

Supporting Great Communities

Community Housing Investments – A Funders Perspective

'tactics without strategy is the noise before defeat'

Disclaimer: Personal views and thoughts from a ex commercial guy who has only spent 18 mths in the NFP sector \oslash







About BayTrust



- Community Trust set up to benefit the BOP
- ~\$200m in assets
- 300,000 people in BOP
- WBOP has similar housing issues to AKL, unaffordable, unhealthy, homeless....
- BayTrust's grants \$5m a year = 10 BOP houses or 5 in AKL!
- ~\$3m in impact investments
 - 1.5% with ambition to grow to 5% (\$10m)+
 - >% than many other Trusts.
 - Best asset class performance last year
 - Looking to include in S.A.A as a key asset class





The world is changing





Progress is impossible without change, and those who cannot change their minds cannot change anything. George Bernard Shaw

- Communities that we support needs and demographics are rapidly changing – ie social media did not exist 20 years ago, ageing population, driverless vehicles creating both opportunities and challenges
- Relationships/innovation and adaptability are key
- Part of my role is to drive BayTrust to be more strategic and play a greater leadership role in the BOP with a particularly focus on our Impact Investments

Investments- Lower for Longer





Expected 10 Year Returns (A\$ Hedged)

Source: Willis Towers Watson – *Revisiting Willis Towers Watson's asset assumption setting process*, September 2016

- Portfolio Investment returns are now forecast to remain much lower for much longer which may:
 - Impact on the level of grants
 - Limit Trusts ability to be strategic and meaningful
- Due to the lower forecast returns all opportunities to improve margins and innovate around granting limitations are important
- Many funders are looking for increased diversification/downside protections



A Compelling Case?

	Balanced Portfolio	Govt Bonds	NZ Banks	Social Housing
5 Yr Return	4.5-5%	1.5-2%	2.5-3%	3%+ *
Risk	BB-ve (equities)	AA	AA-	BB**
Community Impact	None	None	None	Positive
Complexity	Med	Low	Low	High
Liquidity	High	High	High	Low

- NZ Community Trusts have \$230m in NZ Cash and \$430m in NZ bonds which add no value to NZ and < \$10m in innovation/social lending/impact investments!
- Many Community Housing providers are borrowing from commercial banks at 5-6%, why not lend to them (better than total portfolio return and margins get reinvested into communities) plus the investment makes a impact!!!

* Based on OCR + 100bpts (BT Policy) as minimum, non market transaction (ie easier for local council to sell housing stock to charity which retains effective community ownership then a developer) ...

* *Based on bank residential security mortgage risk – concentration risk higher than bank but risk of default lower

However there are Challenges:



- AML /FMA compliance for loans scary but not hard!
- Trusts' /NFP investment advisors have little or no experience in impact investments as an asset class –difficult to quantify risk and return and they make no margins out of the investments!
- CHP's being NFP are often risk adverse with limited investment governance experience and networks = limited number of opportunities in NZ to invest and limited appetite to invest
- CHP's have capital/debt/resource constraints and may take up to 20 years to drive size and scale to make a difference, unless they are supported in other ways ie equity partnerships with funders.





Supporting Great Communities

Commercial	Residential
Building WOF	NA
H&S requirements on landlords and tenants	NA – minimal insulation requirements
Evacuation plans / fire alarms/sprinklers	Smoke alarms – 1 July 16
Security of lease tenure	Largely periodic tenancies with 42 days to vacate if property is sold and no incentives to look after property
Supportive growth minded Councils	Limited support for affordable compact developments (NIMBY) and CHPS



No Quick Wins

'Successful Investing takes time, discipline and patience. No matter how great the talent or effort, some things just take time: You can't produce a baby in one month by getting nine women pregnant' Warren Buffett



Research Findings: Philanthropic approaches available to Community Funders

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Traditional philanthropy Responding to immediate need with charitable gifts spread across many issues	Strategic philanthropy Investing in key issues and addressing root causes for greater impact	Venture/Systemic philanthropy Investing in systems change to catalyse long- term social impact				
Annual: Short-term targeted E.g. "Business as usual" • Healthy Homes funding • Electrical items • Operating cost grants • Curtain and heater banks etc.	 5-15 year: Targeted "with a wider brush" E.g. Strategic funds Community development approach investment (e.g., Safe as Houses programmes) Partnering with iwi/land trusts 	 5-15 year: Long term view E.g. Direct investment in housing and housing stock Rental/ownership affordability schemes Partnering with iwi/land trusts Housing projects 				
Sector shift						
BayTrust RotorUaenergy charitable Trust						



The TCHT and BayTrust Story



- Mid 2000 TCHT formed BT helped support through operating costs grants
- 2013 14 unit accessible development in WBOP BT could not afford to grant provided low interest loan \$700k with this commitment allowing TCHT to secure the rest of the funding
- 2015 BT provided further low interest \$1m loan to assist purchase of EBOP pensioner units from council and allow tenants to access IRRS (housing 25 yr investment and 3 yr political cycles don't mix!)
- **2016** further 14 unit development, as TCHT hitting debt constraints BT grant funded \$300k.
- Current TCHT equity ~6m but still 15+ years from commercially being independent with size and scale to make a material difference
- Benefits so far:
 - BT Benefits stable low risk / govt backed return on loans ~3.5% better than cash
 - **TCHT benefits** low interest loan like a loan from parents, supplements commercial loans to achieve mission
 - **Community benefit** all margin/profit reinvested in community, LT planning and maintenance horizon, more units/better quality, tenants access IRRS
- The Future:
 - 2016 exploring transferring portion of commercial loans and rates to BT
 - 2017 Discussions on equity partnership TCHT tenancy and property skills, with BT's balance sheet and investment knowledge and contacts = IMPACT







Key Soundbites / Recap

- Taking time to create a long term strategy and plan 20-30yrs out
- To make an increased impact we need the involvement of all the key players:
 - Central Govt the right regulatory framework, WOF/residential tenancies, social infrastructure, social enterprise/investment and lending flexibility regime
 - Local Govt, analysis on what type of housing is required and where, set aside land, flexible thinking and assistance for NFP, density
 - Funders and CHP Scalable social housing providers, tenancy expertise with investment expertise and balance sheet partners
- Cash and bonds add no value challenge Funders to add more impact to communities with their balance sheet – with low forecast portfolio returns the time will never be better



Question Time

