

MARKET COMMENTARY Q2:2023

Affordable Housing: A Resilient Asset Class in Volatile Markets



To the growing list of headwinds running up against the economy — including inflation and rising interest rates, as well as fears of an economic slowdown resulting from them — you can now add concerns about the health of banks. By the end of the quarter, it appeared that a full-blown financial crisis might have been averted. The failures of Silicon Valley Bank¹ and Signature Bank in March² and headline-grabbing troubles at other lenders, including Credit Suisse³ and First Republic⁴, cast a pall over financial markets late in the quarter.

While the worst-case scenarios no longer appear likely, markets remain on edge. An immediate outgrowth of this is the current flight to low-risk/high-quality assets, tighter lending standards, and widening credit spreads, making a recession more likely to occur.

Meanwhile, small- and mid-sized banks, which account for roughly 80% of the financing in the commercial real estate market⁵, have seen deposits migrate to larger institutions deemed to be too big to fail and to money market funds⁶. This puts even more pressure on the market, as funding sources for property development are likely to decline. Already, domestic issuance of commercial mortgage-backed securities has fallen to levels not seen since 2012, in the aftermath of the global financial panic⁷.

For affordable housing, this creates significant challenges, but it also gives rise to real opportunities. Difficulties in bank lending only cast a brighter light on private funding sources, such as the strategies we offer at IMPACT Community Capital for developing and preserving affordable housing throughout the country.

At the same time, the economic conditions that created these circumstances in the first place are making the need for affordable housing even more acute. While the overall level of employment remains historically strong, layoffs are picking up steam. Announced job cuts rose to more than 270,000 in the first quarter, an increase of nearly 400% from the same period in 2022⁸. Against this backdrop, rents continue to rise, though at a slower pace than in 2022. In March, the average asking rent for multifamily apartments in the U.S. rose to \$1,706, which represents a 4% increase from a year earlier, according to the Yardi Matrix National Multifamily Report⁹. This combination of rising rents at a time of growing income insecurity only furthers the need for affordable housing right now.

The financial markets, however, are essentially taking a wait-and-see attitude, as many investors are more than willing to sit in cash where yields are higher than on 10-Year Treasuries, a foible of the inverted yield curve. At IMPACT, we believe it's important not to lose sight of the urgency here. The need for affordable housing isn't going away; if anything, it's likely to grow in the coming months, especially if the economy slips into an official recession.

As the markets discovered during the Covid recession in 2020, affordable housing has proven to be a resilient asset class in the face of an economic downturn, owing to its acyclicity. In good times, rising rents create greater demand for affordable housing. In bad times, falling incomes do the same. This is why affordable housing has historically produced lower vacancy rates than market-rate apartments. It also creates a relatively stable environment for investors. For instance, affordable housing (financed through the Low Income Housing Tax Credit program) maintained a low 0.57% cumulative foreclosure rate since 1986, according to the 2021 Affordable Housing Credit Study by CohnReznick¹⁰.

This should focus attention on affordable housing and affordable housing debt. It's also why we remain cautiously optimistic that private investors can find investments that expand the supply of affordable housing at a time when other sources of financing are challenged.

¹⁰ Affordable Housing Credit Study, CohnReznick Nov. 2021

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¹ "Silicon Valley Bank Fails After Run on Deposits," New York Times, March 10, 2023

² "Why Regulators Seized Signature Bank in Third-Biggest Bank Failure in U.S. History," CNBC, March 13, 2023

³ "What Happened at Credit Suisse and How Did It Reach Crisis Point?" Reuters, March 18, 2023

⁴ "Fate of First Republic Hangs in Balance as Shares Plummet Again," New York Times, March 20, 2023

⁵ "Small U.S. Banks Imperiled by Big Office Loans," Reuters, March 24, 2023

⁶ "Small U.S. Banks See Record Drop in Deposits After SVB Collapse," Reuters, March 24, 2023

⁷ "CMBS Issuance During 1Q Drops to Levels Not Seen Since 2012," CRENews.com, April 3, 2023

⁸ "Layoffs Are Up Nearly Fivefold So Far This Year with Tech Companies Leading the Way," CNBC, April 6, 2023

⁹ U.S. Multifamily Rents Rise in March, Yardi Matrix Reports, April 6, 2023



Photo credit: <https://www.linhousing.org/signature-properties/fairview-heights>

Q1 2023 INVESTING HIGHLIGHTS

Deal activity moderated in the first quarter, as to be expected, after two consecutive record-breaking years in the aftermath of the global pandemic. IMPACT helped finance 698 units of affordable housing in the first three months of the year through a combination of \$51.7M new commitments, purchases, and bridge loans. Two properties that were purchased in Q1 are featured below:

\$51.7M

in new commitments, purchases and bridge loans in Q1 2023

SPOTLIGHT PROPERTY: FAIRVIEW HEIGHTS APARTMENTS

- **Address:** 923 East Redondo Blvd, Inglewood CA
- **Property Description:** This new construction, multifamily property in Los Angeles consists of 101 units, 50 of which are set aside for formerly homeless households.
- **AMI Restrictions:** Units range from 1 to 3 bedrooms and target tenants between 30% and 80% AMI.
- **IMPACT Financing:** \$9 million taxable loan
- **Originator:** Bank of America
- **Amenities:** Community center, outdoor community courtyards, and playground. The property is also transit-oriented, located next to the LA Metro Fairview Heights station. Fairview Heights is expected to achieve LEED Gold for Homes and Multifamily as it features several environmental features such as solar panels across the roof and water-wise landscaping.

SPOTLIGHT PROPERTY: FILBIN CREEK APARTMENTS

- **Address:** 1237 Sumner Avenue North Charleston, SC
- **Property Description:** Originally built in 1976, this is a rehab of an existing 64-unit property dedicated to families with 1- and 2-bedroom units. Renovations occurred with tenants only temporarily displaced from their homes into on-site vacant units, in order to minimize disruption.
- **AMI Restrictions:** Restricted to households at 60% AMI or less.
- **Amenities:** BBQ/picnic area, community room, computer room, playground, fitness center
- **IMPACT Financing:** \$5.365 million tax-exempt loan
- **Originator:** Churchill Stateside Group



Photo credit: <https://nhe-inc.com/properties/affordable/filbincreek/>

ADDITIONAL IMPACT UPDATES:

- In March, IMPACT Community Capital proudly celebrated its **25th anniversary** of creating innovative, institutional-quality investments that drive positive change in underinvested communities across the United States. Learn more about our history [here](#).
- IMPACT CEO Jeff Brenner was featured as a **Social Impact Hero** by Authority Magazine. You can read the full article [here](#).

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