

MARKET COMMENTARY Q3:2023

The Goldilocks Economy Is Real.



Contrary to the best economic predictions, the U.S. economy refuses to yield to higher interest rates and continues to provide jobs and growth while inflation moderates. Yes, the economy is slowing but remains positive despite more than a year's worth of interest rate increases by the Federal Reserve. The US economy grew at 2.4% rate in the second quarter.¹ Additionally, employment remains strong² and headline inflation continues to decline.³ It does seem like everything might be, as Goldilocks would say, "just right."

Thus far, it does not appear as if monetary policy has done severe damage to the underlying economy. Concerns over an imminent downturn, in fact, lessened in the second quarter as banking fears eased.⁴ Meanwhile, hiring has begun to pick up in the labor market this year, the stock market has rebounded sharply after 2022's slump,⁵ and the Fed appears to be nearing an end to its tightening cycle.⁶ The central bank's so-called dot-plot, which illustrates the rate expectations of every member of the Federal Open Market Committee, has the median forecast for the Fed Funds rate at 5.6%, which is just half a percentage point higher than current levels.⁷

While there's no certainty over when the central bank will stop raising rates or how long it will take for inflation to moderate, we continue to see opportunities in the affordable housing space.

Despite uncertainties surrounding the economy, our watchlist of new investments remains in line with our historic average, which is a good sign. Moreover, new opportunities are presenting themselves at attractive coupons relative to risk. And risks remain lower in this space than is generally assumed. A report on housing tax credit investments by CohnReznick in November 2021, near the end of the Covid economic shutdowns, found that foreclosure rates in affordable housing had not exceeded 1% in the prior 15 years, a period that encompasses both the pandemic-related recession of 2020 and the Global Financial Crisis of 2007-2009. To put that in perspective, the global default rate for all rated corporate debt hit 5.4% in 2009, according to Moody's.⁸

Meanwhile, we believe that the demand for affordable housing remains as acyclical as ever. In troubled economic times, safe and accessible rentals are critical as household incomes are threatened. Yet in good times, when paychecks are rising at a healthy clip, affordable housing remains in high demand as rents are likely to be climbing as quickly or even faster than salaries.

Today, the economy finds itself somewhere in between those two extremes, with rents and incomes both rising for the moment. Over the past 12 months, average hourly earnings increased 4.3%⁹ while multifamily rents grew 2.6%.¹⁰ Over the past five months, however, wage and rent inflation have been more closely aligned. Since Jan. 1, rents have grown 0.9%¹¹ while wages have grown around 1.3%.¹²

With inflation still a concern and continued concerns surrounding homelessness — nightly, nearly 600,000 Americans are without permanent shelter¹³ — IMPACT continues to look for ways to address the need for more affordable housing. Some of that is through dealmaking via traditional channels. In the past quarter, IMPACT helped finance 1,407 units of affordable housing through new commitments and purchases.

At a time when multifamily lending is down and banks have retrenched in the commercial property space, we see opportunities to expand into new areas of flexible capital. This includes bridge loans with extended terms to allow a larger group of investors to preserve and create affordable housing.

This is why we remain cautiously optimistic that private investors can find compelling investments that expand the supply of affordable housing at a time when it's needed most and is performing well.

MICHAEL J. LOHMEIER
Chief Investment Officer



¹ "Gross Domestic Product, Second Quarter 2023 (Advance Estimate)." Bureau of Economic Analysis. June 27, 2023.

² "Employment Situation Summary." US Bureau of Labor Statistics. August 4, 2023.

³ "Consumer Price Index Summary." US Bureau of Labor Statistics. July 12, 2023.

⁴ "Surprisingly Strong U.S. Economic Data Keeps Recession Fears at Bay," Bloomberg. June 27, 2023.

⁵ "Payrolls Rose 339,000 in May, Much Better Than Expected in Resilient Labor Market," CNBC.com. June 2, 2023.

⁶ "Fed Leaves Rates Unchanged, Sees Two Small Hikes by End of 2023," Reuters. June 14, 2023.

⁷ "Fed 'Dot Plot' Shows Interest Rates Rising Twice More in 2023, Peaking at 5.6%," Yahoo! Finance. June 14, 2023.

⁸ "Moody's: Corporate Default Rate Nearly Tripled to 5.4% in 2009," The Wall Street Journal. Feb. 10, 2010.

⁹ The Employment Situation – June 2023. US Bureau of Labor Statistics.

¹⁰ U.S. Multifamily Outlook – Summer 2023. Yardi Matrix. June 28, 2023.

¹¹ Ibid.

¹² FRED Economic Data, Federal Reserve Bank of St. Louis.

¹³ State of Homelessness: 2023 Edition, National Alliance to End Homelessness, May 2023

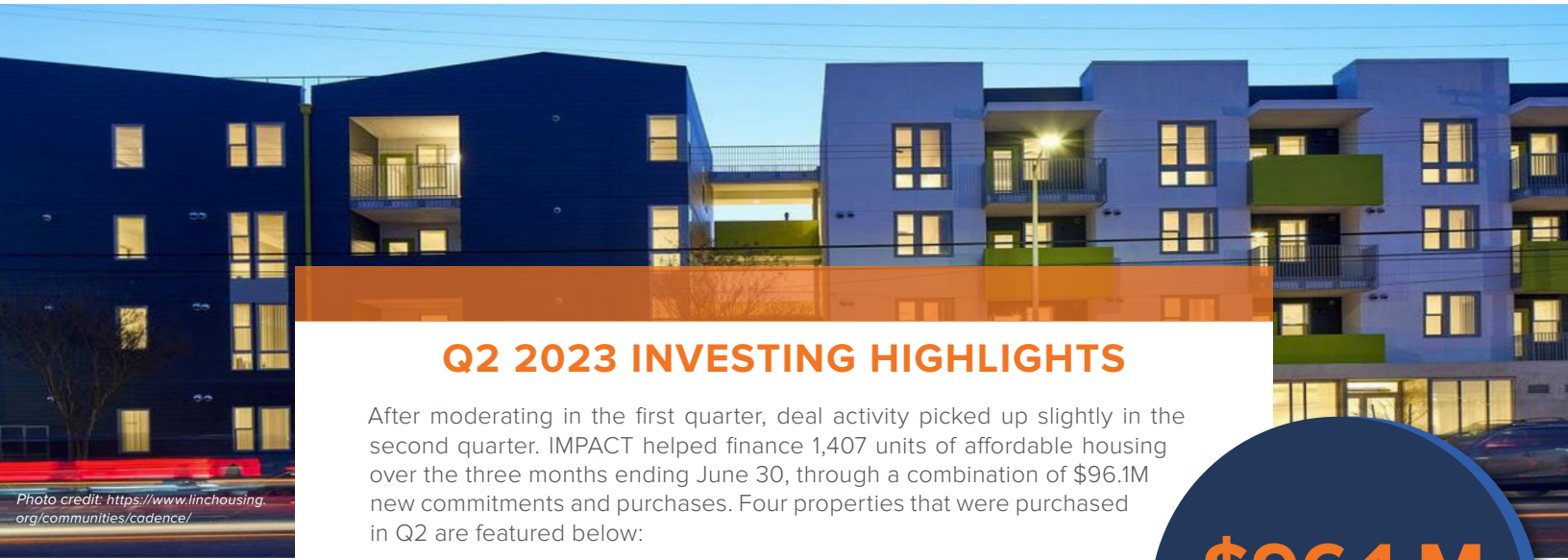


Photo credit: <https://www.linhousing.org/communities/cadence/>

Q2 2023 INVESTING HIGHLIGHTS

After moderating in the first quarter, deal activity picked up slightly in the second quarter. IMPACT helped finance 1,407 units of affordable housing over the three months ending June 30, through a combination of \$96.1M new commitments and purchases. Four properties that were purchased in Q2 are featured below:

\$96.1 M
in new commitments and purchases in Q2

SPOTLIGHT PROPERTY: CADENCE APARTMENTS

- **Address:** 11408 South Centre Avenue Los Angeles, CA 90059
- **Property Description:** A new construction 64-unit property, Cadence provides deep supportive services to individuals who have previously experienced homelessness. Residents have access to intensive case management services provided by the Los Angeles County Department of Health Services. 31 units are dedicated to tenants living with serious mental illness, and they receive additional mental health resources.
- **AMI Restrictions:** Units will be restricted to tenants less than or equal to 30% AMI.
- **Amenities:** The property will feature a community room with kitchen, computer room, outdoor courtyards, and indoor bicycle parking. Onsite social and supportive services including mental and physical health programs, workforce and financial development, substance-use counseling, and assistance to obtain benefits.
- **IMPACT Financing:** \$4,014,000 tax-exempt loan
- **Originator:** Bank of America

SPOTLIGHT PROPERTY: ALTRUDY LANE

- **Address:** 18551 Altrudy Lane Yorba Linda, CA 92886
- **Property Description:** This 48-unit, new construction residential complex is for seniors 62 years and older.
- **AMI Restrictions:** The one- and two bedroom units are restricted to AMI between 20% and 70%.
- **IMPACT Financing:** \$5,583,270 tax-exempt loan
- **Originator:** Bank of America



Photo credit: <https://altrudylaneseniors.com/>

SPOTLIGHT PROPERTY: HIFI COLLECTIVE

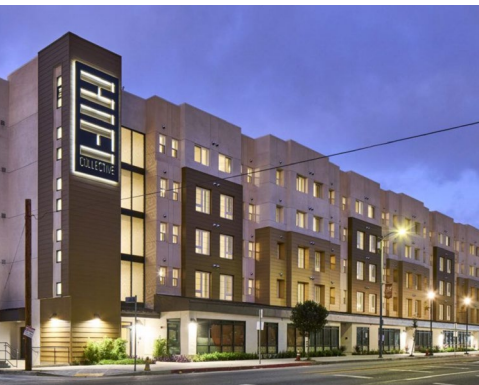


Photo credit: <https://griffinstructures.com/project/linc-housing-hifi-collective/>

- **Address:** 3200 West Temple Street Los Angeles, CA 90026
- **Property Description:** This 64-unit, new construction housing is located in LA's Historic Filipinotown neighborhood. All units are reserved for formerly homeless households and are subsidized with Section 8 project-based vouchers through the Housing Authority of the City of Los Angeles. The residential units will be located above the ground floor level, which will include a parking garage and 6,500 sq. ft. of commercial space. One commercial unit will be the headquarters for the non-profit Search to Involve Pilipino Americans (SIPA).
- **AMI Restrictions:** All units will be restricted to less than or equal to 30% AMI.
- **Amenities:** All units will come furnished. Property amenities will include a community room, picnic area, onsite management, and on-site supportive services including mental and physical health services, employment counseling, job placement, and substance abuse counseling.
- **IMPACT Financing:** \$5,707,000 tax-exempt loan
- **Originator:** Bank of America

SPOTLIGHT PROPERTY: THE SAN FRANCISCO SHIPYARD



Photo credit: <https://sfimby.com/2023/05/construction-starts-on-affordable-housing-in-hunters-point-san-francisco.html>

- **Address:** San Francisco, CA
- **Property Description:** This new construction property, encompassing two 5-story multifamily buildings with 111 units of rent-restricted housing, will be located in the Hunters Point Shipyard neighborhood, which has not recovered since the naval base was closed in 1988. The Shipyard property is part of a greater San Francisco initiative to transform and redevelop this historic area into a new, vibrant neighborhood.
- **AMI Restrictions:** All units will be restricted to households earning between 30%-50% AMI.
- **Amenities:** Community amenities will include a clubhouse, courtyard, fitness center, garages, onsite management, and recreational areas.
- **IMPACT Financing:** \$2,378,010 tax-exempt forward commitment
- **Originator:** Bank of America

ADDITIONAL IMPACT UPDATES:

- IMPACT’s Chief Investment Officer Michael Lohmeier shares his thoughts on why tax-exempt loans and municipal bonds can offer institutional investors competitive risk-adjusted returns and the potential for real-world impact when funding affordable multifamily apartments. His article, published in May, [can be found here](#).
- In May, *With Intelligence* interviewed IMPACT CIO Michael Lohmeier on the recession-resilient track record of affordable housing-related investments. A link to the article can be found on [our website](#).
- In celebration of Asian American Pacific Islander Heritage Month, IMPACT leaders Melissa Maquilan Radic, Liz Kang, and Paul Hwang share their insights on advancing professional and economic opportunities in minority communities. [View their Q&A here](#).
- IMPACT’s Managing Director Stephanie Tirman debunks the myths surrounding affordable housing to mark National Fair Housing Month in April. [Read her article 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](#).

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