# Preserving Multifamily Workforce and Affordable Housing

## NEW APPROACHES FOR INVESTING IN A VITAL NATIONAL ASSET

Stockton Williams

Urban Land Institute

NeighborWorks AMERICA

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- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both the built and natural environments;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Established in 1936, the Institute today has more than 36,000 members worldwide, representing the entire spectrum of the land use and development disciplines. Professionals represented include developers, builders, property owners, investors, architects, public officials, planners, real estate brokers, appraisers, attorneys, engineers, financiers, academics, students, and librarians.

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The ULI Terwilliger Center for Housing conducts research, performs analysis, and develops best practice and policy recommendations that reflect the residential development priorities of ULI members across all residential product types. The Center's mission is to facilitate creating and sustaining a full spectrum of housing opportunities—including workforce and affordable housing—in communities across the country. The Center was founded in 2007 with a gift from longtime ULI member and former ULI chairman J. Ronald Terwilliger.

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For more than 35 years, NeighborWorks America has created opportunities for people to improve their lives and strengthen their communities by providing access to homeownership and to safe and affordable rental housing. In the last five years, NeighborWorks organizations have generated more than $24.5 billion in reinvestment in these communities. NeighborWorks America is the nation's leading trainer of community development and affordable housing professionals.

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Forsyth Street provided critical initial research.

## Letter from the Author

Real estate investors seeking competitive returns increasingly view lower- and middle-income apartments as an attractive target for repositioning to serve higher-income households. In response, creative approaches are emerging for preserving the affordability of this critical asset class for its current residents and those of similar means—while still delivering financial returns to investors.

This report from the ULI Terwilliger Center for Housing provides a broad-based overview of this rapidly evolving landscape. It profiles 16 leading efforts to preserve multifamily workforce and affordable housing, including below-market debt funds, private equity vehicles, and real estate investment trusts.

Collectively, the entities leading these efforts have raised or plan to raise more than $3 billion and have acquired, rehabilitated, and developed nearly 60,000 housing units for lower- and middle-income renters, with thousands of additional units in the pipeline. Several are actively raising more capital to expand their activities. They are meeting a pressing social need while delivering cash-on-cash returns to equity investors ranging from 6 to 12 percent.

The report is written with the following primary audiences in mind:

- **Developers and owners** looking for new sources of capital to acquire, rehabilitate, and develop multifamily workforce and affordable properties;
- **Local officials and community leaders** seeking options for attracting or creating new sources of financing to meet their rising rental housing needs for lower- and middle-income families; and
- **Real estate investors and lenders** interested in more fully understanding their range of options for a product type that offers financial as well as social returns.

As the country continues to grapple with the worst housing crisis for lower- and middle-income renters it has ever known, the private sector and community-based institutions must play an ever-greater role in ensuring that existing affordable properties remain available to the many who need them, while doing what they can to produce new units where possible. The financing vehicles profiled here show what is possible and suggest opportunities for further progress.

Stockton Williams
Executive Director
ULI Terwilliger Center for Housing

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# Part I: Framing the Challenge

America's multifamily housing stock for "lower- and middle-income renters"—those who earn up to the area median income (AMI)—is slowly but surely disappearing. The often-overlooked apartment properties that provide decent, affordable homes for millions of workers, senior citizens, and young children in households with modest incomes exist in all parts of the country. These "workforce and affordable" properties are an essential element of our national infrastructure and the fabric of our local communities. They will not likely be replaced in nearly the numbers that are needed, absent unforeseen policy interventions.

The continued loss of this critical if underappreciated real estate asset class, already playing out in many markets, will impose ever-greater social and economic costs on our country in the years ahead. "Preserving" the nation's existing housing for lower- and middle-income renters—ensuring that it remains in good physical condition and affordable to households that most need it—must be a top priority for the real estate community, public officials, and the nation as a whole.

The combination of conventional real estate economics and prevailing political realities requires new models to meet this challenge. Recent years have seen new approaches emerge for preserving multifamily workforce and affordable housing and, in some cases, for building new affordable units. Those approaches, led principally by the private sector and nonprofit organizations, are demonstrating that in fact a market opportunity exists in at least partly meeting this particular pressing social need. Those approaches are the subject of this report.

Many lower- and middle-income renters live in "multifamily workforce and affordable housing." For the purposes of this report, that term encompasses two broad categories of properties:

- **Federally subsidized, rent-restricted ("subsidized") properties.** Nearly 5 million privately owned multifamily rental units have been developed over the past 40 years or so with the assistance of various federal grants, mortgage insurance and interest rate subsidies, "project-based" rental assistance contracts, and tax credits.[1] The majority were built in the 1970s and 1980s; relatively few new units are being built with the assistance of those programs today.[2] Developers of those properties were—and continue to be—required to cap the rents for extended periods so their units would remain affordable to lower-income families, generally those earning no more than 60 percent of the AMI.
- **Unsubsidized "naturally occurring" affordable properties.** More than 3 million multifamily units serve somewhat higher income levels than the current subsidized stock, generally between 60 percent and 100 percent of the AMI. Some of those properties once benefited from some sort of federal subsidy, such as mortgage insurance, but now may no longer be required to cap rents or serve a specified income group; some never received federal subsidy. In either event, their affordability today is "natural," arising from their age (40 years old and older in many cases),

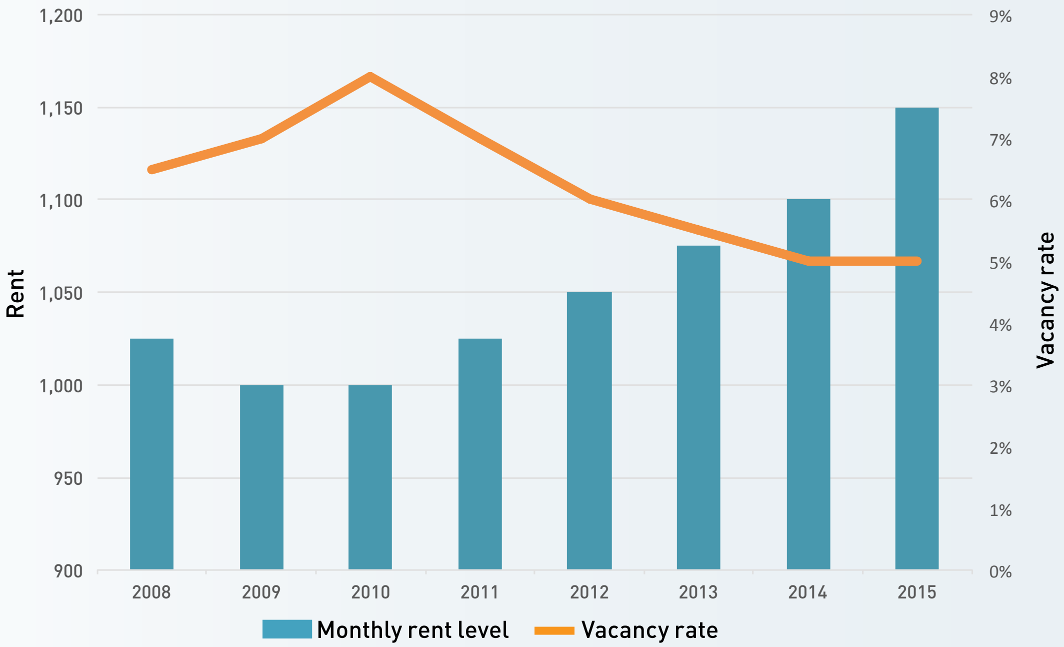
physical condition (often poor and declining), design elements (likely out-of-date), and location (most are in second- and third-tier markets), according to a recent survey by Beekman Advisors.[3]

This report refers to those two groups of properties collectively as "multifamily workforce and affordable housing." Although this inventory of apartments does not by any stretch house all the nation's middle- and lower-income renters—it excludes the surprisingly large share residing in single-family rental homes and the growing group in "active adult" and similar communities, to cite two examples—it arguably represents the heart and soul of the stock. And it faces a substantial risk of loss in the years ahead, for a number of reasons.

Start with current trends in the housing market. The national homeownership rate has dropped eight years in a row and through the first two quarters of 2015; it is now at the lowest point in almost 50 years: 63.5 percent.[4] For a range of well-documented reasons—stagnant incomes, tougher mortgage credit requirements, lingering financial stress on household budgets from the Great Recession—it is simply more difficult for more households to buy a home today than at any other time in recent memory.

Partly as a result, demand for multifamily rental units has surged. The apartment vacancy rate in the second quarter of this year was 4.2 percent, down from 8 percent in 2000, according to Reis.[5] Almost all the new units coming on line are affordable to only the highest-income renters. The median asking rent for a new unit in 2013 was $1,300, according to the Joint Center for Housing Studies of Harvard University,[6] and fully 80 percent of new units in the largest metropolitan areas currently coming on line are aimed at the luxury market, according to CoStar.[7]

**FIGURE 1:** Estimated National Rent and Vacancy Levels



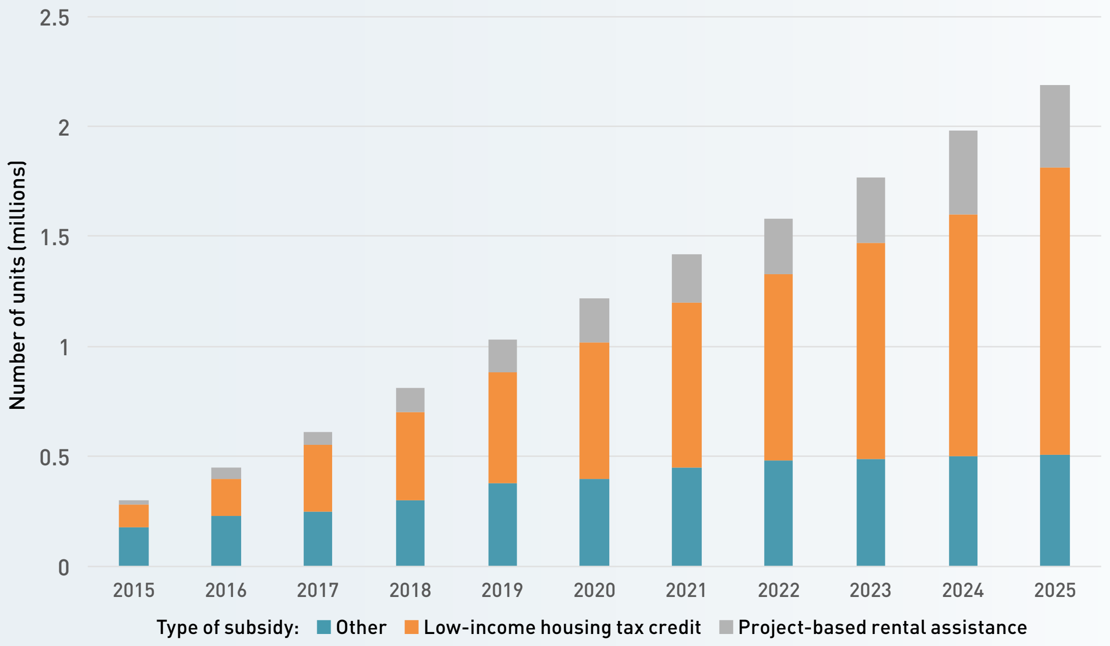
**Source:** Fannie Mae Multifamily Economics and Market Research Estimates.

Apartment rents have increased faster than renter incomes for the past decade at least and have outpaced inflation in some markets more recently.[8] Looking ahead, the Urban Institute forecasts that the growth of new renters will exceed that of new homeowners over the next 25 years, creating additional "intense competition" for apartments, which will likely further increase pressure on rents.[9]

Constraints on supply have exacerbated rental affordability problems. The costs of land, labor, and most materials for multifamily construction have spiked, according to industry participants, and are likely to remain high. According to one recent analysis, "Despite the ongoing improvement in the national economy and most local job markets, the declining amount of affordable and workforce multifamily rental housing is worrisome. The many barriers to new construction of this type of housing—higher construction costs, labor issues, and rising land prices—are likely to remain stubbornly in place, especially in the larger primary metropolitan areas."[10] In addition, multifamily development of all kinds, especially properties serving lower- and middle-income renters, often faces a lengthy local regulatory approval process and community opposition.[11]

Even before the current boom began to push rents higher, the supply of both subsidized and "naturally occurring" affordable rentals was shrinking. In the case of the subsidized stock, more than 320,000 subsidized units were lost between 1998 and 2012, as owners opted out of federal assistance programs.[12] More than 2 million units are at risk of loss over the next decade, as federal affordability periods end, according to the Harvard Joint Center.

**FIGURE 2:** **Cumulative Number of Subsidized Units with Expiring Affordability Periods**



**Source:** Harvard Joint Center for Housing Studies, "The State of the Nation's Housing 2015," www.jchs.harvard.edu, all rights reserved.

Many owners will likely either raise rents (in strong markets) or let properties slide into physical obsolescence (in weak markets, lacking subsidies to rehabilitate the buildings). With respect to the "naturally occurring" affordable inventory, according to the *Wall Street Journal*, "Research by Reis, which tracks commercial real estate, found that the supply of less expensive apartments, excluding rent-regulated units, has decreased 1.6% since 2002. Over that time, high-end apartment inventory has increased 31%."[13]

The nation already faces a growing shortfall of affordable rental units. For example, for every 100 households that earn between 30 percent and 50 percent of their area median income, there are only 65 available and affordable units nationally, according to the U.S. Department of Housing and Urban Development.[14] Nearly 6 million "working renter" households (those earning up to 120 percent of AMI) pay more than 50 percent of their income for rent,[15] and such unsustainable rent burdens are both growing in number and affecting households higher on the income spectrum.[16] Current levels of new affordable multifamily development—roughly 100,000 annually—will replace only about half of what is at risk of loss in the coming years and will fall far short of meeting rising demand. It is no exaggeration to say that, absent unforeseen policy interventions, much of the current stock of multifamily workforce and affordable housing will be lost for good.

The continuing costs to the country stand to be substantial. The replacement cost of the existing subsidized inventory dwarfs available public resources to support new development. A large and growing body of research shows that families who are facing housing hardships may encounter a host of adverse outcomes with their health, at work, and in school—all at a cost to society as well. More emergent economic analysis suggests that affordable housing shortages for lower- and middle-income workers may undermine local economic development and competiveness.[17]

Investing in the existing housing infrastructure for lower- and middle-income renters is in fact a much higher-yielding financial and social investment for the country than building new apartments for this group: preservation costs 30–50 percent less than developing new units, according to the U.S. Department of Housing and Urban Development.[18] Preservation can also contribute to community stability and can result in a more environmentally sustainable—and cost-effective—use of resources.

Market forces may help mitigate the factors that have created the current conditions described above. Continued job growth, cooling of the current multifamily development cycle, and more demand for homeownership driven by increased household formation could lead to lower rents in some markets. Encouragingly, state and local governments around the United States appear to be placing renewed attention on workforce and affordable housing needs. And an analysis from Fannie Mae concluded, "Additionally, a concerted effort on preserving more affordable units could be effective, and can be accomplished through a variety of financing vehicles that support modest improvements in existing properties."[19] Leading-edge examples of those efforts are the focus of the next section.

# Part II: Overview and Analysis of Financing Vehicles

As the issues described in Part I have played out with increasing speed and complexity over the past several years, a growing number of financing approaches have emerged, and in some cases expanded, in response. This section profiles 16 leading examples. More detailed material on four of them is available in the appendix. To illuminate relevant similarities and differences, the approaches are grouped into three categories that are generally familiar in the real estate industry:

- **Below-market debt funds**, through which entities established by partnerships of private, public, and philanthropic organizations provide affordable housing developers with low-cost loans, paying below-market interest rates to their senior lenders;
- **Private equity vehicles**, through which real estate investment entities use private capital to acquire and rehabilitate multifamily workforce and affordable housing properties, delivering a range of returns to equity investors; and
- **Real estate investment trusts (REITs)**, through which a longstanding mechanism for raising real estate capital for other product types is used expressly to develop and preserve affordable rental units, generating a range of returns.

The report features leading examples in each of those categories; it does not purport to include every example that exists. The primary criterion in selecting the ones profiled was the extent to which each effort represents a proven, potentially replicable approach. A few relatively nascent efforts are also included on the basis of their creativity and potential.

The review focused for the most part on stand-alone, special-purpose vehicles or corporate approaches that go beyond traditional financing for multifamily workforce and affordable housing. For that reason, internal community development financial institution (CDFI) loan pools, standard low-income housing tax credit (LIHTC) and new markets tax credit equity funds, and conventional affordable housing financing offerings from government-sponsored enterprise lenders are not included—even though many play a critical role and reflect considerable creativity in their own right. In the case of private equity vehicles, the review focused on only those examples that include a commitment to maintaining affordability for current middle- and lower-income renters.

Each category of financing vehicles highlighted has distinct characteristics, including demonstrated strengths and potential limitations for meeting lower- and middle-income rental housing needs, as summarized in figure 3.

Of course, private sector and nonprofit-led creative financing approaches have been part and parcel of the multifamily workforce and affordable housing system for decades. CDFIs, pension funds, charitable foundations, faith-based groups, and "social investors" have been generating capital for development and rehabilitation in innovative ways since the 1970s. The financing vehicles featured are in many respects direct and indirect

**FIGURE 3:** **Overview of Financing Vehicles**

| Financing vehicle | Primary purpose(s) | Demonstrated strengths | Potential limitations | Capital sources and financial returns |
|---|---|---|---|---|
| Below-market debt funds | Acquisition of land and existing subsidized affordable properties and new development; often not limited to housing | As revolving funds, provider of a continuing source of capital<br>Facilitator for affordability-focused developers to compete in hot markets | Complex administration; significant startup costs<br>General dependency on availability of permanent "takeout" financing | Local public agencies, foundations, CDFIs, financial institutions<br>Interest rates to senior lenders generally range from 2 percent to 6 percent, depending on capital source and fund structure |
| Private equity vehicles | Acquisition of existing subsidized and/or "naturally occurring" affordable properties | Ability to act at market speed<br>Scale of capital | Varying degrees of commitment to long-term affordability<br>Less transparency in structure, returns | Financial institutions, pension funds, university endowments, high-net-worth individuals, foundations<br>Cash-on-cash returns to investors from 6 percent to 12 percent |
| Real estate investment trusts | Acquisition of existing subsidized and/or "naturally occurring" affordable properties | Strong focus on preserving affordability<br>Facilitator for affordability-focused developers to compete in hot markets | Considerable technical expertise required to manage (only two exist that focus solely on workforce-affordability sector) | Foundations, financial institutions, CDFIs<br>Total returns to investors generally from 4.5 percent to 8 percent |

descendants of those earlier efforts, countless numbers of which still exist and thrive today, alongside newer ones.

While the aggregate amount of additional capital the financing approaches profiled have made possible is relatively small in the context of multifamily capital markets and affordable renter needs, most of it has emerged or scaled significantly in the past several years. It represents a significant trend and arguably a best option for alleviating an important aspect of our country's worsening affordable housing crisis.

The efforts profiled have helped prove out and scale up creative approaches and are paving the way for additional activity by others. They have forged new partnerships among the private, public, and social sectors at the local level. They have demonstrated opportunities to earn financial returns while meeting pressing social needs. They have influenced public policy. For those reasons, along with the potential for the continued growth and evolution of innovative financing to deliver more of the housing so many Americans need, these leading approaches warrant attention.

An inherent limitation in a report of this nature is that some of its most interested readers will want more detail, especially with respect to the financial structure and performance of the financing approaches featured. Much of that material is, of course, confidential or available only to investors. Additional information may be accessible through direct contact with the relevant entity. Contact information is provided for each.

The data in the following pages were verified as accurate by representatives of each entity in August and September 2015. The material in this section is for informational purposes only.

## Below-Market Debt Funds

Below-market debt funds are established by partnerships of private, public, and philanthropic institutions to provide affordable housing developers with low-cost loans. Developers use the loans to acquire and develop land, rehabilitate existing properties, and develop commercial and community facilities in addition to multifamily workforce and affordable housing. Below-market debt funds originate loans directly or through CDFIs.

These funds blend government and foundation monies, in the form of grants or low-interest loans, with conventional debt from financial institutions, mostly banks and insurance companies. The government and foundation capital acts as a credit enhancement for the conventional debt, enabling loan products that can support higher-risk activities and more advantageous terms to the borrowers than would otherwise be possible.

Below-market debt funds can allow affordable housing developers to compete in hot housing markets that raise land prices and put upward pressure on rents. They have been credited in their cities with filling important gaps in the financing system. Another advantage is that these funds are typically “revolving,” meaning they are set up to make new loans as prior loans are repaid, providing a continuing source of capital. Several have raised additional capital since their inception.

Experience to date suggests that below-market debt funds are most viable in markets with a high-capacity local government on housing issues and the presence or interest of significant philanthropic capital, that is, larger cities. They generally require deep, continuing collaborations by multiple entities and specialized advisory services in administration and governance. Startup time and costs for parties seeking to create these kinds of funds can be significant—up to 18 months and $1 million, according to an analysis of several funds.[20] Also, since these funds focus primarily on early-stage acquisition and predevelopment activities, their ultimate success, with regard to units preserved or developed, depends on the availability of construction and permanent financing from other sources.

Following are examples of below-market debt funds:

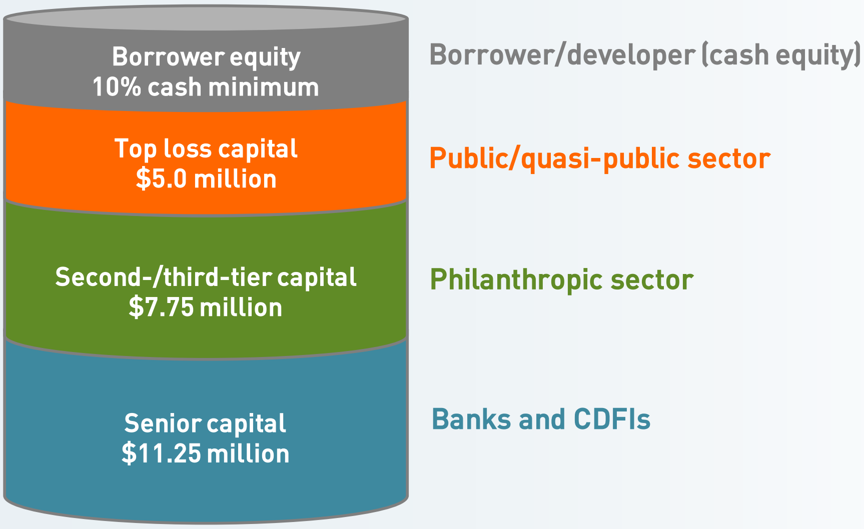
- **The Bay Area Transit-Oriented Affordable Housing Fund** was established in 2011 by a coalition of San Francisco Bay Area government agencies, nonprofits, and foundations. It was seeded by a $10 million investment from the Metropolitan Transportation Commission. The fund provides short-term and medium-term early-stage financing for affordable housing developments and related community facilities close to transit lines. It offers acquisition, predevelopment, construction "bridge," and mini-permanent construction loans. The fund's current capitalization is $50 million, and it has financed eight developments with a total of more than 900 units and nearly 100,000 square feet of retail space. Senior lenders to the fund generally receive interest rates of 4–6 percent. For more information, see http://bayareatod.com.
- **The Denver Regional Transit-Oriented Development Fund** was established in 2010 with $13.5 million in debt capital for a purpose similar to the San Francisco fund: to create and preserve affordable housing along current and future transit corridors in the city and county of Denver. In 2014, the fund was expanded to serve the surrounding seven-county region and is now capitalized at $24 million. Borrowers

MARKET
DISCOUNT
Taylor

**The Bay Area Transit-Oriented Affordable Housing Fund is providing $7.2 million to support the Eddy and Taylor Family Housing development, which will provide 153 residential units and 12,000 square feet of retail space. The site is two blocks from a major transit hub in San Francisco. The developer is the Tenderloin Neighborhood Development Corp.**

*Bay Area Transit-Oriented Affordable Housing Fund*

FIGURE 4: **Denver Regional Transit-Oriented Development Fund Capital Stack**

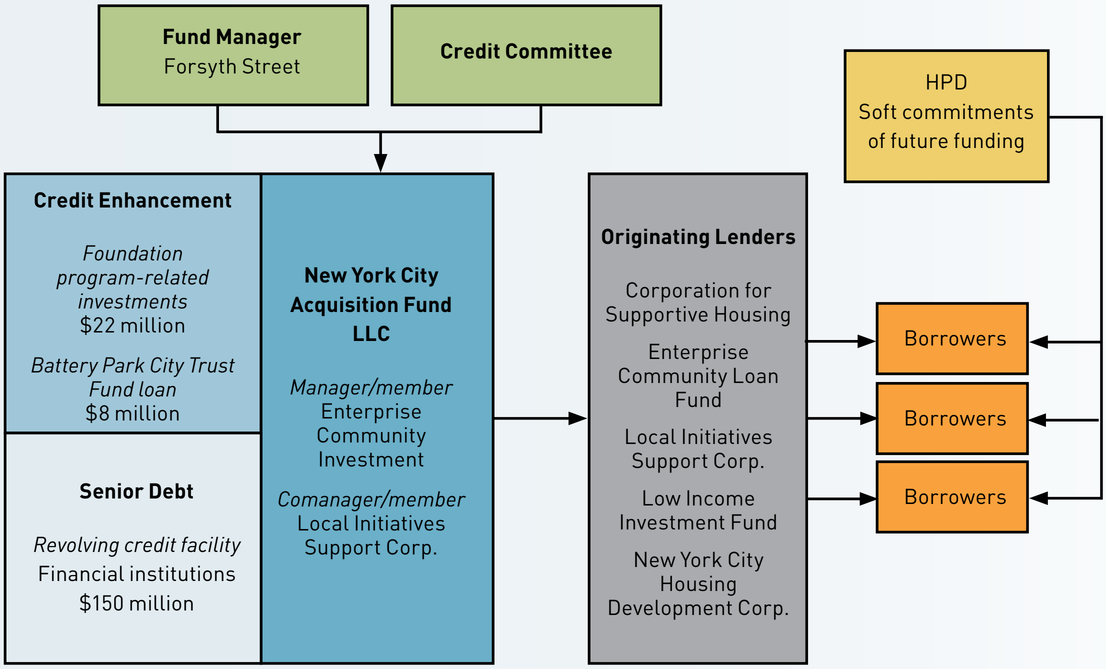

Borrower equity
10% cash minimum
Top loss capital
$5.0 million
Second-/third-tier capital
$7.75 million
Senior capital
$11.25 million
Borrower/developer (cash equity)
Public/quasi-public sector
Philanthropic sector
Banks and CDFIs

**Source:** Enterprise Community Partners.

may use funds to purchase, hold (for up to five years), and develop sites within a half mile of fixed-rail transit stations or a quarter mile of high-frequency bus stops. The fund has closed 11 transactions totaling nearly $16 million, with a pipeline of over 900 permanently affordable units and more than 150,000 square feet of commercial and community space. Returns to capital providers (public agencies, foundations, financial institutions, and CDFIs) are generally 2–6 percent. For more information, see www.enterprisecommunity.com/denver-tod-fund.

- The **New Generation Fund** was established in 2008 through a partnership of the Housing and Community Investment Department of Los Angeles, local foundations, and private lending institutions. The fund was designed to combat homelessness and reduce the housing burden on poor and working families by offering affordable housing developers early-stage financing for properties intended for low- and moderate-income residents. The fund recapitalized its senior lending facility in August 2015 and is currently capitalized at $75 million. The fund has deployed $69 million to create or preserve 1,355 units in 14 developments. Senior lenders to the fund generally receive a LIBOR-based interest rate with a spread, with a floor of 3.75 percent (4.75 percent when lending on building rehabilitation costs). For more information, see http://newgenerationfund.com/.

FIGURE 5: New York City Acquisition Fund Organizational Structure



Fund Manager
Forsyth Street
Credit Committee
HPD
Soft commitments of future funding
Credit Enhancement
Foundation program-related investments
$22 million
Battery Park City Trust Fund loan
$8 million
Senior Debt
Revolving credit facility
Financial institutions
$150 million
New York City Acquisition Fund LLC
Manager/member
Enterprise Community Investment
Comanager/member
Local Initiatives Support Corp.
Originating Lenders
Corporation for Supportive Housing
Enterprise Community Loan Fund
Local Initiatives Support Corp.
Low Income Investment Fund
New York City Housing Development Corp.
Borrowers
Borrowers
Borrowers

**Source:** Forsyth Street.

- The **New York City Acquisition Fund** was established in 2006 by the city of New York, major banks and foundations, and national community development organizations. The fund provides flexible capital for acquisition and predevelopment costs. It also offers rehabilitation loans for occupied buildings and bridge loans for LIHTC properties seeking additional tax credit equity. The fund is capitalized with $150 million in lendable proceeds provided by participating lending institutions. Capital from senior lenders is credit enhanced by approximately $22 million in foundation loans and an $8 million loan from the city of New York. The fund has originated $249 million in predevelopment and acquisition loans and created or preserved more than 7,000 units. Senior lenders to the fund generally receive LIBOR-based interest with a spread between 3 percent and 4 percent. (See the appendix for representative term sheet information from the New York City Acquisition Fund.) For more information, see www.nycacquisitionfund.com/.

FIGURE 6: **Comparison of Below-Market Debt Funds**

| Name | Established | Geography | Capitalization | Impact | Interest rate to senior lenders |
|---|---|---|---|---|---|
| Bay Area Transit-Oriented Affordable Housing Fund | 2011 | San Francisco Bay Area | $50 million | Has financed eight developments with more than 900 units and nearly 100,000 square feet of retail space. | 4–6 percent |
| Denver Regional Transit-Oriented Development Fund | 2010 | Denver metro area | $24 million | Has closed 11 transactions totaling almost $16 million; pipeline of more than 900 units and 150,000 square feet of commercial and community space.<br>Has generated $598 million and more than 7,000 local jobs in the past five years, according to a 2015 report. | 2–6 percent |
| New Generation Fund | 2008 | City of Los Angeles | $75 million | Has originated $69 million to create or preserve 1,355 units in 14 developments. | LIBOR with a spread, floor of 3.75–4.75 percent |
| New York City Acquisition Fund | 2006 | City of New York | $150 million | Has originated $249 million in predevelopment and acquisition loans and created or preserved more than 7,000 units. | Base rate of 3–4 percent |

## Private Equity Vehicles

The private equity vehicles covered in this report are entities that use private capital to acquire and rehabilitate multifamily workforce and affordable housing properties, delivering a range of returns to equity investors, while maintaining the properties as affordable for lower- and middle-income renters—typically those in the 80—100 percent of AMI range.

Funds that acquire Class B and Class C properties with the goal repositioning them to serve higher-income residents are not the focus of this report. In fact, in some respects, the private equity players profiled here are competing with more conventional "value add" multifamily investors targeting the apartment sector. The current market cycle has created a highly competitive environment. A recent analysis noted, "Although apartment rent growth is surely constrained by income, household incomes are projected to keep growing, which will enable B/C landlords to raise rents. . . . Additionally, the lack of new competition in the B/C space will continue to put downward pressure on an already incredibly low vacancy rate."[21]

These private equity vehicles are effectively testing the appetite of real estate equity investors to take lower returns than the mid-high teens typical of private equity real estate returns overall in recent years, but still higher than returns to debt, for example, 6–12 percent on a cash-on-cash basis. Investors in these funds include financial institutions, pension funds, university endowments, high-net-worth individuals, and foundations.

Some of these vehicles target subsidized properties (e.g., developed with tax-exempt bond financing, "project-based" rental assistance contracts, or LIHTCs), whereas others focus on unsubsidized "naturally occurring" affordable properties. Some invest in both. These entities may act as developer and owner, may joint-venture with other developers, or upon their exit may attempt to line up new owners that are committed to similar goals.

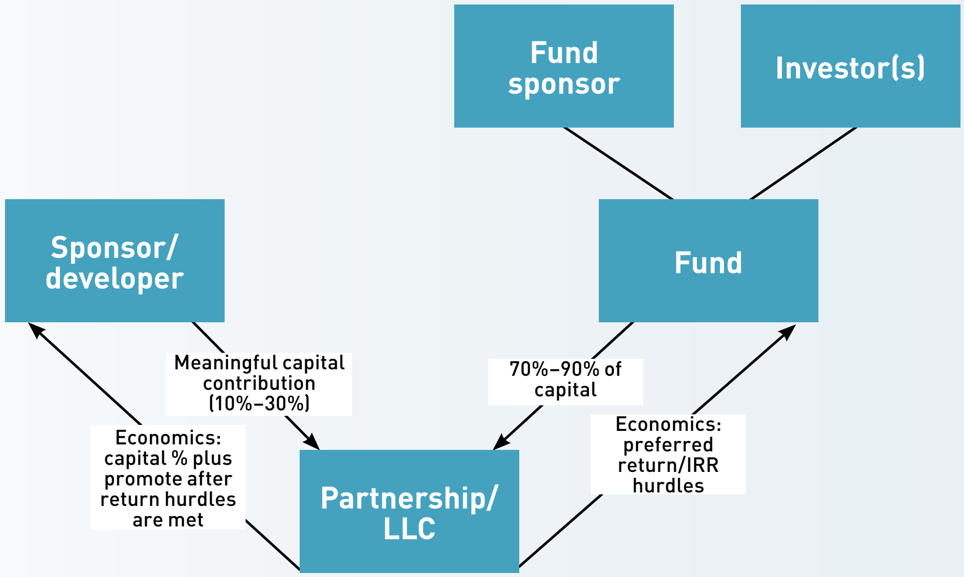
Following are examples of private equity vehicles:

- **Avanath Capital Management** is a real estate investment firm that seeks opportunities in existing developments that are rent regulated or financed by federal programs. Avanath funds that closed in 2010 and 2013 preserved long-term affordability, while generating cash-on-cash returns of 6–10 percent. Developments serve residents with incomes not exceeding 80 percent of the AMI. Avanath Affordable Housing II Fund recently raised $200 million in investment capital from three state pension funds, two banks, three insurance companies, one foundation, and one family office. The firm is pursuing a long-term, national consolidating strategy in the affordable rental apartment sector in order to increase operating efficiency and provide investors with market-rate, private equity real estate returns. For more information, see http://avanath.com/.

**The Avanath Affordable Housing II fund purchased the 304-unit Oakwood in Orlando, Florida in 2015. The firm has re-branded the property as Bella Cortina and will invest roughly $7,000 per unit to upgrade its exterior paint, wood finishings, kitchen appliances, HVAC and landscaping. The property will serve households earning between 50 percent and 75 percent of the area median income.**

*Avanath Capital Management*

FIGURE 7: Generic Structure of a Private Equity Fund


Fund sponsor
Investor(s)
Sponsor/ developer
Fund
Meaningful capital contribution (10%–30%)
70%–90% of capital
Economics: capital % plus promote after return hurdles are met
Economics: preferred return/IRR hurdles
Partnership/ LLC

**Source:** David P. Cohen, Katten Muchin Rosenmann LLP.

- **The Enterprise Multifamily Opportunity Fund** is managed by Enterprise Community Investment, a national community development financial services firm. The fund leverages traditional debt at the property level and provides up to 90 percent of the required equity financing for up to seven years. Enterprise's joint venture partners are responsible for coinvesting the balance of the equity financing. Enterprise requires long-term affordability, seeks investments with opportunity for stronger management and expense control, and often expects some modest rent growth. The fund is capitalized at $35 million and targets 10 percent returns to its investors, which currently consist of financial institutions and socially motivated high-net-worth individuals and private investors. (See the appendix for representative term sheet information from the Enterprise Multifamily Opportunity Fund.) For more information, see www.enterprisecommunity.com/financing-and-development/conventional-equity.

- **PNC Bank**, through its Tax Credit Capital group, has formed a new division that focuses on long-term preservation of "at-risk" affordable housing. The bank has launched **PNC Affordable Rental Housing Preservation Fund 1 LLC**, which has a target of $250 million in equity capital and is the first in a planned series of funds that will invest in affordable multifamily housing properties that PNC intends will qualify as public welfare investments. The fund envisions a three- to five-year hold period, after which the properties will be recapitalized and redeveloped using LIHTCs. Investments will have an average 60–65 percent leverage, and PNC plans to coinvest in these funds up to 25 percent. The fund is investing nationally in primary and secondary markets. The bank has closed on five acquisitions to date and anticipates an additional five to seven closings before year's end. For more information, see https://www.pnc.com/en/corporate-and-institutional/financing/lending-options/pnc-real-estate/affordable-housing-preservation-investments.html.

**The Rose Smart Growth Investment Fund, in a joint venture with the Rose Smart Growth Investment Fund IA (a separate account for TIAA-CREF), acquired Collins Circle, a transit-oriented, mixed-income apartment building in Portland, Oregon. The joint venture made physical improvements to boost energy efficiency and market competitiveness. The property consists of 124 rental units, 52 of which are restricted to tenants earning up to 60 percent of the area median income, with the balance available at market rents, as well as 7,200 square feet of ground-floor commercial space.**

*Jonathan Rose Companies*

- **Jonathan Rose Companies** is a real estate investment, development, planning, and project management firm that has managed the development of real estate projects totaling more than $1.5 billion. The company has formed several funds focused on multifamily acquisition, preservation, and development backed by institutions, foundations, and high-net-worth investors. In 2014, Rose announced its fourth offering focused specifically on affordable housing preservation, the **Rose Affordable Housing Preservation Fund LLC**, a $51.6 million fund seeded by TIAA-CREF and Rose to acquire affordable and mixed-income multifamily housing in high-demand markets across the United States. The fund's goal is to improve and "green" the assets through high-impact/low-cost energy retrofits as well as hands-on asset management that reduce and control expenses and enhance tenant quality of life. As of this writing, the fund is making preservation investments in the Boston metro, Connecticut, Washington, D.C., Chicago, and Seattle markets and is continuing to track target acquisitions in New York City, Los Angeles, and the San Francisco Bay Area. For more information, see www.rosecompanies.com/investments.

- The **Turner Multifamily Impact Fund**, formed in 2015, plans to acquire and manage up to $1 billion in unsubsidized "naturally occurring" affordable apartment communities serving households earning up to 80 percent of the AMI in underserved urban communities throughout the country. The fund also provides community services related to education, health care, and security. It was established through a collaboration of Turner Impact Capital, Citi Community Capital, the University of Michigan's endowment, and the Rockefeller Brothers Fund. The fund targets "risk-adjusted" financial returns of 10–12 percent net of fees. It closed its first transaction in July: a 599-unit, 48-building garden-style housing community located in Prince Georges County, Maryland. For more information, see www.turnerimpact.com\\home.

- The **Urban Strategy America Fund** bills itself as a "triple bottom line" development entity and investment fund capitalized at $190 million. The fund's stated goals are to socially and economically enhance urban areas, improve environmental conditions, and provide a competitive rate of return for individual and institutional investors. The fund acquires and develops or redevelops residential multifamily buildings and commercial and light-industrial properties. The fund partners on some projects with a local institution, such as a nonprofit community development corporation (CDC), that provides services related to affordable housing, education, and employment. In return, the CDC is awarded a share of the developer fee, as well as a share of the revenue, after the fund reaches an approximately 12 percent overall return on investment. The CDCs help the projects meet social and economic goals, such as employing and housing local residents, and can coordinate with local government to streamline permitting processes. To date, the USA Fund has developed 1,219 residential units and 1.6 million square feet of commercial space. For more information, see www.usa-fund.com.

**The Urban Strategy America Fund partnered with the Asian Community Development Corporation to develop One Greenway, a major mixed-income development in Boston's Chinatown neighborhood. Two residential towers bookend an acre of publicly accessible open space and a new pedestrian connection. The 312-unit North Building comprises 217 market-rate and 95 affordable rental units.**

*Urban Strategy America*

**FIGURE 8:** Comparison of Private Equity Vehicles

| Name | Established | Geography | Capitalization | Impact | Returns |
|---|---|---|---|---|---|
| Avanath Capital Management | 2008 | National; 30 percent in California | Avanath Affordable Housing I Fund: $120 million<br>Avanath Affordable Housing II Fund: $200 million | Has invested in 32 properties to date. Overall, owns and manages a portfolio of more than 6,000 units. | 6–10 percent cash on cash |
| Enterprise Multifamily Opportunity Fund | 2013 | National | $35 million | Has made investments totaling $15 million and has acquired more than 1,300 units to date. Remaining capital is to be deployed by mid-2016. | 10 percent cash on cash |
| PNC Affordable Rental Housing Preservation Fund 1 LLC | 2014 | National | $250 million | Anticipates 5–7 closings by year-end. | Not disclosed |
| Rose Affordable Housing Preservation Fund LLC | 2014 | Boston area, Connecticut, Washington, D.C., Chicago, Seattle | $51.6 million | Anticipates acquiring 1,700 units in nine properties. | Not disclosed |
| Turner Multifamily Impact Fund | 2015 | National | $1 billion target | Closed first acquisition in July 2015. Target is 10,000 units. | "10–12 percent net of fees" |
| Urban Strategy America Fund | 2004 | East Coast | $190 million | To date, has developed 1,219 residential units and 1.6 million square feet of commercial space. | "Approximately 12 percent overall" |

## Real Estate Investment Trusts

A real estate investment trust is an investment vehicle created by the U.S. Congress in 1960 to provide a means for small-scale investors to invest in income-producing commercial, industrial, and residential real estate. Some REITs acquire or develop properties directly, some acquire equity positions in properties, some offer private debt, and some pursue a blended approach, combining debt and equity investments with direct development. Although many REITs include affordable and mixed-income properties as part of broadly diversified portfolios, the two REITs highlighted invest expressly in affordable multifamily developments. They each take advantage of the REIT structure to provide diversification and liquidity investors, while bringing deep affordable housing expertise and mission commitment to bear in maximizing affordability.

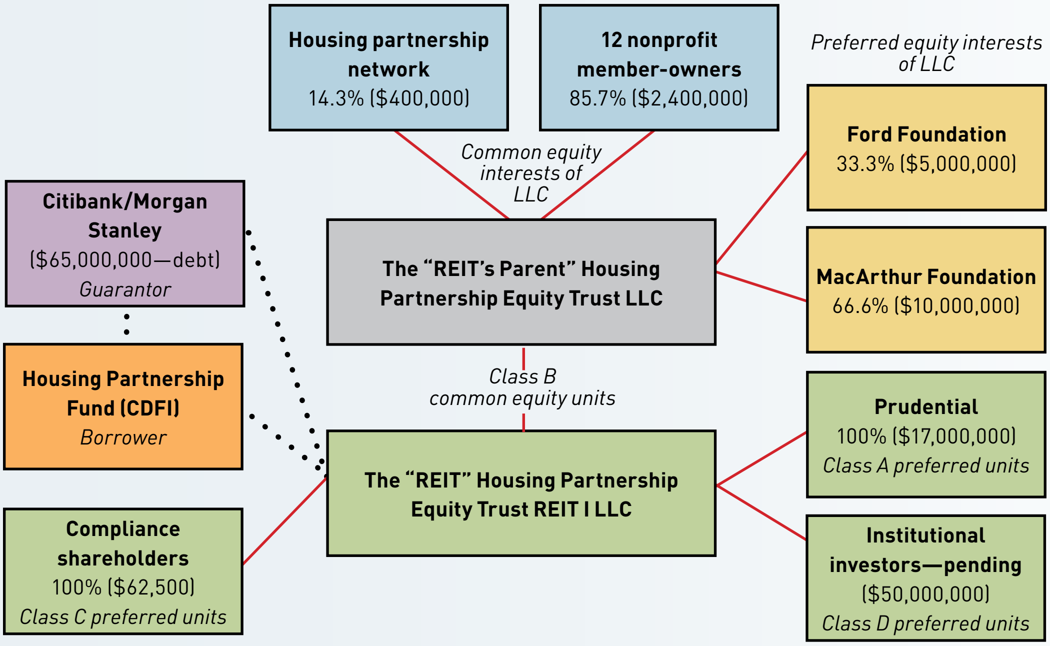
- The **Community Development Trust (CDT)**, founded in 1998, is a privately held, mission-oriented REIT that provides financing for the production and preservation of subsidized affordable housing. CDT works with local and national partners to make long-term equity investments and originates and purchases long-term mortgages that support the development and preservation of affordable housing for low- to moderate-income families. CDT seeks a market return, depending on the location. As a long-term investor, CDT looks for opportunities that generate a consistent cash-on-cash return as the basis for paying its investors. In addition to providing the capital necessary to restructure a property's ownership, to address capital needs, and to replace major systems, CDT provides such amenities as recreational facilities and community centers. CDT has invested over $1 billion of debt and equity capital in properties in 42 states and regions to date—creating or preserving over 36,000 units while earning a market-based yield for institutional investors. (See the appendix for representative term sheet material from CDT.) For more information, see www.cdt.biz.

- The **Housing Partnership Equity Trust (HPET)** was established in 2013 by the Housing Partnership Network (HPN), a national business collaborative of affordable housing and community development nonprofits, and 12 of its member organizations, which are large regional nonprofit housing developers. The private social-purpose trust is an independently managed, shareholder-owned, for-profit corporation that acquires unsubsidized, "naturally occurring," affordable multifamily rental properties in partnership with those 12 members. HPET delivers an economic return in the form of stable, long-term dividends through strategic capital investment and efficient property management; a mission return through the preservation of affordable housing and the benefits that housing brings to its residents; and an environmental return through improved operations and energy efficiency. The trust closed on its second capital raise

**The Housing Partnership Equity Trust and AHC Inc. partnered to purchase Woodleaf Apartments in Silver Spring, Maryland, in 2014. The 228-unit apartment building contains one- and two-bedroom apartment homes and is adjacent to the U.S. Food and Drug Administration (FDA) headquarters. The acquisition will preserve the affordability of the rental property, which is critical to the growing workforce in the area, powered in large part by the planned expansion of the FDA.**

*Housing Partnership Equity Trust*

**FIGURE 9:** Housing Partnership Equity Trust Organizational Structure



Housing partnership network
14.3% ($400,000)
12 nonprofit member-owners
85.7% ($2,400,000)
Common equity interests of LLC
Preferred equity interests of LLC
Ford Foundation
33.3% ($5,000,000)
MacArthur Foundation
66.6% ($10,000,000)
Citibank/Morgan Stanley
($65,000,000—debt)
Guarantor
The "REIT's Parent" Housing Partnership Equity Trust LLC
Class B common equity units
Housing Partnership Fund (CDFI)
Borrower
The "REIT" Housing Partnership Equity Trust REIT I LLC
Prudential
100% ($17,000,000)
Class A preferred units
Compliance shareholders
100% ($62,500)
Class C preferred units
Institutional investors—pending
($50,000,000)
Class D preferred units

**Source:** Housing Partnership Equity Trust.

in June 2015 to bring the total equity raised to $80 million, which comprises foundation program-related investments, investment capital from financial institutions, and investment from HPN and the 12 members of the trust. To date, HPET has purchased seven multifamily properties across the country, representing more than 1,500 affordable rental homes and $150 million in value—a number that will increase as HPET deploys its additional capital. For more information, see http://hpequitytrust.com.

**FIGURE 10:** Comparison of Real Estate Investment Trusts

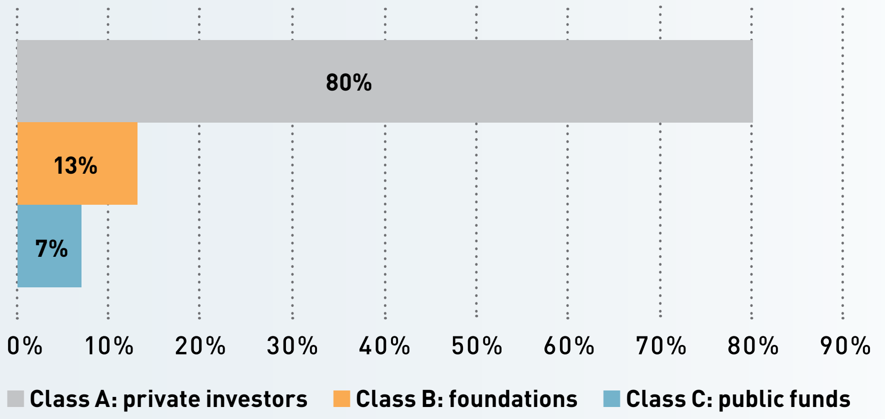
| Name | Established | Geography | Capitalization | Impact | Returns |
|---|---|---|---|---|---|
| Community Development Trust | 1998 | National | $760 million | Has invested $1.1 billion of debt and equity capital in properties in 42 states and regions to date—creating or preserving over 36,000 affordable units. | Produced an average annual total return of approximately 8.5 percent to common shareholders, through 2012. Paid total dividends of over $63 million as of June 2015. |
| Housing Partnership Equity Trust | 2013 | National | $80 million | Has purchased and has begun the rehabilitation of seven properties, representing over 1,500 units of affordable rental housing. | Current preferred equity receives a 4.5 percent coupon. The current common equity dividend is targeted to a spread above that. |

## Other Emerging Approaches

Reflecting the innovation in financing for multifamily workforce and affordable housing at present, this scan concludes with a brief overview of newer approaches that resist conventional categorization, yet represent potential in their own right.

- The **Develop Michigan Initiative** is a development finance organization formed through a partnership of the state of Michigan, Great Lakes Capital Fund, and the Development Finance Group. Michigan provided $20 million to launch this effort and to help provide lower-cost financing to creditworthy projects in the state. Through an internal fund, the organization provides senior debt, subordinated debt, bridge financing, mezzanine financing, and equity to support a wide range of development projects, including housing, often as part of a mixed-used revitalization effort. Through May 2015, the entity had closed eight loans totaling over $23 million—five of which have a housing element. For more information, see www.developmichigan.net/index.
- The **Greater Minnesota Housing Fund (GMHF) Workforce Housing 2.0 Pilot** is a new financing vehicle that provides risk-tolerant loans to developers and local communities to construct workforce housing in high job-growth areas of Greater Minnesota. The goal of the pilot is to demonstrate that loan guarantees and mezzanine loans from community development lenders reduce or eliminate the need for state or federal subsidies. GMHF loan guarantees and mezzanine loans provide developers with the capital needed to build workforce housing, while reducing the risk for local lenders that invest debt in those developments. The pilot will prioritize proposed projects that demonstrate access to transportation options or that are to be located within 3 miles of services, or within 30 miles of a major employer. The pilot is capitalized by GMHF internal funds and program-related investments from banks and foundations. GMHF, a CDFI that has been in operation since 1996, has allocated $3 million for the program's first phase and is raising additional capital. For more information, see www.gmhf.com/programs-workforce-housing.html.
- The **Healthy Neighborhoods Equity Fund**, established in 2014, bills itself as a "quadruple bottom line fund" reflecting attention to community, environmental, and

FIGURE 11: Healthy Neighborhoods Equity Fund Capital Stack



**Source:** Healthy Neighborhoods Equity Fund.

health impacts in addition to an attractive financial return. The fund is a collaboration between the Massachusetts Housing Investment Corporation and the Conservation Law Foundation. The fund's target size is $30 million, and it will invest in housing, office, retail, industrial, and mixed-use development in neighborhoods "in the early to mid-stages of transformational change" in Boston and nearby "Gateway Cities." Investments will be made at construction, permanent closing, or both and are expected to have a term of up to ten years. Fund investments will typically provide 5–25 percent of total development costs. Projects are expected to deliver a total return of 10 percent over the life of the investment, including annual cash distributions and back-end proceeds. (See the appendix for a detailed profile of the Healthy Neighborhoods Equity Fund.) For more information, see www.hnefund.org/.

- The **Seattle Futures Fund** is an initiative launched by the Seattle-based developer Bellwether Housing that is similar in some respect to crowd funding. In contrast to a single, stand-alone fund, the program is the first of a potential series of private offerings designed to enable Bellwether to raise low-cost debt from community-minded investors to fill a portion of the capital gap in its affordable housing developments. The program's first offering, unsecured 2 percent–interest notes, raised $1.8 million to support the acquisition and redevelopment of a 60-unit property,

The PARKER Apartments
2701

**The Parker Apartments were originally built in 1965 to serve Seattle Pacific University on the north side of Seattle's Queen Anne Hill. Bellwether Housing bought the 50-unit building in 2012 to provide permanently affordable apartments to low-income working people. Bellwether recently raised $1.8 million from local impact investors to complete the funding necessary to rehabilitate the property, which will serve households with incomes ranging from 30 percent to 60 percent of area median income.**

*Bellwether Housing*

FIGURE 12: **Comparison of Other Emerging Approaches**

| Name | Established | Geography | Capitalization | Impact | Returns |
|---|---|---|---|---|---|
| Develop Michigan Initiative | 2015 | Michigan | Not disclosed | Closed loans on eight projects through May 2015, five of which included housing. | Not disclosed. |
| Greater Minnesota Housing Fund Workforce Housing 2.0 Pilot | 2015 | Minnesota | $3 million | Launches later this year. | Not applicable. The fund expects repayment of its loans at low single-digit rates. |
| Healthy Neighborhoods Equity Fund | 2015 | Boston and surrounding "Gateway Cities" | $30 million | Expects to make initial investments later this year. | 10 percent, inclusive of dividends and back-end proceeds. Will vary by deal. |
| Seattle Futures Fund | 2015 | Seattle | $1.8 million through first offering | Raised $1.8 million in its first offering to support the acquisition and redevelopment of a 60-unit property, with a total development budget of $12 million. | 2 percent. |

with a total development budget of $12 million. (See the appendix for representative term sheet information for the Seattle Futures Fund.) For more information, see www.bellwetherhousing.org/Documents/SEA_FuturesFund_Overview.pdf.

# Part III: Insights from Experience to Date

This report has attempted to demonstrate the importance of preserving and expanding multifamily workforce and affordable housing and to document an emerging set of financing approaches that are achieving that purpose with impressive creativity and increasing impact. Interviews with leaders of the entities featured here and other multifamily finance and development experts revealed several common themes that bear most significantly on the prospects for continued progress in this sector, in the face of daunting market and policy challenges:

- **The importance of equity capital, at or below market rates.** Most of the entities featured in this report are bringing various forms of private equity to bear to support acquisition and rehabilitation. That is a clear reflection of the deep, widespread need throughout the existing multifamily workforce and affordable inventory for fresh equity to acquire properties and fund physical improvements. (The federal LIHTC generates equity for such investment in return for a federal tax credit, but not nearly enough as currently authorized to meet demand.)

  Generally, properties serving lower- and middle-income renters and operating on typically tight margins cannot support the kinds of returns that private equity in market-rate multifamily and other real estate asset classes earns. The approaches featured in this report are, in various ways, balancing the demands of equity investors with their commitment to serve lower- and middle-income renters. Most are effectively testing the appetite of private equity investors to take lower returns than the mid-high teens typical of private equity real estate returns in recent years, but still higher than returns to debt, for example, 6–12 percent.

  The private equity entities in the multifamily workforce and affordable space covered here are able to deliver their returns by focusing mainly on renters earning between 80 and 100 percent of AMI (the "upper half" of the "lower and middle income" category) and adopting strategies such as

  - Coinvesting equity along with their investors—as much as 25 percent of total equity—requiring equity contributions from developer partners, or both;
  - Securing capital from nontraditional sources, such as foundations and high-net-worth individuals, as well as more traditional real estate equity investors like pension funds, university endowments, and financial institutions;
  - Boosting net operating income through efficiencies at the property level, achieved by installing new management and focusing intensely on cost savings;
  - Increasing income from rents, somewhat, while attempting to retain existing middle- and lower-income residents and to attract new renters at similar income levels; and
  - Seeking new subsidies, when and where necessary, such as additional allocations of LIHTCs.

- **The continuum of impact.** Every entity in this report is committed, through its efforts profiled here, to serving renters earning between 60 percent and 100 percent of AMI. This group overall faces serious affordable housing challenges in many markets and is largely ineligible for federal housing assistance, because of income-targeting rules, as well as oversubscribed demand. Clearly, there are tradeoffs in any effort to serve households of modest means while delivering economic returns to sources of capital. Subsidies such as the LIHTC can help "bridge the gap" only when and where they are available (and only for units serving households earning up to 60 percent of AMI, per federal rules). No amount of creativity can alter that fundamental rule of real estate economics.

  Where each entity falls on the continuum of social impact varies and is somewhat subjective in the end. Below-market debt funds, for example, may be able to serve households earning as little as 60 percent of their area's median income or even less, because their "capital stack" includes public and philanthropic funds that require no or low financial returns, which enables senior lenders to accept below-market interest rates on their debt (e.g., 2–6 percent). Private equity vehicles are more likely to serve households earning 80–100 percent of their area's median income, in order to meet the higher return requirements of their investors (e.g., 6–12 percent cash-on-cash return to equity investors).

  The continuum of impact also includes environmental and health benefits associated with the use of green building techniques, clean energy technologies, and siting near transit. A number of the efforts in this report reflect these approaches; some have raised capital in part on that basis.

- **The continuing challenge of maintaining long-term affordability.** None of the financing approaches featured here can ensure that the properties they acquire, rehabilitate, and develop will remain affordable to lower- and middle-income renters in perpetuity. The time horizons of affordability that they deliver vary widely and are driven by several factors, ranging from market conditions to the requirements of their capital sources.

  Entities investing in properties that have existing federal subsidies or that seek and receive a new subsidy as part of their strategies will typically maintain affordability the longest; in the case of properties that receive new allocations of LIHTCs at least 15 years, in accordance with federal rules. Entities acquiring "naturally occurring" affordable properties, especially those targeting equity returns, may exit much sooner, within seven to ten years in some cases. Their longer-term intentions are not always clear and may change according to market dynamics in any future event. The two REITs that are highlighted are at the leading edge of efforts to extend affordability while delivering long-term financial returns.

Ultimately, the task of preserving multifamily workforce and affordable housing is continuous and long-term. For organizations committed to that goal, efforts that maintain affordability for shorter durations are especially important to understand, with the benefit of added time to develop a longer-term solution than may have existed before.

- **The continued need for subsidy.** This report focuses on private sector and nonprofit–led efforts to bring new capital to multifamily workforce and affordable housing, with a few examples that include seed funding from local governments and low-cost loans from foundations. As noted above, these approaches are playing an ever more important role in preserving, and in some cases modestly expanding, the supply of rental units for households earning between 60 percent and 100 percent of AMI. In a number of cases, however, even these newer financing sources and structures rely on federal subsidies such as LIHTCs, project-based rental assistance contracts, and tax-exempt bond-backed debt financing.

- **More responsive implementation of the Community Reinvestment Act.** The Community Reinvestment Act (CRA) is a 1977 law that requires federally insured depository institutions to provide loans, investments, and services in low- and moderate-income neighborhoods where they operate, consistent with safe and sound banking operations. Federal regulators review banks' record in meeting the requirements of the law when considering their applications for deposit facilities, including mergers and acquisitions. Regulators have considerable discretion in evaluating some aspects of a bank's CRA performance. One area where clearer, stronger guidance is needed, according to those interviewed, is multifamily workforce and affordable housing preservation. For example, banks may not receive full CRA "credit" for providing financing to a property that does not exclusively serve low-income households or that does not have some sort of federal subsidy. As a result, banks in some cases may be less inclined to invest in equity vehicles that support preservation of "naturally occurring" affordable properties.

- **Increased investment by Fannie Mae and Freddie Mac.** The two "government-sponsored enterprises" (GSEs) play a vital role in facilitating liquidity for the multifamily market overall, including the workforce and affordable segment. The companies are subject to annual dollar-volume limits on their multifamily activities, generally with exceptions for efforts that support lending to properties serving households earning 60 percent of AMI or less in most markets and up to 100 percent of AMI in the highest-cost areas. This regulatory regime has enabled the GSEs to support preservation of "naturally occurring" apartment developments in some markets, as well as older subsidized properties. A Freddie Mac senior executive noted this year: "We have a mandate to lend to naturally occurring affordable housing properties . . . the kind of basic housing where lots of Americans live, like teachers, firefighters, and municipal workers."[22] Those interviewed for this report noted that forthcoming federal rules regarding Fannie and Freddie's "duty to serve" requirements should create new opportunities for GSE housing preservation financing.

- **The opportunities for expanded sources of capital.** The financing vehicles profiled here access a wide range of capital sources: financial institutions, pension funds, university endowments, high-net-worth individuals, public agencies, and foundations. Although several of the featured efforts have demonstrated capacity to scale with their current capital, most could use and are seeking additional capital. Newer sources that they and others could potentially tap, according to those interviewed include

  - **EB-5 financing.** The Immigrant Investor Program (EB-5) awards permanent resident visas to immigrants and their families in exchange for qualifying investments (generally ranging from $500,000 to $1 million) in job-creating activities in areas of relatively high unemployment. Established in 1990, the program was not widely used for real estate until regulatory revisions in 2009. Since then, the number of EB-5 real estate projects has tripled, and real estate is considered a "darling of EB-5 investors," according to *EB5 Investors Magazine*.[23] EB-5 funding for real estate projects typically comes in the form of debt, at interest rates as low as 5 percent. Cities such as Miami, San Francisco, and Seattle have begun to use EB-5 financing specifically for affordable housing development, although only a few developments have been funded to date.

  - **"Pay for success."** A variety of efforts are underway around the country (as well as in the United Kingdom, Canada, and Australia) to test approaches through which private or philanthropic sources fund investments to achieve a social outcome, which the public sector "takes out" or "pays for" if the outcome is achieved. Pay-for-success mechanisms, such as "social impact bonds," are in their infancy and in the housing arena have been focused mainly on supportive housing and services for special-needs populations. As this and other approaches are refined, they could generate capital for conventional workforce and affordable housing as well, especially if it achieves additional social outcomes. In September 2015, the Kresge Foundation, the Robert Wood Johnson Foundation, KeyBank, and Goldman Sachs announced a $70 million "Strong Families Fund," which they described as "the largest pilot pay-for-performance project to finance social-services coordination and quality, affordable housing for low-income families."[24]

  - **Crowdfunding.** Using online platforms to raise capital from nontraditional sources, including individuals, for real estate acquisition and development purposes was a $1 billion industry in 2014 that may reach $2.5 billion in size this year, according to one industry analyst.[25] It appears that to date only a small share of crowdfunding for real estate has supported multifamily workforce and affordable housing, but that could change as crowdfunding continues to evolve. Anecdotally, there appears to be a growing number of affordability-focused developers that are at least attempting to raise capital through this strategy. "Benevolent loan funds" launched by faith-based organizations to preserve and build affordable housing in the 1970s and 1980s were in fact a forerunner of the crowdfunding approach.

# Appendix: Additional Information for Select Financing Vehicles

The material in this section is for informational purposes only.

## Below-Market Debt Fund: New York City Acquisition Fund

Below is a summary of the fund's general loan terms and conditions for acquisitions and moderate rehabilitation (preservation) of occupied multifamily buildings, as of August 2015. Originating lenders have delegated authority to set alternative terms—other than loan pricing, maximum term, and fees—on a loan-by-loan basis.

| | |
|---|---|
| Project sponsors | Nonprofit, for-profit, and other organizations with a track record in affordable housing. |
| Loan proceeds | Acquisition, predevelopment, and moderate repairs and upgrades of occupied buildings. |
| Loan amount | Up to $20 million. Higher amounts available with approval. |
| Loan term | Up to two years, plus up to two six-month extensions at the fund's discretion. |
| Loan to value | Nonprofit and certified minority- and women-owned businesses: up to 100 percent plus an additional 10 percent for a capitalized interest reserve. For-profits: up to 95 percent. |
| Collateral | First position lien on the property. |
| Equity requirement | Nonprofit and certified minority- and women-owned businesses: minimum 5 percent of total budget, due at closing. For-profits: minimum 10 percent of total budget, due at closing. |
| Pricing | Variable rate indexed to LIBOR; rates are generally between 4.25 percent and 5 percent. |
| Origination fees | Up to 2.5 percent. |
| Payment guarantee | Nonprofit and certified minority- and women-owned businesses: minimum 25 percent. For-profits: minimum 25–50 percent. |
| Takeout financing | At commitment, the fund requires soft written commitments to provide construction or permanent takeout financing, from a state or local agency. |

## Private Equity Vehicle: Enterprise Multifamily Opportunity Fund

Below is a summary of the fund, as of August 2015.

| | |
|---|---|
| Investor | The Enterprise Multifamily Opportunity Fund I LLC (the fund), which is managed by Enterprise Community Investment Inc. (the fund manager). |
| Joint venture partners (sponsors) | For-profit or nonprofit housing developers with experience and a minimum of $1 million in liquidity and $5 million in net worth. |
| Eligible projects | Existing multifamily residential rental projects with 100 or more units, a minimum current occupancy rate of 80 percent, and a projected debt coverage ratio of at least 1.3. Properties may be restricted affordable housing (Year 15 LIHTC, Section 8, etc.) or may be unrestricted workforce housing. Projects will generally have rents for at least 75 percent of their units maintained at levels that make them affordable to households at or less than 80 percent of the AMI. Properties will generally be Class B and Class C with potential for improvement and more efficient operations. |
| Eligible uses of proceeds | Acquisition, immediate improvements, financing costs, and capitalized reserves. |
| Investment size | Minimum investment of $1 million and maximum investment of $4 million per project. Average investment of $2.5 million to $3 million per project. Fund investment may be used in conjunction with Enterprise loan products, which would not be included in these maximum and average amounts. |
| Ownership structure | The sponsor and fund will purchase property on a joint venture basis. |
| Sponsor coinvestment | The sponsor will be responsible for investing a minimum of 10–20 percent of the total equity that is required. The balance of the equity required will be provided by the fund. |
| Allowable debt | The projects will be financed primarily (maximum 80 percent loan to value) by permanent debt programs, such as the Federal Housing Administration, Fannie Mae, and Freddie Mac. These loans will be secured by the property and will be on terms and in amounts acceptable to the fund. The fund will not guarantee these loans. |
| Term of investment | Five to seven years; shorter or longer business plans will be considered on a case-by-case basis. |
| Target return | The fund requires a current cash-on-cash return of at least 10–12 percent (preferred return) and an internal rate of return of at least 13–15 percent. Preferred returns and cash-flow waterfall provisions will be negotiated on a case-by-case basis, on the basis of the risk/return profile of the investment, geographic location, and strength of the real estate market. |
| Distributions | Distributions will first be made according to ownership interests until the preferred return has been achieved. Sponsor will thereafter be entitled to a priority distribution of 10–30 percent of cash flow, based on return hurdles achieved; the balance will be distributed according to ownership interests. The fund's original capital contribution will be returned upon sale or refinancing, and any surplus proceeds will be distributed between the sponsor and the fund on the basis of the resulting internal rate of return. Cash-flow distributions will be required on the most frequent basis permitted by the lender. |

## Real Estate Investment Trust: Community Development Trust

Below is a summary of the trust's portfolio purchase term sheet for its CDFI bond program, as of September 30, 2014.

| | |
|---|---|
| Eligible loans | Portfolios of closed first-mortgage loans secured by affordable multifamily housing projects. Although CDT's primary focus is on projects financed by low-income housing tax credits (LIHTCs) and Section 8, it will consider other types of affordable multifamily rental housing. |
| Portfolio size | CDT has no specific minimum or maximum size. It specializes in smaller portfolios (e.g., $10 million to $25 million) but will consider larger transactions as well (e.g., $100 million or greater). |
| Loan size | Individual loans generally ranging from $500,000 to $5 million. Loans outside that range will be considered. |
| Term/amortization | Generally, terms and amortizations up to 30 years. |
| Interest rates | Fixed-rate loans. |
| Fees | CDT does not charge fees for portfolio transactions. |
| Price | Price is based on several factors, including weighted-average coupon, credit characteristics, seasoning, and documentation of the underlying mortgage loans. CDT seeks to price portfolios at par. If the loans include prepayment protection, and the weighted-average coupon supports a price over par, CDT will consider offering premiums for such transactions. |
| Eligible properties | CDT's primary business focus is LIHTC-financed multifamily rental properties, including newly constructed and rehabilitated properties. Portfolios can include non-LIHTC affordable properties, Section 8, and other programs that provide affordable rents to low- and moderate-income residents. Generally, projects should have at least 24 units. All projects must satisfy Community Reinvestment Act criteria. |
| Loan-to-value ratio (LTV) | Up to 80 percent based on current appraised valuation. LTV includes all loans requiring debt service payments, including subordinate financing with required payments. |
| Debt coverage ratio (DCR) | Generally, 1.15 for LIHTC properties. CDT will consider minimum DCR of 1.1 for certain transactions, on the basis of market conditions and strength of borrower. Minimum 1.2 for non-LIHTC properties. DCR includes all loans requiring debt service payments. |
| Risk sharing/lender recourse | CDT does not require risk sharing or recourse as part of its portfolio purchase program. |
| Portfolio submission requirements | CDT has comprehensive due diligence checklists available for credit and legal file submissions. |
| Servicing | Servicing released to CDT. |
| Seasoning | CDT acquires loans on stabilized properties. Stabilization is defined as at least three consecutive months at 90 percent economic and physical occupancy, and achievement of CDT's minimum DCR threshold for each of the three consecutive months. CDT does not require additional minimum seasoning for the loans it purchases. |
| Payment history | All payments must be current with no loan default history during the past 24 months, and the borrower is in good standing at the time of CDT's purchase. |
| Subordinate financing | CDT usually requires that all secondary financing be subject to an acceptable subordination agreement. As stated above, all debt service payments required for subordinate debt (e.g., hard payments) are included in the above-stated DCR and LTV thresholds. |
| Documentation | Although CDT prefers to acquire loans that are closed using standard Fannie Mae/Freddie Mac documents or documentation with secondary-market standards, it will consider nonstandard documentation subject to review. |
| Representations and warranties | Standard secondary-market representations and warranties will be included in CDT's loan purchase agreement. |
| Prepayment terms | CDT seeks to acquire loans with prepayment protection terms (e.g., yield maintenance). CDT's price will reflect applicable prepayment provisions. Loans with no prepayment provisions are not eligible for premium pricing. |
| Escrows/reserves | CDT prefers to acquire loans with required escrows for property taxes, insurance premiums, and replacement reserves. CDT requires a minimum replacement reserve of $250 per unit per annum. |

## Emerging Approach: Seattle Futures Fund

Below is a summary of the fund’s first offering, as of June 2015.

| | |
|---|---|
| Issuer | Bellwether Housing, a Washington nonprofit corporation. |
| Objective | Capital funding to develop permanently affordable apartments in central Seattle neighborhoods. |
| Requested target size | $1.8 million for 2015 offering. |
| Minimum investment | $25,000. |
| Management fee | None. |
| Security of commitment | Promissory note from Bellwether Housing. |
| Term | 5 years with two renewals to 15 years. |
| Interest rate | 2 percent annually. |
| Schedule of payments | Interest payable quarterly with the principal due at maturity. |
| Fund costs | 0.61 percent annually (paid by Bellwether Housing). |
| Capital calls | Pledged upon subscription with the entire principal due within ten business days of capital call to fund investment. |
| Reporting | Annual unaudited financial statement and progress reports on funded development project, and annual audited financial statement on Bellwether Housing. |
| Liquidity | No market; investors should be prepared to hold the investment to maturity. |

## Notes

1. This group does not include the more than 2 million privately owned units occupied by households assisted with "housing choice" rental vouchers or the more than 1 million units occupied by households in public housing properties owned and managed by local housing authorities.

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