IMPACT COMMUNITY CAPITAL 25

CELEBRATING 25 YEARS OF IMPACT 1998-2023

MARKET COMMENTARY Q4:2023

Rising Rates and Changing Perceptions

Last quarter, we highlighted the economy's surprising resilience, even after nearly two years of Federal Reserve interest rate hikes. For the most part, this remains the case. Inflation continues to moderate,[1] the job market is still tight,[2] and gross domestic product grew at a faster-than-expected rate of nearly 5% in the third quarter, according to an early estimate by the Bureau of Economic Analysis.[3]

One thing has changed, however, and that is the fixed income market's perceptions of what's to come. Earlier this year, the consensus view was that the Fed wasn't just likely to stop tightening, but that the central bank might also be on the verge of cutting rates soon to re-ignite the economy. While the former viewpoint remains intact, the consensus on the latter has shifted, with a growing sense that short-term rates may not decline for some time.[4]

All the while, the bond market has been driving long-term yields higher, irrespective of the Fed's pause on lifting short-term rates. There are a variety of reasons for this, including ongoing inflation concerns, investors' diminished appetite for risk assets and the rising term premium—the added compensation fixed-income investors are demanding for the uncertainties of holding longer-dated securities.

Regardless of the reason, the result has been unmistakable: Yields on 10-year Treasuries shot up from 3.81% at the start of the quarter to 4.59% by Sept. 30. And since the end of the quarter, yields surpassed 5% for the first time since the run-up to the global financial crisis in 2007. At the same time, the average yield on a 30-year fixed rate mortgage hit 8%, a level not seen since the dotcom bubble burst in 2000.[5] After a prolonged period of extremely low rates and negative real rates, this has been jarring, to say the least.

To be sure, these headwinds haven't begun weighing down the broader economy, at least not yet. In September, year-over-year growth in market-rate rents in multi-family properties slowed to 0.8%,[6] down from 1.5% in August[7] and 5.5% in January.[8]

In affordable housing, higher mortgage rates have affected multifamily rental properties as well as single family owner-occupied homes, meaning the cost to finance similar properties has significantly increased from just a year ago. It also comes at a time when affordable housing owners and developers are having to deal with other rising costs, such as property insurance.

Nearly one out of three recently renewed property insurance policies have seen an increase in premiums of at least 25%, according to a report from the National Leased Housing Association.[9] Affordable housing providers are particularly impacted by rising financing and insurance costs, as they are constrained in raising rents, unlike their market-rate counterparts, and typically face thinner operating margins to begin with.

On the other hand, the worsening backdrop for affordability makes the creation and preservation of affordable housing that much more valuable. And the same rising interest rates that represent a headwind for affordability are creating attractive opportunities for long-term minded fixed-income investors in the affordable housing space—opportunities not seen in more than a decade.

Despite the changes in the market, both actual and perceived, we remain steadfast in our belief that there is a compelling case for affordable housing debt to create social and financial impact at a time when the supply of affordable housing is low and demand is high and growing.

MICHAEL J. LOHMEIER
Chief Investment Officer

1 Consumer Price Index Summary — September 2023, U.S. Bureau of Labor Statistics. Oct. 12, 2023

2 "U.S. Job Growth Remains Strong," The New York Times. Oct. 6, 2023.

3 Gross Domestic Product, Third Quarter 2023 Advance Estimate, U.S. Bureau of Economic Analysis. Oct. 26, 2023.

4 "Fed Done Hiking Rates, But Higher for Longer Message Gaining Traction: Reuters Poll," Reuters.com. Oct. 18, 2023.

5 "The 30-Year Fixed Mortgage Rate Just Hit 8% for the First Time Since 2000," CNBC.com. Oct. 18, 2023.

6 Yardi Matrix National Multifamily Report, September 2023.

7 Yardi Matrix National Multifamily Report, August 2023.

8 Yardi Matrix National Multifamily Report, January 2023.

9 "Survey Finds Significant Insurance Cost Increases for Affordable Housing Providers," Affordable Housing Finance. Oct. 12, 2023.

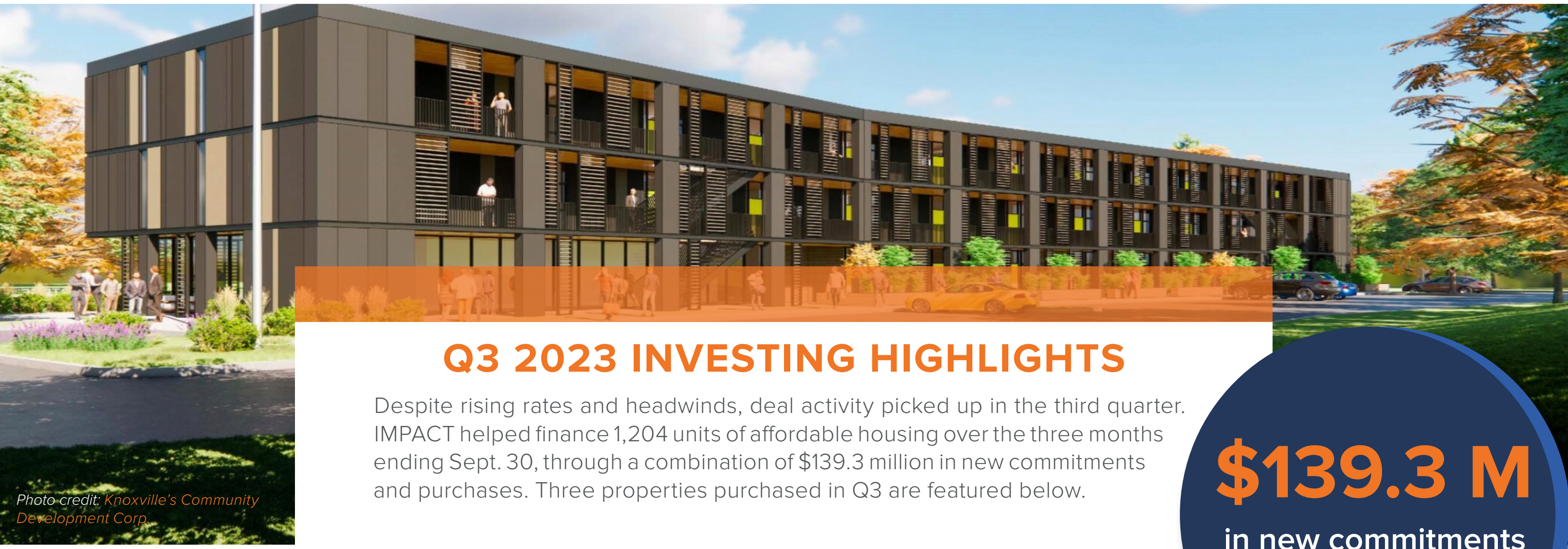

Photo credit: Knoxville's Community Development Corp

Q3 2023 INVESTING HIGHLIGHTS

Despite rising rates and headwinds, deal activity picked up in the third quarter. IMPACT helped finance 1,204 units of affordable housing over the three months ending Sept. 30, through a combination of $139.3 million in new commitments and purchases. Three properties purchased in Q3 are featured below.

$139.3 M
in new commitments and purchases in Q3

SPOTLIGHT PROPERTY: LIBERTY PLACE

- **Address:** Knoxville TN
- Property Description: All 32 units of this three-story property are reserved for veterans and are subsidized through Section 8 VASH vouchers. The new construction development is located six miles from the William C. Tallent Department of Veteran affairs Outpatient clinic and one mile from the McNabb Center's Military Services program.
- **Sponsor:** Knoxville Community Development Corporation (KCDC")
- **Sub Debt:** Four layers of soft subordinate financing totaling approximately $4.1 mm from KDDC Equity Loan, the City of Knoxville, HOME ARP funds, and Knoxville Grant.
- **IMPACT Financing:** $2,415,000 Taxable Loan
- **AMI Restrictions:** All units will be restricted to households earning between 30%- 60% AMI, with 100% of the units being supportive of housing for veterans.
- **Amenities:** All units come fully furnished. Property amenities include a BBQ/picnic area, community lounge, elevators, on-site manager, Pavilion, outdoor seating, and gate access. Liberty residents will also have access to an onsite case worker and social services through the HUD-Veterans Affairs Supportive Housing.
- **Originator:** Wells Fargo

SPOTLIGHT PROPERTY: BENJAMIN O. DAVIS VETERANS VILLAGE

- **Address:** 4777 E. Outer Drive Detroit, MI
- **Property Description:** This new construction project will contain 50 units of supportive housing for homeless and/or disabled veterans. Located approximately 11 miles northeast of downtown Detroit, the development is conveniently located near the Conner Creek Health Center, a patient treatment facility focused on addressing substance abuse, recovery, and behavioral health. Residents will also have access to many on-site supportive social and health services.
- **Sponsors:** RAD Conversion Specialists; Communities of Hope Inc; CCIH-Davis LLC; and the Dorothy E. McLemore Trust (via Davis Veterans Village GP, LLC)
- **Sub Debt:** Two layers of subordinate financing totaling approximately $1.7 million from the City of Detroit-ARPA and from The City of Detroit-HOME-ARP
- **Amenities:** The property includes a BBQ/picnic area, an activity room, a computer center, onsite management, a food pantry, media center, dog park, fitness center, laundry area, and a community kitchen/lounge. This location will also provide on-site supportive services including therapeutic services, nursing services, adult case management, hospital liaison services, substance abuse services, psychosocial rehabilitation services, and employment services.

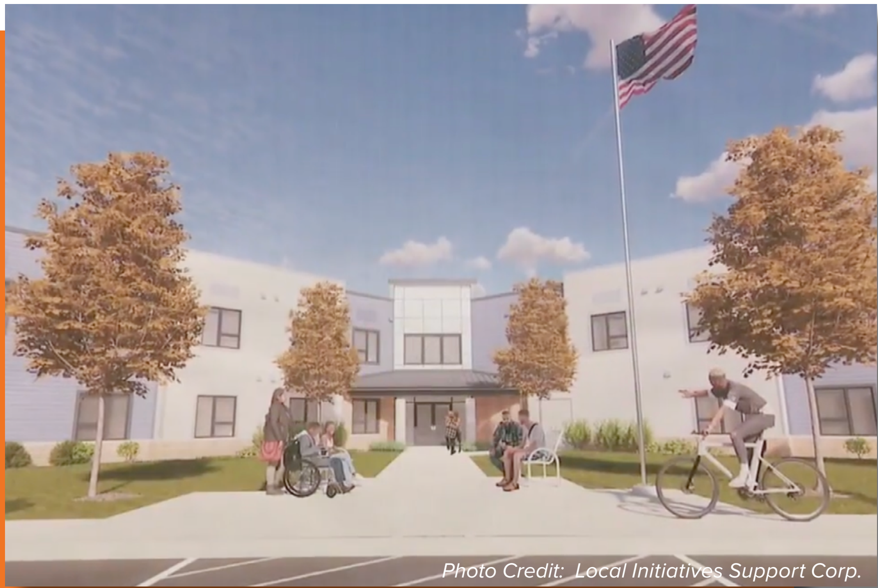

Photo Credit: Local Initiatives Support Corp.

- **AMI Restrictions:** The development will be restricted to households earning between 40%-60% AMI. All units will be covered by Section 8 PBV contracts.
- **IMPACT Financing:** $3,145,000 Taxable Loan
- **Originator:** Churchill Stateside group

SPOTLIGHT PROPERTY: 541-545 WEST 49TH ST.

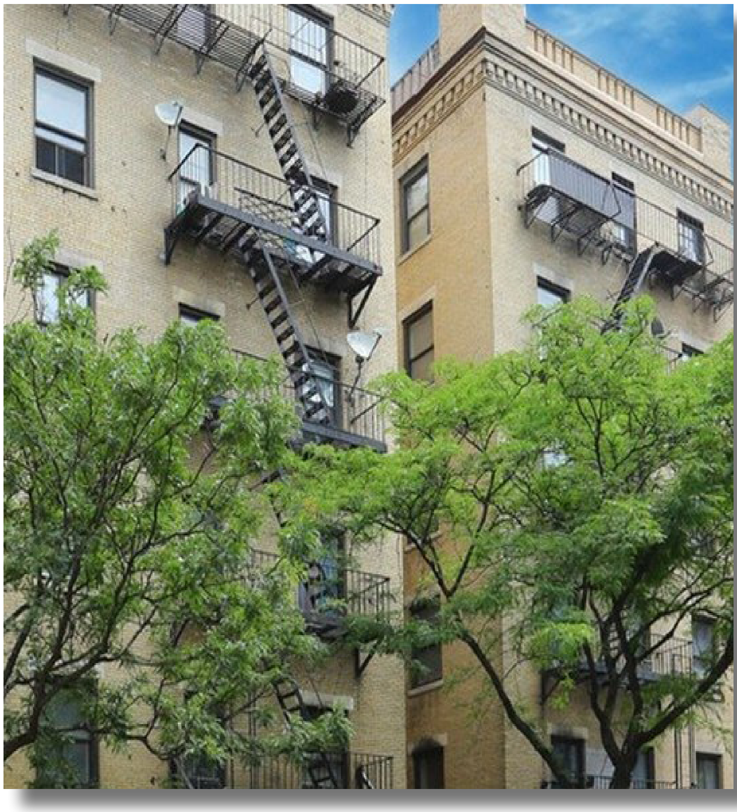

Photo credit: *Meridian Capital Group*

- **Address:** 541 West 49th Street New York, NY 10019
- **Property Description:** Located in the Hell's Kitchen neighborhood of Manhattan, the West 49th project is a rehabilitation of a preexisting multifamily property comprised of three mid-rise apartment buildings, totaling 66 units. The units are not restricted by a LURA or similar regulatory agreement but are naturally occurring affordable units that are governed by New York City's rent stabilization ordinance. The property is currently stabilized and offers studios and 1- and 2-bedroom apartments for families.
- **Sponsor:** A multi-generational local developer
- **AMI Restrictions:** This is a rent-stabilized property with the majority of the units being leased at rents below 80% AMI.
- **Amenities:** The property has a community laundry room, standard storage space, and bike storage for tenants. Each apartment features hardwood flooring, gas range/oven, microwave oven, and top freezer refrigerator.
- **IMPACT Financing:** $7,885,000 Bridge Loan
- **Originator:** Merchants Capital

ADDITIONAL IMPACT UPDATES:

- In celebration of Hispanic Heritage Month, IMPACT's Nicole Ames shares how her Puerto Rican and Mexican heritage has influenced her values and contributed to her passion for addressing housing disparities. **Read her Q&A here**.
- Throughout the year, IMPACT leaders offer their memories of the key Moments of Impact in honor of our 25th anniversary. You can **view their recollections here**.

THANK YOU to all our investors, owners, employees and lending partners for supporting our mission and vision.

For more information, please contact us at
info@impactcapital.net

450 Sansome Street
Suite 1000
San Francisco, CA 94111
415-981-1074