

# Innovative Financing of Social and Affordable Housing

## INTRODUCTION

Innovation in housing finance has been stimulated by the continuing need for new affordable housing and the requirement to preserve and rehabilitate existing stock. CMHC contracted housing consultant Tony Wellman to summarize recent alternative financing approaches and creative uses of traditional financing approaches.

## OVERVIEW

Ten types of finance mechanisms are described, along with 24 recent examples (drawn primarily from Canada) of how these have been used to support affordable housing.

1. **Social finance initiatives**, such as social impact bonds, social impact investing and housing funds.
2. **Soliciting donations** through special-need groups and charitable groups as well as crowdfunding from the general public.
3. **Tapping into existing equity** of a housing project to get a better borrowing rate for maintenance and rehabilitation.
4. **Preserving land for affordable housing** through community land trusts.
5. **Restructuring loan payments**, such as through shared equity mortgages.
6. **Real estate investment trusts (REITs) for affordable housing** (in the U.S.).
7. **New partnership initiatives** to aid housing providers.
8. **Life leases**, a form of tenure between ownership and renting.
9. **Energy savings performance agreements** to finance retrofitting.
10. **Funding from new taxes**, such as a tax on real estate speculation.

### Real estate investment trusts (REITs)

- A for-profit REIT acquires a portfolio of rental projects, provides a professional management team to achieve efficiencies in operations, improves the value of properties and seeks an attractive return to its investors.
- REITs could be structured with a social purpose—to maintain the affordability of multi-unit housing.
- The Housing Partnership Equity Trust (HPET) was formed by 12 non-profit organizations in the U.S. using this model.
- No Canadian REITs with an overriding social purpose were known at the time of this review.

## FINDINGS

The housing sector has evolved so that partnerships are now the norm in creating, funding and managing affordable housing, whether it be ownership or rental, new construction or renovation.

- New affordable housing is commonly funded through a combination of public and non-governmental sources, such not-for-profit organizations, philanthropy or single-purpose fundraising.
- These financial innovations arise from increased sophistication in the financial and high-tech sectors as well as stakeholders' need to find non-governmental sources of funds.

**Innovation often means adapting finance products from the private sector for use in affordable or social housing.**

- Equity in existing affordable housing projects can be used to fund rehabilitation or upgrades similar to the way individual homeowners use home equity loans or second mortgages for renovation.
- The REIT, a mechanism that consolidates multi-unit housing developments for economies of scale and investor profits, was refocused to operate multiple affordable housing projects for the social benefit of residents.
- Technology can be used to facilitate communication and risk sharing, for example, crowdfunding and social finance bonds and funds.

**Some approaches are best used to facilitate a single project, while others support multiple projects or initiatives.**

- Soliciting donations, tapping into existing equity and energy savings performance agreements are all mechanisms that work well at the project level.
- Social impact bonds, community land trusts and life leases operate at the “macro” level, creating a source of funding for many projects.
- Innovative financing techniques can address housing need in a variety of ways: by making homeownership more affordable, by creating new rental projects or by financing ongoing housing operations (see figure 1).

## Accessing capital and land for new affordable housing

- Online fundraising, or crowdfunding, presents a new opportunity to raise capital.
- Large amounts of capital held by foundations, trusts, and so on, are being used for housing through social finance instruments such as social investment bonds (SIBs) and social investment funds.
- Land donation, intensification of existing developments, and land trusts are all means to increase the supply and decrease the cost of land, particularly in urban areas.
- In British Columbia, a tax on real estate speculation is used to provide funds for the creation of affordable housing.

## Tools for financing rehabilitation

- The “bulk buying” power of larger organizations can attract competitive interest rates on refinancing. Two examples profiled in the report, a co-operative housing association and a provincial government infrastructure program, provide lower borrowing rates to housing operators.
- Energy savings performance agreements facilitate retrofitting of housing units. They are funded by energy service companies based on future savings.

**Figure 1:** Innovative financing can address affordable ownership, new construction or ongoing housing operations.

	Access to Affordable Ownership	New Social Housing	Ongoing Viability, Maintenance, Rehabilitation	Comments
Alternative mortgages, shared equity	Yes	Mechanism of deferred payment of second mortgage until refinancing may have some potential		Apparent cross-purpose with new mortgage rules
Social finance: bonds, social investment funds	Yes	Yes	Yes	First Canadian social impact bond has been successful
Partnerships	Yes	Yes	Yes	Essential ingredient for all
Donations, fundraising	Limited, although used by Habitat for Humanity	Good for special-need projects, including seniors' housing	Best for specific upgrades, replacements	Land donations or below-market land often available
Life leases	Alternative to ownership	Some potential to provide an alternative		
Various renewal or refinancing options			Can free up equity for repairs, etc., as well as lower monthly payments	Currently available for cooperatives, also in Ontario for non-profits
Community land trusts	Can set price, affordability conditions	Yes	Land trusts could also acquire existing affordable housing	Yes
Retrofit energy savings performance agreements			Yes	ESCOs have been active in the non-residential sector for many years. Their involvement in the residential sector is more recent.
Real estate investment trusts		Strong potential exists		Not yet a factor in Canada
Crowdfunding	Crowdfunding possibilities abound, limited only by imagination			
Funding from real estate taxes	Application of real estate taxes on flips, speculation, etc., could be a source of funding for affordable and social housing			Precedent set by B.C.

## IMPLICATIONS

Demographic pressures or the historical features of the affordable housing sector can drive financing innovation. Thus, as a large number of housing projects near the end of their long-term mortgages, housing operators are seeking ways to lower lending rates or access equity for rehabilitation on renewal. Similarly, the large cohort of retirement-age Canadians facing higher housing costs in some jurisdictions is stimulating more flexible financing options such as “life leases,” which combine features of both rental and ownership housing.

Educational resources and demonstration projects would facilitate broader use of these financing innovations in Canada. Housing providers need guidance on refinancing, achieving the best possible rates on mortgage renewal, and using social impact bonds. Establishing a crowdfunding portal, advocating for project intensification, or championing energy savings performance agreements are all ways that third-sector umbrella organizations could support new funding techniques.

Shared equity schemes and social impact bonds continue to be excellent candidates for pilot projects involving public-private partnerships.

Some financing innovations may benefit from reviews of government rules or guidelines, such as shared equity schemes and mortgage refinancing. Others would benefit from consumer protection legislation, like Manitoba’s regulation of life leases.

## FURTHER READING

Full report – *Innovative Financing of Social and Affordable Housing Across Canada* ([https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research\\_2/innovative\\_financing\\_approaches.pdf](https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research_2/innovative_financing_approaches.pdf))

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