Financing Affordable Housing

Documenting the Development and Expansion of Vancity's Housing Accelerator Fund

Prepared by: Andrea Witoszkin

September 2020

Acknowledgments

This capstone report was created in partnership with Catalyst Community Developments Society (Catalyst), Vancity Credit Union (Vancity), and the University of British Columbia's School of Community and Regional Planning (SCARP). The capstone report fulfills the final graduation requirements of the University of British Columbia's Master of Community and Regional Planning (MCRP) degree.

Thank you to Maura Chestnutt, VP of Operations and Strategic Initiatives, at Catalyst for her ongoing support and guidance throughout the development of this capstone report. The student would also like to thank the eleven interviewees for sharing their experiences and insights, which helped guide the direction of this research.

Table of Contents

Executive Summary

This report identifies the need for new levels of development financing for affordable housing in Canada and documents the development and expansion of Vancity's Housing Accelerator Fund in BC. An accelerator fund is a financing tool that combines philanthropic, private, and public sector investments for the purpose of securing and accelerating the acquisition and development of affordable housing. As defined by CMHC, affordable housing references households that spend 30% or less of gross (before-tax) income on utilities and rent. The fund will specifically support the provision of affordable housing for households earning an annual income between $30,000 and $80,000, also known as the missing middle.

The report begins with an exploration of the need for new levels of development financing for the provision of affordable housing and outlines the following five financing challenges faced by the Community Housing Sector:

- Capital gap during pre-development and pre-construction phase
- Market-place competition requires speed & liquidity
- Current funding requirements restrict activities and limit capacity building
- Securing financing places pressure on internal resources
- Government funding is not a long-term guarantee

The report then outlines Vancity's Housing Accelerator Fund by providing information on how the fund will operate and explores the composition of the fund from loans available to borrowers, and the investment opportunity for social impact investors. Based on interviews with members of the Community Housing Sector across Canada and the United States, six key performance indicators and five perceived barriers are identified. The key performance indicators and perceived barriers are intended to assist with future iterations and evolution of Vancity's Housing Accelerator Fund.

> *"[the Community Housing Sector refers to] a wide range of local partners who have a stake in building and maintaining a long-term supply of permanent affordable housing."*
>
> – BC Rental Housing Coalition (2018).

Introduction

There is a growing disparity between current incomes and rents across Canada. Rising real estate prices, limited rental supply, and an increase in demand has resulted in an increasing number of households struggling to access and secure affordable and adequate housing.

The Community Housing Sector (CHS), a committed group of mission-driven organizations, has historically participated in the provision of affordable housing and is now rapidly expanding into acquisition and development to help secure more housing for those struggling households. This has created a new level of need for financing projects and has highlighted the importance of diversifying sources of capital and increasing investments. The diversification of capital and increased investments has and will allow the CHS to secure financing for the delivery of future affordable housing projects while also helping the sector to become more self-sufficient and build capacity.

In response to this need, Vancity is establishing a Housing Accelerator Fund that builds on the 10-year track record of their existing Pre-Development Financing Loan Fund. Vancity's Housing Accelerator Fund will provide non-profit developers, such as Catalyst, with pre-development, pre-construction, and acquisition capital to progress new development projects and bridge financing to senior affordable housing financing programs. In contrast to market developers, non-profit developers do not have access to readily available pools of capital and the fund will help fill this capital gap during the hardest phases of development. The fund will also be a "one stop shop" for investors to contribute to the development of community-owned affordable housing and for non-profit developers seeking financing for their affordable housing projects.

This report documents the development and expansion of the fund by providing a background on why it is needed, how it will work, key performance indicators, and perceived barriers.

The report will be added to a public toolkit that will document Catalyst's business model and research, helping build capacity, resilience and long-term sustainability within the non-profit sector of affordable housing and community space development.

Affordable Housing

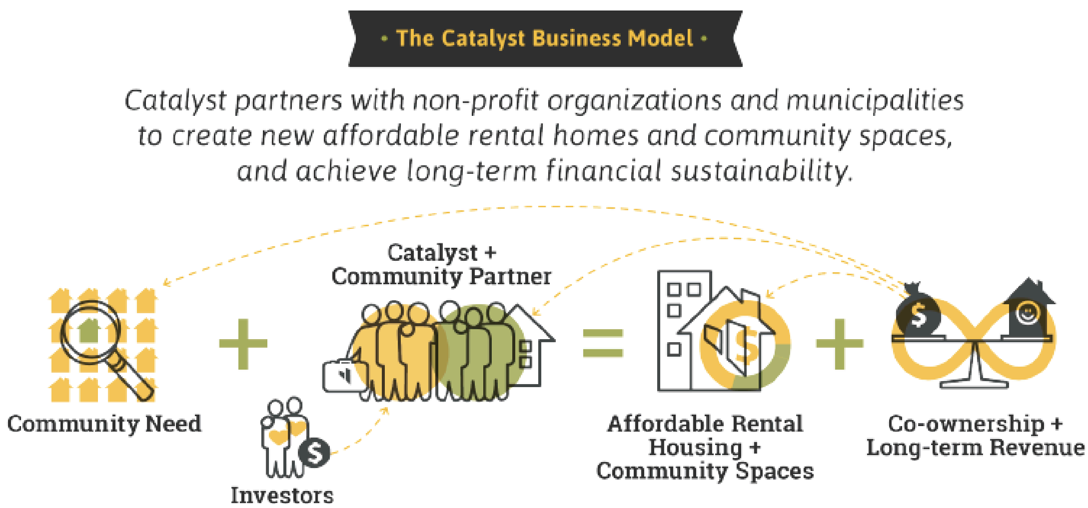
As defined by Canada Mortgage and Housing Corporation (CMHC), affordable housing references households that spend 30% or less of gross (before-tax) income on utilities and rent. Affordable housing is a broad term that encompasses housing provided by the non-profit, public, and private sectors and includes all forms of housing tenure (Figure 1). Throughout this report, the use of affordable housing will refer to affordable rental housing and any references to the housing crisis will include the whole spectrum of housing options.

Figure 1. Canada's Housing Continuum. Source: CMHC.

Meet Catalyst

Founded in 2013, Catalyst is a mission driven, non-profit, real estate developer/owner/operator focused on the creation of vibrant, affordable and inspiring spaces for living and working. Catalyst achieves this through working with non-profits and municipalities to unlock the value of their real estate assets and reinvest that value back in the form of community owned affordable housing and amenity space. The goal is to help Catalyst's non-profit partners achieve long-term financial sustainability by ensuring that they retain a substantial ownership interest in the property over the long-term. This also results in these important community-owned assets remaining in community hands and creating positive social change.

At the time of writing, Catalyst has 10 sites under development and four projects in occupancy, including one acquisition.



Catalyst's access to mission-driven private capital through social investments is a core component of its development model. By accessing mission-driven private capital through social investments, Catalyst is able to bridge the gap between funds obtained by traditional financing, grants received, and total project costs. The social investment investors are mission-driven; therefore, they provide the capital at below-market to market rates (5-13%) while also getting a social and environmental return, taking a triple bottom line approach.

Meet Vancity

Vancity is a values-based financial co-operative and Canada's largest community credit union. Established in 1946, Vancity helps to improve the financial well-being of its member-owners while also helping to develop healthy communities that are socially, economically and environmentally sustainable. The Vancity Community Foundation was founded in 1989 with a mandate to "enrich the community while building on the values of the credit union through a co-operative version of philanthropy" (Vancity Highlights, n.d.). Together, Vancity and Vancity Community Foundation offer an ***Impact Real Estate Program*** that works to help organizations develop community-owned real estate assets including affordable owned or rental housing and community buildings.

Vancity has been a key supporter of Catalyst Community Developments Society since the beginning by providing organizational development support, strategic advice on business planning and board development, and start-up grants. Vancity's support for Catalyst continues as they help build partnerships with mission-aligned organizations, and provide seed funding, pre-development loans, and other social finance solutions. As a business member, Catalyst accesses Vancity's financial services for core operations and financing for construction, take-out, and retail mortgages for their projects.

Madrona @ Dockside Green: Catalyst project that received Vancity financing.
Image credit: Martin Knowles Photography

Methodology

The methodology for this report includes:

- Ongoing conversations with Catalyst staff to inform the content of the report.
- Bi-weekly meetings with Vancity and Catalyst staff on the development of the Housing Accelerator Fund pitch deck.
- A literature review on the topic of affordable housing financing in Canada that included the review of policy documents, academic papers, and relevant website information.
- A survey of affordable housing funds that exist throughout Canada and the United States.
- Qualitative interviews with stakeholders working in the CHS in Canada and the United States (Figure 2). The interviews were held via conference call and the format was semi-structured with an open-ended format for the purpose of exploring ideas and experiences related to funding models and financing. Interview candidates were selected from the CHS based on preliminary research of affordable housing funds in North America and by recommendation from Catalyst staff.

List of Interviewees

- Luke Harrison (President, Catalyst Community Developments Society)
- Kira Gerwing (Manager of Community Investments, Vancity Credit Union)
- Irene Gannistos (Senior Manager, Strategic Initiatives and Investments, Vancity Community Foundation)
- Kate Hartley (Chief Lending & Investment Officer, San Francisco Housing Accelerator Fund)
- Steve Pomeroy (Focus Consulting)
- Doug Tennant (CEO, UNITI)
- Ellen Powell (Director of Finance, UNITI)
- Charles Guindon (Administrator, Fonds d’investissement de Montréal)
- Heather Tremain (CEO, Options for Homes)
- Abi Bond (Executive Director, Housing Services, City of Toronto)
- Valesa Faria (Director, Housing Services, City of Toronto)

Figure 2. List of Interviewees

Background

Identifying the need for affordable housing financing in Canada.

Canada's Housing Crisis

Canada is in the midst of a housing crisis as an increasing number of households struggle to access affordable and adequate housing. The housing crisis is the result of rising real estate prices, increased rental demand and low supply, and a growing disconnect between rents and incomes.

Rising Real Estate Prices & Rental Housing Shortage

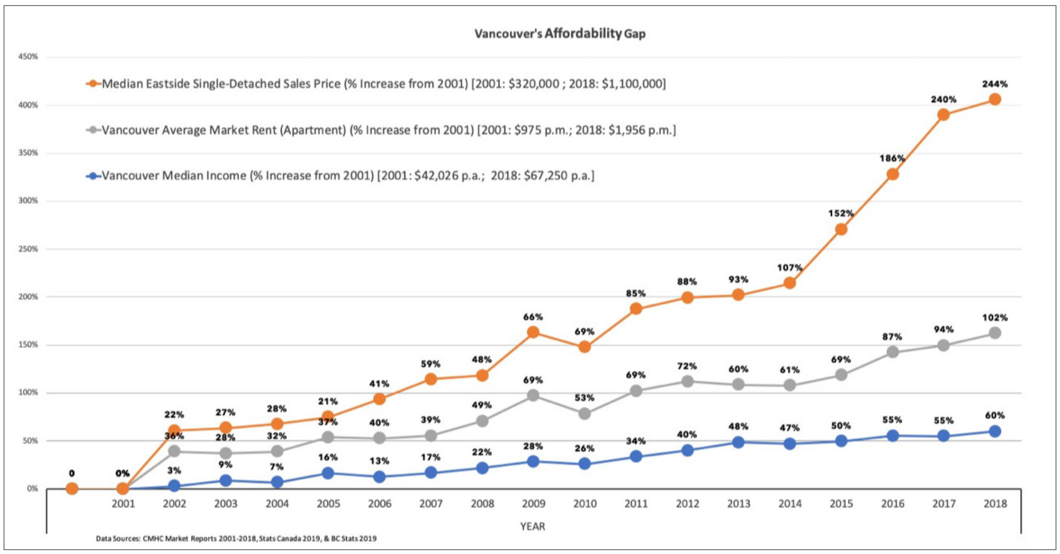


Figure 3. Growing gap between income and rents. Source: Catalyst.

The 16th Annual Demographia Housing Affordability Survey, identified that Canada has two of the least affordable major housing markets: Vancouver (ranking 2nd) and Toronto (ranking 7th) (Cox & Pavletich, 2019). The deterioration of housing affordability in Vancouver and Toronto is the result of rising real estate prices. For example, between 2001 and 2018, the cost of a condominium in Vancouver increased by 220% (Housing Vancouver Strategy, 2017) The increasing price of real estate has meant that households who would typically exit the rental market for homeownership are forced to remain in the rental market. This has placed additional stress on the rental market, which is already experiencing increased demand from Canada's steady population growth from migration and increasing employment.

The growing demand for rental housing has shed light on Canada's limited supply, which is the result of a housing system that has historically favoured ownership over rental. The demand for rental has increased from 3.5 million units in 2011 to 3.88 million units in 2016 (Pomeroy, 2020), and an RBC Economics report has projected that, due to rising real estate prices, between 2019 and 2023 renter households will increase by 9,400 per year in Vancouver and 22,200 in Toronto (Hogue, 2019).

Canada's housing system is shaped by its heavy reliance on private market mechanisms in the provision of housing. 95% of housing in Canada is supplied and maintained by private market mechanisms while the remaining 5% of households live in non-market social housing, compared to 20% in Europe (Hulchasnki, 2001). The reliance on the private market has created a housing system that has failed to meet the needs of households earning low to moderate incomes (Appendix A). This is because these households do not have the wealth to stimulate market demand that incentivizes the market to respond to their housing needs (Hulchanski, 2005). The market's failure to respond to these housing needs is exacerbated by government policy that has failed to protect and replace affordable housing stock over time (Hulchanski, 2005).

While the provision of housing in Canada has relied heavily on the private market, the government has also played a critical role by maintaining Canada's housing system. Since the first housing program in 1919, federal government policies and programs have primarily focused on supporting homeowners at the expense of renters who are already excluded from the market. The federal government has supported homeownership over the decades through the Dominion Housing Act (1935), the National Housing Act (1938), Canada Housing and Mortgage Corporation (1946), and a variety of homeownership assistance programs that have been introduced since the 1970's, such as the Home Buyers Plan (1992) and First-Time Home Buyer Incentive program (2019).

Social housing, a category of non-market housing where costs are subsidized by government and support services, first began to receive federal government investments in 1938. This was the first social housing legislation through the National Housing Act (NHA) that included the construction of publicly owned and provincially managed low-rent housing. Between the 1950s and 1970s, a vast majority of existing purpose-built market rental housing stock was built. In the late 1970s to 1986, the federal government began to shift funding to non-profit groups and municipalities, which led to the development of over 220,000 non-profit and co-operative housing (McAfee, 2017).

In the 1980s, the federal government began making budget cuts to housing programs resulting in an effective halt in the private development of rental housing in Canada. By 1993, federal funding for new social housing was cut and, in 1996, administration of ongoing subsidies for existing social housing were transferred to the provinces. The transfer of responsibility to provincial governments resulted in different housing programs across the country as provinces have different priorities and were not able to maintain spending levels for social housing. The withdrawal of government funding into social housing programs coupled with Canada's reliance on private markets in the provision of a vast majority of its housing has therefore left Canada grappling with a declining supply of affordable housing. For instance, from 1995 to 2005, new rental construction accounted for less than 10% of all construction, despite over 30% of households renting (Pomeroy, 2020). The decline in new supply has created a backlog of rental housing and, in 2017, the BC Rental Housing Coalition identified that the province of B.C. has an estimated backlog of 80,000 rental units (BC Rental Housing Coalition, 2017).

Disconnect between Incomes and Rents

The ability to secure rental housing is further exacerbated by the growing disconnect between current rents and current incomes. Current incomes are not keeping up with rents, pushing an increasing number of people into housing that is deemed unaffordable by CMHC standards of a maximum of 30% of household income spent on rent and utilities. In the Metro Vancouver region, according to the Canadian Rental Housing Index, 43% of renter households are living in housing deemed unaffordable of which 21% of renter households are spending over 50% of their gross income on housing (Canadian Rental Housing Index, n.d.). Between 2001 and 2018, the cost of renting in Vancouver increased by 102% while median incomes increased by 62% (Figure 3). This 40% gap between rent and income increases means that a growing number of households' salaries are falling further behind the cost of living.

In 2015, the average rent for a one-bedroom apartment in Vancouver was $1,375/month (CMHC Housing Market Information Portal, n.d.). This average rent requires a household income of $59,200/year to be deemed affordable, however, the 2015 median gross income for single person households in Vancouver was $38,449 (Statistics Canada, 2020). The households that are being increasingly impacted by the gap in rents and incomes are households earning $30,000 to $80,000 per annum, known as the missing middle. The missing middle is being pushed outside of the region to more affordable cities, resulting in negative consequences for the local economy due to labour shortages. This is because those who make up the missing middle are working jobs that are vital to the economy, such as healthcare workers, firefighters, electricians, and service workers.

The provision of more affordable housing is needed to meet the increased demand and declining supply of rental housing, and to ensure that rent-income gap does not drive more workers to locate elsewhere. As history has shown, the government and private market cannot solve this problem alone, therefore, local community partners in the CHS should be positioned to help address the housing crisis.

Community Housing Sector

The CHS is a committed group of mission-driven organizations who have historically participated in the provision of housing in Canada (Figure 5). The CHS in British Columbia currently delivers 90% of the province's total social housing stock, consisting of approximately 60,000 non-profit units and 12,000-plus co-operative housing units of long-term affordable housing (Roy, 2017).

As a key player in the provision of housing in Canada, the sector is now rapidly expanding into acquisition and development that has created a new need for increased financing of projects. In 2017, Catalyst published a report titled *The Role of Social Investment in Canadian Affordable Housing* by Katrina May that identified the need and opportunity for private social investment to comprise a part of development financing. More specifically, the report found that increased social investment can contribute to diversifying sources of capital, reduce the CHS's reliance on government funding, and allow the sector to build capacity and secure financing for the development of affordable housing. Increased social investment can therefore provide an opportunity for the sector to shift towards self-sufficiency and build capacity while continuing to deliver much needed affordable housing (May, 2017).

The identified need to diversify sources of capital and increase social investment provides an opportunity to expand and develop a new funding model in Canada that assembles and aggregates investments for the purpose of securing and accelerating the acquisition, preservation and development of affordable housing. However, before delving into what this would look like, one must understand how affordable housing developments are currently financed.

Defining the Community Housing Sector

Throughout this report this term refers to "a wide range of local partners who have a stake in building and maintaining a long-term supply of permanent affordable housing."

Who is included?

- Non-profit and co-op sector organizations and housing providers
- Community land trusts
- Municipalities
- Charities and faith-based groups; and,
- Cause-driven private sector organizations and financial institutions.

Source: BC Rental Housing Coalition (2018).

Figure 5. Defining the community housing sector.

Development Financing Options

Development financing is a critical aspect in the delivery of housing and is one of the five core cost components of a real estate development project (Figure 5) (May 2017). In British Columbia, financing for affordable housing development can be sourced from different types of funding opportunities. The sources of funding can be categorized into two groups: government and non-government funding (Appendix 2).

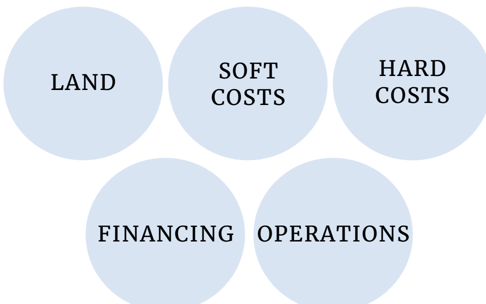


Figure 5. Five core cost components.

Government Funding

Affordable housing developments have traditionally relied on government funding for project delivery, which includes federal, provincial and municipal financing programs and tools. For example, since the introduction of the *National Housing Strategy* in 2017, the federal government has offered a range of programs that provide access to pre-development financing, seed funding, construction loans, grants and contributions, and program funding.

Non-Government Funding

Financing options that can be sourced from financial institutions, investment funds, foundations, development partners, individuals or family offices, and community bonds are forms of non-government funding.

As illustrated below, the government and non-government funding opportunities are accessed at different stages in the development process based on the capital required.

	DURATION	PROJECT COST	FINANCIAL SOURCES
MISSION & VISION	1 to 3 months	< $5,000	Self-funded or grant supported by government or foundation
CONCEPT PLAN	3 to 4 months	~ $30,000- $50,000	Self-funded or grant supported by government or foundation
BUSINESS PLAN	4 to 6 months	~ $75,000- $100,000	Self-funded or grant supported by government or foundation
PRE-DEVELOPMENT & PRE-CONSTRUCTION	1 to 3 years	5 - 15% of total project costs	CMHC, BCH, Foundation, Self-Funded, Social Investment
CONSTRUCTION	1 to 3 years	60 - 70% of total project costs	Financial Institutions, Government, Social Investment
MANAGEMENT	Ongoing	Take-out / Term Loan	Financial Institutions, Investment Fund, Mezzanine Loan, Forgivable Loan, Social Investment

Development Financing Challenges

Despite access to government and non-government funding, the CHS continues to face challenges in securing financing for the delivery of affordable housing projects. These challenges have been identified through the literature review and interviews with members of the CHS.

1. Capital gap during acquisition, pre-development financing, and pre-construction phase

Currently, most government funding can only be accessed at construction start or later and, unlike market developers, non-profit developers do not have the access to a pool of monies that can bridge this period prior to accessing senior financing. This has created a capital gap during the most critical phases for an affordable housing project: acquisition, pre-development financing (PDF) and pre-construction (Figure 6). These phases are defined as high-risk as much of the project work focuses on implementing the business plan through finalizing building design, as well as obtaining approvals and permitting. The soft costs associated with this phase include, but are not limited to, rezoning costs, architect and other consultant fees, engineering costs, and development fees (May, 2017). The significant costs of this phase require a sufficient amount of capital in order to avoid jeopardizing the success of the project and to ensure that the project is ready to move forward to construction and construction financing.

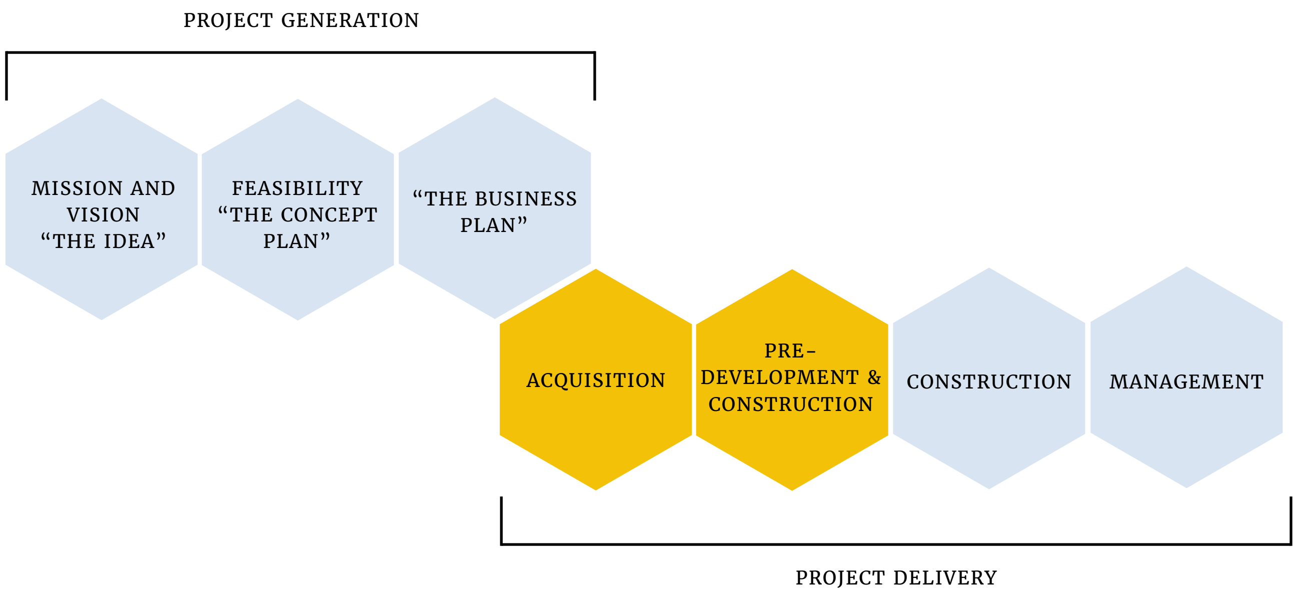


Figure 6. Capital gap in the mission-based real estate development process.

2. Securing financing places pressure on internal resources

Securing capital and development financing for the provision of affordable housing is a time-consuming and labourious task. The time required to make affordable housing projects viable places a barrier on the capacity and internal resources of the CHS, specifically staffing. In some cases, the staff and administrative resources are not accessible until the project is already running; therefore, the CHS often needs to find creative ways to fund these resources through multiple sources. A fund that provides financing during the early stages of a project will help alleviate the pressure placed on internal resources.

3. Marketplace competition requires speed & liquidity

The CHS is competing in a marketplace that is fast-paced and cash-rich. Some organizations do not have the capacity to compete in the marketplace while others, such as Catalyst, have developed innovative approaches and business models to acquire sites for the provision of affordable housing. However, in order to ensure that the CHS remains the sector of choice for the delivery of affordable housing in Canada, an efficient lending model is needed to allow all organizations to compete with investors and market developers during acquisition. More specifically, a lending model that provides readily available cash for down payments and equity to secure land can enhance their ability to close quickly. The ability for non-profit developers to acquire buildings with existing affordability is vital to preserving Canada's affordable housing stock and the acquisition of vacant sites by non-profit developers helps increase the stock of affordable housing.

4. Funding requirements restrict activities and limit capacity building

Current funding structures are programmatic and have been designed as a 'one size fits all' approach that requires organizations to fit into a specific formula. The formula often restricts the project vision, which can limit an organizations ability to build capacity and skills and also result in continued reliance on government funding. A formula approach also creates a funding program that fails to be responsive to the vision and needs of the community partner that may create challenges for the organization to deliver the project. Furthermore, government funding often requires development projects to meet a certain list of criteria that goes beyond affordable housing, such as accessibility and green building requirements. Although these are admirable requirements, affordable housing projects are often unable to meet these extra requirements due to the increased cost.

5. Government funding is not a long-term guarantee

Lastly, the financial capacity of the CHS to deliver affordable housing has traditionally depended on government funded programs and tools. These programs and tools, whether coming from the federal or provincial government, cannot be guaranteed over the long-term and have historically shown that affordable housing projects are vulnerable to government cutbacks and shifting priorities.

The list above is a summary of the core financing challenges that the CHS faces in successfully delivering affordable housing. The delivery of affordable housing by the CHS is limited by the amount of funds a non-profit developer can access prior to construction, the speed at which they can access these funds to compete in the marketplace, and the internal resources and capacity of the CHS to secure financing. In contrast to market developers, non-profit developers do not have access to readily available pools of capital that can help bridge financing to construction and take-out financing. These challenges highlight the need for new levels of financing for the CHS, leading to the ongoing development of Vancity's Housing Accelerator Fund.

Case Study

Vancity Housing Accelerator Fund

Vancity Housing Accelerator Fund

Inspired by the success of the San Francisco Housing Accelerator Fund in the United States (Appendix 3), Vancity is expanding and developing an accelerator fund for Canadians. An accelerator fund is a funding model that focuses on raising and aggregating capital from public, private and impact investors to provide fast and flexible affordable loans during the acquisition, pre-development and pre-construction phases of affordable housing development (Figure 7).

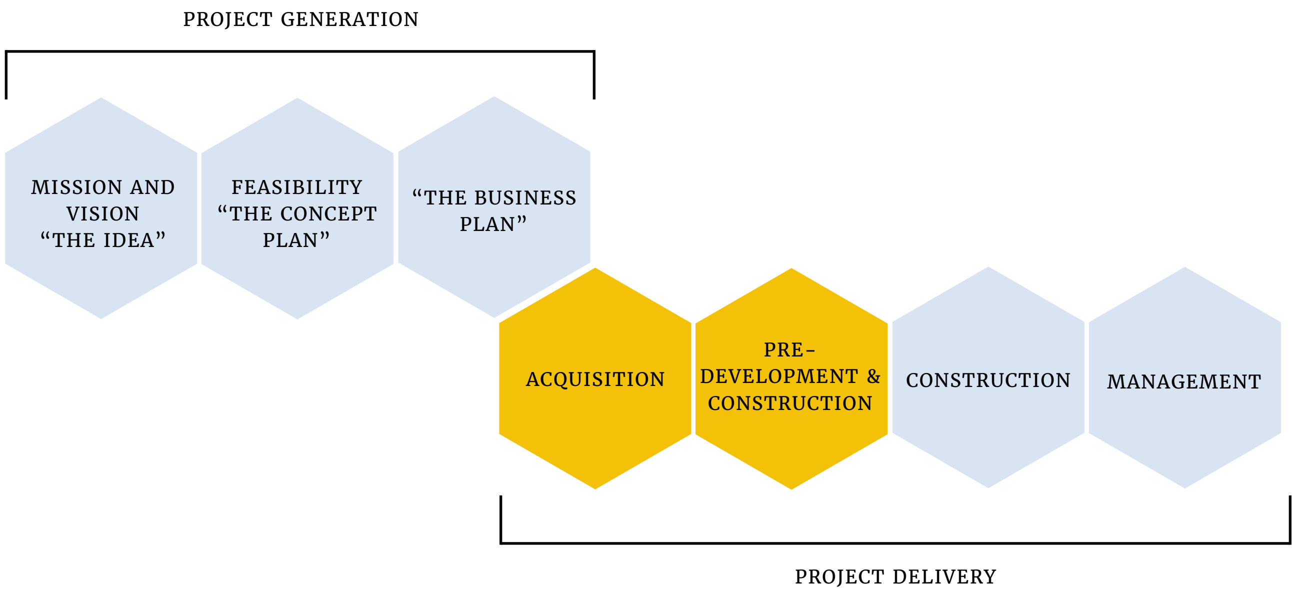


Figure 7. The Housing Accelerator Fund's focus in the mission-based real estate development process.

The Vancity Housing Accelerator Fund will enable Vancity to enhance its existing offerings, broaden the potential investor pool and create a *'one stop shop'* for both social impact investors seeking a fair return and for non-profit developers, while supporting community-owned affordable housing for low to moderate income earners. The fund addresses the need for flexible and nimble capital for the acquisition, development, and land investments. Receiving capital during these stages will help secure and progress new development projects and bridge organizations to senior affordable housing financing. The fund will also be revolving, meaning that it will continue to be replenished over time from underwriting deals, loan principle and interest being paid back.

Figure 8. Housing Accelerator Fund's defining features.

The Borrowers

The Housing Accelerator Fund will provide non-profit organizations in the CHS with the opportunity to apply for three key funding opportunities: acquisition loans, pre-development loans, and pre-construction loans (Figure 9).

As a public good, these loans will allow the CHS to compete in the market place by providing fast and flexible capital that has been sourced from layering private capital and social equity investments. This access not only diversifies the CHS sources of capital but also removes the criteria and operating agreements that are associated with government funding. The flexibility of the fund will allow the CHS to become more self-sufficient and build financial capacity within their organization by alleviating pressure on their own internal resources. The fund's ability to build financial capacity can help encourage growth of small organizations in underserved communities and allow the CHS to better serve their communities. Additionally, the relationship-based approach to accessing capital creates a system that is responsive to the real needs of the organizations. Vancity's history of working collaboratively with organizations to understand their mission and identify a project vision has helped ensure that the organization's mission and vision match their capacity to deliver the project.

Accelerator Fund Compostion: three loan types

1. **Acquisition Loan**

   Provides funding for deposit or equity for the acquisition of land or adjacent sites that increase units and financial viability of a project. Other forms of acquisition that can be supported are turn-key units or existing multi-unit residential buildings, which can help preserve affordability and avoid resident displacement.

   The eligibility requirements for non-profit organizations as outlined by Vancity are the following:

   - Site control of land, either through ownership or a long-term lease
   - A credible project management team with a demonstrated track record
   - A business plan with proforma that details how the project and future operations will be sustained.

2. **Pre-Development Loan**

   Provides capital for the soft costs that are associated with rezoning and development permit processes. The loan must be used on the project costs as they are outlined in the submitted project budget. The loan charges 2% simple interest and is usually repayable with the first draw of construction financing, which is typically within 2-3 years of receiving the loan.

3. **Pre-Construction Loan**

   Supports the building permit process and development of working drawings to help the project move towards construction and bridge financing to unlock senior debt. The loan charges 2% simple interest and is repayable with the first refinancing of a take-out mortgage, typically after 5 years of operations.

Source: Vancity.

Figure 9. Three key funding opportunities offered by the Accelerator Fund.

The fund focuses on supporting individuals and households with an annual household income between $30,000 and $80,000, also known as the missing middle. The missing middle often encompasses individuals and households who work in occupations that are vital to the local economy, such as nurses, teachers, electricians, and service workers. With Vancity providing financing for the delivery of affordable housing for the missing middle, government agencies, such as CMHC and BC Housing, can use more of their resources to help those in core housing need which includes homeless, emergency shelters, transitional housing, and social housing (Figure 10).

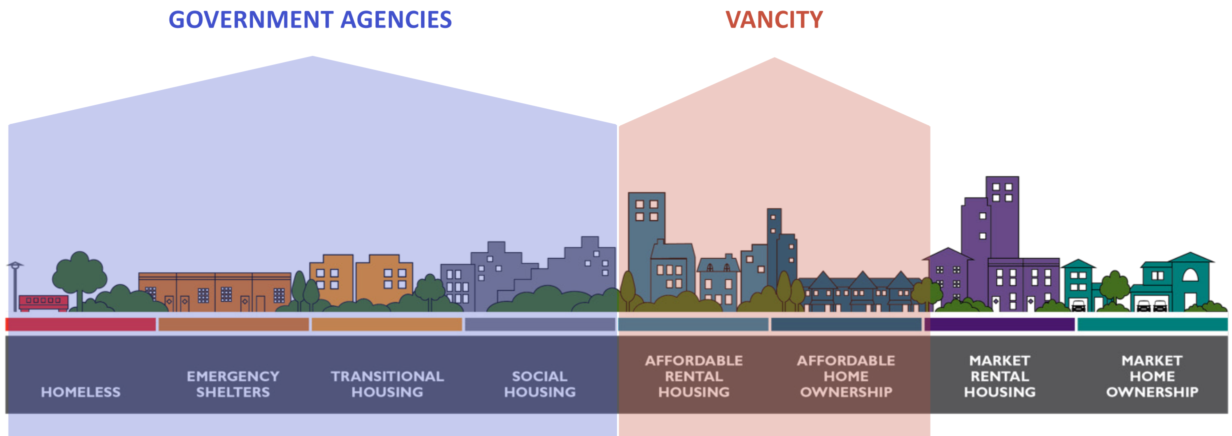


Figure 10. Government and Vancity's role in the housing continuum. Source: CMHC.

The Investors

As described in *The Role of Social Investments in Affordable Housing*, social impact investments are made by mission-driven investors who invest their private capital with the intention of positive social outcomes. There is a growing shift toward social impact investing in which more donors and investors are wanting to see their money invested into community-owned affordable housing (Gannitsos, 2020). Vancity's Housing Accelerator Fund is therefore directed towards individuals and corporations that are seeking a fair return while supporting local affordable housing initiatives (Figure 11).

The social investment opportunity as currently defined by Vancity:

- Total investments up to $5 million via promissory note to Vancity
- Minimum investment of $250,000
- Interest is offered at a 4% compounded annually
- 2 to 5-year investment terms

In addition to offering a fair return, investors will also be looking for low-risk investments, which means ensuring that there is a continual pipeline of projects ready to lend from the fund. To provide a guarantee to investors, Vancity and the Vancity Community Foundation will turn to the pipeline that has previously been developed through their existing ***Impact Real Estate Program***.

The prospective list of investors being discussed includes:

1. **Corporations** who benefit from or engage with the non-profit housing sector. For example, insurance, legal, construction, and other service providers.

2. **Foundations and other credit unions** who are looking to invest capital while preserving and generating a fair return and contributing to the foundations vision. This can include private foundations and donors.

3. **Major employers** with a corporate social responsibility interest. These are employers who are competing on the world stage for employees and are concerned about housing for their employees for recruitment. The lack of affordable housing for major employers can be identified as a barrier for these corporations.

4. **Individuals** who want their personal money invested into affordable housing via social impact investments. These individuals are looking to preserve their private capital while making a social impact in their local community.

Source: Vancity.

Figure 11. List of Prospective Investors.

Past Successes

Vancity's Impact Real Estate Program

Vancity's decision to pursue the development of an Accelerator fund in Canada is driven by the successful track record of their established Impact Real Estate Program. The program helps non-profit developers and organizations develop affordable housing projects throughout every stage of the development process from visioning to occupancy. This program has allowed Vancity and Vancity Community Foundation (VCF) to establish relationships and a network with the CHS and develop a pipeline of projects and investment opportunities.

As part of this program, Vancity offers a Pre-Development Financing (PDF) Loan Fund and Pre-Construction Equity Fund that helps pay for soft costs and bridge to senior affordable housing financing programs. The Housing Accelerator Fund is a way of enhancing these existing funds and the Impact Real Estate Programs as it offers a *'one stop shop'* for investors and broadens the opportunity for social impact investments. To date, the Impact Real Estate Programs' PDF Loan Fund has had great success and has shown that there is enough demand to create an Accelerator fund (Figure 12).

> *"[the accelerator fund is] an offering that is additional and complimentary to established debt financing products created by governments and financial institutions involved in affordable housing investment and development".*
> – Vancity

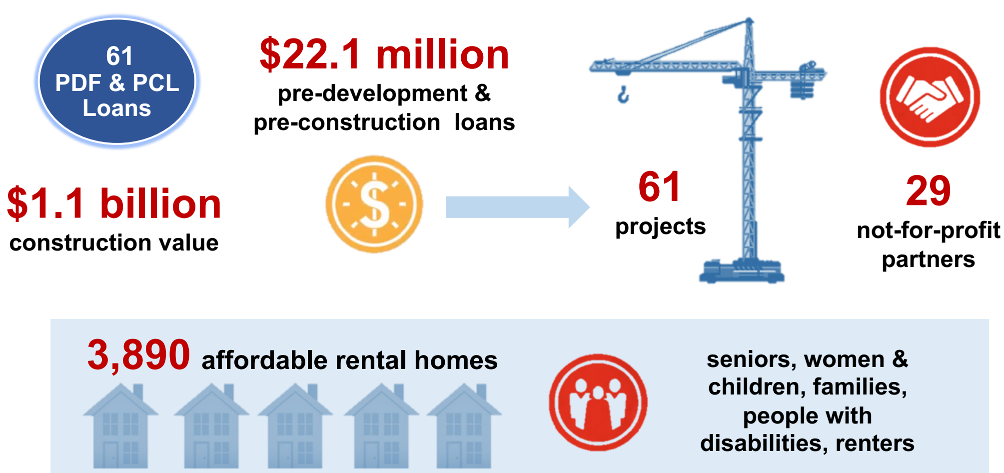


Figure 12. Impact of PDF Loan Fund. Source: Vancity.

To further illustrate the success of Vancity's PDF Loan Fund and to demonstrate the real impact that the new Housing Accelerator Fund can have on the provision of housing, two case studies are highlighted below.

Catalyst Case Studies

Hannelore

5688 Ash St., Vancouver, B.C.

Catalyst partnered with the Oakridge Lutheran Church (OLC) to redevelop the church's property and create a 46-unit mixed-used building that includes two levels of parking, retail at ground level, a new place of worship and community space on the second floor, as well as four levels of affordable rental housing. The venture is a long-term partnership agreement to jointly develop, own, and operate the building. The project was completed in December 2019.

Project Financing

Development Phase	Source of Financing
Concept, Business & Feasibility	Vancity Community Foundation (grant)
Acquisition (land)	Provided by OLC at reduced cost
Pre-Development & Pre-Construction	Catalyst equity, Vanctiy/ VCF, City of Vancouver Housing Infrastructure Grant, Private Invdividual Investor
Construction & Take-Out Financing	Vancity Community Investment Bank

Catalyst Case. Hannelore at 5688 Ash St., Vancouver BC. Image Credit: Kim Schuss.

Catalyst was able to realize significant cost savings on Hannelore by removing profit, reducing other costs, partnering with the OLC who provided their land, and accessing preferred financing (Figure 13).

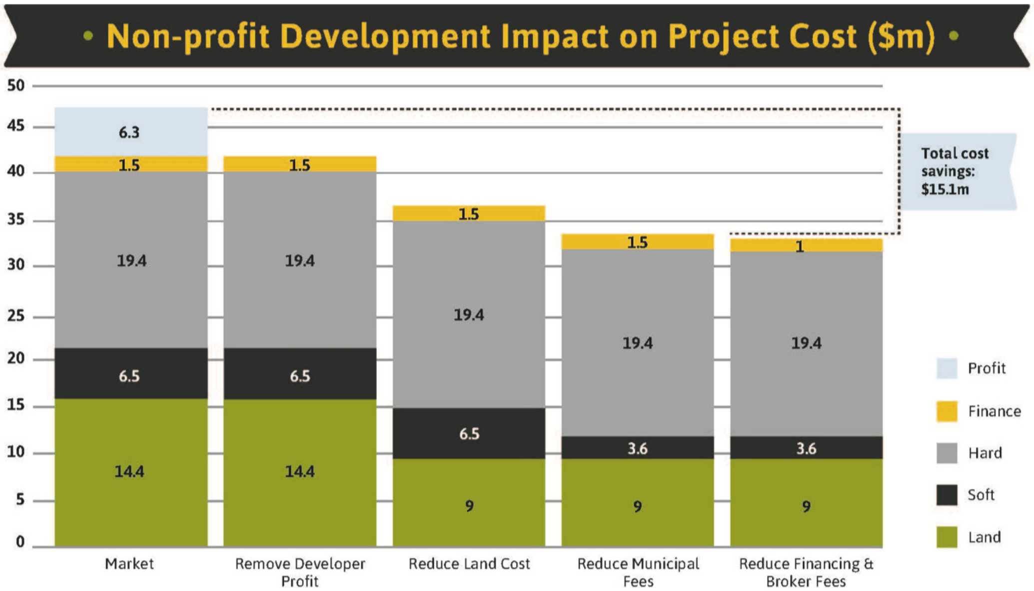


Figure 13. Hannelore's Total Cost Savings.

Lessons Learned

Hannelore offers an example of how Vancity and VCF has supported organizations like Catalyst and OLC to help secure the development of affordable rental homes in Southwest British Columbia. Vancity had not only helped establish the joint venture through making introductions between OLC and Catalyst but also helped provide the necessary financial support to make the project viable. Vancity and VCF provided the feasibility grant, pre-development loan, and construction financing.

The project also highlights the non-profit developer partner compatibility and trust established between OLC and Catalyst. The OLC's willingness to persevere in what was a time-consuming and complicated process is a testament to the trust they had cultivated internally with their redevelopment task force. The OLC will remain a lifelong partner and friend of Catalyst's, and an invaluable resource for other interested faith-based groups seeking information and advice on the process and experience (May, 2017).

Furthermore, the project has contributed an additional 46-units of affordable rental units to the City of Vancouver as one hundred percent of the units are below-market rates with the following mix:

- 31 % are rented at HIL's rates
  - Rents: $975/month (studio) to $1,575 per month (two-bedroom)
  - Household incomes: $51500- $73500 per year.
- 69 % percent are rented at the City of Vancouver's Rental 100 incentive program rates
  - Rents: $1,591/month (studio) to $2,433 per month (two-bedroom)
  - Household incomes: $55,000- $108,000 per year.

What if the Housing Accelerator Fund were available?

Actual Project PDF

- Catalyst Equity: $300,000
- Vancity PDF: $700,000
- Individual Investor: $500,000
- Vancouver Housing Infrastructure Grant: $620,000
- CMHC: $100,000

Impact of the Housing Accelerator Fund

- Fewer funding sources required
- Decreased impact on staffing resources
- Individual investor could have invested dollars in the fund (pooling capital with more investors)

With the expansion of Vancity's PDF program into the Housing Accelerator Fund, affordable housing projects, such as Hannelore, would have access to more capital. The availability of more capital would have positively impacted Hannelore by alleviating pressure on internal resources and requiring fewer funding sources. Furthermore, by creating an opportunity for social impact investors to support the delivery of affordable housing, the Housing Accelerator Fund would have allowed Hannelore's individual investor to pool capital with more investors, increasing the amount of capital available.

Catalyst Case Studies

Vancity Partnership

1013 & 1025 Brunette Avenue, Coquitlam

Catalyst has partnered with Vancity to redevelop the Brunette Avenue site located in the City of Coquitlam's historic Mallairdville neighbourhood. The proposed 6-storey, mixed-use building will include commercial space on the ground floor with 163 rental homes (including 12 live/work units) above. The building will provide affordable homes for households earning between $30,000-$80,000 per year and will maximize the number of homes for families by providing 68 2- and 3-bedroom units (41%). The building also aims to achieve Step 3 of the BC Energy Step Code.

Project Statistics

Project Cost	$ 54,800,000
Building Type	Wood Frame
Building Mix	Mixed-Use (commercial & residential)
No. of Units	163
Affordability	100%
Rents	$ 1,038 - $ 2,800 / month
Land	99-year land lease from Vancity

Financing Need

The project has recently entered into the pre-development phase of development where money is needed to cover the associated soft costs, such as consultants, municipal fees, etc. To pay for these costs, Catalyst will be seeking out a combination of grants, loans and equity investments.

- Grants: CMHC Seed Funding and City Affordable Housing grants
- Loans: Vancity's PDF Loan Fund (up to $200,000)
- Equity Investment: Vancity Pre-Construction Equity Fund (up to $500,000), Catalyst Equity and Catalyst's social equity investment

Housing Accelerator Fund & Financing

In order for the Brunette Avenue site to progress and reach the start of construction when construction financing will be available, Catalyst will need to combine grants, loans and equity investments. This includes seeking a contribution by Vancity through the PDF Loan Fund (up to $200,000) and Pre-Construction Equity Fund (up to $500,000) that will be offered through Vancity's Housing Accelerator Fund. Without access to this capital, Catalyst will have to use their internal resources and staff to seek out other means to finance the project.

Catalyst Case. 1013 & 1025 Brunette Ave., Coquitlam, BC.
Image Credit: Integra Architecture Inc.

Next Steps

Measuring Success & Perceived Barriers

Measuring Success

A list of key performance indicators are identified below. These indicators can help demonstrate the social impact of the investments and create a clear picture of how the fund is addressing gaps and supporting the development of affordable housing.

Key Performance Indicators

Vancity's six key performance indicators for measuring the success of the Housing Accelerator Fund have been identified as:

1. Number of times the fund can be revolved
2. Return on investment for investors
3. Number of non-profit organizations supported
4. Number of projects supported
5. Amount of construction value generated
6. Number of homes built and the level of affordability

Of these six key performance indicators, the most valuable measure of success is how many homes have been built and the level of affordability of these homes. One of the main reasons for investing in the CHS is to help address the gaps that currently exist in the delivery of affordable housing and securing housing for the missing middle. By housing families and individuals with annual household incomes of $30,000- $80,000, Vancity is helping families to make a difference in their lives and in their community.

"[housing is the foundation needed to enable a family to] achieve their core purpose and goals. For example, they can begin to take part in meaningful climate action when they are stably and adequately housed"

– Kira Gerwing, Manager Community Investment, Vancity

Perceived Barriers

Bringing the Housing Accelerator Fund to Canada means introducing a new type of investment opportunity. This creates a certain level of inexperience for all stakeholders (Vancity, the borrowers, and the investors), which means each stakeholder is going to be faced with a learning curve. Below is a list of perceived barriers that were identified during interviews.

1. Communicating a new approach to affordable housing financing

Simplifying the approach to help investors understand the difference between the Housing Accelerator Fund and many announcements by government is a perceived barrier. The fund is a systems approach that recognizes that the government putting more money into housing is not the solution. The fund seeks to develop a new ecosystem in which an aggregation of philanthropic, private and public investments can support the provision of affordable housing through the CHS.

2. CHS will still be unable to compete with market developers

The Housing Accelerator Fund addresses the capital gap that the CHS faces in accessing funding during the acquisition, pre-development, and pre-construction phases of development. However, without the continued development of policy, the CHS will continue to face challenges in competing with market developers. During interviews, there were discussions about other initiatives that could be introduced to Canada, such as the United States' Low-Income Housing Tax Credit (LIHTC). The LIHTC provides tax incentives to encourage the development of new affordable housing and has become critical to the new construction of large-scale affordable housing projects across the United States (Harltley, 2020). Further exploration into this program for Canada and other policy initiatives could therefore continue to support the CHS in the provision of affordable housing and compete with market developers.

3. Administrative procedure to manage the fund

Vancity's Housing Accelerator Fund would enhance the current PDF Loan Fund and Pre-Construction Equity Fund and pool capital from a range of philanthropic, private and public investments. Existing procedures need to be built upon in order to ensure that internal reporting and fund management capacity grows in tandem with the growth of the fund.

4. Security law and regulatory requirements

The growth of the fund and increasing interest in social impact investments means that there may be limitations for interested investors if they are not a credited investor. Security law, including disclosure statements and offering memorandums, is a potential barrier that may require further exploration.

5. CHS may lack capacity to deliver projects

The capacity of the borrowers to deliver affordable housing projects was perceived as a potential barrier during interviews for this report. However, in looking at Vancity's previous successes through the Impact Real Estate Program and PDF Loan Fund, an established network and pipeline of affordable housing projects illustrates that it can be done. Addressing capacity issues can be accomplished through Vancity and non-profit organizations collaboratively working together to develop a project vision that meets their organization's mission and capacity. Furthermore, the ability to access fast and flexible capital gives the CHS more freedom to pursue development projects, resulting in increased opportunities to build capacity and become independent of government agencies.

Conclusion

Amid the housing crisis and the need for more affordable and adequate housing across Canada, Vancity has been motivated to enhance its current ***Impact Real Estate Program*** by bringing a Housing Accelerator Fund to Canada. The Housing Accelerator Fund will not only broaden the social impact investor base, but it will also help the CHS remain a key stakeholder in the provision of affordable housing. The social investment opportunity offered by Vancity is a *"one stop shop"* for individuals and corporations to invest their money for positive community impact by supporting the development of community-owned affordable housing and for non-profit developers to simplify financing of their projects. Pooling capital from different social investors will offer more funding opportunities for the CHS during the most critical phases of development. The fund will help the CHS decrease the internal resources required to fund projects while also building capacity and becoming independent from government funding. Increasing the CHS' independence will allow more government funding to be directed to core housing needs and housing projects with steeper affordability. The Vancity Housing Accelerator Fund will ultimately help more Canadian families and individuals to secure affordable housing and a place to call home.

References

BC Rental Housing Coalition (2017). An Affordable Housing Plan for BC. Retrieved from https://bcnpha.ca/wp_bcnpha/wp-content/uploads/2017/04/BC_Affordable_Housing_Plan.pdf

Canadian Rental Housing Index (n.d.). Retrieved from http://rentalhousingindex.ca/

CMHC Housing Market Information Portal (n.d.). Retrieved from https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/1/1/Canada

Cox, Wendall & Pavletich, Hugh (2019). 16th Annual Demographia Housing Affordability Survey. Retrieved from: http://www.demographia.com/dhi.pdf

Ganitsos, Irene (2020). Interviewed on July 30, 2020.

Hartley, Kate (2020). Interviewed on July 13, 2020.

Hogue, Robert (2019). Big city rental blues: a look at Canada's rental housing deficit. Retrieved from: http://www.rbc.com/economics/economic-reports/pdf/canadian-housing/housing_rental_sep2019.pdf

Housing Vancouver Strategy (2017). Retrieved from: https://council.vancouver.ca/20171128/documents/rr1appendixa.pdf

Hulchanski, David (2001) A Tale of Two Canadas. Homeowners Getting Richer, Renters Getting Poorer. P. 1. Retrieved from: http://www.urbancenter.utoronto.ca/pdfs/researchbulletins/02.pdf.

Hulchanski, David (2005) Rethinking Canada's Housing Affordability Challenge

May, Katrina (2017). The Role of Social Investment in Canadian Affordable Housing. Retrieved from: https://catalystcommdev.org/wp-content/uploads/2019/01/Catalyst-Report_2018.12.12.pdf

McAfee (2017). Housing and Housing policy. Retrieved from: https://www.thecanadianencyclopedia.ca/en/article/housing-and-housing-policy

Pomeroy, Steven (2020). Why Canada needs and affordable acquisition program.

Roy, Kishone (2017). Make Housing Central: British Columbia and the Affordable Housing Crisis. Vancouver, BC: Indyhan Books. P.78.

SFHAF (n.d). San Francisco Housing Accelerator Fund. Retrieved from: https://www.sfhaf.org/

Statistics Canada (2020). Census Profile, Census Data 2016. Retrieved from https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/prof/index.cfm?Lang=E

Vancity (n.d.). Impact Real Estate Pre-Development Fund: FAQs. Retrieved from: https://www.vancity.com/host/vancity.com/viewport/mobile/SharedContent/documents/Business/IRE_PDF_FAQs.pdf

Vancity Highlights (n.d.). Retrieved from: https://www.vancity.com/AboutVancity/VisionAndValues/Glance/Highlights/

Appendix

Appendix 1. Glossary

Affordable Housing: as defined by Canada Mortgage and Housing Corporation (CMHC), affordable housing is when households spend 30% or less of gross (before-tax) income on utilities and rent. Affordable housing is a broad term that encompasses housing provided by the non-profit, public, and private sectors and includes all forms of housing tenure. In this report, the use of affordable housing will refer to affordable rental housing and any references to the housing crisis will include the whole spectrum of housing options.

Core Housing Need: a concept developed by CMHC and refers to households that are not able to afford average market rent and fall below one or more affordability, suitability, and/or adequacy stands. This includes homeless, emergency, transitional housing and social housing.

HILs: Housing Income Limits represent the income required to pay the average market rent for an appropriately sized unit in the private market. Average rents are derived from CMHC's annual Rental Market Survey and are, in reality, significantly below market values.

Household Income: The term is often used is often used as an indicator for the calculation of living costs that are deemed affordable. It is a measure of the combined incomes of all people, gross or pre-tax, sharing a particular household or place of residence.

Missing Middle: The term missing middle has two definitions: (1) Renter households with annual incomes between $30,000 and $80,000 and (2) moderate density housing, ranging from multi-unit or clustered housing types. For this report, reference made to the missing middle will use the first definition.

Moderate Income: BC Housing currently defines moderate incomes as follows:

- *For residential units with less than two (2) bedrooms, a gross household income that does not exceed the median income for couples without children in B.C., as determined by BC Housing from time to time. For 2020, this figure is $74,150.*
- *For residential units with two (2) or more bedrooms, a gross household income that does not exceed the median income for families with children in B.C., as determined by BC Housing from time to time. For 2020, this figure is $113,040.*

Social Housing: The term refers to categories of non-market housing where costs are subsidized by government and support services are attached.

Canada's Housing Continuum. Source: CMHC.

Appendix 2. Financial Products, Programs & Tools

In Catalyst's published report, *The Role of Social Investment in Canadian Affordable Housing*, Katrina developed a graphic that identifies the different government and non-government funding programs and associated financial products and tools. The graphic is shown below.

Non-Profit Development Financing Options for Affordable rental Housing in Canada. Source: May, 2017.

Definitions of Financial Products and Tools

Construction Loan: This is the most substantial loan and pays for the physical construction of the project, typically from a loan through a bank, credit union, CMHC, or BC Housing.

Debt: Borrowed money that must be repaid with interest but does not give up company or project ownership.

Equity: Money directly invested in a project that includes ownership shares or partnership units in the project.

Forgivable Loan: A type of loan which can be forgiven or deferred, in its entirety or a portion thereof, for a period of time by the lender when certain conditions are met.

Grants/Contributions: These are non-repayable contributions and may support any phase of development, from vision through to occupancy.

Mezzanine Financing: Any subordinated debt or preferred equity instrument that represents a claim on project assets which is senior only to that of common shares and partnership units.

PDF: Pre-Development Financing pays for the building design and permitting phase and is repaid through construction financing.

Program Funding: This money typically supports affordable housing projects that include facilities for other social benefits such as community space, licensed childcare facilities, healthcare facilities, etc.

Seed: This money helps with the up-front costs (concept, feasibility, business plan development) of a new affordable housing project or with preserving existing affordable housing.

Social Investment: Private investments with the intention to generate measurable social and environmental impact, that are repaid within a specified timeline and with a financial return.

Take-Out or Term Loan: This money is required post-construction, once a project completes and turns over into operations. It often has longer terms for repayment.

Appendix 3. San Francisco Housing Accelerator Fund

San Francisco Housing Accelerator Fund Logo. Source: https://www.sfhaf.org/

The San Francisco Housing Accelerator Fund (SFHAF) is a non-profit fund that has created a public-private partnership in order to source new capital and bridge financing to meet the affordable housing needs in San Francisco (SFHAF, n.d.). San Francisco faced similar challenges that affordable housing developers face in Canada with was limited and short-term funding and capital and the challenge for non-profit developers to compete in the fast-paced marketplace.

In 2017, the SFHAF was developed with the goal of accelerating the pipeline of development for affordable housing by providing loan financing to developers to acquire, rehabilitate, and preserve vacant land or existing buildings. The fund aggregates new capital for affordable housing from philanthropic, private and public sources and leverages these funds to bridge financing for projects to construction start. Through providing flexible loans that can react quickly to the market, the fund has been successful in helping developers to act quickly in the marketplace to acquire and hold vacant or under-utilized land until it can be developed into affordable housing units. The preservation of existing affordable housing and the prevention of displacement has also been achieved through the fund by allowing flexible capital for acquisition and rehabilitation. Since it was launched, the fund has deployed $130 million in loan capital across 23 affordable housing projects in San Francisco (SFHAF, n.d.).

In March 2018, less than a year after the initial launch, the fund reached financial sustainability. This was achieved through the equity that was built up over time. The project loans contributed to financial sustainability through loan interest earnings and organization fee recognition. The external sources that have supported self-sufficiency are grant revenue and investment interest income.