CATALYTIC AFFORDABLE HOUSING FINANCE FOR PLACE-BASED IMPACT INVESTORS

Abstract

Place-based impact investors have a unique opportunity to help address the housing affordability crisis facing our communities by funding the early costs of urban development, and catalyzing the project for the more complex capital stack components while earning competitive financial returns

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Catalytic Affordable Housing Finance For Place-Based Impact Investors

1. Introduction

The Housing affordability crisis has reached epic proportions in California and especially in the Bay Area. Research shows that lack of access to secure and stable housing is linked to poor health outcomes and increased school dropout rates. The lack of affordable housing has been exacerbated by many factors such as, job growth exceeding housing supply, lack of protection of existing affordable housing which forces displacement, and local communities' exclusionary policies and restrictive zoning regulations.

This crisis requires a multi-pronged approach and partnership between the public, private, and philanthropic sectors. Impact Investors have a unique opportunity to make a difference by financing the equity gap for affordable housing in urban areas. The most pressing need is to fund the early costs of development and to catalyze the project for the more complex capital stack components like long term borrowing and tax credits.

2. The need for and impact of adequate housing:

One of the basic human needs is shelter. It is nearly as important to survival as food and water. More and more in our urban environments, we see people and families struggling to find and afford adequate housing. In some of our coastal cities in particular, it has become a crisis situation, ranging from homelessness to rental costs spiking, to affordability for homeownership being available only to super-commuters.

We have known that providing basic shelter to those in need has an immediate positive impact on their lives. However, for every 100 extremely low-income households, there are only 29 adequate, affordable, and available rental units ("Mapping America's Rental Housing Crisis, 2017").

At the global level, the United Nations has recognized and categorized the pressing needs of people around the world. Each goal is tied to a multitude of metrics so we can measure the progress of meeting the goals around the world. In the United States, we can use these goals to refine our measurements of progress, helping our communities be more inclusive, just and equitable, safe and welcoming, and more resilient to natural and man-made disasters.

The United Nations published the 2030 Agenda for Sustainable Development which identified 17 Sustainable Development Goals (SDG's) and has been adopted by all UN Member States in 2015 ("Envision 2030, 2015"). Affordable housing is highlighted in **Sustainable Development Goal #11: Sustainable Cities and Communities**:

"Making cities sustainable means creating career and business opportunities, safe and affordable housing, and building resilient societies and economies."

Sustainable Development Goals ("UN Department of Economic and Social Affairs Disability, 2019")

The UN has developed several metrics for measuring whether our impact investments have the impact we seek, from a variety of categories including environmental and waste management, sea-level rise, disaster planning and resilience, and in the other categories below:

11.1 Safe and Affordable Housing
11.2 Access to affordable transportation
11.3.2 Regional planning and participation
11.7.1 Access to green and public spaces
11.7.2 Access to safe spaces

What makes community investment impactful?

Community development finance is commonly understood to have a focus on improving the lives of low-income or marginalized people regardless of where they live.

As per GIIN, "Investing in home mortgages, small businesses, consumer loans to low-income households, affordable housing projects, and community facilities deliver social benefits to low income or marginalized communities while also generating a financial return. Research shows that benefits include improved physical and mental health, healthier childhood development, reduced government spending, improved standard of living, improved community health, and stronger local economies."

Tracking impact has developed into more than just data gathering. It is testing the Theory of Change we seek as we make our impact investments: what results do we seek and what is the positive or negative impact each of our contributions makes? The SoPact webinar "The Impact Management Journey of a CDFI" uses the study from the Impact Management Project to list the five dimensions of impact: What, Who, How Much, Contribution and Risk ("Impact Management Project, 2019").

- ***What:*** What outcomes do business activities drive? How important are these outcomes to the people or the planet to those experiencing them?
- ***Who*:** Who experiences the outcome? How underserved are the stakeholders in relation to the outcome?
- ***How Much:*** How much of the outcome occurs across scale, depth and duration?
- ***Contribution:*** What is the enterprise's contribution to what would likely happen anyway?
- ***Risk*:** What is the risk to people and planet that impact does not occur as expected?

Some themes of impact investing include Affordable housing, Clean Energy, Financial Inclusion, Health, Water and Sanitation, and Education. Metrics have been developed in detail for these themes, as well as standards, targets and indicators. We can track the overall impact, which can include the outputs in the near term (number of affordable housing units developed, for example) as well as outcomes over the long term (safe and stable housing leads to upward mobility options). Also we would track the activities and the inputs to the process, and to the extent they can be quantified in monetary terms (resources saved by fewer emergency, hospital, or nursing home visits) we can determine the SROI: Social or Sustainable Return on Investment.

3. History of the Affordable Housing Finance

Following the Great Depression in the 1930s, the U.S. Housing Act sought to address the housing needs of low income people through public housing. At this time in many parts of the country the nation's housing stock for poor families was of very poor quality with inadequate housing conditions like the lack of hot running water or dilapidation. Public housing was a significant improvement for those who had access to it. At the same time, the post-World War II migration from urban areas to the suburbs meant declining cities. Federal programs were developed to improve urban infrastructure and to clear "blight", though often resulting in the wholesale destruction of neighborhoods and housing.

The cost of operating public housing soon exceeded the revenue brought in from resident rents, a reality for any program that seeks to provide housing or other goods or services to people whose incomes are not great enough to afford the prices offered in the marketplace. In the 1960s, HUD began providing subsidies to public housing agencies (PHAs) that would help make up the difference between revenue from rents and the cost of adequately maintaining the housing.

> "Beginning largely in the 1970s, the U.S. Department of Housing and Urban Development subsidies provided incentives for private owners to own and manage affordable housing. With tax reform in the mid-1980s, Congress created the Low Income Housing Tax Credit Program, which has been the primary affordable housing production tool in the past three decades. It has helped attract private (mostly) institutional capital." ("Dear Impact Investors: Consider Affordable Housing, April 24, 2018")

We now know that subsidized rental housing can be a more cost-effective and sustainable solution than institutionalization, homelessness, or the desperate hardship for working poor families. Over the eight decades of direct federal involvement in housing, much has been learned about how the government, private, and public sectors can partner with communities to create the affordable housing that will improve lives and heal whole neighborhoods.

States and local governments and their policies, new tax credits, and other subsidies and incentives complicate the development of affordable housing, making for our current lack of enough affordable housing across the country. In some cities, like in the San Francisco-Silicon Valley Bay Area, it has developed into a housing crisis.

4. Public Private Partnerships for affordable housing investments in the Bay Area

CASA, a blue-ribbon task force of elected and civic leaders convened by the Association of Bay Area Governments (ABAG) and Metropolitan Transportation Commission (MTC) has studied the causes and impact of lack of affordable housing in the Bay Area and published its findings in the CASA compact. An excerpt from the CASA compact report provides insight into how we got to the current situation ("CASA Compact"):

> "The Bay Area faces many pressing regional problems — traffic congestion, air pollution, sea level rise, the threat of earthquakes and other natural disasters, to name a few. But the housing shortage has reached crisis proportions. During the remarkable run of economic expansion since the Great Recession ended in 2010, the Bay Area has added 722,000 jobs but constructed only 106,000 housing units. With housing supply and demand that far out of line, prices have soared and long-time residents as well as newcomers are suffering the consequences."
>
> In one of the wealthiest metropolitan areas on the planet, tens of thousands of citizens are under-housed or not even housed at all. Many more families are just one missed paycheck away from eviction. While the recent California wildfires have underscored the devastating effects of suddenly losing a home, the reality is that too many Bay Area residents face that situation every day. The housing crisis is also a transportation crisis. Nearly 190,000 workers commute from outside the nine-county Bay Area to the business parks of Silicon Valley and the Tri-Valley, and more than 220,000 East Bay residents cross the toll bridges to the Peninsula every day. Driven by the search for reasonably priced housing, these "super commuters" are clogging the roads and transit systems.
>
> The Bay Area faces a housing crisis because we have failed at three tasks:
>
> > (1) We have failed to produce enough housing for residents at all income levels;
> > (2) We have failed to preserve the affordable housing that already exists; and
> > (3) We have failed to protect current residents from displacement where neighborhoods are changing rapidly.
>
> These 3 P's — Production, Preservation, and Protection — are not only the signposts of our collective failure, but they can be the focus of our future efforts to overcome the crisis we have created."

Several large scale public private partnerships (PPPs) have recently been announced in the Bay Area to address the housing crisis across the region. One by one, many of the corporate titans of the Bay Area, like Wells Fargo, Kaiser Permanente, Salesforce's Marc Benioff, and now Google, are vowing to plow dollars into solving the region's biggest crisis: housing. ("As Bay Area Housing Crisis Worsens, June 21, 2019").

Some of the major new PPP initiatives are listed below. Each effort is unique in its structure and partners. Each will spend resources on different parts of the urban development capital stack, permitting process, land or property acquisition, partnership developments, and community engagement. They all will need all the pieces to come together to launch and succeed in building a newer, more inclusive, and sustainable, healthier community. Details about these partnerships are listed in the Appendix at the end of this paper.

Table 1: Bay Area Public Private Partnerships

Impact Funder	Date of Launch	Financial Commitment ($)	Capital Stack	Type of Housing Investment	Other Partners
CASA	Mid 2017	Plan to raise $1.5B	Grants	All - CASA Compact is designed to increase housing production at all levels of affordability, preserve existing affordable housing, and protect vulnerable populations from housing instability and displacement.	Major employers, for-profit and nonprofit housing developers, labor and environmental leaders, public policy and affordable housing advocates, transportation experts, charitable foundations and elected officials
BCDC	Early 2018	$500M over 20 years from a parcel tax	Grants	BCDC is addressing sea level rise in the San Francisco Bay and the risks it presents to communities, businesses and infrastructure. It is leading an effort to determine financing options for the large infrastructure projects our future will require as a result of sea level rise around the Bay.	Local residents, public officials and local, national and international experts. Potential projects can be viewed at ResilientBayArea.org
Partnership for the Bay's Future	Jun-19	$500 M	Grants	2 parts - The Investment Fund and Policy Fund, which aim to expand and protect up to 175,000 households over the next five years. The funds will also preserve and produce more than 8,000 homes over the next five to 10 years in Alameda, Contra Costa, San Francisco, San Mateo and Santa Clara counties.	San Francisco Foundation, the Chan Zuckerberg Initiative, the Ford Foundation, Facebook, Genentech, Silicon Valley Community Foundation

Impact Funder	Date of Launch	Financial Commitment ($)	Capital Stack	Type of Housing Investment	Other Partners
Google	Jun-19	$1B	Land and builder incentives, grants	The bulk of Google's investment will come in the form of currently owned property that's worth $750 million and is now planned to be repurposed for residential use. Another $250 million will fund incentives for developers to create 5,000 affordable homes in the region. The remaining $50 million is earmarked for grants to nonprofits focused on issues of homelessness and displacement.	Australian developer and general contractor Lendlease
Wells Fargo Foundation	Jun-19	$1B	Grant	The Wells Fargo Foundation aims to deliver hundreds of millions in annual funds to address rental, transitional, and supportive housing, among other needs. Starting in 2019, the bank will set aside 2 percent of its after-tax profits to put toward its goals in housing affordability, small business development, and financial well-being.	N/A
Kaiser Permanente Thriving Communities Fund	2018	$200 M	Grants for existing buildings for affordable housing	Dedicated towards fighting homelessness and supporting affordable housing. Money went to housing 500 homeless Oakland seniors and, purchasing a 41-unit affordable housing project in East Oakland and starting a $100 million loan fund dedicated toward the preservation of affordable housing.	New York-based Community Solutions' "Built for Zero" Initiative

Impact Funder	Date of Launch	Financial Commitment ($)	Capital Stack	Type of Housing Investment	Other Partners
UCSF Benioff Homelessness and Housing Initiative	2019	$47.6 M	Grant	$30 M to research the causes of homelessness and find solutions to prevent and end the crisis, $6.1 million to renovate the Bristol Hotel to create 58 housing units in San Francisco and $11.5 million to the Hamilton Families' Heading Home Campaign	Hamilton Families' Heading Home Campaign
Stanford University	24-Jun-19	$3.4B	End to End financing from land to constructed housing	Plan to construct 575 affordable housing units and 1,597 market-rate housing units. At least 1,115 of the units and an additional 2,600 beds for student housing would be built on Stanford's land. The school would also pay $30.3 million in funds for transit improvements and spend $1.1 billion on a transit program.	N/A
City of SF Housing Bond Measure	9-Jul-19	$600M	Long term public financing to construct housing	November ballot measure for a $600 M Affordable Housing bond by City of SF that could lead to the construction of about 2,800 new affordable housing units in the next four years.	N/A

5. The Community of Impact Investors can develop the Investment Strategy for Urban Impact Opportunities:

A concise investment strategy seeks to take advantage of an inefficiency in a marketplace. We, the new community of social impact investors, expect to leverage that inefficiency into opportunity to serve a positive community purpose. Such inefficient but highly impactful markets, like the government-supported affordable housing market, are backed by strong financial support, providing a de-risked investment opportunity for investors who can execute its complex requirements. Only the right team with the professional skills and experience can successfully and efficiently navigate the complexities of such impact investments, like urban development and affordable housing, which is one of the best, largest, and longest-lasting impact investment examples in the U.S.

When the right team can source deals, evaluate large amounts of opportunities, attract the necessary government financing and outside investors, and has the flexibility to act quickly when all the pieces of these complex urban development projects fall into place, they control the entire pipeline. This process builds a broad and successful diversified portfolio for investors who seek strong returns and also want to intentionally invest in a portfolio with impact.

Housing is a serious issue in many areas, and investing in the urban landscape is one of the most effective investments to impact our communities. Urban development of all sorts, including integrated affordable housing, re-zoning, planning and building for sustainability, community health, and resilience provide impact and strong investment returns within these structured financial partnerships.

a. Impact Investing: A new approach

Global financial systems are being transformed, pushed by a new community of investors who want to understand what their money is *DOING.* This transformation is supported by more available data, disclosures, and transparency for better tracking and monitoring of the social and environmental impacts of our investments. As investors seek to connect their values to their financial goals and assets, we are increasingly aware of the specialized nature of sourcing the sort of investments that can create both financial value and positive societal or environmental impact in underserved and inefficient markets. Impact investing portfolios are part of this growing field where investments intentionally seek a positive impact alongside a financial return. The impact investment continuum offers the lens of impact across themes, like housing or the environment, and across the risk and return spectrum as well. In this paper, we are developing a unique investment vehicle that provides for both domestic urban impact and a financial return to investors.

We are a community of investors who are seeking to align their investments with their values, using their success to make a significant contribution to the betterment of those less fortunate. With common goals, we can transform wealth into value for our communities and for those in need of our support, filling a basic need for shelter and community strength. These like-minded investors seek to turn their success into something significant and impactful. Impact investors who align their investments with their values are delivering intentional impact.

b. Case study: Laurel Heights in San Francisco

A case in point is the redevelopment project for the UCSF Laurel Heights campus which includes affordable housing for seniors. ("Huge SF housing project adds senior housing, July 31,2019")

> "After more than 5 years of negotiation, 744 homes, including nearly 200 affordable units will be developed on the old UCSF campus and office building, a quiet, somewhat neglected neighborhood in the middle of San Francisco. A massive project proposed for the UCSF Laurel Heights campus would transform the quiet neighborhood and bring desperately needed new housing to a part of the city that has seen little development in recent years. In a major step toward the project's approval, the city will work to change the lot's zoning and transform outdated office building into a place for people to live. The project will also include a package of community benefits such as 186 units of on-site affordable housing for seniors, a child care facility and streetscape improvements, such as a new park, public walkways and expanded sidewalks, and even 857 units of

underground parking.

The project is not the only housing slated for the neighborhood. TMG Partners and Grosvenor Americas are proposing 273 homes at 3700 California St. The San Francisco Unified School District is also eyeing a site in Laurel Heights, at 20 Cook St., for a potential large teacher housing project."

c. Building Community Engagement to get the right strategy, design and benefits

Community urban redevelopment does not happen overnight. It requires a commitment to the long-term nature of community change. We have learned that fixing one building in a crumbling neighborhood will do little to improve the conditions of those who live there unless there is a concerted effort to address the other issues of the community as well. Positive outcomes, like better employment numbers or better graduation rates, can take 10-15 years to develop. Developing a strategy and sticking to it, tracking the finances and other inputs as well as the outputs and outcomes over time will tell the story of success.

At Purpose Built Communities, the East Lake apartments and neighborhood redevelopment took 15 years and a dedicated nonprofit as the community quarterback to achieve long term improvement in crime, employment, educational milestones, and community prosperity. Its process is described on its website ("Purpose Built Communities, 2019").

The key steps in their process can be a relevant path for others to follow:

- Assessing the Neighborhood
- Identifying and Engaging Key Partners
- Engaging Residents
- Developing Strategic and Operational Plans
- Implementing the Plans
- Evaluating Progress
- Refining the Process
- Staying the Course

Gathering inputs from residents and experts by holding community meetings for strategy development is the first and most important step to successful urban redevelopment impact opportunities. We know we cannot change just one piece of the urban puzzle without considering its interrelatedness to all the other pieces: housing and education and transit and jobs and sustainability and inclusive policies must come together and be integrated into a long-term strategic plan.

In the community of North Richmond, on the north east side of the San Francisco Bay, with a team organized for the BCDC challenge for Resilient By Design, community members met with public officials, green infrastructure experts and design professionals to develop a proposal to reinvent the North Richmond community to become a model for adapting a marginalized and vulnerable community to be a more resilient model for the future, more inclusive, more sustainable. The full story can be found at their website (“Resilient By Design, 2019)

d. Who should be at the Table?

A very broad representation of constituents and experts gathered to assess the needs, risks and potential solutions to reimagining North Richmond.

- North Richmond Community Advisory Board:
    - North Richmond Residents
    - Richmond Mayor's Office
    - North Richmond Municipal Advisory Council
    - San Francisco Estuary Partnership
    - Contra Costa County Watershed Program
    - The Watershed Project
    - Council of Industries
    - CCC Sustainability Commission
    - Contra Costa County Flood Control & Water Conservation District
    - Office of County Supervisor
    - East Bay Regional Park District
    - West County Wastewater District
    - Community Housing Development Center, North Richmond

And the originators of the housing restoration model social impact bond for Richmond:

- Richmond Community Foundation
- Chevron Corporation and its foundation
- Mechanics Bank, Richmond headquarters

e. North Richmond Projects: approved or proposed

After many community engagement meetings and a process to capture input from the entire community, a grand plan was developed that included affordable and market rate housing, new businesses, industrial and green spaces, as well as a new waterfront park designed to mitigate the flooding risks of sea level rise.

Housing:

- Heritage Point: a 4-story, 42-unit, multi-family, affordable housing development with retail and office uses on the ground level.
- Minor Subdivision –Residential: Proposed two-lot subdivision.

Small Businesses:

- Oliver’s Tow Yard
- Galaxy Desserts: Proposed 266,700 square-foot bakery.
- Sign Production Business
- Contractor’s Yard: Proposed contractor’s yard for storage of trucks and building materials.

- 2 Proposed Wireless Access Permits to establish a new ExteNet and Sprint Cell Site, attached to a utility pole, including 2 antenna and accessory equipment

Industrial Sites:

- Industrial Buildings: Proposed construction of 2, one-story, industrial buildings (171,000 square feet total).
- 500,000 SQ. FT. Warehouse: Proposed construction of a 500,000-square foot distribution center.
- Commercial Water Treatment Facility: Proposal to establish a centralized commercial water treatment facility within an existing warehouse building.
- Light Industry Commercial Condominiums: Proposed nine-parcel commercial subdivision/commercial condominium conversion.
- Glass Door Production Facility Expansion: Construction of a 50,820-square-foot production facility to be an expansion of a glass door production facility

Agriculture and Green Space:

- Urban Tilth: 2 locations for community supported agricultural production farm, community learning centers and farm stands.
- Commercial Greenhouse: Proposal to construct 72,417-square-foot commercial greenhouse facilities.
- Wood Recycling Facility: Proposed wood recycling, chipping and grinding facility.
- Key Green Infrastructure / Sea Level Rise Mitigation / Wetlands Restoration projects
    - Floating walkways
    - Observation platforms
    - Bike path links
    - Floating wetlands
    - Native plant species habitat
    - Bird nesting islands
    - Migratory wetland home

Tools:	**Benefits**
• Small Lot Split Housing • Community Choice/ • Aggregation Energy • Restoration Jobs • Community Gathering Places • Trail Connectivity • Horizontal Levee • Green Storm water • Muted Marsh • Decentralized Wastewater Pilot • Air Quality Parks • Greenbelts • Tree Nodes • Resilience Hub	• Home Ownership • Improved and Increased Housing • Lower Housing Prices • Lower Utility Cost • Improved Transit Access • Social Connection & • Public Engagement Process • Cultural Value of Neighborhood • Improved Health • Job or Career Paths • Shoreline Access • Access to Parks & Open Space • Trail Continuity • Maintain Marsh Habitat

In redeveloping complex projects like the North Richmond Our-Home design, we can see the importance of mapping each project to its own financial funding sources. Housing developers will seek funds from different sources, like impact investors and public agency funding, while the green space infrastructure funders may be public or philanthropic organizations. Grant monies, risk capital, long term lending all combine to create the complex capital stack needed for each piece of these community projects. The financial planning process must also assess the timing of various investment flows and projects since some infrastructure and predevelopment costs must be covered before revenue-generating assets can be completed.

In general, the impact investing eco-system has three components:

1. Impact Funder
2. Impact Manager
3. Impact Maker

The Impact Funders will participate in the various levels of the capital stack, depending on risk, return and impact goals. In the capital stack, there is a place for every sort of investor: from a grant-maker who seeks no financial return and lots of impact, to the impact investors who may have a range of return expectations (from return of capital only, to small levels of financial return), to the investor who seeks a 'market rate of return' on investments.

Impact Managers will be the quarterbacks, organizing the projects within the larger development, connecting the housing to infrastructure to green spaces, managing the overall process and engaging the constituents.

Impact Makers will be those who deliver the impact on the ground – the building of the affordable homes, the new employer in the community offering jobs to residents, and the community services offered through the public and philanthropic members of the community.

6. An Urban Impact Opportunities Fund

An Urban Impact Opportunities Fund *(UIO Fund or You-I-Oh)* is under development to encourage opportunity and deal flow for urban redevelopment projects because deals flow to where there is ready money. In partnership with like-minded investors, the Fund can move quickly to secure investments, lock in the financing, and execute the investment, making it a self-sustaining operation, managed by a hand-picked team for long term, sustainable operation. The Fund provides the gap financing described below in an outline of the complexity of the process for creating affordable housing and other urban development opportunities.

Our public private partnerships can control the entire process, referred to as the DBFOM model: Develop, build, finance, operate and maintain. We own the whole pipeline over the entire life cycle of the project:

- ***Develop****: acquire the place, plan the design, get the permits*
- ***Build****: construction of buildings, green space, infrastructure*

- ***Finance****: the complex capital stack: grants, tax credits, loans, equity*
- ***Operate****: sustainably, inclusively, generating community benefits*
- ***Maintain****: for community, preserving affordable housing capacity*

How complex is it to put together the financing? *VERY…*

The complex process of financing an urban redevelopment affordable housing project today requires special expertise, a network of contacts and the ability to move quickly when opportunity presents itself.

Story example: Our developer gets the information that the City will offer a great price on an urban property if a developer can demonstrate how the project will be DBFOM'd for specific and positive community impacts. When a developer can 'pencil out' the Development Budget quickly, and access the initial capital needed to secure the property, they can capture the opportunity and start the team on the project ASAP.

The Due Diligence Process for Developers

- Reviewing a rough P&L for 10-20 investment opportunities/year and choosing 2-4.
- Sourcing deals and qualifying the investments: the team that analyzes fastest wins.
- Having the investors in place to be ready when the right opportunities pencil out, the UIO team can jump quickly.

The Investment Process

1. Acquisition, permits, zoning, and construction.
2. **Financing**: borrowing, developer and other fees, opportunity zone funds with attractive tax treatment, tax credits (New Markets Tax Credit NMTC, Low Income Housing Tax Credit LIHTEC), grants, and *equity investment partners fill the gap.*
3. Assumptions – vacancy rate, % AMI served, rents.
4. Programs with non-profits/community organizers.
5. Connections in government, success rate of getting NMTC or LIHTEC.

Structuring the Financing

1. Create a development budget

   a. Budget Considerations:
      - ➢Size and type of project:
        - Number of units, size of units, amenities, vacancy
      - ➢Construction Methods (Green and Sustainable)
      - ➢Location
      - ➢Builder and Developer fee limits
      - ➢Construction Contingency
      - ➢Tax Credit scoring considerations
      - ➢Reserve requirements

- ➢Profit & General Requirements capped at 6% each of Construction Cost
- ➢Builder's Overhead capped at 2% of Construction Cost
- ➢Minimum Contingency = 5% New; 10% Rehab
- ➢Operating Reserve = 6 months of Operating Expenses, Debt Service, and Replacement Reserve payments
- ➢Developer Fees capped as a percentage of Total Development Cost (TDC) before developer's fees, consultant fees, and reserves
    - ✓15% for projects of 30 or fewer units
    - ✓14% for projects of 31-60 units
    - ✓13% for projects of 61-74 units
    - ✓12% for projects of 75-99 units
    - ✓10% for projects of 100 or more units

b. Establish rents per units

c. Develop an operating budget

d. Calculate loan size: what size loan can this income flow support?

Determine how to fill the financing "gap"

Timing can play a key role as well when it comes to catalytic impact investing capital. The predevelopment and acquisition costs must be covered to secure properties and find the remaining pieces of the full financing package. Having access to early funds can provide the initial momentum to get a project started.

Below is a table detailing the complex capital stack that financed an affordable housing development in New Mexico. It is a complex combination of public and philanthropic grants, short and long term financings, equity investments and tax credits.

Debt	Predevelopment Loan & Grants	*Primero Loan or Grant Programs ✓Other Nonprofit Lenders (Local Initiatives Support Corp., Enterprise, etc.)
	Stand Alone Interim/ Construction Financing	✓Conventional Construction Loan *Primero & NM Housing Trust Fund
	Combined Construction and Permanent Financing	Tax Exempt Bond Proceeds, *HOME/Rental, *542c Insured Loan or *538 Guaranteed Rural Rental Housing Program, *Land Title Trust Fund, *NM Housing Trust Fund
	Permanent Financing	*542c Insured Loan or 538 Guaranteed Rural Rental Housing Program, *HOME/Rental, *Tax Exempt Bond Proceeds, ✓Conventional Permanent Loan *Land Title Trust Fund, *Housing Trust Fund

Equity	*Low Income Housing Tax Credits, Syndication Proceeds, *NM Affordable Housing Tax Credit ✓Other Grants and Organizational Funds (FHLB, Foundations), Qualified Opportunity Zone funds, ✓Developer Funds, Deferred Developer Fees

7. The Financing Gap: Where impact investors can be catalytic

What is Catalytic Capital: a special kind of impact investing:

> "Developers incur expenses to renovate or develop new or existing affordable housing projects before the long-term, secured capital sources are in place. This includes funds for property acquisition, site planning, architects, etc.--money that needs to be spent to make the project happen but can't wait for the full capital stack (with equity, debt, tax credits, grants) to come together. The funding for these predevelopment activities is often **the most difficult to secure,** despite the fact that it is the truly catalytic piece of the puzzle that is leveraged many times over." ("Dear Impact Investors: Consider Affordable Housing, April 24, 2018")
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> In Impact Investing 2.0: The Way Forward, a new report highlighting successful impact investing practices, catalytic capital is defined as: "investments that trigger additional capital not otherwise available to a fund, enterprise, sector, or geography [and] can be transformative, generating exponential social and/or environmental value." This potential to trigger other forms of capital is what can make impact investment a powerful tool for affordable housing developers. To do so they must determine how to best leverage both institutional and catalytic capital, which will undoubtedly require strategic engagement with new investors and creative adaptation of financing structures." ("Impact Investing 2.0, July 28,2015")

Building a Catalytic Impact Investment Fund

Place-based impact investors in the affordable housing/urban development sector, whether it is the private individual, family, or family foundation, are generally providers of patient capital, preferring to intentionally allocate a small portion of their portfolios to a particular geography that aligns with their long term mission. Additionally, a Fund that offers the opportunity to other outside investors to co-invest additional funds in a particular urban project is likely to appeal to many investors, especially if they have funds with another risk-return profile. Owners of capital gains can benefit from an Opportunity Zone Fund tax status and its benefits when projects are located in those designated zones.

What could investors expect?

Possible Term Sheet for an Urban Impact Opportunities Fund:

a. Capital commitment terms – 15 years or evergreen
    i. Upfront paid-in commitment ~ 5% of total pledged
    ii. Capital calls funded within 5 days of call

iii. No investor fees, no management fees
    1. (replaced by developer fees paid by HUD)

iv. Lock-up or exit or liquidity options?
    1. 20% withdrawal/year with notice
    2. Lock-up 10 years minimum

v. Developer fees reinvested for domestic or global impact -Not deferred but not used in domestic capital stack project – to be determined

vi. Impact tracking and reporting methodology

vii. Expected return: Cash flow supports ROI 6+%, Cap rate 8+%
    1. Equity investors fill the financing gap and generally earn the steady returns offered by well-managed and well-subsidized rental properties. Some of the fees are prepaid to the developer by the government financing authority (generally HUD), and provide a margin of financing that can be deferred, used in the financing gap, or designated for impact grants.

8. Conclusion

Impact Investors can be most catalytic by financing the equity gap for affordable housing urban development through an impact fund that will:

- fund the early costs of urban development, catalyzing the project for the more complex capital stack components, like long term borrowing and tax credits,
- address “additionality”: the ‘but-for-this-investment, this project would not be executed’
- positively impact long term stability and resilience for communities
- provide for a reasonable return over inflation and risk factors for investors
- meet impact and community goals with a long term strategy

9. Key References

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11. Appendix

Public Private Partnerships for Housing in the Bay Area:

1. **CASA – The Committee to House the Bay Area – up to $1.5 billion**
   CASA was convened in 2017 by the Metropolitan Transportation Commission (MTC) and Association of Bay Area Governments (ABAG) to tackle the Bay Area's housing crisis. CASA comprises of major employers, for-profit and nonprofit housing developers, labor and environmental leaders, public policy and affordable housing advocates, transportation experts, charitable foundations and elected officials.
   CASA had 4 phases (they are currently in phase 4)-
   Phase One: Foundational Work (June 2017-Jan 2018)
   The CASA framework is organized around three principal outcomes, or 'Three Ps':
   1 Increasing housing production at all levels of affordability,
   2 Preserving existing affordable housing, and
   3 Protecting vulnerable households from housing instability and displacement.
   Phase Two: Brainstorming Action Ideas (Jan-July 2018)
   The Committees spent six months brainstorming and vetting more than 30 action ideas and shortlisting the most promising ideas.
   Phase 3: Crafting the Compact (Sept-Dec 2018)
   In the final phase, the Co-Chairs distilled the 30+ action plans into a document called the CASA Compact.
   Phase 4: CASA Implementation
   CASA leadership and key members continue to work to implement the principles of the CASA Compact.

   Reference - https://mtc.ca.gov/our-work/plans-projects/casa-committee-house-bay-area

2. **BCDC - $500 million: The San Francisco Bay Conservation and Development Commission** (BCDC) was created in 1965 and is a California state planning and regulatory agency with regional authority over the San Francisco Bay, the Bay's shoreline band, and the Suisun Marsh. Its mission is to protect and enhance San Francisco Bay and to encourage the Bay's responsible and productive use for this and future generations. A parcel tax approved by all nine Bay Area counties will provide BCDC with $500 million over 20 years to assist in the redevelopment projects for sea level rise mitigation and wetlands adaptation.

   BCDC is addressing sea level rise in the San Francisco Bay and the risks it presents to communities, businesses and infrastructure. It is leading an effort to determine financing options for the large infrastructure projects as a result of sea level rise around the Bay. Potential projects can be viewed at ResilientBayArea.org. These projects are visions of future developments along vulnerable coastlines and watersheds around the San Francisco Bay.

   Reference - https://bcdc.ca.gov

3. **Partnership for the Bay's Future** - The partnership was announced in June 2019 and intends to provide **$500 million** in order to solve the interconnected challenges of housing, transportation and economic opportunity in the Bay Area. The partnership is an effort to preserve affordable housing, create new housing and keep residents in their homes through improved public policy and legislation. The partnership has already secured more than $260 million in initial funding with the support of the San Francisco Foundation, the Chan Zuckerberg Initiative, the Ford Foundation, Facebook, Genentech, Silicon Valley Community Foundation and more. The investment will begin with two funds: The Investment Fund and Policy Fund, which aim to expand and protect up to 175,000 households over the next five years. The funds will also preserve and produce more than 8,000 homes over the next five to 10 years in Alameda, Contra Costa, San Francisco, San Mateo and Santa Clara counties. The Investment Fund has already confirmed its first transaction as a revolving line of credit to the East Bay Asian Local Development Corporation, and The Policy Fund, which is led by the San Francisco Foundation, has secured almost $20 million for an intended $40 million for the fund.

   Reference - **https://www.baysfuture.org/**

4. **Google** - In June 2019 Google announced plans to invest **$1 billion** dollars in land and money to construct housing in the Bay Area over the next decade. The bulk of Google's investment will come in the form of property that's worth $750 million which is planned to be repurposed for residential use. Another $250 million will fund incentives for developers to create 5,000 affordable homes in the region. Google estimates it could spur the construction of 20,000 new units. The remaining $50 million is earmarked for grants to nonprofits focused on issues of homelessness and displacement. Google has already provided grants for $18 million to help address homelessness over the last five years, including $3 million to the newly opened SF Navigation Center and $1.5 million to affordable housing for low income veterans and households in Mountain View. Google also plans to continue to work with local municipalities to support plans that allow residential developers to build quickly and economically. In July 2019 Google announced a partnership with Australian developer and general contractor Lendlease who expects to develop about 15 million square feet of residential, retail, hospitality and other uses in new ground-up neighborhoods in San Jose, Sunnyvale and Mountain View.

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5. **Wells Fargo** - In June 2019 Wells Fargo Foundation announced plans to commit **$1 billion** in philanthropic funds through 2025 to address housing affordability. With grants and other

initiatives, the Wells Fargo Foundation aims to deliver hundreds of millions in annual funds to address rental, transitional, and supportive housing, among other needs. Starting in 2019, the bank will set aside 2 percent of its after-tax profits to put toward its goals in housing affordability, small business development, and financial well-being.

Reference - https://www.citylab.com/equity/2019/06/wells-fargo-foundation-grants-affordable-housing-tax-credits/590998/

6. **Kaiser Permanente** – In 2018 Kaiser announced it was pledging **$200 million** to its Thriving Communities Fund, which would be dedicated towards fighting homelessness and supporting affordable housing. That money went to housing 500 homeless Oakland seniors and, purchasing a 41-unit affordable housing project in East Oakland and starting a $100 million loan fund dedicated toward the preservation of affordable housing. In its continuing effort to address housing security as a healthcare issue, Kaiser pledged another $3 million to address chronic homelessness across 15 communities in the organization's geographic footprint. The funding will be allocated over a three-year period to New York-based Community Solutions "Built for Zero" Initiative, a national effort by the nonprofit to support data gathering on homelessness for local leaders and spread technology-enabled solutions to end homelessness. Kaiser's collaboration with the organization will be directed at seven communities in California as well as Washington, D.C., Baltimore, Montgomery County in Maryland, Arlington and Fairfax Counties in Virginia, Denver, Atlanta and Honolulu.
References - https://medcitynews.com/2019/03/kaiser-permanente-partners-with-non-profit-community-solutions-on-anti-homelessness-initiative/
https://sf.curbed.com/2019/1/16/18185680/kaiser-permanente-afforable-housing-1900-26th-oakland

7. **Salesforce** - Marc Benioff and his wife, Lynne Benioff, have pledged **$30 million** to launch the UCSF Benioff Homelessness and Housing Initiative at the University of California San Francisco, which aims to research the causes of homelessness and find solutions to prevent and end the crisis. An estimated 7,500 people are homeless in San Francisco, and more than 4,000 of them sleep on the streets every night. Benioff previously pledged $6.1 million to renovate the Bristol Hotel to create 58 housing units in San Francisco, as well as $11.5 million to the Hamilton Families' Heading Home Campaign.
Reference - https://www.marketwatch.com/story/salesforce-ceo-marc-benioff-donated-30-million-to-end-homelessness-2019-05-02

8. **Stanford University** - On June 24, 2019, Stanford University announced plans to spend **$3.4 billion** to construct 575 affordable housing units and 1,597 market-rate housing units. All the affordable units and 1,015 of the market-rate units would be built first, before 25% of the academic buildings are constructed over the next 20 years. At least 1,115 of the units and an additional 2,600 beds for student housing would be built on Stanford's land. The school would also pay $30.3 million in funds for transit improvements and spend $1.1 billion on a transit program. Stanford committed an additional $138.4 million in economic benefits for the Palo Alto Unified School District, including a $15 million innovation space.

Reference - https://www.sfchronicle.com/business/article/Stanford-commits-to-4-5-billion-for-housing-14038544.php

9. **City of SF Housing Bond Measure - $600M:** On July 9, 2019, the city announced that San Francisco voters will be asked to weigh in on the biggest affordable housing bond in city history in November 2019, a measure that could lead to the construction of about 2,800 new affordable housing units in the next four years.

   Reference - https://www.sfchronicle.com/bayarea/article/Largest-affordable-housing-bond-in-SF-s-history-14083614.php