The key to new $500 million affordable housing fund? A $40 million grant from Facebook’s founder.

Making the numbers work for building and preserving affordable housing has been tough in the San Francisco Bay Area, one of the highest-cost housing markets in the U.S.

The new Partnership for the Bay’s Future, which announced a $500 million fund last week, found a way to square the circle: $40 million from the Chan Zuckerberg
Initiative, the philanthropic vehicle of Facebook founder Mark Zuckerberg and his wife, Priscilla Chan, that was given with no expectation of a financial return.

The big slug of concessionary capital—effectively a grant—makes it possible for the new fund to both provide affordable housing developers with lower-cost loans and other attractive terms—and attract additional investors with competitive returns.

“It’s a game changer,” Maurice Jones, CEO of LISC, the largest nonprofit community development financial institution in the country and the manager of the new fund, told ImpactAlpha. “We are taking more risk in this fund and we can do so because of the different capital stack we have. We have to take that risk here to get to the results that we want.”

**New urgency**

The new Bay Area fund follows Microsoft’s announcement of its own $500 million pledge over three years, including $225 million in below-market rate loans to preserve and build middle-income housing near its headquarters in Redmond, east of Seattle.

The grants and loans from the tech giants and their billionaire founders reflect both a business reality – it’s increasingly hard to hire in markets where tech employment has sent the cost of housing skyrocketing – and a political strategy. Amid a public backlash over tech-fueled dislocation, the industry generally sees voluntary investments as more palatable than new taxes.

In November, San Francisco voters passed a tax on companies with more than $50
million in gross receipts that is expected to generate $300 million to tackle the city’s homelessness crisis. The ballot initiative set up a high-profile war of words between Salesforce CEO Marc Benioff, who backed the measure, and Twitter CEO Jack Dorsey, who argued against the tech tax. Last year, Amazon helped block a tax on large businesses in Seattle to fund homeless services and affordable housing.

New Calif. Gov. Gavin Newsom has asked tech companies to put up $500 million in low-interest loans and other financing for affordable housing, to match a similar amount in the state budget. Nearly three-quarters of a million jobs have been created in the Bay Area in the past eight years, but only 167,000 new homes.

The new Bay Area fund could become a model for how to stack capital for maximum effect. The fund aims to protect the homes of up to 175,000 households over five years and produce more than 8,000 homes in the five Bay Area counties.

**Stacked capital**

The investment from Chan Zuckerberg Initiative effectively serves as equity, providing first-loss capital across the fund’s products. LISC itself added $50 million, as did Capital Impact Partners, another community development finance institution, which will help underwrite deals. Another CDFI, the Corporation for Supportive Housing, put in $10 million. Biotech behemoth Genentech added $5 million, as did the San Francisco Foundation.

Morgan Stanley will direct $100 million of an existing LISC product toward the new fund’s “preservation loans,” helping keep housing affordable after the terms of their
original financing expire.

The Ford Foundation, which has identified affordable housing as a target for its planned $1 billion mission-related investment portfolio, made a small grant to a $40 million sidecar “policy fund” that will work with local governments to accelerate affordable housing and may join the investment fund as well.

“If housing is to be a foundation of family life and a more equitable community—not to mention a platform for health, good schools, and gainful employment—then we must reckon now with affordability as an imperative and a super-smart investment,” the Ford Foundation’s Xavier de Souza Briggs said in a statement.

**Capital gaps**

LISC’s Jones said the $40 million in seed equity from Chan Zuckerberg Initiative will let the fund make enterprise lines of credit available to small and medium-sized community development corporations to purchase land for housing. Such loans have traditionally been available only to larger developers and at higher interest rates. The below-market loans will also have terms of up to five years, rather than the typical one to two years.

“We’ve designed the products in a way that is responding to the gaps in the market,” Jones said.

The fund made its first such transaction, a $6.5 million revolving line of credit to the East Bay Asian Local Development Corporation that could help it buy property for a half-dozen projects over the next five years.

Lower-interest rates for mixed-income mezzanine loans will also help developers add more affordable units in projects that also include market-rate units. “We’re going to be able to have more income-restricted units,” Jones said.

Financing “affordable” housing for working families is often tougher than building classically low-income housing, which can qualify for government subsidies.
Affordability is generally considered to mean that families earning below about 150% of an area’s average median income are spending no more than 30% of their income on housing.

In Santa Clara County, the cost of living is so high that families earning more than $94,000 per year are considered “low-income.” In nearby San Francisco, a family can earn more than $117,000 and still be considered poor.

Much of the institutional investments in housing are for units targeted to families earning less than 60% of the average median income, which qualifies for federal Low Income Housing Tax Credits. “The subsidy lowers the risk and our investors require lower returns which means a lower cost of capital to the developers making the projects more affordable,” says Jeff Brenner, CEO of Impact Community Capital in San Francisco, which has made about half of its $1.9 billion in investments in affordable housing. Above that level, “institutional capital has been less abundant because the deals are much harder to do absent any subsidy.”

Brenner said “catalytic capital” like the Chan Zuckerberg’s has the potential to lower
risk and thus lower required returns. “This could be how Impact [Community Capital] can get into workforce housing—something we’ve wanted to do but not yet found an opportunity,” he said.

Jones said LISC was selected from about a dozen fund managers that responded to a request for proposals from Chan Zuckerberg Initiative and the San Francisco Foundation.