

**Federal Reserve Bank of San Francisco**  
*Community Development*



**Funds for Kickstarting  
Affordable Housing  
Preservation and Production**  
*Lessons for New Investors*

By Elizabeth Mattiuzzi, Ph.D.  
March 2019



FEDERAL RESERVE BANK  
OF SAN FRANCISCO

# Funds for Kickstarting Affordable Housing Preservation and Production

*Lessons for New Investors*

By Elizabeth Mattiuzzi, Ph.D.

Community Development

Federal Reserve Bank of San Francisco

March 2019

Views expressed here do not necessarily represent those of the Federal Reserve Bank of San Francisco or the Federal Reserve System.

## Acknowledgements

The author gratefully acknowledges the following individuals for their insights and comments on this report. Any errors are solely the author's.

|                   |                                                       |
|-------------------|-------------------------------------------------------|
| Craig Adelman     | <i>Low Income Investment Fund</i>                     |
| Renae Badruzzaman | <i>Bay Area Regional Health Inequities Initiative</i> |
| Pablo Bravo       | <i>Dignity Health</i>                                 |
| Miriam Chion      | <i>City of San Francisco</i>                          |
| Amy Chung         | <i>The California Endowment</i>                       |
| Devin Culbertson  | <i>Enterprise Community Partners</i>                  |
| Colby Dailey      | <i>Build Healthy Places Network</i>                   |
| Renee Roy Elias   | <i>Community Development Consultant</i>               |
| Rebecca Foster    | <i>San Francisco Housing Accelerator Fund</i>         |
| Lindy Hahn        | <i>Morgan Stanley</i>                                 |
| Eri Kameyama      | <i>Low Income Investment Fund</i>                     |
| Julijs Liepins    | <i>Forsyth Street Advisors</i>                        |
| Katherine Murtha  | <i>Capital Impact Partners</i>                        |
| Noni Ramos        | <i>Enterprise Community Loan Fund</i>                 |
| Julia Ryan        | <i>Local Initiatives Support Corporation</i>          |
| Melissa Jones     | <i>Bay Area Regional Health Inequities Initiative</i> |
| Melinda Pollack   | <i>Enterprise Community Partners</i>                  |
| Marc Rand         | <i>Community Capital Advisors</i>                     |
| Brian Segel       | <i>Forsyth Street Advisors</i>                        |
| Elizabeth Wampler | <i>The San Francisco Foundation</i>                   |



## Executive Summary

A shortage of affordable homes for workers and families at all income levels across the country calls for innovative solutions. Over the past decade, a variety of public-private loan funds have developed to kickstart construction and preservation of affordable housing. This report breaks down how these funds fit into the process of developing and preserving affordable housing and what lessons they can provide to those who are considering starting or investing in a fund.

## Who Should Read this Report

This report is intended as an introduction to some of the strengths and limitations of affordable housing funds. Many community development practitioners, particularly those who have worked on setting up funds, are already immersed in the details of how affordable housing debt funds work. However, the growing affordability crisis, stemming from the imbalance between the number of jobs being created and the number of homes being built in many metropolitan areas, has generated new interest from previously unrelated sectors. For example, technology industry investors concerned about housing their workers and grappling with how to have a positive impact on the communities where they are headquartered have become more involved in housing issues in recent years.<sup>1</sup> Health sector investors have become increasingly focused on access to housing as a factor in people's health,<sup>2</sup> with health organizations providing equity investments, debt financing, and grants for low-income housing.<sup>3</sup> In addition, local leaders, community groups, and philanthropists who are interested in affordable housing may also draw lessons from how funds in different regions were started and developed over time.

## The Context for Affordable Housing Funds

The health of a regional economy depends on workers at all income levels being able to afford housing. The 12<sup>th</sup> Federal Reserve District, which covers the nine western states, is home to a number of metropolitan regions where many households are paying a burdensome share of their income in rent or living with commutes that strain families and the environment.<sup>4</sup> California, whose coastal regions have the greatest imbalance between jobs and housing, would need to build close to 300,000 new homes per year to meet demand.<sup>5</sup> There are many obstacles to building new housing, such as restrictive local zoning, opposition from neighbors, and in California in particular, a property tax system that favors commercial development over housing.<sup>6</sup> High construction costs, particularly for infill development, in the regions with the most jobs in the 12<sup>th</sup> District mean that the market does not provide enough new homes to make housing affordable for people at all income levels.<sup>7</sup> Public housing is an important component of serving low-income housing needs, but the number of units owned and operated by local housing authorities has declined steadily in recent decades across the country.<sup>8</sup>

In addition to purely private or public housing that is low cost, there is a system of building and operating subsidized housing through federal tax credits, local subsidies, and private investment that has been in place since the 1980s.<sup>9</sup> It can be built and operated through a combination of private, public, and/or nonprofit capital and expertise. This type of subsidized, below-market housing is typically called “affordable housing” in the community development field, which is how the term will be used here, although affordability is a relative concept that can apply to all types of housing. Affordable housing is typically built and/or managed by the private or nonprofit sectors and can receive subsidies from a variety of sources, including local and state bonds, federal tax credits, and federal housing vouchers.<sup>10</sup>

Affordable housing is only one tool for addressing the housing shortage, but it is one where there is room for new funders to help scale up innovative solutions.

“Affordable housing is only one tool for addressing the housing shortage, but it is one where there is room for new funders to help scale up innovative solutions.”

Affordable housing production and preservation help make up for the lack of new housing that meets demand at lower income levels in the short run due to market, regulatory, and public investment failures and/or shortfalls.

## What Are Affordable Housing Funds and When Do They Come Into Play

Affordable housing loan funds, often referred to as “structured” or “layered” funds, combine multiple sources of capital from across different sectors—public, private, and/or philanthropic—into a single revolving loan fund for nonprofit or private affordable housing developers.<sup>11</sup> The most common type of affordable housing loan fund, which this report focuses on, provides flexible capital at the early stages of a project. Combining different sources of funding—private capital, foundation impact investment and grants, and public subsidy—can help overcome the limitations of each. The general goal of affordable housing funds is to provide nimble, patient financing that would not otherwise be available for the purpose of acquiring property. Funds can help kickstart affordable housing preservation and development by closing the gap in early stage funding.

Funds can help with preserving homes that could otherwise be lost from the existing affordable housing stock. Many existing subsidized housing units have a sunset date. For example, tax credit-subsidized buildings can remain affordable for up to 30 years. If a private owner does not want to refinance in a way that would keep the building subsidized after the sunset date, there may be an opportunity to purchase the building and keep the units in the subsidized stock. In other cases,

there are opportunities to acquire market-rate units with low rents that landlords no longer want to operate. A fund can help the mission-driven buyer move quickly compared to strictly public or private loans or subsidies. A further advantage is a fund's ability to make a loan that includes rehabilitation costs (i.e. a loan that exceeds the value of the property).

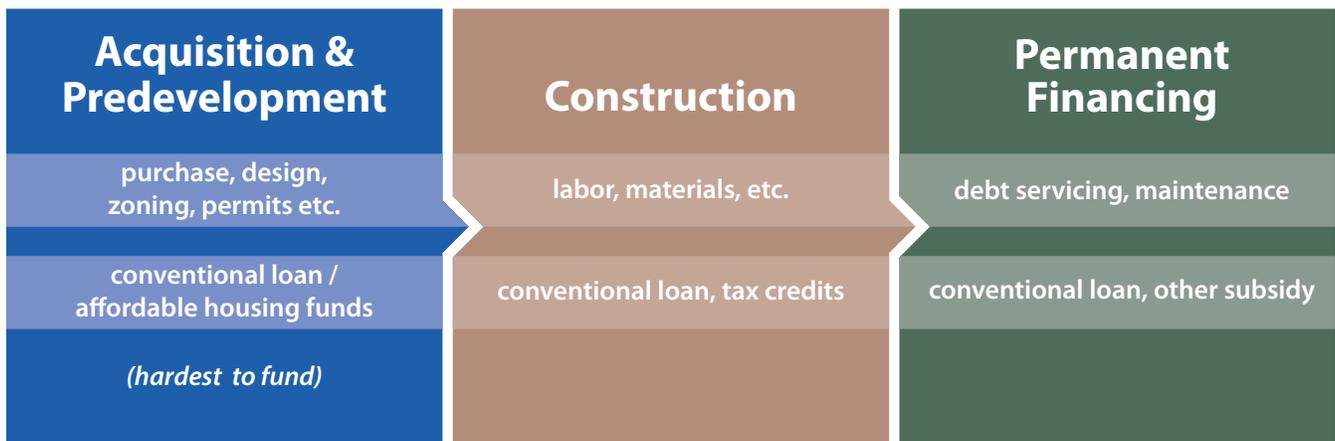
Developing affordable housing, or building new subsidized units, also comes with challenges around timing and borrowing costs. There are three basic stages in the financing lifecycle of affordable housing development: predevelopment, construction, and permanent financing (See Figure 1). Predevelopment for the purposes of this report can include the costs of acquiring land, design, environmental testing, and going through the local entitlement process. Permanent financing is similar to a mortgage on a project.

Predevelopment tends to be the riskiest stage of development, especially in some parts of California, because of the uncertainty around how much time it may take to go through the local approval or "entitlement" process for a project. *Entitlement* involves getting permits, going through design review, and getting any necessary zoning changes. Funds can provide longer loan repayment periods than a private acquisition loan typically would, making the entitlement process more manageable.

Affordable housing funds can overcome some of the downsides that come with pure public or private financing for the predevelopment stage of affordable housing preservation and development. Public funds may move less quickly because they have to go through multiple approval processes. Private capital may not be able to provide the same flexibility in lending terms. For example, private loans may require shorter payback periods, higher interest rates, or a smaller loan to value ratio. Without speed and flexibility in funding, nonprofit or private affordable housing developers may not be able to compete, for example, with cash buyers in a hot property market. Without a longer repayment period than a conventional loan, an affordable housing developer might not have sufficient time to obtain permits or tax credit allocations.

There is also uncertainty around whether a project will attract the next phases of funding, such as federal tax credits and state and local subsidies that support construction and permanent financing on the project. Conventional loans from financial institutions are easier to obtain for construction and permanent financing and are typically paired with public subsidy. For example, a local voter-approved housing bond, combined with state, federal, and/or philanthropic grants, might subsidize the difference between below-market rents and the actual cost of developing and maintaining a building.

**Figure 1. The Three Stages of Affordable Housing Development Financing**



## Key Differences in Affordable Housing Funds

The variety in affordable housing funds can be categorized in several ways (See Table 1). First, affordable housing funds vary based on the goals they are trying to achieve and on what geographic scale. A fund could potentially have one or more goals, such as producing or preserving housing of different sizes (e.g., smaller buildings), locating housing near particular amenities (e.g., jobs or transit), or serving a specific population (e.g., seniors or recently homeless people). In terms of scale, a fund may serve a specific city or county, several counties, or an entire metropolitan region or state. The goals and scale of a fund will determine what kinds of financial products it will offer and how much permanent subsidy an individual project will require.

Second, affordable housing funds vary in terms of their “capital stack”—or what share of the capital in the fund will come from the public, private, and philanthropic sectors. Several factors influence the capital stack. It might vary by what gap in currently-available financing products and terms the fund is trying to fill. It could also vary depending on what the capacity is of different sectors in a particular region. For example, a region might have a strong philanthropic presence or might be a financial center. Furthermore, the capital stack can take shape based on what institution is championing the idea of creating a fund and what partners are involved.

The amount of risk-tolerant public sector and philanthropic funding there is in the capital stack sets the stage for how much private capital can be leveraged, which determines the overall size of the fund. The advantage of having multiple kinds of capital in one fund is the ability to take advantage of the different strengths of those sources. For example, public or philanthropic dollars might not go as far if they were not combined with additional private sector dollars.<sup>12</sup> Private sector funding can have the advantage of moving forward with fewer levels of approval, and therefore more quickly, than public sector dollars. At the same time, public sector dollars can tolerate a longer payback period and a higher level of risk because their focus is on achieving a social

good, not necessarily on achieving a return. Blending the two in a fund allows for a lower interest rate and/or more flexible terms than a private loan and a faster process than project-by-project public sector approval. “In a fund, the public sector capital has already been approved and structured at the fund level, and it doesn’t have to happen at the individual project level,” said Noni Ramos at Enterprise Community Loan Fund.<sup>13</sup>

Finally, what organization provides the seed money or “top loss” for a fund, who manages it, and who invests in it all vary by the fund. Public or philanthropic dollars typically provide the top loss that secure private funds. For example, a government entity might provide the seed money, a community development financial institution (CDFI) or a standalone nonprofit might manage loan applications, and various banks and foundations might provide funding at different expected levels of return. The seed funder carries the most risk as the “subordinate debt” or the last to be repaid. However, they can protect their investment in the event of a default by including a window of time in the loan terms that allows them to step in and try to stabilize a project before the property would be sold to repay the more senior investors. Furthermore, seed funders tend to be entities that make grants or expenditures with no return; funds provide the opportunity to recycle dollars into new loans as old loans get repaid.

For many funds, CDFIs act as both an investor and a fund manager. CDFIs bring technical expertise that can aid in developing funds and in administering them, which is an advantage in geographic areas with less public sector or philanthropic capacity. A standalone nonprofit or private fund can have advantages in an area with greater local government and/or philanthropic capacity for developing affordable housing. In either case, investing in a fund or in a CDFI that manages a fund can provide a way for an investor or a donor to support affordable housing production or preservation with potentially less risk and expertise required than making a direct loan to an individual project. However, direct donor involvement in a fund can also have advantages. The profiles presented here of different funds illustrate some of the different approaches.

**Table 1: Scanning the Landscape of Affordable Housing Funds**

| <b>Fund Name and Year Started</b> <sup>14</sup>                                      | <b>Size (millions of dollars)</b> | <b>Geography</b>                                                                                             | <b>Purpose</b>                                                                                                                                                                               | <b>Seed Funder / Top Loss Provider</b>                                                             | <b>Investors</b>         | <b>Loan Originator(s) / Fund Manager(s)</b>                                                                                                                                                                        |
|--------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>TOAH 2</b> Bay Area Transit-Oriented Affordable Housing Fund (2018) <sup>15</sup> | \$50                              | Bay Area (nine counties)                                                                                     | TOD (transit-oriented development) production. Mixed-use housing and commercial space with community services. Originally launched in 2011.                                                  | Bay Area Metro (joint metropolitan planning organization and council of governments) <sup>16</sup> | Bay Area Metro and CDFIs | Low Income Investment Fund (LIIF), Corporation for Supportive Housing (CSH), Enterprise Community Loan Fund (Enterprise), Local Initiatives Support Corporation (LISC) and Northern California Community Loan Fund |
| <b>Bay Area Preservation Pilot</b> (2018) <sup>17</sup>                              | \$49                              | Bay Area (nine counties)                                                                                     | Preservation of housing near transit in regional “priority development areas” (PDAs)                                                                                                         | Bay Area Metro                                                                                     | LIIF, Enterprise         | LIIF, Enterprise                                                                                                                                                                                                   |
| <b>Invest Atlanta TOD Fund</b> (2018) <sup>18</sup>                                  | \$15                              | City of Atlanta                                                                                              | TOD production                                                                                                                                                                               | Invest Atlanta (City of Atlanta economic development authority)                                    | Enterprise, LIIF         | Enterprise, LIIF                                                                                                                                                                                                   |
| <b>ProMedica-LISC Investment Pool</b> (temporary name) (2018) <sup>19</sup>          | \$25                              | Areas around ProMedica health care facilities in Northwest Ohio and Southeast Michigan, including Toledo, OH | Affordable housing production and preservation. Part of a larger fund focused on neighborhood revitalization through addressing the social determinants of health that also includes grants. | ProMedica (health system) and LISC                                                                 | ProMedica, LISC          | LISC                                                                                                                                                                                                               |

| Fund Name and Year Started                                                                        | Size (millions of dollars) | Geography                                         | Purpose                                                                                                                                                               | Seed Funder / Top Loss Provider                                               | Investors                                                                                                                                                                                                                                                                                                                              | Loan Originator(s) / Fund Manager(s) |
|---------------------------------------------------------------------------------------------------|----------------------------|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| <b>Catalyst Fund</b> (2017) <sup>20</sup>                                                         | \$75 (target)              | Menlo Park, East Palo Alto, other Bay Area cities | Affordable housing production                                                                                                                                         | Facebook                                                                      | San Francisco Foundation                                                                                                                                                                                                                                                                                                               | LISC, Housing Trust Silicon Valley   |
| <b>SFHAF</b> San Francisco Housing Accelerator Fund (2017) <sup>21</sup>                          | \$88 (target \$100)        | San Francisco (joint city and county)             | Affordable housing production, affordable housing preservation and rehabilitation, accessory dwelling unit (ADU) construction, small sites preservation <sup>22</sup> | SF HAF is a standalone nonprofit entity with seed funding from the City of SF | Citi Community Development, City and County of San Francisco, Hewlett Foundation, Dignity Health Foundation, San Francisco Foundation, Citi Community Capital, First Republic Bank, New Resource Bank, Beneficial State Bank, Bank of America Community Foundation, Silicon Valley Community Foundation, Enterprise Community Partners | SFHAF                                |
| <b>Washington, D.C. Affordable Housing Preservation Fund</b> (2017) <sup>23</sup>                 | \$40                       | District of Columbia                              | Preservation (acquisition and rehabilitation)                                                                                                                         | D.C. Department of Housing and Community Development                          | Capital Impact Partners, LISC                                                                                                                                                                                                                                                                                                          | Capital Impact Partners, LISC        |
| <b>LA MATCH Fund</b> Los Angeles Metro Affordable Transit Connection Housing (2017) <sup>24</sup> | \$75                       | Los Angeles County                                | TOD preservation and production (within half a mile of high-frequency rail/bus) <sup>25</sup>                                                                         | LA Metro (LA County Metropolitan Transportation Authority transit operator)   | California Community Foundation, California Endowment, Weingart Foundation, Enterprise, LISC, LIIF                                                                                                                                                                                                                                     | Enterprise, LISC, LIIF               |

| Fund Name and Year Started                                                           | Size (millions of dollars) | Geography                                                                             | Purpose                                     | Seed Funder / Top Loss Provider                           | Investors                                                                                                                                                                                                               | Loan Originator(s) / Fund Manager(s)                                                                      |
|--------------------------------------------------------------------------------------|----------------------------|---------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| <b>Seattle REDI Fund</b> Regional Equitable Development Fund (2016) <sup>26</sup>    | \$21                       | Metropolitan Seattle (King, Snohomish, & Pierce counties)                             | TOD production                              | ARCH (regional housing coalition), State of Washington    | Enterprise Community Loan Fund, LIIF, Living Cities Blended Catalyst Fund, King County Housing Authority, City of Seattle, King County                                                                                  | Enterprise                                                                                                |
| <b>GSAF</b> Golden State Acquisition Fund (2012) <sup>27</sup>                       | \$93                       | State of California                                                                   | Urban and Rural production and preservation | CA Dept. of Housing and Community Development (HCD)       | Century Housing Corp. (Century), Corp. for Supportive Housing (CSH), Enterprise Community Loan Fund, LIIF, LISC, Northern CA Community Loan Fund, Rural Community Assistance Corp. (RCAC), Housing Trust Silicon Valley | Century, CSH, Enterprise, LIIF, LISC, RCAC, Northern CA Community Loan Fund, Housing Trust Silicon Valley |
| <b>Denver TOD Fund</b> Denver Transit-Oriented Development Fund (2010) <sup>28</sup> | \$24                       | Denver metropolitan area (seven counties). Expanded from city- to metro-wide in 2014. | TOD preservation and production             | City of Denver, Colorado Housing Finance Authority (CHFA) | CO Housing and Finance Authority, Denver Foundation, Ford Foundation, Gates Foundation, MacArthur Foundation, Rose Community Foundation, Mercy Loan Fund, Mile High Community Loan Fund, Enterprise Community Loan Fund | Enterprise                                                                                                |

| Fund Name and Year Started                                                           | Size (millions of dollars) | Geography        | Purpose                                                                                                                              | Seed Funder / Top Loss Provider                                     | Investors                                                                                                                                                                                                                                                                                               | Loan Originator(s) / Fund Manager(s) |
|--------------------------------------------------------------------------------------|----------------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| <b>NYC Acquisition Fund</b> New York City Acquisition Loan Fund (2007) <sup>29</sup> | \$230                      | City of New York | Preservation and production, small sites preservation                                                                                | City of New York Department of Housing Preservation and Development | Bank of America, Capital One, Citibank, Deutsche Bank, HSBC, JPMorgan Chase, M&T Bank, Morgan Stanley, Signature Bank, Wells Fargo, Enterprise, Ford Foundation, Heron Foundation, MacArthur Foundation, Robin Hood Foundation, Rockefeller Foundation, Starr Foundation, NYC Housing Development Corp. | CSH, Enterprise, LIIF, LISC          |
| <b>LA County Housing Innovation Fund II</b> (2018) <sup>30</sup>                     | \$60                       | LA County        | Low- and very-low income housing production. Previous focus (2006) was on supportive housing for homeless/ mentally ill populations. | LA Community Development Commission/ Housing Authority              | LIIF, CSH, Century                                                                                                                                                                                                                                                                                      | LIIF, CSH, Century                   |

## PROFILE

### The ProMedica-LISC Investment Pool

ProMedica, a health system based in northwest Ohio, has developed a partnership with the Local Initiatives Support Coalition (LISC), a national CDFI, to address the “social determinants of health” in the communities it serves.<sup>31</sup> The partnership has developed over several years with early initiatives on financial security and healthy food access for medical employees and patients.<sup>32</sup> In 2018, ProMedica and LISC launched a fund that includes \$25 million in low-cost loan capital and an additional \$20 million in grants for community development.<sup>33</sup> The comparatively weak economy and subsidy environment in markets where ProMedica works, such as Toledo, Ohio, helped shape the partnership’s hands-on, multi-pronged approach to community development and affordable housing.

The loan capital is available to a variety of community development projects in the areas surrounding ProMedica’s health care facilities. Borrowers can include mission-driven private and nonprofit organizations, including women- and minority-owned enterprises. The low-cost loans can be made for development projects that address the social determinants of health through community and economic revitalization. The fund is open to projects such as affordable housing, community centers, or commercial projects that create living wage, career path jobs. In addition to development, loans can provide small business capital. The two projects that have been approved so far by the fund are affordable housing developments.

ProMedica is involved in the screening process for loans made by LISC through the fund. Before projects go through a traditional credit review, ProMedica and LISC

“Helping develop the pipeline of projects applying to the loan (and grant) fund is another part of ProMedica’s active approach.”

evaluate them based on criteria they have developed to assess alignment with the social determinants of health. These include environmental factors, such as green building standards and brownfield remediation; economic performance, including the contribution to household financial stability and neighborhood stability; social factors such as placemaking and public safety; physical and mental health, including active transportation (bike and pedestrian) infrastructure and access to health facilities and healthy food; and community support factors, such as whether the project is connected to an existing local plan. For example, an affordable housing project in Toledo, Ohio that the fund has approved a loan for is part of an existing commercial corridor plan that went through an extensive community participation process.

Helping develop the pipeline of projects applying to the loan (and grant) fund is another part of ProMedica’s active approach. As an anchor institution in the areas where its facilities are located, ProMedica has developed relationships with community organizations that can help identify and encourage projects.

More broadly, as a health system, ProMedica engages holistically with community revitalization out of a recognition that upstream factors, from personal safety to housing stability, impact health.<sup>34</sup> After documenting successes with their previous work on access to healthy food in reducing per-patient costs, they are creating a model for housing and neighborhood stabilization.<sup>35</sup> Health researchers will collect data on the outcomes of the fund’s investments to understand their impact on health.<sup>36</sup>

## PROFILE

### The San Francisco Housing Accelerator Fund

The San Francisco Housing Accelerator Fund (SFHAF), launched in 2017, is a 501c3 nonprofit that makes loans for site acquisition for new development and rehab of existing units. The fund has preserved housing units in areas where tenants may be at risk of displacement because of market pressures on rents.<sup>37</sup> SFHAF blends top-loss capital from the City of San Francisco, impact investments from health and community foundations, and senior capital from the Community Reinvestment Act divisions of regulated bank lenders. Pablo Bravo from Dignity Health noted that their foundation's investments in affordable housing funds, including SFHAF, allowed them to do less of the day-to-day monitoring of a project than when they invest in a single housing development: "The relationship is between you and the fund. It's moving faster and more capital—if there's a project that has a gap it will move faster and that's going to accelerate the project."<sup>38</sup>

SFHAF works closely with the City on aligning its project pipeline with the City's priorities for how it allocates subsidies from bond measures and other sources of housing funding. The fund facilitates communication between the City and potential

*“SFHAF works closely with the City on aligning its project pipeline with the City's priorities for how it allocates subsidies from bond measures and other sources of housing funding.”*

borrowers. For example, SFHAF, the SF Economic Development Agency, and the Mission Economic Development Agency (MEDA) collaborated on developing a pipeline of small site acquisitions. MEDA, a nonprofit that works closely with low-income communities in the Mission District, acquired and rehabilitated five properties totaling 63 residential units through the fund from 2017-2018. Like other funds (such as the NYC Acquisition Fund) SFHAF requires a soft commitment of permanent financing subsidy from the City for each loan it makes. Although it is not a guarantee, the soft commitment letter signals to investors and lenders that the fund's pipeline matches the City's priorities.

The collaborative relationship between nonprofits, funds, and the public sector helps give communities a say in the pipeline. For example, if a group of tenants knows that their building is going on the market, they can engage with a community-oriented nonprofit like MEDA. With this information, the fund and the City can move quickly to approve a loan that allows the borrower to compete with private buyers.

## PROFILE

### The D.C. Affordable Housing Preservation Fund

The Washington, D.C. Affordable Housing Preservation Fund, started in 2017, supports low-income tenants in multifamily buildings in the District of Columbia who have the right to purchase their building if it comes up for sale. Under a law known as the Tenant Opportunity to Purchase Act (TOPA), tenants are empowered to join together to match a market-rate offer before their building is sold.<sup>39</sup> However, it can be difficult for tenants to come up with the upfront capital to purchase these buildings.

While the D.C. Department of Housing and Community Development (DHCD) has a housing production trust fund that it has used to help tenants buy their buildings, there is still a great need for affordable housing in the District. The D.C. Affordable Housing Preservation Fund provides a flexible source of capital that leverages grant funding from DHCD with private financing to create acquisition loans at below-market rates.

To benefit from the fund, tenants form an association and assign their collective TOPA rights to a buyer with whom they have reached an agreement, such as a nonprofit organization or a for-profit affordable housing developer. The buyer can then apply for an up-to-three-year loan (four years as an exception) from the fund to acquire and ultimately rehabilitate a building. “This gives the developer time to make preliminary repairs and add amenities that the tenants have prioritized in their negotiations while they line up construction and permanent financing,” said Katherine Murtha at Capital Impact Partners, the CDFI co-managing the fund on behalf of the District.

The D.C. Affordable Housing Preservation Fund prioritizes preserving the affordability of mixed-use,

“The D.C. Affordable Housing Preservation Fund aims to help prevent the displacement of low-income tenants from neighborhoods that are rapidly gentrifying in the District.”

mixed-income neighborhoods that have easy access to employment and social services and contribute to the vibrancy and economic growth of the city. It aims to help prevent the displacement of low-income tenants from neighborhoods that are rapidly gentrifying in the District.<sup>40</sup> The Washington, D.C. metro area has the highest median rent in the nation after the San Francisco region, putting pressure on its restricted and unrestricted affordable housing stock.<sup>41</sup> Organizations that receive a loan from the fund agree to have 10-year income and rent restrictions recorded against the property as a protection against displacement of low-income tenants.

The construction and permanent financing that repays acquisition loans from the fund will likely include subsidies or favorable financing such as federal Low Income Housing Tax Credits (LIHTC), tax-exempt private activity bonds, and/or a low-interest loan from DHCD’s housing production trust fund, which enable affordable rents to cover operating and financing costs. The fund reduces the complexity for DHCD, which in the past might have funded both acquisition and the long-term debt of the same project.

Projects in the fund’s pipeline include privately-owned buildings that have current or expiring income restrictions, as well as unrestricted apartments with low-income tenants. For example, a building might have been built with funding raised through the LIHTC program and could now be passing out of either the initial 15-year compliance period (the first opportunity for a property owner to make a hardship argument to exit the program) or the 30-year maximum time horizon for income restrictions that accompany the tax benefit.

## PROFILE

### The Bay Area Preservation Pilot and the Transit-Oriented Affordable Housing Fund

The Bay Area has two regional-scale acquisition loan funds for affordable housing near transit. The Transit Oriented Affordable Housing (TOAH 2) production fund and the Bay Area Preservation Pilot (BAPP), both launched in 2018, aim to make housing near transit more equitable. Both the state of California and Bay Area Metro (the regional agency that is the seed funder for both funds) have identified building more housing near transit as key to addressing climate change. The funds are part of a long-term effort to make sure that people at lower income levels, who are critical to the region's economy, are not displaced as result of development and infrastructure investment near transit.

TOAH 2, the second iteration of the TOAH fund, and the newly-created BAPP build on long-term regional planning efforts to reduce the amount people need to drive by increasing the supply of housing close to transit and jobs across the entire Bay Area. Bay Area Metro has focused on equitable TOD, including in cities with low-income populations outside the core cities, for over a decade.<sup>42</sup> To be eligible for an up-to-five-year loan from TOAH 2 or an up-to-ten-year loan from BAPP, a project must be in a priority development area (PDA), which is an area with growth potential around major transit stations. Local governments drew the boundaries of PDAs in the late 2000s, and Bay Area Metro subsequently made them eligible for bike and pedestrian infrastructure improvement grants.<sup>43</sup> TOAH and BAPP are part of a regional strategy to balance these improvements, which have the potential to spur displacement, with investment in affordable housing.

“TOAH and BAPP are part of a regional strategy to balance investment in TOD infrastructure projects, which have the potential to spur displacement, with investment in affordable housing.”

The TOAH 2 and BAPP funds have the potential to address the regional nature of the housing crisis by building and preserving affordable housing near transit in smaller cities where land is cheaper and the need is increasing, as well as in the region's urban centers. Paradoxically, funds work best in jurisdictions that have the most long-term subsidy available, yet these tend to be the larger cities where it is more expensive to acquire or build housing. Out of 922 affordable units built with support from TOAH 1, 127 were in the medium-sized, transit-served cities of Fremont and Hayward, with the rest in San Francisco, Oakland, and San Jose.<sup>44</sup> In smaller cities that have a lower cost of living and are on the receiving end of displacement from larger cities, long-term subsidy from state, county, and philanthropic sources can help support affordable housing. For example, the Hayward Senior Apartments, which received a TOAH 1 loan, also received a \$2.1 million Affordable Housing and Sustainable Communities (AHSC) grant from the state.<sup>45</sup>

Lessons learned from the first iteration of TOAH have made the new fund more flexible. TOAH, created in 2011, was reinvisioned as TOAH 2 in 2018 with more streamlined underwriting requirements.<sup>46</sup> The initial TOAH launched during the Great Recession when capital was scarce for new housing projects, particularly transit-oriented development. However, when the economic cycle changed for the better, the fund was less competitive with private capital because it had more cumbersome underwriting requirements, which met the strictest standards of each of the private lenders involved in the fund.

## PROFILE

### The Denver TOD Fund

The Denver metropolitan area is one of the fastest growing in the country, and has undergone a major transit expansion in recent years, with multiple new rail lines and stations in existing neighborhoods, including low-income neighborhoods, and in less developed areas. The Denver Transit-Oriented Development Fund (Denver TOD Fund) was created in 2010 to facilitate the acquisition of property near transit while it was relatively inexpensive, either before a station was built or during an economic downturn. The first generation of the fund had a single borrower, the nonprofit Urban Land Conservancy, which acquired and held land for up to five years. When the market strengthened and capital became more available, the land would be sold at a below-market price to a developer to build or preserve affordable housing. Any type of borrower can now apply to the Denver TOD Fund, but its mission remains to ensure that investment in transit does not make areas around stations too expensive for low-income people to live.

The Denver TOD Fund initially served the City of Denver and now serves seven counties in the Denver area that are part of the regional transit system. As it has grown regionally, the fund continues to have strong buy-in locally, in part because of its inclusive visioning process. “There is a sense of shared ownership of the fund here in Denver. Eight years later, people are proud

“Prioritizing the visioning process, rather than developing a fund first and expecting it to bring people to the table, contributed to the success of the Denver TOD Fund.”

to say they’re part of it,” said Melinda Pollack at Enterprise Community Partners, the CDFI that manages the fund.<sup>47</sup> Although the fund began with a pilot in the City of Denver, early community visioning focused on making equitable TOD central to the buildout of the regional transit system.<sup>48</sup>

Prioritizing the visioning process, rather than developing a fund first and expecting it to bring people to the table, contributed to the success of the Denver TOD Fund. Early conversations about developing the fund focused on the purpose, rather than the mechanics, of designing and administering the fund. Focusing too heavily on the technical details of a fund early on can limit interest in the fund, for example, only to the staff level at the public agency involved. Local leaders who became invested in the process championed the fund to a broader audience, including investors.

An inclusive process for developing a pipeline of projects, not just pitching the idea of the fund, helped attract capital and committed stakeholders to the Denver TOD Fund. Pipeline development gave different regional stakeholders—including community groups, affordable housing developers, local leaders, and investors—a reason to come together. The momentum that they built helped grow the size of the fund and led to its eventual expansion from the central city to a metropolitan scale.

## Lessons Learned

### **Figure out the need before designing the fund.**

It is tempting to see the fund itself as a strategy, but it is important to determine what the purpose of the fund will be before setting it up. Before starting a fund, evaluate what the other possible sources of capital are that may already be serving the need, for example, for preservation or production, and how they might be expanded.

**Don't expect a fund to solve all of the housing problems in a region.** Keeping this in mind will help keep expectations in line with what a particular fund sets out to do and is able to accomplish for its size and mission.

**Focus on capacity.** Without a robust affordable housing sector, it will be difficult to deploy funds. Before designing a fund, assess the ability of local non-profit and for-profit developers to absorb capital.

**Don't get bogged down in the technical details.** When trying to bring the necessary partners together to create a new fund, start by keeping the mission, not the underwriting requirements, front and center. A wide focus in the planning stages, where building consensus and support is important, can help the long-term health of a fund by keeping a broader spectrum of interested parties at the table. It is easier for affordable housing finance professionals to replicate the technical details of a fund from another region than to replicate coalition-building efforts.

**Be inclusive.** Involving multiple partners such as local leaders, community members, philanthropy, CDFIs, health care organizations, and investors in early-stage conversations about the vision of the fund and the project pipeline can help clarify the purpose and feasibility of the fund and build momentum for growing it.

**Involve the community.** Community members/groups can help leaders understand what the greatest needs are for production and preservation and shape the pipeline for a fund. Local residents and tenants may also be the best source of information about an upcoming sale of apartment buildings, mobile home parks, or other sites that might benefit from preservation funding.

**Be realistic about the local subsidy environment.** An affordable housing fund is not right for every city or metro area. Funds can help with early stage issues like property acquisition, but there needs to be a permanent source of funding to sustain below-market rents, an important consideration when deciding what population the housing will serve. Interested parties may want to seek out or encourage the development of regional, state, and federal sources of long-term funding for affordable housing in smaller cities, particularly those that are part of a regional transit network.

**Housing is a regional problem.** Starting with a pilot program in a large city with high developer, public, and nonprofit sector capacity may be a good precursor to developing a fund that gets at the regional roots of housing supply and affordability. Land may be cheaper in smaller cities and suburbs, but these areas may lack subsidy and capacity. Foundations, CDFIs, developers, and others who have technical and organizing expertise can help build capacity regionally.

**Build in flexibility.** It is important to allow for the possibility that the parameters of a fund might need to change over time based on market cycles and local/regional needs.

## Kickstarting Affordable Housing Production and Preservation

Affordable housing funds are just one tool in the “3P” approach of production, preservation, and renter protection. They can supplement, not replace the need for new market-rate housing, while speeding up relief for low-income people who are part of the regional workforce. Funds can help leverage, but not replace the subsidies that are needed to make housing affordable to people at the lowest income levels in the short run. They do not require but can be more effective when tenant protections are present.

Different types of affordable housing funds have different advantages and are highly context-specific. The design, timing, and partners involved in developing and

managing a fund influence its impact. Different investors may find it useful to be more or less involved in the day to day aspects of a fund, such as developing a project pipeline and selecting projects. Additionally, the amount of public subsidy available and land use policies in a particular geographic area can amplify or constrain the impact of a fund.

However, understanding some of the variety in existing funds can help new investors, local leaders, and community groups determine whether a fund could or should be created or scaled up in their region. Affordable housing funds, when designed and deployed effectively, can be a nimble tool for producing or preserving affordable housing by drawing on the strengths of public, private, and philanthropic investment.

- 1 Elliot Schrage, [“Catalyst Housing Fund Attracts New Investor.”](#) Facebook Newsroom, March 6, 2018.
- 2 For example, several health organizations in Portland, Oregon, combined with several public sector funding sources, have made grants to a nonprofit affordable housing developer, [Central City Concern](#), to build supportive housing for the homeless with a clinic onsite.
- 3 For more on health organizations and housing, see Mercy Housing and the Low Income Investment Fund, [“Innovative Models in Health and Housing.”](#) 2017.
- 4 The federal Department of Housing and Urban Development (HUD) considers a household “rent-burdened” if they are paying more than a 30 percent of their income in rent. The Western region of the US has the highest average rent-to-income ratio in the country. See Jeff Larrimore and Jenny Schuetz, [“Assessing the Severity of Rent Burden on Low-Income Families.”](#) Board of Governors of the Federal Reserve System, December 22, 2017.
- 5 Mac Taylor, [“California’s High Housing Prices: Causes and Consequences.”](#) California Legislative Analyst’s Office, March 2015.
- 6 Paul G. Lewis. “Retail Politics: Local Sales Taxes and the Fiscalization of Land Use.” *Economic Development Quarterly* 15, no. 1 (2001): 21-35.
- 7 Miriam Zuk and Karen Chapple, [“Housing Production, Filtering and Displacement: Untangling the Relationships.”](#) Institute of Governmental Studies, May 2016.
- 8 Joint Center for Housing Studies, [“The State of the Nation’s Housing 2018.”](#) Harvard University, 2018, p. 34.
- 9 David J. Erickson. *The Housing Policy Revolution: Networks and Neighborhoods* (Washington, D.C.: Urban Institute Press, 2009).
- 10 As of 2017, the federal Low Income Housing Tax Credit (LIHTC) is the largest source of subsidized affordable housing units, exceeding Section 8 vouchers, project-based Section 8 and public housing. See Joint Center for Housing Studies, 2018, p. 32, 34.
- 11 There are also examples of equity funds for affordable housing and funds that focus on other stages of development. This report uses the terms “affordable housing loan fund,” “affordable housing fund,” and “fund” interchangeably to refer to predevelopment and/or acquisition loan capital.
- 12 Melinda Pollack and Brian Prater, [“Filling the Financing Gap for Equitable Transit-Oriented Development: Lessons from Atlanta, Denver, the San Francisco Bay Area and the Twin Cities.”](#) Enterprise Community Partners and Low Income Investment Fund, April 2013.
- 13 Author interview.
- 14 This list is meant to provide a sense of the diversity in some of the major funds across the US and is not necessarily an exhaustive list of affordable housing funds. In addition to cited sources, information was provided about fund details in author interviews and email communications.
- 15 [“Bay Area Transit-Oriented Affordable Housing.”](#)
- 16 Bay Area Metro is made up of the recently-merged Metropolitan Transportation Commission (MTC) and the Association of Bay Area Governments (ABAG). They are referred to here by their current name.
- 17 Metropolitan Transportation Commission, [“MTC Pledges \\$10 Million for New Fund to Preserve Affordable Housing.”](#) February 28, 2018.
- 18 Invest Atlanta, [“Invest Atlanta Announces Atlanta’s First Transit-Oriented Development Fund.”](#) October 17, 2018.
- 19 Local Initiatives Support Coalition, [“Promedica, LISC launch \\$45M Partnership.”](#) March 13, 2018.
- 20 Elliot Schrage, 2018.
- 21 [“San Francisco Housing Accelerator Fund.”](#)
- 22 “Small sites” are defined as 5-25 units. See Oscar Perry Abello, [“San Francisco Now Has a One-Stop Shop to Invest in Fighting Displacement.”](#) Next City, April 4, 2017.
- 23 District of Columbia Department of Housing and Community Development, [“Public-Private Affordable Housing Preservation Fund.”](#)
- Capital Impact Partners, [“Washington, D.C. Affordable Housing Preservation Fund.”](#)
- Mary Hui, [“D.C. Establishes \\$10 Million Fund to Preserve Disappearing Affordable Housing.”](#) Washington Post, November 26, 2017.
- 24 The California Endowment, [“\\$75 Million Affordable Housing Loan Program Launches.”](#) September 18, 2017.
- Local Initiatives Support Coalition Los Angeles, [“Metro Affordable Transit Connected Housing Match Program.”](#)
- 25 Although it may not seem very high-frequency compared to some transit systems, the standard here is 15-minute maximum headways (length of time between departures) for a rail station or a stop at the intersection of two bus lines. See [“MATCH program guidelines.”](#)
- 26 Enterprise Community Partners, [“Regional Equitable Development Initiative \(REDI\) Fund to Spur Transit-Oriented Affordable Housing Development across Puget Sound.”](#) December 14, 2016.
- 27 [“Golden State Acquisition Fund.”](#)
- 28 Denver Office of Economic Development, [“Denver Transit-Oriented Development Fund Expands Regionally.”](#) December 16, 2014.
- 29 [“New York City Acquisition Fund.”](#)
- New York University Furman Center for Real Estate and Urban Policy, [“Directory of NYC Housing Programs: New York City Acquisition Fund.”](#)
- Judi Kende, [“Ten Years in, the New York City Acquisition Fund is Needed More than Ever.”](#) Enterprise Community Partners, February 2, 2017.
- Harvard Kennedy School of Government Ash Center for Democratic Governance and Innovation, [“Acquisition Fund”](#) [video].
- Impact Investing Australia, [“Case Study: New York City Acquisition Fund.”](#)

- 30 Los Angeles County Community Development Commission/Housing Authority, [“L.A. County Housing Innovation Fund II.”](#)
- 31 “Social determinants of health” is a term that has become common in the field to describe upstream economic and social factors that contribute to good health. See, for example, the Centers for Disease Control and Prevention, [“Social Determinants of Health.”](#)
- 32 Randy Oostra, David Zuckerman, and Katie Parker, [“Embracing an Anchor Mission: ProMedica’s All-In Strategy.”](#) ProMedica and The Democracy Collaborative, May 2018.
- 33 Author Interview.
- 34 Randy Oostra et al., 2018.
- 35 ProMedica, [“ProMedica, LISC launch \\$45M partnership.”](#) March 13, 2018.
- 36 ProMedica, 2018.
- 37 Laurel Engbretson. [“The Impact of Small Sites on Displacement in San Francisco: An Impact Evaluation Framework for the San Francisco Housing Accelerator Fund.”](#) Master’s Thesis, Mills College, May 2018.
- 38 Author interview.
- 39 As of 2018, TOPA only applies to multifamily buildings. See Benny L. Kass, [“How D.C.’s Revised Tenant Law Affects Renters in Single-Family Homes.”](#) Washington Post, August 31, 2018.
- 40 Capital Impact Partners, [“Washington, D.C. Mayor Names Capital Impact Partners to Help Manage New Affordable Housing Preservation Fund.”](#) March 14, 2018.
- 41 Joint Center for Housing Studies [“America’s Rental Housing 2017.”](#) Harvard University, 2017, p. 34.
- 42 Sujata Srivastava et al., [“CDFIs and Transit-Oriented Development.”](#) Federal Reserve Bank of San Francisco Community Development Investment Center, 2010, p. 13-14.
- 43 Elizabeth Mattiuzzi. [“Local Capacity for Implementing a State Climate Planning Mandate: The Politics of Cooperation and Regional Governance in California.”](#) Ph.D. dissertation, UC Berkeley, 2016.
- 44 Metropolitan Transportation Commission, [“TOAH-Bay Area Preservation Pilot Brochure 2018.”](#) October 30, 2018.
- 45 See Paige Dow, [“AHSC Profile: Hayward Senior Apartments.”](#) Enterprise Community Partners, April 2018. AHSC is administered by the state Strategic Growth Council and is supported by revenue from the state’s “Cap and Trade” stationary-source carbon emission credit auction and trading system. Under state legislation (SB 535), at least a quarter of the auction proceeds must go to reducing the disparate impacts of [Cap and Trade investments](#) on [disadvantaged communities](#), as defined by the state.
- 46 Metropolitan Transportation Commission, 2018.
- 47 Author interview.
- 48 Leiha Edmonds, [“Financing the Development in Transit-Oriented Development: CDFI Case Study on the Denver Regional TOD Fund.”](#) Urban Institute Metropolitan Housing and Communities Policy Center, April 2018.



FEDERAL RESERVE BANK  
OF SAN FRANCISCO