CREATING VALUE: USING SOCIAL PURPOSE REAL ESTATE INVESTMENT TRUSTS TO SUPPORT AFFORDABLE HOUSING

by

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Master of Planning in Urban Development
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ABSTRACT

A research investigation into the potential for the importation of American social-purpose Real Estate Investment Trust (REIT) models to encourage and support affordable rental housing in a Canada. This research is undertaken in order to examine alternative methods to overcome and address issues relating to affordable housing creation and availability in Canada and Ontario. This paper examines the following research question: "*Could American models of social-purpose REITs be exported and implemented within a Canadian context?*" Two American models, the Housing Partnership Equity Trust and the Community Development Trust are analyzed. This investigation includes a national and provincial-level geographic scope, with a focus on the Province of Ontario and the City of Toronto. This paper includes a background on housing affordability within Canada and Toronto. This is followed by a legal and legislative background on REITs in Canada and the United States. The analysis section includes a discussion examining the possibility for U.S social-purpose models in Ontario and Canada and recommends a model best-suited for Canada.

Key Words:

Real Estate Investment Trusts, affordable housing, rental housing, social-purpose investment,

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1.0 Introduction

This research investigation considers the potential for the importation of American social-purpose Real Estate Investment Trust (REIT) models to encourage and support affordable rental housing in a Canadian context. Social-purpose REITs present an alternative means to address affordable rental housing needs in light of increasing unaffordability in Canadian cities and minimal federal and provincial government involvement. The Province of Ontario is Canada's most populous province with its largest city, Toronto. Toronto continues to be one of Canada's most expensive housing markets with continual upward pressure on rental prices. Its reliance on the secondary rental market, consisting primarily of privately owned condominium units and a less than adequate purpose-built rental stock, has placed renters looking for affordable units in a difficult situation.

This paper reviews two U.S. social-purpose REITs, the Housing Partnership Equity Trust (HPET) and Community Development Trust (CDT) and examines their model's appropriateness for a Canadian context. Each REIT maintains a mission founded upon assisting, providing, or maintaining affordable housing units. Each REIT facilitates affordable housing creation through joint-partnerships, provision of capital funding, or both. Access to capital is highly important for non-profits in order to maintain competitiveness against for-profits and ensure success within a market system.

This investigation examines the following research question: "*Could American models of social-purpose REITs be exported and implemented within a Canadian context?*" Embedded within this overarching research question are sub-questions which help to guide this investigation and subsequent discussion:

- What regulatory changes would need to occur in order facilitate, encourage, and permit these models of social-purpose REITs to operate and succeed?

- What programs, subsidies, or incentives would need to be created or used to allow social-purpose REITs to function?
- Which REIT model would be best suited for a Canadian context?

This research is undertaken in order to discuss and review alternative avenues to overcome and address issues relating to affordable housing creation and availability. The importance and pressing nature of affordable housing issues in cities like Toronto make it necessary to find creative solutions, particularly those which have seen success in other environments. While the potential for the use of REITs to support affordable housing in Canada has often been discussed by various organizations and levels of government (BC Housing, n.d.; Ernest & Young, 2013; Special Housing Working Group, 2012). This investigation integrates existing conversations and uses them to contextualize and frame the discussions of these potential American social-purpose REIT models which have not been significantly discussed or analyzed within a Canadian context.

This investigation will include a national and provincial-level geographic scope, with a focus on the Province of Ontario. The rules and regulations that govern REITs are maintained at a federal level, this requires a discussion of the role and involvement of the federal government in both regulation and national housing coordination. In addition, the Province of Ontario does not actively manage or provide social housing services and has downloaded its responsibility to its municipalities. Ontario's social housing system is unique in Canada and introduces a legislative complexity to understanding the opportunities, constraints, and implications on Ontario's affordable housing system. This complexity it why Ontario has been included as within this investigations geographic scope. It is necessary to consider both the national, provincial, and local scale in order to understand how decisions, both past and present, have influenced the implementation of affordable housing implementation, models, and programs at municipal, provincial, and federal levels.

In this paper, the City of Toronto will be used as a tangible and relatable backdrop to discuss affordability and housing issues within the Province of Ontario. Additionally, Toronto provides a complex environment in which to discuss the appropriateness of social-purpose REIT models and their operation at a municipal level.

The first part of this paper provides a background on housing affordability within Canada and Toronto. This is followed by a background on the rules, regulations, and characteristics of REITs in the United States and Canada, introducing the HPET and CDT models, a literature review, and project methods. The analysis section will include a discussion examining the possibility for U.S social-purpose models in Ontario and Canada. This will culminate in the recommendation of a REIT model for a Canadian context.

2.0 Background

Canadian housing affordability has become a frequently discussed and debated topic both in the news and amongst the general public. Stories discussing issues such as sprawl, housing prices, home construction, and condominium developments are often headliners in news coverage. The significance of the housing industry to Canada's Gross Domestic Product underscores its importance to Canada's general economic prosperity with residential construction accounting for 2.5 per cent of Canada's GDP in 2016 (Statistics Canada, 2017a, 2017b). The housing and development industries economic connections throughout the country make it necessary to understand housing trends and issues at a national scale.

2.1 What is Affordable Housing?

For the purposes of this investigation, affordable housing refers to affordable rental housing constructed by the public or private sector either wholly self-financed or assisted through government incentive programs and managed by government organizations, social housing providers, non-profits, or private organizations. In conjunction with definition of what constitutes "affordable housing", what is considered affordable must also be determined.

The concept of affordability has a variety of different interpretations and definitions within academic and governmental sources as to what is considered affordable. The Ontario Ministry of Municipal Affairs and Housing (now the Ministry of Municipal Affairs and the Ministry of Housing) defines affordable housing as rents which are at or below 80% of average market rent (Black, 2012; Ministry of Municipal Affairs and Housing, 2011b). The Provincial Policy Statement (PPS) outlines two definitions of affordable rental housing, 1.) a unit for which rent does not exceed 30 per cent of gross annual household income for low and moderate income households or; 2.) Units for which rent is at or below the average market rent of a unit in the regional market area

(Government of Ontario, 2014; SHS Consulting; refact, n.d.). The City of Toronto defines affordable rents as housing where the total monthly costs for shelter including utilities is at or below one times the average City of Toronto rent based upon number of bedrooms, (City of Toronto, n.d.; SHS Consulting; refact, n.d.). CMHC definition of affordable housing which costs less than 30 per cent of before-tax household income and includes rent and payments for utility services (Canada Mortgage and Housing Corporation, n.d.-a).

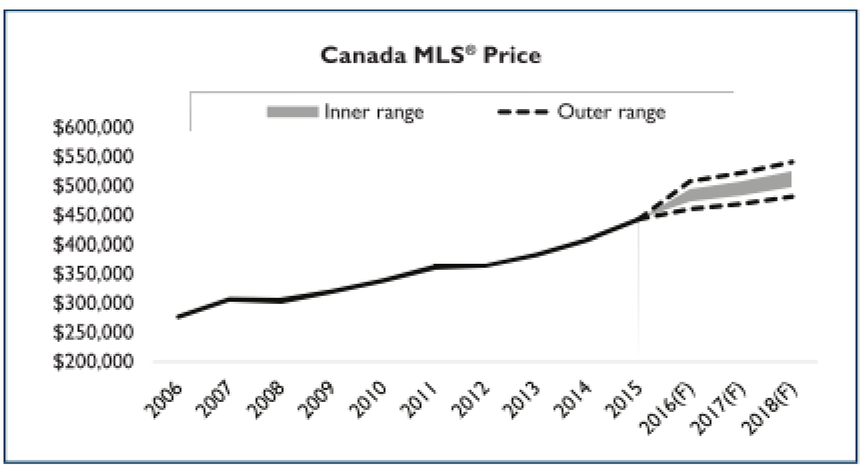
Within the United States, U.S. Code governing the Low Income Housing Tax Credit Program (LIHTC) determines affordability according to Area Median Gross Income (AMGI) (Government of the United States of America, 2017). Rules governing what qualifies as a low-income housing project has two tests to qualify for tax credits: a.) 20-50 Test: 20 per cent or more of the residential units are both rent-restricted and house individuals whose income is 50 per cent or less of AMGI; b.) 40-60 Test: 40 per cent or more of the residential units are both rent-restricted and house individuals whose income is 60 per cent or less of AMGI (Government of the United States of America, 2017). Rent is considered affordable if the gross rent does not exceed 30 per cent of the income limitation used (e.g., 30 per cent of household income) (Government of the United States of America, 2017). The LIHTC is an important and well-used affordable housing program by developers and REITs, particularly by HPET and CDT. For this reason, the LIHTCs definition of affordability has been taken into consideration in order to ensure that the definition used within this paper permits the comparisons between Canadian and American affordable housing programs and concepts of affordability.

This paper uses the term “social housing”, while in some aspects overlaps exist between the definitions of “social housing” and “affordable housing”, they refer to specific items. In Canada, “social housing” is often understood as assisted rental housing owned and operated by non-profit or cooperative housing providers (Van Dyk, 1995). This can also be divided further into "public housing" which consists of federally assisted housing which was solely funded and subsidized by the federal government beginning in the 1950s (Dreier & Hulchanski, 1993). Both of these definitions do not take into consideration housing developed under government subsidy programs by either the public or private sector (Moskalyk, 2008). Social housing is simply one aspect of the overarching term "affordable housing" which includes housing provided by the private, public, and non-profit sectors and includes different types of housing tenure including rental, ownership, and co-operatives (Canada Mortgage and Housing Agency, 2016). These can be further divided into affordable ownership which includes ground related housing and condominiums and affordable rental which include private sector rental (both purpose built and condominium) and social housing. "Affordable housing" does not refer to one particular item but rather the entire spectrum of affordable housing options for a variety of different individuals (Canada Mortgage and Housing Agency, 2016).

For the purposes of this paper, the definition of affordability outlined within the *Provincial Policy Statement* will be used due to its similarities between the definitions of the American LIHTC program and other Canadian organizations. This maintains both the flexibility to discuss American and Canadian concepts of affordability while maintaining relative consistency between common Canadian definitions. When discussing affordability in relation to particular programs, legislation, or organizations, their definitions of affordability will be used to maintain consistency and accuracy.

2.2 Housing Affordability in Canada

The following sub-section discusses Canadian homeownership trends and affordability. Strong and continued growth in housing prices coupled with overvaluation in some of Canada's biggest housing markets has resulted in localized affordability issues which may contribute to lower demand from first-time homebuyers as they choose to continue to rent instead of transitioning into homeownership (Canada Mortgage and Housing Corporation, 2016a). This is coupled with strong demand for rental accommodation due to immigration, which is expected to continue to increase (Canada Mortgage and Housing Corporation, 2016b). The strength of housing prices has direct implication on the availability of rental housing and the affordability of rents. The concentration of homeownership and affordability concerns, growing populations in places such as Toronto, and slower transitions from renting to homeownership has resulted in increased rental prices and a growing concern relating to the lack of affordable and rental housing. In 2017, the Multiple Listing Service (MLS) average price for a home in Canada is forecasted to range between $483,600 and $507,000 and, in 2018, between $497,700 and $525,100 (Figure 1) (Canada Mortgage and Housing Corporation, 2016a).



Source: (Canada Mortgage and Housing Corporation, 2016a)

Figure 1 - Canada MLS Average Home Price

In 2016, Ontario and British Columbia accounted for 66 per cent of all Canadian resales. Their strong start in 2016 is reflected in the forecasts shown above (Canada Mortgage and Housing

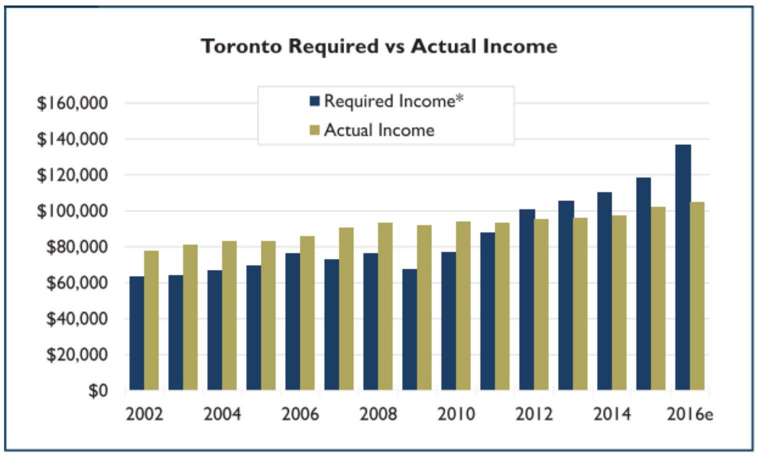
Corporation, 2016a). The influence of these provinces on the overall Canadian housing market can modify future outlooks and market perspectives.

2.3 Housing Affordability in the Toronto Market

Toronto has continually been one of Canada’s strongest housing and real estate markets. The Toronto housing market not only has implications on the surrounding Greater Toronto and Hamilton Area (GTHA) but, as has been seen, on a national level as well. Toronto’s current performance has prompted discussions over the long-term sustainability of its housing and real estate markets. Accordingly, this strength has also raised concerns among the public over affordability, liveability, crowding, and congestion.

Immigration continues to be one of Toronto's and the GTHA’s major population drivers. This population growth, alongside continued job growth, has resulted in increasing demand for all unit (ground-related/multi-unit) and ownership types (freehold/condominium/rental) (Canada Mortgage and Housing Corporation, 2016b). The rising price of a single-detached home is nearing $1 million for a pre-construction unit in the Greater Toronto Area due to fewer lots being available for construction as a result of zoning and land-use policies encouraging high-density development (Canada Mortgage and Housing Corporation, 2016b). In Q2 2016, housing prices climbed 11 per cent in Hamilton, 16 per cent in Oshawa, and 13 per cent in Barrie (Canada Mortgage and Housing Corporation, 2016a). It is forecasted that price increases for single-detached home will slow due to affordability concerns (Canada Mortgage and Housing Corporation, 2017). As buyers gradually shift to more affordable unit types, prices for townhomes and similar built form will gradually close the price gap between the two built forms (Canada Mortgage and Housing Corporation, 2016b).

To further compound issues of affordability in Toronto, the income required to purchase a home and service mortgage carrying costs in Toronto now exceeds actual earned incomes. Required income reflects the necessary income to own a house and adhere to CMHCs affordability definition of 30 per cent of income devoted to housing costs. Required income is mortgage carrying costs divided by 0.32 to reflect a 32 per cent gross debt service ratio. Mortgage carrying costs are determined based on the average Multiple Listing Service price, a 10 per cent down payment, fixed five-year mortgage rate, and the longest available amortization (Canada Mortgage and Housing Corporation, 2016b). This relationship is graphically modeled in Figure 2.



Source: (Canada Mortgage and Housing Corporation, 2016b)

Figure 2 - Required v. Actual Income for Toronto Homeownership

In Q3 2016, Toronto's market showed strong evidence of problematic conditions due to overheating, price acceleration, and overvaluation (Canada Mortgage and Housing Corporation, 2017). Overbuilding was not seen as a concern as readily-available housing stock levels fell to 1,253 units in Q3 2016. Condominium units made up the majority of units within constructed inventory, given the high-prices of ground-related housing more buyers purchased within the relatively more affordable condominium market, which has led to a decline in available condominium units for sale (Canada Mortgage and Housing Corporation, 2017). The majority of future construction completions consist of condominium units, this increase in stock will return condo market conditions to more balanced levels in comparison to ground-related housing units, which will not see similar levels of new stock (Canada Mortgage and Housing Corporation, 2016b, 2017).

2.4 Toronto Rental Market

The Greater Toronto Area rental market has average rents of $1,233 per month (Canada Mortgage and Housing Corporation, 2016c). Toronto exceeded this figure with average rents of $1,236 and rents within the former City of Toronto reaching $1,360 (Canada Mortgage and Housing Corporation, 2016c). These prices include only purpose built rental units in apartments of more than three units. Table one provides a snapshot of the purpose built rental market in the former City of Toronto, Toronto, and the GTA in October 2016. Figures are cumulative data from bachelor to three-plus bedroom units.

Area	Private Apartment Vacancy Rate (%)	Private Apartment Average Rent ($)	Number of Private Apartments	Private Apartment Estimate of Percentage Change (%) of Average Rent (Oct-15 to Oct-16)
Toronto (Former City)	1.4	1,360	88,542	3.0
Toronto (All City Wards)	1.3	1,236	257,431	3.2
Toronto (GTA)	1.4	1,229	328,047	3.2

Source: Author, Data: (Canada Mortgage and Housing Corporation, 2016c)

Table 1 - Toronto Private Rental Market (Purpose Built) Statistics (Oct-16)

Purpose built rental stock saw a marginal increase of 0.2 per cent in the number of purpose built rental units from June 2015- June 2016 (Canada Mortgage and Housing Corporation, 2016c). While this increase was not substantial enough to affect vacancy rates, purpose built rental units currently under construction averaged 6,000 units. Simultaneously, the high cost of ownership for multi-family units, with condominium ownership costs requiring 36.5 per cent of household income, and low turnover rates for apartment units suggest that individuals are continuing to rent (Canada Mortgage and Housing Corporation, 2016b, 2016c; Royal Bank of Canada, 2016). Ownership requirements are calculated based on the proportion of median pre-tax household income that would be required to service the cost of mortgage payments (principal and interest), property taxes, and utilities based on the average market price for a condominium (Royal Bank of Canada, 2016).

Purpose-built rental stock is commonly referred to as the primary rental market. This includes units which were originally intended to be used and maintained as rental stock. The secondary rental market typically consists of privately owned units not primarily intended for rental purposes. In total, Toronto has 267,060 condominium units and 257,431 purpose built rental units, which equates to 51% and 49% of total rental stock, respectively (Canada Mortgage and Housing Corporation, 2016c). While numerically these numbers are almost equal, there are some key differences between the two types. Purpose built housing stock is aging with the majority being built between the 1960s and early 1990s (Côté & Tam, 2013). Since the early 1990s, purpose built rental construction has fallen off significantly due to lack of support from various levels of government, changes in planning regulations, rent-control regulations, and economic realities. The distinction between condominium and purpose built rental is important as they are not necessarily equal, with respect to rental price, legislative rules/protections, location, building quality, maintenance, and the benefits/disadvantages they present to tenants. As secondary rental market units are typically owned by private individuals who provide less tenant security and little professional management (Steele & Rosiers, 2009). Additionally, for tenants receiving affordable housing rental supplements, social housing agencies cannot enter into agreements with landlords of individual units or small properties as they lack the necessary economics of scale (Steele & Rosiers, 2009).

While condominium unit stock is expected to grow within the next coming years as development projects near completion, vacancy rates in the GTA were 1 per cent for rental condominiums and 1.4 per cent for apartments in the Rental Market Survey[1] (Canada Mortgage and Housing Corporation, 2016b, 2016c). Table two outlines vacancy rates and average rent for both rental condominiums and purpose built rental units in the GTA.

Unit Type	Vacancy Rate (%)	Average Rent ($)
Rental Condominium	1.0	1,883
Apartments in Rental Market Survey	1.4	1,229

Source: Author, Data: (Canada Mortgage and Housing Corporation, 2016c)

Table 4 - GTA Condominium v. RMS - Rent & Vacancy Rate

In Toronto the average rental price is higher at $1,983 (Table 3). This is punctuated by rental prices of two and three bedroom units in the former City of Toronto at $2,416 and $3,046, respectively.

Area	Condominium Rental Vacancy Rate (%)	Bachelor ($)	One-Bedroom ($)	Two-Bedroom ($)	Three-Bedroom ($)	Condominium Rental Average Rent ($)	Number of Condominium Rentals
Toronto (All City Wards)	1	1,428	1,704	2,136	2,619	1,983	267,060 (51%)
Toronto (GTA)	1	1,428	1,646	2,022	2,487	1,883	368,134 (49%)

Source: Author, Data: (Canada Mortgage and Housing Corporation, 2016c)

Table 5 - Toronto & GTA Rental Condominium Data

Using the above rental data and a benchmark of 30 per cent of month income dedicated to housing costs. Using this criteria, the family income which would be needed to rent units in the Greater Toronto Area while adhering to the 30 per cent benchmark is: $52,120 for a bachelor unit, $65,840 for a one-bedroom unit, $80,080 for a two bedroom unit and $99,480 for a three-bedroom unit. The precariousness of this situation is underlined by the fact that the median family income in Toronto

[1] The Rental Market Survey includes units in purpose built rental buildings with a minimum of three rental units.

was $75,270 in 2014 (Statistics Canada, 2014). While it is possible to adhere to this benchmark for bachelor and one-bedroom units, the possibilities for long term residence as families grow and mature is limited by the high-cost of larger units. This disconnect between actual and required incomes for renting properties highlights the affordability issues facing renters within Toronto and the Greater Toronto Area.

3.0 Literature Review

Literature pertaining directly to social-purpose REITs is limited in nature. For this reason the scope of this review has been extended to encompass both the U.S. and Canadian government and the private and non-profit sectors involvement in affordable housing. Overarching themes included government's movement away from direct involvement in affordable housing (Bratt, 2016; Cummings & DiPasquale, 1999; Hoffman, 2016). In the Canadian context, the literature looked at how this trend accompanied a shift in government policy to greater encouragement of homeownership programs and opportunities (Hulchanski, 2006; Moskalyk, 2008; Van Dyk, 1995). With respect to private and non-profit affordable housing providers, conversations focused the difficulty of long-term commitment by the private sector to affordable housing as well as the difficulties of the non-profit sector in assembling funding and overall costs for projects (Bratt, 2008b; Bratt & Lew, 2016; Cummings & DiPasquale, 1999; Pomeroy, 2007).

While much of the literature review and following discussion is based upon research and findings within the United States, the principles pertaining to governmental, non-profit, and private sector values, interest, and decision-making are applicable and relevant within a Canadian context. Lack of Canadian literature means that is has been difficult to locate and integrate Canadian perspectives. In some instances, an extensive body of Canadian literature does not exist and has been supplemented with U.S. examples.

3.1 United States Government Involvement in Affordable Housing

A number of studies have examined the federal government's transition from government directed provision of affordable housing to reliance on greater amounts of private initiative and capital as a result of cuts and reductions in HUD budgets and capabilities (Bratt & Lew, 2016). Much of the

U.S federal governments involvement in affordable housing is primarily devoted to supporting private initiatives providing low cost housing (Cummings & DiPasquale, 1999; Hoffman, 2016)

The Low Income Housing Tax Credit was created in 1986 and further cemented the role of private-sector involvement in affordable housing provision. The LIHTC offers tax credits to incentivize investment in the rehabilitation and production of affordable rental housing (Clarke, 2012) . In the first 10 years of the programs existence it generated 550,000 to 600,000 units, and between 1987-2013, for-profit developers have produced 78% of LIHTC financed projects (DiPasquale & Cummings, 1992). Cummings and DiPasquale note that in many instances where LIHTC's are used, LIHTC units are the only new residential development to have occurred in recent years (1999).

Criticisms of the LIHTC program claim that it focuses development in racially concentrated neighbourhoods, does not promote social mobility, and does not encourage committed long-term investments from the private sector (Bratt & Lew, 2016; Cummings & DiPasquale, 1999). Cummings and DiPasquale found that LIHTC projects were located in areas that were racially concentrated. "More than 30 percent of the projects are in neighbourhoods with a population that is at least 90 percent white, and nearly 18 percent are in neighbourhoods with a population that is at least 90 percent non-white" (Cummings & DiPasquale, 1999). Cummings and DiPasquale also noted that the LIHTC provided better housing in poor neighbourhoods as opposed to increased housing opportunities in higher-income neighbourhoods (1999). Even if the LIHTC encouraged increased development activities, keeping investors and developers committed to long-term affordable housing provision has proven to be one of the biggest challenges brought about by the shift to greater reliance on the private sector. Developers need to have a subsidy that is equal or greater than the revenue generated from reduced rents for low-income units in order to account for lost revenue (Bratt, 2016). Keeping developers and the private-sector interested in providing affordable housing after the expiration period of LIHTCs need to be addressed at the point of initial funding by putting into place arrangements which permit the transference or purchase of multi-unit affordable housing developments to non-profit operators, governmental organizations or residents. (Bratt & Lew, 2016). LIHTC "aims to house poor people. But not ones so poor that they cannot pay rents sufficient to preserve a profit for the developers" (Ballard, 2003).

3.2 Canadian Government Involvement in Affordable Housing

The lack of Canadian federal government involvement has been accompanied with a shift away from government funded social housing programs and increased focus on encouraging homeownership (Hulchanski, 2006; Moskalyk, 2008; Van Dyk, 1995). Literature has generally noted this shift away from jointly funded federal and provincial housing programs to ones which predominately focus on market mechanisms to provide and maintain housing stock (Hulchanski, 2006; Moskalyk, 2008; Van Dyk, 1995). Black notes that the private sector limited its inovlement in the provision of affordable housing in the mid-1990s to the mid-2000s as a result of lack of federal government support for affordable rental housing development (Black, 2012). Pomeroy and Black both note that outside of the MURB tax-incentive programs offered in the 1970s and 1980s, the Canadian government has had a minor role in supporting the affordable rental housing sector (Black, 2012; Pomeroy, 2007).

The creation of a Canadian Low Income Housing Tax Credit has been investigated for its appropriateness within a Canadian context as both a tax program run through Canada Revenue Agency or the Canada Mortgage and Housing Corporation (Pomeroy, 2007; Steele & Rosiers, 2009). Similar to the American model, concerns regarding private sector commitment to affordable housing provision and private sector desire for return would still exist in a Canadian program.

3.3 Non-Profit Sector Involvement in Affordable Housing

Issues relating to private sector involvement in affordable housing are paralleled by a body of literature relating to the role of the non-profit sector. Proponents of non-profit housing providers state that they are often times best suited to run long-term affordable housing developments.

The scale at which non-profits provide affordable housing is not significant enough to have a large impact on overall housing stock and have generally higher total development cost in comparison to private sector developments (Bratt, 2008a; Cummings & DiPasquale, 1999). In 2015, a survey conducted between American for-profit and non-profit affordable development firms found that among the 52 top developers, for-profit firms started 89 per cent and completed construction on 86 per cent of the affordable housing units produced that year (Bratt & Lew, 2016). Lower rates of development activity by non-profits may be explained by the difficulties which they have in establishing and financing deals in a timely fashion, particularly when compared to the private sector which has greater access to financing and capital (Bratt, 2008b).

Higher development costs among non-profit developers could be attributed to support services provided by the non-profit and higher costs due sourcing and acquiring multiple funding sources with limited working capital (Bratt, 2008a; Cummings & DiPasquale, 1999). Cummings & DiPasquale (1999) and Bratt & Lew both note the non-economic benefits which non-profit housing developers provide, in particular a desire to undertake projects in areas that other developers are likely to bypass due to economic or resident income conditions.

3.4 Private Sector Involvement in Affordable Housing

The non-profit and private sectors have different costs, funding strategies, models, and goals which they would like to see achieved (Bratt, 2008b; Bratt & Lew, 2016; Pomeroy, 2007). Issues relating to the needs of the public versus private capital are at the centre of affordable housing discussions due to the fundamental contradiction between for-profit developers profit requirements and providing housing for individuals who cannot afford market rate properties which generate sufficient income (Ballard, 2003). This contradiction between profit generation and providing a public benefit has made scholars question if the private sector should be subsidized and incentivized with public funds.

> From the point of view of the funder – in this case the taxpayer – the main benefit of community non-profit ownership and operation is long-term preservation of affordability. Private owners and operators can respond quickly and have necessary expertise to build housing, but are less likely to preserve long-term affordability as a result of their for-profit requirements. (Pomeroy, 2007)

Over the long-run, rents will rise according to market conditions, this gulf between affordable rents and market rents is what investors will attempt to capture by optimizing their returns or exiting from affordability agreements as early as possible (Pomeroy, 2007).

The case for private sector involvement in affordable housing include lower development costs, technical/financial resources, and professional management (Bratt, 2008a; Cummings & DiPasquale, 1999). Cummings & DiPasquale found that average total development costs for affordable housing units financed under the LIHTC program were $90,268 for non-profits and $63,778 for units developed by for-profit (1999). Leachman's (1997) investigation into project costs within Chicago found that, when holding unit size constant, project costs were higher among for-profits than among non-profits.

4.0 Methodology

4.1 Study Area

REITs are by design not limited to a particular geographic area. The rules and regulations which govern their actions are maintained at a federal level. A REIT can operate throughout Canada if they so choose, limited only by their own capacity. This study includes a national scope in its discussions due to the potential for a REIT to operate nationally and that they must comply with national regulations. In addition, the issue of affordable housing lends itself to a discussion the past and present role of the federal government in this sector.

Ultimately, REITs will work within provincial boundaries and for that reason it is necessary to contextualize their work within the legislative frameworks and economic realities of the provinces. The Province of Ontario was selected due to its legislative complexity in comparison to other Canadian provinces and territories. Additionally, Toronto provides an additional backdrop to discuss issues of affordability within a specific municipal setting.

4.2 Secondary Data Collection

This investigation assembled and analyzed secondary data from a variety of Canadian and American sources and authors. Information and data were collected from governmental, non-profits, and private sector sources such as Canada Mortgage and Housing Corporation, the Department of Housing and Urban Development, the Government of Canada, the Government of Ontario, and the Ontario Non-Profit Housing Association. This material was contextualized with academic literature from Canada and the United States, to connect data and information gathered from the above sources into an academic framework in order to have substantive discussions.

Given the legal and governmental nature of the question, it is difficult to have any substantive conversation regarding REITs and affordable housing using purely academic literature.

The continually changing political and business context surrounding affordable housing necessitated assembling and updating information and data from government and organizational sources in order to have factually current discussions and analysis.

No research ethics approval was necessary as no human participants were used in this research.

4.3 Research Limitation and Challenges

Due to time and research constraints, only one province was analyzed for its appropriateness for a social-purpose REIT. It was not possible to have a substantial discussion of all potential provinces in which a REIT could work within. Therefore, it is important to note that while the lessons and ideas from this investigation can be carried over into other provinces, a thorough review of each provincial context would need to be undertaken. This investigation selected a province which was relevant for the requirements of this investigation and which could potentially produce the most relevant findings and information.

The lack of nation-wide affordable housing legislation compounds the issue relating to the above provincial issues. Given the lack of federal government coordination of affordable housing, this further underlines the importance and necessity of individual provincial analyses. Additionally, given the federal government's current policy discussions on a national housing strategy, this legislative context could change very quickly and would contribute another layer of complexity to this discussion.

Next, while out of the scope of this investigation, a business case analysis would greatly contribute and benefit to the discussion surrounding social-purpose REITs. This could potentially help to build a case for the establishment of a social-purpose REIT in Canada. An in depth look at the Toronto and Vancouver markets would add depth and context to this analysis.

Finally, the lack of relevant quantitative data made discussions relating to government programs or market conditions for a social-purpose REIT difficult. The inclusion of quantitative data, where possible, added greater depth to the analysis but this analysis would have benefited from primary data collection or additional market data to determine the feasibility of a social-purpose REIT.

5.0 Real Estate Investment Trusts

A REIT is "either a publically listed closed or open-ended trust that allows investors to purchase units of a trust which holds primarily income producing real estate assets" (Deloitte & Touche LLP, 2004). REITs must acquire, hold, maintain, improve, lease, or manage real estate properties or invest in other properties (PwC, 2013). REITs permit small scale investors to gain access to larger, income producing real estate properties (PwC, 2013). This has made investment grade real estate assets liquid, allowing investors to move their money easily as they would a stock and giving REITs greater access to capital (Pachai, 2016).

Established in the 1960s in the United States by Congress, REITS have grown to a $839 billion dollar industry in the United States (PwC, 2013). In Canada, REITs have a much more recent history, emerging in the early 1990s and solidifying their importance in the 2000s. REITs now account for 33 per cent of the Toronto Stock Exchange's real estate market capitalization with an approximate market value of $53 billion (Deloitte & Touche LLP, 2004; Pachai, 2016).

5.1 Characteristics of REITs

In Canada, REITs do not conduct active business in a traditional sense but earn income from owning a real estate asset. REITs are primarily a tax creation, as the rules set out in the Canadian *Income Tax Act* permit REITs to avoid taxation at the corporate level so long as its taxable income is paid or becomes payable to its shareholders (Jones, 2007; Pachai, 2016; PwC, 2013). Legally, REITs are considered a mutual fund (Deloitte & Touche LLP, 2004). Activities which REITs can generate income from include rents, tenant upgrades, property rehabilitation, property sale, management improvements, and property development that is not for the purpose of resale. While REITs may engage in development activities with third parties, they cannot assume the traditional developer role of building with the primary intention of selling which speaks to the passive nature of their activities (Deloitte & Touche LLP, 2004; Pachai, 2016; PwC, 2013).

	Canadian REITs
Legislation	Requirements under the *Income Tax Act* and Self Imposed Trust Declaration
Vehicle	Open or closed-ended mutual fund trust
Income Generation Activities	Rents, tenant upgrades, property rehabilitation, property sale, management improvements, property development (not for resale)
Investors	Minimum of 150 shareholders and listed on a recognized Canadian stock exchange
Revenue Rules	At least 95% must come from real estate properties and other qualifying investments (Does not apply to open-ended mutual funds)
Asset Rules	80 per cent of REIT assets must be held in real estate properties located in Canada. No more than 10 per cent of its assets may be bonds, securities, or shares in a corporation
Dividends	Typically established by the trust - usually around 85 to 95 per cent of distributable income
Taxation	Not taxed within the trust if income is distributed to shareholders

Source: (Deloitte & Touche LLP, 2004)

Table 6 - Canadian REIT Characteristics

REITs are structured around the types of investments they make and the assets which they hold. There are three types of REITs: 1.) Equity REITs; 2.) Mortgage EITs; and 3.) Hybrid REITs (Deloitte & Touche LLP, 2004; Philadelphia Federal Reserve Bank, 1999). Equity REITs acquire ownership in a property as sole owner or alongside other partners. Income is generated through the payment of rents to the REIT or the sale of the property. Mortgage REITs acquire only mortgage interest in properties, providing financing for the purchase of the property by a third-party.

Revenues are generated through the repayment of the mortgage. Hybrid REITs are a combination of the two as they hold both ownership and mortgage positions.

From a legal perspective, equity, mortgage, and hybrid REITs are functionally the same as there are no rules which differentiate between the types. From an investment perspective, each type has investment principles and goals which guide and shape their decisions. Each type of REIT has unique risks and benefits which are associated with the types of investments it makes. Risks pertaining to property ownership range from capital repairs, rent collection, and leasing terms. Alternatively, mortgages have concerns relating to interest rates and non-payment. Hybrid REITs, by their nature of being involved in both types of investment, hedge their bets between each investments risks and rewards.

As an investment vehicle, REITs present advantages and disadvantages to both the investor and the REIT itself. The ability for an investor to gain access to large-scale income producing properties as a part of their investment portfolio, maintain the liquidity of their investment, and receive regular cash distributions from the REIT make real estate more accessible to the regular investor. Alternatively, this structure allows REITs to raise greater amounts of capital, receive preferential tax treatment, and focus on investor yields and not continual profit growth. There are disadvantages as well as REITs must disclose their financial records (showing any increased costs), pressure to maintain dividend yields, cannot assume same amounts of leverage, and the requirement to comply with mutual fund trust rules (Deloitte & Touche LLP, 2004).

5.2 REITs and Affordable Housing

The use of REITs for affordable housing purposes has not only been discussed by Toronto Community Housing but throughout Canada and internationally, particularly the United Kingdom. While REITs cannot be the sole answer to affordable housing concerns, they can be a key response to bolster and mitigate changes within governmental programs and policies. Dependent upon the type of REIT structure, this could potentially allow investors who would traditionally not have the opportunity to invest in the affordable housings sector to contribute to the provision of a public benefit.

In a 2012 position paper examining the potential for social housing REITs in the United Kingdom, Mazars outlined potential roles which a social housing REIT could assume (Mazars, 2012).

1. Provide capital to social housing providers to fund their development projects through the sale of existing properties to the REIT
2. Transferring of existing social housing stock to the REIT in exchange for shares
3. Social housing providers converting into a REIT structure without transferring their existing housing stock
4. New profit generating social housing provider

It should be noted that within the United Kingdom, social housing providers are similar to affordable housing non-profits but have greater governmental integration and support (Mazars, 2012). Registered Provider's in the United Kingdom have greater flexibility in options for legal structures and raising capital. The roles outlined above would not all work or be permitted within Canada or Ontario's social and affordable housing system.

While TCHC has considered the possibility of a REIT, there are currently three organizations pursuing the establishment of an affordable housing REIT in Canada: 1.) Responsible Residential Investment (RRI), 2.) and Trillium Housing (TH) (Carlson, 2014; Ernest & Young, 2013). RRI is looking to acquire naturally affordable rental buildings, while TH is seeing investors in affordable ownership projects (Carlson, 2014).

While there has been some interest from Canadian investors and REITs in the affordable housing sector, there are further areas to be explored. The models, ideas, and opportunities explored by the Housing Partnership Equity Trust and the Community Development Trust have yet to be properly explored within Canada. The following section will introduce these two social-purpose REITs and outline their activities, investments, and goals.

6.0 Social Purpose REITs: Prospective Models

This section will highlight the two U.S social-purpose REIT models, the Housing Partnership Equity Trust (HPET) and the Community Development Trust (CDT). These models will be investigated for their potential for exportation to Canada. Both REITs operate on a national scale. Below is a chart which offers a brief comparison between HPET and CDT.

Name	Established	Geography	Capitalization	Impact	Returns
Community Development Trust	1998	National	$760 million	Has invested $1.1 billion of debt and equity capital in properties in 42 states and regions to date—creating or preserving over 36,000 affordable units.	Produced an average annual total return of approximately 8.5 percent to common shareholders, through 2012. Paid total dividends of over $63 million as of June 2015.
Housing Partnership Equity Trust	2013	National	$80 million	Has purchased and has begun the rehabilitation of seven properties, representing over 1,500 units of affordable rental housing.	Current preferred equity receives a 4.5 percent coupon. The current common equity dividend is targeted to a spread above that.

Source: (Williams, 2015)

Figure 3 - HPET & CDT Comparison

6.1 Housing Partnership Equity Trust

The Housing Partnership Equity Trust is a social-purpose REIT founded in 2013 with the mission to "to work collaboratively with our Partners to impact the lives of our residents and the communities in which we operate by preserving the stock of affordable and sustainable rental housing" (Housing Partnership Equity Trust, 2013a). HPET was created by a small group of high-preforming non-profit members of the Housing Partnership Network (HPN) located throughout the United States.

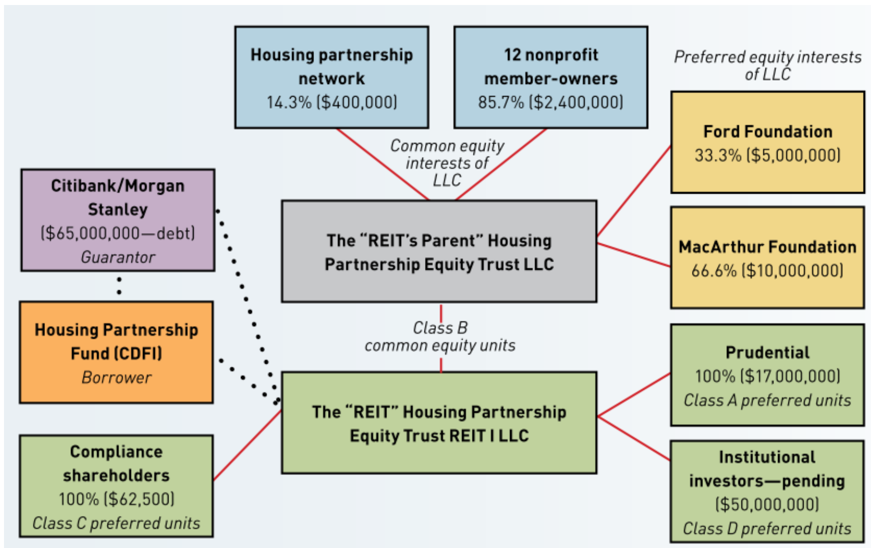
The Housing Partnership Network was established in the early 1990s with the goal of "sharing new approaches, create new social enterprises, and impact housing policy to improve the production and sustainability of affordable housing at scale throughout the county" (Housing

Partnership Network, 2008a). HPN is a business collaborative of the United States leading housing and community development non-profits helping to share new ideas, research, and innovative measures between members (Bratt, 2008a; Housing Partnership Network, 2008b).

HPETs 12 members are large regional non-profit housing developers who are simultaneously the REITs shareholders. The private social-purpose REIT is an independently managed, mission drive, for-profit corporation which acquires, through joint-venture, naturally-occurring affordable multifamily rental properties with its 12 members (Ades, 2016; Williams, 2015). A key feature of HPET is that it provides REIT members access capital in a timely manner, which allows non-profit developers to be able to compete for properties with for-profit developers (Carlson, 2014; Williams, 2015). Traditionally, non-profits would assemble financing from a variety of sources including government grants and subsidization. The lengthy time periods typically associated with obtaining public funding often does not allow non-profits to bid on pieces of property against for-profits.

HPET invests in medium to large sized multi-family properties targeting families earning between 50 to 80 per cent of the area median income. It purchases unsubsidized properties which are physically well maintained and cash flow positive in non-core and secondary real estate markets (Ades, 2016; Carlson, 2014). Properties are either affordable due to natural market conditions, expiring Low Income Housing Tax Credit agreements, or through purchasing assets from governmental and social housing providers (Housing Partnership Equity Trust, 2013b). The trust is structured as a two-tier system where HPET is the upper tier and non-profit members are the lower tier. HPET provides funding and enters into joint-investments with its lower tier members who purchase and manage the properties on an on-going basis.

HPET has received $100 million in seed capital from Prudential Insurance, the MacArthur Foundation, and the Ford Foundation and raised $85 million in equity. Early investors included Citi, Morgan Stanley, and Charles Schwab Bank (Ades, 2016; Carlson, 2014). In April 2015, HPET outlined its initial dividends on both its common and preferred stock (Ades, 2016). The Trust has purchased 10 properties in five states totalling 2,540 homes (Ades, 2016).



Source: (Williams, 2015)

Figure 4 - HPET Organization Structure

6.2 Community Development Trust

The Community Development Trust was founded in 1998 and provides financing for the production and continued preservation of subsidized affordable housing (Williams, 2015). CDT makes equity investments with partners or provides long-term mortgages for affordable housing investments. Its mission is to "provide long-term capital to low and moderate income communities which helps to ensure their affordability and enhances the quality of life for their residents" (Community Development Trust, 2017c) CDT has invested over $1.2 billion in 40,000 affordable housing units throughout the United States (Community Development Trust, 2017b).

CDT provides the capital required to restructure a property's ownership and fund capital repairs (Williams, 2015). Its goal is to help property owners keep their buildings affordable following the expiration of HUD controls by providing alternative sources of financing or avenues to sell the property (Philadelphia Federal Reserve Bank, 1999). Investors with expiring government subsidization can seek private financing or transfer ownership to a REIT. By transferring their property to the REIT such as CDT, owners can free up funds and receive cash distributions from the REIT. This will increase their portfolio diversification as their risk is spread amongst a variety of properties in different locations and not solely on a single property.

CDTs equity programs focuses upon expiring Low Income Housing Tax Credit developments, properties with expiring Section 8[2], or developments with expiring state or municipal level affordability restrictions (Community Development Trust, 2017a). Its debt program focuses on providing funding for 15-30 year new construction (with LIHTC financing), re-financing existing properties, and funding property purchases (Community Housing Trust, 2017). CDT seeks a market return on its investments (Williams, 2015).

[2] Section 8 is a rental certificate program that allows families to choose privately owned rental housing. The Public Housing Authority (PHA) pays the landlord the difference between 30 percent of the household's adjusted income and the unit's market rental price (Department of Housing and Urban Development, n.d.).

7.0 Analysis

The following section reviews and analyzes the HPET and CDT models for their potential creation within Canada. This analysis looks at the benefits and disadvantages of social-REITs with specific examples from the two American models. This section asks the following questions:

- Would government regulatory changes be required to make social-purpose REIT models possible in Canada?
- What would be the legal structure of a proposed social-purpose REIT?
- What programs, subsidies, or invectives could be used or created to allow social-purpose REIT models to succeed?
- How would a social-purpose REIT interact with social and affordable housing providers?
- What advantages do REITs present for affordable housing provision?
- What disadvantages do REITs present for affordable housing provision?

These questions then culminate with which REIT model would be best for a Canadian context. The selection of a REIT model was based upon the potential ease of creation, management, housing provision, organizational structure, and investor opportunities.

7.1 Would Governmental Regulatory Changes be required to make Social-Purpose REIT Models Possible within Canada?

7.1.1 Federal Regulations

Current federal government regulations governing REITs would not necessarily need to be modified in order to permit and support the creation of a social-purpose REIT. The investments and development activities undertaken by HPET and CDT do not appear to step outside of the activities currently permitted for REITs in Canada. While investments are targeted within a particular niche, they are similar to that of any other specialized REIT in Canada and the United States.

Given that a REIT is primarily a tax creation, the regulations which govern its structure, role, and investment activity would fall under the *Income Tax Act* (Deloitte & Touche LLP, 2004; Pachai, 2016; PwC, 2013). Investors would be required to abide by all rules pertaining to the establishment of a mutual fund trust and all reporting and documentation requirements to qualify as a REIT. These stipulations would be necessary regardless of the type of investments a REIT would be undertaking.

A potential regulatory point which warrants some discussion pertains to how REITs earn income and how this could relate to development projects. REITs are required to earn income passively through activities such as rent/rental increases, tenant upgrades, property repairs, and sale of mature properties (Pachai, 2016). While this seemingly excludes the potential for any joint-venture land development activities, REITs are permitted to engage in development activities so long as the properties are not intended for resale (Deloitte & Touche LLP, 2004; Pachai, 2016). HPET and CDT actively pursue projects with long-term involvement and alongside partners who are directly involved within the asset's on-going operations and maintenance. Therefore, a REIT assisting in the development of a project and maintaining an equity and/or management position following completion is not unrealistic. Affordable housing development could prove to be a beneficial avenue for an affordable housing REIT to explore. While there are difficulties and limitations regarding capital, financing, and partnerships, particularly for a social-purpose REIT, it could potentially be mutually beneficial for the REIT and its partners.

While the overall rules outlining and establishing REITs fall under federal jurisdiction, any potential legal or legislative conflict or concern relating to a REITs operation and involvement in the affordable housing will most likely occur at a provincial regulatory level. This is due to the fact that the responsibility for housing regulation and provision of affordable housing fall to the individual provinces. A REITs involvement within affordable housing would infringe upon Provincial legislation, not necessarily federal.

7.1.2 Provincial Regulations

The primary legislation which governs affordable housing in Ontario is the *Housing Services Act* (HSA). The *Act* is the foundation to the provincial government's Long-Term Affordable Housing Strategy (Advocacy Centre for Tenants Ontario, 2011). The HSA gives municipalities and housing agencies flexibility in providing affordable housing and social housing. Under the *Act*, municipalities are responsible for creating and implementing housing plans to address local housing concerns (Advocacy Centre for Tenants Ontario, 2011). Under the HSA, service managers are required to implement their respective municipalities housing and homelessness plans and meet the identified objectives and targets (Government of Ontario, 2011). A social-purpose REIT would work within the requirements placed on Service Managers to help ensure compliance with the designated number of affordable units required within their area. REITs can become an additional tool and opportunity to help meet the *Act's* goals and objectives and fits nicely within the province's existing affordable housing framework.

In December of 2016, the *Promoting Affordable Housing Act* was passed which amended the *Planning Act, the Development Charges Act, the Housing Services Act,* and *the Residential Tenancies Act* (Government of Ontario, 2016). The notable outcome from this amendment was the creation of inclusionary zoning, which would require residential development proposals to include affordable housing units and maintain those units as affordable over a particular period of time (Dentons, 2017). While the final regulations and rules have not yet been released, there could be a potential for an affordable housing REIT to play a central role and benefit from inclusionary zoning. For example, an affordable housing REIT could potentially partner with private market rate developers to provide off-site affordable housing for their developments in exchange for financial assistance. Depending upon regulations, developers could fulfill their inclusionary zoning requirements by working with a REIT to finance or develop a new affordable housing development and allocating a portion of these units to meet their quotas. This would provide capital for the REIT to purchase existing affordable units and preserve them or to partner with private sector developers to construct affordable rental units.

As noted within the earlier federal regulation sector, joint development ventures between private, public, or non-profit firms and REITs must be properly understood in order to adhere to federal regulations. Yet, inclusionary zoning, while not yet officially outlined, is an interesting discussion for those involved within the affordable housing sector, particularly a social-purpose REIT which could stand to benefit from restrictions and requirements placed upon private-sector developers.

7.2 What Programs, Subsidies, or Incentives could be used or created to allow Social-Purpose REIT Models to Succeed?

7.2.1 Federal Government Programs

Within the 2017 federal budget, affordable housing received significant funding commitments from the Liberal government. The Liberal's allocated $11.2 billion over 11 years to support the implementation of a National Housing Strategy (Government of Canada, 2017a). This includes funding for provinces and territories to support renovation of existing units, construction of new units, and rental subsidies (Government of Canada, 2017b) Notable for the purposes of a potential Canadian social-purpose REIT, and particularly for the models examined within this paper, $5 billion has been earmarked to support innovations in affordable housing, encouraging collaboration amongst housing providers, and the establishment of a new Sector Transformation Fund to help social housing providers transition to new operating models (Government of Canada, 2017b). While the details with respect to the administration of the fund are still unknown, this could potentially provide a valuable opportunity to explore the idea of a social-purpose REIT further with government backing or provide a portion of initial start-up capital. TCHC may prove to be a large beneficiary of this fund and could potentially use this money to conduct due diligence and explore the possibility of converting some of its assets into a REIT.

7.2.2 Provincial Government Programs

The Investment in Affordable Housing (IAH) program is a joint-program between the federal and provincial governments (Canada Mortgage and Housing Corporation, n.d.-b; Ministry of Municipal Affairs and Housing, 2011a). The goal of the program is to increase the supply of rental housing for households who are eligible to be on social housing wait lists. Eligible projects include new construction and the renovation of existing buildings to increase/maintain affordable rental housing stock. Funding is provided as a forgivable capital loan which is available during the construction phase of the project and can be packaged with rent supplements to ensure greater affordability for the renter (Ministry of Municipal Affairs and Housing, 2011a). Units must be considered affordable according to the definition outlined by CMHC. Under this program, rents are technically allowed to increase in accordance to the *Residential Tenancies Act* but should remain at 80% of the CMHC average market rent (Ministry of Municipal Affairs and Housing, 2011a).

A social-purpose REIT would fit nicely within this program's outlined jurisdiction and could potentially assist a REIT with obtaining their initial funding, if they decided to potentially pursue new affordable housing developments. If pursuing a model similar to that of CDT, the REIT could provide mortgage financing to the developer which has sought public funds for the initial construction costs.

While the IAH program helps to preserve affordable units by ensuring that any units which were constructed using the program funding remain affordable, the LIHTC does not. The United

States LIHTC program contains an expiration date at which tax credits given to properties owners end. This is the point where HPET and CDT often acquire properties as owners look to refinance or sell their properties. While the IAH program provides funding and support for affordable housing provision there may still be a need for an LIHTC program in Canada. This would allow more opportunities for investment in organization like HPET and CDT. While this program would require administration by CMHC and provincial authorities, the legislative and administration frameworks exist to make this incentive program implementable

An issue which potentially warrants discussion pertains to capital versus operational funding. The LIHTC program provides tax credits for a 10 year period whereas the IAH program provides an upfront construction loan. While a construction loan assists in realizing the development of units, the payment schedule for the LIHTC provides benefits during the operations phase of the development. While upfront capital funding realizes projects, one of the major concerns facing Ontario's affordable housing units are their on-going maintenance and repair backlogs. Funding opportunities for operational costs are not as plentiful as those for capital funding. Yet, operational costs are on-going and ensure that properties remain within existing housing stock. As discussed earlier, this is an issue that Toronto has experienced with record-breaking purpose built rental construction taking place but seeing minimal improvement in overall rental stock due to the demolition and decommissioning of units.

7.3 What would be the legal structure of a propose Social-Purpose REIT

The proposed REIT should be structured as a closed-ended mutual fund. This would require units in the RIET to be sold on a public stock exchange and is a standard legal structure of a REIT in Canada. A close-ended trust model limits the amount of risk posed by unitholders potentially requesting funds from the REIT as is a feature of an open-ended REIT. Within this structure, unitholders are permitted to request funds from the REIT in exchange for their individual shares. Unitholders must first attempt to sell their units through stock market exchanges prior to making a redemption request from the REIT.

An open-ended structure would not be well-suited to the operations and type of investments a social-purpose REIT would be undertaking. Given the potential for lower returns from a social-purpose REIT, any redemptions could potentially have a detrimental impact on the operations and investment potential of the REIT, as this would require the allocation of limited capital for fulfilling its obligations to unitholders

7.4 How would a Social-Purpose REIT interact with social and affordable housing providers?

7.4.1 Interactions between social housing providers and REITs

Within Ontario, social housing providers have a specific mandate outlined by the *Housing Services Act*. Social housing receive active municipal, provincial, and federal government subsidization through rent-geared-to-income and other programs. Their mandates and service requirements are outlined by government policies. While affordable housing is included within government legislation, organizations not directly under government control or mandate may provide it so long as they adhere to government criteria.

It is not expected that concerns should arise between social housing providers such as TCHC and an affordable housing REIT. A REIT would not be operating in the social housing sector and would only be eligible for grants, programs, and funding that other developers, non-profits, or organizations are eligible for as well.

7.4.2 Interactions between affordable housing providers and REITs

The Ontario Non-Profit Housing Association (ONPHA) could provide an interesting opportunity for the creation of a social-purpose affordable housing REIT, much like the Housing Partnership Equity Trust and the Housing Partnership Network in the United States. In Canada, there exists a knowledgeable and experienced industry base to potentially to act as the foundation for exploring and establishing a potential social-purpose REIT in Canada. This would permit ONPHA to expand their reach, influence, and mission and potentially attract new stakeholders to affordable housing provision. Alternatively, Housing Partnership Canada (HPC) is a sister organization of the American Housing Partnership Network (Housing Partnership Network, 2014). The purpose and mission of HPC is similar to that of the HPN. Much like ONPHA, HPC provides a potential brain trust and association of potential partners and interested individuals with the knowledge base to establish and manage a social-purpose REIT. This is not to suggest that there must be a direct linkage between a REIT and these organizations, but rather, that there exists sufficiently connected, organized, and established Canadian knowledge base which could potentially help to establish, form, and manage a new REIT within the intricacies of the Canadian market.

7.5 What advantages do REITs present for affordable housing provision?

A social-purpose REIT operating within the affordable housing sector brings a variety of advantages, benefits, and opportunities for municipalities, investors, and future residents. These advantages include long-term commitments to affordable housing provision, leveraging private-sector abilities and knowledge for independent housing providers, REITs as a pre-existing investment vehicle in Canada, and benefits for government affordable housing managers. REIT structures as a legal entity have their own benefits, such as tax exemption and liquidity. These benefits are extended to all REITs not simply ones that are focused on affordable housing. This section will focus on REITs and their particular benefits for affordable housing provision.

One of the biggest issues faced within the United States relating to affordable housing provision is the need to keep the private sector involved in affordable housing while making it profitable for them. A social-purpose REIT could help to overcome this potential weakness with private-sector market driven providers. By ensuring a commitment to providing affordable housing for families and individuals who need it and recognizing the potential limitation on profit margins and return, social-purpose REITs are committed to long-term investments in affordable housing. Social-purpose REITs recognize and understand the implications of their investments and actively seek out investment opportunities. They have constructed their missions, investment principles, and financial models around the opportunities, and limitations posed by affordable housing investment and provision. Unlike private sector developers and investors who must adjust and shape a pre-existing financial models and investment criteria to fit the realities of affordable housing, social-purpose REITs invest with prior knowledge and understanding of the unique intricacies of the industry.

A social-purpose mission blended with a private market approach will help to leverage the advantages of non-profit mission driven work and private sector knowledge and operations. This includes professional property management, financial staff, and the ability to access new geographic markets and housing types. For small individual housing providers, being able to become a part of a REIT gives them the ability to spread their risk around to a variety of different properties as opposed to their wholly owned individual property. REITs potentially provide more incentive for small building owners and investors to be involved in affordable housing if there are ways or options for them to make money while providing a social benefit. By selling their property or entering into a joint-venture with a REIT, they receive consistent cash disbursements, mitigate their risk, and are able to access capital to repair and renovate their (Williams, 2015). This could help to strengthen existing affordable housing stock which cannot benefit from economies of scale and assist to ensure that good quality affordable housing can be provided on a small scale.

REITs are a pre-existing investment vehicle in Canada and the creation and establishment of an affordable housing REIT operation would not be hampered given the type of market sector which it would be investing in. While the process to establish a REIT is lengthy, this applies to all REITs regardless of type. Given that there are some REITs already operating within the realm of affordable housing, this is a path that some groups are already attempting to explore. Yet, there are opportunities presented by the models outlined by HPET and CDT which could further solidify and understand the role of REITs in affordable housing provision. While the idea of using REITs for affordable housing is in its infancy, precedents exist within Canadian industry dialogue as well as actual practice. Having an established legal structure and concept means that with modification and adjustments, the idea of a social-purpose REIT in Canada is not unrealistic. It is a matter of understanding the unique intricacies of Canadian regulation, markets, and industries and creating a unique model which can take advantage of them and succeed.

Under the *Housing Services Act*, service managers are required to ensure that their areas are meeting established targets for affordable housing units. REITs could provide another avenue for service managers to use to help provide affordable units to meet quotas. With respect to providing housing, there can never be enough options to help ensure that everyone has appropriate, safe, and healthful housing.

7.6 What disadvantages do REITs present for affordable housing provision?

While REITs provide unique benefits for social housing provision, they are not without disadvantages. One of the on-going discussion relating to affordable housing provision is how to make it a profitable venture for investors and the private sector. Second, given Canada's small population relative to the United States, this might mean less investment opportunities for a REIT. Third, the potential legislative difficulties associated with operating across Canada without federal government coordination. Lastly, questions exist as to the propensity of philanthropic investment in Canada to support the establishment of a social-purpose REIT.

HPET recognizes that returns seen from their investments will fall below market returns but will still offer returns reasonable for investors. CDT provides market rate returns from their affordable housing investments but CDT is an older and better funded venture compared to HPET (Williams, 2015). The ability to provide market returns on affordable housing takes many years to accumulate the necessary capital and establish a mix of unit types across geographic boundaries which when taken collectively can provide market returns.

An area of potential concern relates to locating and obtaining rental properties for joint-venture partnerships or purchase by the REIT. Buildings must be for sale at the right time and price. Local owners must also be willing to consider the idea of giving up full or partial ownership for a designated period of time (Carlson, 2014). This requires that a multitude of factors coincide and lineup according to a similar timeline, which may not always be possible. This is potentially one reason as to why HPET and CDT operate on a national scale, as smaller regional or municipal scopes may not provide enough opportunities to make operations viable given the variety of factors which must align. Alternatively, Toronto has seen significant public private partnerships (PPP) and investment particularly in the revitalization of Regent Park. Given this greater focus on PPPs this may present greater opportunities for social-purpose investments.

The Canadian legislative landscape relating to housing could make it difficult for a social-purpose REIT to operate throughout the country given the different rules and regulations between each province and the lack of overarching federal government coordination. While the differences in legislative rules have not appeared to be a large impediment to the operations of HPET and CDT throughout the U.S., it must be noted that HUD maintains a large coordination role throughout the country. The LIHTC program while administered by the individual states is still actively managed through HUD, ensuring country-wide coordination is occurring from a centralized location. While Canada is currently investigating the implementation of a National Housing Strategy, Canada Mortgage and Housing Corporation should continue to be a federal program administrator for housing grants and subsidies. Once a housing strategy is established, CMHC should work in conjunction with the federal government to coordinate programs and financial funding with the goals of the National Housing Strategy.

An overarching question which should be asked is could the Canadian market support the creation of a social-purpose REIT without the assistance of philanthropic supporters? Limitations of a social-purpose REIT could include the ability for the trust to attract initial seed money to finance their establishment and initial investments. HPETs initial funding originated from a variety of institutional and philanthropic organizations such as the Ford Foundation and the MacArthur Foundation (Williams, 2015). While philanthropic investors seem willing to provide funds to social-purpose REITs, there is a question if Canada has the same funding propensity which can be provided by philanthropic investors.

7.7 Which REIT model is best for a Canadian context?

	Canadian Social Purpose REIT Model
Foundational Model	Housing Equity Partnership Trust
Vehicle	Closed-ended mutual fund trust
Organizational Structure	Two-tier trust system
Income Generation Activities	Rents, tenant upgrades, property rehabilitation, property sale, management improvements, property development (permitted – not for resale)
Partners	Non-profit housing providers/developers (Housing Partnership Canada/Ontario Non-Profit Housing Association), private-sector developers, philanthropic organizations, individual investors
Deal Structures	Joint-venture agreements with approved partners/shareholders

Table 5 – Social-purpose Canadian REIT structure summary chart

This sub-section will outline why the Housing Partnership Equity Trust model is best suited for a new Canadian REIT. The REIT selection criteria was based upon the potential ease of incorporation, ease of administration/management, effectiveness of housing provision, organizational structure, and investor opportunities. First, there is a pre-existing network for affordable housing providers within Canada. This provides an important stepping stone for understanding the affordable housing industry, the individuals who are involved within it, and those who may be interested in becoming involved with a new REIT. Second, the benefits of a two-tiered organizational framework. Third, the effective integration and involvement of partners within REIT operations. Fourth, ease of management/efficiency

There is a pre-existing framework in Canada for the establishment of an HPET based model. The HPET model is founded upon joint-ventures with select non-profit developers and property managers. While there are a multitude of groups throughout Canada who could potentially be appropriate non-profit partners for a REIT, the Housing Partnership Canada and the Ontario Non-Profit Housing Association. These are pre-existing established groups which foster connection and collaboration amongst the main players within the non-profit and affordable housing sectors in Canada and Ontario. A prospective REIT could use the membership base of these two groups to locate potential join-venture partners throughout the country or to find prospective investors.

The HPET organizational model of a two-tiered trust system which has an advantage for attracting potential partners and managing investments. It allows partners to benefit from REIT partnership through becoming shareholders while simultaneously ensuring accountability from the REIT and its partners. This is particularly important within the early life of the REIT as this will help to establish responsibility and shared ownership over the success of the enterprise. Earlier in this section, it was stated that a closed-ended mutual fund trust model would be the most appropriate for an affordable housing REIT. This would not necessarily conflict with how HPET has established its REIT. The two-tiered structure would allow the REIT to be publically traded as per Canadian regulations. The partners would purchase into a separate trust which would then purchase and hold the shares of the public REIT. The REIT would then operate as a standard REIT with dividend paid to the partner’s trust. This trust would then redistribute the funds to the individual partners.

Both the HPET and CDT models will require substantial seed money and assistance to establish themselves. The HPET model may prove to be easier to obtain funding given that partners are included and actively involved within management. They are not necessarily passive members of the REIT and maintain some degree of control and involvement over properties and in the REIT itself. The HPET model also limits their partners to 12 non-profit developers and work solely with these organizations which they have approved and invited to become a shareholders of the REIT. Alternatively, this is compared to the CDT model where owners can sell properties into the REIT to gain shares and receive regular cash disbursements. The ability to integrate partners and access their knowledge is hugely important for a new venture.

A key difference between the HPET and CDT models lies in their partnerships. The HPET model has responsibility and accountability built in with joint-venture agreements helping to ensure that each party is actively working towards achieving the mission of affordable housing provision. Additionally, given that HPET works solely with predetermined partners this helps to create more organized partnerships as well as more efficient internal processes as rapport and understanding is developed with each partner. Alternatively, CDT has a variety of partners with various goals, intentions, and mandates. While CDT is actively working towards providing greater affordable housing options and has invested a larger amount then HPET, it is a potentially a much more complex model which requires greater management. The connection between CDT and its partners/shareholders are different than that of HPET due to greater numbers of partners and that they have not necessarily developed the same level of connection as those within HPET have. For this reason, the CDT model, while effective, may prove to be difficult to manage during the REITs initial creation and infancy.

The CDT model provides an example of what form a social-purpose REIT could take on. It has a large geographic reach and substantial funds. While CDT potentially requires greater organizational and partner management, it has greater opportunities to invest and support affordable housing. Given that it can invest in a variety of different properties with different partners, it can actively seek out different opportunities as they are not bound to the same partners as HPET. This is particularly important to note within a Canadian context, as mentioned earlier, given Canada's smaller population. The flexibility awarded by a CDT model may give a new social-purpose REIT the necessary traction it requires to establish its operations. This does not suggest that CDT does not perform due-diligence or make decisions without proper analysis but rather that they have greater breadth in the types of investments which they can seek out.

8.0 Conclusion

This research investigation reviewed the potential for the importation of American social-purpose REIT models to support affordable rental housing investment in Canada and examines the following research question: "*Could American models of social-purpose REITs be exported and implanted within a Canadian Context?"* Social-purpose REITs are an alternative tool to address affordable housing concerns in light of increasing unaffordability in Canadian cities and minimal coordination from the federal and provincial governments. This paper examines two U.S. social-purpose REITs as potential frameworks for a Canadian REIT, the Housing Partnership Equity Trust and the Community Development Trust. Affordable housing is defined as rental housing constructed by either the public or private sector and managed by government organizations, social housing providers, non-profits, or private organizations. The definition of affordability is defined by the *Provincial Policy Statement*.

This analysis included both national and provincial level scopes, with a focus on the Province of Ontario. While the rules and regulations which govern REITs are held at a national level, the legislative complexity of province as well as the location of Canada's largest city, Toronto, prompted Ontario to be used as a contextual backdrop for evaluating the possibility of establishing REIT operations. Additionally, the City of Toronto has been used as a relatable and tangible backdrop to ground affordability discussions within a municipal context.

Housing affordability in Canada and Toronto has become a major issue of concern as incomes required to own homes have increased past the point of actual earned incomes with single-detached homes nearing $1 million within the Greater Toronto Area. Home ownership has direct implications on rental markets, particularly in Toronto, where 51% of rental stock consists of privately owned condominium units. Low vacancy rates has placed upward pressure on many private condominium units resulting in average rents of $1,233 per month in the Greater Toronto Area.

HPET and CDT are American REITs with national affordable housing operations. The finance and partners with affordable housing developers, providers, and owners to help create, maintain, and preserve affordable housing stock. This analysis evaluated the potential for a social-purpose REIT based upon these existing frameworks to be imported into Canada. The evaluation looked at the following questions:

- Would government regulatory changes be required to make social-purpose REIT models possible in Canada?
- What would be the legal structure of a proposed social-purpose REIT?
- What programs, subsidies, or invectives could be used or created to allow social-purpose REIT models to succeed?
- How would a social-purpose REIT interact with social and affordable housing providers?
- What advantages do REITs present for affordable housing provision?
- What disadvantages do REITs present for affordable housing provision?

Criteria for selecting a REIT model best suited for Canada was based upon the potential ease of incorporation, ease of administration/management, effectiveness of housing provision, organizational structure, and investor opportunities. The Housing Partnership Equity Trust was selected as the preferred REIT model due to a pre-existing network for affordable housing providers, benefits of HPET’s two-tiered organizational framework, the effective integration of partners within the REIT structure/operations, and the ease of management/administration.

Social-purpose REITs provide a creative and unique way of addressing Canada’s affordable housing concerns. As affordability concerns within Canada’s largest cities continue to increase, it is necessary to explore and evaluate all potential avenues to help provide affordable, safe, and livable homes for all.

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