APRIL 2020

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Investment Vehicles for Affordable Housing in North Carolina

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About the Author

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About the Foundation

The Blue Cross and Blue Shield of North Carolina Foundation is an independent, private foundation with the mission of improving the health and well-being of everyone living in North Carolina. Since its establishment in 2000, the organization has invested $143 million into North Carolina communities through more than 1,025 grants. In its grantmaking, the Foundation strives to address key drivers of health, and takes an approach designed to meet identified needs in partnership with the community. The organization also works closely with grantees and other nonprofits to support their growth through capacity building and leadership development opportunities. For more information, visit www.bcbsncfoundation.org.

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Executive Summary

Every day, 240 people move to North Carolina. The population has increased by almost 10 percent in the past decade alone.[1] This growth puts pressure on the stock of attainably priced homes and apartments, and displaces households that struggle to afford rising home prices and increasing rents. North Carolina is in urgent need of additional investments in safe, affordable housing, as well as innovative approaches to meeting the broader needs of people from lower-income households. Investments in affordable housing yield both financial return and positive social impact – dual benefits that are at the heart of impact investing.

The affordable housing asset class was initiated decades ago, established long before the impact investing paradigm was defined and took hold. By and large, the asset class offers predictable returns, and very rarely experiences foreclosure. There are a variety of investment options to match different investor profiles, across spectrums of risk (ranging from senior debt to equity positions) and return (ranging from at-market to below-market rates of return).

The opportunity for positive social impact through affordable housing investments goes well beyond the basic necessity of shelter. Housing conditions affect all aspects of life, most notably driving health outcomes. A wide body of evidence demonstrates that zip codes are stronger health predictors than genetic predispositions. Health care organizations have a vested interest in promoting healthy housing within their footprint, especially in the context of the shift to value-based payment systems in health care in North Carolina.

Affordable housing investments are a good fit for anchor institutions (such as universities or hospitals) as well as for corporations with interdependence on the local community and an interest in supporting their customers, vendors, and employees. Certain affordable housing investments are a good fit for institutions that seek a financial return and are less concerned with social impact.

Simply put, there are viable options for a variety of investor intentions, as the summary herein makes clear.

The intent of this paper is not to provide an exhaustive list, or make specific recommendations. Rather, it provides a comprehensive report of the existing and emerging vehicles for investment in affordable housing in North Carolina based on a series of interviews conducted with a diverse panel of stakeholders.

Existing Investment Vehicles	Risk and Return	Term	Purpose
Low-Income Housing Tax Credit (LIHTC) Equity Funds: Equity investment with return in the form of tax credits and tax deductions.	Before-tax target ranges from high 5%s to low 6%s for a stream of tax credits and reductions, rarely deviating materially from projections; arguably, a market rate return when adjusted for risk.	Typically, 18 years	Build and renovate low-income housing.
Community Development Financial Institutions (CDFI)-Sponsored Funds: Equity and debt investments managed by established social enterprises.	Risk and return profiles vary. Often, social goals are prioritized over financial goals, resulting in a below-market rate of return.	Varies, but 10-20 years is typical	Provide financing to low-income housing at varying levels of the capital stack, typically filling gaps in programs not offered by government or private market.
Real Estate Developer Owner/Operator Funds: Equity and debt funds operated by local real estate developers.	Risk and return profiles vary by fund type. Opportunity Zone funds fit best in this category.	Varies	Provide flexible capital to low-income housing developers focused on specific markets, enabling them to be nimble and opportunistic.
Private Equity Preservation Funds: Equity funds that purchase and preserve existing low-income housing.	Net IRR ranging from 9-12% with a preferred return ranging from 5-7% for a durable cash flow; arguably a market rate return when adjusted for risk.	Typically, 10 years	Preserve affordability of housing that is deed restricted, naturally occurring (NOAH), and/or benefits from Section 8 contract.
First Mortgage Lending – Multifamily: Fixed income products, such as bonds, collateralized by mortgage on affordable housing.	Pricing varies by term and credit enhancement; arguably, a market rate return when adjusted for risk.	10-30 years	First mortgage loans for low-income, multifamily rental housing.
First Mortgage Lending – Low-Income Home Ownership: Certificates of Deposit that are leveraged to lend affordable first mortgages.	Credit unions rely on bank deposits as source of capital to make mortgage loans. CD rates in the low 2%s for a 2- to 3-year term.	Varies	First mortgage loans at terms that are accessible to low- and middle-income homebuyers.

Potential Investment Vehicles	These investment vehicles do not currently exist, but they are attractive opportunities for a pioneer investor to establish.
Program to Finance Supportive Housing at Scale	Supportive housing is affordable rental housing forming a platform of stability for vulnerable people who do not have a home or are leaving institutions or hospitals. It is linked to intensive case management and voluntary, life-improving services like health care, workforce development and child welfare.[2] The residents served are often high-cost users of health care systems. Health care organizations are uniquely positioned to address this need at scale.
Financing Tools to Support Community Land Trusts	Community land trusts are nonprofit, community-based organizations that acquire land and maintain ownership of it permanently in order to ensure long-term housing affordability. They are gaining momentum in North Carolina's cities, preserving affordability in perpetuity, and offering low-income households a way to build wealth through home equity.

This paper explores the structures, strategies, risk profiles, return targets, and social impacts of existing vehicles, with a focus on investment vehicles currently fundraising, or intending to fundraise, within the next 12 months. These would involve a passive investment in a limited partnership, or something similar, as opposed to direct ownership.

It is important for investors to consider how these investments dovetail with other strategies within their organization, as well as their capacity to evaluate and engage in investment strategy built around housing for North Carolina residents with low incomes. The footprints of the fund offerings vary from specific cities and counties to national scale. However, there is typically a way to earmark an investment for a specific region. To that end, this paper provides recommendations for evaluating investment options, and issues to consider in the decision-making process.

While this paper concentrates on financial investments, placed-based interventions and philanthropy also play a major role in affordable housing and health care. Some of the powerful opportunities for enhancing investment vehicles with these tools will also be acknowledged.

METHODOLOGY

This scan was informed by more than 30 structured interviews with representatives of stakeholder organizations, listed below, that are involved in the financing and development of low-income housing in North Carolina. These interviews were conducted in the fall of 2019. The intent of this paper is to describe and list available investment opportunities, without judgment or bias. Any omissions are unintentional.

- Avanath
- Blue Cross and Blue Shield of North Carolina
- CAHEC
- Center for Housing and Community Studies at University of North Carolina at Greensboro
- Centrant Community Capital
- Community Development Trust (CDT)
- Community Solutions
- Charlotte Mecklenburg Housing Partnership
- Cone Health
- Durham Community Land Trust
- Enterprise Community Partners
- Fannie Mae Healthy Housing Rewards
- Homeward Bound
- Jonathan Rose Companies
- Legal Aid of North Carolina
- Local Initiative Support Corporation (LISC)
- Mountain Housing Opportunities
- North Carolina Coalition to End Homelessness
- North Carolina Community Development Initiative
- North Carolina Department of Health and Human Services
- North Carolina Housing Coalition
- North Carolina Housing Finance Agency
- North Carolina Justice Center
- R4 Capital Funding
- Reinvestment Partners
- Rivermont Capital
- Self-Help Ventures Fund
- UnitedHealthcare
- Urban Institute
- Vitus
- Wells Fargo Community Lending and Investing

Background and Context

As the population of North Carolina continues to grow, and available housing continues to decline, many anchor institutions are devising strategies to improve the affordability of housing for their workforce, customers, and everyone in North Carolina. Anchor institutions – such as universities and health systems – influence, and are influenced by, their communities. They have a vested interest in the vitality of the local economy and the health and wellness of community residents (who may also be employees or customers). The same is true for the many large national and multinational corporations operating in North Carolina. Based on the knowledge that safe and stable housing promotes health, stability, and wellness, this paper is intended to support institutions by identifying investment opportunities that can offer financial return, as well as improve the quality and supply of housing for people from low-income households.

The primary audience is the office of the CFO and Treasury at health care organizations, other anchor institutions, and corporations with a presence in North Carolina. While the paper emphasizes the connection between health care and housing, the content is relevant to any organization considering an investment in low-income housing. It is also applicable to others at health care organizations engaged in the intersection of health care and affordable housing (such as community benefits departments at hospitals), as well as foundations including, but not limited to, those affiliated with health care providers and insurers. The investment opportunities discussed are intended to provide a comprehensive list of all that are currently fundraising or intend to fundraise within the next 12 months. It is not a curated or select list.

INVESTING FOR SOCIAL AND FINANCIAL IMPACT

Impact investing has gained considerable momentum over the past decade. Impact investors expect not only a financial return on their investment, but also measurable positive social and environmental improvements. The affordable housing asset class was initiated decades ago, established long before the impact investing paradigm was defined and took hold. By and large, the asset class offers predictable returns, and very rarely experiences foreclosure. There are a variety of investment options to match different investor profiles, across spectrums of risk (ranging from senior debt to equity positions) and return (ranging from at-market to below-market rates of return).

It is important to note that the positive impacts generated go beyond the housing itself. Safe, stable housing is a critical component of quality of life, influencing a person's physical, emotional, and economic well-being. As such, the lack of housing hinders adults' ability to work, children's ability to learn, and seniors' ability to age in place.

The recognition that housing is one of the leading determinants of health has caused North Carolina health care organizations to give greater consideration to where employees, customers, and patients work, learn, play, and live. Providers and insurers in North Carolina have a particular interest in social determinants (or drivers) of health in the context of two emerging changes in the health care system.

One is the shift from a fee-for-service model, which reimburses the cost of specific health care interventions, to a value-based payment system, which is based on the quality of care provided and health outcomes of patients. This shift in payment structure creates a financial incentive for health care providers to engage more directly in the upstream impacts on health outcomes, which are often linked to social determinants of health.

The second structural change is that the North Carolina Department of Health and Human Services (the state agency that oversees health care) will soon launch a Healthy Opportunities Pilot program testing the efficacy of directing Medicaid funds to pay for non-medical social health expenses. Housing-related expenses approved for the pilot program include first-month rent and security deposit, six months' rent after hospitalization, case management for tenancy support, medical respite, utilities, modifications to housing, and household goods needed to outfit a new unit.

Raleigh, North Carolina

TOUCHPOINTS BETWEEN LOW-INCOME HOUSING AND HEALTH CARE

The myriad of existing and potential touchpoints between low-income housing and health care is complex. Different touchpoints, for example, may be handled by different departments within the health care organizations. Low-income housing is owned and managed by a wide variety of organizations, with a range of profit motivations and program offerings. It is not a simple task to frame these networks and map their interconnections. Nonetheless, a basic categorization of such touchpoints is helpful in order to provide context for the intent of this paper. The following groupings are organized around the different resources and departments within a health care organization that would fund the related activities.

1. **Investment Vehicles:** Investments that improve or increase the supply of low-income housing and offer a financial return on the investment. Examples: a loan fund to provide predevelopment loans for preservation of affordability; an equity fund to enable local developers to compete with market-rate buyers.
2. **Place-Based Interventions:** Programmatic, place-based interventions for lower-income populations that substitute for interventions at a medical center, and can result in better health outcomes for similar or lower costs. These initiatives can specifically target members and patients within the health care organization's network, which is less feasible in the Investment Vehicles and Philanthropy categories. Examples: medical respite facilities for homeless patients to recuperate after hospital discharge; home repair programs to support aging in place.
3. **Philanthropy:** Grants to organizations providing direct services to support the housing needs of people from low-income households. Examples: eviction diversion programs; resident services programs.

This paper focuses specifically on options for Investment Vehicles. Also noted are powerful opportunities to enhance these options with Place-Based Interventions and Philanthropy.

LOW-INCOME HOUSING IN NORTH CAROLINA: THE PROBLEM, THE EXISTING PROGRAMS, AND THE GAP

Primer: The Definition of Affordability, Low Income, and Extremely Low Income

A household is considered to be low-income if the household's income is less than 60 percent of the Area Median Income (AMI). The AMI is the income level that half of families are below, and is defined by the federal Department of Housing and Urban Development (HUD). HUD develops income limits based on Median Family Income estimates and Fair Market Rent area definitions for each metropolitan area, parts of some metropolitan areas, and each non-metropolitan county.[3] A household is considered to be 'Low Income' if it earns 60 percent or less of AMI, and 'Extremely Low Income' (ELI) if it earns 30 percent or less of AMI. A household is considered to be 'cost burdened' if it spends more than 30 percent of household income on housing, and 'severely cost burdened' if it spends more than 50 percent of household income on housing.

Housing Shortage and Cost Burden

Using 2017 data, there are an estimated 3,955,000 households in North Carolina. 2,595,000 households own their homes; 1,360,000 rent their homes. 20 percent of homeowners are cost-burdened and 44 percent of renters are cost-burdened.[4] Approximately 347,000 renter households, or 26 percent, are Extremely Low Income (ELI) and earn an average income of $24,600. 70 percent of the ELI renters are severely cost-burdened, which means they spend more than 50 percent of their income on housing costs. There is a shortage of 196,231 homes for ELI renters.[5] An estimated 27,900 people experienced homelessness in North Carolina in 2019.[6]

Existing Affordable Housing Stock is at Risk

Housing is affordable either through a deed restriction – the rental unit or home is legally restricted such that rent is capped and that it can only be rented or sold to a household of a defined income level – or it is Naturally Occurring Affordable Housing (NOAH): the rents are at an affordable income level because the quality and/or location of the home limits the amount of rent that the market will support and the unit may be rented to a household of any income level.

The existing housing stock available for people from lower-income households is at risk. Buyers of real estate who are motivated solely by profit are purchasing NOAH in areas such as Charlotte, Raleigh, Durham, Greensboro, and Asheville that are experiencing rapid growth and unmet housing demand, renovating the properties, and increasing rents. This displaces tenants from low-income households that cannot afford the higher rent. Even the properties that are deed-restricted are at risk because the restrictions typically expire after a period of time. Often the deed restrictions are required by a government agency in exchange for providing a subsidy to build or renovate affordable housing, and expire 30 years from the date that the subsidy is provided. Buyers motivated solely by profit often purchase such properties that have 10 or 15 years of the deed restriction remaining, with the intent to convert to market rate housing; this strategy is lucrative in high-growth urban areas, where the need for affordable housing is most acute.

Low-Income Housing Challenges in Two North Carolinas: Rural and Urban

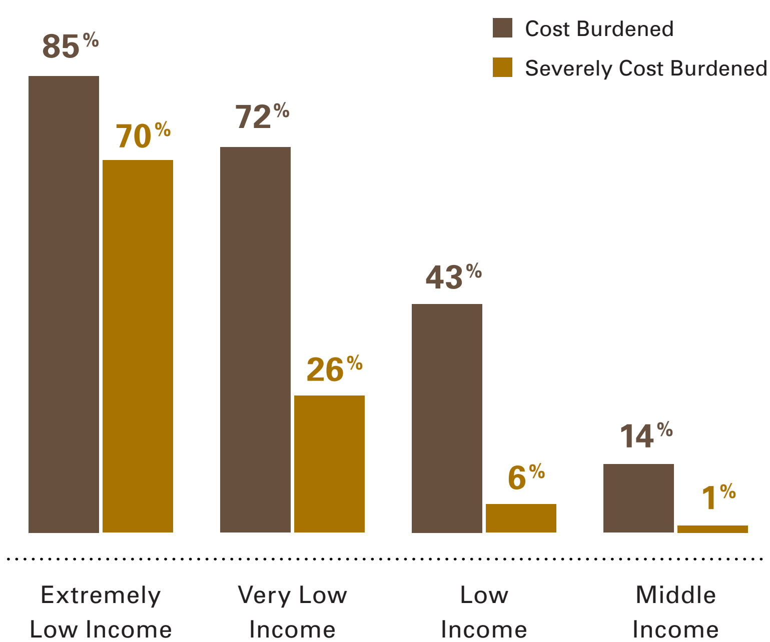
Among the 10 most populous states, North Carolina has the largest proportion of individuals living in rural areas. Its rural population is larger than that of every other state except Texas,[7] and represents 28 percent of the overall population.[8] This remains true even though North Carolina's urban areas experienced rapid growth during the past decade, and its rural areas experienced population decline and stagnant job growth.[9]

The challenges facing low-income housing in rural areas are primarily characterized by single-family homes in disrepair and disconnected from community resources. Low-income housing challenges in urban areas are characterized by a housing shortage in both rental and home ownership opportunities. Both rural and urban areas lack sufficient supportive housing options.

Most investment vehicles with a return are oriented toward low-income housing in urban areas. Solutions for truly rural areas tend to be philanthropic and so are not discussed in depth in this paper.

FIGURE 1

Housing Cost Burden by Income Group



Note: Renter households spending more than 30% of their income on housing costs and utilities are cost burdened; those spending more than half of their income are severely cost burdened.

Source: NLIHC tabulations of 2017 ACS PUMS

Primer: The Low-Income Housing Tax Credit Program

Most affordable housing construction nationwide (new construction and substantial renovation) is subsidized through the Low-Income Housing Tax Credit (LIHTC). The LIHTC is part of the federal tax code and has benefited from bipartisan support since inception.

> The LIHTC program, created in 1986 and made permanent in 1993, is an indirect federal subsidy used to finance the construction and rehabilitation of affordable rental housing for people from low-income households, and to create an incentive for private developers and investors. Without the incentive, affordable rental-housing projects do not generate sufficient profit to warrant the investment.
>
> The LIHTC gives investors a dollar-for-dollar reduction in their federal tax liability in exchange for providing financing to develop affordable rental housing. Investors' equity contribution subsidizes low-income housing development, thus allowing some units to rent at below-market rates. In return, investors receive tax credits paid in annual allotments, generally over 10 years. Financed projects must meet eligibility requirements for at least 30 years after project completion. In other words, owners must keep the units rent-restricted and available to tenants from low-income households. At the end of the period, the properties remain under the control of the owner.
>
> Once a project is built, the state must ensure that it meets the LIHTC eligibility requirements for a 15-year compliance period. If the property fails to comply – for example, by renting to a household with an income that exceeds the mandated limit – the investors may have to pay a penalty in the form of recaptured credits. State housing agencies are responsible for monitoring LIHTC property owners, requiring them to certify on an annual basis that they are renting units to qualified tenants from low-income households. If property owners are found to be out of compliance, they can lose some of their credits. (Novogradac & Company)[10]

There are two types of LIHTC. The 9% LIHTC credit subsidizes approximately 70% of the development costs and is administered through a competitive application process. The 4% LIHTC credit subsidizes approximately 30% of the development costs and is allocated as-of-right for a project that is financed using tax-exempt bonds.

The 9% LIHTC is allocated by the federal government, and in North Carolina, it is administered by the North Carolina Housing Finance Agency (NCHFA). The NCHFA issues a Qualified Application Plan (QAP) each year setting the parameters for the competitive application process. The NCHFA awards 9% credits based on application strength and project location, ensuring the entire state is being served. The NCHFA receives three or four applications for every one that is awarded credits.[11]

The 4% LIHTC is limited by bond cap (the maximum amount of tax-exempt bonds a state has approval to issue). Currently, North Carolina's 4% LIHTC is underutilized, and the excess bond cap is substantial. The 4% LIHTC requires more private financing to fund the development costs, and building a project that can afford the debt service of higher capital costs is challenging. A stronger market for gap financing, which typically comes in the form of subordinate debt, could help with this challenge.

State Programs to Address Housing Challenges

LIHTC is the driving force in construction and rehabilitation for North Carolina's low-income rental housing programs. The state also offers programs that develop supportive housing, provide rental subsidies for vulnerable people (those with disabilities, mental illness, or risk of homelessness), support home ownership by families with low incomes through mortgage and down-payment assistance, finance home repairs, rehouse people displaced by extreme weather events, and provide counsel to prevent foreclosure. These programs are primarily funded through a variety of federal sources (LIHTC, HOME, CDBG, Federal HTF, HOPWA, ESG, and Section 8), along with some state-level funds and appropriations (Workforce Housing Loan Program, State HTF, HOME match, Back@Home, and Key Rental Assistance).[12]

The majority of these programs are operated by the NCHFA, which is a self-sustaining public agency. Other agencies that administer housing programs include the Department of Health and Human Services (NCDHHS), the Department of Commerce, and the Department of Public Safety.

The NCHFA is the only state agency that funds the development (creation and substantial renovation) of low-income housing. From 2013 through 2017, the NCHFA financed approximately 4,100 affordable rental units each year using the LIHTC.[13] In 2018, NCDHHS provided rental assistance to 4,550 renters with low incomes who were considered to be vulnerable (those with disabilities, mental illness, or risk of homelessness).[14] This activity is constrained by budget, and there remains an enormous gap between state-administered housing production and true need. For example, there is a shortage of 196,231 homes for ELI renters alone,[15] as well as a tremendous gap in rental assistance and services for populations with disabilities, mental illness, or at risk of homelessness.

Municipalities and local nonprofit community development organizations across North Carolina are working with state programs and other funding sources to address this gap. The state relies heavily on these public-private partnerships for program execution, including both development and administration. Additionally, several cities have developed their own affordable housing plans to fund and address local needs.

As health care and other anchor organizations conceive their approach to engaging in housing for residents with low incomes, they would do well to consider how their strategy will complement or enhance existing state and municipal programs. They might also contemplate how the existing infrastructure could serve their goals. The NCHFA has been open to active partnership in administering institutional funds, and to sharing details about their platforms so they can be leveraged or replicated. For example, the Urgent Repair program finances emergency home repairs for homeowners with low incomes; NCHFA funds local organizations administering the program. As health care providers and insurers consider programs to pay for home repairs that can limit or eliminate members' health problems, the Urgent Repair model can be a useful guide.

Recommendations for Evaluating the Options

The following should be considered when evaluating investment options:

- **What is the capital allocation, risk tolerance, and return profile? Are below-market investments an option? Do regulatory requirements limit the organization's ability to select any of the investment options?**

  The flexibility of health care organizations to allocate investment dollars to low-income housing may vary with these criteria, and answers to these questions might eliminate some of the options. On the other hand, organizations managing a large portfolio may determine that the amount allocated to low-income housing is such a small piece of the overall puzzle that they have leeway to prioritize social and strategic goals over financial return.

- **What is the capacity of the organization to evaluate various low-income housing investment options?**

  The organization may not have the in-house expertise to evaluate many investment options, and its consultants may not have the necessary knowledge and contacts. If that is the case, the organization could limit investment opportunity choices to those with a long history and proven track record; or, the organization could opt to build capacity by hiring an employee or engaging a consultant with the requisite expertise to assist with the evaluation.

- **Is there the interest or capacity to coordinate investments with other departments to enhance impact with place-based interventions and philanthropy?**

  Many of the investment options have a potential for increased social impact when combined with place-based interventions (such as bringing health care services to an affordable-housing community that the organization invests in) or philanthropy (such as granting money to create a resident services program for an affordable-housing community that the organization invests in).

- **Some investment vehicles are national in scale, with activity in North Carolina, and others are specific to regions of North Carolina. Is this distinction critical to the investment strategy? Does the investment strategy seek to impact the specific community where the anchor organization is located, or target specific customers or employees of the anchor institutions?**

  Some investment opportunities target a geographic region; others may be national in scale. Either option may meet the strategic need of the investor through the investment structure. Often, fund managers are willing to earmark an investment for a specific region. The investor's degree of control in determining the particular project will vary by fund structure, fund manager strategy, and investment size. Investors that prioritize control and location may wish to explore a strategy for direct investment in projects, which is beyond the scope of this paper.

- **Is there interest in taking a leadership position to create a new investment vehicle leading to systemic change?**

  Driving systemic change can create enormous positive impact and goodwill for the institution that pioneers innovation. It also requires a commitment to spend time and money, to coordinate internal strategy and resources among different departments, and to partner with other health care organizations, government agencies, and affordable-housing advocates.

- **Is there interest in being the direct owner of properties?**

  The options described here are limited to investment vehicles in which the organization takes a passive role. If the organization wants to create a platform for direct ownership of low-income housing to directly benefit its members, there are a host of other options. The organization could provide direct financing for a specific project, such as equity, debt, or guarantees, which would likely involve partnership with a local developer. Health care providers who wish to address a specific community of high-cost users might be more interested in direct ownership. Anchor institutions that own land and want to create affordable housing that suits their mission may also want to consider direct ownership. Local housing developers, such as the Charlotte Mecklenburg Housing Partnership, actively solicit institutions to provide gap financing for affordable housing projects. There are many opportunities for such partnerships.

Existing Investment Options

The following is a catalog of investment vehicles that support low-income housing in North Carolina. The opportunities are categorized into fund types:

- LIHTC Equity Funds
- CDFI-Sponsored Funds
- Real Estate Developer Owner/Operator Funds
- Private Equity Preservation Funds
- First Mortgage Lending

Spotlight sections within the categories describe each investment opportunity. This is intended to capture all investment vehicles that are currently fundraising, or intend to fundraise, within the next 12 months. It is not a curated list. It does not address direct participation in a real estate project, which might involve direct equity investment in a property, mortgage lending directly to a property, providing a guarantee related to a development, or donating land for property development.

Some investors may wish to participate in the process of selecting investments, or be involved in some aspect of the ongoing management of the properties. This degree of control is typically a negotiating point with the fund manager, and may require a larger commitment of capital or a proprietary investment (i.e., the organization is the sole investor in a fund).

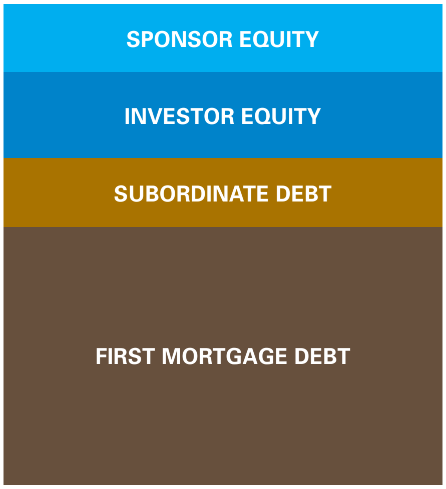
Primer: Real Estate Project Finance

The investment vehicles described here span the spectrum of the capital stack for real estate finance.

Considering the capital stack helps investors evaluate and comprehend risk in real estate investments. It describes the layers of financing sources relating to funding the purchase and improvement of a real estate project. Ideally, a real estate investment hits its business plan, or "pro forma" target, and all participants get paid according to plan. But, like any investment, real estate has downside risk. The capital stack provides investors with valuable information about their position in the cash flow pecking order, risk of repayment and, ultimately, whether the targeted return on investment is worth the assumed risk.

While there is theoretically no limit to the number of layers a capital stack may contain, the most common types of low-income housing project capital are listed here in ascending order of priority.

- Each capital source has seniority over all capital sources above it in the capital stack, and is subordinate to all capital sources below it in the capital stack.
- Typically, only the first mortgage debt (or senior debt), and subordinate debt positions, are able to secure recorded liens against the underlying asset.
- Upon sale or refinance, the bottom position gets paid first, until fully repaid, and so on.
- To the extent that there are insufficient funds to fully repay all capital, losses are incurred from the top down. This means risk increases as you move higher in the capital stack. This also means that returns should increase as you move higher in the capital stack.



Source: Formigle "Understanding the Real Estate Capital Stack."[16]

LOW-INCOME HOUSING TAX CREDIT FUNDS

Funds that invest in properties benefitting from the Low-Income Housing Tax Credit program (discussed above) could be a good fit for organizations seeking a well-established option for an affordable housing investment, and targeting a return that is considered by many to be market rate and is able to utilize tax credits.

Investment Structure and Strategy

LIHTC investments are structured as limited partnerships, in which limited partners are investors and the general partner is a tax credit syndicator. The return on investment is in the form of federal tax credits (a dollar-for-dollar reduction in tax liability) and tax deductions (reduction of taxable income). The tax credit syndicator acquires LIHTC properties owned by limited partnerships from developers. The LIHTC fund is the limited partner and the real estate developer is the general partner. The tax credit syndicator is essentially an intermediary between the investors and the developers, specializing in fundraising, acquisitions, underwriting, and asset management functions.

In North Carolina, the timing of an investment corresponds to the LIHTC allocation cycle. The state allocates LIHTC in the fall of each year. Closings for those allocations typically take place in the first six months of the following calendar year. A LIHTC investor would need to commit within a few months of the LIHTC allocation announcements in order to purchase the properties.

LIHTC funds can be structured as multi-investor funds or as proprietary funds. Multi-investor funds involve multiple limited partners, and the property selection and underwriting functions are completely delegated to the tax credit syndicator. Proprietary funds involve only one investor, which may opt to take an active role in property selection and underwriting. To invest only in properties located in North Carolina, several investors could form a multi-investor fund, one investor could create a proprietary fund, or an investor could invest in a regional or national multifamily fund and require that their dollars be earmarked for properties located in North Carolina. An investor that is focused on different levels of control should discuss the options with a LIHTC fund manager.

Term, Risk Profile, and Return Target

The term of an LIHTC fund is 15 years. However, under certain circumstances, there may be opportunity to exit after 10 years. Properties that generate LIHTC must be held for 15 years as part of the programmatic requirement defined in the tax code. The credits are delivered over a 10-year period and the compliance requirements are in place for 15 years. The investment generates tax deductions for the full 15-year period. It has become commonplace for funds to sell properties after the 10-year credit period, if the investor wishes to do so.

The dynamic of a LIHTC fund is closer to a fixed-income product than a real estate product, and, therefore, its risk profile is closer to fixed income than real estate. The return is in the form of tax credits and taxable deductions. The amount of cash that the properties produce is only relevant to the LIHTC investor in that it must be sufficient to support the property's operations and debt service. The risk of tax credit delivery and tax deductions to the investor falls into the following categories: construction, stabilization, foreclosure, and tax-credit compliance. The developer provides guarantees to protect against these possibilities that are typically recourse through construction completion and nonrecourse after that. Reserves for construction contingency operating deficits are required at the property level. Investor capital is adjusted downward, if tax-credit delivery is delayed, and investor capital contributions are staged as the property meets certain benchmarks of completion and stabilization. The tax credit syndicator serves as an additional protection against all of the above risks. The syndicator can use fund level reserves (at its discretion) to pay for deficits and replace the developer if it fails to fulfill its duties. Regardless of contractual obligations, the tax credit syndicators and developers have an incentive to maintain a good reputation in order to continue doing business. As a result of these protections, the foreclosure rate for the LIHTC industry has remained less than one percent since 2000.[17]

The current return target for funds with properties only in North Carolina is in the mid to high 4%s, after tax and assuming a 21% tax rate (the tax rate defines the impact of taxable deductions on the return). This translates into a before-tax return target ranging from the high 5%s to the low 6%s. The current return target for funds with a national presence ranges from mid 4%s to mid 5%s after tax. The large banking presence in North Carolina drives investment for CRA credit, which depresses the return.

Social Impact

Housing built with LIHTC in North Carolina retains its deed restriction for 30 years, which means the rental unit can only be rented to a household of a defined income level. The NCHFA requires and encourages social benefits such as smoke-free housing, energy efficiency, and a location close to amenities.

Health care organizations that invest in LIHTC could enhance the social impact by combining their investment dollars with place-based interventions and/or philanthropy, such as:

- Providing on-site health care services with an on-site exam room
- Making a grant to pay for an on-site resident services program
- Making a grant to pay for Active Design elements at the property (using the built environment to encourage and support residents to live healthier lifestyles)

Spotlight

CAHEC

CAHEC is a Raleigh-based regional, nonprofit, community investment syndicator that commits funds throughout the mid-Atlantic and southeast. It is the leading syndicator for LIHTC properties in North Carolina. As of September 2019, CAHEC-sponsored funds have invested in 302 properties and 14,183 total units, serving 33,970 housing clients across the state. CAHEC Foundation, a nonprofit affiliate of CAHEC, improves the quality of life for residents through wellness and education. The Foundation has also developed infrastructure for CAHEC through grant making to implement programming (both directly and indirectly) at its properties and in their respective communities. Additionally, CAHEC is open to alliances with health care organizations, beyond equity fund investments, to facilitate place-based interventions for residents of its properties.

Spotlight

National LIHTC Syndicators: Red Stone, RBC, and Boston Capital

According to the North Carolina Housing Finance Agency, there are three national LIHTC syndicators with a strong presence in North Carolina:

- **Red Stone**
- **RBC**
- **Boston Capital**

All three invest in properties across the nation, and are deeply experienced LIHTC fund managers. Red Stone investments have helped facilitate the development of more than 38,000 units in 42 states, Washington DC, and Puerto Rico. RBC investments have funded 988 properties and more than 86,000 affordable homes in 47 states, Washington DC, and Puerto Rico. Both have offices in Charlotte. Boston Capital has invested in nearly 232,000 apartments in more than 2,220 communities nationwide, and is one of the largest owners of apartment properties in the United States.

CDFI-Sponsored Investments

Organizations interested in partnering with well-established, social enterprises that operate funds with an enhanced social impact, and that typically (but not always) target below-market rate returns, should consider a CDFI-Sponsored Investment.

Primer: Community Development Financial Institutions (CDFI)

CDFIs are private intermediaries that provide capital and technical assistance to communities and people underserved by conventional lending institutions. They have played a major role in empowering communities to address the structural barriers excluding them from shared prosperity.

There are four categories of CDFI activities: banks, credit unions, loan funds, and venture capital funds. Credit unions and banks provide retail banking services and investments. Loan funds provide financing and technical assistance across a range of economic and community development activities. Venture funds provide equity and equity-like debt.

CDFI loan and venture funds provide financing for infrastructure improvements in low-income communities: health centers, charter schools, affordable housing, grocery stores selling fresh and healthy food, and transportation. They also support small businesses, cooperatives, nonprofit social service organizations, and a variety of related enterprises.

CDFIs raise capital from institutions such as banks, non-bank financial institutions, governments, religious institutions, foundations, and non-financial corporations, as well as from individuals.

Source: Balboni and Travers "CDFI & Impact Investing: An Industry Review"[18]

Investment Structure and Strategy

Strategies for CDFI investment vehicles range widely, based on the problem to be solved, and the particular CDFI's financial structure and focus. The top CDFIs engaged in low-income housing offer a suite of programs to address the social determinants of health, and fund strategies may involve multiple program areas.

Term, Risk Profile, and Return Target

CDFI investment vehicles typically prioritize the charitable objective over the return. As a result, the financial returns to investors are often considered to be below-market rate, and the social returns are more impactful than their market-rate counterparts. This is not always the case, but it does apply to the Spotlights that follow, with the exception of the Community Development Trust (CDT). Potential investors can evaluate the risk and performance of many CDFIs through Aeris, a third-party rating system. Some CDFIs have also been rated by Standard and Poor's.

Social Impact

The social impacts of CDFI-sponsored investment opportunities vary by purpose.

Spotlight

Durham Loan Fund

The Durham Loan Fund provides acquisition and predevelopment money to nonprofit affordable-housing developers to acquire sites in Durham and plan for permanent financing. These loans help nonprofit developers compete with market-rate buyers, thereby securing land for affordable housing that might otherwise be put to a more profitable use. The fund is administered by Self-Help Ventures Fund (SHVF), which handles lending for multifamily development, and by the North Carolina Community Development Initiative (NCCDI), which handles lines of credit for single-family home development. The term of the fund is 10 years. The risk-and-return profiles are tiered by first-loss, second-loss, and senior debt, giving investors a range of options. The fund is a segregated account within the SHVF, and is secured financially by SHVF.

Spotlight

Initiative Capital

Initiative Capital is the lending arm of the North Carolina Community Development Initiative. It offers a suite of products for affordable housing project finance, and for small businesses engaged in affordable housing development. The flagship loan product is subordinate debt for 4% LIHTC transactions. Many 4% LIHTC projects in North Carolina would not be fully capitalized without gap financing, such as a subordinate loan to fill the gap in project sources. The 4% LIHTC is an underutilized resource; there a significant amount of 4% LIHTC equity available that is unused because projects require gap financing. An investment in this loan fund could leverage other resources for a greater financial impact. Banks investing for CRA credit are the primary investor base for this product.

Spotlight

Charlotte Housing Opportunity Investment Fund

The Charlotte Housing Opportunity Investment Fund (CHOIF) provides affordable rental housing funding for families earning 30-120% AMI in Charlotte and the surrounding areas of Mecklenburg County. CHOIF funding for each project is flexible, ranging from subordinate debt for LIHTC transactions to private equity for NOAH transactions. The CHOIF has partnered with the city of Charlotte on this initiative, whereby the city has committed to direct $50M of funds raised through its affordable housing bond to complement CHOIF money. The CHOIF is structured as a limited liability company, managed by the Local Initiatives Support Corporation (LISC), which opened its Charlotte office in early 2019. Interested parties can invest in the CHOIF for a preferred return, lend money to the CHOIF for a lower risk-and-return profile, or donate money to the CHOIF. The term of the fund is 16 years, with two discretionary two-year extensions. LISC is one of the leading CDFIs engaged in affordable housing, with deep programming focused on health and social determinants of health.

Spotlight

Enterprise Community Partners

Enterprise Community Partners (Enterprise) is one of the leading CDFIs engaged in affordable housing, with a strong program encouraging partnership between the housing and health care sectors. Enterprise recently launched investment funds with Kaiser Permanente to preserve and create affordable, healthy homes within Kaiser Permanente's footprint. Enterprise is positioned to work with NC-based health care organizations to create similar programs.

Spotlight

Community Development Trust

Community Development Trust (CDT) is a CDFI and real estate investment trust (REIT) that provides long-term debt and equity capital for affordable housing on a national scale, while seeking attractive returns for shareholders. Investments in CDT are made at an enterprise level, but can be designated for particular regions through side letters. CDT is currently the owner or lender of approximately 1,000 units in North Carolina. CDT operates as a double-bottom-line company, promoting both financial and social goals. CDT recently closed on an $85.5 million redeemable preferred offering that targets a market rate return when adjusted for risk.

Local Real Estate Developer Owner-Operator Funds, Including Opportunity Zones

Organizations interested in affordable housing investments within a specific footprint should consider Local Real Estate Developer Funds. This option is more conducive to the coordination of wraparound services.

Investment Structure and Strategy

Some local real estate developers are raising funds to focus on the particular city or county in which they are active. In growing markets, it is a challenge for low-income housing developers to compete with other buyers. Buyers motivated solely by profit are able to secure equity and debt quickly, often within 60-90 days of making an offer; capital for low-income housing tends to have a longer investment cycle, sometimes taking 6-12 months to secure. The owner-operator funds being raised by local real estate developers will enable them to move quickly on opportunities to preserve housing. These developers are seeking investors in their funds.

Opportunity Zone funds can overlap with local developer funds, although they can also operate at a national or a regional scale. Opportunity Zone funds are real estate investments of all types (affordable housing, market-rate housing, commercial, retail, community facilities) in specific census tracts. The strategies for these funds vary widely, and are not necessarily limited to investments in affordable housing. The Opportunity Zone incentive is new, and the market is still determining the fund's structure and strategy. The Opportunity Zone tax incentive can increase the return on an investment by an estimated 2-3%. The Opportunity Zones investor base is typically comprised of high-net-worth individuals, rather than institutional investors, posing a challenge for fundraising.

Term, Risk Profile, and Return Target

There is no uniform term, risk profile, and return target for this investment category.

Social Impact

The local owner-operator funds address a financing challenge faced by sponsor organizations in their communities. These funds enable affordable-housing developers to compete with market-rate real estate investors in order to create and preserve affordable housing that would otherwise be subject to market forces.

Primer: Opportunity Zones

The federal tax reform legislation, passed in December 2017, created the Opportunity Zone incentive. Opportunity Zones are generally census tracts in lower-income communities experiencing economic distress, under the definition of "low-income community" used in the NMTC program.

> In simplest terms, the Opportunity Zones incentive works like this: A taxpayer who recognizes a gain from the sale of stock can invest the gain in an opportunity fund and postpone taxes on those gains until 2026. If the taxpayer holds the fund shares for five years, there is a 10 percent basis step-up. After seven years, there is another five percent basis step-up. When the taxpayer sells the investment, or on December 31, 2026 (whichever comes first), the taxpayer must pay tax on the deferred capital gains. After 10 years, the taxpayer can exclude any additional gains beyond that which was previously deferred. (Novogradac & Company)[19]

Spotlight

Charlotte Affordable & Veterans Housing Impact Investment Fund

The Charlotte Affordable & Veterans Housing Impact Investment Fund (CAVH Fund) is co-sponsored by the Charlotte-Mecklenburg Housing Partnership (a leading, broad-based, nonprofit housing development and financial corporation in the region), and Community Solutions (a low-income housing developer, and a national leader in ending chronic homelessness). The business strategy of the CAVH Fund is to preserve the affordability of NOAH in Charlotte and Mecklenburg County, and to provide housing for veterans. As current tenants leave, studio and one-bedroom units will be made available to veterans, and larger units will be made available for workforce housing. Community Solutions has a team on the ground connected to the VA and rapid-rehousing funders. Based on these relationships, the units are pre-approved for voucher holders, and never need to go to market, allowing the VA to place its most vulnerable veterans directly into housing. (Many veterans have vouchers but are still unable to find housing in Charlotte.) A 'property management plus' standard will be employed: case management will be provided through the local VA, property managers will be trained in best practices to address needs of vulnerable residents, and the site will coordinate with local nonprofit organizations to offer events on site. The CAVH fund offers a fixed return, can be structured as equity or debt (at the investor's preference), and has a 10-year term. Investors will be compensated at the end of the 10-year holding period, at which time ownership will be transferred to the Charlotte-Mecklenburg Housing Partnership. This assures the property will remain affordable after investors exit.

Spotlight

Mountain Housing Opportunities

Mountain Housing Opportunities (MHO) is a nonprofit community development corporation in Asheville, founded in 1988. It primarily develops low-income rental housing, and provides a variety of home-ownership education tools and financial products to assist home buyers with low incomes. MHO is designing an investment vehicle to preserve an additional 100 units of low-income and workforce housing in Asheville each year. While the terms are not yet defined, the structure will likely be a low-interest-rate production pool, giving MHO the flexibility to purchase existing housing and land bank parcels for future development.

Spotlight

The Charlotte-Mecklenburg Housing Partnership

The Charlotte-Mecklenburg Housing Partnership (The Housing Partnership) is a nonprofit organization that is raising a fund to help cover the cost of building affordable housing. Due to the rising cost of construction and land in the Charlotte area, it is a challenge to find sufficient capital to cover the costs of development, particularly in high-opportunity areas. The Housing Partnership is in discussions with several community stakeholders to create a sustainable source of capital. The goal is to increase production, while exploring ways to improve the economic mobility of its residents by adding services such as access to health care and healthy foods. The fund will enable The Housing Partnership to leverage existing financing tools to create and preserve the affordability of housing within their Charlotte MSA footprint.

Spotlight

Rivermont Capital

Rivermont Capital specializes in North Carolina downtowns which are smaller than those typically focused on by institutional investors. Using a data-driven framework, they buy low-cost assets in bulk, and conceive a master development approach to create value. Affordable housing is often a component of Rivermont Capital's development plans, along with office space and transformative community amenities. Rivermont Capital has formed an Opportunity Zone fund to complement this investment strategy, with assets that can benefit from the related tax incentives. Rivermont Capital is positioned to work with health care organizations seeking to target specific communities with investments, and potentially enhance them with place-based interventions.

Charlotte, North Carolina

Private Equity Preservation Funds

Private Equity Preservation Funds target an arguably market rate return, and could be a good fit for organizations wishing to preserve affordable housing through a private equity investment diversified across several regions (inside and outside North Carolina).

Investment Structure and Strategy

Private equity preservation funds are structured as limited partnerships, where the investors are limited partners and the fund manager is the general partner. Preservation funds typically acquire multifamily properties that are subject to regulatory restrictions for income residents with low incomes, often vestiges of LIHTC transactions; benefit from project-based housing assistance payment (HAP)/Section 8 contracts with HUD; or are naturally occurring affordable housing ("NOAH"), which means the rents are at an affordable income level because the quality or location of the home limits the amount of rent that the market will support.

Preservation funds often will perform a light or moderate renovation after acquiring the property, to address deferred maintenance, to retrofit for energy efficiency, or to enhance community spaces. Properties that require substantial renovations are typically better suited for LIHTC financing.

Preservation funds were introduced to the market about a decade ago, and have gained momentum in recent years. They tend to have a regional or national footprint, and to date, have not purchased many properties in North Carolina. An investor could request that its contribution be earmarked for North Carolina properties in order to encourage investment here, but the investment would be made at the fund level.

Term, Risk Profile, and Return Target

The term of a preservation funds is typically 10 years.

The risk profile of a preservation fund falls in the range between a fixed-income product and a value-add multifamily real estate investment product. Preservation properties tend to have a stable and predictable cash flow, and they are typically resistant to market forces. Strong demand is being experienced because rents are lower in comparison to other properties in the surrounding area. Preservation properties are subject to either rent restrictions or NOAH, offering rents at a significant discount to market rents. The lower rent also contributes to lower turnover, which supports stable occupancy and predictable maintenance costs. Preservation properties are typically underwritten in accordance with the historic operating expense at the properties. All this contributes to a durable cash flow.

The current return target for preservation funds is a net IRR ranging from 9-12%, with a preferred return ranging from 5-7%.

Social Impact

The primary social goal of preservation funds is to maintain rental affordability for properties that would otherwise be purchased for conversion to market rate. The long-term affordability goal – whether affordability will be preserved after the holding period of the fund – varies by fund manager.

A secondary social goal of preservation funds is to provide services for the residents of the communities. Typically, these services focus on health and education, and are frequently delivered through partnership with a local nonprofit organization. The strategy and efficacy of these services varies widely by fund manager capacity and strategy. The services are typically limited by budgetary constraints, and are provided only at properties where it is financially feasible.

Introducing environmentally sustainable practices into property management is another social goal of preservation funds. This might involve energy-efficiency retrofits, no-smoking policies, green cleaning, and integrative pest management practices.

Spotlight

Jonathan Rose Companies

Since 2005, Jonathan Rose Companies (JRC) has raised a series of equity funds focused on the acquisitions and preservation of affordable housing. With $1.3 billion in assets under management, and more than 15,000 units of affordable housing nationally, JRC is continually working to implement practical green strategies to reduce costs and increase efficiency, and increases opportunity for its residents through social and educational services. JRC has developed a Communities of Opportunity Toolkit to guide its provision of resident services, prioritizing bringing the best of local nonprofit and public services focused on health and wellness, education, food security, safety, employment, and language training, as well as arts and culture. JRC certifies all fund properties through Enterprise Green Communities, which includes a module for resident health. They have also partnered with several leading schools of public health, and with Enterprise Community Partners (a leading CDFI, engaged in affordable housing) in a longitudinal study measuring and reporting on the impact of services on the lives of residents. To date, JRC has invested in one North Carolina property.

Spotlight

Avanath

Avanath has $2 billion of assets under management across 10,000 affordable and workforce housing units in 12 states. The key objectives of Avanath's investment strategy are to generate current income and cash flow and maintain long-term affordability in their apartment communities, enhance the lifestyle of their residents through customer service and supportive amenities and services, and implement investments and practices that build long-term environmental sustainability. To date, Avanath has invested in one property in North Carolina.

FIRST MORTGAGE LENDING

First Mortgage Lending could be a good fit for organizations seeking a well-established and stable fixed-income product that is arguably market rate, and that are willing to accept a less direct social impact in the support of affordable housing.

First Mortgages for Multifamily Properties

In North Carolina, options are limited for health care organizations to engage in private-placement lending to low-income multifamily housing. The market for taxable first mortgage loans is dominated by Centrant Community Capital, a subsidiary of the North Carolina Bankers Association. Centrant Community Capital currently loans capital only from its member organizations, although it may consider raising a debt fund in the future. The market for tax-exempt first mortgage loans is dominated by direct bank lending and credit enhancement through Fannie Mae, Freddie Mac, and FHA/Ginnie Mae. There is some opportunity for investors to lend through private placement debt funds, such as R4 Capital Funding.

Investors can readily purchase mortgage-backed securities (MBS) for low-income multifamily housing in North Carolina. MBS are fixed-income products, credit-enhanced by Fannie Mae, Freddie Mac, and Ginnie Mae, and sold on the open market.

First Mortgages for Home Ownership

Credit Unions rely on bank deposits as a source of capital for making first mortgage loans to low-income households. The two leading credit unions in North Carolina, Self-Help Credit Union and Latino Community Credit Union, offer first mortgage loans with terms that are accessible to lower- and middle-income homebuyers. Both offer certificates of deposit with a two- to three-year term in the low 2%s.

Investment Ideas with Potential

While there is not currently an investment vehicle designed to address the needs described below, arguably there should be. This could be a good fit for investors who wish to innovate and create a replicable model addressing specific affordable housing needs in North Carolina.

CREATE AND FUND PERMANENT SUPPORTIVE HOUSING AT SCALE

There is a significant opportunity for health care organizations in North Carolina to address the need for permanent supportive housing at scale. People in need of permanent supportive housing are often the high-cost users of health care. The case study below provides evidence that permanent supportive housing can lead to a substantial decrease in health care expense.

CASE STUDY

Urban Ministry Center

Charlotte's Urban Ministry Center created a supportive housing community to address the needs of people who are chronically homeless. Moore Place houses 85 adults who were former chronically homeless, provides on-site supportive services, and operates under the Housing First model. Housing First programs emphasize housing as a first step in service delivery, have low-threshold admissions policies with minimal eligibility criteria, use a harm-reduction approach to substance use, focus on eviction prevention, and have reduced service requirements that do not require service compliance or success in order for a tenant to qualify for or maintain housing. A two-year study led by UNC concluded that Moore Place improved the housing stability of its tenants, with a stability rate of 81 percent, and tenant income increased by 76 percent.

In the two years after moving into Moore Place, tenants visited the emergency room of Carolinas HealthCare Systems and Novant Health 648 fewer times (an 81 percent reduction) and were hospitalized 292 fewer days (a 62 percent reduction) than in the two years before they moved in. Ambulance calls and transports through Medic (also known as Mecklenburg EMS Agency) also decreased in the two years after tenants were housed at Moore Place. Emergency medical personnel responded to 312 fewer calls (a 76 percent reduction) and made 304 fewer transports (a 76 percent reduction) in the two years after tenants moved into Moore Place than they did in the two years before.

Source: Thomas et al. "Moore Place Permanent Supportive Housing Evaluation Study Final Report"[20]

Funding for supportive housing includes three components:

1. **Housing Unit:** a physical home for the resident
2. **Rental Assistance:** typically, supportive-housing residents earn insufficient income to pay rent
3. **Supportive Services:** wrap-around services to support the resident, such as case management, therapy, and medical programs

There are currently some state, federal, local, and philanthropic funding streams addressing these components, but not nearly enough to meet the need. Quantifying the need is a challenge, but some sources suggest that 7,950 people in North Carolina are in need of permanent supportive housing (3,906 who are chronically homeless[21] and 4,044 with intellectual or developmental disabilities[22]).

Health care organizations possess the combination of tools necessary to address this challenge at scale. They are well positioned to:

- Build the housing units with investment dollars (for a financial return)
- Create ongoing support for services and rental assistance by shifting cost from emergency health care services
- Encourage state and local governments to provide more funding for supportive services and rental assistance
- Direct their philanthropy to build capacity at local organizations providing supportive services and rental assistance
- Measure health outcomes for supportive service residents

This would require a coordinated approach. For example, local governments, including housing authorities, could help identify sources of funds for rental assistance. People experiencing homelessness, or who have disabling conditions, would be prioritized for disbursement of funds. There are many local leaders with deep knowledge of these issues who could support such an effort.

BUILD FINANCIAL CAPACITY FOR COMMUNITY LAND TRUSTS

Community Land Trusts (CLT) ensure affordability of housing in perpetuity by retaining ownership of land. They typically purchase small parcels throughout an urban area, and renovate homes that house one to four families. Then, the homes are rented or sold to households below a certain AMI threshold, with a low-cost lease for the land. In this way, CLTs provide people from low-income households with an opportunity to grow assets through home ownership.

The CLT model is gaining momentum in many urban areas within North Carolina. In operating a collection of small and often disparate properties, CLTs face a singular challenge. Each financial transaction (to renovate, or to refinance a mortgage) involves a high cost (the appraisal cost is roughly the same for properties with two units or 200 units). A financial vehicle to ease this burden – for example, debt at a longer term than CLTs can currently access – would provide welcome support for CLTs, and provide financial capacity to grow. In addition, a financial vehicle providing CLTs with resources to bank land or incur predevelopment costs would support their strategy.

Conclusion

Many organizations and investors are already hard at work addressing the shortfall of affordable housing in North Carolina. An array of investment vehicles currently promote construction and preservation of affordable housing in our state, and strive to have a positive impact on health and wellness community-wide.

The challenge for health care organizations and other potential investors comes in finding (or creating) the investment vehicles that most closely match their own goals and strategies. The first step, then, is to outline those strategic goals for the investments: financial return requirements, intention for social impact, and capacity or interest in engaging with place-based interventions and philanthropic endeavors.

With this foundation in place, organizations will approach the evaluation process with a clear set of guidelines. The best match may not be an obvious one. Since community development typically happens on a small scale, opportunities to make positive change can seem limited when compared with need, and may be deemed unworthy of consideration. However, every investment moves the needle. Both anchor institutions and community-minded corporations have a particular ability to lead by example, and to attract more investment dollars to meet this growing need.

There is already an exciting energy and momentum in North Carolina to address affordable housing needs. Health care and other anchor institutions are well-positioned to become leaders in this movement to ensure safe and affordable housing for everyone living in North Carolinia.

Wilmington, North Carolina

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