



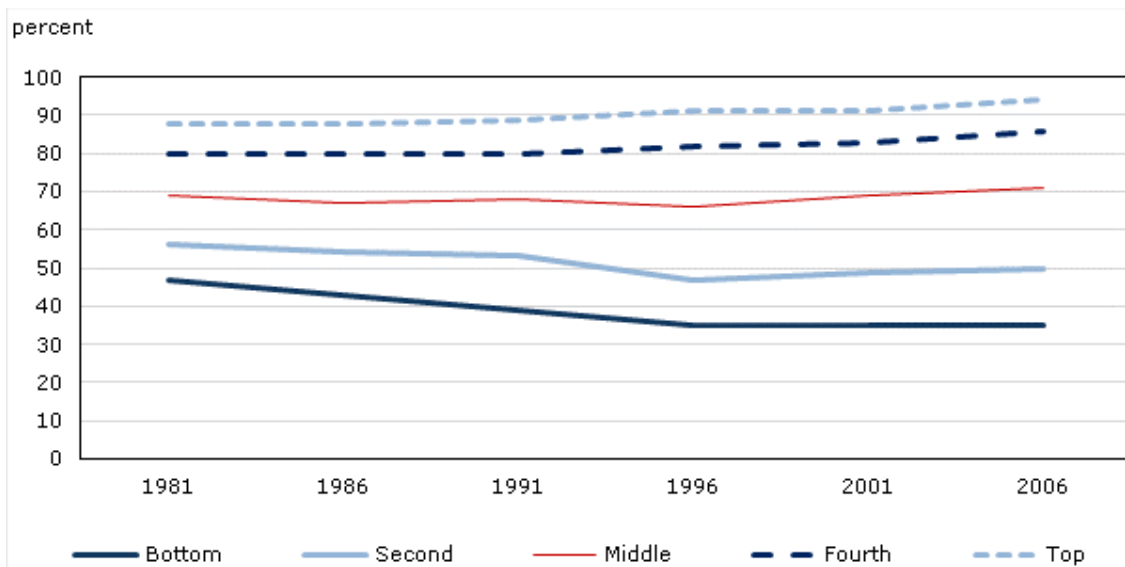
The Social Impact of Homeownership:
The Trillium Housing Model

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For generations of Canadians, the dream of owning a home has been central to our experience of success and security. However, entry-level ownership is no longer affordable for many families. As housing costs continue to rise, the possibility of ownership will become more of a challenge and more out of reach for low- to modest-income families than ever before.

A 2006 Canada Mortgage and Housing (CMHC) study on homeownership rates over time, identifies that for lower income families homeownership rates are declining in a period where they have risen for the population as a whole.¹ The chart below illustrates these changes for families (adults aged 20 to 39) with children. This is the group most likely to be first time homebuyers.

Homeownership rates for couples in the 20-39 age class with children, across income quintiles, 1981 to 2006



Source: Statistics Canada, Census of Population, 1981 to 2006.

This study examined a number of factors related to the decline in homeownership rates for this group and the relatively flat rates for higher income groups. Access to affordable homeownership opportunities stands out as a significant challenge for low- to modest-income families that wish to own. These findings are supported by the data collected in 2011 by Statistics Canada as part of the national Household Survey.

Affordable housing has been central to creating improved outcomes for individuals, families and communities. It is linked to population health as well as to creating the

¹ Brown, W. Mark and Amélie Lafrance. "Trends in Homeownership by Age and Household Income: Factors Associated with the Decision to Own, 1981 to 2006." *Economic Analysis Research Paper Series 2013*. Canada Mortgage and Housing Corporation. Web. (October 24, 2013).

conditions for improved employment and education outcomes. Valuing and extolling the social impacts of stable housing and ownership is not new. However, in recent years academia and government have increasingly examined the full potential of related outcomes and the established findings directly and indirectly support the notion that access to affordable housing has significant social impact.

Social finance and impact investing opportunities have grown in Canada in recent years. The reality of producing both a financial and social return on an investment is no longer considered “alternative” as mainstream institutions begin to offer opportunities that include a blended returns. Affordable housing stands out specifically as a significant impact investment opportunity.

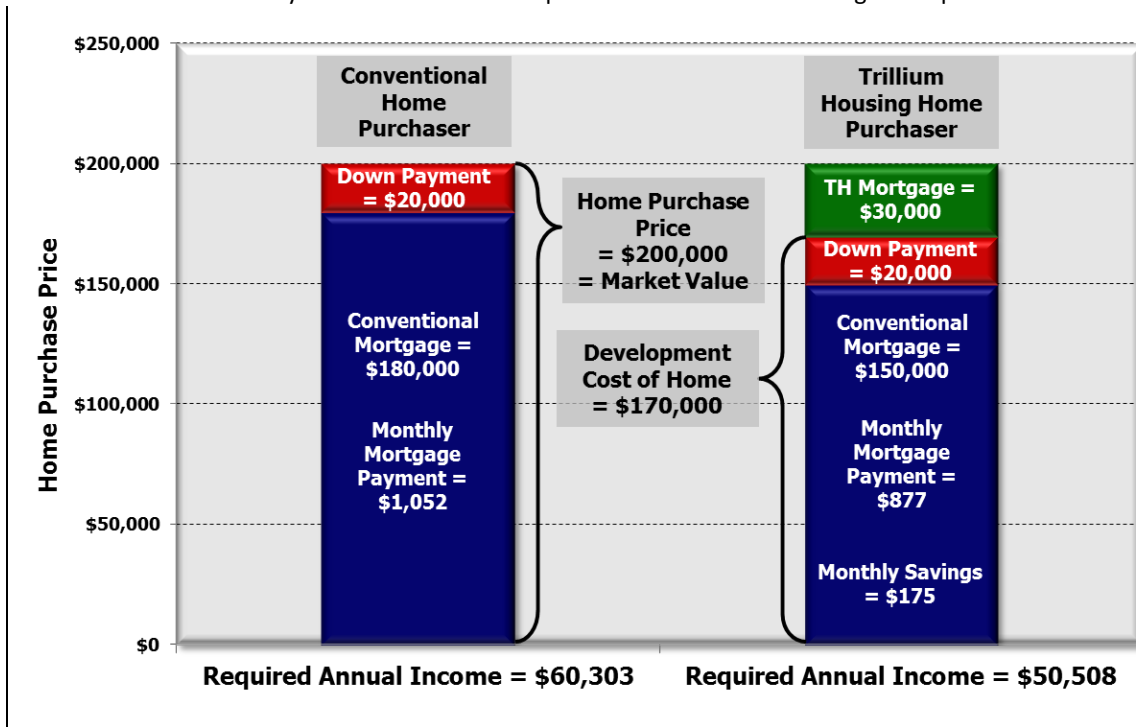
In many regions across Canada there is great need for reducing and stabilizing housing costs, creating access to safe and adequate housing, and creating a stable community environment. Supporting these efforts can generate the social outcomes that impact investors are looking for. Further, affordable housing development can be done on a commercial basis providing investors a financial, as well as social, return on investment.

Trillium Housing’s Social Impact

Trillium Housing has been established to help low- to modest-income Canadians become homeowners. Through the development of affordable housing, Trillium Housing provides families with the opportunity for ownership where they might not otherwise be able to afford a home. The objective of housing affordability is met in two ways. First, site selection, project design and construction contribute to affordability through the development process while maintaining strict standards of quality. Secondly, affordability is facilitated through the Trillium 2nd Mortgage.

A Trillium 2nd Mortgage is a shared-appreciation mortgage that does not have a conventional interest rate. Instead, the homeowner repays the mortgage principal and a share of any appreciation in the value of the home at the time of sale or by refinancing the 1st mortgage. The 2nd Mortgage can either offset a portion of the down payment or decrease the amount of the 1st mortgage, reducing the monthly mortgage payment. In the graph below we compare a conventional purchaser of a \$200,000 home with a Trillium Housing purchaser who has the benefit of a Trillium 2nd Mortgage. The first mortgage is assumed to have a rate of 5% and an amortization term of 25 years.

Affordability of conventional home purchaser vs. Trillium Housing home purchaser



In addition to the positive social impact associated with affordable homeownership – in the Trillium Housing model achieved through the development process and a 2nd Mortgage – Trillium Housing’s approach has several other potential social impacts, including:

- Increased household and financial security
- Improved outcomes for children
- Improved health and well-being
- Community and neighbourhood impact

Over the past several decades, interest in the potential and experienced outcomes of homeowners has been the subject of academic research and policy reform. In Canada, there is an understanding that the extension of homeownership to low- or modest-income groups produces transformational and positive impacts.

The claim that homeowners are better off financially, secure better futures for their children, enjoy better health, and produce community impact, is widely confirmed. The act of ownership is a significant factor in achieving these outcomes but it is also clear that there remain gaps in the literature and mixed empirical support.²

² Coulson, N. Edward and Herman Li. “Measuring the external benefits of homeownership.” *Journal of Urban Economics* 77.4 (September 2013): 57-67.

There are multiple determinants of homeownership, including demographic and economic factors, which are both challenging to isolate and until recently were not necessarily accounted for in the literature.³ Despite the established correlation between homeownership and the social impacts highlighted above, there remains significant opportunity to further the existing research⁴ and contribute to building the case for impact investors in the affordable housing space.

As we continue to build the case for investment, existing challenges to the potential for impact must be acknowledged. One criticism of homeownership as a viable opportunity for low- to modest-income families is based on the financial burden a mortgage and down payment pose in addition to the potential associated transaction costs. As low- to modest-income families generally have less savings and possibly less access to credit, they are at higher risk for suffering from “income shocks,” leading to the possibility of defaulting on payments, losing capital by being forced to sell, and impacting personal credit ratings.⁵ With the Trillium 2nd Mortgage model, this risk is mitigated. Trillium 2nd Mortgages are calculated so as to provide a financial buffer for the homeowner in the event that they experience temporary income changes.

Based on existing research that supports homeownership as a contributor to higher levels of income among other positive outcomes, Trillium Housing’s model is revealed to hold great potential for catalyzing social impact in addition to the financial return offered to its investors. From increased household and financial security, to improved outcomes for children, individual well-being and community level-impacts, Trillium Housing’s homeownership model offers low- to modest-income Canadians the opportunity for a more stable, comfortable, place to call *home*.

Increased Household and Financial Security

According to the City of Toronto, “Homeownership is a widely-accepted way to build equity and ensure one’s housing quality.”⁶ Not only do we believe in homeownership as a key tenant of the Canadian dream but academics are also interested in housing outcomes and are distilling the social impact evidence. Increasingly widespread is an understanding of the value of equity in individual wealth accumulation and the belief of homeownership as a key element to improving household income levels.

Dr. David Hulchanski at the University of Toronto explored the income of homeowners and found it to be significantly higher than that of renters: between 1984 and 1999, the

³ Hajer, Jesse. “Homeownership for low-income households: Outcomes for families and communities.” *Canadian Centre for Policy Alternatives*, April 2009. Web. (October, 24 2013): 26.

⁴ Dietz, R. D. and D. R. Haurin. “The social and private micro-level consequences of homeownership.” *Journal of Urban Economics* 54.3 (2003): 401-450.

⁵ Hajer, 22.

⁶ “Making Homeownership Happen: Success Through Partnerships.” *Affordable Housing Office*. City of Toronto, 2012. Web. (October 24, 2013): Executive Summary.

income gap between owners and renters increased by 1% per year. Hulchanski found that over this period of study, the median income of owners increased by \$2100 (+5%) while that of renters decreased by \$600 (-3%). As the income gap increases, a similar trend can be seen in wealth accumulation. Hulchanski found that, “the median net worth of homeowners in 1999 was \$145,000, an increase of \$28,400 (24%) over 1984. For renters, the trend was the opposite: median net worth decreased by \$1,900 (-48%), from \$4,000 in 1984 to \$2,100 in 1999.”⁷

U.S. figures reveal that homeownership accounted for 72% of net household worth for households with incomes less than \$20,000; however, for those with incomes between \$20,000 and \$49,000, homeownership accounted for 55% of total wealth.⁸ These statistics are often cited in policy recommendations promoting homeownership as a poverty reduction strategy, revealing the potential impacts on families for whom homeownership might be out of reach.

Especially for low- to modest-income households, ownership can mean significant opportunity for financial security and further wealth accumulation. The investment in bricks and mortar offers a strong savings tool that can not only increase in value and impact household wealth but can also protect families as housing costs continue to rise, “for homeowners, high and increasing house costs contribute to their lifelong accumulation of wealth,” for renters the opposite is true, “high housing costs make it difficult, if not impossible, for [renters] to accumulate assets (such as the amount needed for a down payment) resulting, for many, in lifelong impoverishment.”⁹

In addition to this Canadian research, there are similar outcomes to be found in the American experience. In a 2003 study citing U.S. Department of Housing and Development (HUD) statistics, an American “low income homeowner’s average household wealth is 12 times that of a similarly compensated renter.”¹⁰ Further, as the current economy continues to shift and we see increasing numbers of individuals embarking on an entrepreneurial path to employment, homeownership will be a key element in accessing the credit markets. According to HUD, “home equity tends to be one of the largest sources of collateral for bank loans to start new businesses.”¹¹

⁷ Hulchanski, J. David. “A Tale of Two Canadas: Homeowners Getting Richer, Renters Getting Poorer.” *Centre for Urban and Community Studies*, Research Bulletin #2. University of Toronto, August 2001. Web. (October, 24 2013): 2.

⁸ “Economic Benefits of Increasing Minority Homeownership,” Department of Housing and Urban Development, 2002. Web. (October 24, 2013): 7.

⁹ Hulchanski, 3.

¹⁰ “Economic Benefits of Increasing Minority Homeownership.” As cited in MacNeil, Matthew. “Affordable Homeownership Study: prepared for the City of Calgary” *Housing Strategies Inc.* (2004). Web. (October 24, 2013): 4.

¹¹ “Economic Benefits of Increasing Minority Homeownership,” 9.

Further, given the possibility of a fixed-mortgage, the costs associated with ownership insulate homeowners from the fluctuations found in the rental market;¹² Dietz and Haurin also highlight that owner-occupiers are protected from the instability of the rental market. From this perspective, homeownership is viewed as an “insurance mechanism” – ensuring owners are not subject to volatile local rental markets, insulating families from external economic pressures.¹³

It is also logical to see the risk mitigation afforded to homeowners extend to protection from the inherent instability of rental markets that often include significant numbers of condominium rental units. Especially in large urban areas, condominiums make up a large portion of the private rental market. Condos are individually owned, subjecting renters to potential instability due to the resale opportunity in these units; when renting a condo, unlike market rental units, tenants are not offered security of tenure.

In both evidenced social impact and perceived personal outcomes, ownership is viewed as a positive step towards improvements to household income. In a recent survey done by the Affordable Housing Office at the City of Toronto, respondents identified several related reasons for their interest in affordable homeownership programs, including important household financial impacts, “the three most common reasons respondents gave for purchasing a home were that it made financial sense, that it offered stability and that they liked the location”.¹⁴

Finally, the Canada Mortgage and Housing Corporation (CMHC) conducted a survey of families who purchased a home through Habitat for Humanity Canada. The Habitat for Humanity model of affordable homeownership is unique; however, the outcomes revealed in this data further support the potential impact of ownership models generally. Families who received Habitat for Humanity assistance, attributed the following outcomes to their ownership opportunity: 58% reported that they were better off financially; 45% indicated that they had more financial control over monthly expenses; and, 62.5% reported that they were building equity in their homes.¹⁵

There is ample evidence that the household financial impact of homeownership is significant. Owned homes provide low and modest income families with equity to draw on over the long term. This added security provides households with the ability to manage periodic losses of income and financial changes through opportunities to leverage this equity when necessary. Whether it is investment savings, control over rising housing costs, protection from the volatile rental market, or building household equity, the potential financial impact of ownership is especially significant for low- to modest-income Canadian families.

¹² Hajer, 10.

¹³ Dietz, 414.

¹⁴ “Making Homeownership Happen: Success Through Partnerships,” Executive Summary.

¹⁵ “Building Families’ Futures and Opportunities Through Habitat Homeownership.” *Research Highlight 2012*. Canada Mortgage and Housing Corporation. Web. (October 24, 2013): 4.

Improved Outcomes for Children

While household financial wealth and housing stability is positively influenced by homeownership, there is also evidence pointing to its impact on children. In a review of existing research done for the City of Calgary, the Centre for Policy Alternatives determined that there exists strong evidence that “homeownership for families indirectly leads to better outcomes for children in those families.”¹⁶ While empirical evidence of these social impacts continues to build, existing findings point to the positive correlation between the children of low- to modest-income homeowners and: math and reading scores, graduation rates, pursuit of higher education, potential for future home ownership by children, and future earnings of children.

A benchmark American study established the effects of ownership on children, articulating that, “homeowning by parents benefits their children, who are less likely than children of renters to drop out of high school or to have children as teenagers. Both effects are largest for children of low-income households.”¹⁷ This analysis further noted that based on the increased likelihood of homeowners’ children staying in school, the implied education-income earnings relationship increased the overall lifetime income for those children. In addition, it was found to also increase the potential for future homeownership by children:

Specifically, on average, annual earnings were higher by \$7,497 for those individuals whose parents’ achieved homeownership. This translates into an average lifetime benefit of \$155,344. In addition, [Green and White’s] analysis also suggests that having parents that are homeowners dramatically increases the likelihood that children will also be homeowners. Specifically, the average likelihood of homeownership increases by 24.4 percentage points. This represents a 59.3% increase in the probability that a child will own his/her own home within 10 years after moving away from his/her parents.¹⁸

In the Canadian context, a study done at McMaster University asserted that family homeownership also related to lower levels of child problem behavior.¹⁹ And in the Habitat for Humanity Survey mentioned earlier, families identified several similarly positive outcomes experienced by their children, “across-the-board improvements in children’s well-being and school performance: increased participation in activities

¹⁶ Hajer, 19.

¹⁷ Green, Richard K. and Michelle J. White. “Measuring the Benefits of Homeowning: Effects on Children.” *Journal of Urban Economics* 41.3 (May 1997): 457.

¹⁸ Boehm, Thomas P. and Alan M. Schlotmenn. “Does Home Ownership by Parents Have an Economic Impact on Their Children?” *Journal of Housing Economics* 8.3 (September 1999): 230.

¹⁹ Boyle, Michael H. “Home Ownership and the Emotional and Behavioral Problems of Children and Youth.” *Child Development* 73.3 (May 2002): 883-892.

outside school, including sports (increased from 50% to nearly 61%), music and arts (increased from nearly 18% to 30%), and volunteering (increased from 29% to 45%).”²⁰

Available HUD research²¹ further details several significant social impacts of homeownership on children and families:

- children of homeowners showed a 9 percent higher probability of being in school than those of renters;
- teenage pregnancy rates in families owning their homes are from two to four percent lower than for families who rent;
- children of homeowners have a 25 percent higher probability of completing high school than renters’ children;
- children of homeowners have a 116 percent better chance of graduating college than renters’ children;
- children of homeowners had a 59 percent better chance of being homeowners themselves within 10 years of leaving the parental home;
- math achievement scores are 9 percent higher among homeowners’ children than renters’ children; and
- reading achievement scores are 7 percent higher among homeowners’ children than renters’ children.

The potential social impact of homeownership includes improved education and future earning outcomes for children. As several pieces of the research indicate, these impacts are found to be most significant for low- to modest-income families.

Improved Health and Well-being

While homeownership has been seen to have positive impacts at the household level in terms of financial security and children and youth outcomes, there is also literature pointing to its influence on improved health and well-being:

At least in some circumstances, homeownership is found to have a positive impact on the life satisfactions of low-income home buyers. Moreover, to the extent that heightened life satisfaction is related to other positive outcomes, such as psychological and physical health, homeownership may contribute to the general well being of low-income individuals.²²

²⁰ “Building Families’ Futures and Opportunities Through Habitat Homeownership,” 3.

²¹ Hajer, 4.

²² Rohe, William M. and Michael A. Stegman. “The effects of homeownership on the self-esteem, perceived control and life satisfaction of low-income people.” *Journal of the American Planning Association* 60.2 (1994). Web. (October 24, 2013).

Studies on the improved physical and mental health of homeowners are generally based on this increase in self-esteem and access to better services experienced by homeowners, “There is a strong logical argument supporting the idea that, in general, homeownership leads to better housing conditions. Therefore...it should also lead to increases in self-esteem, happiness and health.”²³

In the Habitat for Humanity Survey, 78% of the homebuyers surveyed rated their own health and the health of their families as “better now” than in their previous housing; and over 70% of the homebuyers reported improvements on a range of indicators (for example: reduced colds and flu, allergies, asthma symptoms and stress); 31% reported less frequent visits to the doctor, and about 25% reported fewer days of work missed because of illness.²⁴

At the individual and household level, homeownership has been found to improve the health and well-being of families: increasing self-esteem, life satisfaction, mental and physical health. These positive outcomes are wrapped up in our understanding of success and security and can have significant tangible and intangible impacts, from improved mental health to pride of ownership.

Community and Neighbourhood Impact

While homeownership has been seen to have positive impacts at the family level in terms of wealth and security and in child and health outcomes, there is also literature pointing to the social impact of ownership beyond the household. Achieving the Canadian dream of homeownership can be a source of great pride; this can translate beyond the personal experience and can impact the livability of whole neighbourhoods. Research points most strongly to the idea that homeowners participate more in local politics and civic organizations than renters.²⁵

The social capital leveraged by homeowners, in the form of greater involvement and investment in community life, might translate to well maintained properties given owners’ pride, safer neighbourhoods due to diligent community associations, or population stability given longer tenancy rates of owners. Generally overall civic engagement is found to be stronger in homeowners,²⁶ contributing to stronger, safer and supportive communities.

Finally, there is some research that points to the ripple effect of ownership in the form of wider community investment and economic growth. Development of new construction requires skilled labour²⁷ and improvements to neighbourhoods may attract

²³ Hajer, 17.

²⁴ “Building Families’ Futures and Opportunities Through Habitat Homeownership,” 3.

²⁵ Hajer, 21.

²⁶ “Affordable Homeownership Study: prepared for the City of Calgary,” 4.

²⁷ Ibid.

business and spark local job creation. Beyond the household level there are impacts felt by the communities of homeowners, stretching the social return on investment of homeownership models beyond the singular family experience.

Conclusion

The existing literature surrounding homeownership reveals a correlation between homeownership and positive social outcomes for households and their neighbourhoods.

The financial opportunity in terms of wealth creation, economic security and future earnings, holds significant opportunity for low- to modest-income first-time homebuyers. The improved child outcomes including graduation rates, future earning potential and likelihood of future homeownership, and the health and well-being of homeowners as compared to their rental peers, point to the tangible social return on investment in affordable ownership models. The impact that such individual outcomes can also have on the broader community is also seen in the improvements to civic engagement ownership has been noted to have. These social outcomes make investments in affordable homeownership models a potentially rewarding opportunity both socially and financially.

Social impact measurement continues to broaden our understanding of the potential of these kinds of innovative models. Trillium Housing affords investors the opportunity to act as early adopters, creating conditions that not only produce financial results but social impact as well. Trillium Housing provides investors with the opportunity to enable the pursuit of homeownership for low- to modest-income families in Canada, transforming their present reality and impacting their future potential.

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