IMPACT COMMUNITY CAPITAL 25 YRS

MARKET COMMENTARY Q1:2023

LOOKING PAST THE HEADLINES

Just reading the headlines can be a discouraging exercise, as housing affordability is reportedly falling to historic lows due to rising inflation, mortgage rates and developer financing rates. As has been famously pointed out, though, the reason headlines can be misleading is that bad news sells newspapers (or paywall subscriptions in today's world) while positive news generally does not. This is an important point for affordable housing investors to keep in mind heading into the new year.

At first glance, there are a host of reasons to be concerned about the economic backdrop for affordable housing investment. First and foremost, there's the shape of the yield curve. Whenever the yield curve inverts — meaning that shorter-term debt is paying out more than long-term debt — it's usually a signal of deep risk aversion and an economic slowdown ahead. In particular, inversion between 3-Month Treasury bills and 10-Year Treasury notes has predicted every recession since 1955, according to Axios.[1] As of mid-January, 3-Month T-bills were outyielding 10-Year Treasuries by more than a full percent, according to the St. Louis Federal Reserve Bank.[2] Not surprisingly, a majority of economist surveyed by the National Association for Business Economics believe there is better than 50% chance of a recession in 2023.[3]

1 "Yield Curve That Matters Is Predicting a Recession Now," Matt Phillips, Axios Markets. November 17, 2022

2 "10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity," FRED. St. Louis Fed Economic Research.

3 "NABE Panelists Continue to Expect Recession but Limited Labor Market Fallout; Majority Anticipates Inflation and Interest Rates Remaining Elevated," NABE Outlook Survey. December 2022

Yet those same economists believe that while the labor market will slow this year, job growth is likely to remain positive.[4] And while inflation remains historically high, prices on a year-over-year basis have fallen for six straight months, according to Department of Labor data.[5] This is a good sign. Unfortunately, for workers this also means that wage growth is finally showing signs of slowing. If these trends continue, they could give the Federal Reserve enough cover to pause its rate hikes sooner than some investors expect. And if that's the case, the likelihood of a milder recession remains very possible.

At a time of economic uncertainty coupled with rising building, financing, and operational costs, we recognize the need to be as creative as possible to continue our important mission of transforming communities and lives with affordable housing as the foundation. We also appreciate that demand for affordable housing is only going to grow, not just because of the economic slowdown ahead but also owing to demographic trends.

Annual household growth accelerated rapidly during the pandemic, according to a recent analysis by Harvard's Joint Center for Housing Studies based on data from three Census Bureau surveys — the American Community Survey, the Housing Vacancy Survey, and the American Housing Survey — all published between September 2022 and November 2022.[6]

4 Ibid.

5 "U.S. Inflation Slowed for Sixth Straight Month in December," Gwynn Guilford, Wall Street Journal. January 12, 2023.

6 "The Surge in Household Growth and What It Suggests About the Future of Housing Demand," Daniel McCue, Joint Center for Housing Studies of Harvard University. January 17, 2023.

From 2019 through 2021, between 2 million and 2.4 million new households were formed on an annual basis. By comparison, in the three years prior, new household growth was averaging only 1.4 million to 1.5 million annually.

As the growth in household formation is one of the biggest contributors to new housing demand, this is likely to have a profound impact on affordable rental housing, especially as rising interest rates and supply shortages weigh on home sales.

This raises the stakes on the need to create and preserve affordable housing in this country. But this sense of urgency is also the reason why we're so optimistic that private investors will be able to make a difference in expanding the supply of safe, sanitary, and affordable housing that serves as a foundation for transforming communities and lives.

MICHAEL J. LOHMEIER
Chief Investment Officer

Photo credit: brooksscarpa.com/miramar-housing

Q4 2022 INVESTING HIGHLIGHTS

Amid a host of uncertainties — including rising inflation and decelerating growth — 2022 proved to be a record year for IMPACT in both commitment volume and deal activity. New commitments, purchases, and bridge loans last year totaled $627 million, more than double our 2021 totals, which at the time represented our most productive year ever. This was aided by a strong finish to 2022, with 27 total deals representing more than $162 million closed or committed in the 4th quarter, financing 2,610 units of affordable housing.

SPOTLIGHT PROPERTY: MIRAMAR

- This seven-story, 137-unit development in Los Angeles targets households earning 30% to 80% AMI.
- Located in the Westlake neighborhood of Los Angeles, just east of Koreatown, Miramar initially had an irregularly shaped land parcel. The property developer, Jonathan Rose Companies, allocated an unused portion of land from one of its existing properties next door to enable the development of additional units on the Miramar property.
- Resident services will include health screenings, vaccination drives, and educational classes on financial literacy, ESL, resume writing, and nutrition.
- IMPACT Financing: $12,500,000 tax-exempt loan
- Originator: Bank of America

2,610

UNITS

In Q4, IMPACT helped finance 2,610 units of affordable housing

SPOTLIGHT PROPERTY: WATTS ARMS II

Photo credit: Apartments.com

- This Los Angeles property targets senior tenants earning 80% Area Median Income (AMI) or lower.
- All 40 one-bedroom units are covered by Section 8.
- The property will be managed by HDSI Management, a women-owned business with over 35 years of experience in affordable housing for seniors with more than 1,200 units across 36 properties in the Los Angeles area.
- IMPACT Financing: $8,740,000 bridge loan.
- Originator: Rose Community Capital

SPOTLIGHT PROPERTY: BURLINGTON COMMONS

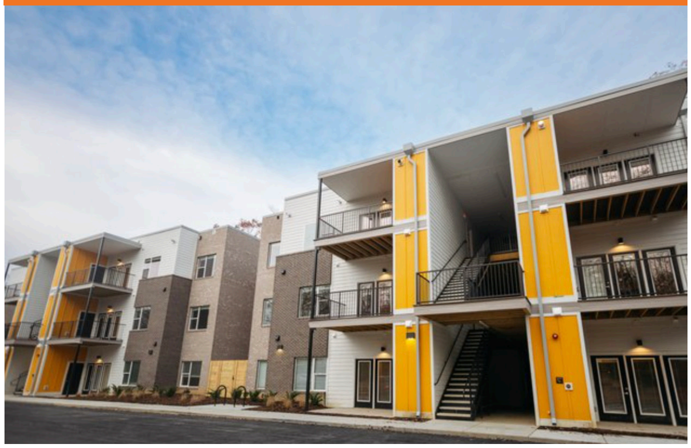

Photo credit: Southeast Capital in Knoxville, TN

- This 50-unit modern apartment complex in Knoxville, Tenn. is restricted to families at 60% AMI or lower.
- The property, consisting primarily of two- and three-bedroom units, is located in a desirable neighborhood of East Knoxville, close to shopping, entertainment, and public transportation (bus stop).
- Amenities include a playground, playing field, picnic area and a business center.
- IMPACT Financing: $4,550,000 tax-exempt loan
- Originator: Churchill Stateside Group

ADDITIONAL IMPACT UPDATES:

IMPACT Community Capital continued to grow its team last quarter, welcoming Alexandra Kharmats as Financial Controller and Nicole Ames as Executive Assistant supporting our executive team.

Alexandra Kharmats
Financial Controller

Nicole Ames
Executive Assistant

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