



Celebrating 20 Years (1996-2016)

*Preservation of Naturally
Occurring Affordable Housing*

Greater Minnesota Housing Corporation

NOAH Impact Fund

A Twin Cities Social Impact Investment Opportunity

Preservation of Naturally Occurring Affordable Housing (NOAH) in the Twin Cities Metropolitan Area

September 15, 2016

Greater Minnesota Housing Fund

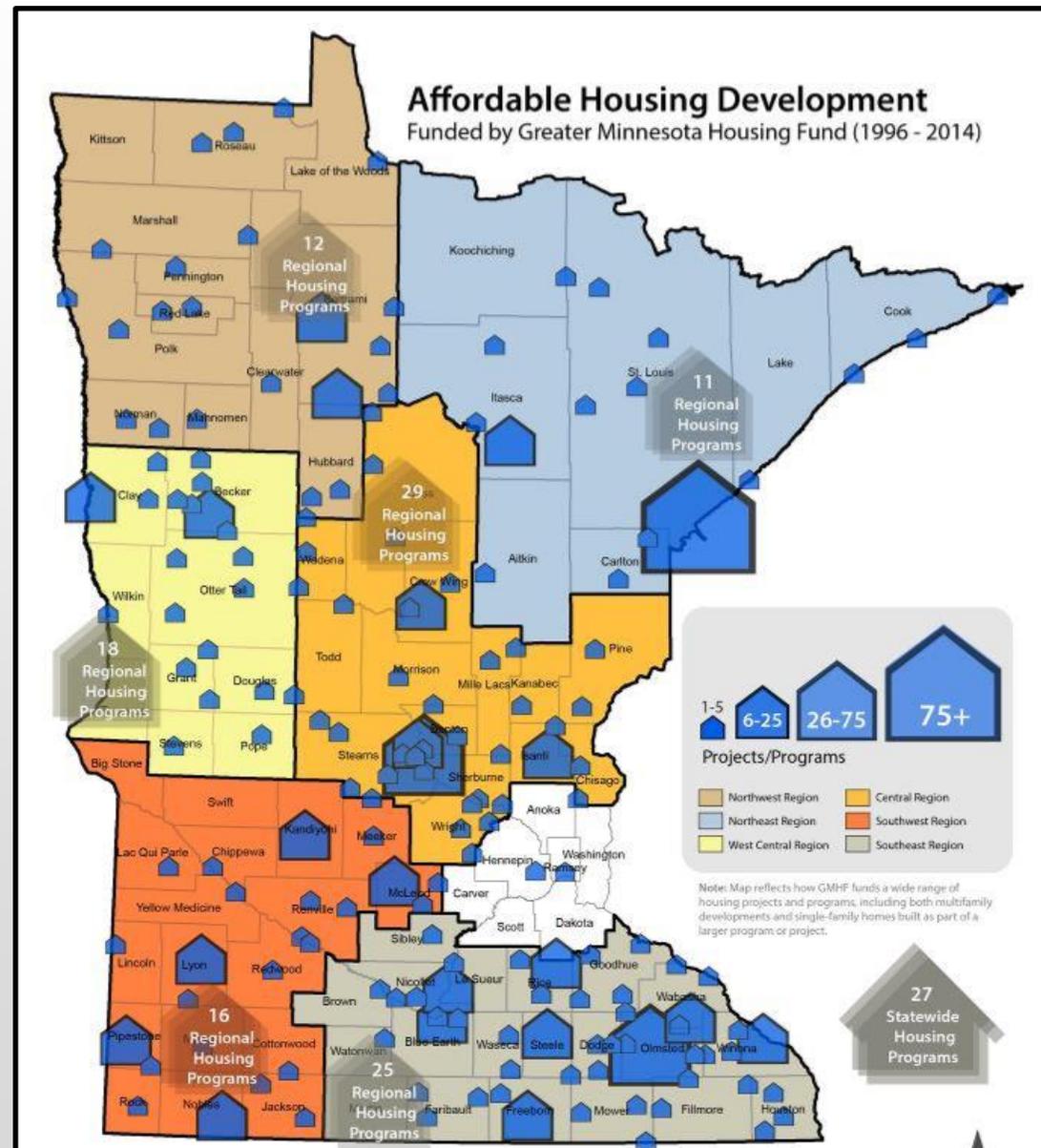
Serving all 87 Counties in Minnesota Since 1996

20-Year Track Record

- Over \$200 million in direct low-cost financing
- Leveraging \$1 billion in development
- Financed over 12,000 affordable homes for low-income renters and homebuyers
- Operates Minnesota Equity Fund (MEF), which has invested over \$100 million in affordable housing



NOAH Impact Fund



NOAH Impact Fund

Equity Capital for Acquisition and Preservation of Naturally Occurring Affordable Housing

A social impact fund to preserve the affordability of unsubsidized affordable housing in opportunity areas in the Twin Cities metro area where affordability is at risk

- **Capitalization**

- \$25-\$30 million in a combination of private and public capital
- Leverages \$100+ million in NOAH property acquisitions & preservation

- **Mission Impact**

- 1,000+ NOAH rental homes acquired within 2+ years
- Affordability preserved for 15 years for low income families, individuals, and seniors

- **Qualified Partners**

- Acquisitions will be in concert with high-performing nonprofit and socially motivated for-profit operating partners, with proven track records at scale
- Expert stewardship is critical to preserve assets and affordability



Naturally Occurring Affordable Housing

The Largest Source of Affordable Housing Regionally and Nationally

- **NOAH properties: Class B/C buildings**
- **Built between 1940 and 1990**
- **Typically \$550-\$1,200/month rents**
- **Affordable to families at or below 60% AMI**
- **Units are unsubsidized**
- **74% of all affordable units are unsubsidized**
- **167,100 unsubsidized NOAH units in metro area**
- **Dramatically increased loss of affordable units**



Crossroads at Penn
698 Units, Richfield, MN



Fountain Terrace
72 Units, New Brighton, MN

NOAH Impact Fund



NOAH Acquisition Cost, Rents, and Affordability

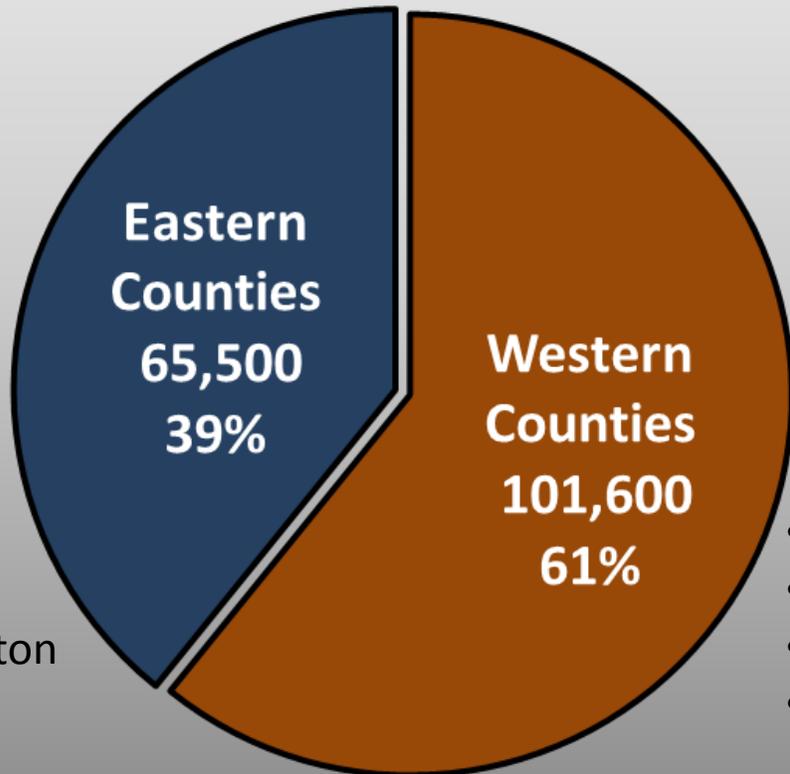
Key Asset Factor	Lowest Cost Lowest Rent	Lower Cost Lower Rent	Low Cost Low Rent	Moderate Cost Moderate Rent	Higher Cost Higher Rent	Highest Cost Highest Rent
						
Cost of Acquisition Per Unit (Excluding Rehabilitation)	\$20,000 - \$40,000	\$40,000 - \$60,000	\$60,000 - \$90,000	\$90,000 - \$120,000	\$150,000 - \$180,000	\$200,000 - \$250,000
Required Rents 1BR to 3BR	\$500 - \$700	\$700 - \$900	\$800 - \$1,100	\$1,000 - \$1,300	\$1,200 - \$1,500	\$1,300 - \$1,800
Affordable To HH Income (4 People) Area Median Income	≤ \$25,980	≤ \$34,640	≤ \$43,300	≤ \$51,960	≤ \$69,280	≥ \$86,600
Area Median Income (AMI)	≤ 30% AMI	≤ 40% AMI	≤ 50% AMI	≤ 60% AMI	≤ 80% AMI	≥ 100% AMI
Residential Asset Class	<i>NOAH PROPERTIES</i>					Market Rate Properties

Note: Rents are also dependent on the cost of financing, both mortgage debt and equity capital.

Distribution of NOAH Properties in Metro Area

167,100 NOAH Units in Twin Cities 7-County Metro Area

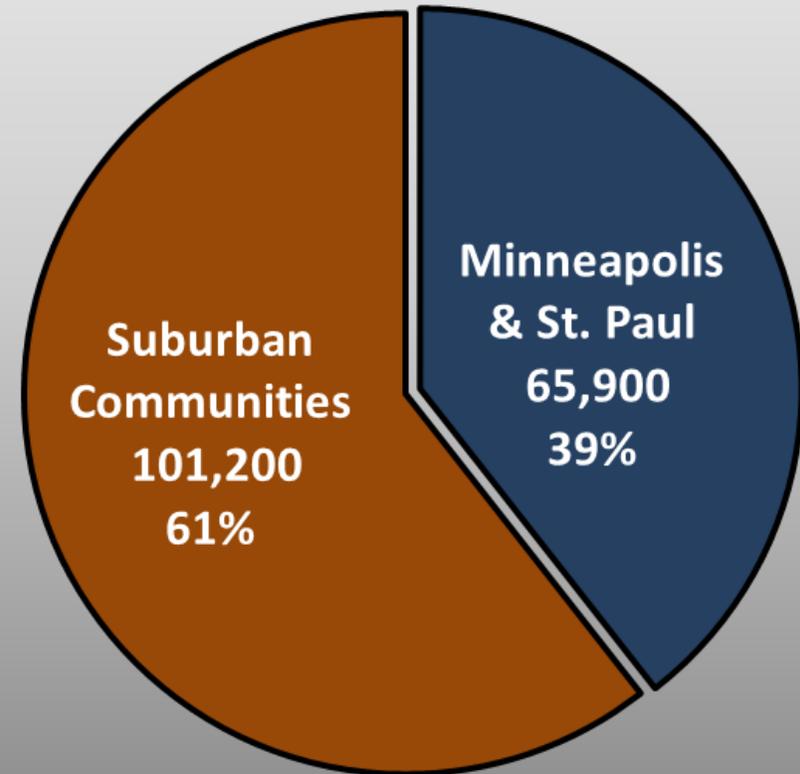
NOAH Units in West Metro compared to East Metro



- Ramsey
- Dakota
- Washington

- Hennepin
- Anoka
- Carver
- Scott

NOAH Units in Urban Core compared to Metro Suburbs



Existing & Proposed Light Rail Transit Corridors

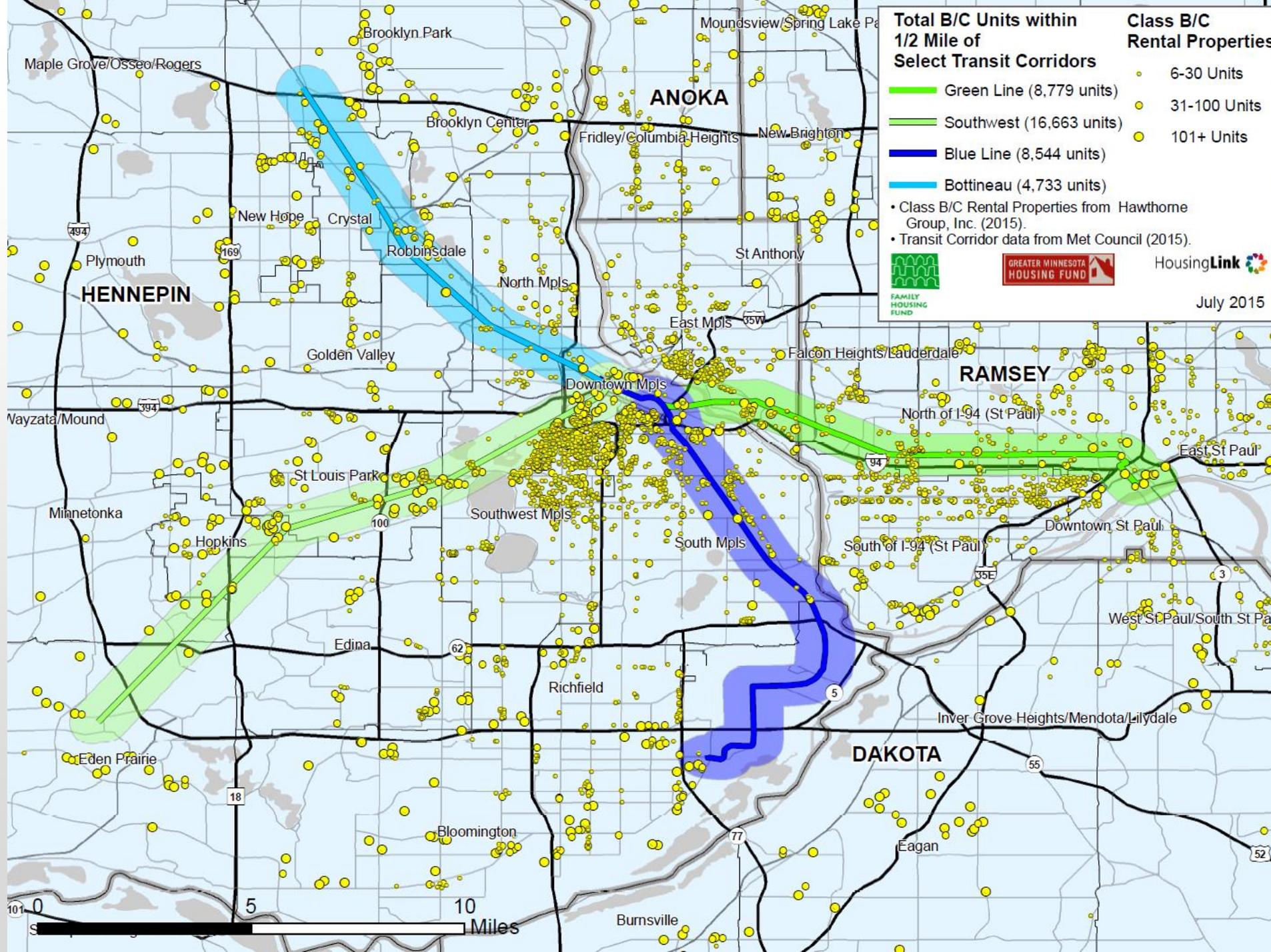
*Relative to Existing Class B/C Rental Properties**

Targeted Class B/C properties further social equity by their proximity to LRT investments.

Existing Green and Blue LRT Lines have over 16,000 Class B/C units within a ½ mile.

Proposed SW and Bottineau Lines have over 20,000 Class B/C units within a ½ mile.

** Yellow markers indicate location of all Class B & C rental properties in the seven-county Twin Cities Metro Area*



NOAH at Risk -- A Perfect Storm (the need)

Key Factors Causing the Loss of Naturally Occurring Affordable Housing

- **National investors rapidly acquiring NOAH property, aggressively raising rents 10-15% in year one & pushed hard thereafter**
- **Metro area losing affordable housing faster than new affordable housing can be developed**
- **Higher rental demand due to shift from homeownership to rental since recession, demand for rental housing to continue through 2030 per Met Council**
- **Rents are increasing faster than incomes, lower-income households are losing ground as higher-wage households readily pay higher rents**
- **Families struggle to secure affordable apartments with vacancies at 3%**



Goals of NOAH Impact Fund

Preserve Affordability of NOAH Properties in Opportunity Areas

OPPORTUNITY AREAS

Preserve Properties in
Opportunity Areas
(Schools, Jobs, Transit)

AFFORDABILITY AT RISK

Preserve Properties at
Risk of Loss of Existing
Affordability

LOW INCOME HOUSEHOLDS

Prevent Potential
Displacement of Low
Income Families

IMPROVED STEWARDSHIP

Stabilize Properties,
Improve Management

NOAH Impact Fund Structure

Replicable Structure Delivers Lower Cost of Capital to Compete in Market

- The NOAH Impact Fund blends Private Capital, Patient Capital, and Public Agency Capital with Equity to produce a **blended very low-cost source of equity**.
- With a blended capital stack that maximizes participation by private bank regulated capital, this model is **fully replicable** in the Twin Cities metro area over time, and in any region in the country.
- This model advances the field of affordable housing by **accessing the private market** while achieving a **double bottom line** of investment returns and mission.



Impact Investors:

Financial Institutions, Philanthropies, Public Agencies, GMHF Sponsor

Class A
Investor:
Bank

Class B
Investor:
Bank

Class C
Investor:
Bank,
Foundations,
Agencies

Class D
Investor:
Minnesota
Housing,
Foundation's

Class E
Investor:
Hennepin County

Equity
Investor:
For-Profit Entity
with Tax Liability

Credit
Reserve
GMHF

Capital
Invested
into
NOAH
Fund

NOAH Impact Fund

Financial
Return
to
Impact
Investors

Investor
Relations

Underwriting
(GMHF & TECAM)

Asset Mgmt
(GMHF & Cinnaire)

Trust Mgmt

Equity
Invested
into
NOAH
Projects



Project
cash
Flow to
Fund

Property Portfolio

NOAH
Rental
Property

NOAH Property Acquisition Summary

Individual Real Estate Transaction Financing

NOAH Property Level Financing

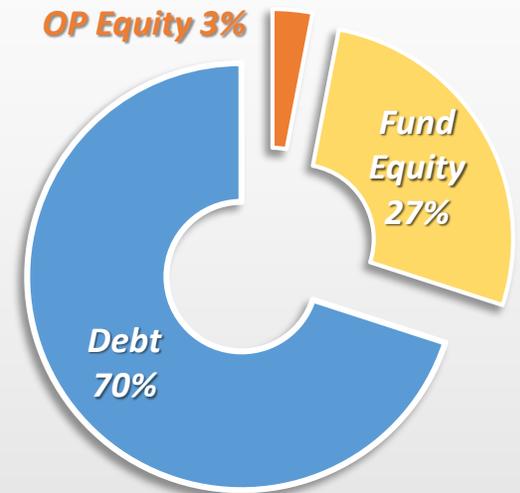
- 75% of units will be affordable to 80% AMI for at least 15 years
- 70% of project costs will be funded by a first mortgage
- 30% of project costs will be funded by equity
- Equity source is 90% from Fund and 10% from Operating Partner
- Each property acquired with a qualified non-profit or for-profit

Property Cash Flow Waterfall

- After mortgage payments all remaining cash flow will flow
 - 90% to the NOAH Impact Fund
 - 10% to the Operating Partner

Refinancing to Repay NOAH Investors

- Operating Partner refinances property at 10 year point
- Refinancing proceeds repay outstanding debt and remaining equity capital



Project Financing Model

Uses of Funds:

\$ 9,000,000 Purchase Price
\$ 1,000,000 in Costs and Repairs
\$10,000,000 Total Development Cost

Sources of Funds:

\$ 7,000,000 First Mortgage
\$ 2,700,000 NOAH Impact Fund
\$ 300,000 Operating Partner Capital
\$10,000,000 Total Sources of Funds

Regional Impact at Scale

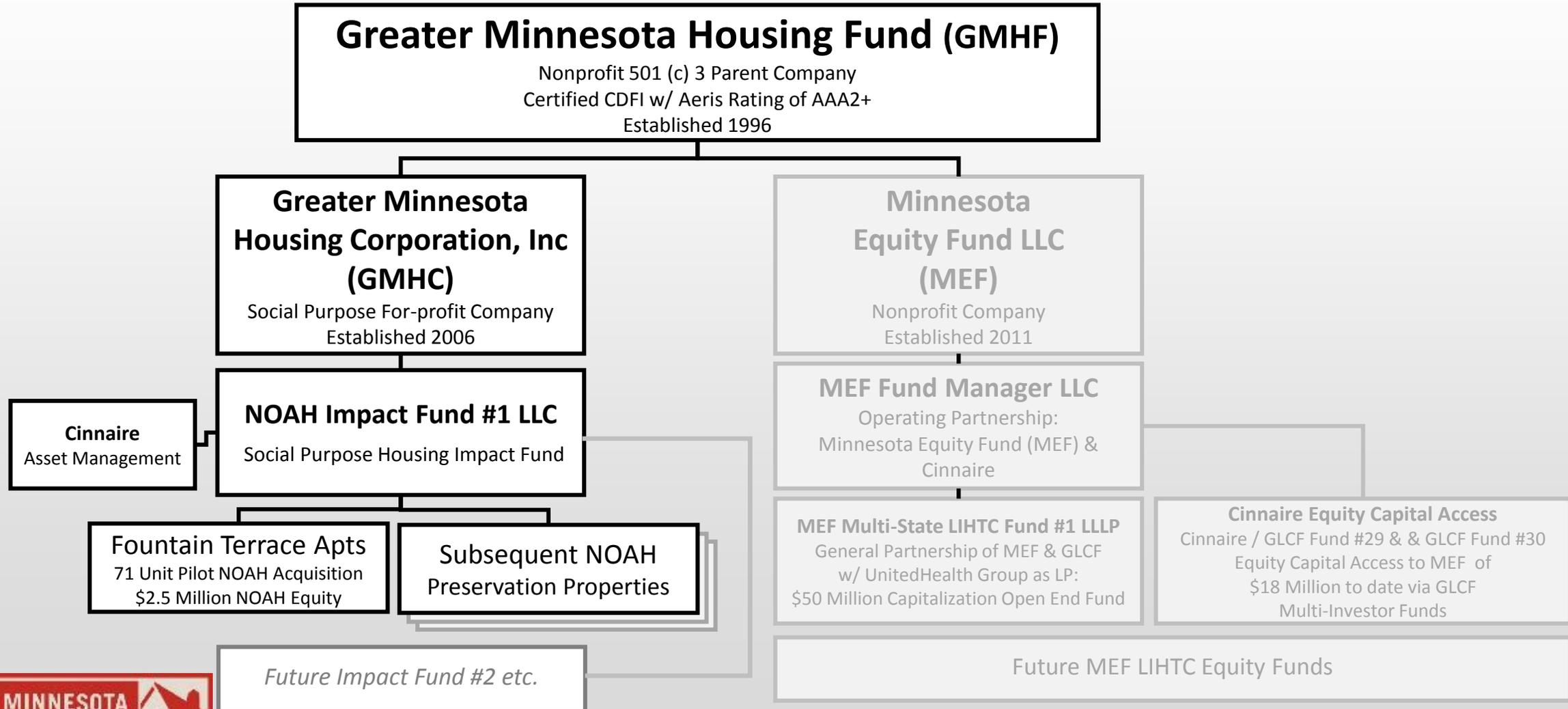
1,000+ NOAH Units Preserved in the Twin Cities Metropolitan Area

- **Regional NOAH Impact Fund will have regional impact at scale**
- **National impact funds may only make limited local acquisitions**
- **Acquisition of 1,000 units within in 2.5 years**
- **Prevents displacement of over 3,000 low-income residents**
- **Significant intervention to loss of affordable rents**
- **Loss prevention counteracts tight vacancies on affordable units**
- **Innovative capital stack engages public agencies to greater leverage than direct public financing**
- **Fund does not compete with limited gap funding for new production**



GMHF Organizational Structure

Parent Company, Subsidiary Organizations & Funds



Pilot NOAH Preservation Transaction

Demonstrating the Preservation of Naturally Occurring Affordable Housing

GMHF's NOAH Impact Fund undertook pilot projects in 2015 to demonstrate viability, test proof of concept

Fountain Terrace Apartments: New Brighton, MN, 72 Units

- \$6.8 million total acquisition/rehab cost
- \$95,000 per unit cost
- \$2.25 million GMHF equity investment (33% of cost)
- Partnership with Real Estate Equities, a for-profit with extensive development & management history

Marquis Apartments: Rochester, MN, 40 units

- \$3 million total acquisition/rehab cost
- \$75,000 per unit cost
- \$1.3 million GMHF mezzanine loan (40% of cost)
- Operating Partner is Phoenix Development

NOAH financing prevented dramatic rent increases & displacement of low-income renters and is a viable model for preserving unsubsidized affordable rental housing



GMHF's NOAH Impact Fund investment ensures long-term affordability of Fountain Terrace, a 72-unit affordable multifamily rental property in New Brighton, Minnesota

NOAH Impact Fund Selection Criteria

Fund will Select Properties that will be Operated by Experienced & Socially Minded Owners

Owner-Operator Criteria: Experience & Capacity

- **Successful experience owning & managing multifamily real estate**
- **Positive performance in existing real estate portfolio**
- **Organizational capacity and staffing to increase portfolio size**
- **Ability to provide 10% cash equity, w/out negative financial impact**
- **Experienced property management -- via a related entity or 3rd party**
- **Motivated by double bottom line: good business, mission impact**
- **Willingness and ability to enter into binding affordability agreements**

More Information

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