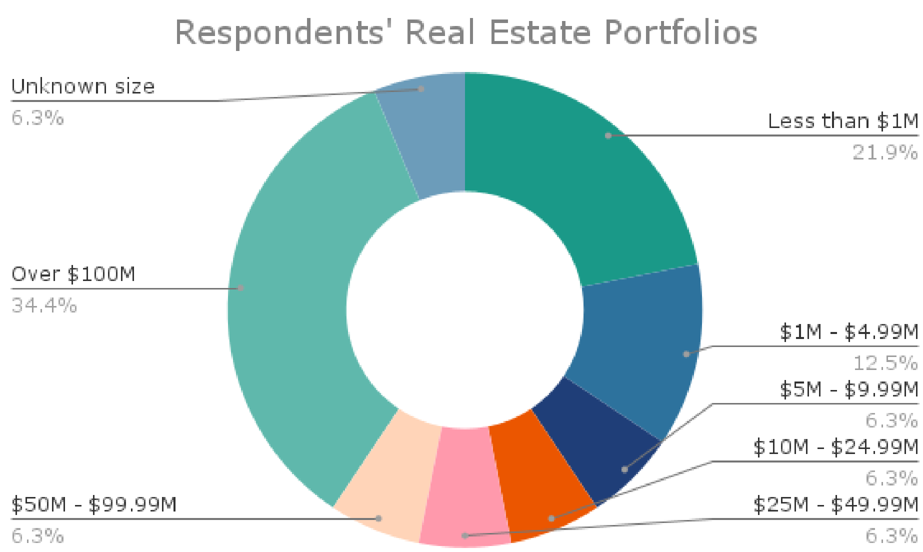

Figure 3. Breakdown of respondents' by real estate portfolio size

Nearly all respondents represented a not-for-profit organization, with a few operating without any affiliations to an organization. Overall, respondents were heavily based in Ontario or British Columbia, where this survey data may not reflect groups operating outside of these areas. A total of thirty-two (32) housing developers responded to this survey.

The survey asked organizations to provide quantitative details regarding active development projects. The survey also inquired into the organization's perspective on their capital needs and existing capacity. In summary, the questions were able to gain insight on:

- The number of assets owned;
- The number of projects in each stage of development;
- The organization's capital needs;
- Existing capacity of the organization; and,
- The number of projects in each stage of the affordable housing journey (refer Figure 1, the development journey, for more details)

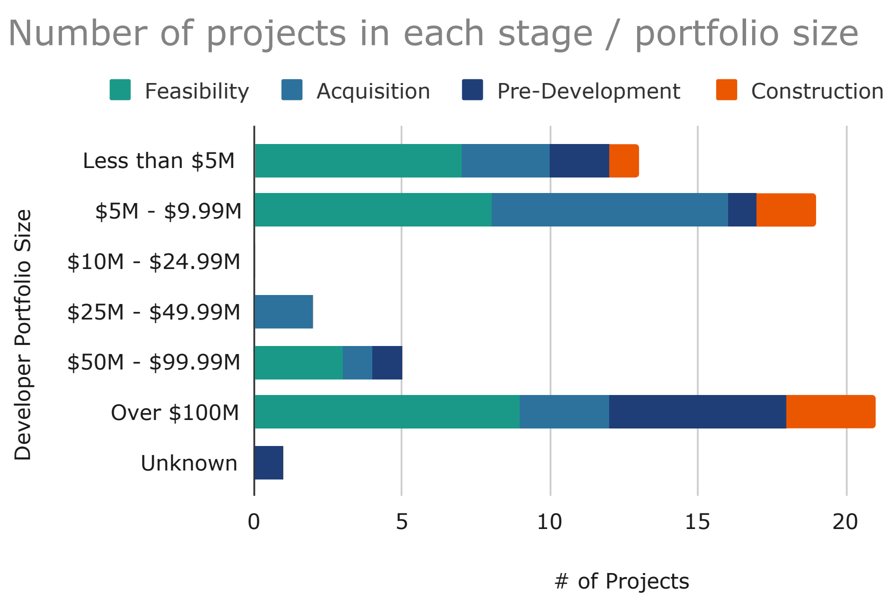

Figure 4. Breakdown of cumulative projects per stage

Respondents consisted of a mix of large, mid-sized and smaller housing developers with real estate portfolios ranging from less than $1M to over $100M. Regardless of portfolio size, most developers had a larger number of projects within the ideation and feasibility phase (see Figure 4) of the developer journey (a cumulative 44% of total projects).

In terms of financing needs, the data revealed that the highest capital need was within the feasibility phase (see Figure 5). However, this is due to the fact that most developers had the largest number of current projects allocated to this stage. When assessing capital needs based on project need, the construction stage still held the highest financing need on a per project basis.

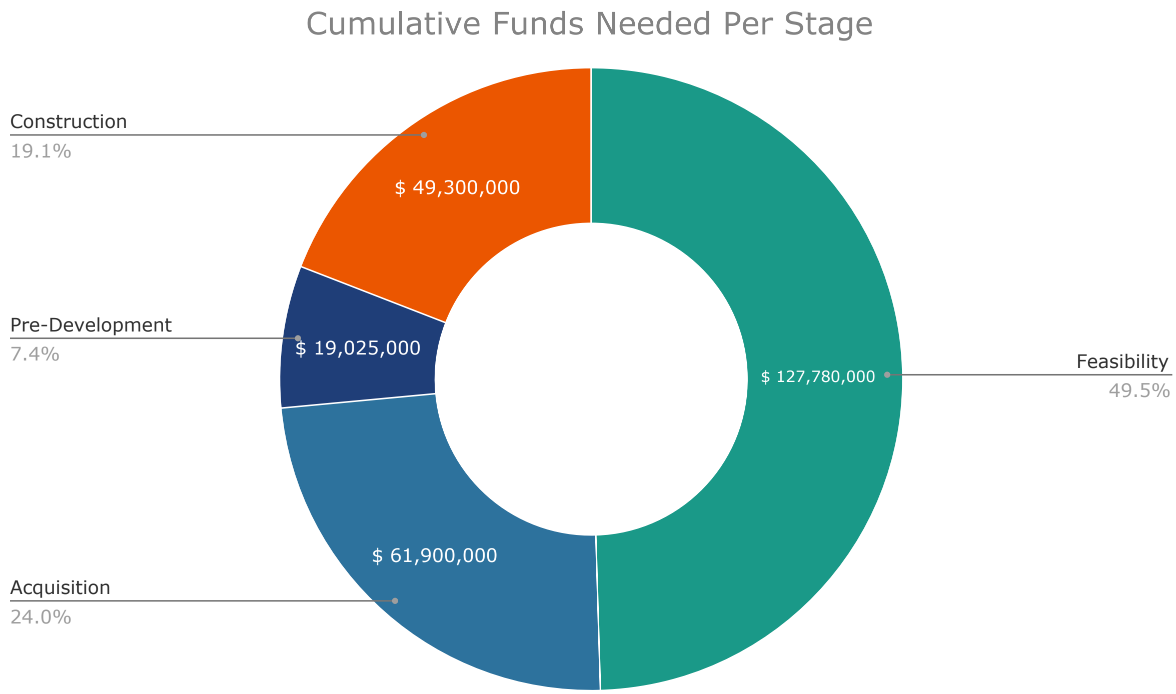

Figure 5. Total cumulative funds needed per stage

The data also revealed trends in financing sources used by housing developers of varying sizes (see Figure 6). When meeting their financing requirements, only developers with over $100M in real estate assets did not need to rely on philanthropic sources to begin the feasibility phase. Instead, they tend to rely on equity-based funding and government grants. Furthermore, developers with larger real estate assets ($50M and more) were better funded during the construction stage and did not rely on philanthropic financing sources. Overall, this research has shown it is uncommon for all but the largest developers to utilize equity and/or debt as a funding source in the early stages of a project. Typically in the feasibility stage, smaller non-profit developers rely heavily on philanthropic sources.

The survey also inquired developers on their service needs, with an emphasis on financial readiness, access to financing, and desired support services.

Financial Readiness: When asked about their financial readiness, 25% of respondents said they had a high degree of financial fitness to manage both current operations and to plan for future affordable housing projects. Only 15% of respondents said they had a high degree of investment readiness to go to market to raise investment capital for their projects.

Need for capital: 74% of respondents either agreed or strongly agreed that they need capital beyond government and philanthropic sources. 68% felt their organization would benefit from a capital raising platform to support financing for projects.

Wrap-Around Services: Almost half of all respondents (44%) said they would benefit from wrap-around services. 38% felt their organization has knowledge of alternative financing approaches beyond traditional government grants and philanthropic sources. Only 22% of respondents said their organization has the capacity to raise the capital required to deliver on their currently planned projects across all phases of development. In regards to general education on project development and capital raising, 42% of respondents considered this service to be useful. When asked about services that could improve the capital feasibility of a project (services such as board and staff engagement as well as financial modeling guidance), 47% of housing developers surveyed said this type of support would be useful.

Source of Financing				
Developer Portfolio Size	Feasibility	Acquisition	Pre-Development	Construction
Less than $5M	Split between Equity, Government Grants, Philanthropic Sources fairly evenly	Mostly Debt and Philanthropic Sources, some government grants and equity	Mostly Debt and Government Grants, some Philanthropic Sources and Equity	Mostly Debt and Equity, Government Grants also Common, some Philanthropic Sources
$5M - $9.99M	Mostly Government Grants and Philanthropic Sources	Debt, Equity, Government Grants and Philanthropic Sources	Debt, Equity, Government Grants and Philanthropic Sources	Debt, Equity, Government Grants and Philanthropic Sources
$10M - $24.99M	Debt and Equity	Equity	Debt and Government Grants	Debt, Equity, Government Grants and Philanthropic Sources
$25M - $49.99M	Government Grants and Philanthropic Sources	Equity, Government Grants, and Philanthropic Sources, low mention of Debt	Mostly Government Grants and Philanthropic Sources, some Debt and Equity listed	Debt, Equity, Government Grants and Philanthropic Sources
$50M - $99.99M	Government Grants and Philanthropic Sources	Debt, Equity, Government Grants and Philanthropic Sources	Debt, Equity, Government Grants and Philanthropic Sources	Debt, Equity, and Government Grants
Over $100M	Mostly Equity and Government Grants	Debt and Equity	Debt, Equity, and Government Grants	Debt, Equity, and Government Grants
Unknown			Government Grants	Debt and Government Grants

Figure 6. Common sources of financing self-reported by developers, broken down per portfolio size

3.0 CAPACITY CHALLENGES

Capacity gaps are defined as the missing knowledge or resources needed to deliver key tasks along the affordable housing developer journey. This section outlines capacity gaps identified by key stakeholders.

Capacity gaps

The gaps identified in the consultations fell into four categories:

- Lack of staff and real estate expertise
- Land availability and acquisition
- Capital funding and financing
- Availability of construction trades and materials

These gaps are often addressed in the ideation and feasibility phase of a project, with solutions adapting to the project throughout the developer journey. The way in which these gaps are experienced depend on factors such as the size and existing equity of the group and the location of the project.

Lack of staff and real estate expertise

Generally, many smaller groups lack staff with the dedicated time and resources to pursue affordable housing projects, even with strong board and public support. These issues tend to be intensified in smaller nonprofits as resources, experience and expertise are more limited. Many nonprofits are familiar with the operations and managing of housing, but few can take the role of a real-estate developer. Even with dedicated staff, there is still a large need for project team members with real estate expertise specific to affordable housing.

While some interviewees identified the lack of expertise and knowledge as the largest gap, others identified capital at the outset of the project instead, which can bring on consultants to bridge expertise gaps.

When the needed capital to start the project is acquired, the development team has the choice between hiring a consultant or building capacity in-house. However, the overarching consensus was that most smaller to mid-size non-profits would best benefit from having a skilled consultant in the project team to bridge capacity gaps. Accessing capital becomes easier throughout the developer journey as the project becomes refined and increasingly viable.

Land availability and acquisition

The availability of land was identified as one of the largest capacity gaps facing this group of predominantly non-profit developers pursuing affordable housing. In addition to availability, acquiring the site must also be largely discounted or free to ensure the project economics enable affordability. For this reason, public land or land belonging to a not-for-profit or charity are considered ideal for building affordable housing. If these conditions are not available, the option left is for the proponent team to compete for land with the private market, where the capacity for affordable housing is in effect gone in the absence of other mechanisms to offset the full market costs.

However, land belonging to public bodies or not-for-profits may also face additional barriers.

- For publicly-owned lands, public bodies must follow mandated procedures that may be lengthy and bureaucratic. These may include certain criteria that must be met for it to hold a surplus designation or that it is deemed to be the best partnership proposal offered. Examples of publicly-owned land sites include those belonging to municipalities, provincial and federal governments, or agencies such as Metrolinx.
- Not-for-profits holding land are often 'land rich but cash poor'. While land is available, they may need additional support either through partnerships or by finding the right consultant to guide them through the development process. Without the right resources and capital, this could take years. Examples include faith-based organizations who are often keen to build affordable housing.

Capital funding and financing

The not-for-profit sector faces difficulties and barriers in acquiring capital, mostly due to lack of opportunities or difficulty in meeting the requirements in available programs. Please see Chapter 4.0 *Attracting investment capital* for details on the challenges in acquiring capital and barriers preventing private investment.

Availability of construction trades and materials

The largest capacity gap upon entering the construction stage, other than the increasingly steep prices of materials, is the availability of trades and materials. Even in circumstances where an ideal partnership, business plan, and financing is secured, the project team still faces competition against the vast pool of real estate developers and market rate housing for the same labour pool and resources needed to construct the project. The availability of trades and materials also vary regionally. Projects located in rural and remote areas can face a shortage of construction resources, including areas with a high need for more affordable housing, as the majority of construction work falls within large cities.

Role of government (municipality focus)

Government bodies at the municipal, provincial, and federal level play a crucial role in the delivery of affordable housing. While all three groups are responsible for setting supportive policies and incentives, municipalities have the additional responsibility to develop neighbourhood-specific policies, design guidelines, establish zoning by-laws and grant project approvals. Most housing providers consulted held the most frustration with municipal bodies over other governance bodies.

In specific, the timeline for approvals was the largest pain point acknowledged. As reflected in Figure 1, approval times can fluctuate widely, though most approvals take 1-2 years. Longer timelines, namely those in larger municipalities, may push development interest out into smaller neighbouring cities and worsen the availability of housing. Municipalities are aware of these pain points and in the recent past have taken a variety of measures to accelerate the permitting process. As two examples:

- **Concerige Program, City of Brampton**
    - The goal of the concierge program is to assist non-profit and private-sector developers of affordable rental and ownership housing, including transitional housing to navigate through site selection, funding, incentives, partnerships and approvals processes
- **Concept 2 Keys, City of Toronto**
    - This program is designed to retransform the City's current development process and organizational structures. With a strong focus on collaboration, the C2K program focuses on pre-application consultation to resolve issues earlier, improve the quality of applications and shorten review turnaround times.

Need for a coherent regulatory framework

The identified capacity gaps are evidence of a fragmented regulatory and governance framework. Interviewees generally agreed that tools at the municipal level have been designed and carried out for optimal effectiveness within their jurisdiction. However, the introduction of new municipal programs or tools is only one portion of the regulatory framework. Further study and action to reform the existing national framework in which they operate was stated to be a need. This includes the consideration of government resources at all three levels to leverage policy, incentives, and legal mechanisms to spur demand and support affordable housing delivery by the community housing sector.

4.0 ATTRACTING INVESTMENT CAPITAL

This section reviews barriers that prevent the flow of capital to affordable housing projects and outlines area of opportunity for investment.

Barriers to investment in affordable housing

High-risk nature of early stages

Despite having the lowest capital needs out of the three phases, the high-risk nature of early stages makes it difficult to attract investment funds to initiate a project. Project teams face the trap of needing capital to produce viable projects that attract investors, but without a developed project idea, capital cannot be secured. Many teams default to drawing from existing equity or depend on their ability to fundraise as a result. A lack of funding can force projects to pause, sometimes for several years (as shown in the case studies). This is also reflected in the survey, where most developers held the most projects in the ideation and feasibility stage in comparison to the other stages of the developer journey.

Although the initial visioning process (mission & vision and concept plan stages in Figure 1) is high-risk, solving for capital needs at this point is not considered the most challenging point in the development journey as costs are low in comparison to the remainder of the project. Many interviewees have stated that the pre-development stage (and sometimes the business plan development) is when attracting capital becomes critical as costs become significantly higher. These stages are when the risk associated with the project is felt most prominently as it affects the team's ability to attract capital. Many interviewees expressed that it was challenging to secure adequate funds with conventional sources such as CMHC's SEED funding, and expressed that most financing sources are not willing to commit until the construction phase.

Providing satisfactory recourse / collateral

The survey results and consultations revealed that barriers to investment capital were not due to lack of interest from the development community, private investors or impact investors. Rather, barriers to capital were often caused by perceptions of risk, where measures to mitigate these risks required collateral that can be challenging to provide for development teams seeking loans or other financing. Oftentimes, property assets or substantial financial resources are required, which puts not-for-profit developers at a disadvantage in comparison to the for-profit sector, who have stronger balance sheets in comparison. This attitude was shared by many of the interviewees, who felt that the existing underwriting requirements inflated the risk associated with the not-for-profit sector pursuing affordable housing.

Negative stigma with affordable housing

Despite a rising interest for socially-responsible investment among private investors, there exists a stigma of affordable housing as a high risk business, which can be a barrier in attracting private investment towards affordable housing projects. This is also reflected in existing risk models used to assess affordable housing, where several financial consultants interviewed expressed that there was not a deep understanding of the risk profile associated with affordable housing projects. This also in turn affects the recourse and type of loan guarantees required. Nonetheless, it was made clear by multiple stakeholders that affordable housing is one of the most stable forms of investments, especially in comparison with market housing, while not perceived that way.

Additionally, negative NIMBY attitudes from local residents towards affordable housing may deter support, whether it be financially or through public sentiment. In these instances, pushback from the community is often based on misconceptions about lowered land values, lowered quality of life, and traffic congestion. There is a threat of extended approval timelines, which equates to greater uncertainty and reduced overall affordability.

NIMBY

An acronym that means “Not In My Backyard”. In this context it is used to describe the sentiment of particular neighbourhoods regarding the development of affordable housing. Due to negative perceptions of affordable housing users some residents oppose building affordable housing.

Underdeveloped market for alternative financing products

Funders and investors held the view that an investment market around affordable housing generally does not exist. However, there is a growing demand for alternative financing products as CMHC loans do not always cover the total capital needs of a project.

Many affordable housing projects, either in the case studies examined in this paper or those mentioned by interviewees, required creative financing strategies. For example, Beaver Barracks secured a low-cost loan with a religious institution and in the case of the YWCA Elm Centre, a housing bond was created that has since been paid-off. In many circumstances, the arrangements were unique and a one-off financing scenario. However, the low adoption and replication rate of these set-ups, paired with the inconsistent expectations on the amount of funding to be received from CMHC's programs, has made it difficult for an alternative financing market to establish.

There is large potential for blended financing tools to be strategically used for the specific needs in each project stage, but it will require specialized intermediaries. Currently, few financing tools are offered that target specific project stage needs, but these have overcome the capital gaps when used properly. This can be seen in the example of Vancity’s Accelerator Fund, which has been able to provide funding specifically for land acquisition, pre-development, and pre-construction - the most difficult stages for securing funds according to many interviewees (see Appendix A Hannelore case study).

Lack of formal incentives and specialized intermediaries

Further acting as a barrier to investment interest around affordable housing is the lack of formal incentives and specialized intermediaries. These incentives may include regulatory and policy frameworks, legal mechanisms, and financial tools. Specialized intermediaries are advisors or consultants with expertise in financial strategies, including blended financing.

In contrast to the Canadian context, the UK and USA were frequently referenced by informants as successful examples of how national regulations and long-term strategies can change the financing landscape for affordable housing. This includes the UK's well developed debt finance and bond finance system that allows smaller housing providers access to the institutional bond market through the aggregation of individual debt requirements. This is operated through an intermediary, the Housing Finance Corporation (THFC), who is the non-profit funder for the housing sector. In comparison to Canada, the UK has many more large professional social housing providers under a strong regulated system that acts to strengthen their credit worthiness.

Many interviewees noted that the most successful example of a catalyst to private investment was the US's favourable policy and tax credit environment. Specifically, they referred to the context set by the US Community Reinvestment Act (1977), which drives financial institutions to invest a portion of their returns and profits into their communities of operation. To meet the requirements set out by this act, the Low-Income Housing Tax Credit (LIHTC) was created, which is a tax incentive to construct or rehabilitate affordable rental housing for low-income households.

From the American regulatory framework emerged a plethora of specialized intermediaries and community development financing institutions (CDFI), which act as conduits to investment with many tools to invest in affordable housing. CDFIs also have the ability to provide phase-specific products, such as acquisition loans or pre-development. Their success is contingent upon nationally mandated laws for financial institutions to contribute towards community investment. These regulations, and institutions like CDFIs, do not exist in the Canadian housing policy context.

Limitations for charity organizations

While not a major barrier to investment capital, an organization holding a charity status may face additional limitations. It was noted that retaining surplus revenues from a finished affordable housing project is difficult due to the charity status of the not-for-profit. This is due to strict restrictions placed by the Canada Revenue Agency (CRA) on what and how earnings can be retained. These restrictions may also be the conditions from a municipally-issued RFP. For larger not-for-profit organizations, it makes it difficult to pool excess surplus from multiple facilities into a reserve fund that could potentially become a GIC-like product or serve as potential collateral used to secure financing for future projects.

In some cases, philanthropic organizations or foundations prefer investments in projects pursued by organizations with a charity status because of the entitlement to a tax receipt. The lack of charity status may prevent a prospective grant from being given to an affordable housing project. Furthermore, it was noted that charities are often housing operators and not developers; for capital to be used for development a project team would likely require a partnership. However, some interviewees did not see this as a significant limitation, where they have seen examples of philanthropic investments in projects without a tax receipt as long as a desired return is met.

Limitations within government programs

While CMHC funding programs have the best rates and are considered essential to building affordable housing, the reliance on having a CMHC-insured loan in order to secure additional financing limits projects to the programmatic requirements of that loan. This may mean other barriers along the process cannot be avoided and limitations placed on financing options.

For example, the not-for-profit sector in Nova Scotia typically leans towards the CMHC Co-investment Funding stream. However, because this fund prioritizes partnerships, it banks on coordination between multiple levels of government. Some locations, such as those within the Halifax Regional Municipality (HRM), have notoriously long approval times (3 years minimum according to some interviewees). With additional partners and stakeholders, this process will likely take longer, hindering overall affordability.

Another example of a limitation was the requirement to meet deeply affordable housing criteria in the Rapid Housing Initiative (RHI). Despite the sound intention of providing diverse housing-types, one interviewee revealed that meeting this requirement rendered the final project dependent on operating subsidies. To meet the demand for housing across the full affordability spectrum, including deeply affordable housing, funding programs must be coordinated across all orders of government to support capital and operating costs where necessary.

Overcoming barriers

Addressing early capital needs

As stated, upfront capital in early stages is considered the largest capital gap in pursuing affordable housing. Currently, most other innovative forms of financing are offered after most of the planning and permitting risk has been taken away, typically near the beginning of construction. In response, efforts to address early capital needs can include expanding successful financing models that address early soft cost funding

Vancity Accelerator Fund

The Vancity Accelerator Fund is widely popular within the industry as a reliable model for early-stage financing. Since 2011, Vancity has deployed $7.8 million in pre-development financing which has led to 33 development projects, and more specifically, 1,954 purpose-built below market rental housing units. Vancity is reputable in their initiatives to support their members and the industry as a whole challenges and ensuring a supportive regulatory environment is in place.

A prime opportunity to overcome investment barriers is through expanding existing programs that are able to target stage-specific capital needs, particularly pre-development needs. Canada's underdeveloped market for alternative financing only has a few examples of successful models. One includes the Vancity Accelerator Fund, which releases funds towards land acquisition, pre-development, and pre-construction activities. Several consultants interviewed are also in the process of creating a delivery model that does not rely on CMHC-funding and can be self-sustaining in its operations.

Efforts to channel funds towards early project needs would benefit significantly from the creation of formal incentives within a coordinated regulatory framework at all levels of government. This would provide an environment where diverse alternative financing products can flourish and respond effectively to the growing market demand that already exists. In studying the American context, one reason why CDFIs have flourished is due to policy and tax credit reforms. Although this initiative would require more study, these reforms would be invaluable in fostering a developed market of financial tools towards early capital needs.

Scaling-up / consolidating not-for-profit sector

Larger not-for-profit housing developers have a significant advantage over small organizations in accessing capital, who often lack financial capacity, expertise, or existing assets they can use as collateral. Some interviewees even noted that financing and capital is not generally a barrier for larger not-for-profit housing developers. However, there are significantly fewer large housing organizations. Though this statistic is for social housing only, fewer than ten organizations in Canada manage more than 5,000 homes, while thousands of smaller groups manage less than 100 each (Pomeroy, 2018).

Supporting smaller not-for-profits to scale-up in their capacity to take on additional projects and growth of the company is a valuable strategy to overcome some of the existing barriers to accessing capital. While this can take the form of consolidating the sector by aggregating groups based on geography, the research also identified an opportunity for covenant partnerships. This involves connecting larger not-for-profits with smaller organizations to help provide the covenant (loan guarantee) needed to secure financing. It was recognized that the inability to provide a covenant has prevented smaller housing developers from pursuing projects.

In practice, covenant partnerships have been successful in securing financing, although it has not been widely used. One of the interviewees noted an example where their affordable housing project was able to secure a $40 million loan after forming a covenant partnership to reach a loan guarantee of 10%. The partner received a 1% return as part of the deal. While both strategies of consolidating the sector and forming covenant partnerships help build-up the community housing sector, the latter is easier to implement. Critical in any efforts to scale the non-profit housing developers in the sector is a continued focus on the provision of high quality housing for residents.

Loan insurance pre-approval

Being able to access financing in a reliable and timely manner was also noted as critical to delivering a successful project. Without a CMHC-insured loan, it is very difficult to secure financing from other institutions. Many of the housing developers consulted had made it clear the need for readily available capital and were keen on a loan insurance pre-approval mechanism. They believed it would give confidence in the project moving forward.

The interviewees also revealed that a form of CMHC loan insurance pre-approval would help to mitigate the high-risk stigma associated with their projects, and saw it as a way to overcome capital barriers.

Strong working relationships

A large obstacle to securing financing is convincing lending institutions that risks will be properly identified, accounted for and managed. Trust and strong working relationships can enable smaller not-for-profits to access financing otherwise not possible. A strong rapport between the development team and source of financing oftentimes also leads to more favourable conditions when loans are issued.

Opportunities for financial institutions

In-line with a growing global ESG community, private institutions have expressed a large interest in affordable housing as both an economically-sound and socially responsible investment. The research has shown two trends in private investor participation in the Canadian landscape: the direct financing of affordable housing projects or through other forms of innovative social financing.

> When we lend to non-profits, it's non-recourse so there's no security in development the same way that a private developer can offer. It's really difficult to move forward without minimizing security to take the risk associated with financing.
>
> - Institution

Direct financing of affordable housing projects

The recent 2021 announcements from Scotiabank and BMO to commit $10B and $12B respectively further demonstrates the growing confidence in investing in affordable housing under a ESG framework. From the standpoint of financial institutions, the low vacancy rate associated with affordable housing is interpreted as high demand housing in a credit evaluation, creating a strong rationale to finance affordable housing. The increasing participation from financial institutions helps build confidence for potential investors and counters the assumption that affordable housing investments are high-risk in nature.

The recent commitments from Scotiabank and BMO highlight the opportunity in affordable housing and set an example for other Canadian financial institutions. While details of the anticipated products are currently in development, the general direction taken is to expand opportunities in construction financing, where financial institutions have been largely successful. This may include financing products that favour projects that meet a broadened set of affordable housing criteria, including housing below certain market rates or deeply affordable housing.

> For take-out financing, that's where there's a gap in Canada and where CMHC can step in. However, their lending books aren't big enough to satisfy the demand to every housing need in Canada. We think we can step in for construction financing where we're strongest.
>
> - Institution

When asked about the ideal circumstances of these funds, interviewees stated that the ideal housing developer should view this as an opportunity to take a lower return with the understanding that lower profitability can be offset by the lower financing costs major institutions are starting to offer. There was an assumption of a private sector client from the requirements in the underwriting process. Unless a not-for-profit developer offers the same level of security in recourse, growing commitments from financial institutions towards affordable housing will not likely contribute to building up the community housing sector in the current regulatory environment.

Financing offered by private institutions is limited to the construction phase and likely would not be able to alleviate capital gaps in earlier development stages under current practices. The interviews revealed that many financial institutions were comfortable offering construction financing and recognized that pre-development and take-out financing remain challenging for them to fund with existing risk analysis processes. Many viewed CMHC taking on the vital role of providing funding to bridge these gaps.

> Setting up a social investment bond isn't just about the demand, which is huge, but having a sustainable program that aligns with corporate priorities. This allows us to stay at the lowest cost of financing.
>
> If we wanted to issue conventional bonds, it would still solve the funding gap, but since we're issuing social bonds, we make a commitment to transparency where reporting to investors becomes very important.
>
> - Social bond manager

Other innovative forms of financing

Many other social finance models are emerging as new trends. They include community investment options and the use of products such as sustainable bonds, social bonds, and housing bonds.

The use of community ownership investment models in recent times offer promising avenues for affordable housing. The concept of community ownership itself is when a defined "community" purchases property, determines the ownership model that fits it needs, and shares in the risks and benefits of ownership and stewardship as a community (Brookings, 2021). This model includes Community Land Trusts, Limited Equity Co-ops, Common-Interest Communities, Commercial Community Land Trust, Cooperatives, and Neighbourhood REITS among many others (see Appendix D for a complete list). Community ownership investment models are designed to expand the horizons and scope of ownership, allowing non-traditional actors (i.e. low and moderate income people) to also have access to investment opportunities.

The momentum gained in sustainable investing has also been marked by the growth of sustainable bonds, social bonds, and housing bonds in the Canadian landscape, which may become a more prominent vehicle for private investment into affordable housing. The growing appetite has also been reflected in the Department of Finance's most recent announcement in the April 2021 budget plan to study how social bonds can complement the existing debt program. While bonds do not help the capital gaps at the outset of a project and they are recourse to the issuer rather than strictly tied to project revenues, they have been a successful vehicle to raise funds for large capital projects.

In practice, the Toronto Social Debenture Program is a recent example of a successful publicly issued social bond towards affordable housing. First launched in 2020, the $100 million bond was sold at $99.98 for a 10-year yield of 1.6%, where expressions of interest were more than four times oversubscribed at $450 million. Bought primarily by asset managers (69%), pension funds (12%), and insurance companies (11%), the bond raised $48.2 and $51.8 million respectively towards two large-scale housing projects: George Street Revitalization and the Housing & Shelter Infrastructure Development. The 2021 issue is likewise popular, being two and a half times oversubscribed.

Another example of innovative bonds in affordable housing was implemented in the Regent Park project, which will deliver 2,083 rent-geared-to-income units, 399 new affordable rental units and 5,400 new market condominium units. $450 million was raised through two separate bond offerings to raise capital for affordable housing and community facilities in 2010.

In summary, it seems highly unlikely that social or housing bonds or other financing products under the current regulatory framework will be able to provide private capital to the early ideation and pre-development phases for affordable housing development. However, they have enormous potential to fill capital gaps in later phases and foster interest for investment under transparent reporting. Both innovative financing tools and the use of community ownership models should be explored further in how they can contribute to long-term affordability.

5.0 WRAP-AROUND SERVICES

Without any major financing reforms to how capital is issued, the most effective way to address capacity gaps is through real estate expertise, either by bringing on affordable housing consultants or building the skill in-house. However, wrap-around services can provide a smoother development journey and help increase project feasibility.

Wrap-around service

In the context of this report, wrap-around services refer to the support services or resources for real estate development project team that often lay outside the realm of paid professional or legal services.

Recommended services

The most desired wrap-around services are those that connect the project team members and those that can identify or lead to funding opportunities. Wrap-around services mostly occur in the ideation and feasibility phase and fall into the following categories:

- Matchmaking for development partnerships
- Matchmaking for expertise and post-occupancy services
- Technological and digital solutions
- Training on the affordable housing process
- Outreach on the value of affordable housing investment
- Support for organizational growth
- Investment readiness supports
- Public cases, guides, and tools
- Measuring / validating impact

Please see the following pages for the different forms that wrap-around services could take, and how they can be effectively used.

Matchmaking for development partnerships

In many cases, partnerships are critical to the project's success. Even for housing providers that had little difficulty finding potential partners, matchmaking services and any related services such as networking and convening were the most desired wrap-around.

It was recognized that the most difficult aspect of establishing partnerships is the alignment of vision and values. For this reason, establishing a partnership is typically done near the end of the ideation and feasibility phase, where the organization's undertaking of a potential project has been assessed against their mandate and their value as a partner has been evaluated. The right partnerships enable outcomes that are better than what each partner could have achieved alone.

Technological and digital solutions

The idea of matchmaking key stakeholders and major players within the industry can take a number forms, one of which are digital solutions that leverage advancements in technology and automation. As software for data analysis and artificial intelligence become increasingly developed, these tools have potential to analyze and match stakeholders. This would require data to be aggregated sufficiently in digital form to be effective. Algorithms on digital solutions do have limitations, but offer much value in scoping out potential partnerships and investors. Networking and relationship development can also be provided through wrap-around services that focus on matchmaking and convening.

Matchmaking for expertise or post-occupancy services

Real estate expertise remains a significant gap for many housing providers in the not-for-profit sector or for not-for-profit landowners who are interested in redeveloping it for social purposes. A common misunderstanding is that a partner will augment capacity, but more often than not, it is a capable consultant who provides the needed expertise. However, the not-for-profit would need to have the foresight to know which consultants are best suited for their projects. Matching vetted consultants to project teams or landowners is a valuable wrap-around service that may help kick-start projects.

As an extension of this service, having a repository of service organizations involved in the operations and maintenance phase was another desired wrap-around.

Training on the Affordable Housing Process

A common problem faced by less experienced project teams is not having a basic understanding of the real estate process or underestimating the level of real estate expertise required. While the provision of training on the affordable housing process does not replace the need of real estate expertise, it can provide clarity on expectations and build confidence in the potential project.

In particular, many housing providers are interested in learning about forming partnerships, developing design concepts and using capital strategies that include alternative financing approaches beyond traditional government grants and philanthropic sources. Existing examples of such training include programs like Vancity's Blueprint for Impact, where community land-owners participate in a cohort-based workshop. Participants leave with a project vision and the skill to hold their own capacity assessment after a 6-week period.

Investment readiness supports

The research has outlined a strong potential market for alternative financing products. However, the general knowledge of alternative financing types and their capability in bridging capital gaps is not well understood. Investment readiness supports describe services that help project teams strategically adopt existing financing tools towards housing projects at each stage. They may include one-on-one supports on board and staff engagement, financial modelling, capital strategy development, investment product structuring, offering material development, and legal services.

Support for organizational growth

Building up the not-for-profit sector was commonly identified as necessary to creating long-term sustainability in the sector. Part of that includes scaling up a smaller housing provider's capacity to take on additional or more complex affordable housing projects. This can take the form of a mentorship program under a larger not-for-profit or other forms of training. Encouraging sector consolidation necessary to build the professional specialized skills and capacity.

Measuring / validating impact

Evaluating the impact of dollars invested against the final project is valuable in helping further affordability as new funds or grants are secured. It can help benchmark a development plan against market data and evaluate how that project compares to others in a similar setting. In the discussions held, quantitative measurements were considered more fruitful in setting expectations for funders and developers over evaluating social returns. Examples could include the type of affordability, number of units, type of energy efficiency, or proximity to transit or other amenities.

This wrap-around has been proven to work with a supportive policy framework. A parallel was drawn to the LIHTCs in the US, where every state agency creates their own criteria to allocate tax credits through a Qualified Allocation Plan (QAP). The QAP becomes an evaluation tool that can encourage affordable housing towards specific population groups or locations, as developers are incentivized to put forth projects meeting QAP priorities in order to compete for tax credits.

Public cases, guides, and tools

Case studies of past projects, including detailed information on partnership formation, design concept, and financing strategy are seen as a valuable resource to many not-for-profit housing providers. While every affordable housing journey is different, compiling case studies into a resource bank with successful and unsuccessful projects was almost always stated to be useful. They were seen to build confidence, to inspire ideas, and also to provide best practices.

In addition to detailed cases, the development of tools such as self-assessment checklists, guides for specific types of housing development, and a list of relevant financial incentives or programs are seen as useful resources.

Outreach on the value of Affordable Housing

The perceived risk and stigma around investments in affordable housing remains poor for some investors, which may deter private capital and loans towards affordable housing. The negative sentiment is fueled by a misunderstanding that affordable housing is a risky investment. Engaging potential investors through public events has value in building investor confidence and community buy-in.

Additionally, outreach initiatives highlighting how affordable housing contributes to a vibrant social fabric helps to garner public support. It helps to counter extreme NIMBYism that can drag out a project's timeline, where concerns are usually related to fears of declining property values and traffic congestion. Some municipalities consulted have stated outreach to be of significant interest, however, are too stretched on resources to provide this service.

While these efforts can be made outside of an active project, anticipated projects benefit from early communication on the benefits and outcomes of a proposal at the outset of the ideation. The cases have shown that the clear demonstration of the design concept can help diffuse NIMBY attitudes. Usually, these were most successful when mediated by a project champion - a local councillor, consultant lead, or non-profit lead.

6.0 MOVING FORWARD

This report has examined the current landscape of the affordable housing industry in Canada, the roles of various stakeholders and the overall gaps and barriers within the ecosystem. The fundamental learnings presented throughout this report are categorized and detailed in the following segments: Opportunities, Gaps, Solutions and Limitations.

Key findings summary

Opportunities

As the Canadian Affordable Housing market grows to meet the urgent needs, more organizations and industry leaders are working to establish themselves in this space. As an asset manager of one of Canada's leading financial institutions stated, affordable housing is high-demand housing and these opportunities make economic sense to support. This report highlighted the massive opportunity this shift will create.

1. Pipeline: Highly capable affordable housing developers have significant potential to build new affordable housing with a large pipeline of projects in varying stages of development. The creation of a strong pipeline of high quality projects will help solidify the industry and create demand for more actors to get involved in this space.
2. Capital Supply: There is a growing supply of capital available to finance affordable housing projects in Canada, including large institutions, pension funds and specialized intermediaries. The expansion of the industry also creates the opportunity for non-traditional actors to invest in affordable housing projects.

Gaps

In order to capitalize on the opportunity listed above, there are capacity and capital gaps to be addressed. These are barriers that are currently experienced in the industry.

1. Capital Need: There is a significant need for alternative financing by affordable housing providers beyond traditional government funding sources. Diversifying capital sources would help developers build a financial foundation to take on additional, and larger, projects.
2. Investment Readiness & Capacity: Housing developers self-report a need to improve investment readiness and additional capacity to raise capital and to successfully complete new projects. Based on survey data, only 22% of respondents said their organization has the capacity to raise the capital required to deliver on their currently planned projects across all phases of development. This capacity and organizational support would help developers engage with more complex projects.
3. Non-financial supports: Beyond capital, housing developers require additional support including land contributions, reduced soft costs, in-kind contributions, and municipal support (waived fees, fast-tracking, etc).

Solutions

The following solutions were widely accepted by consultation interviewees and supported through the survey data. Elements of these solutions have also been explored in case studies outlined in Appendix B (Beaver Barracks in Ottawa, Parkdale Landing in Hamilton and 60 Richmond Housing Cooperation in Toronto).

1. Enabling Policy Environment: A more coherent, coordinated, and enabling regulatory framework that optimizes existing government resources from all levels can better support affordable housing projects through incentives, funding, expedited and easier approvals, and other assistance.
2. Capital Platform and Wrap Around Supports: There is a clearly stated need for both a capital platform and wrap around supports including education, structuring supports, and legal services. A marketplace can also play a systemic coordinating function to support scale up of projects and capitalization strategies.

Limitations

Although this model presents various benefits for the affordable housing community, it is constrained to the conditions and expectations of private capital.

1. Limitations of Private Capital: Private capital is one component of a larger capacity and capitalization strategy for individual housing projects, as well as a National Housing Strategy. It is a necessary condition, but private capital alone is insufficient to meet the needs of housing providers and our systemic housing needs. These constraints are derived from a lack of incentive alignment between public and private capital (and the sectors as a whole).

Limitations & further research

There are still many topics this report was unable to discuss in detail but would be beneficial for the further research of the industry. These topics include:

- Industry and market trends in the niche segments of construction and development (i.e. construction innovation with a focus on sustainable buildings and design innovation)
- Exploration of different funding mechanisms
- International not-for-profit housing sector models, particularly case studies in the US and UK
- Further study into strategic reforms to policy and legal frameworks and how incentives (tax or other) can attract private capital towards gaps in the development journey
    - A secondary study can cover the benefits and limitations of financing tools (i.e. social bonds) and community investment models
- Additional study on market segments and housing for indigenous or rural populations
- Identifying types of investors interested in affordable housing (i.e. pension funds, asset managers, etc) and studying barriers in their pathways to investment

Next steps

Moving forward, this report identified a variety of gaps, barriers and pain points within the affordable housing industry, most notably in the first phase of development. However, rising demand for social investment in affordable housing has catalyzed new programs and initiatives to improve this space. Emerging from this environment are new best practices forming, capital becoming redistributed, and new models of financing being introduced.

Efforts to create a truly supportive ecosystem for all players involved in the delivery of affordable housing will require the following next steps:

- Building up the not-for-profit sector by expanding and replicating successful programs or models.
    - Vancity's Accelerator model is a leader in this area. Their model provides extensive support to not-for-profit housing providers and prioritizes clear communication and transparency with investors.
- Building a network of readily-available wrap-around services like matchmaking. This can be achieved through exploring digital solutions or partnering with vision-aligned organizations.
- Consolidating knowledge of best practices and creating accessible resources to the sector.

7.0 REFERENCES

Glossary

Affordable Housing: Housing that costs less than 30% of a household's before-tax income. Affordable housing can be provided by the private, public and not-for-profit sectors and includes all forms of housing: rental, ownership, co-operative ownership, among other types. (About Affordable Housing in Canada, 2018)

Acquisition: The process of obtaining the real estate asset of interest, which may include land, the building, or establishing other ownership arrangements.

Housing Provider: Organizations or groups that build and develop housing. In the context of this report, this term is used to refer to groups focused on building affordable housing specifically.

Developer Journey: The step-by-step walk-through of building housing from the start to completion. In this context, the developer journey starts at the ideation phase and ends once the construction is complete. Although it is recognized that the building will need to be maintained and operated, this stage is not emphasized in the developer journey.

Not-for-Profit: Also referred to as a "Non-Profit" is an organization that is not conducting business for the primary goal of making a profit. These groups typically have a cause or goal that is prioritized and embedded into their business model.

Financing: the capital, in-kind contributions, and loans to finance the costs of building the project, costs including but not limited to professional services, planning approvals, community consultation, land acquisition, land remediation, and construction.

Examples of financing include grants-in-aid, capital grants, program-specific capital grants, subsidies, in-kind contributions, construction loans, mortgage financing loans, bonds

Funding: revenues and grant sources to repay the initial financing.

Examples of funding include government grants, sale of the units, revenues from units or capital assets (rental income), and philanthropy

Wrap-around service: In the context of this report, wrap-around services refer to the support services or resources for real estate development project team that often lay outside the realm of paid professional or legal services.

NIMBY: An acronym that means "Not In My Backyard". In this context it is used to describe the sentiment of particular neighbourhoods regarding the development of affordable housing. Due to negative perceptions of affordable housing users some residents oppose building affordable housing. (NIMBY (Not in My Backyard), n.d.)

Zoning: A tool used by municipalities for land use planning. Zoning rules dictate the usage, size and classification of the land, among other factors. Zoning laws are regulated and adjusted by municipalities.

ESG: an acronym for "Environmental, Social, and Governance". This term describes a set of criteria as standards for a company's operations for socially responsible investment. ESG is often used to evaluate a company, an organization, or a public body on how they've performed against sustainability metrics, where environmental metrics are concerned with conservation of the natural world, social metrics concern human rights and social relations, and governance metrics concern standards in running a company.

Underwriting: A process in which an external party (i.e. an individual or institution) will accept the financial risk of a financial product for a fee. This practice is commonly performed for loans, insurance or investments. (Banton, 2021)

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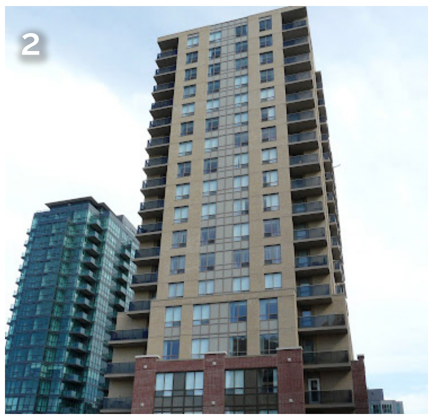
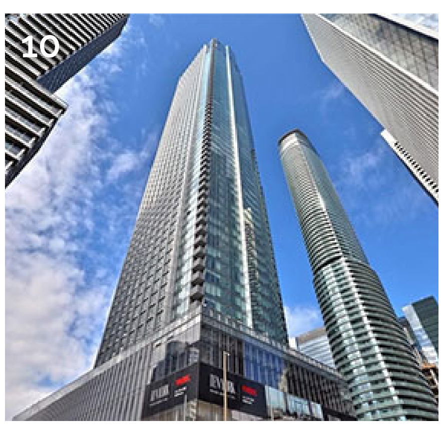
8.0 APPENDICES

Appendix A: Case study best practices

Twelve (12) select cases of affordable housing projects were examined to better understand the typical processes of capital raising and best practices for affordable housing delivery.



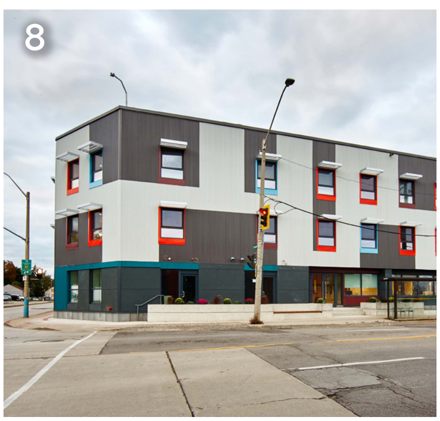


Case study profiles

The 12 cases examined were pulled from cases mentioned in previous consultations held by CMHC, cases that had been studied by the Infrastructure Institute at the School of Cities, or cases brought up by interviewees. They were chosen as they represented a diversity of affordable housing project types, capturing various market segments, scales, ownership structures, financing tools, and mixes of uses. This section presents the financing involved in these projects, the key challenges, best practices, and existing gaps in accessing capital.

The cases studied:

1. Christian Resource Centre, Toronto
2. St. Clare Church, Toronto
3. Beaver Barracks, Ottawa
4. Firehall No.5, Vancouver
5. The Red Door Shelter, Toronto
6. Eva's Phoenix, Toronto
7. Artscape Wychwood Barns, Toronto
8. Parkdale Landing, Hamilton
9. 60 Richmond Housing Coop, Toronto
10. Naismith Coop, Toronto
11. Karen's Place, Ottawa
12. Hannelore, Vancouver
13. Vancity Partnership Brunette Ave, Vancouver



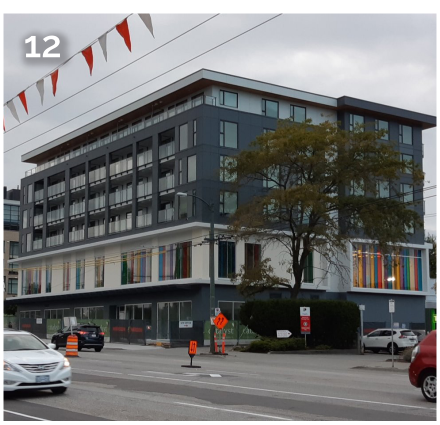


Figure 7. Affordable housing case studies examined

Best practices summary

The case studies illustrated a number of practices that made these projects feasible. The feasibility of the affordable housing projects were dependent on both the ability to lower project component costs and the ability to access low-cost financing. In terms of lowering project costs, there are five areas where costs could be reduced:

- Land
- Soft costs (professional services)
- Hard costs (construction)
- Operations
- Development fees and taxes

The remainder of this section identifies common setups and practices that help optimize costs for project feasibility, followed by a summary on common financing set-ups.

Land

Free or heavily discounted lands often determine the viability of the project. Oftentimes this setup is attained through partnerships with creative land arrangements:

- City retains ownership of land and sets up long-term lease with not-for-profit operator to secure affordability; affordable housing project is developed partnership with a not-for-profit and developer (or both);
- Former public land is sold to not-for-profit developer or to a for-profit with agreements to build affordable housing;
- Not-for-profit owned land is developed in partnership with developer;
- Strata titles are used to split ownership and responsibilities of affordable housing units within a shared building - i.e. in Naismith where a housing coop owns strata titles to the affordable housing units; and,
- Land consolidation or swaps to enable better designed spaces in larger tracts of land

Partnerships often result in mixed-use or mixed-tenure buildings with affordable housing secured through an agreement. Mixed tenure projects often leveraged the market housing portion to subsidize the affordable units of the project (i.e. Beaver Barracks, St. Clare's Church, Eva's Phoenix).

Soft costs (professional services)

Reducing soft costs occurs in the pre-development phase. While not the highest expenditure of a development project, in-kind contributions in studied cases have been able to increase feasibility of a project.

Hard costs (construction)

Construction costs are the highest costs of any development project, and have been rapidly rising. One interviewee revealed that construction costs rose by 30% in one year, making it increasingly difficult to balance proforma numbers. Growing construction costs have the potential to be a larger barrier to building affordable housing than the cost and access to financing. Some solutions to address rising costs have been to innovate construction techniques, such as using techniques like wood frame (i.e. Firehall no.5) and modular housing.

Operations

Ultimately, operational expenses that run until the end of a building's life-cycle are the highest cost of a project. Many of the case studies intentionally sought to build energy efficient buildings to ensure operational costs were low. Examples include passive housing such as Parkdale Landing and Karen's Place. Some, like Beaver Barracks, even reached creative agreements with sustainable energy providers. Designing for energy efficiency often meant higher initial capital costs, which could pose additional challenges.

Land arrangements also directly helped with ensuring adequate funds for maintenance and operations. The lack of a mortgage needed for land meant that rental revenues were often enough to cover operational costs, such as the case of Firehall No.5, or partial costs, such as the Christian Resource Centre.

Development fees and taxes

Municipal involvement can significantly lower costs. Some of the practices included ensuring as-of-right zoning permissions for the subject site to avoid the rezoning process (60 Richmond Street, Eva's Phoenix), waiving development fees, and exemptions from property taxes. In some cases, partnerships allowed for the project to be eligible for HST rebates (i.e. St. Clare's, through their status as a charity), saving additional costs for land. Partnerships with a municipality may even mean land is provided for free or at highly discounted costs.

Funding / Financing Setups

In addition to lowering costs, the cases blended diverse funds and financing practices. Partnerships often played a key role in the ability of a project to access funds, where eligibility to affordable housing programs were sometimes only open to a charity or not-for-profit partner. Additionally, building a viable business and feasibility case in the early stages of a project relied on the existing equity of the development team. Partnerships eased this capital need, where program grants were able to be accessed by one partner (i.e. Metcalf Foundation contributed $500K towards Wychwood Barns to support the arts, many grants are solely for affordable housing, etc). Additionally, the strong community support the partnership fostered commonly generated successful fundraising campaigns.

Common sources of funding and financing across the projects included government grants and affordable housing programs (including CMHC funds), fundraising campaigns (from foundations or other not-for-profit groups), conventional mortgages from financial institutions, and equity contributions from the development team. In many cases, additional financing was needed beyond the more common sources and were met through creative arrangements. Some of these included:

- $2.3M contribution from Indwell equity through charitable donations raised with use of an online platform towards Parkdale Landing
- A low-cost $1.2M mortgage financing arrangement with a religious-order used for Beaver Barracks
- $700K through impact investors under the Vancity Accelerator Fund used in the Hannelore case

There is no shortage of creativity in how financing for affordable housing is realized, however, certain practices can better position the affordable housing provider to expand their operations and capacity. Not-for-profit groups with a large real estate portfolio had the ability to borrow against existing reserves or use assets as collateral to secure additional mortgages (i.e. CCOC’s use of 163 James Street as collateral for their second mortgage for Beaver Barracks). Although this method limits the amount of projects that can be undertaken and is not always the preferred strategy, acquiring land and real estate assets can better position the housing provider to access financing.

Other arrangements avoided the need to secure a second or third mortgage altogether. For example, some cases of mixed-tenure housing eliminated the need for additional mortgages, such as the case of St. Clare, which used the market portion of the project to subsidize the affordable rental units. Another common arrangement was for projects to be built on publicly-owned land with the housing component operated by a not-for-profit group. Operating surpluses are more easily generated due to a lack of mortgage, which can be channelled towards other affordable housing projects. In the example of Firehall no.5, the city-owned project allowed for faster surplus revenue generation, which is split 50-50 between YWCA (not-for-profit) and the City, where the portion belonging to the City will go towards the capital replacement reserve.

In some instances, these strategies are combined. In the case of St. Clare, the project was able to pull $500K of St. Claire's equity through a refinancing of their existing property at 25 Leonard, taking the balance from operating surpluses.

Appendix B: In-depth case study profiles

Christian Resource Centre (CRC), Toronto, 2012

Affordable Housing Provided:
87 units of deeply affordable rental housing

Other uses:
Community hub with offices and commercial kitchen, chapel, public park, and community garden

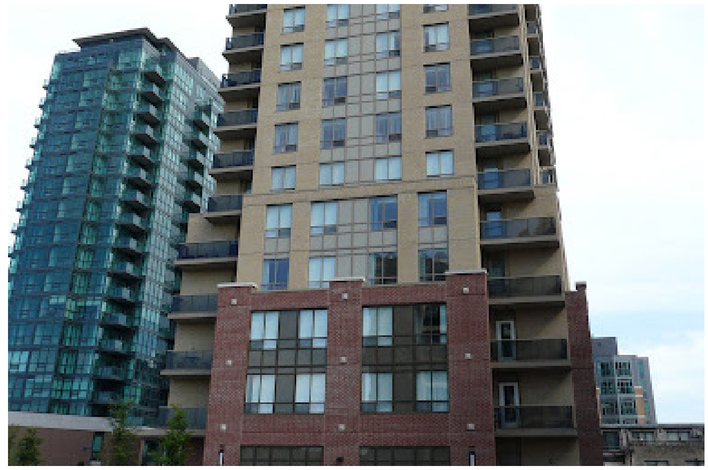
Development Partners:
- Toronto United Church Council
- Toronto Christian Resource Centre
- Toronto Community Housing Corporation
- City of Toronto
- Federal & Provincial Government

Project Cost: $23M

Funding/Financing
- $6M from Federal/Provincial Affordable Housing Program
- $1.4M from Mayor's Homelessness Initiative Reserve Fund
- $4.8M from CRC equity and financing
- $1M from TCHC equity
- $600K in waived development charges
- Remaining costs including social component covered by the United Church

Affordability Best Practices
- The United Church Council's contribution of the land through a long term lease made it a viable project - CRC operates using rental revenue, City funds, and donations (no mortgage)
- Waived development charges and fees of $600K
- Creative land arrangements - a land swap was arranged between TCHC and the United Church
- Early and close collaboration with community where support for the project was fostered

St. Clare Church, Toronto, 2011



Affordable Housing Provided:
190 affordable rental housing units, 27 artist live/work studios

Other uses:
Community spaces

Development Partners:
- St. Clare's Multifaith Housing Society
- Veridoc Development Corporation
- Abell Investments

Project Cost: $39.6M

Funding/Financing
- $4.9M from Federal Affordable Housing Program ($26,600/unit)
- $8.2M from Provincial Affordable Housing Program ($43,400/unit)
- $1.5M grant from the City of Toronto
- St.Clare equity contribution of $626K, where $500K was provided by refinancing 25 Leonard from operating surpluses

Affordability Best Practices
- Only one mortgage was needed as a result of the affordable housing programs accessed
- Waived development charges and fees
- St. Clare's had access to a HST rebate of $784K as a charitable organization
- Land provided by Abell and managed by 18 community agencies (through partnership)
- Veridoc picked up most of the pre-development costs, otherwise the project would not have been feasible

Beaver Barracks, Ottawa, 2012

Affordable Housing Provided:
254 affordable housing units, with 150 with RGI subsidy and 25 as wheelchair accessible

Other uses:
Paramedic post, public art installation, and community garden

Development Partners:
- City of Ottawa
- The Centretown Citizens Ottawa Corporation (CCOC)

Project Cost: $65M

Funding/Financing
- $19M in combined federal/provincial funds (Canada-Ontario) AHP
- $12M in municipal grants and waived fees
- $31M from Infrastructure Ontario in debenture agreements
- $1.5M mortgage financing from religious order
- $2.24M remaining financing from CCOC internal loan mechanism

Affordability Best Practices
- Land was essentially free at $1
- Mixed-income housing model
- Early design charrette hosted led to 3rd party agreement with geothermal provider for enhanced building performance and to offset initial financing
- Waived fees of approximately $700K
- Over 70% of CCOC's revenue comes from rent

Firehall No.5, Vancouver, 2019

Affordable Housing Provided:
31 affordable rental units for low-income single mothers

Other uses:
Fire hall

Development Partners:
- YWCA
- City of Vancouver

Project Cost: $22.37M

Funding/Financing
- $11M from the City of Vancouver for new fire hall
- $6.6M from the City of Vancouver for housing
- $2.3M from YWCA donors and fundraising (Streetohome, Foundation, BC Housing, others)
- $2.47 remaining from YWCA equity

Affordability Best Practices
- Free land provided by the City of Vancouver - the mortgage free project meant that rental revenue was able to cover operational costs (land owned by City, housing operated by YWCA)
- Operating surpluses will be split 50-50 between the City and YWCA, to build up the capital replacement reserve and to build an operating reserve (opportunity to invest in other affordable housing projects)

The Red Door Shelter, Toronto, 2021

Affordable Housing Provided:
94-bed shelter

Other uses:
118 condominium units, retail

Development Partners:
- Red Door Family Shelter
- City of Toronto
- Harhay Developments

Project Cost: Unknown

Funding/Financing
- $7.4M shelter portion purchased by City using their Land Acquisition Reserve Fund

Affordability Best Practices
- City purchased the space and entered into a long-term lease arrangement with the Red Door Family Shelter, securing their future

Eva's Phoenix, Toronto, in construction

Affordable Housing Provided:
50-bed transitional youth shelter, 15 affordable ownership for artists

Other uses:
Condominium units, public food hall, YMCA, community spaces

Development Partners:
- Eva's Phoenix
- Build Toronto
- City of Toronto
- MOD Developments (developer)
- Woodcliffe Landmark Properties (developer)

Project Cost: Unknown

Funding/Financing
- $12.5M from Eva's capital campaign
- $5M from the City of Toronto
- $34M for YMCA through Section 37/45 funds
- $1M from the Home Depot Canada Foundation
- $3M from the McDonalds' family
- $2.4M provided by 3-levels of government for affordable housing units

Affordability Best Practices
- Mixed income development that helped subsidize the affordable housing ownership units
- Land was free and is leased to Eva's at a rate of $1/year by the City of Toronto and secured in a 20-year lease
- Zoning height limit set by City at very beginning to let community know and to avoid rezoning costs
- Sale of public land to Land to developers contingent upon the provision of the ownership units and YMCA

Artscape Wychwood Barns, Toronto, 2008

Affordable Housing Provided:
26 artist live-work spaces, 14 artist studios (affordable rental)

Other uses:
Community space, artist studios, garden

Development Partners:
- Artscape
- City of Toronto

Project Cost: $23M

Funding/Financing
- $1M from Section 37 funds (developer)
- City covered remediation costs
- RGI housing component supported by provincial and federal funds
- Grants from the Federation of Canadian Municipalities
- Other contributions from arts not-for-profits ($500K from Metcalf Foundation, other grants from Cultural Spaces Canada)

Affordability Best Practices
- Land is leased at $1/year with a 50-year lease to Artscape and self-sustaining model
- Community plays a large role in its operations, where a community association was formed, a Tenant Liaison Committee, and a Artscape Tenant Services and Properties department staff who meet regularly

Parkdale Landing, Hamilton, 2018

Affordable Housing Provided:
55 affordable rental units (supportive housing)

Other uses:
Commercial, community spaces, community kitchen

Development Partners:
- Indwell

Project Cost: $10.5M

Funding/Financing
- $2.3M from Indwell equity received in charitable donations
- Grants of $5.5M received as part of the Investment in Affordable Housing (IAH) Federal/Provincial program
- Capital grant of $600K from the City of Hamilton

Affordability Best Practices
- By meeting passive house standards, it generates significant operational cost savings
- Indwell is the owner and operator, receiving $661K annual funding from the Ministry of Health for supportive services

60 Richmond Housing Coop, Toronto, 2010

Affordable Housing Provided:
85 affordable rental units

Other uses:
Commercial kitchen, community gardens

Development Partners:
- Toronto Community Housing
- Co-operation Housing Federation of Toronto
- Local 75 (hospitality workers' union)

Project Cost: $22.3M

Funding/Financing
- $3.68M in grants under the Affordable Housing Program for pre-development
- $8.64M in financing based on operating income
- $4.02M from TCH equity contributions allocated from Regent Park redevelopment for offsite replacement units
- $5.70M in TCH equity ($3.06M from the Corporate Debt Program, $2.64 in short-term financing from a second mortgage)
- Third mortgage of $6.66M

Affordability Best Practices
- Built on surplus city land with no zoning application required
- Leased under a 50-year term to TCH by the City, TCH then subleased to Local 75 who specifically look at housing low-income workers
- Coop housing that involves its residents to be a part of the building's ecological processes (passive design cooling/cleansing, gardens with fresh food
- Local councillor as champion

Naismith Coop, Toronto, 2018

Affordable Housing Provided:
12 affordable rental units

Other uses:
Condominium units, retail

Development Partners:
- Tridel
- Naismith Coop
- City of Toronto

Project Cost: Unknown

Funding/Financing
- The affordable housing units were leveraged through a Section 37 agreement

Affordability Best Practices
- The case isn't unique in securing some affordable units through Section 37, but is unique in the sense that a co-op was established to buy the strata title to those 12 units to keep units affordable
- Long-term agreements where the Naismith Housing has been exempted from property taxes for 50 years to help affordability
- Championed by local councillor

Karen's Place, Ottawa, 2016

Affordable Housing Provided:
42 affordable rental units (supportive housing)

Other uses:
Social and Mental Health support services

Development Partners:
- Ottawa Salus

Project Cost: $9.2M

Funding/Financing
- $3.1M from Ottawa Salus equity (includes $600K for land purchase - made possible through fundraising and donations)
- $5.04M grant from Action Ottawa funded from the Investment in Affordable Housing (IAH) Federal/ Provincial program
- $1M mortgage at a long-term rate of 1.9%

Affordability Best Practices
- Built to passive house standards resulting in significant operational cost savings - only costs $27/year for heating
- PH premiums in Karen's Place were covered through fundraising and incentives - wanting the social outcomes as the driver for raising funds

Hannelore, Vancouver, 2019

Affordable Housing Provided:
46 affordable rental units (100% of residential)

Other uses:
Church sanctuary, community space, retail

Development Partners:
- Catalyst Community Developments
- Oakridge Lutheran Church (OLC)

Project Cost: $33M

Funding/Financing
- $9M for land (discounted from $14.4M)
- $300K Catalyst Equity
- $1.5M Catalyst Financing
- $700K Vancity re-development fund (Accelerator)
- $500K individual investors
- $620K City grant
- $100K from CMHC

Affordability Best Practices
- Discounted land
- Vancity Accelerator fund to bridge financing gap
- Significant cost savings were obtained through removing profit, partnering OLC who provided land and accessing preferred
- The trust between the partners was fundamental to the project's success in initial stages

Appendix C: Survey questions

This survey is being conducted as part of a joint research project between the University of Toronto School of Cities and SVX, with funding support from CMHC, to understand access to investment capital experienced by affordable housing developers. The project is designed to help facilitate connection between investors and affordable housing developers and increase capital flows into the sector. Your survey responses will help us better understand the pipeline of opportunity that exists amongst affordable housing providers along the development stage, the amount of capital required to build these projects, and the ideal form of investment that needs to be mobilized.

1. Which organization are you representing?
2. How many development projects do you currently have in the feasibility stage (Feasibility is defined as the initial phase where the project concept, organizational readiness, potential partnerships, market research, and funding/financing sources are assessed to build a strong vision and business case for the project)?
    - What is your total financing need (approximate) for all of your projects in this feasibility stage?
    - What type of financing do you expect to need for projects in this feasibility stage?
3. How many development projects do you currently have in the acquisition stage (Acquisition is defined as the process of obtaining ownership of the real estate asset of interest, which may include land, the building, or establishing other ownership arrangements)?
    - What is your total financing need (approximate) for all of your projects in this acquisition stage?
    - What type of financing do you expect to need for projects in this acquisition stage?
4. How many development projects do you have in the design/development stage (Design/development is defined as the stage where building design is finalized, necessary municipal approvals are acquired, and operational agreements made. The end of this stage provides a full understanding of the project's space breakdown, cost, scope and schedule)?
    - What is your total financing need (approximate) for all of your projects in this design/development stage?
    - What type of financing do you need for projects in this design/development stage?
5. How many development projects do you have in the construction stage (Construction is defined as the physical building-out of the development, which includes ongoing project management, cost monitoring, and testing and inspections)?
    - What is your total financing need (approximate) for all of your projects in this construction stage?
    - What type of financing do you need for projects in this construction stage?
6. Are you interested in participating in a follow-up consultation at the end of July? We would be interested in sharing a prototype to meet developer financing needs for your feedback.

Introductory Text

This survey is being conducted as part of a joint research project between the University of Toronto School of Cities and SVX, with funding support from CMHC, to understand access to investment capital by affordable housing developers. The project is designed to help facilitate connection between investors and affordable housing developers and increase capital flows into the sector. Your survey responses will help us understand the profile of affordable housing providers along development stages, the amount of capital required to build these projects, and capital supports required to assist developers in their efforts to create new affordable housing units.

You are invited to participate in this research as an affordable housing developer, manager, or owner. Your participation is voluntary. This survey should take up approximately (5) minutes to complete. We do not collect identifying information without your permission. You may choose to provide your name and email address at the end of the survey if you wish to receive further information on our work. The information collected will be kept confidential and anonymous. All survey data will be stored in a password protected electronic format. The collective results of this study will be included in a public report that will be released in Fall 2021. If you have any questions about the survey, please contact Adam Spence, Chief Executive Officer (CEO) for SVX via email at adam.spence@svx.ca. This survey will close on July 23, 2021.

Organization

This survey is being conducted as part of a joint research project between the University of Toronto School of Cities and SVX, with funding support from CMHC, to understand access to investment capital by affordable housing developer

1. [Form field] Which organization are you representing?
2. Picklist] Please indicate the total estimated current value of your organization's real estate and financial assets:
    - Less than $1 million
    - $1-4.99 million
    - $5 - 9.99 million
    - $10 - 24.99 million
    - $25 - 49.99 million
    - $50 - 99.99 million
    - Over $100 million

Projects and Capital Needs

3. [Fillable form fields] Please indicate the total number of projects you have in development across four key stages of development. For reference, the definition of each phase can be found below. Please leave any fields blank where you do not have any projects in development.

Phase	**Feasibility**	**Acquisition**	**Design/Development**	**Construction**
Total Number of Projects by phase				
Total Financing Need (Approximate)				

4. [Multi-select pick-list] What types of capital do you currently require for each phase of development.

Phase	**Feasibility**	**Acquisition**	**Design/Development**	**Construction**
Debt				
Equity				
Government Grants				
Philanthropic sources				
Other				

Phase Definitions for Reference

Feasibility phase: Initial phase where the project concept, organizational readiness, potential partnerships, market research, and funding/financing sources are assessed to build a strong vision and business case for the project.

Acquisition phase: Process of obtaining the real estate asset of interest, which may include land, the building, or establishing other ownership arrangements.

Design/development phase: Building design is finalized, necessary municipal approvals are acquired, and operational agreements made. The end of this stage provides a full understanding of the project's space breakdown, cost, scope and schedule.

Construction phase: Physical building-out of the development, which includes ongoing project management, cost monitoring, and testing and inspections

Self-Assessment and Service Needs

5. Please state your level of agreement with the following statements as a self-assessment of your organization.

	Strongly Agree	**Agree**	**Disagree**	**Strongly Disagree**	**No Opinion**
Our organization has a high degree of financial fitness to be able to manage both current operations and to plan for future affordable housing projects.					
Our organization needs capital beyond traditional grants from government and philanthropic sources to complete our planned affordable housing projects.					
Our organization would benefit from wrap around support services to assist with the development of capital strategies for our projects.					
Our organization has a high degree of investment readiness to be able to go to market to raise investment capital for our projects.					
Our organization has knowledge of alternative financing approaches beyond traditional grants from government and philanthropic sources.					
Our organization has the capacity to raise the capital required to deliver on our currently planned projects across all phases of development.					
Our organization would benefit from a capital raising platform to support financing for our projects.					

Contact Information

We would be interested in getting additional feedback on approaches to assist with financing strategies for developers through additional consultations. We will also seek to share the results with research participants via a confidential preview of findings. If you are interested in the opportunity to participate in further research or to get further insights on the research completed, please include your name and email address below.

Name [Form field]:

Email Address [Form field]:

Appendix D: Brookings - Community Ownership models and structures

Table 1. Community ownership models and structures

Community ownership model	Definition	Governance entity
Community land trust	CLTs permanently remove residential properties from the speculative market with the goals of maintaining affordability and enabling residents to build wealth. CLTs are structured around a ground lease where the CLT owns land, leases it to a homeowner (providing them with a subsidy to ensure affordability), and adopts resale formulas within the lease to balance the goals of long-term affordability and wealth-building.	501(c)3
Limited equity co-ops	An alternative homeownership model in which residents purchase a share in a development (rather than a unit) and commit to resell their share at a price determined by formula—an arrangement often set by a nonprofit or government agency to maintain affordability at purchase and over the long term.	501(c)3
Common-interest communities	Common interest communities include three types of owner-occupied housing: condominiums, cooperatives and planned communities. They are often regulated by a state statute on condominiums or common interest communities. In many common-interest communities, communally owned assets include only 'common elements,' such as landscaping, roads, and in the case of multifamily buildings, elements like roofs and heating and cooling systems.	These associations may incorporate under a variety of state authorizations and have multiple possible federal tax statuses
Commercial community land trust	An adaption of the CLT model to acquire commercial real estate.	501(c)3
Cooperatives (consumer cooperatives, worker-owned cooperatives, real estate investment cooperatives, and hybrid cooperatives)	Depending on the model, either consumers, workers, or residents of a community jointly buy a business or property asset, share ownership among members (who provide capital through membership dues), and govern the asset democratically.	Nonprofit or for-profit cooperative corporations
Neighborhood REIT	A corporation that enables mission-related investors, as well as residents, to invest in large-scale, income producing real estate assets.	REIT within a B corporation
Community-owned stores	A local stock corporation that prevents out-of-state residents from buying stock and limits how many shares any one person can own to ensure the business remains locally and democratically controlled.	LLC or C corporation
Community development IPO	An alternative to a traditional IPO to target those with a lower median income who can buy low-cost shares of a property if they live work, or volunteer in the community.	A B corporation within an LLC or an LLC
Community investment trust (CIT)	A low-dollar, loss protected investment opportunity for resident investors to build equity in a commercial property.	LLC within a C Corporation

Source: Brookings Institution.

B | Metropolitan Policy Program at BROOKINGS