

Finance as a force for good

Taking on New Zealand's banking system is a mission of David and Goliath proportions. But it is with the shepherd-boy's confidence in divine resourcing that Community Finance is challenging the banking sector in tackling the country's increasingly giant-sized housing crisis.

Community Finance is an open-impact investment intermediary established in 2019 by non-bank deposit holder and lender **Christian Savings**. Community Finance is purposed with connecting impact investors with leading community housing providers. Recently, it launched the Aotearoa Pledge – a target investment opportunity of \$100 million (which, at time of writing, had achieved \$30 million). The aim of this funding mechanism is to assist organisations like hapū, iwi, churches and registered community housing providers to build new community infrastructure, particularly new homes.

The Aotearoa Pledge builds on the success of the inaugural investment offering presented to market in the latter part of 2020 through the Salvation Army Community Bond. The Bond offering closed in October of 2020 having raised \$40 million and will see 118 homes developed in Auckland by the Salvation Army.

Community Finance General Manager Paul Gilbert says that choice of such a reputable provider for the first outing was a strategic decision.



Paul Gilbert

“As the developer, the Salvation Army is a well-regarded and highly trusted organisation. That provides a significant level of security to investors, that and the fact that the Government pays the rent.”

Paul attributes these factors as key to achieving a positive market response to what is a new investment class.

“Security and servicing is the currency that the financial market understands and this offering soundly delivers on that.”

Impact investment

Impact investments are investments made to generate positive, measurable social and/or environmental deliverables alongside a financial return.

The offer closed two months early and was oversubscribed, which Paul believes reflects growing investor interest in knowing what their money is being invested in and that it is doing good.

Already, the Salvation Army Community Bond is adding to mounting evidence that impact investment can provide a better-than-average market return. The Bond offer delivers up to 2.30% per annum to investors for the next five years.

Having now piqued the interest of the financial market in this new investment class, Community Finance is gearing up for successive community bond issues.

“What we’re seeking to achieve through the Aotearoa Pledge is to help drive much-needed new supply.” Even though it is early days, Paul says Community Finance has 20 to 30 projects in the bond development pipeline.

The focus of the investment product developed by Community Finance predominantly targets large



Te Manaaki Tangata, Westage Housing Community

investors, requiring a minimum pledge of \$10 million unless otherwise agreed. On the other side of the equation – the development side – only leading registered

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Community Housing Providers (CHPs) and projects over \$5 million are considered.

However, recognising the critical need for more participants in

housing supply, Community Finance is currently developing a second new investment product, one aiming to make it easier for smaller CHPs to get New Zealanders into quality homes.

“We’re readying the launch of a new equity-based investment product where investors will directly own the properties. This will include ethical Build-to-Rent homes and progressive home ownership products. Community Finance arranges the finance and partners, and the development and leasing of the homes to CHPs.”

This product seeks to address the challenge smaller CHPs experience in accessing the resources to build →



or purchase their own properties. To enable a secure footing for CHPs' tenancies, the properties will be leased to CHPs for 10 to 20-year terms, a significant extension to normal market terms.

Secure backing

Behind Community Finance is its parent organisation Christian Savings. Starting out as Baptist Savings in 1962, today Christian Savings has a \$200 million deposit base serving \$165 million in loans to Christian churches and mission-aligned charities. A fundamental belief of Christian Savings is that finance can be used as a force for good. It sees itself as a mechanism

for 'The Church' to address structural and social injustice and the degradation of the environment. Christian Savings provides an opportunity for both individuals and organisations to invest any amount starting from \$1,000, to help churches and charities in Aotearoa thrive.

Paul says that the church has great intent and good resources but not necessarily the capability or capacity to take on property development. "And why should it? The church is about building the Kingdom. We see our role as assisting the church to become fruitful stewards of its resources."

Late last year, the Diocese of

Wellington joined seven existing denominations to become a shareholder in Christian Savings. The move involved the Diocese investing \$1 million with Christian Savings, which, as Paul explains, extends the entity's lending capacity.

"Under New Zealand's investment rules, there's a multiplier effect with funds injections – of 20-to-one. The Diocesan investment of \$1 million has generated an availability of \$20 million for construction lending."

And the Diocese is geared up to put the funds to use. Former Diocesan Manager Nick Young is overseeing a pipeline of Anglican developments that will lock in that loan capacity for mission projects across the Wellington region.

"We have half a dozen parishes right now who feel moved to address pressing needs in our communities, and who want to be included in our Diocesan development pipeline," he said.

Nick says the new relationship with Christian Savings has the potential to seed so many exciting projects that would draw a blank from the main banks.

"This unlocks a critical blockage and provides access to affordable construction finance on terms that will work."

Standing apart

Christian Savings and now Community Finance are continuing to carve an alternative financial route for investment and lending in this country – there's that David and Goliath connection again. Paul says that the point of difference is the genuine commitment to ethics.

"We're committed to ethical investment – and it's both good for investors and for developers. We've never had any defaults. We've don't have any arrears. That's a real positive for our shareholders and

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investors. At the same time we offer much better, more flexible terms for borrowing entities, at better prices."

Paul says the that they are still focussed on the bottom line. "While we are certainly working to make a good return for our investors, we're not out to make massive profits.

"And that's the part we are playing in building the Kingdom."