Affordable Housing Investment Structures

New Market Funds

March 2019

Final Report - Prepared for Capital Regional District

Madrona Housing | Victoria, BC | NMF Rental Housing Fund I LP

Martin Knowles Photography

Introduction

In May 2018, New Market Funds Inc. (NMFI) entered into an agreement with the Capital Regional District (CRD) to assess affordable housing investment structures that could be considered in pursuit of the CRD's priorities, capacity and interests (the "Project").

The CRD is currently renewing its Regional Housing Affordability Strategy (RHAS); housing affordability continues to be a key risk to growth within the region and so the CRD endeavors to increase the supply of affordable housing for low- and middle- income households. The CRD hopes to act as a catalyst for activities that increase housing affordability in the Capital Region.

As it relates to the Project undertaken by NMFI, one of the key areas of consideration by the CRD with respect to housing development includes leveraging financing to support new affordable projects. The Project sought to examine the options that would support the establishment of a program or structure capable of investing in affordable housing and preserving projects at moderately affordable rates, while also providing an appropriate risk-adjusted return to investors.

Phase 1 of the Project was completed in September 2018 and included the following deliverables:

- **Environmental Scan**: Identify relevant Canadian, Australian, UK and US examples of partnered development vehicles.
- **Vehicle Framework**: Define the objectives, scope, policy intent, intent to attract partners, legal, regulatory issues and governance issues as related to any proposed CRD vehicle.
- **Market Assessment**: Assess existing investment vehicles related to the CRD purpose, as well as investor interest and target investments.
- **Risk Assessment**: Identify financial and operational risks, as well as governance risks.
- **Report**: Final written report on all findings mentioned above from Phase I of the Project.

The recommendation coming out of the work completed in Phase 1 can be found in **Appendix I**.

The Phase 2 scope was revised based on conversations with CRD and includes the substitution of investor testing with an analysis and memorandum to compare the options of an investment fund and a direct investment by CRD using MFA funds. Phase 2 deliverables are listed below:

- **Review and revise the fund model:** make key changes based on the feedback form Phase 1 work.
- **Establish a fund term sheet:** set out the terms for a CRD investment fund including terms for the investors in such a fund and provide an operating model.
- **Provide options for fund governance**: set out a proposed structure and recommend an option for the fund governance.
- **Provide comparative model analysis**: provide an assessment of a CRD investment model versus direct investment by CRD from CRD financing sources.
- **Final report**: provide a final report that combines the findings of Phases 1 and 2 of the Project.

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Executive Summary

In renewing its Regional Housing Affordability Strategy (RHAS), the Capital Regional District (CRD) is investigating the ways in which it can act as a catalyst to increase housing affordability in the Capital Region. The research undertaken by New Market Funds Inc. (NMFI) sought to illustrate how the CRD could act as a catalyst through the creation of a new financing vehicle (the "Fund") that supports new affordable housing projects.

Fund Goals and Structure

The Fund seeks to blend private and public capital; leverage capital at the fund level; create something that is new, but both scalable and replicable; and build new and preserve existing affordable rental housing stock. NMFI and CRD identified an impact investment fund as the most effective and efficient financing vehicle for these purposes.

The proposed Fund is structured as a Limited Partnership (LP). A General Partner (GP) would be responsible for the operation and oversight of the Fund and its investors (Limited Partners) and could appoint a separate Fund Manager to assume the duties of management of Fund investments. The Limited Partners, of which the CRD would be one, do not have an active management role in the Fund but do retain certain rights such as the replacement of the GP Fund Manager. The GP is best structured as an independent entity so it can act in the interest of the investors. The CRD could be considered a Special Limited Partner whereby its approval is required to amend the affordability target in the investment criteria in order to create a "mission lock" on the Fund's activities. The CRD would also have the benefit of ensuring that the objectives of the Fund are in line with those of the CRD from the outset and enshrined in the LP Agreement.

Restrictions and Risks

There are no significant limitations to the participation of the CRD in the governance of an investment entity designed to provide capital for affordable housing. All investment structures discussed in the report require a board of directors, and usually include an investment committee, which assists and advises in the selection of investments. Certain regulatory approvals may be required for the CRD to access capital for investment in the Fund.

Fund Financial Model

The Fund financial model was created by aggregating a series of individual site models ("Lower Tier" models) into one larger Fund model ("Upper Tier" model). Three sites were layered together and repeated over a five-year time frame in order to estimate the amount and type of financing needed, the potential distributions, the potential return to investors, the potential investment timelines and the potential social IRR. Depending on if the Fund is "levered" or "unlevered," private equity required ranges from $62 million to $394 million; patient capital needed is $214 million and debt capital ranges from $0 to $332 million. The targeted gross levered return is 7.05% p.a. with a net leveraged return to investors of 6.07% p.a. The unlevered gross return to investors is 5.39%. The Social IRR of the patient capital is 4.85% p.a.

Next Steps

In developing a fund to support housing affordability in the Capital Region, the CRD must decide if it wishes to solely use CRD capital (MFA financing) or if it would like to also raise private investment. While raising private investment will involve further feasibility assessments and testing and will take more time to set up, as a new source of capital it may have longer-term policy outcomes that will benefit the CRD, and could also serve as a more permanent, evergreen source of capital for affordable housing that would overcome periods of provincial and federal spending constraints that may occur through political change or economic circumstance.

CRD Vehicle Framework

Objectives

In Phase 1 of the Project, the NMFI team conducted an environmental scan to identify where potential investment models have been used to meet similar objectives to those of the CRD. The complete Environmental Scan from the Phase 1 can be found in **Appendix II**. Discussions with CRD staff helped to articulate the objectives for an appropriate investment vehicle and narrow the options that would be most relevant.

The CRD aims to achieve the following:

- Blend public and private capital
- Leverage capital at the fund level (this does not exclude project-level capital leverage as well)
- Create something scalable and replicable
- Build new and preserve existing rental stock

The CRD is targeting low and low-to-moderate income households defined between \$20,000 and \$35,000 annually, and between \$35,000 and \$55,000 annually, respectively.

Based on these objectives, the relevant financing vehicle options assessed in this Project and explored in this report are:

1. Development or Acquisition Fund
2. Social Purpose REIT
3. Impact Investment Fund

See **Appendix III** for more details on these three fund structures and **Appendix IV** for more details on all fund structures and key criteria that were considered.

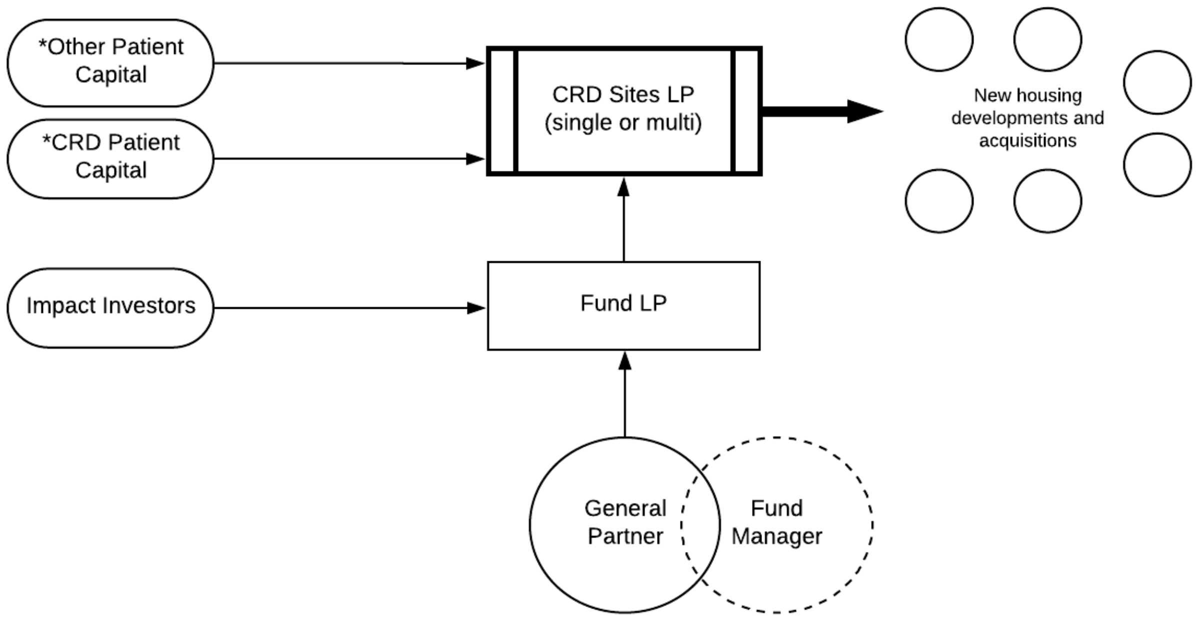
The Phase 1 analysis produced by New Market Funds identified that there is potential for the implementation of a fund vehicle to attract capital to pursue increased levels of affordable housing delivery in the Capital Regional District. The level of investor interest is likely limited to impact investors given the depth of affordability targeted, and the resulting returns on investment, as well as the narrow geographic scope of investment by the Fund. The level of patient capital available from public or other sources impacts these estimated returns to impact investors.

In Phase 2, the option of a CRD investment fund (the “Fund”) designed to attract both public and private investment have been explored. This includes patient capital provided by CRD and other government sources, which, by virtue of their “patience,” can leverage private sources of capital from impact investors, including foundations, family offices and credit unions.

The focus in Phase 2 of the Project was on the elaboration of a model to attract investment from both public and private sectors for the purpose of development and acquisition of affordable housing. This Phase of the Project did not test specific investor interest in the Fund.

Fund Structure

The proposed Fund is structured as a Limited Partnership (LP). This is a common and recognizable structure for most investors and has characteristics that support the objectives of the CRD – a tax efficient vehicle that allows for both public and private investment (co-mingling of investment funds), minimizes the requirements for compliance with securities regulations (can be operated by a non-securities registered fund manager) and can be managed according to CRD policy intent through the structuring of the Limited Partnership Agreement. The diagram below illustrates a simplified model of the Fund structure; see **Appendix V** for a more detailed structure chart.



**CRD and other Patient Capital can be included in the Fund via another partnership, or directly into the new affordable housing investments.*

Fund Governance

Legal Restrictions

As noted in the legal review below, there are no significant limitations to the participation of the CRD in governance of an investment entity designed to provide capital for affordable housing. All investment structures discussed above require a board of directors, and usually include an investment committee, which assists and advises in the selection of investments.

It should be noted that non-public investors may be concerned that there is sufficient independence of the board and the investment decisions from a sponsoring body such as the CRD. The issue for external investors is that the interest of the Fund be paramount, rather than a policy interest that may be held by the CRD. While the Fund is established to meet the policy intent of the CRD, with respect to its operation, within the parameters of a Limited Partnership Agreement, investors will need assurance that the interests of the Fund and achieving all of its objectives, including the financial returns, are paramount at all times. The independence of the board can be established in three ways: (i) the terms as defined in an investment agreement (such as an LP Agreement); (ii) the appointment of independent directors; and (iii) established and agreed to investment criteria.

As noted in the legal review, CRD members of a Fund board cannot reduce or over-ride their fiduciary responsibilities to the CRD. Therefore, the CRD would have to assess the level of engagement that it wishes to have in any investment vehicle, and whether the interests of the Fund would ever require subordination to the responsibilities of a member of the CRD.

Proposed Structure

The Fund LP structure consists of a General Partner (GP) responsible for the operation and oversight of the Fund, and Limited Partners or investors in the Fund. Limited Partners do not have an active role in the management of the activities of the Fund, but retain certain decision rights in the Fund, such as the replacement of the GP Fund Manager. The GP is usually a corporate entity that can be established as a corporation or a co-operative (the latter is unusual but does exist).

The GP can exercise its functions of management of the Fund and oversight of Fund activities directly. These include attraction of investments, placement of investments in projects (acquisition of Fund properties) and financial oversight of the Fund and oversight of the investments. The GP may also appoint a separate fund manager to assume the duties of management of the Fund investments (identification of investment opportunity, placement of capital in projects, monitoring of investments, sale of Fund properties). Usually, the body that causes the Fund LP to be created (the sponsor organization or individuals) has an interest in the GP. It should be noted, however, that a GP is not required to be a subsidiary of the sponsor.

The actions of the GP are governed by a Limited Partnership Agreement (LPA). The LPA sets out the objectives for the Fund, how and for what purpose investments will be made, how the Fund will operate (including any investments policies by which it must abide) and other fund administrative matters. Generally, the LPA does not change once established, although there is often a mechanism whereby a majority of Limited Partners can alter it. This generally will only occur if the original investment thesis of the Limited Partner is not successful or there are significant changes in the market.

It is recommended that the GP be an independent entity, with a majority of non-CRD related Board members. As the LPA largely governs the actions of the Fund LP, and the CRD can have final sign-off on the content and structure of the LPA, it is not necessary that the GP be closely held. Private investors will want the Fund LP, and the GP operating it, to act in the interest of the investors, and that the limited partners will be shielded from external pressures and interference. A more independent GP, with a Board populated with the expertise required to oversee the Fund will provide greater assurance to private investors.

Mission Lock

CRD will want to maintain a direct link between its affordable housing objectives, particularly the overall level of affordability, and the investment activities of the Fund. There are at least two options for how this can be accomplished:

- In the first, where CRD invests patient capital directly in the Fund LP to leverage the private capital, or where it is established as special limited partner (but contributes its patient capital in a lower-tier partnership or partnerships), the CRD can require its approval to amend the affordability target in the Fund's investment criteria.
- Additionally, where CRD invests its patient capital in a lower-tier partnership (or partnerships) with, but outside the Fund, it can require the affordability target as a condition for its patient capital investment (for example, where CRD owns the underlying land, the affordability restriction can be included in the lease of the land on which the housing is developed).

Fund Financial Model

The first step in building the impact investment fund financial model was to build several individual site models, to assess how each project might perform on a standalone basis. Three specific site models were chosen as the "Lower Tier", to best reflect the affordability and deployment goals of the CRD.

The Fund model, or "Upper Tier", was built by layering the three sites together and repeating them over the specified time-frame (five years). In this way, NMFI was able to estimate:

- The amount and type of financing needed to build the 2,300 targeted units[1]
- The potential distributions that each site could pay to the Fund
- The potential return to investors
- The potential investment timelines (investment to exit)
- The potential Social IRR

The purpose of the Fund is to invest in newly completed or substantially renovated affordable rental housing projects. It is not proposed that the investments be made prior to the development and substantial completion of these projects, but rather that the investments be made at stabilization after the development risk has been eliminated. This approach results in a lower cost of capital to the project than development equity, which assists in the long-term affordability of the project (for further details on the Fund see Term Sheet below).

NMFI has developed an investment model based on the development of affordable housing by the CRD (or other CRD-appointed intermediaries). An underlying concept for the financial model is that there are two tiers, or levels, of investment expressed below as two fund models:

- The first was as a "Levered" fund in which each project is built to stand on its own, with its own debt and equity financing. The distributions up to the Fund, from each site are subordinate to the debt financing.
- The second was as an "Unlevered" fund in which the assumption is that an equity partner would purchase each project outright and manage the debt capital on their own balance sheet. In this case, each site has no debt, and distributes all of its net income (net of replacement reserves) up to the Fund.

The models presented in Phase 2 are an elaboration of the work completed in Phase 1. The Fund financial model is provided as a separate attachment (Excel spreadsheet) for the benefit of CRD[2].

Lower Tier Summary (Three Sites)

Site	Land Cost psf	Built Cost pGFA	Cost per Unit	% of AMI	Total Sites	Total Units
Type 1 – Wood Frame – 50 Units	$135	$345	$264,703	65.1%	10	500
Type 2 – Wood Frame – 150 Units	$135	$344	$263,355	65.4%	10	1,500
Type 3 – Concrete – 150 Units	$118	$373	$264,752	63.3%	2	300

[1] Based on discussions with the CRD in July 2018, the annual goals were for 200 "low" units and 230 "low to mod" units. Based on those goals, we created example buildings that approximated those goals as closely as we could to develop the Fund model, and then ran them out over five years which resulted in a target of 2,300 units.

[2] The numbers used in these financial models are based on a fixed moment in time. Assumptions including, but not limited to construction costs, interest rates and building costs could result in changes to these numbers in the future.

Site Unit Mixes

Type 1 – Wood Frame				Type 2 – Wood Frame				Type 3 – Concrete		
Unit Type	Count	Size		Unit Type	Count	Size		Unit Type	Count	Size
Studio	15	360 sf		Studio	45	360 sf		Studio	45	360 sf
1 Bed	18	542 sf		1 Bed	55	542 sf		1 Bed	55	542 sf
2 Bed	10	668 sf		2 Bed	30	668 sf		2 Bed	30	668 sf
3 Bed	7	1000 sf		3 Bed	20	1000 sf		3 Bed	20	1000 sf
Total	**50**			**Total**	**150**			**Total**	**150**	

Upper Tier Capital Requirements

Levered Fund	Amount	Proportion
Private Equity Needed	$61.99 million	10.2%
Patient Capital Needed	$213.85 million	35.2%
Debt Capital Needed	$331.81 million	54.6%
Total Capital	**$607.65 million**	**100.0%**

Unlevered Fund	Amount	Proportion
Private Equity Needed	$393.80 million	64.8%
Patient Capital Needed	$213.85 million	35.2%
Debt Capital Needed	$0.0 million	0.0%
Total Capital	**$607.65 million**	**100.0%**

Potential Investor Returns

Leveraged/Unlevered Fund	Return
Targeted Gross Return	7.05% p.a.
Leveraged Return to Investors (Net)	6.07% p.a.
Unlevered Stabilized Return on Active[3] Capital (Gross)	5.39% p.a.
Unlevered Stabilized Return on Total[4] Capital (Gross)	3.49% p.a.

Units Deployed and Social Outcomes

Leveraged/Unlevered Fund	Annual Income	Total Units Deployed
"Very Low" Units	Less than $20,000	0
"Low" Units	$20,000 to $35,000	920
"Low to Mod" Units	$35,000 to $55,000	1,320
"Mod +" Units	Over $55,000	60
	Total Units Deployed	**2,300**

Social Outcomes	
Social IRR of Patient Capital[5]	4.85% p.a.

[3] Active Capital is all capital that requires a return, in this case both the Private Equity and Debt.
[4] Total Capital consists of all capital required to finance a project, including the Active Capital and Patient Capital (which requires no return).
[5] The Social IRR is derived by finding the rent savings of each project compared to the same project if all units were rented at market levels. These savings are forecast over 50 years and considered the "return" on the Patient Capital invested.

Legal and Regulatory Issues

NMFI engaged legal counsel to conduct a thorough assessment of any potential legal or regulatory issues that may arise with regards to the CRD and a potential financing vehicle. There is no evident legal reason that would prohibit CRD from establishing a fund and in most structures offering the vehicle to other investors. The review did not assess whether there would be liabilities for the CRD attached to offering a fund in which non-CRD investors participated.

The table below summarizes the key findings. The full legal report can be found in **Appendix VI**.

Topic	Findings
Creation of an Investment Vehicle	• Regional Districts can operate "any service that the board considers necessary or desirable for all or part of the regional district" • Regional District board must adopt a bylaw to establish a service; bylaw requires municipal and provincial approval (similar to how the Regional Housing Trust Fund was established) • Potential that creating an investment vehicle could fall under existing Regional Housing Trust Fund within its purpose to "facilitate social and economic investment in affordable housing," with some amendments to clarify the purpose further
Structural Options	• Service can be operated directly by the regional district • A "partnering agreement" – an agreement between a regional district and a person or public authority providing a service – could enable the CRD's to utilize its assistance and property tax exemption powers
Procurement	• While the use of tendering processes and RFPs is common, local governments can "sole-source" the procurement of goods and services so long as they comply with the Trade, Investment and Labour Mobility Agreement, the Canadian Free Trade Agreement and the New West Partnership Trade Agreement
Investment of CRD Funds including Low-Return Investments	• Provincial authorization would be required if the CRD were to invest its own funds or borrowed funds in a new investment fund for affordable housing • Disclosure about any investments that would entitle the CRD to a lower rate of return than other investors
MFA Financing	• Municipalities enact loan authorization bylaws and submit them as a request to their regional districts in order to borrow funds
Liability Limits	• Plebiscite elector approval is required for any liability of a capital nature with a term exceeding five years
Internal Governance	• Administration and operation of regional district services is not subject to any particular statutory rules apart from the general "pay to play" rule whereby only the directors representing participants in a service have a vote on matters pertaining to the service
Conflicts of Interest	• Directors are required to act in the best interests of the electors generally while performing official duties; any cross-membership arrangements require analysis as to whether the director can operate without breaching conflict of interest principles
Additional Powers	• The Cabinet is authorized to provide additional powers to a local government; several additional powers have been granted to the CRD dating back to 1990

The legal review team clarified a number of points that are also included in **Appendix VI**. While there are no evident barriers to the establishment of an investment vehicle as contemplated, it is likely that some capital aggregation approaches are more straightforward than others, and the approval processes less onerous. The team also clarified that the CRD can, with proper public disclosure, offer financial guarantees to potential capital investors, which could limit or eliminate the need for the CRD to place its capital in a vehicle of this kind.

Risk Assessment

Financial and Operational Risks

The table below summarizes financial and operational risks and mitigation strategies identified with regards to the Fund. While all investment funds carry inherent risks, these can be mitigated in the case of real estate. In the specific options assessed, no risk is judged to be greater than moderate. This is based on having a validated investment structure, a robust financial model and assessment of each project considered for investment.

Project execution risks can be mitigated by the selection of the project and working with experienced and robust delivery organizations – private or community-based.

Risk	Probability	Implications	Mitigation
Failure to achieve investor returns	low to medium	• Limited on-going investor interest in the Fund (renewed subscriptions) • Limited ability to scale investment	• Clearly defined investment terms and well-articulated investment models • Careful selection of investment opportunities • Frequent on-going communications with investors
Project revenues not achieved (contribute to return risk)	low to medium	• Poor project performance • Costs rise above projected levels	• Detailed and thorough project selection process • Due diligence on housing operators • Mechanisms to take over non-performing projects
Delay or challenge to achieving exit of investment in project	low to medium	• Investors do not recover capital as planned and investment returns are eroded	• Oversight by investment manager (or CRD) • Proper mechanisms for exit of investment put in place at the outset • Availability of contingent capital to replace investor capital as required (refinancing)

Governance Risks

The table below summarizes governance risks and mitigation strategies identified with regards to the Fund.

Risk	Probability	Implications	Mitigation
Failure to achieve social impacts	low to medium	• Failure to meet impact investor expectations • Under-achievement of housing affordability	• Oversight by investment manager /CRD • Robust impact metrics
Reputation impairment	low	• Failure of the Fund to deliver on expectation and impact on CRD credibility	• Careful diligence on fund development and implementation • Oversight by investment manager /CRD

Initial Market Assessment

Investor Interest

As part of our preliminary assessment of potential investor interest in a CRD financing vehicle, we reached out on a targeted basis to 45 groups during Phase 1 of the Project including: pension funds, insurance companies, real estate funds, multi-asset managers, family offices, foundations, investment banks, and investment consultants. We received feedback from 32 of these groups to gauge if, on a no-name basis, such an investment vehicle would line-up with their investment mandates and approaches. In each conversation we outlined the potential plan to build or acquire 2,300 units of affordable housing over a five-year period at an estimated approximate total cost of $480 million. The highlights of what we learned include:

- **Potential sources of investment:** For purposes of discussion, we assumed that the 2,300 units of affordable housing would ultimately represent approximately $360-390 million unlevered cashflows or $60-90 million of levered cashflows. Within the pension sector, there was some interest in the stabilized unlevered cashflows more on the debt/credit side and also from the advisors to labour pension funds with respect to the stabilized levered cashflows. But, in the latter case this would be specifically tied to a requirement that the projects be 100% union built. We also found at least one multi-asset manager who was interested to consider the levered, stabilized opportunity within its private debt fund practice. Credit unions, foundations and family offices with a common regional focus represent a relatively small opportunity set but we did uncover some interest on the levered stabilized opportunity. Fund and wealth managers seeking to incorporate impact investments in their broader offering represent another small potential investor opportunity set. Finally, along a different approach, we did speak with one investment bank that was interested to explore the potential for a REIT, provided that could be of sufficient scale.

- **Barriers to investment:** Single secondary metropolitan market concentration, risks related to affordability restrictions, liquidity risk, refinancing risk and complexity risk stemming from a lack of familiarity with, or desire for, this type of investing are all notable barriers to investment. There is also risk around the new nature of this type of financing structure. Although several large pension investors are willing to hold lower yielding stabilized multi-family assets, they are generally only willing to do so where they themselves have captured the developer premium (13%+). Unfortunately, where such developer premium has been captured, the ability to deliver long-term affordability is not typically possible. A narrow geographic focus can cut both ways. A common geographical focus can be helpful for local investors but such a narrow geographic focus for an investment vehicle is not typically of interest to other non-local investors.

- **Investor expectations:** Among the previously noted potential sources of investment, investor expectations focused primarily on leveraged returns. We discussed similar parameters to the NMF Rental Housing Fund with approximately 7% gross IRR, second in priority to cashflows only to the senior mortgage (60-70% LTC) with a target hold period of 8-10 years. Some of the non-labour pension funds noted that this would likely prove to be an insufficient premium for the lack of liquidity and complexity. Several of the other non-pension investors have higher return hurdles and are looking to take on more risk. Two of the labour pension fund advisors noted a potential interest in looking to invest for 20-25 years with a lower annual amortization take-out vs. refinancing. While this could potentially work well with long-term mortgage financing (30 year), it would increase the cost to the project and would likely be an undesirable hold period for most, if not all other investors, though multiple tranches with different terms targeting different investors is not uncommon in the market. With respect to unlevered returns we discussed a range of 5.2%-6.0% depending on the level patient capital contribution. The pensions interested in unlevered returns would require full control over any exit timing.

Specific Commentary on Financing Vehicles

The following were identified as key comments relating to the three financing vehicles presented earlier. Further market testing would be required to focus on the impact investing fund that was further modeled and refined in Phase 2:

- **Development or Acquisition Fund:** This model is challenged by the need to balance market-based returns for private capital utilized during development – IRRs starting in the low teens – while maintaining targeted levels of affordability. These funds in the US have also leveraged lower returns to philanthropic investors to subsidize private capital, but we have not seen similar scale funds of this nature develop in Canada.

- **Social Purpose REIT:** This model is challenged by the scale required for a publicly traded REIT. Initial conversations highlighted a need to get to a trust unit offering size of >$100 million. It is possible that over time an affordable rental housing investment program from the CRD could achieve this level, but it would take several years. There may be some value in exploring this conversation further, particularly if CRD could include some of its existing affordable housing stock as part of the value contribution behind the offering.

- **Impact Investing Fund:** This model is challenged by the scale of capital required to meet the needs of a 2,300-unit affordable housing investment program. We are not aware of any >$30 million illiquid impact investing funds solely in Canada, particularly with a narrow regional focus. The CEDIF program in Nova Scotia is an exception to this, however, this structure exists by virtue of securities exemptions and has been used on an annual fundraising basis.6 Nevertheless, there could be an opportunity for an impact investing fund as part of or beside potential investment from labour pensions or private debt investors. A stand-alone illiquid impact investing fund, exclusive of labour pension investment or private debt placement, given the previously aforementioned barriers to investment, would be challenged, we believe, to reach a scale in excess of $20-25 million.

[6] See http://newmarketfunds.ca/wp-content/uploads/2018/04/Eight-Tracks.pdf

Investor Summary

Prospective Investor	Development Stage	Stabilized Stage
Pensions	Fundamental challenge around expected level of return and maintaining affordability. Not recommended to explore further.	Some interest in exploring unlevered stabilized returns in the 5-6% range but not core focus and unproven investment strategy. Typically like to control, including exit timing (unimpeded sale rights). Consider potential to explore further if control is not an issue.
Building Trades Pensions	Possible lower return acceptable in exchange for 100% union build. Do not typically have own development capacity and typically look to Concert Properties as their intermediary for development. Expected level of return not congruent with affordability goals. Not recommended to explore further.	Some interest in exploring levered stabilized returns in 6-7% range in exchange for 100% union build. Also, some potential interest in exploring 20-25 year amortizing investment vs. 8-10 year refinancing exit. Consider potential to explore further if union build requirement is not an issue.
Private Debt Managers	Typically have related funds with development capacity. However, expected level of return not congruent with affordability goals. Not recommended to explore further.	Some interest in exploring levered stabilized returns in the 7-9% range with 8-10 year hold. Consider potential to explore further.
REIT	Some interest in exploring CRD contributing existing assets and raising capital to fund the additional development, challenge of $100 million minimum offering size could be potentially overcome with potential for future offerings. Could also consider private REIT for early phase(s). Would require separate development capacity. Consider potential to explore further.	Some interest in exploring stabilized REIT offering, with $100 million minimum offering. Consider potential to explore further if implications of public offering are not an issue.
Foundations/Family Offices/Credit Unions	Fundamental challenge around expected level of return and maintaining affordability. However, there are non-profit developers like Catalyst Community Developments and New Commons Development that are leveraging this type of capital to carry out affordable multi-family developments in BC. Consider potential to explore further.	The narrow geographic focus of the vehicle typically increases the interest level from these types of investors within the same geography but is often an outright deterrent to these types of investors from outside the geographic focus of the vehicle. Not recommended to explore further as primary source but could be parallel or complimentary source of capital in conjunction with a separate primary source.

Fund Term Sheet

Appendix VIII to the report is a fund term sheet. As proposed, the Fund is intended to attract interested accredited investors. These persons (can be corporations) meet the test for "accredited investors" simplifying the regulatory requirements of the investment vehicle. Generally, these are persons that meet a net asset test or an income test (or both). See **Appendix IX** for a complete definition of an accredited investor.

The minimum amount to be raised by the LP from private investors is set at $10 million. This is to ensure that there are sufficient funds to deploy, and that these funds can have a significant impact in the production or acquisition of affordable housing are large enough to efficiently generate a fee that is sufficient to cover costs of operating the Fund. As proposed, once the minimum investment is reached the Fund can have an initial closing and start operations. The Fund will remain open to new investors, and can make subsequent closings as capital is raised and as investment targets (new affordable housing projects) are identified.

The Fund does not take development risk. The Fund investments are made once projects are stabilized and there is no active development risk. The Fund can commit to investments prior to development taking place. This can allow a developer to use this commitment to assist in the raising of interim project (construction) financing. The Fund can be used in projects where available government sources of financing require other equity investment (co-investment) in the project.

The operation of an LP is addressed in the Fund Governance section.

Comparison Between Direct Investment and Limited Partnership

The Fund structure proposed above is intended to attract capital from sources other than the CRD and provide a mechanism to blend this capital with CRD-sourced capital. As noted in the Phase 1 report, there are no significant barriers to the CRD investing its capital into affordable housing, whether directly or through an investment vehicle. Capital can be sourced from CRD's own funds or through the MFA.

There are likely several factors that would influence the CRD in making a choice of using an investment fund or investing directly in projects. For example, the CRD can provide capital to projects at a lower cost than an investment fund as the source capital cost is lower (MFA), and there are no management fees and lower overheads in the delivery of the capital. In addition, investors will expect returns that are proportionate to the investment risk being take, whereas the CRD can assume these risks in exchange for public policy gains (new affordable housing). Table 1 below provides a comparative assessment of these approaches.

Table 1 – Comparison between Direct Investment and Fund Partnership

	Direct CRD Investment (MFA funds)	**Fund Partnership**
CRD Capital Source	MFA, tax revenue sources, and other public sources of capital (e.g. BC Housing)	MFA, other public sources of capital (e.g. BC Housing) and private capital sources.
CRD Capital as % of total project costs	0% to 100% (depending on provincial and federal contributions and if mortgage sourced from third party). The degree of risk assumed is a CRD policy and not governed by investor considerations	Less – 10.0%-37.0%[7] (depending on provincial and federal contributions). The limits of the investment exposure are governed by the project economics (ability to afford investment capital) and the Fund's intent to avoid risk concentration in any one project
Amount on CRD entity balance sheet	100% of project value including mortgages	Less - Only CRD capital invested in Fund Partnership (11.5%-34.55%)
Governance	CRD – this can be through current administration structures or through a committee	Fund Partnership. The Fund is governed by a General Partner. CRD can be on board of GP and manage affordability restrictions through the Fund investment criteria or other mechanisms at project level.
Affordability achieved	As determined by CRD policy	Same
Affordability protection	Governance and/or contracted through operating agreements with third party housing providers	Contracted only – governed through the investment agreement with the project.

[7] The lower end of the range assumes the patient capital needed for a project is provided equally at the municipal, provincial and federal levels. The top end of the range assumes CRD provides all the patient capital needed.

Weighted Average Cost of Capital	Prevailing MFA rate plus any CRD surcharge to cover administration costs (these ca also be absorbed by CRD)	Estimated at 7.05% - this is based on the estimated IRR required for private investors based on Fund and investment risk
Set Up Costs	MFA borrowing, federal and provincial, third party mortgage	More - Same plus $150k for fund set-up (Limited Partnership Agreement, initial investor attraction, investment agreements)
Project operators	Can be CRHA or other CRD entity	Same
Asset Management	CRD	Fund Partnership and Operator
Reduce overall CRD leverage	No	Yes
Develop new source of capital	No	Yes
MFA approval threshold	Yes	Same (but less total MFA capital)

Table 1 above illustrates the key opportunities and challenges of the two approaches. The outcomes of the two approaches are the same: the development and acquisition of new affordable rental housing projects. The primary differences in the approach relate to the project financing, and the intent or not to attract non-CRD capital to the initiative.

There is no doubt that if the primary objective is the placement of low-cost capital into projects, then the direct investment by CRD is more effective. The Fund Partnership approach, however, will produce more capital to invest in housing. Further, consideration should also be given to the current funding context for new affordable housing, and where gaps may exist in the capital structure required to initiate projects or the eligibility of projects.

Currently in BC, there are provincial affordable housing initiatives that provide significant but capped amounts of low cost financing as well as grants to projects. The cost of capital is not a significant barrier to the development of new housing, but limiting factors are the amount of capital available, as well as access to land at affordable prices, construction costs, and in some cases the delivery capacity for new projects are more significant barriers to delivery of housing.

There are likely to be some gaps for housing providers in finding initial project equity and in bridging some of the project costs that are not covered by government funding programs. An additional source of project funding (CRD Fund) can be useful in this regard, but it is unlikely to be able to effectively compete with or be required in the current circumstances in BC. In addition, through CMHC there are two new rental housing initiatives that can be a source of low-cost financing: the Rental Construction Financing Initiative (low cost, long-term financing for new market rate rental housing – limited affordability), and the Co-investment Fund (low-cost long-term financing and capital grants for housing at or below affordability thresholds).

In the current circumstances where there are other government sources of financing for new affordable housing projects, it may be useful to assess where the gaps in current project financing are, and whether a CRD fund vehicle can assist in closing these. In addition, consideration must be given to the future likelihood of affordable project financing sources, and how a fund may be useful in addressing these future needs.

The BC government has been increasing spending on affordable housing, after a period of lower spending levels. Federally, the National Housing Strategy comes after more than 30 years of low or no federal financing for affordable rental housing. Prior to these government initiatives, there were very limited sources of capital for affordable rental housing projects. Building an evergreen source of capital may not have very significant impact in the short-term, but could prove to be an invaluable tool for the periods of provincial and federal spending constraints that may occur through political change or economic circumstance. Table 2 below summarizes the opportunities offered by the two approaches to funding projects.

The use of a CRD Fund can evolve over time and adapt to the market and other government funding circumstances. Currently, there are barriers to the development of market rate rental housing and acquisition and rehabilitation projects using BC and federal programs. The CRD Fund could fill some of these gaps and play an essential role in providing balance in the rental market space in the region. The decision whether this Fund includes private sources of capital or not may depend on whether there is an intent to invest in these areas solely using publicly sources capital, or whether there is a policy benefit in the attraction of new, non-government capital to affordable housing projects.

Table 2 – Comparison between Direct Investment and Fund Partnership for Funding Projects

Policy intent	Direct CRD Investment (MFA funds)	Fund Partnership
Low cost of project capital	Yes	Limited (higher cost)
Long term source of capital	Yes – dependent of CRD ability to borrow	Yes – based on leverage of CRD investment to attract private capital
Flexible capital deployment	Yes	Yes
Use of capital on range of affordability	Yes – but there may be challenges in use of public capital on market rate projects	Yes

Conclusion

There are few examples that have been identified where a municipality can creatively attract capital to resolve what have traditionally been public policy matters. For CRD, the choice of whether to implement a fund depends largely on the over-arching public policy objectives – both short- and long-term.

A decision to move forward with an approach that solely uses CRD capital (MFA financing) is simple and can be implemented quickly. An approach to raise private investment will take more effort and time to implement; this approach will require an additional feasibility assessment of investor appetite, however it may have longer-term policy outcomes that will benefit the CRD.

The primary differences in the approach relate to the project financing, and the intent or not to attract non-public capital to the initiative. As summarized in the report, if the primary objective is the placement of low-cost capital into projects, then the direct investment by CRD is more effective. The Fund Partnership approach, however, will produce more capital to invest in housing.

Currently in BC, there are provincial affordable housing initiatives that provide significant but capped amounts of low-cost financing as well as grants to projects. There are likely to be some gaps for housing providers in finding initial project equity and in bridging some of the project costs that are not covered by government funding programs. An additional source of project funding (CRD Fund) can be useful in this regard, but it is unlikely to be able to effectively compete with or be required in the current circumstances in BC.

In an environment where there are other government sources of financing for new affordable housing projects, it may be useful to assess where the gaps in current project financing are, and whether a CRD fund vehicle can assist in closing these both now and in the future. Building an evergreen source of capital may not have very significant impact in the short-term, but could prove to be an invaluable tool for the periods of provincial and federal spending constraints that may occur through political change or economic circumstance.

Appendix I – Phase 1 Recommendation

The Phase 1 analysis demonstrates that there is potential for the implementation of a fund vehicle to attract capital to pursue increased levels of affordable housing delivery. The level of investor interest is likely limited to impact investors, given the depth of affordability targeted, and the resulting returns on investment. The level of concessionary, or low return capital available from public or investor sources, impacts these estimated returns.

As noted in the Market Assessment section of this report, several of the potential fund vehicle options proposed pose some potential challenges. There are some considerations CRD should weigh (highlighted in orange below) in order to determine the focus of Phase 2:

Prospective Investor	Development Stage	Stabilized Stage
Pensions	Not recommended to explore further.	Consider potential to explore further if control and full exit control rights are not an issue.
Building Trades Pensions	Not recommended to explore further.	Consider potential to explore further if 100% union build requirement is not an issue.
Private Debt Managers	Not recommended to explore further.	Consider potential to explore further.
REIT	Consider potential to explore further.	Consider potential to explore further if implications of large-scale public offering are not an issue.
Foundations/Family Offices/Credit Unions	Consider potential to explore further.	Not recommended to explore further as primary source but could be parallel or complimentary source of capital in conjunction with a separate primary source.

If the CRD is able to consider and articulate its stance on the challenges above, it is recommended that the CRD pursue Phase 2 of this Project. In this next phase, a selection of the options listed above can be further explored and articulated, with specific models and scenarios developed based on varying levels of housing affordability. It is also possible in this phase to have an assessment of the current market for multi-residential properties in the CRD and to determine whether the fund vehicle would be targeted to new development or if there is a potential to include acquisition of existing housing properties. While acquisition does not necessarily produce a net increase in affordable housing, it does limit the reductions in the existing inventory.

Additional deliverables in Phase 2 would include a draft term sheet, further investor testing and a final report. Prior to proceeding to Phase 2, the CRD would need to assess and confirm its appetite for a selection of the vehicles and challenges listed above. The CRD may also wish to further articulate its expectations in terms of participation in governance, and how closely held or independent an investment vehicle should be to best suit its purposes.

Appendix II – Environmental Scan

The environmental scan identified a wide range of potential options, but only a few models blend public and private capital in the same vehicle. Please see the attached spreadsheet for the complete list of relevant examples across Canada, Australia, the UK and the US. The tables below highlight a few examples from each region.

Canadian Examples

Name	Location	Capital Base	Description	Goals
New Market Funds Affordable Rental Housing Fund I LP	National, Canada	$24.7M from foundations, institutions and individuals	Invests in purpose-built, stabilized, multi-family affordable rental housing	- Build new and substantially renovate existing affordable housing rental stock - Partner with strong, existing non-profit and co-operative operators to fill project equity gaps - Generate risk adjusted, market-rate returns - Connect community need to private capital
Surrey Centre Development Corp	Surrey, British Columbia	Operating loans from the City of Surrey	Help the City of Surrey develop its surplus land holdings, acquire land for redevelopment and acquire income-generating properties	- Act as a catalyst and facilitator to accelerate development - Partner with private sector partners to develop City-owned land - Build income-producing portfolio

Australian, UK and US Examples

Name	Location	Capital Base	Purpose	Objectives
Victorian Social Housing Growth Fund	Victoria, Australia	$1B seed capital from Victorian Government plus private investment into projects	Support partnerships between government and community housing and non-profit sectors to complement social housing initiatives	- Long-term financial commitment to support housing development projects on non-government land - Construct new social and affordable housing units - Lease private market units and provide them at subsidized rents for people in need of housing assistance
Homes England	England, UK	£4B from federal government sources	Non-departmental public body sponsored by the Ministry of Housing, Communities and Local Government to deliver affordable housing	- Secure desirable land and support small-scale market builders to deliver affordable housing - Deliver an average of 300,000 new homes per year by the mid 2020s

Bay Area Transit-Oriented Housing Fund	San Francisco, USA	$50M from public sources, private equity and foundations	Support land acquisition and provide a financing tool for affordable housing and other community services near transit	- Provide financing for mixed-income, mixed-use development - Preserve affordability of land for future development - Provide mission-driven investment opportunities

Appendix III – Fund Structures

At the outset of Phase I we defined 7 fund structures as possible vehicles for CRD to achieve its objectives. After consultation with CRD staff the possible structures have been reduced to three options. The options for consideration are listed below. The challenges and opportunities of each fund in relation to a potential investor market are discussed further in this report (See Market Assessment).

Development or Acquisition Fund: This is a fund structured for the purpose of acquisition and/or development of new housing. The fund is intended to provide market-based returns to investors based on the relative risk being taken in the projects being funded. The fund could be a blend of CRD funds and private capital, where the CRD capital attracts a lower rate of return than private sources, and/or takes a greater risk on investments (a separate class of investment units that have different characteristics from those of other investors).

There are different fund structures possible for a development / acquisition fund. The most common would be a structure as a Limited Partnership (LP), with the CRD or a CRD appointed agent as the General Partner. This is a common investment structure and recognized by most investors. The LP structure allows for a mix of taxable and non-taxable investors, and a differentiation among investors (by class of units). Each investor purchases units in the LP based on terms that are set out in an LP Agreement and Subscription Agreement.

Social Purpose REIT: A REIT is a type of mutual fund trust (MFT) in which individuals and organizations either receive or can purchase units of stated value in the property managed by a revenue producing trust. Though present in Canada since the mid-1980s, REITs have been enshrined in law, as an amendment to the Federal Income Tax Act, only since 1995.8

REITS usually start with an established portfolio and have immediate current revenues. New revenues from additional buildings come through asset acquisition of existing stock or through the purchase or transfer of completed assets. There are 47 currently existing REITs in Canada. Over 90 percent of the REITs are publicly listed on the Toronto Stock Exchange [TSX] with the majority as open-ended trusts. Income is distributed to unit holders based on policies set by the REIT. At present there are no social purpose REITs in Canada. These exist in the US and the UK.

Public REITs list their offering on an exchange and the security is generally considered liquid in that it can trade, depending on market demand. Private REITs can be formed with the same structure as a publicly traded REIT, but these may not be considered liquid investments – that is investments that can easily be converted to cash through the sale of units. Private REITs are generally structured for tax treatment purposes.

Impact Investing Fund: These funds may be structured in a similar way to the Acquisition and Development Fund, but are expressly designed to produce a social impact (in this instance housing affordability). Investor returns can vary from market to concessionary returns, depending on the depth of social impact being sought and the need to reduce the cost of capital for projects being invested in by the fund.

[8] https://www.icsc.org/uploads/research/general/

While impact investment funds do not necessarily have greater investor risk, there may be a market resistance to these based on the notion of greater risk investing in projects that seek a dual impact – financial returns and social return. Impact investing in the United States has more track record than in Canada and attracts both philanthropic investors (those seeking to extend their mission through investment practices) as well as institutions and private investors. In Canada, the primary impact investors remain philanthropic, although there is increasing attention being paid by financial institutions and individuals curious about socially responsible investment.

For the fund structures identified above it should be noted that a public REIT is the only structure that would accommodate all investors – both those defined under securities regulations as permitted, and retail investors. In the Development or Acquisition Fund and Social Impact Fund there are restrictions related to eligibility for investment. Generally, this means only permitted individuals as defined under securities regulations can invest in these entities. This is usually restricted to high net worth individuals, corporations of a certain size of asset, or financial institutions (that meet the requirements).

In all fund models, other than the public REIT, it is likely that investors will be required to commit an investment over a mid-to long term – 10 years or more. This is a significant commitment – investors must be satisfied that the return characteristics of the investment will offer some hedge against potential inflation, and that the returns as modeled are likely to be achieved. All investors, including social impact investors, have choice in the market, and these factors are a significant part of the investment decision that they make.

NEW MARKET FUNDS

Appendix IV – Fund Structures and Key Criteria Considered

Fund structures considered in Phase 1

CRD Affordable Housing Investment Structures

Project check-in: June 28th, 2018

The CRD is interested in establishing a vehicle or structure that could manage investment to support the development of affordable housing in the region. Primarily the CRD is interested in leveraging public programs and dollars in order to attract private capital. There are several possible structures that could be replicated in order to achieve this aim.

New Market Funds is currently exploring potential vehicles in order to determine the most viable and appropriate model. Below is a high-level summary of the most relevant models for discussion. Key considerations regarding the potential applicability of these models in the CRD context are also highlighted below.

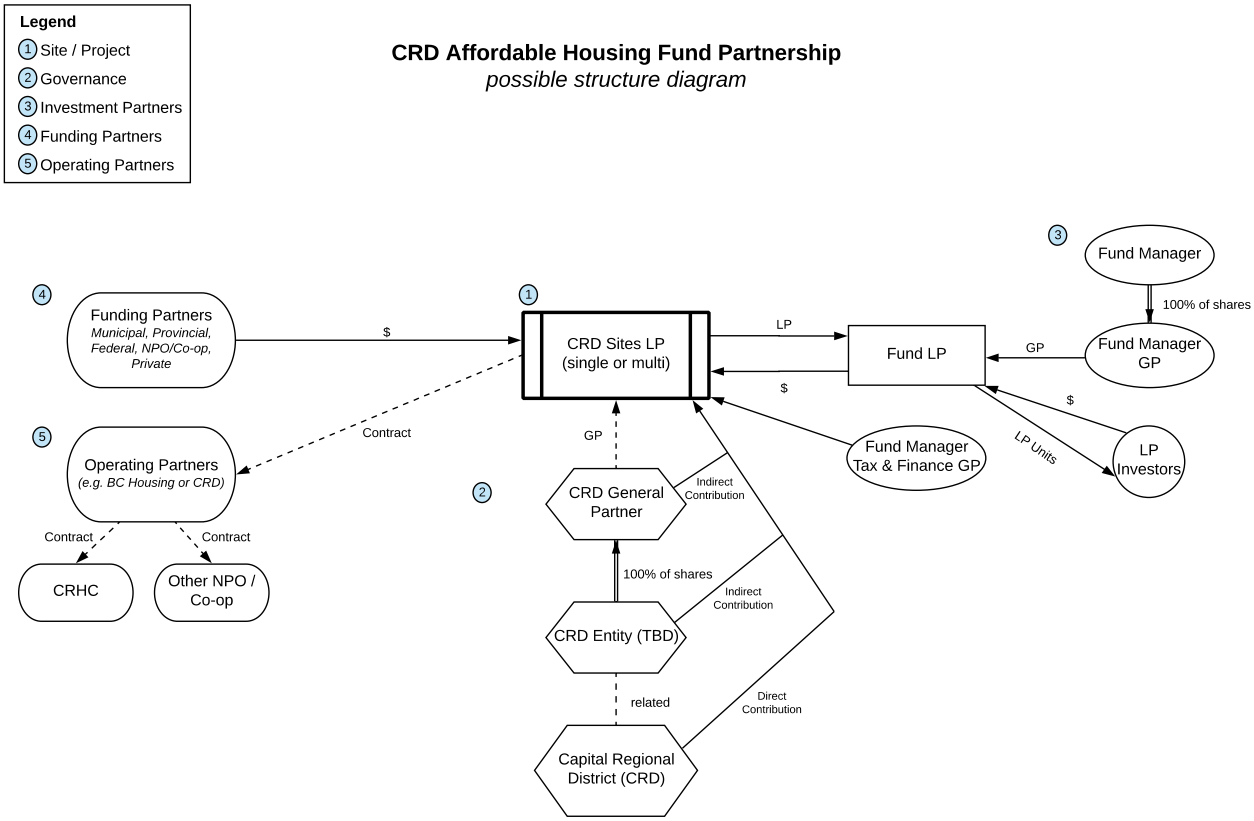
Financing Vehicle	**Primary Purpose**	**Capital Sources**	**Example**	
Development or Acquisition Fund	Provide a flexible source of capital for the development and preservation of affordable housing	Leverage seed funding from government with combination of philanthropic and private capital	**Golden State Acquisition Fund**: provides a revolving pool of capital for acquisition financing of rental and ownership	• California, US • $93M
Local Development Corporation	Advance community goals through the use of surplus land and acquisition of properties for development	Arms-length or owned entity of municipality; no external investment required	**Surrey Centre Development**: acts as a catalyst and facilitator in order to accelerate development that aligns with the financial, social, business and community goals of the City	• Surrey, Canada • $4.5M in annual dividend paid to city; $18.7M in profits in 2016 • See also: VAHA, Build/CreateTO
Social Purpose REIT	Provide long-term, low-cost capital to partners to acquire housing properties and maintain affordability in the long-term; portfolio approach of asset ownership allows for more flexible capital instruments	Private capital from financial institutions and philanthropy	**Housing Partnership Equity Trust** (HPET): the first and only social-purpose real estate investment trust created by non-profits to raise capital for affordable housing	• National scope, US (31 states to date) • $100M fund ($85M closed)

Impact Investment Fund	Provide a flexible source of capital for the development and preservation of affordable housing	Private capital from financial institutions and philanthropy	**New Market Funds – Affordable Rental Housing Fund:** provides equity investments in purpose built rental	• National scope, Canada • $25M • Affordable at or below 80% AMI • Post-stabilization, 8-9 year term, 7-8% IRR
Community Bond	A debenture that allows non-accredited investors the opportunity to invest in a local impact initiative; debentures are usually secured against an asset and can be eligible to registered plan investments	Private capital from individuals	**Centre for Social Innovation community bond:** CSI has used bonds to finance the purchasing of two buildings	• Toronto, Canada • $4.3M raised for 192 Spadina Ave.
Outcomes Financing (Social Impact Bond)	Private investment is used to finance interventions upfront; if agreed-upon social outcomes and cost savings are achieved then financial returns are paid to investors out of the savings realized by government	Private capital which is paid to investors by government out of the savings realized through the intervention	**Mainstay Housing SIB:** Through a housing first model, individuals who experience chronic homelessness and suffer from mental illness will be provided with support in order to stabilize and transition from housing that provides intensive site support to moderate support while retaining their tenancy	• Toronto, Canada • $5M over 7 years for 100 individuals

Key Criteria for Consideration

	Development or Acquisition Fund	Local Development Corporation	Social Purpose REIT	Impact Investment Fund	Community Bond	Outcomes Financing (Social Impact Bond)
Source: ability to blend public and private capital	✓	✓	✓	✓		✓
Leverage: capital leveraged at project or fund level	FUND and/or PROJECT	PROJECT	FUND and/or PROJECT	FUND and/or PROJECT	PROJECT	PROJECT
Scaleable: grow the size of investment	✓	✓	✓	✓		
Replicability: implemented more than one-off (supporting multiple projects)	✓	✓	✓	✓		
Cost: set up costs	LOW	HIGH	MED	MED	LOW	HIGH
Efficiency: potential for raising capital	MED	LOW	MED	MED	LOW	LOW
Governance: independent or integrated governance structure	INTEGRATED or INDEPENDENT	INTEGRATED	INDEPENDENT	INDEPENDENT	INDEPENDENT	INTEGRATED
Authority: legal authority of CRD to execute	TBC	TBC	TBC	TBC	TBC	TBC

Appendix V – Detailed Structure Chart



1. Site(s)/Project(s)	2. Governance	3. Investment Partners	4. Funding Partners	5. Operating Partners
- LP(s) that can hold one or more sites. - This entity is where the actual underlying project(s) are owned directly and/or beneficially - This entity is the confluence of the other four components - Governance, Investment Partners, Funding Partners, and Operating Partners - Timing of Sites/Projects and restrictions of other Funding Partners are the two factors that typically lead to the need for multiple Site/Project LPs	- CRD can have a direct governance role as a GP of all Site/Project LPs - If preferred, some or all of CRD's governance can be provided for indirectly through the terms of underlying land leases, development agreements and operating agreements - CRD's contributions to the Site/Project LPs can be received, directly and/or indirectly - As part of the Investment Partnership with the Fund LP, the Fund Manager can be a "co-GP" (Tax and Finance GP) or the GP of the Site/Project LP where CRD opts for a more indirect governance approach - The Site/Project LPs can be continued or collapsed after the Fund LP exit as required	- Investor Partners with CRD are brought together by a Fund Manager through a separate Fund LP - The Fund LP is also managed by the Fund Manager - The Fund LP has an explicit purpose to invest in affordable housing in the Capital Regional District area - The governance of the Fund Manager, Fund GP, and Fund LP, along with the investment decision making of the Fund LP is fully independent of CRD's governance - Fund LP can commit to selected Site/Project LPs pre-construction but invests at stabilization to de-risk and reduce required investor risk premiums - Fund LP exit is typically 8-10 years with capped return via mortgage refinancing that leaves ownership with CRD and its other Funding Partners	- Funding Partners can involve: (i) other municipalities within the CRD; (ii) the Province, most commonly though BC Housing; (iii) Canada, most likely through CMHC; (iv) Non-Profit and/or Cooperatives, usually where they are also Operating Partners; (v) Foundations, most likely where the location and/or community supported matches with philanthropic priorities; and/or (vi) Private Funders - Funding Partners typically provide: (i) secured construction loans or secured take-out mortgage financing; (ii) unsecured subordinated patient capital not requiring a return of or on capital prior to the Fund LP exit from the Site/Project LP; and/or (iii) non-repayable funding	- Operating Partners can be managed via Operating Agreements for each Site/Project - This separation allows for the replacement of an Operating Partner if required - Site/Project LPs can have multiple Operating Partners under similar but separate Operating Agreements - Operating Agreements could be managed through CRD or BC Housing - Operating Partners could include the Capital Region Housing Corporation, as well as other non-profit and coop operators as best suited to the specific Site/Project

Appendix VI – Full Legal Report

YOUNG ANDERSON
BARRISTERS & SOLICITORS

Memorandum

TO:	Mike Walker, Miller Thompson
FROM:	Bill Buholzer
DATE:	August 7, 2018
RE:	New Market Funds Inc.
FILE No.:	14,265-0000

In this memorandum we set out our comments on the various issues posed in Derek Ballantyne's July 24 2018 email message, as elaborated upon in our telephone conversation of July 25. These comments could form the basis of a consolidated opinion to your client, or used as a stand-alone supplement to your advice, as you prefer.

1. Creation of Regional District Service – Investment Vehicle for Affordable Housing

Regional districts in British Columbia are statutory corporations (s. 193 of LGA) without the full complement of "natural person" powers. They are, essentially, service providers for the residents of their member municipalities and electoral areas. They are governed by a regional board consisting of municipal directors appointed by the councils of member municipalities, and electoral area directors elected directly to the board by the electors of areas outside the boundaries of municipalities.

Section 332 of the LGA enables a regional district to operate "any service that the board considers necessary or desirable for all or part of the regional district". In order to operate any particular service other than its general administration and a handful of other services of a core or mandatory nature listed in s. 338(2) of the LGA, a regional district board must adopt a bylaw to establish a service ("establishing bylaw"). That bylaw describes the service and identifies the municipalities and electoral areas that will be participating in and paying for the service. Establishing bylaws require the approval of participating areas by way of voting, or consent by municipal directors in respect of the participation of their municipality. The bylaw also requires the approval of the Inspector of Municipalities, a senior Municipal Affairs Ministry staff member (s. 342(1)(a) of the LGA). Thus, provincial approval would be required for CRD to establish a service respecting the creation of or participation in an investment fund for affordable housing.

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1616 - 808 Nelson Street, Box 12147 Nelson Square, Vancouver, BC V6Z 2H2 | tel: 604.689.7400 | fax: 604.689.3444 | toll free: 1.800.665.3540
201 - 1456 St. Paul Street, Kelowna, BC V1Y 2E6 | tel: 250.712.1130 | fax: 250.712.1180

Whether any particular municipality or electoral area in the CRD participated in such a service would be up to the municipality or electoral area to decide. There are also service withdrawal provisions in the LGA that enable a participant in a service to cease participating in a service.

Capital Regional District Regional Housing Trust Fund Service Establishment Bylaw No. 1, 2005 (Bylaw No. 3266) was approved by the Inspector of Municipalities on March 16, 2005 and adopted by the regional board on March 23, 2005. That bylaw establishes as a regional district service the CRD Regional Housing Trust Fund, consisting of mandatory contributions of up to $1 million annually requisitioned from participating areas. The fund may be used for contributions to housing projects that include funds from other partners, and participating areas may choose to contribute funds in excess of the amounts requisitioned under the bylaw. The participants include all member municipalities and electoral areas except the cities of Langford and Colwood and the Juan de Fuca electoral area.

The purposes of the service established by Bylaw No. 3266 are set out in the bylaw as follows:

> *The Service established by this Bylaw is the Capital Regional District Regional Housing Trust Fund (the "Fund") for the purpose of providing capital funding:*
>
> > *i. To assist in the acquisition, development and retention of housing that is affordable for those households in the region with low or moderate household incomes;*
> >
> > *ii. To facilitate social and economic investment in affordable housing;*
> >
> > *iii. To assist people in core housing need, primarily those in the lowest two quintiles of regional household income as established in the most recent Canada Census; and,*
> >
> > *iv. To facilitate achieving the strategic directions outlined in the CRD's Regional Growth Strategy.*

Note that the phrase "facilitate social and economic investment in affordable housing" could potentially encompass CRD participation in the creation and operation of an affordable housing investment vehicle other than its own "housing trust fund". However, this is not a freestanding purpose of the service that this bylaw established; the bylaw describes the purpose of the housing trust fund that is being established as "providing capital funding … to facilitate social and economic investment in affordable housing", indicating that contributions of capital from the regional district fund to particular housing projects were expected to facilitate investment in the same projects, or perhaps similar projects, by others. Thus, it appears that the bylaw would have to be amended to clearly establish a purpose other than direct regional district contributions to discrete housing projects. Amendments are subject to the same participating area and Inspector of Municipalities approvals as the original bylaw.

Regional district services require separate financial records including full particulars of service assets and liabilities, revenues and expenditures and information concerning any reserve funds (s. 373 of the LGA). Audit requirements are addressed below.

2. Structural Options

A regional district service can be operated directly by the regional district or through another person or organization (s. 332(3) of the LGA). The regional district acts through the regional board, except to the extent that particular functions are statutorily assigned to particular officials or have been delegated by the regional board itself. Service delivery operates on a "pay to play" principle; only the directors representing participants in a service have a vote on matters pertaining to the administration and operation of the service.

The corporate powers of regional districts under s. 263 of the LGA include the power to make agreements respecting the regional district's services, including agreements respecting the undertaking, provision and operation of the services. One type of agreement that is particularly mentioned in the LGA is a "partnering agreement", defined as an agreement between a regional district and a person or public authority under which the person or public authority agrees to provide a service on behalf of the regional district. The existence of such an agreement creates the possibility for the regional district to provide "assistance" (such as a grant) to the other party under s. 274 of the LGA, which would otherwise be prohibited if the other party is a commercial or business undertaking, or a property tax exemption under s. 396 of the LGA in respect of land or improvements held by the other party. If a regional district provides a service via an actual partnership or joint venture between the regional district and another party, rather than simply arranging for the other party to provide the service on the regional district's behalf, the agreement creating such a structure could be drafted so as to constitute a "partnering agreement" to take advantage of the regional district's assistance and property tax exemption powers.

The corporate powers of regional districts under s. 263 also include the power to engage in commercial and business undertakings, and to incorporate a corporation or acquire shares in a corporation for that purpose. Incorporation or share acquisition can be done only with the approval of the Inspector of Municipalities or an authorizing regulation made by the Cabinet under s. 783 of the LGA. These powers are subject to the specific limitations and conditions established elsewhere in the Act, including the requirement that any particular service that the regional district is providing be established by way of an establishing bylaw. In other words, the undertakings of the regional district or the corporation in which the regional district is acquiring shares must be undertaken for the purpose of providing a properly-established regional district service that has been approved by the Inspector.

3. Procurement

B.C. local governments are not subject to any statutory procurement requirements or procedures. While the use of open tendering processes and requests for proposals, statements of qualifications and expressions of interest is common, local governments can legally "sole-source" the procurement of goods and services. However, the Province expects them to comply with the Trade, Investment and Labour Mobility Agreement, the Canadian Free Trade Agreement and the New West Partnership Trade Agreement. The Province sometimes includes compliance requirements in funding agreements for local government services, including the use of BC Bid for non-exempt procurement. Cost and recoupment awards consequential on breaches of trade agreements may be registered against local governments in the Supreme Court Registry even though they are not parties to the trade agreement (under the *Enforcement of Canadian Judgments and Decrees Act* and the Domestic Trade Agreement Award Regulation B.C. Reg. 19/2016). Any regional district procurement steps that are involved in the creation or operation of an affordable housing investment vehicle should therefore be analyzed for compliance with these agreements.

4. Investment of CRD Funds including Low-Return Investments

Section 377 of the LGA makes s. 183 of the *Community Charter* applicable to regional districts. Section 183 is as follows:

> ***183*** *Money held by a municipality that is not immediately required may only be invested or reinvested in one or more of the following:*
>
> *(a) securities of the Municipal Finance Authority;*
>
> *(b) pooled investment funds under section 16 of the Municipal Finance Authority Act;*
>
> *(c) securities of Canada or of a province;*
>
> *(d) securities guaranteed for principal and interest by Canada or by a province;*
>
> *(e) securities of a municipality, regional district or greater board;*
>
> *(f) investments guaranteed by a chartered bank;*
>
> *(g) deposits in a savings institution, or non-equity or membership shares of a credit union;*
>
> *(h) other investments specifically authorized under this or another Act.*

Thus, if CRD were to invest its own funds or borrowed funds in a new investment fund for affordable housing, the investment would have to be specifically authorized by the Province (by additional powers regulation as described below). If such an investment would entitle CRD to a lower rate of return than other investors, that circumstance would have to be disclosed to the Province in the request for authorization of the investment.

5. MFA Financing

All local government borrowing in B.C. (other than Vancouver's) must be undertaken through the Municipal Finance Authority continued under the *Municipal Finance Authority Act* (MFAA). According to s. 24 of the MFAA, the regional board of a regional district must not adopt a loan authorization bylaw, or a security issuing bylaw on behalf of a municipality, unless the financing is to be undertaken by MFA. The Authority is comprised of representatives of each of the regional districts, who elect a board of trustees to exercise executive and administrative powers. The board's voting structure is based on regional district population.

The general scheme of the local government borrowing regime is that municipalities needing borrowed funds enact loan authorization bylaws and submit them to their regional district. Regional districts also enact loan authorization bylaws in respect of their own borrowing requirements. All loan authorization bylaws require the approval of the Inspector of Municipalities, and an appeal lies to the Minister of Municipal Affairs from any refusal. Municipal financing requests are then bundled with the regional district's own borrowing requirements in regional district security issuing bylaws, upon which financing requests to MFA are based. By this means, purchasers of MFA securities have indirect recourse to the property tax base of an entire region in the event of default by the regional district in its indebtedness to MFA. Note that regional districts make financing "requests" to MFA; MFA's trustees have discretion under the MFAA as to whether to authorize the issuance of securities to meet any particular request.

If CRD were to propose to borrow funds through MFA to invest in an affordable housing fund, the requirement for Inspector of Municipalities approval of CRD's loan authorization bylaw would provide an opportunity for the Province to bar such a request being made for MFA financing, in addition to the opportunity provided more generally by the requirement for Inspector approval of the bylaw that establishes the regional district service for which the funds would be borrowed.

6. Regional District Liability Limits

Section 403 of the LGA makes s. 175 of the *Community Charter* applicable to regional districts. That section and the Regional District Liabilities Regulation B.C. Reg. 261/2004 require elector approval of any liability of a capital nature, whether or not it is or includes a contingent commitment, and any loan guarantee, contained in an agreement with a term exceeding five years. What constitutes a "liability of a capital nature" has vexed municipal law practitioners since the enactment of the *Community Charter*; the important point is that any financial commitments that CRD might be considering will have to be analyzed in relation to this legislation to determine whether they are on-side or require an enabling regulation.[1]

Regional districts are subject to the same annual audit requirements as municipalities. The regional district's financial statements must be prepared by the financial officer in accordance with generally accepted accounting principles for local governments, and audited. For that purpose an auditor must be appointed, who must be a person authorized to be the auditor of a company under the *Business Corporations Act*. The audited financial statements of the preceding calendar year must be submitted to the Inspector of Municipalities by May 15 of each year, presented at a public meeting of the regional boar by June 30, and made available for public inspection afterwards at the regional district office.

7. Internal Governance

The administration and operation of regional district services is not subject to any particular statutory rules apart from the general "pay to play" rule mentioned earlier. The regional board may under s. 263(1)(e) of the LGA delegate its powers, duties and functions in accordance with Division 7 of Part 6 of the Act to a board member or committee, an officer or employee, or another body established by the board, but not to a corporation. A bylaw adopted by an affirmative 2/3 vote is required. (The CRD board established the Regional Housing Trust Fund Commission to administer the fund established by Bylaw No. 3266.)

8. Director Conflicts of Interest

The use of entities other than the regional district and its board to deliver a regional district service gives rise to conflict of interest questions, when members of the regional district board participate directly in the governance of the other entity, an arrangement that is often preferred as a means of exerting influence or control over the delivery of the service. Regional directors make an oath of office in the form prescribed by regional district bylaw or, absent a bylaw, the form prescribed by provincial regulation. Generally, such oaths of office require the director to act in the best interests of the electors generally when performing official duties. Directors of business corporations and societies have statutorily-prescribed obligations to shareholder and members that may be inconsistent with duties to electors generally: *Schlenker v. Torgrimson*, [2013] B.C.J. No. 29 (B.C. Court of Appeal). Thus, any such cross-membership arrangements require analysis as to whether they can operate without breaching conflict of interest principles.

[1] The term "liability of a capital nature" is also used in the Municipal Liabilities Regulation under the *Community Charter*. The terms used in the regulation are, according to s. 1(2), to be interpreted "consistently with the recommendations and guidelines issued by the Public Sector Accounting Board as authorized by The Canadian Institute of Chartered Accountants". While the Regulation is not directly applicable to regional districts, the recommendations and guidelines should be consulted in regard to the meaning of the same term in s. 175 of the *Community Charter*.

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In addition, in the context of affordable housing, regional district directors voting on matters pertaining to an affordable housing fund may appear to have a conflict of interest with respect to decisions, either at the regional board table or at the municipal council table in the case of municipal directors, that are indirectly related. Examples would be decisions on the zoning of land for whose development the fund is providing financing, the zoning of land that is adjacent to that land, or the provision of essential services such as water or sewer for such development.

9. Additional Regional District Powers

Section 296 of the LGA authorizes the Cabinet to, in relation to a particular regional district, provide a power additional to powers delegated generally by the *Local Government Act*, to provide an exception to or modification of a requirement or condition established by an enactment, establish terms and conditions regarding an additional power, exception or modification, or authorize a minister to establish such terms and conditions. The Capital Regional District Regulation B.C. Reg. 65/90 provides several additional powers to the CRD, dating back to 1990. In addition, there are several general additional powers regulations that apply to the CRD.

There are no established criteria for the enactment of additional powers regulations. Ministry of Municipal Affairs staff would obviously review any such requests to determine whether the proposed activities in question appear to be adequately covered by existing enabling legislation such that no additional authority is required. If they are not, a thorough policy analysis would presumably be undertaken, including consideration of whether the activity in question is considered appropriate for local government involvement at all. The Province has used additional powers regulations in the past to test initiatives that it does not wish to enable as a matter of general provincial law until a pilot project has been undertaken successfully.

Supplementary legal review questions

1. Is the CRD currently capped at $1M per year under bylaw No. 3266?

Yes. This is a self-imposed cap.

2. Could CRD acquire and grant land though a partnering agreement to a non-profit that might also receive capital from a new related fund in which CRD may or may not be an investor?

Yes.

Re incorporation or acquisition of shares:

3. If incorporation of a company or acquisition of shares requires approval of the Inspector of Municipalities, or an order in council, is this a higher threshold of approval than applies to other CRD bylaws and actions?

Yes.

Re investments:

4. Can you define "immediately required" for purposes of section 183 of the Community Charter?

The context here is an overall financial management regime that does not contemplate that a local government will levy taxes in order to accumulate unallocated surpluses. While the legislation does not require hand-to-mouth financial management, it is premised on the assumption that if there is cash in hand, it was received for a particular purpose. In that context, "not immediately required" would probably be interpreted to mean not required for the purpose for which it was accumulated for such a lengthy period that it's prudent for the local government to tie the funds up in an investment rather than letting them lie in a bank account (though note that letting the funds lie in a bank account is one of the authorized investments). It may be that the real issue here is addressed by our first comment: local governments including regional districts tend not to have large reserves of cash that are not allocated to a particular purpose.

5. Is a pooled investment fund under section 16 of the MFA Act prescribed and already established, or can it be simply a pool that conforms to specified characteristics?

Information on MFA's existing pooled investments funds is available athttp://mfa.bc.ca/clients/pooled-investment-funds

6. Would "securities of a municipality or regional district" as contemplated by section 183(e) of the Charter include a debenture issued by the CRD? [though I don't know how that helps us really]

The CRD cannot issue debentures; MFA issues debentures on behalf of regional districts and their member municipalities. This reference in the Charter likely dates to an earlier period when MFA did not exist.

MFA:

7. Are there guidelines the MFA Trustees use or an underwriting methodology for each request to determine whether a particular initiative is an acceptable borrowing purpose? A request to borrow for the purpose of investment in affordable housing is outside the norm - is it sufficient that a municipality will be liable for the borrowings or do the Trustees concern themselves with uses of capital?

We have not encountered situations in which MFA has refused to borrow on behalf of a regional district on the basis that it does not consider the purpose of the proposed borrowing to be appropriate.

The MFA website contains this information on its governance:

> *The Members of the Authority are elected officials appointed by the regional boards in each regional district in BC. The number of MFA Members (currently 39) is based on the population of the regional districts. The Members of the Authority represent all 28 regional districts. The Members meet twice a year, once at the Annual General Meeting (AGM) held before March 31st each year, and again in the*

fall, in conjunction with the annual Union of BC Municipalities Convention. At these meetings, the Members review requests for financing and authorize the issue and sale of securities. At the AGM, the Members elect ten Trustees, including the Chair and Vice-Chair. Four Trustees must be from Metro Vancouver, one from the Capital Regional District, and the other five from the remaining regional districts.

Thus decisions on whether to approve a borrowing request are made by local government representatives who are familiar with the general range of activities in which local governments are involved. In these forums elected officials tend to defer to the judgement of the local representative; CRD will have a voice at the table (and this is not a conflict of interest for this member because they hold their position on the MFA board precisely because they are on the CRD board). Members of the Authority likely take staff advice on whether any novel area of local government activity would put MFA's AAA credit rating at risk, when they are dealing with a request of an unprecedented nature. Possibly a request related to affordable housing would be considered routine by this point in history. If not, members of the Authority would probably be concerned more with MFA's credit rating being jeopardized than with the question of whether affordable housing is a legitimate local government matter.

8. If CRD were to borrow through MFA only to acquire land for affordable housing, rather than to invest in a fund, would the MFA approval threshold be lower?

Not likely. One way or another the CRD has to come up with the money to service the debt; the bylaws that are antecedent to the borrowing request to MFA will have to establish how the costs are being recovered. MFA is probably more concerned with the size of CRD's overall debt load than with the details of any particular borrowing request.

Other/General:

9. If the CRD were to guarantee a loan, are the provincial approval requirements different to those for borrowing?

A loan guarantee doesn't require provincial approval. It's a form of "assistance" authorized by s. 263(1)(c) of the LGA that requires transparency under s. 272 (a newspaper announcement, basically) and a partnering agreement if the RD is assisting a business undertaking.

10. The CoV has provided 99-year leases for nominal cost in exchange for delivering affordable housing with the restrictions built into the lease (something akin to Services). Any debt on the project is incurred and serviced by the party delivering the Service, but the City shares in income once any private equity partners have been refinanced. This allows the City to generate a potential income stream without taking on any additional direct or contingent liabilities. Could CRD do this? Would it be more difficult if they had to first acquire the land? Would it be less difficult to get this approved vs. a CRD investment where CRD's interest is deeply subordinated to the private equity partner(s)?

Yes. CRD can lease its land for affordable housing for nominal cost.

If it is acquiring a site it will have to use reserves that may be available for affordable housing, or go through MFA to get the funds to acquire the site. In the latter scenario the service establishment bylaw will have to identify how the debt retirement is going to be funded and the Inspector is likely to insist that taxation avenues be identified if there is any contingency at all associated with an income stream from the lease.

11. Are there any further nuances between using a lease as a way of contracting for Services, and using freehold title?

None come to mind.

Conflicts of interest:

12. Can conflicts be addressed by policy requiring those with conflicts to declare and recuse, or would those with conflicts be likely to be barred from participating in any way.

Not sure what the difference is between recusal and not participating. At common law those who have conflicts are supposed to refrain from participating; they don't have to provide an explanation. For RD board members however there is a statutory requirement to declare the nature of the conflict as well as withdrawing from participation. There is no room for "policy" where a statute sets out the rules; those with conflicts are barred from participating.

Appendix VII – Investment Interest Contacts in Phase 1

List of organizations and individuals who provided feedback on investment interest

1. BCIMC
2. Ontario Teachers
3. Caisse
4. HOOPP
5. AIMCO
6. CPP
7. BC Workers Compensation Board
8. Manulife
9. Fiera Capital
10. Grosvenor
11. Greystone Managed Investment
12. Quadreal
13. ACM Advisors
14. Genus Capital
15. Scotia Capital
16. BMO Capital
17. Vancity Credit Union
18. Victoria Community Foundation
19. Hamilton Community Foundation
20. McConnell Foundation
21. Teekay Foundation
22. Canadian Overseas Investments
23. Strategic Income Security Services
24. George and Bell
25. Mercer
26. West Coast Actuaries
27. PBI
28. SHARE
29. Sustainalytics
30. GWLRA
31. Addenda Capital/Cooperators
32. Whipp Financial

Appendix VIII – Draft Fund Term Sheet

Indicative Summary of Terms & Conditions for CRD Rental Housing Fund I Limited Partnership

The Partnership or Fund	CRD Rental Housing Fund I Limited Partnership (the "Partnership" or "Fund") is a • limited partnership organized for the purpose of investing in affordable rental housing projects, primarily in the Capital Regional District of British Columbia.
Fund Size	The Fund is targeting aggregate subscriptions of $[25,000,000] to [$65,000,000] from the investors ("Limited Partners") representing the offering proceeds ("Offering Proceeds").
Minimum Investment	The institutional minimum investment is [Five Hundred Thousand Dollars ($500,000)] unless otherwise approved by the General Partner. The individual minimum investment is [Two Hundred and Fifty Thousand Dollars ($250,000)] unless otherwise approved by the General Partner. A Limited Partner subscribing for units in the Partnership ("Units") will be required to deliver confirmation of their status as an accredited investor under applicable securities laws.
Initial Closing Date	The Fund will be discontinued without admission of any Limited Partners unless acceptable subscriptions for the Minimum of [$10,000,000] are received by the General Partner no later than • (the "Initial Closing Date"). The General Partner may elect to extend this date by up to 180 days by giving written notice of such extension to each person who has subscribed for any Units.
Subsequent Closing Dates	The General Partner may accept additional subscriptions for a period of up to twelve months after the Initial Closing Date (the "Subsequent Closing Dates"), or until such later date is approved by a majority of the Limited Partners. The final Subsequent Closing Date will be the ("Final Closing Date").
The General Partner and Fund Manager	• General Partner Ltd., a • company, is the General Partner of the Partnership ("**General Partner**"). The General Partner is a wholly-owned subsidiary of •, a • company ("**Fund Manager**"). The Fund Manager will provide management and administrative services to the Partnership through a contractual relationship with the General Partner.
Partnership Investments	The Partnership will acquire equity interests in, or advance loans to, limited partnerships and/or companies ("Project Owners") that will acquire completed newly constructed or completed substantially renovated affordable rental housing projects and related commercial facilities located in the Capital Regional District of British Columbia (the "**Projects**"). By doing so, the Partnership will assist in the provision of decent, safe, and sanitary housing that is affordable to on average, households with median incomes of approximately [80%] of the median income for the Capital Regional District

Projects	Projects are to be located within the Capital Regional District of British Columbia. The Partnership will invest in Projects depending on Project availability, need for financial assistance, economic viability and suitability. The Partnership is being created in the context of an undertaking by the Capital Regional District to help alleviate the affordable housing shortage in that region of British Columbia, by facilitating investment in Projects that will reduce that need. [The General Partner has not yet definitively selected any of the Projects in which it intends to invest Partnership capital, but may do so prior to the closing of the Offering. The General Partner has, however, identified several potential Project Investments. See "CRD Rental Housing Fund I Limited Partnership Potential Investments".]
Partnership Objectives	The Partnership's objectives are to acquire Project Investments that: 1. serve the charitable, social, governmental and civic purposes of fostering affordable rental housing development, including special needs developments; 2. in the aggregate, are likely to generate a [6%] IRR net of fees to the Limited Partners (including a targeted [4%] cash distribution annually to the Limited Partners, paid quarterly, after year two); 3. preserve and protect the Partnership's capital and its earning power by investing only in economically sound projects; 4. increase the supply of affordable rental housing in the Capital Regional District by providing medium term post-construction take-out equity financing that facilitates the constructing of new units or substantial renovation of existing units where the demand supports the increased stock; 5. strengthen the economic and social climate of neighborhoods in which the projects are located through the availability of affordable rental housing for families with low and moderate household income; 6. enhance economic development by providing affordable work force housing to retain and attract employees; and 7. are transportation oriented and built to have strong energy efficiency performance.
Investment Period	The Investment Period will commence on the Initial Closing Date and will continue to and including the date that is the earliest to occur of: (i) the fourth anniversary of the last Follow-on Closing Date; (ii) the date the Partnership is terminated in accordance with its terms and (iii) the date of the closing of a successor fund, the raising of which shall not begin until the Partnership is at least 60% committed.
Term	The Initial Term is 10 years from the date of the Final Closing Date provided that: 1. the General Partner will be entitled, by delivering notice in writing to the Limited Partners not less than 30 days prior to the end of the Initial Term, to

cause the term of the Partnership to be extended for one additional one-year period;

2. the Limited Partners will be entitled, by resolution of the Limited Partners holding more than 50% of the total units entitled to vote on such matter, to cause the term of the Partnership to be extended for up to one further additional year; and
3. the Limited Partners will be entitled, by resolution of the Limited Partners holding more than 66 2/3% of the total units entitled to vote on such matter, to cause the term of the Partnership to be extended for up to one further additional year.

Investment Criteria and Target Return

Project Investments may involve recently completed substantial rehabilitation of existing multi-family or other rental housing, or recently completed new construction of multi-family or other housing structures for rental or other operation or disposition or a combination thereof. Certain Project Investments may include commercial facilities not related to housing within the Projects. Overall Projects will be limited to those that are affordable to households earning, on average at the time of initial tenancy, [80%] of the median income for the Capital Regional District

Project Investments will generally consist of a 99.99% interest in Project Owners. Project Owners will be separate legal entities, such as limited partnerships or companies. The decision to invest in a Project will be made by the General Partner upon recommendation and approval of the Investment Committee formed by the General Partner (the "Investment Committee"), in all cases subject to the determination that each Project Investment satisfies the Investment Criteria (included in Schedule A) and that the Project Investments collectively are reasonably expected to generate the Target Return.

The Projects, taken together, will be chosen such that they can reasonably be expected to generate the "Target Return" on the Limited Partners' collective investment, using a 6.0% effective internal rate of return, net of fees

Allocations among Partners

Partnership profits, losses, deductions, tax credits, and cash flow will be allocated 99.99% to the Limited Partners and .01% to the General Partner. Each Limited Partner will be allocated a percentage of such items based on the ratio of Units owned by such Limited Partner to the total number of Units owned by all Limited Partners.

Fees to the Fund Manager

The Fund Manager will be paid a "Closing Fee" equal to 1% of the Offering Proceeds, a "Management Fee" equal to 1% of the Offering Proceeds annually during the Investment Period, and following the Investment Period, equal to 1% of then outstanding invested amount, annually until the wind-down of the Partnership.

Fund Expenses

The Fund will pay the Closing Fee and Management Fee and all expenses incurred by or on its behalf, including all legal, accounting and reporting expenses, taxes (including the Canadian Goods and Services Tax payable on the Management Fee), out-of-pocket expenses related to the making and management of investments, and other ancillary expenses. In addition, the Fund will pay its organizational expenses (not to exceed $150,000), including legal, accounting and other professional fees and expenses, printing costs, and other costs of establishing the Fund and completing the Initial Closing and any Subsequent Closing Dates. All expenses of the Fund will be shared pro-rata, based on committed capital among the investment vehicles comprising the Fund.

Fund Manager Expenses	The Fund Manager will be responsible for all day-to-day operating and administrative expenses, including overhead and compensation of the Fund Manager's team.
Placement Fees	No brokerage, underwriting or placement fees will be paid by the Fund in connection with this offering
Rights of First Refusal	It is expected that each Project Owner's property will be sold or refinanced after eight years, although there can be no assurance that such a sale or refinancing will occur. The agreement with a Project Owner will provide for a right of first refusal for one or more of (i) a non-profit partner in each Project Owner or an affiliate of such partner; (ii) a non-profit management company; (iii) tenant group(s); and (iv) other non-profit or charitable organizations. The sale price in such instances will generally not be significantly greater than the sum of outstanding debt plus the Partnership's investment and structured returns, and transaction costs and is intended to be at such an amount that allows for the on-going affordability of rents
Drawdowns	From time to time during the term of the Fund, the General Partner will deliver notice of capital drawdowns to Limited Partners who have outstanding committed capital. The amount payable under, and the timing of, all such drawdown notices will be determined solely by the General Partner in accordance with the Fund's cash flow requirements. Each Limited Partner will be required to deliver payment of the amount payable under each such notice to the Fund by no later than ten business days following the date of the applicable notice.
Transfers of Units	Units should be purchased primarily for long-term investment. Since the Partnership will not redeem its Units and there is currently no market for the Units, a Limited Partner may not be able to liquidate its investment prior to termination of the Partnership. It is anticipated that the typical Project in which the Partnership invests and the Partnership's interests in the Project Owner that operates each such Project will be sold or otherwise disposed of after eight to ten years. The Partnership will terminate upon disposition of all of its Project Investments and the distribution of liquidation proceeds, and in no event later than ten years after the Final Closing Date, unless extended pursuant to the terms of the Fund Agreements.
Defaulting Limited Partner	The Partnership Agreement will provide that if a Limited Partner defaults in respect of its unfunded commitments, the Limited Partner may suffer adverse consequences, including the sale or forfeiture of all or a substantial portion of its interest in the Fund.

Unused Capital Contributions	Any portion of the Capital Contributions of the Limited Partners that has not been invested, committed for investment, or otherwise expended or reserved in a manner permitted by the Partnership Agreement prior to the fourth anniversary (as may be extended pursuant to the terms of the Partnership) of the Last Follow-on Closing shall be distributed pro rata to the Limited Partners according to the number of Units that they then hold as a return of capital, without interest and without reduction by the amount of any fees that would have been payable to the General Partner if such portion had been invested by the Partnership.
Alternative Investment Vehicle	The General Partner may establish an alternative investment vehicle if required by any one or more investors which will invest concurrently and proportionately with the Partnership.
Successor Fund	A successor fund to invest exclusively in Projects in the Capital Regional District shall not commence fund raising until the earlier of the expiration of the Investment Period or the date on which the Partnership is at least 60% committed to or invested in Projects.
Partnership Borrowing	The Partnership may borrow money from time to time to pay Partnership expenses, including fees and expenses of the General Partner, to cover Project costs payable prior capital calls, or to finance acquisition of Project Investments. The Partnership Agreement limits total Partnership debt to 25% of the Offering Proceeds. Partnership debt may be secured by an assignment of capital call rights and/or a security agreement over the assets of the Partnership any as provided by the terms thereof, the Partnership's Project Investments and other Partnership assets.
Communications with Limited Partners	The Fund will furnish all Limited Partners with (unaudited) financial statements and investment return analysis on a quarterly basis, including progress reports in sufficient detail to describe the progress of the Fund. The General Partner will maintain accounts for the Fund, including each Limited Partner's individual capital account. Limited Partners will also receive annual audited financial statements of the Fund, a statement of each Limited Partner's closing capital account balance, an annual statement of the aggregate gains and losses, an annual overview of the Fund's portfolio, and any information necessary for completion of the Limited Partners' tax returns. The annual information will be delivered within 90 days after the Fund's year end. Each LP Unit will entitle the holder to one vote on matters brought before the Limited Partners
Liability	Neither the General Partner nor any affiliate of the General Partner, nor any of their respective directors, officers, partners, shareholders, employees or agents, including the principals of the Fund Manager and members of the Limited Partner Advisory Committee, will be liable to the Fund or to any Partner for any losses suffered as a result of any actions taken by them, or any failure by them to take any action, except for any liability, loss or expense resulting from such person's [gross] negligence or wilful misconduct.

NEW MARKET FUNDS

In addition, each such person will be entitled to be indemnified by the Fund. The Fund may pay the expenses incurred by any indemnified party in defending an actual or threatened civil or criminal action in advance of the final disposition of such action, but only if the indemnified party agrees to repay those expenses if found by adjudication not to be entitled to indemnification.

Limited Partner Advisory Committee

If requested by a majority of the Limited Partners, the General Partner will establish a limited partner advisory committee (the "Limited Partner Advisory Committee") consisting of at least three members who will represent the Limited Partners. The Limited Partner Advisory Committee will act by majority vote, and will be responsible for:

1. advising the General Partner with respect to certain conflicts of interest involving the General Partner, the Fund or any affiliates of the General Partner;
2. reviewing and advising the General Partner on the valuation methodology employed by the Fund; and
3. reviewing and advising the General Partner on such additional matters relating to the conduct of the Fund's business as the General Partner may refer to the Limited Partner Advisory Committee.

GP Removal

The General Partner may be removed for cause by [51]% in interest of the Limited Partners. The General Partner may be removed without cause by [80]% in interest of the Limited Partners.

Tax Consequences

Prospective investors should consult their personal tax advisors regarding the tax consequences under applicable laws of purchasing LP Units. The General Partner does not intend to request an advance tax ruling from any taxation authorities regarding the tax status of the Fund.

Confidential Information

Subject to applicable law, each of the Limited Partners will keep in confidence all information regarding the Fund, its portfolio companies and prospective portfolio companies that is provided by the Fund. No Limited Partner may use this information for any purpose other than to monitor its investment in the Fund.

Limited Liability

The Fund will be formed and operated in such a manner that the liability of the Limited Partners with respect to the Fund is limited to the maximum extent permitted by law.

Schedule A
Investment Criteria

The following investment policies will be used, by ● General Partner Ltd. (the "**General Partner**") with modification as determined by the Investment Committee provide general parameters used for the review, negotiation and selection of investments for ● Rental Housing Fund I Limited Partnership (the "Partnership") by the General Partner. These policies provide general guidance in the General Partner's evaluation of potential projects and may be modified to respond to the characteristics of specific markets and/or updated periodically to reflect changes in market conditions.

In selecting projects for investment, the General Partner on behalf of the Partnership will endeavor to make those investments which enhance the goals of the Partnership.

These Partnership Goals are to:

1. serve the charitable, social, governmental and civic purposes of fostering affordable rental housing development, including special needs developments;
2. in the aggregate, are likely to generate a [6%] IRR net of fees to the Limited Partners (including a targeted [4%] cash distribution annually to the Limited Partners, paid quarterly, after year two);
3. preserve and protect the Partnership's capital and its earning power by investing only in economically sound projects;
4. increase the supply of affordable rental housing in the Capital Regional District by providing medium term post-construction take-out equity financing that facilitates the constructing of new units or substantial renovation of existing units where the demand supports the increased stock;
5. strengthen the economic and social climate of neighborhoods in which the projects are located through the availability of affordable rental housing for families with low and moderate household income;
6. enhance economic development by providing affordable work force housing to retain and attract employees; and
7. are transportation oriented and built to have strong energy efficiency performance.

Threshold Criteria and Goals

The Partnership will only invest in a completed post-construction project (a "Completed Project") satisfying all of the following conditions:

(1) The Completed Project must be located in the Capital Regional District of Provinces of British Columbia.

(2) The Partnership is satisfied, based upon a title report or other satisfactory evidence, that the project owner is, or will be upon closing of the Partnership's investment in the Completed Project, the sole owner of the Completed Project, in fee simple (except for the land underlying the Property in the case of an acceptable long-term ground or building lease), subject only to such liens,

encumbrances and other title impairments as will not materially adversely affect the contemplated use of the Property.

(3) The project owner has provided evidence that the Completed Project carries hazard insurance covering such hazards as are customary in the Completed Project's geographic area for multifamily and commercial property. Such insurance coverage must be at least equal to the financing encumbering the Project or one hundred percent (100%) of the stated cost to rebuild or restore the Project.

(4) Construction fully completed to the satisfaction of the Partnership.

(5) The Completed Project has total debt not exceeding 70% of its Fair Market Value at the closing of the Partnership's investment in the Completed Project.

(6) The Completed Project meets the 80% Affordability Objective and at initial occupancy all non-market units on average will demonstrate, in aggregate, occupant incomes at or below 80% of median household income for the area locality.

(7) The Partnership is satisfied that there is and will continue to be sufficient market demand for the Completed Project and that the income generated during the investment period will be sufficient to meet all reasonable expense and reserve requirements including the targeted return to the Partnership.

(8) It is expected that each Project Owner's property will be sold or refinanced after eight years, although there can be no assurance that such a sale or refinancing will occur. The agreement with a Project Owner will provide for a right of first refusal for one or more of (i) a non-profit partner in each Project Owner or an affiliate of such partner; (ii) a non-profit management company; (iii) tenant group(s); and (iv) other non-profit or charitable organizations. The sale price in such instances will generally not be significantly greater than the sum of outstanding debt plus the Partnership's investment and structured returns, and transaction costs and is intended to be at such an amount that allows for the on-going affordability of rents at property.

Guidelines

The Partnership will substantially conform to the investment guidelines set forth below. These policies provide general guidance in the evaluation of potential projects and may be modified to respond to the characteristics of specific markets and/or updated periodically to reflect evolving market conditions.

I. Suitability of the Developer

The Partnership will consider, examine and evaluate a number of factors in determining the suitability of the developer to undertake the Project, such as:

a. The developer's track record in other projects, including the ability to deliver projects in a timely fashion.

b. The developer's financial statements, resumes and references.

c. The project team including the architect, engineer, contractor, construction manager, accountants and lawyers.

d. The developer's ability to fund pre-development expenses.

e. The level of local participation, understanding, and support for the proposed project in the community in which it is being developed.

2. Suitability of the Community Partner

The community partner (the "Community Partner") is the non-profit, charitable or co-operative corporation that is sponsoring the Project and agreeing to oversee the stewardship of the public purpose of the Project through the investment period and beyond and who will generally be a member of the Project Owner and may also manage the Project. The Partnership will consider, examine and evaluate a number of factors in determining the suitability of the Community Partner, such as:

a. The Community Partner's track record in other projects, including the ability to budget and manage projects in a sustainable manner.

b. The Community Partner's financial statements, resumes and references.

c. The Community Partner's management team, governance and advisors.

d. The Community Partner's ability to withstand operating shortfalls.

e. The ability of the Community Partner to sustain political support for the Project and the make-up of their board of directors.

3. Project Viability

The Partnership will consider, examine and evaluate a number of factors regarding the viability of the Project, such as:

a. Project Site

    i. The number of dwelling units (generally, there should be at least 30 dwelling units).

ii. Required zoning approvals and any other required variances and land use approvals.

iii. Neighborhood stability or the prospect for future stability.

iv. Location of the site in a downtown or village center, growth center or other area suitable for development.

v. The amount of revenue to be derived from leases of space for non-residential purposes (generally no more than 10% of the total revenue).

vi. Local and regional apartment demand.

b. Project Financing

vii. Loan commitments or letters of intent from all of the lenders including all terms and conditions.

viii. Level of terms and guarantees of completion of construction.

ix. Benefits projected as being available to the Partnership (or any Investor) in the forecast on which the Partnership relied.

x. The identity of potential resources for the Project's required.

xi. Bridge financing, if any.

c. Project Operations

xii. The sufficiency of the market for the Project considering the proposed rent levels and the requirement that the units in aggregate are affordable to households earning, on average, 80% of the median household income level for the Capital Regional District. Operating expenses will be inflated at a level which reflects the perceived operating risk associated with the Property, as measured, in part, by the prevailing Consumer Price Index.

xiii. The experience and capacity of the Community Partner or its designated property management company.

xiv. Management fees budgeted in the forecast must be sufficient to secure alternate management for the Project should the original management be unable or unwilling to continue or prove to be unsuitable.

xv. The adequacy of the Project's replacement reserves.

xvi. The budgeted costs of insurance, security, trash, snow removal, and other contracted services shall be obtained on a quotation basis.

xvii. Property tax expenses should reflect value at the conclusion of construction and take in account any anticipated tax rate increases as well as any tax abatement or other agreements for payment in lieu of taxes.

xviii. The amount of funds to be set aside as an operating reserve.

xix. The appropriateness of the marketing plan, especially the reasonableness of the lease-up schedule.

xx. The reasonableness of the anticipated vacancy rate. Generally, projects will have minimum vacancy rates of two percent. Higher vacancy rates may be required based upon local market conditions, the type of housing and other relevant factors.

d. Project Development

xxi. Adequate construction budget. The Partnership shall require a review by an approved independent inspecting engineer or cost estimator to verify that the project can be built within the proposed time frame for the amount of the construction budget. At its discretion, the Partnership may rely upon reviews performed for the construction lender.

xxii. Adequate construction contingencies.

xxiii. Adequate soft cost budget. The Partnership will review the soft cost budget (particularly the level of fees for legal,

Appendix IX – Definition of Accredited Investor

Accredited Investors include, but are not limited to, the following individuals as defined by National Instrument 45-106 Prospectus and Registration Exemptions.

For Individuals

- A person registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer
- An individual who, either alone or with a spouse, beneficially owns "financial assets" having an aggregate realizable value that before taxes, but net of any "related liabilities", exceeds $1,000,000
- An individual whose net income before taxes exceeded $200,000 in each of the 2 most recent calendar years or whose net income before taxes combined with that of a spouse exceeded $300 000 in each of the 2 most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year
- An individual who, either alone or with a spouse, has net assets of at least $5,000,000
- A person acting on behalf of a "fully managed account" managed by that person, if that person
    - is registered or authorized to carry on business as an adviser or the equivalent under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction, and
    - in Ontario, is purchasing a security that is not a security of an "investment fund"

For Institutions

- A pension fund that is regulated by the Office of the Superintendent of Financial Institutions (Canada), a pension commission or similar regulatory authority of a jurisdiction of Canada
- An investment fund that distributes or has distributed its securities only to
    - a person that is or was an accredited investor at the time of the distribution,
    - a person that acquires or acquired securities in the circumstances referred to in sections 2.10 (Minimum amount investment), or 2.19 (Additional investment in investment funds) of National Instrument 45-106, or
    - a person described in paragraph (i) or (ii) that acquires or acquired securities under section 2.18 (Investment fund reinvestment) of National Instrument 45-106
- An investment fund that distributes or has distributed securities under a prospectus in a jurisdiction of Canada for which the regulator or, in Québec, the securities regulatory authority, has issued a receipt
- A trust company or trust corporation registered or authorized to carry on business under the Trust and Loan Companies Act (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a fully managed account managed by the trust company or trust corporation, as the case may be
- An investment fund that is advised by a person registered as an adviser or a person that is exempt from registration as an adviser
- A person or holding company in respect of which all of the owners of interests, direct, indirect or beneficial, except the voting securities required by law to be owned by directors, are persons that are accredited investors
- A person other than an individual or investment fund, that has net assets of at least $5,000,000 as shown on its most recently prepared financial statements