SECTION ONE: PRIMER FOR PRACTITIONERS

SOCIAL FINANCE AND SUPPORTIVE HOUSING

What is social finance?

Social finance, or impact investing, is an investment approach that focuses on achieving positive social and/or environmental impact alongside some form of financial return. This includes debt and equity investments that range from producing a return of principal capital to offering market-rate or even market-beating financial returns. Impact investing encourages positive social or environmental solutions at a scale that neither purely philanthropic supports nor traditional investment can reach.[1] Philanthropic grant making and program-related investments can also fall under the broad umbrella of social finance.[2] However, a narrow definition of social finance would only include investments that could generate some form of return.

Examples of impact investments could include:

- A $5,000 equity investment in a local community solar power firm such as SolarShare
- A $50,000 loan to a fair trade, organic coffee company such as Planet Bean Coffee
- A $450 million bond issue for a social housing project such as Regent Park, in Toronto, ON

Impact investing is a large and growing asset class. In the United States, JP Morgan and the Rockefeller Foundation analyzed five key sectors—affordable urban housing, rural access to clean water, maternal health, primary education and microfinance—and predicted that over the next 10 years the impact investing market in just these five sectors will grow to between $400 billion–$1 trillion.[3]

In Canada, the social finance marketplace is also expected to grow significantly. From persistent poverty to climate change, we are faced with pressing social and environmental problems at a local, provincial, and national level. Unfortunately, the ability of governments to tackle these challenges is constrained due to ongoing economic challenges and structural financial problems.

Social housing providers are longstanding innovators and practitioners of social finance approaches in Canada and around the world. In Canada, we have been experimenting with debt and equity financing approaches to purchase, build or improve housing with a positive social impact for decades.

What is supportive housing?

Supportive housing includes housing units or complexes funded specifically for persons living with mental illness and/or mental health problems, persons living with concurrent disorders (co-occurring mental health and substance use issues) or other persons who need support to live independently. Individuals living in supportive housing could include older adults managing illness, persons who are chronically homeless, persons with disabilities, or other persons with mental health challenges.[4]

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[1] SVX. (2012). Invest for Impact: FAQs. Retrieved from http://thesvx.org/?page_id=27
[2] Socialfinance.ca. (2012). Glossary. Retrieved from http://socialfinance.ca/knowledge-centre/glossary/term/social_finance
[3] The Rockefeller Foundation. (2012). *Impact Investing: An Emerging Asset Class.* Retrieved from http://www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing/publications
[4] Centre for Addiction and Mental Health, Canadian Council on Social Development. *Turning the Key,* p. ii.

"Housing First" is a variation of supportive housing that relies primarily upon private market apartments in scattered sites in the community. This is the approach that has been implemented in At Home/Chez Soi. Portable rent subsidies are key to this model, which enables tenants to rent apartments in locations they choose. The subsidies provide the difference between market rent and the amount available for rent through social assistance. Supportive housing providers have been using this approach to partner with private-sector landlords to increase the supply of rental housing where it is available.

In addition to ensuring affordability, supportive housing exists to provide supports to tenants. An affordable, secure home is essential to assisting individuals to realize their life goals. In Canada, affordability means that the market price or rent is affordable to low- and moderate-income households, measuring 30% or less of their gross household income, not including government supports. Affordable housing includes what we commonly refer to as social housing: housing built with the financial assistance of governments to provide assistance to low- and moderate-income households. It includes supportive housing, non-profit housing, co-operative housing and housing supported by rent supplements. These monthly rent charges are usually geared to income.[5]

What advantages do supportive housing providers have in the social finance marketplace?

Supportive housing providers have a number of key advantages in the social finance marketplace and might appeal to a variety of impact investors.

Signature impact investments have been affordable housing investments. The $450 million bond issue by Toronto Community Housing Corporation (TCHC) and the $1 million community housing bond issue by YWCA Toronto are consistently cited as leading examples of impact investments.

There is demonstrated interest in affordable housing by investors. According to a recent survey of Canadian impact investors, 75% would be interested in affordable housing bonds.[6]

Social housing is a proven impact investment with a track record. Social housing is a proven debt investment class with a low-risk profile and stable, but not sizable, returns. For example, it is known that there has not been a default on a social housing mortgage in Ontario since the mid-1980s. Social housing represents an infrastructure investment opportunity like other real estate opportunities in line with many investors' interests, with one key difference: demonstrable impact. There are few investments that have the proven ability to generate a modest financial return while reducing poverty by providing someone with a comfortable, safe place to live. If social housing were its own asset class with regularly tracked data, it would be considered a strong option for Canadian investors.

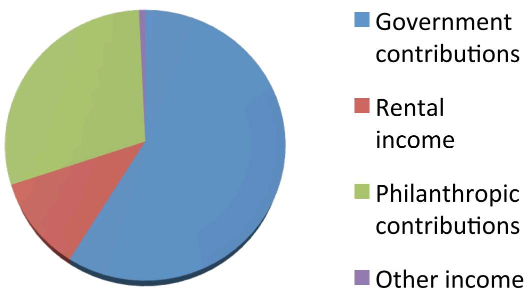
Supportive housing has the potential for scale that matches investor interest and capacity. The size of potential investments in supportive housing projects matches the interest and capacity of potential

[5] Housing Services Corporation. (2012). Glossary. Retrieved from http://www.hscorp.ca/resources/glossary
[6] MaRS Centre for Impact Investing. (2011).

investors who are looking for larger opportunities to place capital. The cost of due diligence is often the same for an investment, whether it is $50,000, $5 million or $50 million. Many current impact investment opportunities face challenges because of their smaller scale. Large supportive housing real estate developments can be more of a fit for impact investors.

FINANCING FOR SUPPORTIVE HOUSING PROVIDERS

When considering innovative, alternative financing mechanisms for supportive housing, it is vital to understand the current sources of operating funding and typical costs for these facilities.



A. Where does ongoing operating funding for supportive housing providers come from?[7]

Although there is significant variability between organizations, ongoing operating funding for supportive housing providers generally comes from a variety of sources, as shown in Figure 1, below:

Government contributions (70 to 90%): In Ontario, for example, the vast majority of income derived by supportive housing providers is provided by the Ministry of Health and Long Term Care, Local Health Integration Networks (LHINs), the Canada Mortgage and Housing Corporation (CMHC) (note: these funds include the declining federal investments, which by 2030 will equal zero), and some municipal sources.[8]

Rental income (5 to 15%): The next most significant portion of income is derived from rental income provided by tenants, often under strict affordability criteria, largely calculated as Rent Geared to Income (RGI).

Philanthropic contributions (2 to 10%): In general, philanthropic contributions represent a small but growing portion of income. These contributions include individual donations and major gifts, foundation and corporate grants, and money raised by fundraising campaigns and events.

Other income (0-5%): Housing providers also generate income from interest, other earned revenue activities and other initiatives.

B. What are the typical costs for supportive housing facilities?

When considering the development of supportive housing units, there are three major cost centres: capital, operating, and programs and services costs.

Capital costs. There are a number of capital costs for the development of housing projects, including predevelopment, construction and permanent capital budgets.

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[7] These figures should be interpreted with caution, as they are not statistically representative. The proportions are designed to outline rough percentages of funds from a variety of sources. These figures are based on a small sample survey of five supportive housing providers in Ontario.

[8] Details on other provinces can be found in *Turning the Key* (Centre for Addiction and Mental Health, Canadian Council on Social Development. (2011). *Turning the Key)*..

a. Predevelopment: site selection, planning and feasibility studies, architectural drawings, environmental testing and community outreach;
b. Construction: hard (materials) and soft (labour, lawyers, consultants) costs for building; and
c. Permanent capital budgets: set aside for capital reserves in operating budget for repairs and contingencies.

In 2006, the estimated capital cost per unit in Ontario was $150,000–$200,000.[9] This figure is estimated to be roughly within the range of cost per unit today.[10]

Capital funding comes from a mix of federal, provincial and municipal governments. Federal and provincial governments will often provide a portion of financing in the form of grants or subsidies. Municipalities can contribute by eliminating property taxes, waiving development charges, land grants or contributing funds.

In addition, financial institutions and intermediaries like the CMHC provide Proposal Development Financing (PDF), seed funding, mortgage insurance, and partly forgivable loans.[11] Beyond these sources, housing providers can obtain support through in-kind donations, philanthropic contributions, private lenders, or mortgage financing.

Operating costs. Operating costs include management staff, utilities and maintenance. These costs are often referred to as Manageable Costs per Unit, which includes: building operating costs; contracted services, staff and external service providers; office supplies and miscellaneous administrative costs; corporate overheads such as office space, telephones, technology, insurance; and bad debt expense.[12]

These costs are often combined with ongoing capital costs for a Total Cost per Unit Calculation. This includes Manageable Costs per Unit, plus mortgages, taxes and capital expenditures divided by the total number of units; it is expressed as a dollar amount.[13] While these costs are common across social housing providers, there are increased costs associated with supportive housing providers specifically, as a result of the additional costs of tenancy support. The gap in operating costs can be financed by rent supplements and/or operating subsidies and contingency funds.

Program and services costs. Funding for personal support and care typically comes from ministries of health, health authorities and/or social services. Beyond government funding, supportive housing providers may obtain funding from user fees and philanthropy (individual donations and large

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9 Legislature of Ontario. (2006). *Affordable Housing Financing.* 2006. Retrieved from http://www.ontla.on.ca/library/repository/mon/15000/268446.pdf

10 Given examination of a number of Ontario projects and the completed case studies. A recently completed business plan for a project in Espanola, ON, had a cost of $180,000 per unit.

11 Canadian Research Network for Care in the Community. (2007). Fact Sheet: Supportive Housing from the Group Up: Frequently Asked Questions. Retrieved from http://www.crncc.ca/knowledge/factsheets/pdf/InFocus-SupportiveHousing-FromtheGroundUp-FrequentlyAskedQuestions.pdf

12 Halton Community Housing Corporation. (n.d.) Performance Measurement Definitions. Retrieved from http://sirepub.halton.ca/cache/2/yysycz45h0xjy3qylzzwn2rs/122774081120121117O2957.PDF

13 Halton Community Housing Corporation. (n.d.) Performance Measurement Definitions. Retrieved from http://sirepub.halton.ca/cache/2/yysycz45h0xjy3qylzzwn2rs/122774081120121117O2957.PDF.

gifts).[14] These costs can be combined with ongoing capital and operating costs for a Total Cost per Unit.

[14] Canadian Research Network for Care in the Community. (2007). Fact Sheet.: Supportive Housing from the Group Up: Frequently Asked Questions. Retrieved from http://www.crncc.ca/knowledge/factsheets/pdf/InFocus-SupportiveHousing-FromtheGroundUp-FrequentlyAskedQuestions.pdf