Preserving Naturally Occurring Affordable Housing

NOAH Impact Fund

A New Social Impact Investment Opportunity

Preserving the Affordability of
Naturally Occurring Affordable Housing
for Working Families and Seniors with Low and Moderate Incomes

NOAH Impact Fund

Preserve 2,000 Unsubsidized Affordable Rental Apartment Homes in the Twin Cities Metropolitan Area for the Benefit of Low- and Moderate-Income Working Families, Individuals, and Seniors.

Goals of the NOAH Impact Fund

- Preserve the affordability of 2,000 units of at-risk, naturally occurring affordable housing for low- and moderate-income families and individuals, including seniors.
- Assemble $50 million in impact investment capital in partnership with mission-minded investors.
- Invest capital in partnership with responsible nonprofit and for-profit owner-operators committed to the impact program goals.
- Fully deploy capital within 24 months to achieve near-term and long-term economic and social impacts.
- Provide full repayment of investor principal in ten years and a competitive double-bottom-line return on investment.
- Maintain fifteen-year affordability for low- and moderate-income residents.
- Invest in affordable properties in opportunity areas that provide social benefit, including:
  - Public transportation
  - Gainful employment
  - High-performing K-12 schools
  - Access to higher education
  - Community services
  - Health-oriented amenities

Naturally occurring affordable housing (NOAH) is essential to the economic vitality of Twin Cities communities and enables employees to live near work and school while supporting employers to retain a stable workforce. Nationwide, affordable rental housing is at risk. An increasing number of naturally affordable rental developments are being converted to higher-market rents or are simply operated under poor management and in disrepair. These conditions threaten the stability of families and communities.

In response, Greater Minnesota Housing Corporation has created the NOAH Impact Fund to finance the acquisition and preservation of naturally affordable Class B and Class C rental housing in partnership with high performing owner-operators with the shared social goal of preserving affordability for the long term. All investments will target rental properties at risk of conversion to higher rents and the threat of displacement of low- and moderate-income residents.

Under the program, the Fund will provide 90 percent of the equity required to acquire the property, and the operating partner will co-invest 10% of the equity. The balance of the acquisition financing will come from conventional lenders who provide up to 80 percent LTV.

The Fund will support the stability of low and moderate-income households by relieving financial pressures, preventing displacement, and enabling families to thrive at work, school, and in the community.

The Fund will provide a double-bottom-line return on investment inclusive of social impact and economic benefit.

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ADVANCING COMMUNITIES

State-of-the-art asset management provided for the NOAH Impact Fund by Cinnaire, with $2.95 billion currently under its management.

Now Seeking Impact Investors

Impact investing allows mission-motivated investors to move their dollars beyond charitable giving and grant making, to consider both financial return and social good.

The NOAH Impact Fund works with socially motivated institutional investors to make real estate investment commitments to stabilize the lives of low-income households and communities through the preservation of naturally occurring affordable housing, with a competitive double-bottom-line return on funds invested.

Socially motivated investors are encouraged to contact the Fund to learn more.

Sales of naturally affordable rental housing properties are accelerating throughout the Twin Cities metro, creating a higher demand for affordable housing and an impact investment opportunity for mission-minded investors interested in stabilizing low-income families by preserving unsubsidized housing affordability.

The Need for Preservation of Naturally Occurring Affordable Housing

Naturally occurring affordable housing is by its nature Class B and Class C rental property, built between 1940 to 1990. Rents are lower-ranging between $550 and $1,200 per month, affordable to low- and moderate-income households, and provide the majority of affordable housing nationally, without subsidy.

The need to preserve naturally occurring affordable rental housing is great as these properties are now being acquired at record pace by national investors who view the Twin Cities metropolitan market as a prime investment opportunity. Prices for the sale of these properties are rising dramatically, as are rents. These conditions are causing the loss of affordable housing and the displacement of low-income families and individuals.

Yet many of these properties are convenient to jobs that pay well, good schools, and healthy recreational amenities, making them ideal workforce housing and a high priority for preservation of long-term affordability. Current economic conditions which prompt creation of this impact investment fund include:

- 3% Rental Vacancy Rate in the Twin Cities Metropolitan Area
- High Demand for Rental Housing to Continue Through 2030
- Unemployment Very Low at 2.7% (as of Q3 2015)
- New Workforce In-migration From Other Markets
- Gentrification Areas Attracting National Speculators
- Rental Properties Selling for Premium Prices to National REITs
- Local Preservation Buyers Disadvantaged due to Cost of Capital

The Fund targets CRA-qualified affordable housing investments and investments which qualify as endowment-funded Program Related Investments for Foundations.

Affordable housing's key social impacts

Having safe, stable, affordable housing delivers benefits to residents that extend well beyond having a roof over one's head. While some effects are obvious, there are many intangible benefits that flow from having stable housing. Taken together, these benefits cumulatively add up to better life outcomes for all residents.

- Having affordable housing frees up household income for other important necessities like good food and health care.
- Reducing the risk of being displaced or evicted relieves stress, improves chronic health conditions, and reduces spending on health care.
- Children raised in stable households are shown to have greater brain development and are better prepared to start school and achieve strong educational outcomes.
- Workers living in high opportunity areas are more likely to enjoy long-term success in their careers and provide greater economic opportunities for their families.

In short, the foundation of housing can have a dramatic effect on an individual's outlook for life. Gaining access to safe, stable, affordable housing improves access to opportunities and helps people reach their full potential.

GMHF pilot demonstrates the potential for preserving Naturally Occurring Affordable Housing

The NOAH Impact Fund has already executed a pilot project to demonstrate the viability of the investment program, building on the best practices nationally of affordable housing developers that have acquired and manage new portfolios of existing unsubsidized affordable housing.

In August 2015, the Fund financed the equity portion of a $6.8 million acquisition, rehabilitation and preservation of a 72-unit, affordable multifamily rental property in New Brighton, Minnesota in partnership with Real Estate Equities (REE), a socially motivated, for-profit owner-operator of affordable and market-rate housing.

NOAH Impact Fund

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