



Accelerating Residential Deep Energy Retrofits in Canada

Opportunities for the Philanthropic Sector

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About Dunsky



Dunsky supports leading governments, utilities, corporations and others across North America in their efforts to accelerate **the clean energy transition**, effectively and responsibly.

With deep expertise across the Buildings, Mobility, Industry and Energy sectors, we support our clients in two ways: through rigorous **Analysis** (of technical, economic and market opportunities) and by designing or assessing **Strategies** (plans, programs and policies) to achieve success.

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Executive Summary

The philanthropic sector can play an important role in catalyzing large-scale residential deep energy retrofits across Canada through its impact investing in a way that improves equity and helps lift people out of poverty through workforce development. This report provides an overview of the key barriers and limitations to getting comprehensive energy retrofits to scale in low income, Indigenous communities, and affordable housing, and concludes with recommendations on how the philanthropic sector can best deploy its capital to fill key gaps.

In recent years, there has been substantial support and funding going to climate change and clean energy. And while new players, including investors, continue to enter the market, a key question for the philanthropic sector is how it can leverage existing resources, attract new capital, and ensure Canada is addressing its challenges in a thoughtful, effective way.

The recommendations in this report are informed by interviews conducted with non-profit housing providers and associations, lenders, project developers, and other experts in the field. Numerous limitations and barriers were identified, which fall into two categories:

- ▶ **Capital** - Lack of sufficient capital is a common barrier. In particular, capital that is 1) low cost to maintain affordability; 2) patient to support the project development phase and take on origination risk; and with 3) flexible terms to help create the business case for deeper retrofits.
- ▶ **Capacity** - Lack of capacity was highlighted as one of the key factors limiting residential deep energy retrofits. This includes resources (staff/bandwidth), technical expertise, and tools. Foundations can also play an integral role in supporting workforce development, which will be critical to ensure there are people in communities engaged in the transition.

After exploring various levers that could be deployed to advance residential deep energy retrofits in underserved communities, Dunsky recommends the following areas for philanthropic engagement.





1	Support the 'readiness gap' during the critical project origination phase. Through development (concessionary) capital and capacity building and tools.	
2	Provide low-cost capital that allows energy retrofits to go deeper. Unlock deeper retrofits by stacking low-cost, flexible capital on top of existing grants and financing.	
3	Direct capital to address community priorities. Broaden the scope and reach of existing programs, combining energy upgrades with deferred maintenance, health and safety, etc.	
4	Support groups seeking to advance non-extractive financing for low-income homeowners. Test, refine, and replicate a first-in-Canada program that overcomes barriers for LI homeowners.	
5	Support energy retrofit workforce development in disadvantaged communities. Advance the retrofit service market, targeting those underrepresented in the skilled trades.	

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1. Introduction

Increasingly, investors in Canada are looking to for opportunities to help address the pressing issues of our time – be it social inequity, environmental degradation, or reconciliation. Impact investing is one tool that can support existing and emerging solutions.

Since 2010, the McConnell Foundation has engaged in impact investing through two categories of investments. Mission-Related Investments (MRI) are financial investments to achieving mission-related objectives and normally earning market-rate financial returns. Program-Related Investments (PRI) are investments that further program objectives and as such accept lower returns.¹

Currently, approximately 20% of McConnell’s assets are dedicated to impact investing. In 2021, this amounted to \$115.7 million in MRIs and \$18.2 million in PRIs. Going forward, residential deep energy retrofits have been identified as a priority for granting but also for the Foundation’s mission and program aligned investments as part of its Climate Focus Area.

In recent years, there has been substantial support and funding going to climate change and clean energy. And while new players, including investors, continue to enter the market, a key question for the philanthropic community is how it can best deploy its assets to leverage existing resources, attract new capital, and ensure Canada is addressing its challenges in a thoughtful, effective way.

Purpose of this Report

The McConnell Foundation – and the broader Canadian philanthropic sector – has a critical role to play in advancing climate action and social equity across the country. **The purpose of this report is to provide McConnell (and its peers) with insights into how they can use their assets to further deep energy retrofits in the residential sector.** McConnell is interested in how the philanthropic sector’s funding, financing and investments can catalyze large-scale residential deep retrofits targeting low income, indigenous communities, and affordable housing – with a particular focus on impact investing.

This report provides a high-level overview of key gaps and opportunities in the market when it comes to investing in residential deep energy retrofits, as well as how philanthropic foundations might play a role in lessening barriers to action.

- ▶ The **Landscape Assessment** section provides a summary of existing funding opportunities in Canada. It also highlights the key limitations and barriers to getting residential deep retrofit investment to scale. Finally, we explore possible levers or initiatives that could help to address the gaps, and whether they are an appropriate fit for the philanthropic sector.
- ▶ The **Recommendations** section continues the discussion by providing an overview of the best fit interventions for foundations in order to maximize their impact, considering what we learned through our interviews.

¹ From the McConnell Foundation website at: <https://mcconnellfoundation.ca/impact-investing/> [Accessed on January 19, 2023]

2. Landscape Assessment

To inform the landscape assessment, and ultimately the recommendations, Dunsky conducted 16 interviews with stakeholders working to advance residential energy retrofits across the country; many of whom work directly with low income, Indigenous communities, and affordable housing providers.

This section identifies gaps and opportunities in current private financing and government funding for residential energy retrofits, with particular focus on low-income, multi-unit residential, and other underserved communities. We present high-level limitations and barriers, which summarize the common themes that emerged through the interviews, followed by a more detailed assessment of potential levers and whether they address the key barriers to action.

Limitations and Barriers

All interviewees said that there is a role for foundations to play, and almost all the stakeholders we spoke to suggested that the need is primarily in the project development phase to ensure energy retrofits – in particular, deeper decarbonization retrofits– are realized. The key limitations and barriers that were identified fall into two categories:

CAPITAL

Lack of sufficient capital is a common limitation and barrier. For example, it is estimated that there is \$4 billion in deferred maintenance costs within the non-profit housing sector in British Columbia. While there are various funding streams available to affordable housing providers (federal, provincial, and municipal), there is still not enough capital to cover the deferred maintenance costs, let alone what would be needed to go further and include deep energy retrofits in those homes and buildings. In particular, the following themes emerged:

- ▶ **Low cost** – There is a need for grants and very low (or no) interest loans, which can maintain retrofit affordability. Many respondents highlighted that there is little or no room to increase rent or add fees for energy improvements in the non-profit/affordable housing sector.
- ▶ **Patient** – Many project proponents (e.g., PACE Atlantic, Community Housing Transformation Centre, and others included in the next section on Exploring Possible Levers) would benefit from support that enables them to get to scale. Foundations can provide smaller, faster capital that takes on project origination risk, allowing for project proponents to build their portfolio and become a more interesting investment opportunity for private lenders.
- ▶ **Flexible** – Foundations are in the enviable position to offer flexible, longer terms, which can help create the case for many of these projects. In addition, they can look beyond the business case and support the deeper retrofits that may not always earn positive return on investment. Foundations can also stack their capital and support impacts that communities care about most, for example, safe, affordable, resilient housing.

CAPACITY

Almost all respondents highlighted a lack of capacity as a one of the key factors limiting residential deep energy retrofits. While this is not easily or directly overcome through investing, it is important to note as a key barrier to creating a large-scale market for residential deep energy retrofits. Additional capital will suffer for lack of capacity. The demand will not be there or if deployed, retrofits will not be done in the most efficient and effective manner. With respect to capacity needs, the following themes emerged:

- ▶ **Resources** - There is a lack of staff/bandwidth to leverage additional funding opportunities. This is particularly true is smaller municipalities and indigenous communities. Additional resources or centralized support could help overcome limited capacity so that individuals, housing authorities, businesses, and communities can take advantage of additional capital.
- ▶ **Technical Expertise** - Related, there is limited expertise within municipalities, housing organizations and buildings operators, etc., especially when it comes to building science, energy systems, and financing.
- ▶ **Workforce Development** - There is a shortage of skilled trades workers to meet demand for home energy retrofits. Jurisdictions in the U.S. have effectively used philanthropic funding for workforce development, linking it to social equity - i.e., supporting people out of poverty. [See example on following page]
- ▶ **Tools** - Existing tools to identify, assess and plan retrofit opportunities can be expensive, complex, and time-consuming. As a result, few comprehensive capital plans are being produced. For example, both Vancity and Efficiency Capital noted that they were interested in increasing their investment in deep energy retrofits, but that they were not yet seeing much demand.

PHILANTHROPIC SUPPORT FOR EQUITABLE WORKFORCE DEVELOPMENT

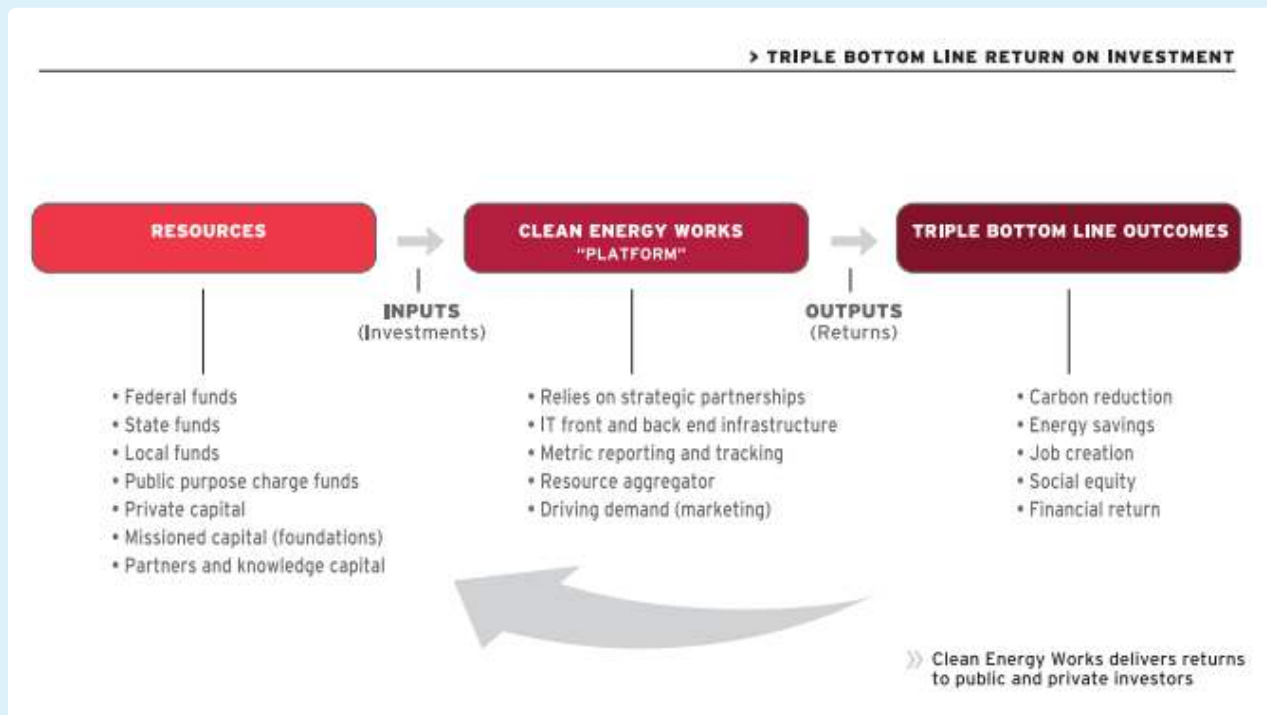
Clean Energy Works Portland was a pilot project of the City of Portland. In 2010, the program was expanded to Clean Energy Works Oregon (CEWO) with the help of a \$20 million award made possible through the American Recovery and Reinvestment Act (ARRA).

The program offered homeowners a comprehensive package of services to encourage adoption of energy efficiency upgrades, including low-interest, long-term financing and rebates; free energy assessments; access to an energy advisor; and an on-bill loan repayment mechanism through the local utility. The business model centers on a “triple bottom line return on investment” – economic development, energy savings, and climate reduction benefits.

Critical to CEWO success was a workforce development component, with a mission of 1) ensuring equitable access to economic

opportunity and 2) on diversifying the energy efficiency delivery sector and related trades. It followed a “High Road” approach, which focused on “quality training and on equitable access to good jobs with family-supporting wages and benefits.” In the end, more than 55% of project hours were worked by women and people of color, and almost 50% of the new entry-level hires were women and people of color. CEWO’s workforce development efforts were made possible through philanthropic support from the Rockefeller Foundation.

Over a three-year period, CEWO completed over 3,000 retrofits and created hundreds of jobs in the building trades. Their primary lender, [Craft3](#), was able to establish and sell a residential loan portfolio – one of only a few completed at that time. Craft3 continues to offer on-bill home energy loans in the Northwest U.S.



Sources: [Clean Energy Works Oregon Final Technical Report](#); [Clean Energy Works Strategic Plan 2010-2013](#)

Exploring Possible Levers

In addition to uncovering general capital and capacity needs, through the interviews Dunsky explored how philanthropic granting or investments can contribute to mobilizing public and private sector financing using various potential levers, below. These levers were identified in Efficiency Canada's Retrofit Mission report,² and used as a starting point in discussions with stakeholders to explore possible solutions and best fit strategies for the philanthropic sector.

- ▶ **Establishing energy retrofit investments as a distinct asset class** - Support efforts to standardize residential energy retrofits to create a standalone asset class and opportunities to pool projects to attract private capital.
- ▶ **Shifting performance risk from building owners to investors** - Promote financing models that shift the risk that energy savings will materialize, and that project costs will not exceed planned budgets, from home or building owners to investors through, for example, performance guarantees (first loss position) or establishing heating as a service.
- ▶ **Including debt pricing, GHG reduction and other social benefits tied to financing** - Link philanthropic granting and financing to deep energy retrofit requirements, regardless of business case (provided the investments deliver on other social and health/safety benefits), and/or be responsive to community priorities and stack capital on top of programs that are focused on GHGs or energy and include comfort, safety, and resiliency measures.
- ▶ **Establish specialized investment approaches for specific markets** - Support establishing and/or implementing targeted granting and investment strategies based on need - e.g., regional, social housing, MURBs, etc.
- ▶ **Supporting low-income participation in federal programs** - Support non-profits to be recipients or delivery agents for new federal funding programs announced in Canada's 2030 Emissions Reduction Plan, specifically Greener Homes Loan program low-income stream, establishing the Greener Neighbourhood Pilot Programs, and a retrofit accelerator initiative.

For each lever, we outline possible actions, whether there is a role for the philanthropic sector, and if the actions help address a capital and/or capacity needs.

² Haley, B. and Torrie, R. (2021). *Canada's Retrofit Mission: Why the climate emergency demands an innovation-oriented policy for building retrofits*. Efficiency Canada. Available at: <https://www.energycanada.org/wp-content/uploads/2021/06/Retrofit-Mission-FINAL-2021-06-16.pdf>

LEVER 1

Establish Energy Retrofit Investments as a Distinct Asset Class

There is a role for foundations to play in terms of supporting aggregated investment in residential retrofit projects; however, while this may act as a catalyst over the long term, it is unlikely in the near term that these projects will become a standardized asset class.³ Rather, the philanthropic sector is well placed to use its quicker-to-access and more flexible capital to support aggregation, allowing pools of projects to get to scale and attract other investors.

A sufficiently large investment of portfolio projects is required to attract private lenders in this space. The philanthropic sector could provide capital to programs/project proponents to facilitate aggregation to scale. Foundations could then refinance with lower cost capital while maintaining equity or quasi-equity (e.g., 80% with CIB, 20% with foundation(s)). This approach was noted as potentially very useful for certain projects, including by CMHC for the Toronto Golden Mile tower renewal program.

It was noted that de-risking aggregation would also be helpful, and which could be accomplished via the PRI stream (long-term, patient capital where there is a correlation to operating/debt savings). For example, affordable housing needs smart investment strategies and someone with low-cost capital to participate in a first lost position. In other words, there is a need to have a partner that can take the equity position in an investment, which reduces the risk of the private lender since the equity partner assumes the first economic losses should a default occur.

Supporting Actions	Philanthropic Role	Barriers Addressed	
		Capital	Capacity
Standardized origination and underwriting	<ul style="list-style-type: none"> ▶ Standardization unlikely - currently not how the residential retrofit market is structured. ▶ However, could favour investments in MURBs that apply standard quality control and underwriting practices for specific products (e.g., underwriting platform for PACE financing). 	○	○
Support bodies who are aggregating and re-selling residential retrofit investments	<ul style="list-style-type: none"> ▶ Provide patient capital to allow programs to get to scale and attract private capital. 	●	◐
Purchase pools of aggregated investments (first-loss position bonds)⁴	<ul style="list-style-type: none"> ▶ Natural partnership between credit unions and foundations - 80% is MRI; bottom 20% first loss position is PRI. ▶ Bundle and refinance with CIB or another partner (up to 80%, foundations could keep 20% equity or quasi-equity) 	●	○
Increase access to risk/return data for residential retrofits.	<ul style="list-style-type: none"> ▶ Perform analysis on aggregate risk for residential retrofits (or support those who do this) 	◐	●

A promising opportunity is to support aggregators using flexible PRI capital, and to take a first-loss position. **Linked to Recommendation 1.**

³ Standardized asset class refers to standardization across multiple transactions, creating a distinct asset class. This creates efficiencies and the ability to pool investments and securitization, which allows for recapitalization and lower overall transaction costs.

⁴ The first loss position refers to the equity position in an investment. The investor that takes the first loss position is the last to be repaid. This acts as a form of credit enhancement and helps de-risk projects, encouraging other investors to take on projects they might not otherwise.

LEVER 2

Shift Performance Risk from Building Owners to Investor

Multiple respondents noted that interventions to shift performance risk would be a worthwhile type of support. For example, Batir son Quartier/FIM V, a community housing project developer in Montréal, noted difficulties with respect to cost recovery in Quebec as the uncertainty over actual savings combined with the complexity of adjusting rents/fees in social housing makes it difficult to pay for deep energy upgrades and suggested that a savings guarantee could help advance projects.

Another mechanism is to tie repayments to the demonstrated savings. Under TAF’s Energy Savings Performance Agreement (ESPA) program (now delivered by Efficiency Capital), the investor incurs losses if the retrofit project underperformed instead of the owner. TAF’s approach was to provide its capital, and then re-financed 80% of the project costs, keeping 20% to cover any potential losses due to underperformance of the retrofits. This allowed TAF to support projects with an 8-10% return using more expensive and fast capital at first, then refinancing with lower cost capital once the projects were established.

Vancity listed Energy Service Companies (ESCOs) – which are companies that design and implement energy efficiency projects and assume the performance risk through performance-based contracting – as well as discrete off-balance sheet mechanisms as ways to finance projects. They also noted shifting performance risk via residential Pay-as-you-save (PAYS) financing, which is an on-bill financing model where repayments are made through an existing utility bill and can be tied directly tied to savings.

Non-extractive financing is an innovative, emerging model (based on PAYS) focused on direct lending to low-income homeowners. Under this approach, homeowners never pay more than what they can afford, and the model includes additional one-stop-shop support to help navigate the program. This approach could be piloted to test and prove solutions; however, scale is needed.

Supporting Actions	Philanthropic Role	Barriers Addressed	
		Capital	Capacity
Tailor repayment to verified bill savings; ESPA and Pay-as-you-save (PAYS) are existing models	<ul style="list-style-type: none"> ▶ Philanthropic investments to support organizations that are piloting shifting performance risk via on-bill that is directly tied to savings and supported through PRI capital to test, prove solutions, and get to scale. ▶ Supporting existing initiatives (e.g., TAF’s ESPA) and export to other regions and/or targeted groups. Ensure a building support/readiness strategy is part of the program. 	●	○
Provide/support performance guarantees (ESCOs and beyond)	<ul style="list-style-type: none"> ▶ Philanthropic money could allow social housing projects to have a safety net by taking a first-loss position for ESCO investments that offer performance guarantees. 	●	○
Establish heating/cooling as a service	<ul style="list-style-type: none"> ▶ Philanthropic investments to support organizations that are piloting energy as a service model to test, prove solutions, and get to scale. 	●	●

Supporting an innovative initiative that lends directly to low-income homeowners and effectively reduces performance risk is worth exploring. **Linked to Recommendation 4.**

THE QUEBEC COMMUNITY HOUSING ECOSYSTEM

Bâtir son Quartier (BSQ) is a community housing/project developer in Montreal, and one of the largest residential developers in the metropolitan area. Over 45 years, BSQ has supported the creation 15,300 community housing units, either executing its own projects, or providing support to cooperatives, non-profits and groups of citizens. BSQ currently coordinates the Fonds d'investissement Montréal IV (FIM), which channels patient capital (terms of 15 years) from private investors - including the McConnell Foundation - to housing non-profits to purchase buildings and convert them to affordable housing.

The *Association des Groupes de Ressources Techniques du Québec* (AGRTQ) is a Québec-wide association which federates local/regional technical resource groups dedicated to supporting community housing development in Québec. In addition to capacity support, AGRTQ manages or supports the operations of several funds in the province. These include:

- ▶ **Fonds Immosocial:** 20\$M fund launched in 2021, funded by the Fondation Chagnon and the Fédération des Travailleurs du Québec (FTQ), to support the acquisition and retrofitting of buildings to develop social housing units or non-profit coworking spaces. Uses a patient capital model (15-year terms, second-ranked mortgage, repayment tied to revenue streams). There are no requirements linked to energy efficiency or greenhouse gas emissions.
- ▶ **Capital Social d'Investissement Immobilier:** 151\$M fund launched in 2021, funded by various actors (CMHC, Société d'Habitation du Québec, Fondation, Ivanhoé Cambridge, FTQ, and several foundations such as Bombardier, Saputo and Chagnon), to support the development of new social housing or the retrofitting of existing units. Uses a patient capital model for 10-30% of its financing (repayment of interests after 15 years, tied to revenue

streams). Projects must be at least 10% more energy efficiency than the minimum required by the national building code.

- ▶ **Fonds d'Acquisition Québécois:** 15\$M fund to support temporary loans to housing non-profits to buy a building or land to develop a project, to prevent the opportunity to be bought up by private developers whilst project planning is finalized. Loans of up to 5\$M last at most 2 years and can be approved in less than three months. Financing is provided by the FTQ.
- ▶ **Fonds d'Aide à la Rénovation de l'Habitation Communautaire:** fund administered by the *Chantier de l'Économie Sociale* to support retrofits that improve the quality of existing community housing units (without explicit energy efficiency or climate-related criteria). Uses a patient capital model (delayed interest repayment, tied to revenue streams). Financing comes from several actors, including the McConnell Foundation.

Altogether, a comprehensive ecosystem supports community housing development in Québec, both financially and in terms of capacity support. However, almost none of this support is explicitly focussed on energy or carbon retrofits. Actors stressed a growing interest in these matters, but also that projects often have access to limited funding, and that they often cannot afford deep energy retrofit measures or increase rents to finance them. In select cases, when the energy bill is paid centrally (for instance for gas-heated buildings, or affordable housing units that don't pay their own energy bills), measures may 'pay for themselves' within a few years as they generate savings for the building operator. However, actors lack the capacity to identify such measures, which have not traditionally been a focus in Québec given low energy prices.

LEVER 3

Include Debt Pricing, GHG Reductions, and other Social Benefits Tied to Financing

Many existing programs that focus on energy savings and/or GHG reductions have rigid program requirements, which may not allow building owners to invest in a broader set of measures or take advantage of synergies between energy upgrades and health/safety improvements (for example).

Many respondents noted the ability of foundations to come in as a more flexible partner and stack capital alongside existing funding to enhance programs and broaden their scope so that project proponents can access a wider range of benefits (safety, comfort, resiliency, etc.). In doing so the program become more attractive to a larger group of stakeholders. For example, philanthropic capital could be the equity portion of a Special Purpose Vehicle (SPV) that applies for a CIB program, targeting markets other than not-for-profit housing as it is our understanding that the CIB does not currently fund projects in not-for-profit buildings. This model could potentially be applied in for-profit housing that targets underserved communities through a group such as the Centre de transformation du logement Communautaire, which aims to purchase and upgrade market rate rental housing but maintain affordability over time.

Alternatively, energy efficiency upgrades could be stacked on other existing programs to meet combined priorities. For example, many non-profit housing and MURBs have significant deferred maintenance. When these issues are being addressed foundations could come in with additional capital for energy savings measures. Once the building is already open, deeper energy retrofits become more cost effective.

Supporting Actions	Philanthropic Role	Barriers Addressed	
		Capital	Capacity
Combine environmental and social granting/ investments into a single subsidized lending model	<ul style="list-style-type: none"> ▶ Provide PRI capital by co-lending with existing programs to allow them to go deeper or attract additional projects with broader needs than just energy/GHG. 	●	○
Work with governmental affordable housing programs (all levels) to develop comprehensive retrofit investment products	<ul style="list-style-type: none"> ▶ Go to government as a co-funder, under certain conditions. ▶ Consider include financing for tools (e.g., remote energy audit tool for MURBs) and other capacity supports (e.g., support office with capacity to manage ESCO contracts in non-profit housing sector). 	●	●

Apply philanthropic capital alongside existing affordable housing investment programs to expand the overall scope of retrofit to include energy alongside deferred maintenance or health/safety upgrades. **Linked to Recommendations 2 and 3.**

LEVER 4

Build Specialized Investment Approaches for Certain Markets

Specialized investment approaches could move the dial in certain markets as new products can help overcome barriers for low income and Indigenous communities.

For the single-family low-income market, non-extractive financing is promising - especially considering questions around whether it is appropriate for low-income homeowners to have to take on additional debt. This model is discussed above under 'Shift Performance Risk from Building Owner to Investor.' For multi-family master metered buildings, the ESPA model. For multi-family in-suite metered buildings, a different approach is needed, and the PAYS on-bill financing model should be considered. (ESPA and PAYS are also discussed in the previous section.)

For First Nations, housing off-reserve can be addressed using a conventional non-extractive financing model since homes are generally privately owned. Under the Indian Act, reserve lands are held by the Crown and housing on-reserve is either band-owned (approximately two-thirds to three quarters of on-reserve housing) or individually owned. For individually owned housing on-reserve, it varies by community as to whether/what modifications to the homes are allowed.⁵

The Indian Act makes it very challenging for those living on reserve to access mortgages because reserve lands are held by the Crown. Thus, access to capital is generally limited to what is offered through public programs. There have been advances wherein a First Nation can provide a guarantee on the home, backstopped by the First Nations Market Housing Fund and the Federal Government. However, there is not enough capital to meet needs so there is a role for foundations to play here; that said, the question remains as to how the money is repaid. The philanthropic sector could work with Indigenous Clean Energy (ICE) and others to develop a product that works for Indigenous communities.

Affordable housing providers are also constrained in terms of how they approach retrofits as they are constrained by maintaining affordability. The challenge is for in-unit metered buildings where there is a split incentive and rents cannot be raised to cover energy cost reductions. A specialized investment tool with flexible terms and incentives for deeper retrofits could further their efforts.

The Community Housing Transformation Centre offers an interesting model. Its current initiative will leverage the \$5 billion in equity owned by the Quebec non-profit housing sector to create a trust that uses the equity as a first loss to draw in private equity (1-2% dividend per year split equally). It slowly buys back the equity in new housing purchases. They will start purchasing Class B rental properties, with the aim to keep rents flat over time. They are also considering building a retrofit arm of the trust to allow for larger financing envelopes on projects that include energy retrofits.

⁵ Government of Canada (2017). *Evaluation of On-Reserve Housing*. Available on-line at: <https://www.rcaanc-cirnac.gc.ca/eng/1506018589105/1555328867826>.

Supporting Actions	Philanthropic Role	Barriers Addressed	
		Capital	Capacity
Non-extractive financing for low-income	<ul style="list-style-type: none"> ▶ Create own product or work with existing programs and infrastructure. Impact capital could come with the condition that it be used for underserved groups and using non-extractive financing concepts laying out the parameters for programs. Program can include a one-stop-shop/window to address capacity constraints. 	●	◐
Pooled investment for social housing	<ul style="list-style-type: none"> ▶ Support initiatives that leverage equity owned by non-profit sector in a region by adding capital and enabling the purchase of additional properties while maintaining affordability (i.e., Community Housing Transformation Centre model). 	●	○
In-suite efficiency financing for MURBs	<ul style="list-style-type: none"> ▶ Supporting PAYS initiatives and export to other regions and/or targeted groups. 	●	○
Central system financing for Low-income MURBs (private and/or subsidized)	<ul style="list-style-type: none"> ▶ Replicate the ESPA model (examples in Toronto and Montreal) for master-metered buildings. ▶ To address capacity, foundations could couple it with centralized (or regional) advisors/concierge service. 	●	○

Supporting an innovative initiative that lends directly to low-income homeowners and effectively reduces performance risk is worth exploring. **Linked to Recommendation 4.**

LEVER 5

Support Low-Income Participation in Federal Programs

As outlined in the previous sections, it was recommended that philanthropic support be stacked on top of programs that already exist and are being accessed by communities. In other words, enhance and expand the scope of current programs. For example, indigenous communities commonly use CMHC's Residential Rehabilitation Assistance Program to improve health and safety in on-reserve affordable housing. However, it offers just enough funding for basic upgrades to increase safety and comfort issues - what the communities care about most - not energy retrofits.

In addition, the philanthropic community can use its grants and lending to encourage low-income and marginalized groups to benefit from federal programs by becoming part of the service delivery system by supporting workforce training, entrepreneurial support and wealth creation. For example, foundations support can be conditional on having requirements in place for small and minority-owned business to carry out a portion of the work. The Aki energy model in Manitoba offers a good example of coupling program delivery with workforce training.

The philanthropic sector can also help establish knowledge sharing and support networks among small and minority-owned businesses to support administration, understanding emerging program opportunities, including application processes, and other factors that can make these business more competitive in the market.

Enhancing accessibility of existing federal programs and ability to participate directly in the service delivery system. **Linked to Recommendations 2, 3 and 5.**

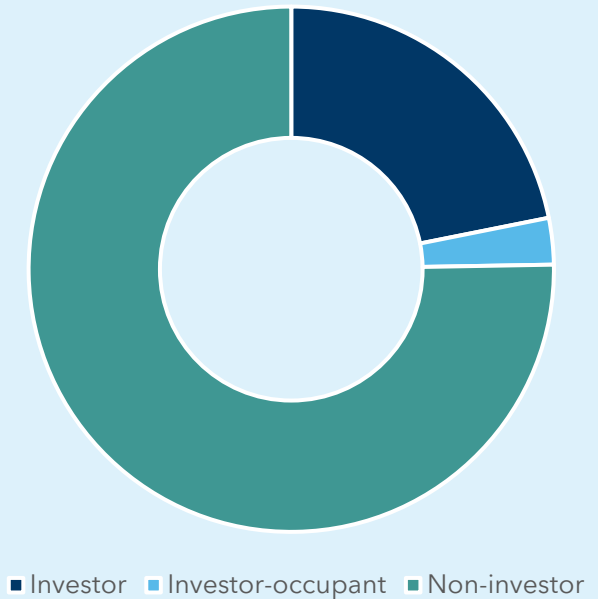
RESIDENTIAL SECTOR INVESTOR LANDSCAPE

The Canadian Housing Statistics Program recently published data on investors and owners of residential properties in Nova Scotia, New Brunswick, Ontario, Manitoba, and British Columbia in 2020. This information offers helpful context as McConnell and others consider how best to target their capital to maximize impact.

Findings include:

- ▶ **Most residential properties (75%) are owned by non-investors**, followed by investors (22%), and investor-occupants (3%).
 - ▶ Of the investor and investor-occupant properties, 98% are owned by individual investors (as opposed to business/gov't).
- ▶ Properties with **multiple residential units** (and vacant land) are the **more common type of investment**, followed by condos and homes.
 - ▶ Of these, 52% are investor-occupant, 46% are investor-owned, and the remaining 3% are owned by non-profits.
 - ▶ The breakdown between investor-owned vs. owner-occupied does vary significantly by province.

Canadian residential property owner by type



Source: <https://www150.statcan.gc.ca/n1/pub/46-28-0001/2023001/article/00001-eng.htm>

3. Recommendations

The following five key recommendations pull insights from the landscape assessment, incorporating the most relevant and promising areas for foundation engagement in the near term. For each recommendation, we highlight which market is the primary target:

 **Single Family**

 **Affordable Multi-family**

 **Indigenous Communities**

 **Underserved Workforce**

RECOMMENDATION 1

Support the 'readiness gap' during the critical project origination phase

Development Capital



Many affordable housing providers, municipalities, and other building owners have staffing constraints, limited technical expertise, and require access to tools - especially during project development.

The philanthropic sector could provide concessionary capital to project aggregators, municipalities, or non-profits to support the critical project origination phase. This can be used to build a project team; run readiness initiatives to educate co-op boards, affordable housing providers, developers, etc.; conduct modeling; and develop capital plans. Foundations can offer more favorable rates during the development phase than other high-risk investors, and while they may not recoup all the capital, foundations can link investments to a first right of refusal for projects that do materialize, creating a project investment pipeline.

Capacity & Tools



Foundations could also collaborate to develop capacity more broadly across the country. For example, Efficiency Capital noted that it relies on local partners (LC3s) for origination, but these partners do not have local capacity themselves. Foundations could provide support via concessionary capital, centralized resources, and possibly in-house energy managers.

Existing tools to model retrofit opportunities can be expensive, complex, and time-consuming. As a result, while lenders such as Vancity and Efficiency Capital expressed interest in financing deep energy retrofits, they are not receiving comprehensive capital plans. Groups such as Recover Initiative are trying to change this by developing more accessible tools but need support.

Note, several respondents suggested the philanthropic community should consider a role for a granting strategy attached to financing strategy.

RECOMMENDATION 2

Provide low-cost capital that allows energy retrofit projects to go deeper

While various programs and lenders offer funding for energy retrofits, priorities and/or the lack of a strong business case for deep energy retrofits influences the type of projects that move forward. In general, there is not enough capital or built-in incentive to motivate aggressive rapid transformation at scale.



For example, the FCM Sustainable Affordable Housing program provides 50-80% of eligible program costs, depending on the project phase. Philanthropy can support municipalities and non-profit housing providers or associations⁶ meet the required funding commitment - and potentially advance more ambitious projects with access to sufficient capital to unlock the maximum amount awarded by FCM.

Foundations can help unlock deeper retrofits and corresponding energy savings and GHG reductions by stacking low-cost, flexible capital on top of existing grants, financing programs, and private capital to enable government programs or pools of projects to go further. This will be especially helpful in cases where the energy benefits alone were not enough to make the case for a project.

Acting as a co-lender alongside an existing retrofit lender or program would avoid the need for the philanthropic lenders to underwrite each loan by committing to “top-up” the value on loans approved by the primary lender. To further support deep retrofits foundations may offer funds at a declining rate based on depth of GHG savings; or go to government as a co-funder under certain conditions.

RECOMMENDATION 3

Direct capital to address community priorities

Quality affordable housing efforts and climate efforts are two branches of public policy and philanthropy that are often disconnected, yet retrofits can contribute to both priorities simultaneously.



Existing program and investor priorities do not always align with the immediate needs and priorities of low-income homeowners, indigenous communities, municipalities and others. The philanthropic sector can help by offering low-cost capital that broadens the scope and reach of existing programs. Combining energy upgrades with deferred maintenance, health and safety, and resilience improvements ideally leads to capital cost savings, and makes the energy retrofit

⁶ For example, the BC Non-Profit Housing Association (BC), Horizon Housing (AB), Centretown Citizens Ottawa Corporation (ON), Aboriginal Housing Management Association (Nat'l), Bâtir son Quartier, AGRTQ (QC).

more cost-effective and feasible once you are already making upgrades to the building. The philanthropic community can work with groups such as ICE or CMHC's Residential Rehabilitation Assistance Program to develop funding and financing initiatives that support energy improvements alongside health and safety upgrades and deferred maintenance in first nations and indigenous communities.

In addition, and as previously mentioned, the philanthropic sector could play an important role in building a pipeline for the CIB Building Retrofit Initiative. While the program is focused on GHG emissions reduction measures, foundations and CIB could work with partners to identify for-profit housing providers that are pursuing deferred maintenance upgrades in affordable housing and bridge the gap between the program requirements and their priority needs. Foundations could provide equity in a Special Purpose Vehicle that can be used for measures that are not strictly related to GHG reductions.

RECOMMENDATION 4

Support groups seeking to advance non-extractive financing for low-income homeowners

Non-extractive financing is an innovative approach to overcome financing barriers for low-income homeowners. Under this approach, returns to the lender never exceeds the wealth (i.e., savings) created by the borrower using the capital. It also broadens the definition of "return" beyond profit to encompass environmental and social benefits. Borrowers are not required to make repayments until they are able to. This model also includes flexible underwriting and terms. To note, another model for low-income retrofits is the Pay as you Save (PAYS) model, which is an on-bill repayment model wherein the repayment never exceeds the demonstrated utility bill savings.



There are two municipalities that are considering a form of non-extractive financing - Waterloo and the Halifax Regional Municipality. Foundations could partner with an organization or the municipality and use these opportunities to test, prove solutions, and build the model to scale - which could then be replicated in other jurisdictions. Philanthropic capital could be used to initially bolster applications to FCM's Community Efficiency Financing program, and top-up the program in its initial phase. Going forward, foundations could offer a loan loss reserve or provide first-loss program capital to de-risk the investment (in the case that savings do not materialize) and help attract other capital.

For Indigenous communities, there may be an opportunity to work with ICE (possibly through its Project Accelerator program) and others to ensure it is a good fit and explore appropriate underwriting and repayment mechanisms for band-owned housing.

RECOMMENDATION 5

Support energy retrofit workforce within disadvantaged communities

The energy retrofit service delivery market will need to realize significant growth in the coming years if Canada is to transition to a net zero economy. While this is an impending barrier to getting retrofits to the scale required, it is an opportunity for the philanthropic sector to address potential supply side issues (i.e., having the people to do the retrofits) while supporting underserved communities through workforce development and entrepreneurial support for wealth creation.



Foundations can work with organizations focused on skills training and workforce development in the clean energy space to support pilots and vocational training, particularly targeted towards women and people of colour that have been underrepresented in the skilled trades.



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