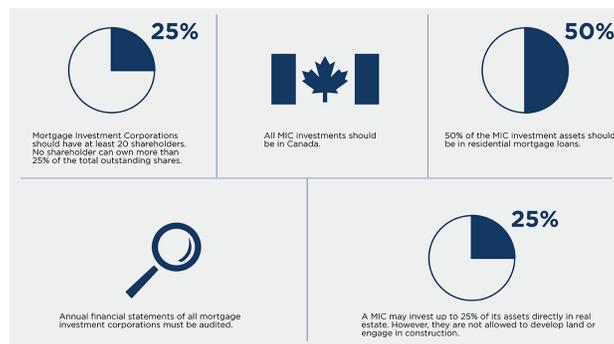


# Mortgage Investment Corporations and Real Estate Investment Trust- Solutions to the Affordable Housing Crisis?

## Mortgage Investment Corporation

- A Mortgage Investment Corporation (MIC) is a special company created by virtue of Section 130.1 of the Income Tax Act.
- MICs allow individuals to pool their funds and invest this capital in mortgage loans, benefitting from the risk mitigation provided by a large, diversified portfolio.
- There are over 250-300 registered MICs within the Canadian market charging higher interest rates, between 4%-15%, and generating a return on investment between 4%-10%.

### Key Regulations:



### *Change Potential*

- Housing insecurity may result in detrimental factors affecting social and economic wellbeing. By improving access to financing and a flexible payback schedule, there is potential to address the affordable housing crisis.
- MICs can target individuals who find it difficult to obtain mortgages under traditional bank lending terms as a MIC can offer mortgages at longer amortization periods than federally regulated banks.
- In Canada, CMHC-insured homes have a maximum amortization of 25 years, whereas MIC mortgages can have longer amortization periods (40 years<sup>+</sup>).

### Case Study: BC Construction Association (BCCA) Impact MIC



*"Our goal is to create a social impact investment vehicle that offers value for investors while also helping tradespeople and other professionals to establish roots in B.C. communities,"* - Stevens, Chief Strategy Officer, BCCA

- In 2019, the BC Construction Association partnered with Impact Mortgage Investment Corporation to address first-time homebuyer mortgage qualification challenges faced by tradespeople across B.C.

- The Impact MIC was designed to offer more favourable terms by roughly matching bank mortgage interest rates and term lengths for fixed rates, while also offering longer amortization periods (25-40 years) and a higher loan-to-value ratio (up to 90%).
- Unlike banks and credit unions, MICs are not subject to the rigorous federal mortgage stress tests which thousands of B.C. workers struggle to meet.
- Additionally, shares in MICs are eligible for government deferred and tax-sheltered savings plans such as RRSPs, RESPs, RRIFs, TFSA's and RDSPs.
- In this way, the MIC was positioned as an impact-investment which would offer essential workers the competitive-rate mortgages they struggled to receive from traditional financing methods.
- Unfortunately, this innovative and impactful fund was never implemented due to the pandemic. We hope that this structure can be utilized in the near future to promote affordable housing for underserved communities.

### **Real Estate Investment Trusts**

- Real estate investment trusts ("REITs") allow individuals to invest in large-scale, income-producing real estate.
- REITs invest in most real estate property types, including apartment buildings, cell towers, data centers, hotels, medical facilities, offices, retail centers, and warehouses.

### *Change Potential*

- Traditionally-structured REITs typically generate high returns for their investors by driving cost efficiencies. This is due to the use of professional management by making property improvements which generate higher rents and property sales in high-growth markets. These methods make REITs successful in the private market, but present challenges in the affordable housing sector, as it usually generates a lower return for investors.
- REITs can provide an excellent way of deploying private sector capital into the affordable housing sector when property ownership is not an issue, when a host organization is willing to incubate the idea, and when there is a dedicated group of investors driven to create social impact.

### *Case Study: [The Housing Partnership Equity Trust \(HPET\)](#)*



- The HPET was established in 2012 as a private REIT for use by members belonging to the Housing Partnership Network (HPN), a Boston-based association for high-performing, affordable, non-profit housing developers across the United States.
- They are a social-purpose real estate investment trust that buys and improves properties, intentionally investing in areas where residents can find jobs, childcare, transportation, schools, medical facilities, healthy food resources, etc., all while preserving affordable housing in partnership with leading nonprofit apartment owners.
- HPET received a \$100 million initial investment from foundations, lenders and member equity investments.
- Since 2013, HPET has invested nearly \$300 million in a total of 3,105 apartment units for an average return of 8-10%, serving renters making 57% of area median income.