

MARKET COMMENTARY Q3:2022



A LOOK AHEAD: LIKE INFLATION, UNCERTAINTIES SURROUNDING THE FALTERING ECONOMY ARE LOOMING OVER THE MARKETS WHILE ALSO HIGHLIGHTING THE NEED FOR AFFORDABLE HOUSING.

Uncertainty, which has been weighing on the markets throughout the year, will continue to be the major theme in the second half of 2022, especially with growing concerns that rate hikes intended to reduce inflation might also push the economy into recession.

Yet amidst this economic cloud, one thing seems clear: Inflation, which has been driving the Fed to raise rates in the first place, remains persistent. In May, the Department of Labor reported that the Consumer Price Index rose 8.6% year over year, marking the fastest pace for inflation in 40 years. Rents were among the categories of spending leading the way. The average rent for multifamily apartments rose 13.9% year-over-year to \$1,680 in May, according to the Yardi Matrix survey. In 26 of the top 30 metro regions, rents in multifamily buildings have risen at least 10% on a year-over-year basis.

Inflation translates into higher financing, construction, and operational costs for affordable housing while negatively impacting the price of long-duration debt. But it also highlights the greater need for affordable housing when rents rise, as noted by the Yardi Matrix.

Now, some economists believe inflation might decelerate sooner than expected, as the effects of rising prices, coupled with the rate

hikes meant to tame inflation, slam the brakes on growth. An economy in or near recession could cool inflation, but it might also threaten household incomes, which highlights another aspect of the affordability crisis.

The consumer economy has already taken a big hit. Consumer spending fell for the first time this year in the second quarter. Additionally, the University of Michigan Consumer Sentiment Index sank to lows not seen since 2008's global financial crisis. As of July 1, the Federal Reserve Bank of Atlanta's GDPNow model was forecasting that the economy probably contracted by around 2% in the second quarter, after decreasing at an annual rate of around 1.6% in the first quarter. While the unemployment rate remains at historic lows, layoff announcements are beginning to surface in sectors such as technology and finance.

Thankfully, investor interest in the development and preservation of affordable housing remains strong, in part because of skyrocketing rents. But another reason is that affordable housing debt has represented a true ballast in this economic storm, as was the case during the Covid years of 2020 and 2021.

+13.9%

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MICHAEL J. LOHMEIER
Chief Investment Officer



Q2 2022 INVESTING HIGHLIGHTS

IMPACT continued to build on the momentum we created last year, which was our most productive year since inception. In Q2, IMPACT helped finance 2,330 units of affordable housing through a combination of 28 new loan commitments and purchases totaling more than \$174 million, bringing our year-to-date total to \$318 million. This comes on the heels of the \$303.5 million in new loan volume generated in 2021.

Photo Source: <https://sailboat-bendapts.com>

SPOTLIGHT PROPERTY: SAILBOAT BEND II



Photo Source: <https://sailboatbendapts.com>

- This Fort Lauderdale, FL., community for adults 55 and older was built in 2020.
- 110 units are restricted to tenants with 30% to 60% of area median income (AMI)
- Amenities include a business center, a clubhouse, a fitness center, and literacy and computer training.
- IMPACT Financing: \$6 million tax-exempt loan
- Originator: Bank of America

SPOTLIGHT PROPERTY: ART LOFTS AT THE ARCADE



Photos: Kevin Lush Photography (<https://www.daytonarcadeapts.com/Photos>)

- This recently renovated 1902 building in downtown Dayton, Ohio is comprised of 110 one-to-three bedroom units focused on artists and creative professionals.
- 103 of the units are restricted to tenants with incomes at 50% and 60% AMI.
- The Arcade also includes retail space, offices, and event space. Tenant amenities include a fitness center, a business center, and a club room.
- IMPACT Financing: \$2.9 million bridge loan.
- Originator: Rose Community Capital

SPOTLIGHT PROPERTY:
WALDEN35

- This new building in Aurora, Colo., will have 100 one-to-three-bedroom units.
- The four-story property will be restricted to renters with incomes between 30% and 70% of AMI.
- Amenities will include on-site management, EV-charging station, a community room, an exercise room, a picnic area, a business center, a café/community kitchen, and a conference room.
- IMPACT Financing: \$12.6 million tax-exempt loan.
- Originator: Wells Fargo



2,330
UNITS

In Q2, IMPACT helped
finance 2,330 units of
affordable housing

ADDITIONAL IMPACT UPDATES:

- Paul Hwang, IMPACT Community Capital’s Portfolio Manager, discusses the recent flood of “green,” social, and sustainability-linked bonds and the opportunity for an active municipal bond strategy that can generate deep impact and ESG alignment.

Read his article, “ESG in Municipal Bonds: An Impact Story Takes Shape,” [here](#).

- Liz Kang, IMPACT Community Capital’s General Counsel, explains the importance of impact measurement and reporting—and how IMPACT has continued to step up the reporting of our impact metrics for delivering affordable housing at scale.

Read her blog, “Truth in Labeling: Impact in Your Investment Portfolio [here](#).”

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