

“Preserving Workforce and Affordable Housing: New Financing Sources and Structures”

DC Housing Preservation Strike Force
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- Our mission is to facilitate creating and sustaining a full spectrum of housing opportunities, including affordable and workforce housing, in communities across the country.
- The Center's agenda and activities are broad-based, reflecting the diversity of housing activities and priorities among ULI's 36,000 members worldwide.

Overview

- The Center has published a report highlighting 16 leading approaches that are bringing new capital to preserve and produce workforce and affordable housing.
- This summary of some of the research focuses on three:
 - Below market debt funds
 - Private equity vehicles
 - REITS

Below-market debt funds

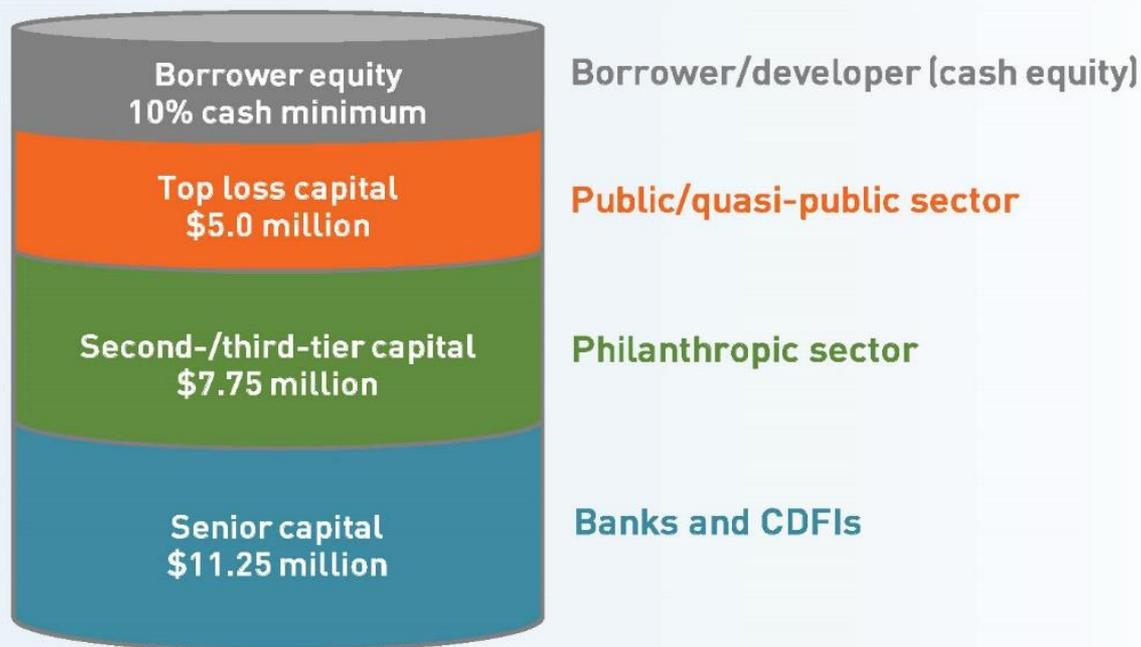
- **Purpose:** Acquisition of land and existing subsidized affordable properties and new development; often not limited to housing.
- **Strengths:** Provide continuing source of capital; facilitator for mission-based developers to compete in hot markets.
- **Limitations:** Complex administration; significant startup costs; typically depend on permanent “takeout” financing.
- **Capital Sources:** Local public agencies, foundations, CDFIs, financial institutions
- **Returns:** interest rates to senior lenders generally range from 2 - 6 percent, depending on capital source and fund structure.

Denver Regional Transit-Oriented Development Fund

- Established 2010, expanded 2014
- Denver Metro Area
- \$24 million
- Closed 11 transactions totaling almost \$16 million; pipeline of more than 900 units and 150,000 square feet of commercial and community space.
- Generated \$598 million and more than 7,000 local jobs in the past five years, according to a 2015 report.
- 2–6 percent interest rate to senior lenders

Denver Regional TOD Fund Capital Stack

Denver Regional Transit-Oriented Development Fund Capital Stack

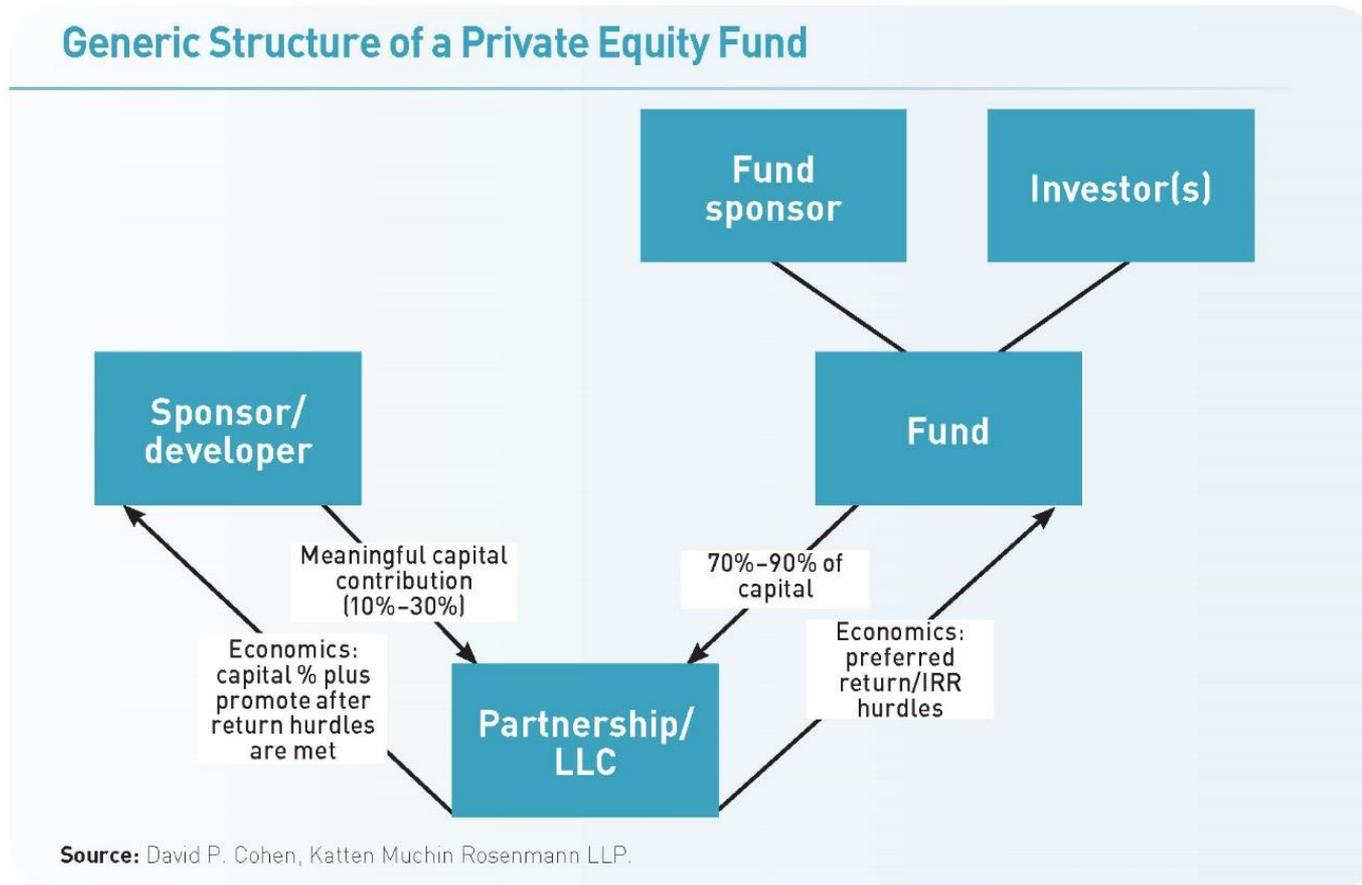


Source: Enterprise Community Partners.

Private equity vehicles

- **Purpose:** Acquisition of existing subsidized and/or “naturally occurring” affordable properties.
- **Strengths:** Ability to act at market speed; scale of capital.
- **Limitations:** Varying degrees of commitment to long-term affordability; less transparency in structure, returns.
- **Capital Sources:** Financial institutions, pension funds, university endowments, foundations.
- **Returns:** cash on cash returns from 6 – 12 percent.

Generic Structure of a Private Equity Fund



Regency Pointe Apartments, Prince Georges County, MD



Turner Multifamily Impact Fund

- 2015
- National
- \$1 billion
- First acquisition closed in July 2015.
- Return: “10 - 12 percent net of fees”

Avanath Capital Management

- 2008
- National; 30 percent in California
- Avanath Affordable Housing I Fund: \$120 million; Avanath Affordable Housing II Fund: \$200 million
- Current funds have invested in 32 properties to date. Overall, owns and manages a portfolio of more than 6,000 units.
- 6 – 10 percent cash on cash returns

Oakwood, Orlando, FL



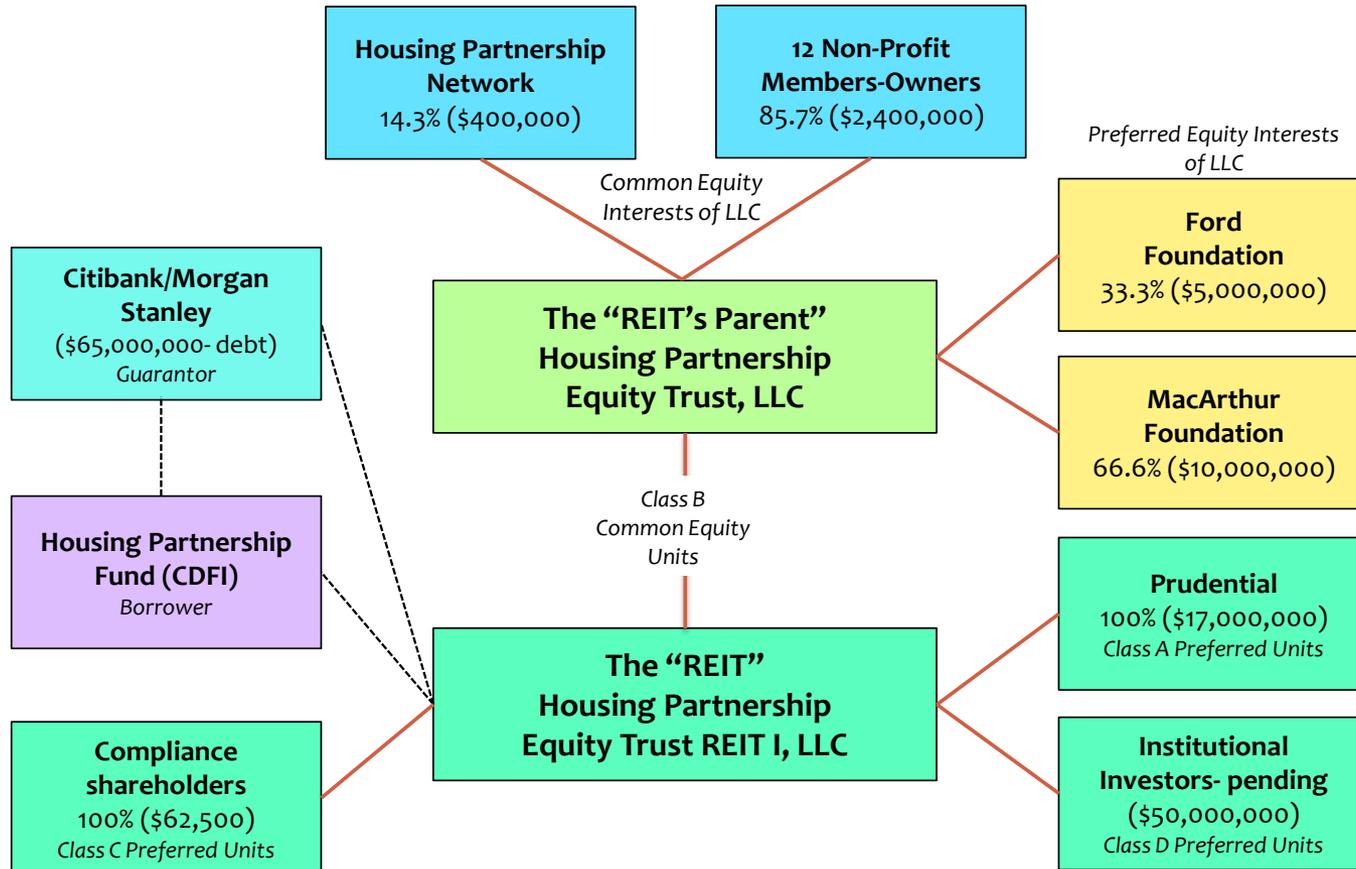
Real estate investment trusts

- **Purpose:** Acquisition of existing subsidized and/or “naturally occurring” affordable properties.
- **Strengths:** Strong focus on preserving affordability; facilitator for mission-based developers to compete in hot markets.
- **Limitations:** Considerable technical expertise required to manage (only two exist that focus solely on workforce-affordable sector).
- **Capital Sources:** Financial institutions, pension funds, corporations, university endowments, individuals.
- **Returns:** Total returns generally range from 4.5 – 8 percent.

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% coupon. The current common equity dividend is targeted to a spread above that.

Housing Partnership Equity Trust Structure



Woodleaf Apartments, Silver Spring, MD



Top Takeaways

- There is an economic opportunity, as well as a social need, in workforce and affordable housing preservation and development.
- Conventional multifamily “value add” actors are not waiting – time is of the essence for mission-based organizations.
- An array of financial vehicles are scaling up to create outlets for social investment capital in the sector.
- Most existing financial players report a need for more “patient” equity.
- Long-term affordability is probably the greatest challenge, but solvable.

Opportunities for New Sources of Capital

- Family offices and high net worth individuals
- EB-5 Immigrant Investor Program
- “Pay for Success” financing and real estate crowdfunding
- Banks – via more responsive CRA enforcement
- Fannie and Freddie – through new “Duty to Serve” responsibilities

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