



BIG INVESTMENTS, BIG IMPACT IN AFFORDABLE HOUSING

By Jeff Brenner, President and CEO, IMPACT Community Capital

Awareness of the affordable housing crisis grows as more people confront the rise in home and rental prices, which have escalated over the past year. The gap between those in need of affordable properties and the number of available units continues to widen. According to the latest report from Harvard University’s Joint Center for Housing Studies, approximately 17% of all renter householders were behind on their rent at some point in 2021, a number that is far higher for lower-income populations.

Issues of homelessness, poverty and inequality are present in nearly every community. Large investors increasingly understand that through impact investing, there is an opportunity to make good investments that also work to address these issues. I recently participated on a panel hosted by the American Council of Life Insurers (ACLI) on impact investing. The panel included asset owners who cited two primary goals of their impact investment programs: first, to address the wealth gap that disproportionately affects marginalized people and communities and, second, to generate market-rate returns to ensure these investments are sustainable and can grow over time.

One significant hurdle to this challenge is that socially oriented impact strategies don’t typically lend themselves to the scale required for most institutional investors. Over time, we’ve learned that lasting change results from solutions occurring at the local level, so IMPACT’s investing platform has been built to allow us to act as a conduit between large asset owners seeking scale and local organizations seeking capital to build more affordable housing.

The term “affordable housing” refers to a broad spectrum of housing generally affordable to people making less than 150% of the area median income (“AMI”). Our work at IMPACT Community Capital has centered on housing built with federal Low Income Housing Tax Credits (LIHTC), which is affordable to people making no more than 60% of AMI. In addition to LIHTC, this housing generally includes other subsidies from local, state and federal programs. These subsidies are critical to achieve the deepest levels of affordability and also to provide a cushion for credit risk. The deep affordability is conducive to housing stability for families and consistent occupancy rates, which results in predictable cash flow for investors.

These factors are a key part of the investment and impact thesis, which makes the asset class so appealing to impact investors. However, the number of parties needed to build deeply affordable housing (each subjected to specific rules/regulations that guide their activity), leads to the challenges of replicability and scale.

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A SPECIALIST DELIVERING AFFORDABILITY IN SCALE

Our affordable housing private credit platform is built on relationships with organizations that have the expertise and capacity to build affordable housing and navigate the various local, state and federal programs necessary for long-term impact and success. We see ourselves as a bridge between institutions seeking to efficiently invest capital in scale and communities where real change typically takes root. Where our partners bring local expertise, IMPACT brings its experience working with institutional investors to invest capital in scale and with the intent of creating transformational change.

Since our inception, we've originated over \$2 billion of impact investments, over half of which have been for affordable housing that has created 49,000 units in 42 states plus Washington, D.C. Most recently, we closed our first IMPACT Mortgage Opportunities fund at \$210 million. The fund provides short-term bridge loans to developers seeking to preserve the affordability of properties as new borrowers apply for permanent financing and government subsidy programs. Our impact? We anticipate the fund will preserve over 5,000 affordable units across the U.S.

SECURITIZATIONS DRIVE SCALE

Our ability to deliver scale didn't happen overnight. As IMPACT began to grow and developed the expertise and network to source, underwrite and monitor affordable housing loans, we saw that the ability of our affordable housing investments to deliver consistent, "repeatable" cash flow, could be attractive to the capital markets, which offered the possibility for even greater scale.

This led us to the innovation of introducing affordable housing as a fixed income opportunity to a wider pool of investors through commercial mortgage-backed securitizations (CMBS). In 2000, we created one of the first CMBS issuances consisting solely of affordable housing mortgages. Common CMBS structuring allowed us to tranche the cash flows and risk and introduce affordable housing credit as a fixed income opportunity to investors who previously never had an such an allocation. To date, over \$1 billion in commercial mortgage-backed securities have been created with loans for affordable housing financed by IMPACT, including two of the first social bonds issued by Freddie Mac.

Over the past 20 years, our track record has demonstrated both the investment case and impact case for investing in affordable housing. IMPACT's niche lies in making the affordable housing markets accessible to institutional investors who seek good investments and that offer the opportunity to address the issues of homelessness and poverty.

We give investors the opportunity to make investments, in scale with the possibility for sustainable change and at the same time, make capital available to communities to tackle their most pressing issues.

\$2B
OF IMPACT INVESTMENTS

49,000
UNITS in
42 STATES

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