International Environmental Scan of Social Finance for Affordable Housing

THE RESEARCH

There is a growing interest among governments and institutional investors in social finance for affordable housing. Canada Mortgage and Housing Corporation (CMHC) commissioned a project to conduct an environmental scan of social finance instruments that are used, or have the potential to be used, to create and preserve affordable housing and improve outcomes related to homelessness.

PROJECT OVERVIEW

This project, undertaken for CMHC by the MaRS Centre for Impact Investing, examined 15 social finance models and instruments relevant to affordable housing in Australia, Austria, France, the Netherlands, the U.K. and the U.S. Each case study included an overview and assessment of the social finance model in terms of type and level of government participation, the role of local authorities and councils, the involvement of non-profit and private sectors, and barriers to implement the model. The methodology also included interviews with 14 experts within and outside Canada. In addition, the research compiled a glossary of social finance terms; underlined several gaps in the research; and provided suggestions for future research.

KEY FINDINGS

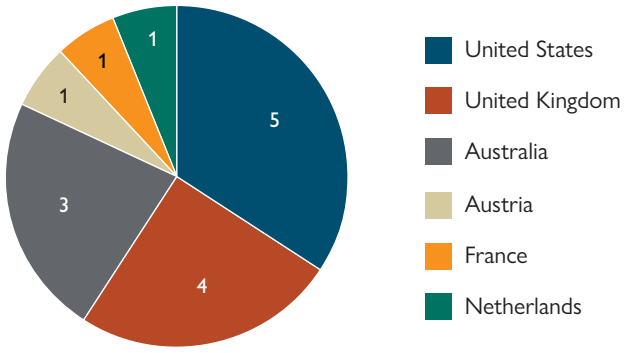
Designing instruments and attracting investors

- Different affordable housing projects require different social finance tools and methods.
- The applicability of social finance models may depend on the scale of the projects. Some instruments work best for individual projects, while others perform better on a city, regional or national level.
- While the eventual sale of properties can be used to create equity financing opportunities, the consistent stream of rental income from housing projects makes debt financing a viable alternative.
- Credit enhancement tools (for example, loan guarantees, first-loss capital) can be very effective in raising capital from institutional investors.
- In considering the provision of social financing, financial institutions tend to respond more to legislative incentives, while individuals tend to respond to tax incentives.

Managing risks and ensuring outcomes

- Housing developers, associations and intermediaries with good financial track records and high credit ratings play a key role in the success of the underlying investments and instruments.
- Lending for land acquisition and construction can be high-risk activities; hence, they should be balanced with lower-risk, lower-cost lending.
- Integrated approaches to affordable housing project development comprising experts in finance and in social outcomes can accomplish financial and social goals at the same time.
- Governments can contribute to social finance initiatives for affordable housing by providing credit enhancement tools, tax incentives and rental support; enabling intermediaries to benefit from their high credit ratings; playing the role of outcomes payer for social-impact bonds; and creating a platform to bring partners from different sectors together.
- Finally, potential risks and opportunities of using social finance tools and models for affordable housing have to be identified before a decision is made to rely on them to fund projects.

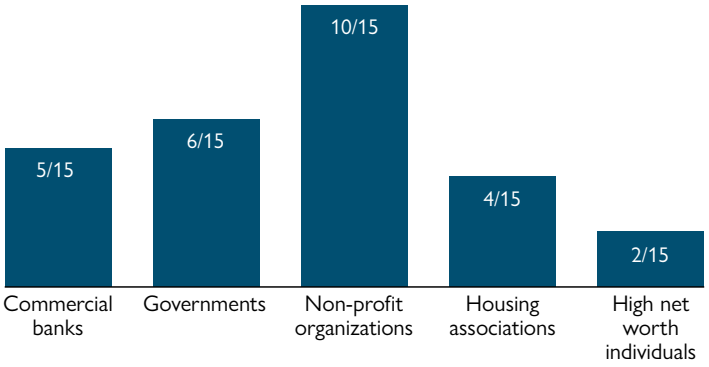
Figure 1: Frequency distribution of the 15 case studies by country



Canada

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Figure 2: Involvement of different groups in partnerships formed in the case studies



FAST FACTS

Of the social finance models from non-E.U. countries, 75% were launched after 2005. The models assessed from France, Austria and the Netherlands came into existence in 1816, 1994 and 1983, respectively.

The annualized average rates of return on investments in the case studies ranged from 0.5% to 6%.

The provision of loan guarantees and funding are the two most common roles played by the governments.

The average fund size varied between:

- US$5 million and US$270 million in the U.S.;
- US$80 million and US$500 million in the U.K.;
- US$300 million and US$3 billion in Australia; and
- US$10 billion and US$450 billion in the three E.U. countries (France, Austria and the Netherlands).

The average numbers of units created per year by the social finance models varied between:

- 75 and 1,750 in the U.S.;
- 80 and 1,700 in the U.K.;
- 200 and 1,500 in Australia; and
- 15,000 and 75,000 in the three E.U. countries.

IMPLICATIONS FOR THE HOUSING INDUSTRY

The cost of financing is one of the key drivers of affordable housing investments. In the absence of large government grants and subsidies, the availability of private and institutional capital becomes crucial to produce affordable housing and meet the housing needs of low-income households. Social financing can be used to attract private and institutional investors to develop and operate affordable housing projects in a more financially viable way that is less dependent on government funding. The case studies showed that successful implementation of social finance models rests on the partnership of governments, semi-government organizations, non-profit organizations, charities, and private and institutional investors.

FURTHER READING

Full Report – ftp://ftp.cmhc-schl.gc.ca/chic-ccdh/Research_Reports-Rapports_de_recherche/2017/RR_MaRS_International_Enviro_Scan_webfile.pdf

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