IMPACT
COMMUNITY CAPITAL

MARKET COMMENTARY Q4:2022

AFFORDABLE HOUSING: A LIGHTHOUSE IN THE TEMPEST

At the risk of sounding like a broken record, the major themes that dominated the quarter remained inflation and rising interest rates—two forces that have been directly increasing the financing, construction, and operational costs for affordable housing throughout the year. What's different this time, however, is that prices and rates are rising at a time when we are, for all intents and purposes, in a recession.

Whether the National Bureau of Economic Analysis declares this downturn an official recession or not, the fact is we just endured two straight quarters of contraction in the first half of the year. GDP in the third quarter is on track to be modestly positive, according to the Federal Reserve Bank of Atlanta's GDP Now model. However, the job market is showing signs of weakening as one would expect in a recession, with layoffs accelerating noticeably in the tech and consumer sectors. What's more, in August, the number of openings in the U.S. labor market plunged by more than 1 million jobs, representing a surprising 10% drop from the prior month.

This is a sign that the Federal Reserve's efforts to slow the economy are working. Last quarter, the Fed hiked short-term rates by three-quarters of a point on two separate occasions. According to the Fed's dot plot, which maps out the forecasts of each Fed official, central bankers aren't likely to stop until they take the Federal Funds rate up from the current target of 3-3.25% up to around 4.6%. Despite the Fed's best intentions, though, there are no clear signs that the central bank has managed to tame inflation, which continues to run above 8%.

True, inflation has raised salaries along with prices. But the price of essential goods and services have risen at a much faster clip than wages. Over the past 12 months, for instance, average hourly earnings have risen 5%, according to the Bureau of Labor Statistics. Food costs, by contrast, are up more than 11% over the past year while rents for primary residences are up 6.7%, according to government figures. For renters in multifamily buildings, costs are rising even faster. The average multifamily rent has grown 9.4% over the past year, according to the Yardi Matrix Survey.

It is yet another reminder that the same forces making it harder to increase the supply of affordable housing are also boosting demand for it.

The Challenge

This is why the work we do is so important. As we pointed out in our latest annual Impact Report, 2021 may have been a banner year for the job market, but for those living paycheck to paycheck, the spike in market rents left disadvantaged populations behind, disproportionately affecting women and people of color.

We are proud that our work can have a direct impact in helping families address their financial challenges. Tenants in IMPACT-financed properties earning 30% Area Median Income (AMI), for instance, average rent savings of $823 a month compared with market-rate renters. Those savings are helping them address the rising costs of food, transportation, healthcare, and other essential services.

The Opportunity

At a time of rising costs, we recognize the need to continue our important mission of transforming communities and lives with affordable housing as the foundation. Why? In many cases, 9% Low-Income Housing Tax Credits (LIHTC), which are competitively allocated by states and localities, are oversubscribed with long waiting periods to participate depending on the location. Yet the need for financing for affordable housing is such that options that allow developers to obtain other subsidies, such as tax-exempt financing, have been growing in popularity. Nationwide volume of tax-exempt bonds financing multifamily rental housing doubled from $6.3 billion in 2017 to $12.6 in 2020, according to the National Council of State Housing Agencies. IMPACT sees opportunity in this space to continue supporting access to affording housing in our communities and provide institutional investment opportunities.

MICHAEL J. LOHMEIER
Chief Investment Officer

Q3 2022 INVESTING HIGHLIGHTS

IMPACT has already posted its most productive year ever, outpacing our activities from 2021 in just the first three quarters of this year. In Q3, IMPACT helped finance 1,876 units of affordable housing through a combination of 20 new loans and commitments totaling $129.5 million. That brings our year-to-date total through the first three quarters to $447 million, surpassing 2022's full-year record of $303.5 million in new loan volume.

Photo credit: MVAH Partners

SPOTLIGHT PROPERTY: HIGHPOINT AT WYNNEWOOD

- This new construction multifamily building consisting of 220 units is located in Dallas.
- Highpoint is the final stage of a three-phase redevelopment initiative of an existing affordable multifamily property build in 1949. Collectively, these new developments will create 300 new units of affordable housing.
- 35 units are restricted to households at 30% AMI, while 185 units are restricted to 60% AMI or below.
- Tenant services to include tutoring or after-school programs for children, health screenings, computer education, adult education programs, recreational activities, and financial planning and literacy courses.
- The developer, MVAH Development LLC, is a nationally recognized affordable housing company. They manage over 7,000 units in 15 states.
- IMPACT Financing: $26.3M tax-exempt loan commitment, expected to convert in 36 months.
- Originator: Bank of America

1,876

UNITS

In Q3, IMPACT helped finance 1,876 units of affordable housing

SPOTLIGHT PROPERTY: MADISON LANDING

Photo credit: https://www.americanresidentialcommunities.net/madison-landing

- New seven-story in Orlando is designed for seniors 55+
- 99 of the 110 units are restricted for those with 60% Area Median Income with another 11 units restricted for tenants with 33% AMI.
- Six of the units will be for Special Needs Households or those that may have been homeless, survivors of domestic violence, or have disabilities.
- Tenant services include daily activities in the arts and crafts room, game room, swimming pool, fitness center, and community room.
- The developer, American Residential Development, is highly experienced in LIHTC properties with 16 stabilized family and senior LIHTC properties in their portfolio, comprising 2,347 units.
- IMPACT Financing: $2.875M Taxable Loan purchased in Q3.
- Originator: Wells Fargo

SPOTLIGHT PROPERTY: CASA DE MANANA

Photo credit: https://prosperahcs.org/portfolio-posts/casa-de-manana-apartments/

- This property is the reconstruction of a Class C property in Corpus Christi, Texas built in 1973. The original 13 buildings were demolished and in its place are 6 new three-story buildings, consisting of 99 units for families.
- 11 of the units are restricted to households at 30% AMI or lower, with an additional 20 units restricted to 50% AMI and 68 units restricted to 60% AMI.
- Amenities include a community room, swimming pool, exercise room, community learning center, business center, and after school programs for children ages 5-17.
- The developer, Prospera Housing Community Services, is a non-profit dedicated to the development, rehabilitation, and management of low-income multifamily properties in Texas. They operate over 32 stabilized properties in Texas totaling 2,787 units.
- IMPACT Financing: $3.7M taxable loan purchased in Q3.
- Originator: Wells Fargo

ADDITIONAL IMPACT UPDATES:

- IMPACT Community Capital released its 2022 Impact Report, showcasing how our investments in affordable housing make a tangible difference in building equity, inclusivity, and thriving communities.

  Download the full report here: 2022 Impact Report

- Michael Lohmeier, IMPACT Community Capital's Chief Investment Officer, spoke at last month's InsuranceERM's Insurance Risk & Capital Americas conference in New York, joining a panel that discussed "Managing & Diversifying Credit Risk."

- IMPACT CIO Michael Lohmeier also spoke at Environmental Finance's ESG in Fixed Income Americas conference, discussing trends in "Real Estate and Asset Backed Securities" and the challenges and opportunities that investors face when it comes to ESG strategy integration.

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

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