



SESSION 109

*making magic*

# When Impact Investing meets Affordable Housing

## PRESENTERS

John Fox, Partner, Robins Appleby LLP

Christine Pacini, Partner, SHS Consulting

Norm Tasevski, Co-Founder and Partner, Purpose Capital

(Moderator) **Nancy Singer**, Executive Director, Kehilla Residential  
Programme



**ONPHA**

Ontario  
Non-Profit Housing  
Association

# Session Road Map

## INTRODUCTION

Who we are

## CHAPTER 1

Thinking Like an Impact Investor  
with Norm Tasevski



## CHAPTER 2

Investing in Affordable Housing:  
The Opportunities and Challenges  
with John Fox



## CHAPTER 3

One New Idea  
with Christine Pacini



# who we are... Norm

**EVIDENCE**  
EVALUATION AND CONSULTING



Social Venture Partners Toronto  
INVEST. ENGAGE. ADVANCE.

**aperio**  
FOSTERING SOCIAL SECTOR INNOVATION



**SiG**



Schulich  
School of Business  
York University

**YORK**  
UNIVERSITY

Ontario

Canada25



UNIVERSITY OF  
**TORONTO**



**PURPOSE**  
Capital

EST. 2010  
**VENTURE**  
★ DELI ★



# who we are... **John**

**LAIDLAW**  
FOUNDATION



**ROBINS APPLEBY**  
BARRISTERS + SOLICITORS



Toronto  
Community  
Housing



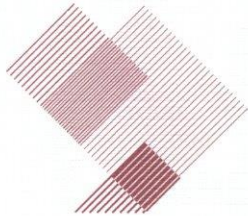
**Daily Bread**  
Food Bank



# who we are... Christine

THE STARR GROUP INC.

PLANNING & MANAGEMENT  
CONSULTANTS



christine  
pacini &  
associates



## CHAPTER 1

# Thinking Like an Impact Investor

# A QUICK OVERVIEW OF THE IMPACT MARKET



# *defining* Impact Investing

**INVESTMENTS INTENDED TO GENERATE  
POSITIVE IMPACT BEYOND FINANCIAL RETURNS**

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**DIFFERENTIATED FROM TRADITIONAL INVESTMENT BY**



investor intention



investee intention



impact  
measurement





# Impact Investing is not new!

<b>CREDIT UNIONS</b>	▶ <b>1901</b>	North America's first credit union, Caisse populaire de Lévis, is founded
	▶ <b>1946</b>	Vancouver City Savings Credit Union is founded
<b>CO-OPERATIVES</b>	▶ <b>1861</b>	Stellarton Co-operative, a mutual fire insurance company, is formed
	▶ <b>1971</b>	Caisse d'économie solidaire Desjardins is founded
<b>SOCIAL ECONOMY</b>	▶ <b>1986</b>	Development of Aboriginal Financial Institutions
	▶ <b>2007</b>	Fiducie du Chantier de l'Économie sociale is created in Québec
<b>COMMUNITY ECONOMIC DEVELOPMENT</b>	▶ <b>1987</b>	Government of Canada creates Community Futures Program
	▶ <b>1990</b>	Community Economic Development Investment Funds (CEDIFs) are created
<b>MICROFINANCE</b>	▶ <b>1990</b>	The first Canadian microfinance institution, Montreal Community Association is established
<b>SOCIALLY RESPONSIBLE INVESTING</b>	▶ <b>1997</b>	Global Reporting Initiative (GRI) is launched
	▶ <b>2006</b>	The UN Principles of Responsible Investment (PRI) are launched
<b>IMPACT INVESTING</b>	▶ <b>2007</b>	Rockefeller Foundation coins the term "impact investing"
	▶ <b>2010</b>	Canadian Task Force on Social Finance recommendations issued
<b>ENABLING LEGISLATION</b>	▶ <b>2012</b>	Nova Scotia introduces the Community Interest Companies Act
	▶ <b>2012</b>	British Columbia recognizes "Community Contribution Company"



*however...*

**IMPACT INVESTING AS AN DEFINED  
ASSET CLASS IS VERY YOUNG  
(TERM COINED IN 2007)**





## SUPPLY-SIDE MARKET ESTIMATE

SEGMENT		ESTIMATED TOTAL VALUE OF IMPACT ASSETS UNDER MANAGEMENT (2012)
High Net Worth Individuals		Data unavailable*
Foundations		\$287,800,000
Community Finance Organizations	Aboriginal Financial Institutions	\$491,000,000
	Community Loan Funds	\$45,370,900
Financial Institutions	Credit Unions	\$1,348,321,810
	Chartered Banks	Data unavailable*
Pension Funds		Data unavailable*
Government		Data unavailable*
<b>Total</b>		<b>\$2,172,492,710</b>

## PRODUCT-BASED MARKET ESTIMATE

SEGMENT		ESTIMATED TOTAL VALUE OF IMPACT ASSETS UNDER MANAGEMENT (2012)
Cash and Cash Equivalents		Data unavailable*
Private Debt		\$50,014,525
Public Debt		\$450,000,000
Private Equity		\$240,200,000
Public Equity		No Available Products
Venture Capital		\$858,000,000
<b>Total</b>		<b>\$1,598,214,525</b>



# FINANCIAL CAPITAL MARKETS



**Financial** Return

RETURN

**Financial** Performance Measurement

MEASUREMENT

- Debt
- Equity

INVESTMENT  
TYPE

- Retail (mutual funds, online brokers)
- Institutional (Exchanges, Alternative Trading Systems)

PLATFORMS

About 5%

AVERAGE TRANSACTION COST

**FINANCIAL  
CAPITAL  
MARKETS**

**SOCIALLY RESPONSIBLE  
INVESTING**

Social Screening and  
Shareholder Advocacy

**\$50 Trillion**

**\$7 Trillion**

MARKET SIZE

Oh...



# Impact Investing Intermediation

DEMAND-SIDE FUNCTIONS		FINANCIAL INTERMEDIARY FUNCTIONS	SUPPLY-SIDE FUNCTIONS	
Development & Investment Readiness	Financial Intermediation & Product Structuring	Capital Matching	Pool & Mobilize Capital	Investor Education
Working with social ventures to develop internal capacity and prepare for investment	Designing, developing, structuring and monitoring financial products, platforms and funds	Introducing supply side to demand side actors and coordinating the placement of capital	Coordinating co-investment from multiple investors to reduce risk and transaction costs	Educating investors and their advisors about the range of investment opportunities
     	    	  	     	  



# Barriers to Connecting Supply and Demand

## SUPPLY SIDE

- Lack of reliable/accurate information and understanding of impact-focused ventures
- Higher transaction costs compared to traditional investment
- Difficulty finding high-quality ventures in an efficient way

## DEMAND SIDE

- Limited ability to plan for and manage investment
- Limited capacity to both service debt/finance returns + assess social and/or environmental impact
- Limited expertise in managing/sourcing investments
- Inability to effectively communicate a value proposition



# “State of the Nation” Report

- Most comprehensive assessment to date of the current state of impact investing in Canada
- Impact investing market analyzed according to supply, demand, intermediaries, impact measurement and government involvement



HOW IMPACT  
INVESTORS 'THINK'





*in short...*

**IMPACT INVESTORS EXPECT  
(AND OFTEN REQUIRE)  
A FINANCIAL RETURN!**

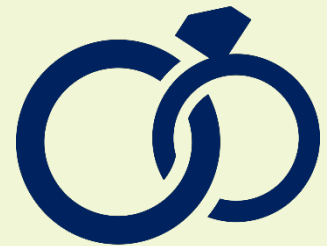
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# *the relationship*

INVESTEES  
(USUALLY)  
WANT...

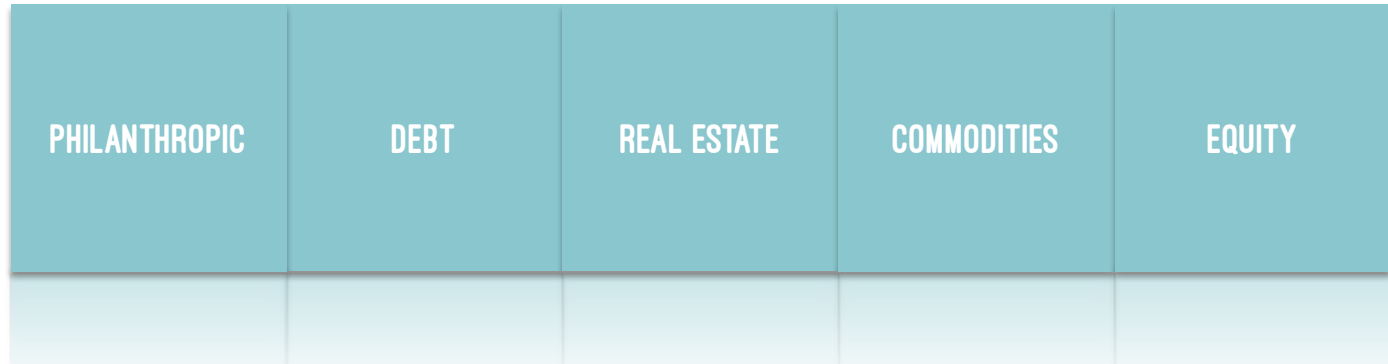


INVESTORS  
(USUALLY)  
WANT...



# How Impact Investing “Fits” in a Portfolio

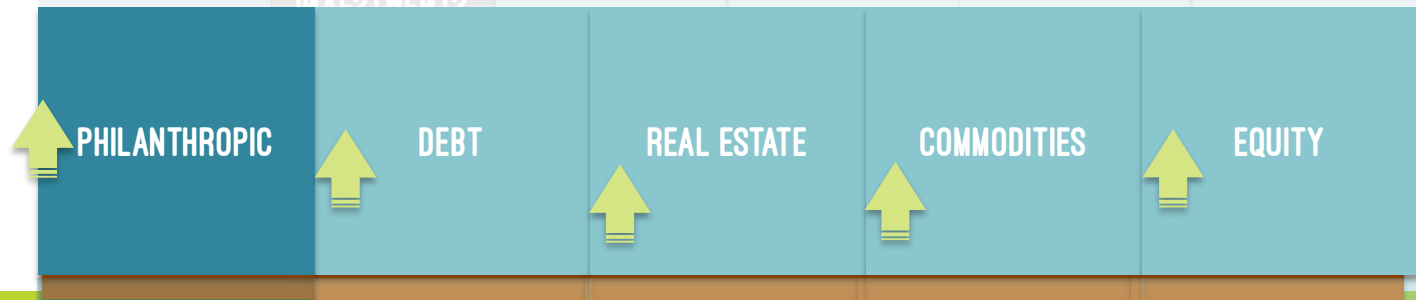
A TRADITIONAL  
PORTFOLIO...



ONE VIEW OF  
IMPACT INVESTING  
INTEGRATION...



A SECOND VIEW OF  
IMPACT INVESTING  
INTEGRATION...



# Profile of the Impact Investor

	FINANCIAL INVESTOR	SOCIALLY RESPONSIBLE/ SUSTAINABLE INVESTOR	IMPACT INVESTOR
INTENT	Profit maximization (no eye to social impact)	“Guilt-free/ethical” profit maximization	Socially impactful profit making
EXPECTED FINANCIAL RETURN	High (above market)	High (at or above market)	It depends
EXPECTED SOCIAL RETURN	Low	Low-moderate	Moderate-high
SCREEN	Financial considerations only	Negative (i.e. remove investments from portfolio), or Positive (e.g. include investments that meet environmental, social and governance (ESG) standards)	Financial metrics and impact metrics



# The Impact Investor Frame of Mind



## SOCIAL RETURN

- Don't need to be convinced of the value of the cause
- Do need to be convinced that your initiative can impact that cause
- How to convince?
- Performance metrics! Create tangibility and measurability
- Find the 1-2 metrics that matter to the investor (there usually are only 1-2)



## FINANCIAL RETURN

- The investment must make sense financially (even if concessionary return); always have a need to demonstrate a financial return
- How to convince?
- Demonstrate cash flow (pro-formas less useful)
- Demonstrate market opportunity
- Document your business model
- Profile strong management

Source: [Social Investment Manual: A Guide for Social Entrepreneurs](#)



# remember...

- Impact Investors think of investing in impact as a “marriage” relationship, not a “dating” relationship
- Before you get married, an investor will do their **due diligence!**
  - Personal reference checks
  - Reference calls with past customers/business partners
  - Market analysis
  - Deep dive into the financials
  - Key HR decisions made
- Patience is a virtue! You’d rather have **the right investor with the right type of capital** vs. the any investor with an open cheque book



# Things that Derail the Marriage

*red flags*

- The project is too complicated/“messy”
- They believe in the cause, but don’t believe you can generate measurable results that impact the cause
- They do not have confidence that you can generate appropriate financial returns (even if concessionary)
- There is a personality “mismatch”
- Capacity issues – the investee needs more of a time investment than the investor can offer
- There is no clear “exit”

Source: Social Investment Manual: A Guide for Social Entrepreneurs



# THE BIG QUESTION FOR THE IMPACT INVESTOR



*do you "matter"  
to the world?*



## CHAPTER 2

# Impact Investing in Housing

# The Need for Affordable Housing

- 1.5 Million Canadians in need of core housing
- Over 1,000,000 new affordable homes needed to meet the need.
- At a cost of \$150,000 to \$200,000 per unit, cost to build is between \$150B and \$200B
- In the last 5 years, federal and provincial governments have invested a lot less than that



# Existing Impact Investing in Housing

TYPE OF INVESTMENT	TARGET	EXAMPLE
Public Debt Financing	Regeneration of Affordable Rental	Toronto Community Housing public bonds supporting Regent Park
Private Equity	Creation of Affordable Ownership	Trillium Bond
	Supportive Housing	YWCA Community Bond
Loan Guarantees	Supporting Community Bonds	CSI
Housing Development Bond (Proposed)	Affordable Rental	Proposed by Verdiroc
Real Estate Investment Trust	Purchase and preservation of existing rental stock	Housing Partnership Equity Trust



# THE IMPACT INVESTOR'S VIEW



# Impact Investor's View

## FOUNDATIONS

- Many Foundations are considering impact investing
- Philanthropic Foundations of Canada has endorsed push to have 10% of Foundation Capital invested in “Mission Related Investments”
- Mission related investing means the investment of capital funds in organizations that generate positive aligned social impact, as well as financial returns.



# The Impact Investor Continuum

## Continuum of Investment Approaches

			IMPACT INVESTMENT		
Traditional	Responsible Investing (RI)	Socially Responsible Investing (SRI)	Thematic	Impact-first	Venture Philanthropy
Competitive Returns					
	ESG Risk Management				
			High Impact Solutions		
Investments made with the motive of attaining a financial return with limited or no focus on Environmental, Social or Governance (ESG) factors.	Investing in a manner that screens out certain sectors (e.g., tobacco, weapons) as a component of financial risk management.	An approach that involves comprehensive negative and positive screening of ESG risks as a part of the investment analysis process.	An approach that focuses on one or more issue areas where social or environmental needs have created a commercial growth opportunity for market-rate returns.	Investments made in issue areas where achieving measurable social or environmental impact may require some financial trade-off.	Social enterprise funding in a variety of forms, with a range of return possibilities. Investor involvement/support is common.

Source: Adapted from Bridges Venture Research (2012). "Sustainable & Impact Investment – How we define the market." Retrieved from [www.bridgesventures.com/links-research](http://www.bridgesventures.com/links-research).



# The Impact Investor's View

## WHAT ARE THE FOUNDATION'S CONCERNS?

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- Preservation of its Capital and therefore legacy
- Measureable Impact
- Fiduciary Duties:
  - Due Diligence (organizational capacity, revenue streams)
  - Risk Exposure (one sector or many? What proportion of the capital to invest?)
  - Security
- The “Exit” – How do we get our money back?



# Can Affordable Housing Fit these Criteria?

## ATTRACTORS

- Often experienced staff leads to operational capacity
- Some investments can be secured by mortgages or second mortgages (example, home ownership investments)
- Revenue Streams are stable. Demand means a manageable vacancy risk
- Mission related investment





# Can Affordable Housing Fit these Criteria?

## DETRACTORS

- Investor capacity to perform due diligence
- Project specific risk
- Government policy that impacts revenue streams



# The Impact Investor's View

## RE-CAP OF THE FOUNDATION'S CONCERNS

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- Preservation of its Capital and therefore legacy
- Measureable Impact
- Fiduciary Duties:
  - Due Diligence (organizational capacity, revenue streams)
  - Risk Exposure (one sector or many? What proportion of the capital to invest?)
  - Security
- The “Exit” – How do we get our money back?



## CHAPTER 3

**There's a new investor in town...**

# Rethinking who can Invest in Affordable Housing

## THE USUAL SUSPECTS

*traditional investors*



Algoma District Services Administration Board  
Conseil d'administration des services du district d'Algoma

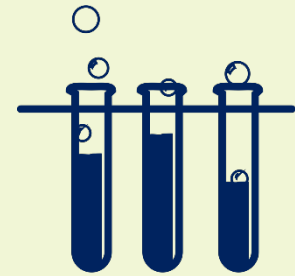
## THE UNUSUAL SUSPECTS

*private citizens*

private investors looking to invest  
in single or multiple dwelling units



THREE OPPORTUNITIES  
WE'RE EXPLORING...



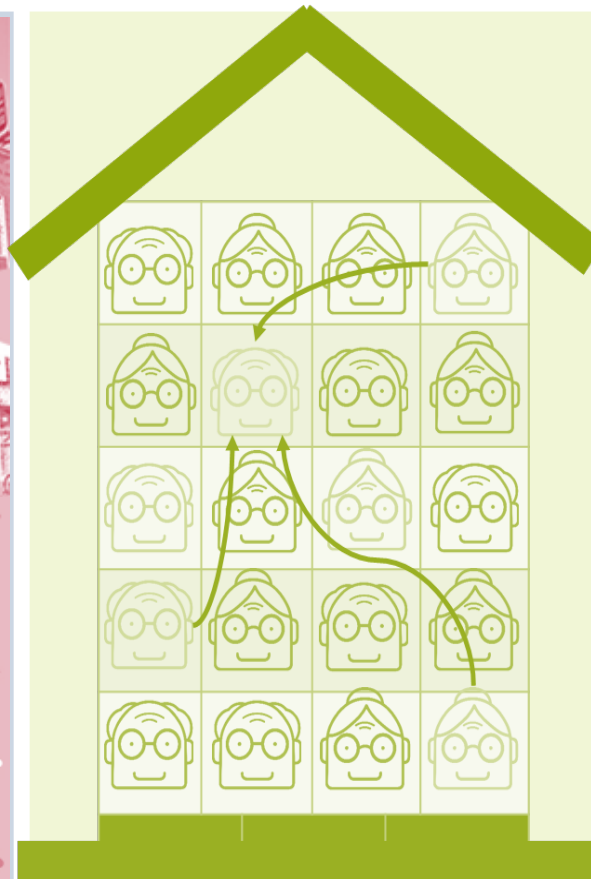
# Three Ideas we're Exploring...

## COMMUNITY BOND

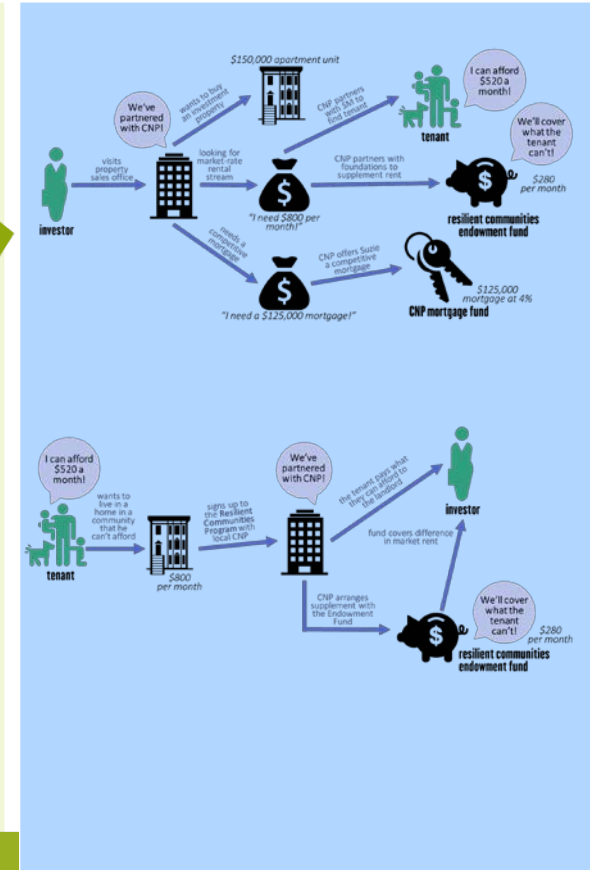


A REAL ESTATE INVESTMENT  
WITH SOCIAL IMPACT.  
EARN A RETURN AND BUILD SOCIAL INNOVATION  
A NEW HOME.  
INVEST IN THE COMMUNITY BOND.

## POOLED LIFE LEASE



## RESILIENT COMMUNITIES FUND



# OPPORTUNITY #1

## Community Bonds

### COMMUNITY BOND

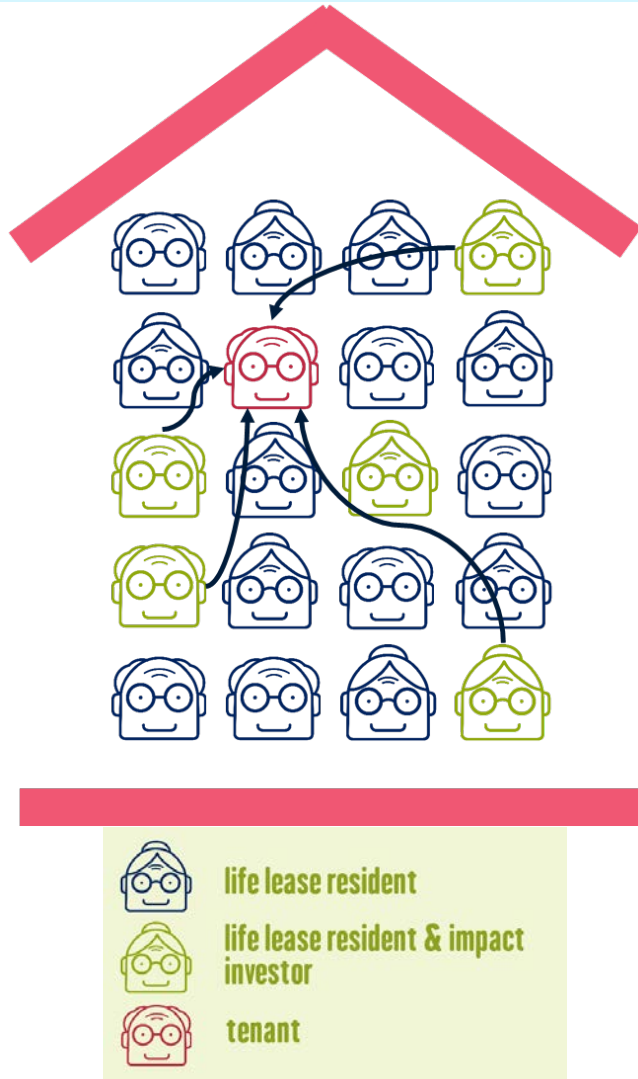


- An innovation in social finance that allows a non-profit or charity to leverage its community of supporters to pursue its mission, build its resiliency, and create more vibrant communities (Source: CSI)
- Allow people to support a charitable cause while knowing that the money will be returned at the end of the investment period
- Could be used to fund part or all of the project's funding gap
- Securing a loan guarantee is key to the success of the Community Bond



# OPPORTUNITY #2

## Pooled Life Lease



- Life lease purchasers are offered the opportunity to purchase a fractional portion of a second unit
- This turns the life lease resident into an “impact investor” – they own the asset for investment purposes while also creating more affordable rental housing
- Investors receive their initial investment plus share of any profit generated by unit and increased value of unit





## Resilient Communities Fund

*designed to*

- make available market-rate units in **any** building/development (not just those designated as affordable properties) to someone in affordability need

+

- generate a market-rate rental stream to the investor without negatively affecting the appreciated value of the property
  - key considerations for the unit owner looking to generate a return on their investment



# OPPORTUNITY #3 Resilient Communities Fund

## *target customer*

- An investor looking to purchase a townhouse/condo unit as an investment property
- This individual has capital to invest, but still requires financing to secure a property
- The investor is seeking to rent the unit to improve her/his return on investment, and therefore requires a market-rate rental stream
- The investor may not have considered renting to someone in affordability need, but would be interested in doing so if the economics of the program make sense for them



# Resilient Communities Fund

*the **RCF** links two products*

## 1. MORTGAGE (DEBT BASED)

- A partnership is established with a lender to provide required financing to the RCF private investor at a competitive rate

## 2. AFFORDABLE ENDOWMENT FUND (RENT SUPPLEMENT)

- Affordable housing endowment fund is established locally or provincially to provide ongoing revenue stream to make the rents affordable to tenants
- RCF would be treated like any other endowment fund where private donations are a key component



## Resilient Communities Fund

### *incentives for investors*

- The mortgage product the RCF offers will be competitive to the market
- Being part of the RCF program ensures consistent tenancy and regular rental payments (thereby reducing key risks to the investor)
- Potential service offering by community non-profit agencies could include pre-qualification and screening of tenants and property management of units on behalf of the property owner



## Resilient Communities Fund

### *sources of revenue for the* **RCF**

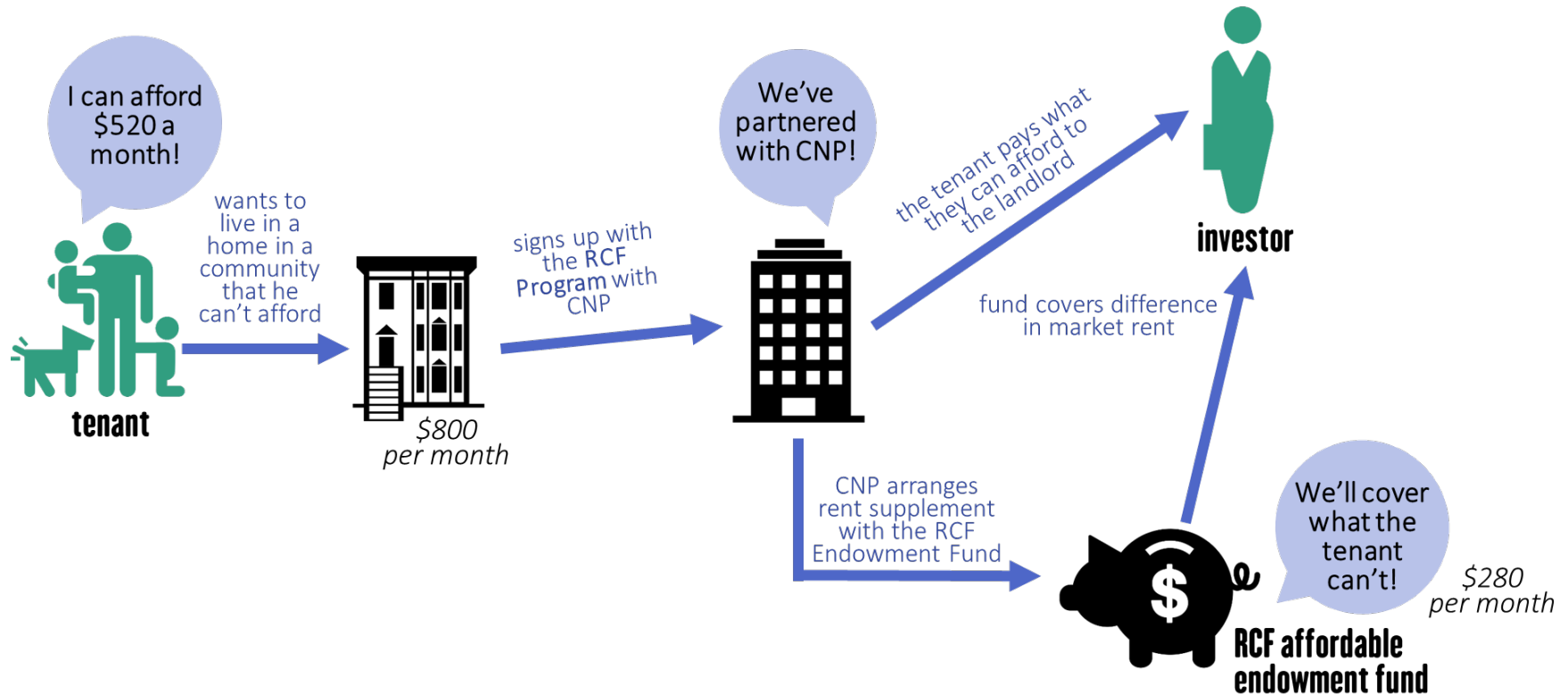
1. **MORTGAGE PRODUCT:** a portion of mortgage interest, similar to mortgage broker commission
2. **DEVELOPER FEE:** a fee charged to the developer for facilitating sale of unit
3. **CATALYTIC CAPITAL:** in the form of a loan guarantee or reserve fund to entice impact investing
4. **TRADITIONAL PHILANTHROPY:** private donors, possibly a portion of an existing endowment fund
5. **OTHER OPPORTUNITIES BEING EXPLORED:** waiving of CMHC mortgage insurance premiums, similar to affordable housing projects





# OPPORTUNITY #3 Resilient Communities Fund

*from the tenant's perspective*



# Benefits

## MUNICIPALITY



The RCF can help municipalities meet their affordable housing targets by creating new affordable units, above and beyond what is currently built, that don't "step on the toes" of the property development community and non-profit community.

## PROPERTY DEVELOPER



They have a "new product" that they can take to market. They can participate in affordable housing without changing the way they build and finance projects

## UNIT BUYER



There is a way for a real estate investor to become an affordable housing provider easily, and without compromising returns

## AFFORDABLE UNIT SEEKER



Can live in a quality unit at a rate they can afford, and the landlord won't perceive them as a risk; rather, residents in RCF units are treated like everybody else.





# Our next steps

*from idea to implementation*

## RESEARCH PROJECT

**Project Goal:** to demonstrate the viability of the RCF initiative for creating affordable housing opportunities in communities across Ontario and possibly the country

## OBJECTIVES

- Identify key metrics essential for a successful RCF program
- Confirm market demand for the RCF
- Create the framework/structure of the investment products
- Fine-tune the RCF financial model based on additional research
- Develop a business case for the RCF with the intended outcome to identify a number of communities interested and poised for initiating the RCF



# So what do you think of our idea?

1. What are the strengths of our idea and weakness of our idea?
2. Do you see a role for housing providers as part of the RCF?
3. Do you see a role for service managers as part of the RCF?
4. Do you think the RCF could work for other forms of housing, i.e. student housing, second units?
5. Who else should be involved in further exploring this idea?



# Contact us for more information

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