

**NEWS**

# Tapping ‘Patient Capital’ to Fund Affordable Rental Housing

New models tap socially conscious investors seeking fair returns and a better community.



By **Christopher Pollon**

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**Finding ‘that patient equity, that social impact equity, that can land into housing and have an expectation of lower yield, and still really produce something that’s good for the city.’** Photo by Christopher Cheung.

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The last time I talked to Luke Harrison, CEO of the [Vancouver Affordable Housing Agency \(http://vaha.ca/\)](http://vaha.ca/), he told me about a new affordable rental complex being built in Vancouver’s East Fraserlands.

The new building, which will charge rents set at less than 30 per cent of tenants' incomes, owes its existence to an innovative partnership of a not-for-profit agency, a co-op and government.

It sounded great, but the building will only have about 110 rental units. How do we ramp this up? Where will the capital funding come from?

And is there a role for private equity and even landowners in developing innovative affordable rental housing?

Yes, says Harrison. Most typical investors in new real estate developments demand (<https://thetyee.ca/News/2017/03/22/Real-Estate-Developers-Ignoring-Middle-Class/>) market rate returns and quick profits, he noted. They are often risk-averse.

What we need, he said, are more investors with a social mission.

“How do you find that patient equity, that social impact equity, that can land into housing and have an expectation of lower yield, and still really produce something that’s good for the city?”

The question led me to a construction site on 1700 Kingsway in Vancouver, where funding from individual and foundation investors, seeking both a financial and social return, are making new affordable housing a reality.

### **Private capital behind affordable rental**

Last May, the Co-operative Housing Federation of BC and the Vancouver Community Land Trust Foundation announced (<http://www.metronews.ca/news/vancouver/2016/05/26/foundations-laid-for-bc-largest-housing-coop-project.html>) the construction of 358 new affordable rental and co-op housing units across four sites owned by the City of Vancouver. All the units will be completed sometime next year, including the one on Kingsway, which will consist of 48 one-bedroom units for low-income singles.

Behind the scenes, the Land Trust Foundation is using \$11 million in private capital from New Market Funds (<http://newmarketfunds.ca>), a “social impact investment firm” targeting investments in purpose-built, multi-family, affordable rental housing. The foundation was the first developer to tap “social impact” capital from NMF.

New Market Funds embodies the kind of patient capital that Harrison was talking about. It is a for-profit investment firm that raises money from foundations and other large investors that want to invest in affordable housing, but don’t have the expertise or capacity to do it directly.

Owned by a registered charity consisting primarily of foundations (including Tides Canada and Vancity Community Foundation), New Market Funds raised about \$25 million in a “multifamily affordable housing fund” last year. The \$25 million will allow the New Market Fund to assist up to 12 projects, resulting in the creation of about 750 units of new affordable rental housing in large Canadian cities like Vancouver, Ottawa, Toronto and Hamilton.

The \$25 million was raised from 33 investors, including foundations (about 50 per cent), other institutions (30 per cent), and families and individuals (20 per cent). In exchange for their investment, investors will receive a “market-rate, risk-adjusted” financial return combined with the social value of creating affordable rental housing the city needs.

Garth Davis, NMF’s managing director, says the fund investors can expect a six-per-cent return on their investment after a “hold period” of at least eight years. “We make a commitment that helps these groups get their construction financing, but we don’t actually fund into the project until they are fully built and rented at a high 90 [per cent] state of occupancy.”

While the \$11-million contribution from the NMF fund is small compared to the \$110-million total budget for the 358 units, it’s been critical to the project. NMF’s investment helped the project advance into construction and will let the co-op and non-profit sponsors build equity in the project over the first eight years of operations before fund investors begin receiving returns.

Davis concedes it’s too early to judge the growth potential for this type of investing. “It’s very obvious that you’re asking investors to take more risk.... There are definitely more foundations and financial institutions and individuals that are interested and making impact investments, but it’s still very small. There’s a lot of room for growth.”

### **Social impact investing for smaller fish**

While all 33 investors in the NMF fund were “accredited” — each met a test for a minimum level of wealth or income — options are emerging to let smaller investors choose socially responsible investments, including affordable housing.

Vancouver-based OceanRock Investments manages Meritas SRI Funds, which invested in New Market Funds’ affordable housing rental fund last September. Meritas SRI Funds, which launched more than 15 years ago, invests in affordable housing and allocates a portion of its portfolio to providing “micro-loans” to entrepreneurs living in the developing world.

According to OceanRock CEO [Fred Pinto](#) ([https://www.qtrade.ca/\\_pdfs/en/news/20160808-ORII-meritas-sri-funds-invest-with-new-market-funds.pdf](https://www.qtrade.ca/_pdfs/en/news/20160808-ORII-meritas-sri-funds-invest-with-new-market-funds.pdf)), this investment in affordable housing “offers competitive risk-adjusted financial returns, along with a positive long-term impact on people and communities.”

In other words, it provides socially conscious investors with an opportunity to make money and feel good about it.

### **Land wealth translated into new builds**

In the same way that NMF acts as an intermediary gathering together socially conscious capital to invest in housing, non-profit Catalyst Community Developments is focused on leveraging the property wealth of post-boom landowners to make social change.

Catalyst is a non-profit developer that works with property owners who are typically asset-rich but cash-poor, including “mission-based organizations,” which amassed considerable real estate holdings before the housing boom. Churches are one [example](https://thetyee.ca/News/2014/12/25/When-God-Is-Your-Developer/) (<https://thetyee.ca/News/2014/12/25/When-God-Is-Your-Developer/>), but they are not the only ones.

Organizations in the community living sector, for example, have built large real estate portfolios while operating group homes for people with developmental disabilities. A number of these organizations now find themselves sitting on significant land assets.

And that’s where Catalyst comes in. A [partnership](#) (<http://catalystcommdev.org/our-projects/semiahmoo-house-society/>) between Catalyst and the non-profit Semiahmoo House Society will provide about 20 homes for people with developmental disabilities and more than 50 units for Surrey residents at below market rent.

Catalyst helped with a feasibility study and provided its expertise through the rezoning, financing, funding and development phases of the project. The project, which was completed last September, is now fully occupied.

“Catalyst has been integral in getting us to our ground breaking,” said Semiahmoo executive director Doug Tennant of the project in a prepared statement. “They have... navigated us through the complexities of developing an innovative housing project.” 🌱