Sustainable Finance Group
PRIMER
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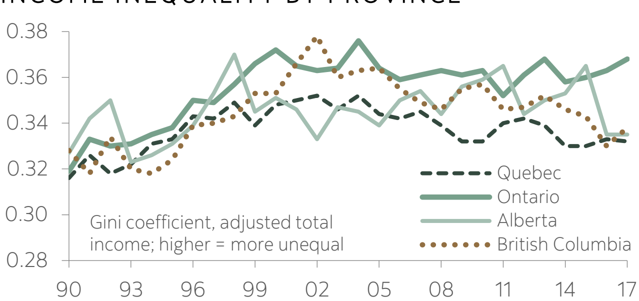
Social Bonds - A Vehicle to Fund Affordable Housing

Many Canadians who are currently trying to make a leap into the housing market will attest to how daunting it can be as affordability metrics continue to make new lows. One quick internet search and you are met with a flood of headlines across regions in Canada, affecting not only the most vulnerable, but the well entrenched middle class as well. Many would argue economic growth builds from shelter and wellbeing. The safety and security provided by a home, and the ability to develop a family's asset can open them up to a world of opportunity and growth through education and entrepreneurship.

While policy-makers continue to grapple with growing climate change risk (transition and physical), another tectonic movement is mobilizing beneath the surface of our social fabric. An increasing number of Canadians are being kept on the periphery of home ownership. In some parts, it has even led some governments to declare a housing and homelessness emergency.

Looking more closely at the data, we observe this in a subset of indicators attaining new extremes; average home prices, a decreasing housing supply, decreasing rental vacancy rates, rising income inequality, and a consequently growing social housing waitlist status.

INCOME INEQUALITY BY PROVINCE



Sources: Scotiabank Economics, Statistics Canada.

MARKET SIZE

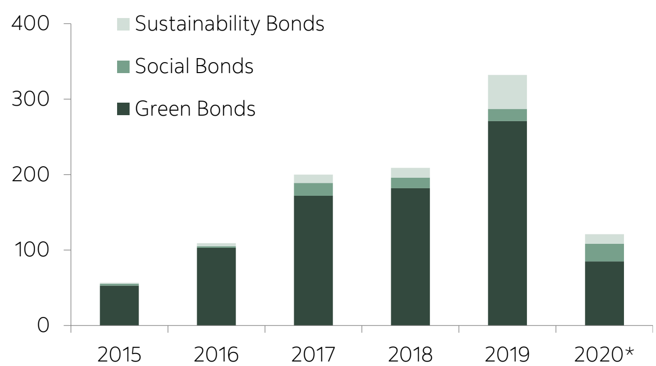
Coincidently, the social bond market has developed in parallel to increasing policy commitments presenting an alignment opportunity with funding. Environmental Finance reports social bond issuance exceeded US$15 B in 2019 and already exceeds US$20B in 2020, driven by COVID-related use of proceeds.

Policy & Funding Alignment | **Funding Stability** | **Policy Awareness** | **Funding Depth**

Given green and social use of proceeds can be included in sustainability bonds, the potential of this market is under-estimated by the social label alone. The social bond market's growth will be further catalyzed by the SSA community who successfully developed the green and sustainability markets.

GLOBAL SUSTAINABLE BOND ISSUANCE

US$ B



*As at May 31, 2020
Source: Bloomberg L.P., Bloomberg NEF

DEFINING SOCIAL AND AFFORDABLE

Measuring housing affordability is not as straight-forward as drawing a line down the middle of the globe and calling it the 'housing-equator'. Rather, it becomes a delicate balance of quantitative and qualitative measures that define affordability in a regional context. Affordable housing in the Maritimes looks very different than in Vancouver or Toronto. Applying this level of granularity to the criteria will enable an issuer to cast a wider net of eligible use of proceeds and have a bigger program, issue in larger sizes, and maintain a more regular presence in the market.

The tagging exercise for social housing is less blurry than for affordability as it targets the segment at bottom-of-the-pyramid, often measured as the lowest 20% income/wealth bracket. Striking an affordability line through the population requires a mix of qualitative and quantitative measures.

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QUALITATIVE:

- Living below the poverty line
- Marginalized communities
- Vulnerable groups (including to natural disasters)
- Unemployed
- People with disabilities
- Migrants and displaced persons
- Intereducated
- Underserved (essential goods and services)

The definition of affordable housing established should be principle-based (clear, transparent) while maintaining a delicate balance between ease of use and rigor. For example, it can be as simple as striking the affordability line at shelter costs of 30% of income, or it can be enhanced with other filters:

QUANTITATIVE:	
Shelter Cost/Income	Down Payment/Income
Mortgage Servicing/Income	House/Total Assets

BUILDING A FRAMEWORK

Building a social bond framework is identical to a green one consisting of the requisite 1) Use of Proceeds 2) Process for Project Evaluation and Selection 3) Management of Proceeds 4) and Reporting outlined in ICMA's Social Bond Principles ('SBPs'). For issuers with established green frameworks it can entail a minor pivot. Following this, an issuer would receive a second-party opinion verifying the framework aligns with the Social Bond Principles. To support and facilitate the market's growth, ICMA formed a social working group to provide guidance around impact reporting following publication of their green Harmonized Framework for Impact Reporting which released updated guidance in June 2020.

For existing green bond issuers, the utility of having two frameworks (green and social) allows the issuer to be more targeted in their funding strategy and appeal to varying investor preferences. In the event there may not be enough social use of proceeds to maintain a consistent presence in the market, an issuer develops a sustainability bond framework to provide a more flexibility. This decision should be approached on a case-by-case basis weighing the appropriate trade-offs.

ISSUER & INVESTOR BENEFITS

Issuing under any sustainability label should have demonstratable benefits to avoid appearing 'gimmicky'. That said, a well-structured and robust sustainability bond framework, backed by a strong sustainability strategy can be rewarded with an 'additional' pool of capital that adds dimensions of depth and breadth to the investor base. This benefit can be more apparent during periods of market stress, and in scenarios where funding programs are expected to increase in the future. Having a diversified funding strategy can alleviate the competitive pressure for the finite portion of investor wallets.

At equal return, investors have the potential to receive better impact reporting metrics to enhance double-bottom (financial & social return) line mandates. The social benefit of each dollar of allocated capital is not only greater, but also leaves lower negative externalities on society. The segmentation of use of proceeds provides investors with a greater ability to achieve certain portfolio characteristics.

When transactions are designed with thought and clarity, they can provide a window into an issuer's sustainability ambition and create win-win opportunities for both issuers and investors to contribute to building healthy and resilient societies.

CAPITAL PYRAMID

New Capital	Social Bond Funds	Sustainability Bond Funds	Foundations	Impact Funds	Religious Orders
			Breadth		
Incremental Capital	Central Banks/Official Institutions		Pension/Insurance		Bank Treasuries
			Depth		
Base Layer	Non-ESG Investors				

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ESG Integration

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