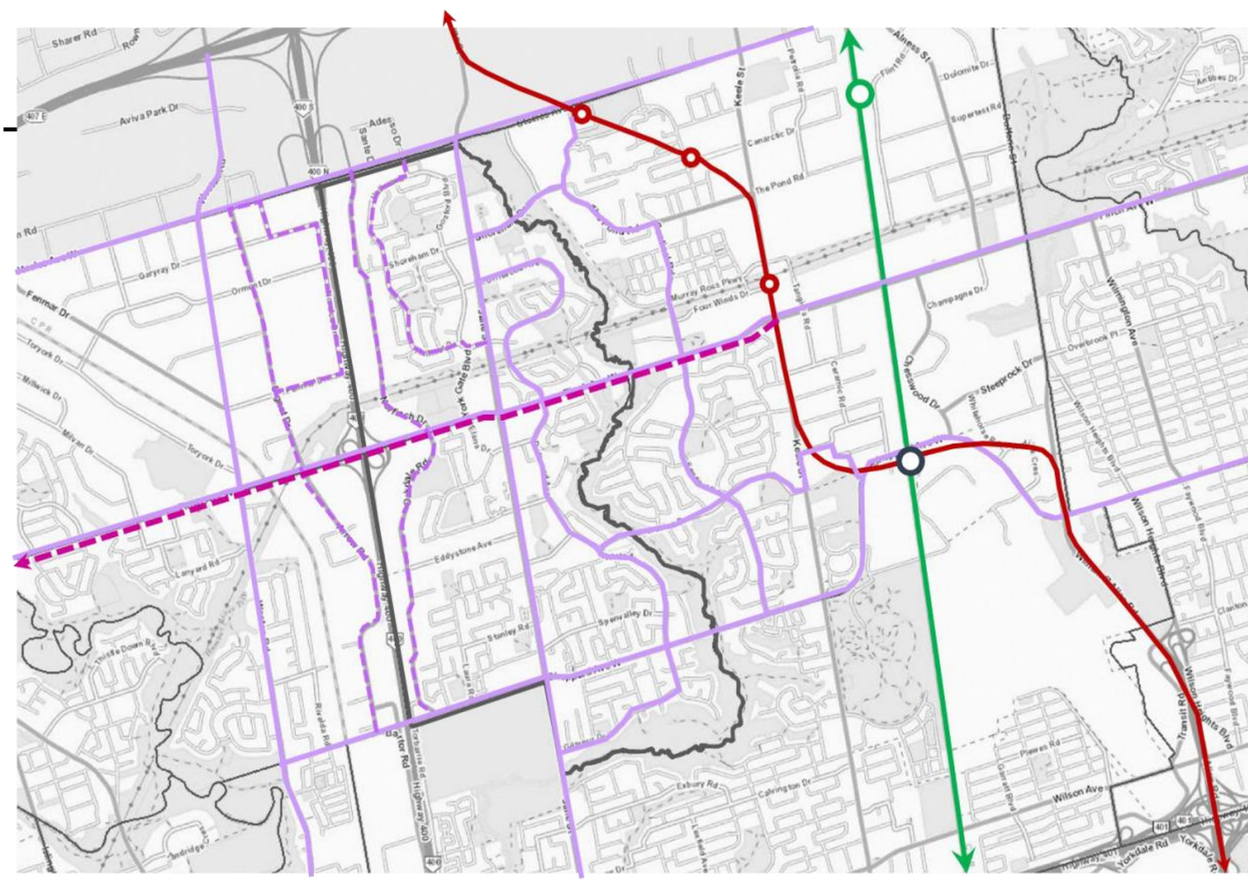
Urban Land Institute

Building Community Wealth through Real Estate Investment

Technical Assistance Panel Report | December 2020

Table of Contents



1. Background and Context

Toronto's soaring real estate market and affordability challenges are well-documented. These challenges are particularly pressing for renters: since the mid-1970s, little in the way of purpose-built rental housing has been built, given the higher returns and demand for condominiums.[1] The City of Toronto has limited mechanisms to stabilize or preserve existing affordable housing in the private market[2] and does not monitor affordable housing supply.[3]

The COVID-19 pandemic has exacerbated the current real estate crisis, and not just for housing. In Toronto, the impact on small businesses has had a disproportionate impact on main streets across the city, with the closure of many small retail businesses in particular.[4] In Ontario, 8.3% of small businesses (more than 25,000) closed between February and September 2020.[5] While the shift to e-commerce has helped some small businesses who were able to move online, many others have seen acute drops in revenue and have either closed or continue to struggle for survival.[6] Foot traffic on main streets has dropped by as much as 70%.[7] As government support programs end, it is likely that another wave of closures will result. At the same time, the movement to work from home has also led to rethinking of commercial space needs, although the impacts are slow to materialize given that most commercial leases are longer-term.

Given the difficulties faced by renters in all categories, smaller landlords who own apartments and/or mixed-use buildings may find their revenue flows diminishing and may be forced to sell if they cannot absorb the losses.

> "Intense demand for Canadian apartment buildings has come roaring back, despite the pandemic, reigniting bidding wars between institutional investors for rental towers across the country."[12]

The effect of the pandemic on low-income neighbourhoods (which now make up almost half the city)[8] is particularly dire; statistics show that racialized Canadians, younger Canadians, and those with disabilities are struggling the most to make ends meet right now.[9] Low-income communities are already vulnerable to seeing buildings in their neighbourhood purchased by large developers, private equity firms or Real Estate Investment Trusts (REITS) because these properties are more affordable than those in the downtown core or wealthy suburbs.[10] Such purchases often lead to gentrification and displacement of local tenants.[11] Recent reports show that older rental apartment buildings are being snapped up by large investors in hopes of monetizing greater returns once health conditions normalize.[12]

When buildings are sold and gentrification ensues, affordable housing and retail/commercial buildings are lost, low-income residents are forced out, and main streets – the hubs of their neighbourhoods – are transformed, often with the loss of long-time retail and cultural properties and social cohesion. Because low-income people rarely own assets, they are easily displaced, which contributes to ongoing poverty and marginalization.

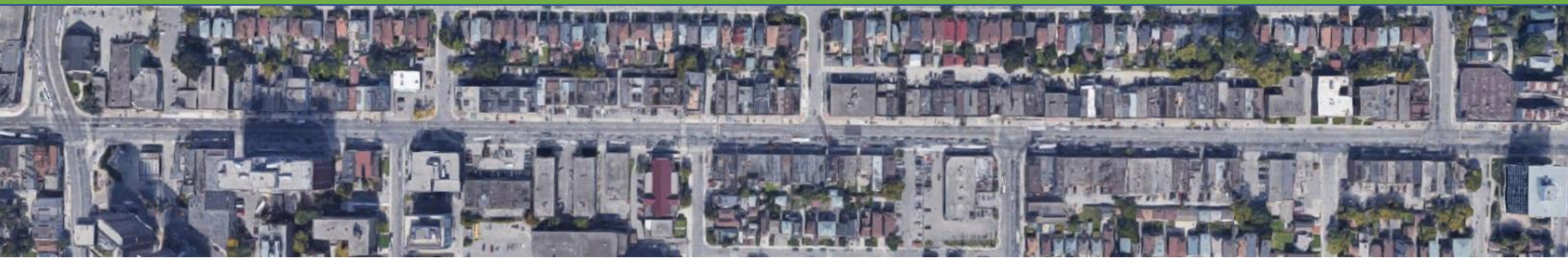
The City of Toronto is marshalling resources to address the affordable housing issue as part of its HousingTO 2020-2030 Action Plan, but little official attention is being paid to preserving the affordability of not just existing affordable housing but mixed-use, retail and commercial buildings on main streets in low-income neighbourhoods. However, as the TAP revealed, there are developers, individuals and communities in Canada, the US and abroad who are working on new models to address affordability and community wealth-building.

2. The Assignment

This TAP was brought together to explore the question: Is it possible to create a real estate vehicle that preserves (and expands) affordable spaces and gives local residents an opportunity to build wealth?

Ultimately, the quest is for a business model that is scalable and replicable, that would produce enough revenues to provide a return to its investors and shareholders, and that would achieve the following goals:

- preserve the existing supply of housing, retail and commercial spaces in neighbourhoods and commit to retaining (and potentially expanding) current levels of affordability
- preserve and enhance the fabric of the community, ensuring that local retail and community organizations can remain and grow
- help low-income residents begin to build assets – a necessary precondition for breaking the cycle of poverty
- in combination with accompanying initiatives (community engagement, governance, local economic development) enhance social cohesion and build stronger communities.



3. The TAP

The ULI Technical Assistance Panel (TAP) is a high-profile industry program that brings together the finest expertise in the real estate, planning and development fields to collaborate on complex land use, redevelopment projects and current issues in real estate. ULI Toronto has hosted and contributed to a number of discussions that address the general topic of social purpose real estate. This TAP was organized to bring a wide range of expertise to bear on the development of a new model or models that can address the dual issues of affordability and income inequality.

The TAP panel, chaired by respected architect and developer Mark Guslits, included 14 experts in the areas of development, finance, social purpose real estate, planning and community engagement from ULI Toronto's membership and beyond (See Appendix A – The Team). In addition, members of the ULI Toronto Curtner Leadership Program prepared working materials and attended as resources to the group. TAP participants attended a half-day of presentations on Monday, December 14, 2020 that showcased models for affordability and community wealth-building from around the world and took part in a roundtable and breakout groups on the following morning.

4. Day One: Overview of Models

After an initial welcome by ULI Outreach Committee Chair Laura Sellors and Panel Chair Mark Guslits, and a presentation by Dina Graser of the central issue the TAP was designed to explore, the first morning of the TAP was devoted to presentations that demonstrated different models and approaches to preserving or expanding affordability and community wealth.

Presenters:

- Abi Bond, Executive Director, City of Toronto Housing Secretariat
- Elina Eskalä, Planner, City of Helsinki Executive Office
- Martine Aldridge, Founding Principal, Martine & Co.
- Samuel Ganton, Open Architecture Collaborative Canada
- Alisa Berry, Executive Director, Cornerstone Renter Equity (Cincinnati)
- Max Levine, Co-founder and CEO, NICO (Los Angeles)
- Sean Campbell, Executive Director, Union: Sustainable Development Cooperative (Waterloo)

Overview of the presentations

The municipal presentations, from both Toronto and Helsinki, showed the critical importance of municipal policy to preserving and expanding affordability. The situations are very different, given that 64% of the land in Helsinki is publicly owned, but both cities are focusing on building new affordable housing – both rental and home ownership – with a mix of investment, construction and regulation.

Toronto, for example, has a policy requiring affordable rental units to be replaced in the case of redevelopment and offered to existing tenants. It has also been focussing on reducing development, financing and maintenance costs of new builds with initiatives such as modular housing for the homeless. Helsinki (which has virtually eradicated homelessness through its Housing First policy) is, among other initiatives, in the midst of rethinking a successful but controversial affordable home ownership program that regulated maximum prices for units in an effort to retain families with children in the city.

Open Architecture Collaborative Canada provided background and some history about the Little Jamaica neighbourhood, discussing the current pressures of displacement and gentrification. The Eglinton Crosstown LRT construction has led to closures of 50% of Black-owned businesses in the area; existing Business Improvement Areas (BIAs) have been reluctant to market the area and its identity; and the Eglinton Connects planning study failed to acknowledge the unique needs and assets of the neighbourhood. The report produced by Black Urbanism Toronto and the OACC[13] made a series of recommendations for actions that would support Black-owned and operated businesses and preserve the cultural and physical landscape of Little Jamaica.

Both Samuel Ganton and presenter Martine Aldridge pointed to the importance of Black leadership and community ownership starting with and by community members in Little Jamaica. Martine has created a new company, Martine & Co., that is building a financial model to preserve and build Black ownership in the area. The company has two initiatives: a Community Home Ownership Program (CHOP), which will include options designed to facilitate community members entering the residential property market: and the Little Jamaica Revitalization Project, in which the company will purchase commercial properties in the area that house Black-owned businesses. Martine & Co. is seeking to bring in both junior and senior investors through a limited partnership structure that combines financial education and participation in strategic decision-making.

Cornerstone Renter Equity in Cincinnati is an affordable housing provider that was founded in 2001 to help low-income families in urban communities achieve financial stability and economic self-sufficiency by providing opportunities for families to invest in their communities. Families can earn "equity credits" of up to $130/month by attending a community meeting, paying their rent on time, contributing to the community or investing in themselves through family coaching or other means. This model relies on the participation and empowerment of residents to build both the community and their own asset base. The company has a renter equity reserve to secure the equity that residents earn but fundraises yearly to fund the payouts in order to retain the reserve.

NICO, the Neighbourhood Investment Company, uses a well-understood investment structure – a Real Estate Investment Trust – to create a way in which local residents can build wealth by investing in their neighbourhoods. Described as a "hyperlocal REIT", it is a benefit corporation that invests in income-producing real estate and sells shares to local residents starting with an initial investment of $100, as well as raising funds from more traditional sources of real estate equity and debt. The company has explicit social and environmental objectives and seeks investors who are aligned with its mission. Its first REIT is in Echo Park, a neighbourhood of Los Angeles, and it is seeking to expand in other areas across the U.S.

> "How can we use a new approach to real estate as a force for localizing and democratizing wealth creation around a shared mission of neighbourhood equity? [W]e create a new way for residents to build local financial wealth by investing in their neighbourhoods."
>
> - Max Levine, NICO

Union: Sustainable Development Cooperative is a community-focussed model of wealth building. It sells shares to capitalize the cooperative, which then purchases and manages properties over the long-term. Shareholders can be community members, who live or work in Waterloo, or tenants of Union-owned properties. A membership share is $500 and carries a seat on the board. Investors can invest between $1000-$10,000. Shares are RRSP-eligible investments, meaning an investor could move RRSP funds into this investment vehicle, or put these investments into a self-directed RSP fund. Local or independent businesses will be prioritized for the retail/commercial spaces, and they will partner with a charity to offer a head lease in their first residential building (although current tenants will not be evicted).

A number of common themes and issues arose from these presentations, including:

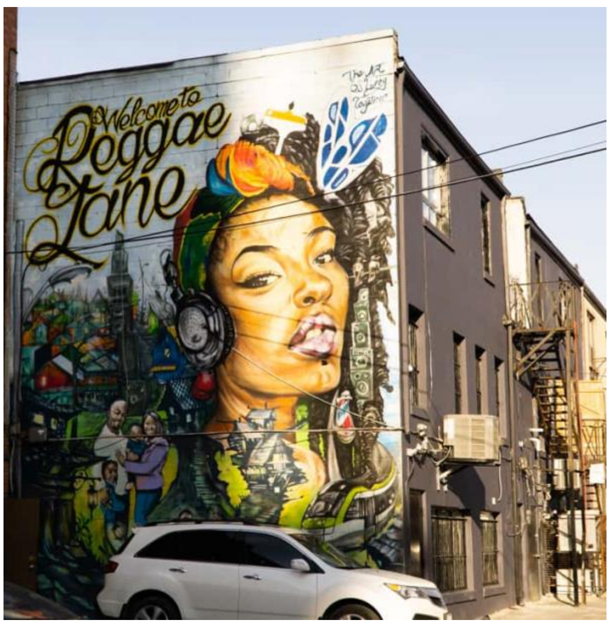
- The tension between limiting individual returns on housing and the desire to allow wealth creation through participation in the market
- The importance of community ownership, participation and governance to preserve neighbourhood assets, affordability, culture and character
- The need to promote financial literacy and education among groups who are not experienced investors
- A focus on social outcomes and how balancing social and economic returns calls for investors who are mission-aligned and willing to make longer-term investments with less potential financial return than usual
- The overall importance of neighbourhoods and neighbourhood-building in cities

5. Day Two: Overview of discussions

a) Roundtable summary

The second day began with a roundtable discussion in which TAP participants discussed the presentations they had heard the day prior and considered their applicability to the Toronto context. TAP members were struck by the **importance of the neighbourhood** to many of the models, though it was pointed out that more regional approaches, based for example on asset classes, could be another useful framing. **The evolution of new asset classes and product types** (co-working, microenterprises in ground floor spaces, etc.) also raises the need to think about both the product and profitability associated with such innovation.

The tension between distributing equity returns – particularly for housing – to individual shareholders rather than using it for reinvestment in more affordable spaces was noted. It was pointed out that ultimately **the objectives of the different examples drove the models**; some were created to allow equity-building by low-income residents whereas, for example, such individual distribution of wealth would be antithetical to a land trust model. Moreover, there are different ways to create wealth: individually, through avenues such as home ownership, or communally, through the creation of more affordable rental housing. This also contains tensions with race and racialization: one member noted that affordable home ownership feels a little pretentious within long-marginalized communities. At the same time, without marketizing tenure, the community voice is at best participatory.



Several members spoke to **the importance of inclusion and representation** of voices that had been shown in the previous day's examples, and felt there are broader opportunities presented by community economic development that could be associated with the project. One member wondered if it was time to rethink the notion of a community hub and find opportunities for individuals to participate in that kind of infrastructure with a low entry point, particularly in communities where access to investment is limited. This led the panel to note how important **education and financial literacy** was to many of the models we had seen. Anything different from very mainstream concepts would require a high degree of understanding before it could become popular. The subscription agreement for a REIT, or even a limited partnership agreement, is complex for many investors to understand. Moreover, **any project that relies on individual participation relies on trust,** which moves much more slowly than the market. It was suggested that a partnership between the business and those who have been invested in maintaining trusted relationships in the community over the long-term would be an important facet of a prospective model. While all of the examples we looked at were interesting, one member noted that the "best" structure for a given project is the one that best follows the intent of the people who are putting it together.

Participants also noted **the range of financing types** in the examples, which ranged from donors to investment funds. The question was raised as to whether Toronto, with its very efficient market, is the best place to establish a new program of the type contemplated. When the prices for land and buildings are so high, would it be more successful to separate priorities within different investment vehicles? Clearly **some sort of competitive advantage would need to be found –** something that, in the ordinary course, the private sector might not have access to. Participants were divided in their views about access to capital; some felt it would be challenging because of the need for returns, while others felt there is capital available, but government contributions would be needed to attain deep affordability. The right stacking of private investors and government subsidies is required to make the math work; some of the models that were shown the previous day will scale more easily than others. In the U.S., acquisition and preservation funds are more robust, allowing for high loan to value, guarantees, and creating a level playing field to acquire buildings and compete, in both the residential and commercial market. **It would be helpful if there were an acquisition and preservation fund in Canada.**

b) Workshops summary

Three scenarios and sample pro formas had been prepared by the Curtner Leadership Group for teams of panel members to consider. The first focussed on Eglinton West (Little Jamaica), which is experiencing gentrification pressure in the immediate term. The second addressed Jane and Finch, which is forecast to experience development pressures in the medium term, and the third profiled Scarborough Village, which is considered to be a longer-term opportunity. Scenarios contained key demographic and neighbourhood information, building typologies and market comparators. The pro formas chose a typical mixed use or residential building and set out sample financial scenarios for acquisition investment and/or renovation.

Bearing in mind the dual goals of preserving affordability in neighbourhoods and building community wealth, members were asked to consider a series of questions about prospective legal structures, financial models, and community engagement. Different options, advantages and disadvantages of each, and key considerations were discussed in the breakout groups. Given the limited amount of time each group had, extensive financial analysis was not possible, but each group had a lively discussion about various kinds of structures and strategies that could be considered. Following the breakout sessions, each team reported back to the whole.

The following points were made in the recaps of the workshop discussions:

- mechanisms that allow lower income community members to participate are critical, with a low entry point that also allows them to withdraw their assets when needed; but need to ensure consumer protection so there is no possibility of people losing their life savings.
- look for examples in ethnocultural communities that may have interesting forced savings schemes developed in other countries that may not have had strong banking systems
- focus on defining the core values of the undertaking either as part of or before engaging communities, and ensure local representation; displacement has raised the suspicion of many communities, particularly in the inner suburbs
- models that can promote individual wealth creation through fractional home ownership were raised, along with models like co-living to address the increasing number of single person households in the city and social impact of isolation
- however, another way of addressing individual wealth creation is simply providing people with the lowest possible rent, or rent-to-own models that allow renters to share in the capital appreciation of a unit
- need to find sources of financing that are legally simple but also sustainable
- consider separating acquisition and provision of buildings/housing from a social impact fund to avoid providers having to deal with the regulatory requirements of some of the models discussed
- there is no one size fits all for a community with multiple asset types, and what makes sense today might not down the road, so a model might evolve or address different asset types in different ways over time
- consider ideas like a Tower Enhancement District, where revenues could be reinvested back into infrastructure or into individual equity, or workforce housing in collaboration with institutions and universities that could support workers to stay in the community where they live
- for commercial properties, explore strategies that would create community ownership, e.g., strip mall acquisition strategies that would allow existing businesses to stay there but also create a mechanism for those owners to build wealth over time.
- Co-op and commercial condo models were also discussed as ways to allow existing local business owners to rent to own and build some wealth; but this could be augmented with a non-profit entity that would build community wealth in perpetuity, similar to a land trust.

c) Final discussion/conclusions

This is a complex space, and the limited time the participants had to work together was not enough to produce optimal proposals. However, participants generally agreed that there is room to explore many of the different models that were discussed over the two days.

The development industry is facing greater expectations for environmental and social returns, and creative solutions will be required; but these are not without added costs and may require incentives and/or concessions from governments. Participants talked about the importance of collaboration, and the opportunities that could arise if the right stakeholders come to the table, including developers, government, and community organizations. At the same time, there can be misalignment between stakeholders whose interests are at different stages, making it challenging for developers who want to provide more affordable spaces to do so.

Finding equity and financing acquisitions and potential redevelopment was another challenge that was discussed. Every model will require initial equity and identifying the sources for that investment is an important factor. As one participant noted, "It's a zero-sum game: it's $100, where do you want it to grow?" Some felt that without greater government support in Ontario, it is hard to scale any model with significant equity returns. Others noted that in some circumstances, investors might be prepared to take lower returns if the project led to greater social, environmental or community impact, including non-traditional investors like young philanthropists or community members who are interested in creating wealth in their own communities. Endeavours are underway to build investments through new pools of social impact funding, and non-profits are preparing to partner with developers in order to maximize opportunities for inclusionary zoning once legislation is passed.

> "I would take collaboration as innovation. Nobody's going to do it on their own…it will take a lot of partnerships and the government making concessions on a lot of things that are financially burdening the developers right now."
> - TAP Panelist

Participants also flagged the need for better and more granular data, such as the MacArthur Foundation's Preservation Database model in the U.S. Coupling that kind of data with more information about small and BIPOC owned businesses could provide the ability to be opportunistic and strategic about acquisitions. Engaging early with communities during master planning may also open opportunities to acquire and hold properties that would remain affordable.

Many of the models discussed over the two days made it clear that opportunities are location-specific. Whether it is the demographics of the neighbourhood, the type of building stock or political support, any new model will have to take into account the unique context in which it will operate.

6. Next Steps

While no one model was identified as being most promising over the two days, participants agreed that this had provoked a useful discussion about how to make cities more inclusive and different ways to use capital gains and return to deliver affordability. As a next step, further work will be done by Dina Graser and some of the participants to identify a particular neighbourhood for a deeper discussion and potential model prototype. For its part, the ULI and its core team will work to identify key research questions that can catalyze further exploration through the organization's many avenues.

Appendix A: The Team

TAP Panelists

Chair:
Mark Guslits – Principal, Mark Guslits + Associates Inc.

Abigail Moriah – Founder, The Black Planning Project
Alex Dow - Director, Neighborhood Initiatives, United Way
Andrea Del Zotto - Director & EVP, Community Development, The Tridel Group of Companies
Anton Katipunan, CFA - Assistant VP, Development Analytics, RioCan Real Estate Investment Trust
Caroline Rauhala - Director, Lending, Vancity Community Investment Bank*
Howie Wong - Chief Executive Officer, Housing Service Partnership
Isaac Olowolafe - Broker/Owner, Dream Maker Realty
Jeb Brugmann - Founding Principal, Resilient Cities Catalyst
John Fox – Partner, Robins Appleby
Lori Ann Girvan - Principal, LoriAnn Girvan Consulting
Mwarigha M.S. - Vice President, WoodGreen Community Services
Peter Zimmerman - Senior Director, Development, TCHC
Steffan Jones – Vice President Innovation, CMHC

Curtner Leadership Program Participants

Alexander Elgin, B+H Architects
David MacMillan, City of Toronto
Michael Otchie, ERA Architects
Olwen Bennett, New Commons Development
Jed Kilbourn, Waterfront Toronto
Stephanie Maignan, B+H Architects

**now Director, Mortgage Investments, KingSett Capital*

Presenters

Abi Bond - Executive Director, Housing Secretariat, City of Toronto
Elina Eskalä - Planner, City of Helsinki Executive Office
Martine Aldridge - Founding Principal, Martine & Co.
Samuel Ganton -Open Architecture Collaborative Canada
Alisa Berry - Executive Director, Cornerstone Renter Equity
Max Levine - Co-founder and CEO, NICO
Sean Campbell - Executive Director, Union: Sustainable Development Cooperative

Organizing Committee

Richard Joy – Executive Director, ULI
Alexandra Rybak – Director, ULI
Mark Guslits – TAP Chair
Dina Graser – Principal, Graser & Co.
Laura Sellors – Partner, Entro Communications
Caitlin Allen – Associate, Bousfields Inc.
Catherine Truong – Director, Development, RioCan Real Estate Investment Trust
Kelly Graham – Planner, SvN

Report Writer

Dina Graser, Graser & Co.

Appendix B: About the Urban Land Institute

THE URBAN LAND INSTITUTE – ULI

ULI is a nonprofit research and education organization supported by its members. Founded in 1936, the institute now has nearly 30,000 members worldwide representing the entire spectrum of land use and real estate development disciplines, working in private enterprise and public service.

As the preeminent multidisciplinary real estate forum, ULI facilitates the open exchange of ideas, information and experience among local, national and international industry leaders and policy makers dedicated to creating better places. ULI's mission is to provide leadership in the responsible use of land and in the creation of thriving and sustainable communities worldwide. Members say that ULI is a trusted idea place where leaders come to grow professionally and personally through sharing, mentoring and problem solving. With pride, ULI members commit to the best in land use policy and practice.

ULI TORONTO DISTRICT COUNCIL

ULI Toronto is part of a global network of real estate and land development professionals with a mission to provide leadership and a forum for discussion around city building and responsible use of land and in sustaining and creating thriving communities worldwide. ULI Toronto carries forth that mission by serving the Greater Toronto Region's public and private sectors with pragmatic land use expertise and education. Presently, ULI Toronto has more than 2250 members.

TECHNICAL ASSISTANCE PANEL PROGRAM (TAP)

The ULI Technical Assistance Panel (TAP) is a high-profile industry program that brings together the finest expertise in the real estate, planning and development fields to collaborate on complex land use and redevelopment projects and explore current issues in real estate. The program is organized by the ULI Outreach Committee and typically convenes 6-12 members of the ULI Chapter to provide a meaningful contribution toward the revitalization of a city neighbourhood or district. At the conclusion of the TAP program, ULI compiles a summary of the presentations and recommendations in a TAP Report.

Endnotes

[1] It is easier to raise capital and borrow money for condos, and tax policies today make rental development less attractive. Ryerson City Building Institute and Evergreen, *Getting to 8000, Building a Healthier Rental Market for the Toronto Area* (2017) Executive Summary at 2.
[2] The City, under bylaw, can require the replacement of rental units to be offered to existing tenants at similar rents when buildings of more than 6 units are demolished. Toronto Municipal Code, Residential and Rental Property Demolition and Conversion Control, C. 667-15.
[3] Neighbourhood Land Trust, *Fixing the Leaky Bucket: A Comprehensive Policy & Program Framework to Preserve Toronto's Supply of Deeply Affordable Housing* (2017) at 50.
[4] Canadian Urban Institute, *In it Together: Bringing Back Canada's Main Streets – Action Report* (2020) at 9.
[5] Statistics Canada, Monthly estimates of business openings and closures, September 2020, released December 24, 2020
[6] Laura Burnham, Sebastian Contin, Lucia (Ming-Hsuan) Huang, Iana Lanceta, Lillian Phillip, Simran Sandhu, & Frank Venditti, Memo #15: Buy Local with Confidence, Canadian Urban Institute, September 2020
[7] Canadian Urban Institute, Bring Back Main Street Block Study Round 2 Summary of Key Findings at 2, December 2020.
[8] United Way Greater Toronto
[9] Toronto Foundation, The Toronto Fallout Report at 28, November 2020
[10] Market value for high-rise residential land in Toronto's downtown core ranges from $265 to $275 per buildable square foot – more than doubling from 2015. Ryerson Citybuilding Institute, *Density Done Right: How distributed density can support healthy, livable neighbourhoods, housing affordability and the environment* (2020) at 8. By 2016 financialized landlords owned over 44,000 apartment suites in the City of Toronto: M. August and A. Walks, *Gentrification, suburban decline, and the financialization of multi-family rental housing: The case of Toronto.* GeoForum 89 (2018) 124-136 at 128.
[11] Roughly 42% of Toronto's apartment stock was sold between 2000 to 2015, with ownership increasingly consolidated in the hands of REITs, institutional investors, private equity funds, and a few large family-owned companies. August & Walks, op. cit.
[12] Kiladze, T. Sophisticated investors are desperate to buy Canada's apartment buildings; values soar despite COVID-19. Globe and Mail, updated December 7, 2020
[13] Black Urbanism Toronto, URSA, OACC *Report: A Black Business Conversation on Planning for the Future of Black Businesses and Residents on Eglinton Avenue West*, July 2020