Housing for the Intellectually and Developmentally Disabled

Duration	00:40:42
Speakers	Luba Kim-Reynolds, Director, Multifamily Capital Markets, Freddie Mac Multifamily
	Anthony Cinquini, Managing Director, Berkadia
	Matt Pettinelli, Founder & CEO, CapGrow
	Andrew Tush, Targeted Affordable Housing Team, Freddie Mac Multifamily

Luba Kim Reynolds [00:00:06] Hello and welcome to this special edition of the Optigo Extras Podcast. My name is Luba Kim Reynolds and I lead the Multifamily investor relations team and ESG initiatives here at Freddie Mac. One of the most exciting parts of my job is uncovering the needs of our investor community and making sure these needs align to and in partnership with our real estate sponsors and the larger Freddie Mac team. And that's exactly how our Impact Bond series were born. In 2019, we launched our environmentally focused Green Bonds series and last year we introduced social and sustainability bonds to our impact offerings, rounding out the full suite of ESG initiatives. We have been supporting affordable housing for quite some time now, and I'd like to say that our mission is a part of our DNA. Impact bonds help to bring upfront and channel the capital towards the most impactful projects. I'm often asked about our social bonds, why we do them if we are already in the impact space. I like to tell people that every social bond has a unique impact story behind it, in addition to being an affordable housing. And that story is what I would like to focus on in this episode. Today's podcast will provide a closer look at the Socially Focused Project, a critical solution in helping the underserved population - housing for the intellectually and developmentally disabled, otherwise known as HIDD. And to help learn more about the big picture, I will be talking with two of our partners, Tony and Matt, and our very own Andrew. I will let them introduce themselves and tell us how they've started in this business and will give a greater insight why they're so passionate about this product.

Andrew [00:01:56] Thanks Luba, my name is Andrew Tush and I co-head the Structured Targeted Affordable Housing team here at Freddie Mac. One of the areas that we focus on and one of the products that we lead is the the HIDD Loans, which is again the housing for intellectually and developmentally disabled individuals. And so what this means is providing housing and up to 24 hour care to adults with special needs, including traumatic brain injuries, those with behavioral or and or developmental disabilities. Within the HIDD space the sponsor is the one who operates and owns, holds, manages the homes which are leased then to health care service providers in order to provide housing for individuals with behavioral and or developmental disabilities. In this, this structure allows the care providers or the leasees to prevent capital from being tied up in real estate holdings and really allow them the time and resources to be focused on the resident care needs at these homes. A little bit of background as to how we got into this space starting in the kind of early to mid 2010s. There were some some reports released at the federal level that started to raise some concerns about housing options for individuals with disabilities. So this started to put the issue on our radar and thinking about housing options in a safe community settings versus more traditional kind of institutional housing that has been used or that had been used historically. Freddie Mac's entry into this specialty segment of the market really goes back to what our TAH groups focus is, which is supporting affordable housing and more specifically, housing for underserved communities and populations. In terms of how we got started into this just at a very high level, we started looking at what available capital sources there were for the sponsors in this segment, the types of housing sponsors are providing for these individuals, the care providers, and finally, you know, really focusing on understanding the safety and the level of care standards for this for this segment.

Luba Kim Reynolds [00:04:23] Great. Well, thank you, Andrew and Tony I know you really have been championing this product, and I know you did a lot of work to really making sure this product is taking off and taking off in the right way. You might give us a little bit of your background, how you got into it, how your company is involved and would love to learn a little bit more. What are the players in the industry?

Anthony Cinquini [00:04:51] Sure. So I I started in the affordable housing space in the mid 80s with a very high specialty underwriting tax exempt, the tax exempt bonds that supported various types of affordable housing. And that adventure sort of led me to a variety of things that were either first of a kind, one of a kind, or you know specifically in terms of construction space...they were early in the tax credit business, early in the bond business. And in 2009, after the financial crisis, right after suffering from the same crisis, I was contacted by a group that had been in this space for some time and that they were getting traditional Single-Family mortgages on every every one of their houses and had at the time about 800 houses [inaudible]. But they had about 800 houses and the regulators of post financial crisis and sort of a stop to them, getting your typical three year Single-Family loan on a house that was released to the care provider, taking care of these types of individuals. So I was contacted as perhaps somebody that could figure out a way to take that product, which was a scattered site, and put it into an affordable multifamily framework for for either Fannie Mae or Freddie Mac. And at that time, I had very good relationships, we had done a lot of business with both of the agencies. I called them both up and explained to them that a very high level what was going on and would they be interested and at the time both of them were very, very interested in pursuing this kind of thing because of the affordability and the tenants are... But unfortunately, the regulators and the agencies had realized, you know, no new products right now because of the crisis. And so we kept that on the back burner. Fast forward to 2015, I was contacted by that same group who had heard from the regulators that maybe now was the time. And I called my partners over at Freddie Mac and explained what it was and the gentleman who was inside the business who had been there for a long time and I'll never forget what he said is, "you know all about this, we love this. We have another group out of Chicago, capital [inaudible], that we're currently looking at something like this." He said, "but we can't find a partner who really understands it's willing to do all the heavy lifting to sort of put these scattered multifamily sites...I'm sorry Single-Family sites into a Multifamily form." And at that point is what I met CapGrow and we are doing our first transaction in December of '15 and have done numerous additional ones with them and and some others space. It's not a very big space, there is there's a there's a small handful of providers that have size. There's a lot of providers, borrowers, I should say, people that own the houses, there's a lot of entities and people that own lots of houses, but in small sizes. So it becomes, you know, difficult to find, you know, to have one just one single house and get financing is difficult in this space. The players like CapGrow have have accumulated lots of homes and we're going to hear from Matt shortly and it just becomes more efficient to have big groups of homes to to do these types of financings. But it's a it's a terrific, you know, really interesting, very beneficial type of space. It appears to be growing, there appears to be some current legislation being proposed about expanding sort of the funding sources for these groups. And the other sort of unique thing about it is it seems like everybody knows somebody who may need these types of need, these types of housing, and it's just very important to do. And so Berkadia and myself are very committed to to to furthering the program.

Luba Kim Reynolds [00:09:48] And thank you, Tony. And very impressive accomplishments in this area. And Matt, I know when we were preparing for this podcast, you shared a great personal story, how you got into this business, how it's important to you, if you don't mind, would you...we would love for you to share the story with the audience here, as well as to give some background what you do at CapGrow and CapGrow itself. I think you have a pretty unique growth story and a lot of accomplishments that you achieved.

Matt Pettinelli [00:10:25] Absolutely. Thank you, Luba. For those who are listening my name is Matt Pettinelli, I'm the founder and CEO of Capital Partners. We are based in Chicago, but own and lease assets to the behavioral health community on a national basis. My foray into the HIDD market started very young, my...both my parents are social workers. My father was brought in to run a group home operation in the late seventies and my mother had devoted a tremendous amount of her time to volunteering for children who have intellectual and developmental disabilities. So from a very early age, I was exposed to individuals with IDD and most and more importantly, to the community based housing solutions that my father and his company were offering at that time, predominantly in the Midwest. Over time, my father grew that operation to be the largest in the country and often struggled with the real estate component that is a primary vehicle for serving the needs of these individuals in the community. They reluctantly owned the real estate. It was a product of not being able to identify an appropriate or willing owner of such real estate, which were single family homes, and continue to be, and to lease them to my father's company. And the primary reason is because the landlords, for lack of a better term, would ask, "well, who who will be living in the homes?" And my father and his company would say, "well, we serve adults with intellectual and developmental disability and they they will live in the homes and we will have twenty four hour staff and the staff, although not being live-in staff that's on a rotational, they will make sure that the home is cared for", and that would always create somewhat of a sideways look. And then the second question would be, "well, where do you get your funding or how are you going to pay me?" And my father would say, "well, we are predominately funded through Medicaid and SSI." Well, as soon as those two components were mentioned, any and every landlord would say, "yeah, we're not dealing with the government and we're not comfortable with the individuals that will live in the home. We've heard horror stories about their actions and behaviors," and it was just it was very unfortunate. And so I saw the operations side firsthand and had opted not to go into the operations. It is a very difficult and trying business, but very rewarding when done very well, which my father's company did. He sold again that company in 1999, so I went off and did my own thing. And after about six years of trying to figure out where I wanted to spend my career, I continued to come back to what my parents had devoted so much of their time and resources to, and that was serving this unique population. I knew of this void of wanting to and meeting appropriate housing solutions in the community and I thankfully was naive enough and experienced enough to say, "well, I can do that. I grew up in a family that devoted their time to this. I'm comfortable with it. By golly, I think I can do it." And I had known of some other groups that had some moderate success, but being young and confident believed that I could do it much better and that on and on a larger scale. So off I went. Really 2005, at the end of that calendar year was the formation of the company and I quit my job and started at full time out of my house in Chicago in the early part of 2006.

Luba Kim Reynolds [00:14:40] This is really great and thank you Matt for your determination. And I think it was one of those perfect intersections where you took your personal experience, you really saw the vision and opportunity and all of that that transformed into a really growing this product. So really, really excited and happy to see it. And since I have you on the spot here, let's just dive in a little bit deeper into the real estate itself. If you can just tell a little bit to the audience what this product actually is, what it looks like when you get into the house itself, how it is equipped, like as much information, if you can give us, will be much appreciate it.

Matt Pettinelli [00:15:23] Absolutely. So we focus predominantly on Single-Family assets, the homes that we own nationally, currently, we cover thirty nine states. The homes that we own you would never know that they are leased to behavioral health providers that serve adults with a behavioral health condition. They look just like every home on the block. The only if you will give away might be a van that has an extended roof to appropriately transport individuals who are non-ambulatory. But other than that, from the outside, you might not even realize that it is what is commonly referred to as a 'group home.' That's the point of this whole program. The program is to give these individuals an opportunity to be integrated in the community. The alternative option for them is to live in a larger congregate setting, often referred to as an institutional setting. That has proved to be not the most advantageous way to further their personal development. And so the providers allow them oftentimes to have a bedroom for the very first time in their life. And many of these individuals are in their 30s and 40s and they are given their own bedroom and their own space. So they're usually four to six bed homes, commonly single story. They will be single sex, so all male or all female. Dependent upon their mobility restrictions there may be internally a need to widen some hallways and doorways to better accommodate wheelchair wheelchair access. And outside of very simple regulatory and certification needs like fire suppression systems or upgraded alarm systems, so that if someone were to open a door, the staff is alerted just to for their own protection of the residence. Of course, the homes don't have to be modified greatly. And again, sometimes there are more modifications than not dependent upon the mobility and cognitive level of the individuals living in the home. But that's that's what we focus on. And we we do this all day, every day all across the country. We are agnostic to location. We do we fulfill a demand that is brought to us by the provider organization. They know where the most appropriate location and the most appropriate need will be for the individuals that they will ultimately serve in the home. The state will contact the provider organization and say, "can you bring online six homes to fill? We'll put four people in each home." And then that provider organization tells the state, "hang on one second," they'll call us and say, "Hey, CapGrow are you able to buy six homes for us in this particular part of the country in the next forty-five to sixty days?" We say, "yep, no problem, let's go." And then they hang up with us and get back on the phone with the state and say "we're good to go, we can make this happen." Our process, of course, isn't that simple related to the validation and review of the provider organization, we are very specific and careful about who we work with because we do operate from afar. So we need to make sure that we're entering into a lease contract with a qualified and proven organization. So we go through a financial review, if we need, we will review those financials on an annual basis. But most importantly is we know these providers personally. We are constantly traveling all over the country and meeting with the provider organizations that are of size and scale, one on one at trade shows, at various industry opportunities. So we truly get to know them personally. We know their executive team and we know what their mission is. We know what the goal is. They get to know us. And so when they do call us, we're already pretty comfortable with the program that they are operating and more importantly, the financial stability of their organization. But there absolutely is a bit of an underwriting process, but it's something that we have streamlined very well and that we have proved to be very successful with over the last fifteen plus years. But to put it into context, you know, there are thousands upon thousands of provider agencies that support individuals with IDD and TBI and other behavioral health needs across the country, we focus on less than fifty. So we are very selective and we work with the best of the best and that is important to us. So it's it's about quantity, yes, but more importantly, it's about quality. And we want to make sure that we are with the groups that are providing superior service to the individuals, because really, at the end of the day, the provider agency, as well as my company, CapGrow, is focused specifically on providing the best and most appropriate community based housing solution that we can.

Anthony Cinquini [00:21:06] Can I add something there to that? So one at one of the things that's that's important in this process is that it is a very highly regulated, it's a very highly regulated industry. Obviously taking care of this type of clientele you need to have good oversight. So at each state, each state does it differently. Sometimes they do at the state level, sometimes they do at the county level. Sometimes it's both. And all of these care providers are licensed and accredited. They require, as far as the real estate, there...something I've done a lot of review and all these different states, some of these states have up to four inspections. Usually, they can be random inspections and they're showing up not just to look at the house, but to make sure that the tenants are being taken care of. And I always like the story that Matt told years ago about about the best the best inspection is from a family member. Because, you know, though, some of these people may have family that have passed, and that's part of the reason why they're in the house, they still do have family and extended family, friends who keep in contact with them. And Matt has told the story a few times to me about having a family member show up in a house and not be happy about one thing or another that might be very small and make sure that they're taken care of. So it's important to note the big oversight by by certain regulations and regulators for these particular houses.

Luba Kim Reynolds [00:22:55] Very, very great insight here, very, as you can tell, very specialized asset class here. So, Andrew, at Freddie Mac, we pride ourselves in our credit standards, in our in-house credit decisions, as well as trying to figure out some of those unique situations as this product is. Do you mind to give us a little bit of a behind the scenes insight, how we'll look into underwriting this type of deals and do we feel comfortable doing them?

Andrew Tush [00:23:31] Sure. As you noted and Matt and Tony, you know, this is a specialized segment of the the multifamily housing market. So we have some some nuances, I think, that we consider that's different for this versus some of the other traditional multifamily loans that we're originating. So outside of what I'll call the typical loan credit metrics of you think about LTV and debt coverage and those type of things, you know, some of the things that we are really focused on is are the care providers are for the underlying homes, what their track record is. We obviously look at the sponsorship track record. You know, Matt has been Matt and CapGrow have been, you know, probably one of the the longest tenured operators in this segment and have seen a lot of things that, you know, we were actually able to to learn from from Matt's experience. So sponsorship track record is important. You look at the lease terms between, you know, the sponsor and the care provider. So it's a little bit of kind of pulling in some of those, I don't want to say commercial components, but it's almost, you know, kind of a a care provider type type lease structure and type housing, so a little bit of a nuance there. You know, inspections of the homes we do this as part of the underwriting due diligence process. We make sure that Freddie Mac is able to get inside and complete some of the interior inspections for some of these homes that are in the deals that we're that are collateralizing the loans. And then I think, you know, there's some outside of those items you also, unlike a single loan to a single multifamily property, you know, you get benefits of from cross collateralization of the homes and the pool under a single loan. So that comes into play. So I think those are those are some of the more I don't want to call them qualitative aspects, but some of the more unique aspects that that we look at for this segment of the market.

Anthony Cinquini [00:25:44] And Andrew, maybe I can add a couple of things. So what's what's interesting about so when you look at a multifamily asset, you have a property manager on site, a tenant rents the unit for lease, and then the following year, the tenants lease is up and they renew it or they move. Here, if you think about it, these these transactions are are typically on the low side one hundred houses, Single-Family homes, on the high side, up to four hundred houses that could be in 10 or 20 different states. Within each state they can be within five, six, seven, 10 counties. So they're very, very spread out. And the the other thing when you look at this compared to multifamily, is that the leases are typically of longer term. They're not year to year and they're not open to the market. They're typically with three or five year lease payment with some some very low increases in ongoing lease payments. Renewal options are built into the leases. They typically get renewed for another three or five years or whatever that is. What's unique about this is that occasionally we do have a house go vacant. Look, when we close these loans, they're always one hundred percent occupied. And occasionally when a house goes vacant, what what what CapGrow will do, and others, is they can they can substitute a house for that vacant house. They can release that house and pay down a piece of the debt appropriately. And so what happens is over the over time, our portfolios are typically 100 percent occupied at all times. The other unique thing about it is when you have that many houses spread out over that vast area, just from a pure credit standpoint, I would like to use the example of a fire. You know, if an apartment building, if the downstairs corner unit catches on fire, it may damage multiple units within that that garden style apartment or that high rise. In here, if there is such a calamity, it's just that house. It's not the entire portfolio gets gets dragged down or the or, you know, it would be it's hard to rent a house, an apartment after a fire in a damaged building here. Yes, we have a damaged house and we'll fix that, but it's just the house. And that's it's an interesting sort of scattered site concept that that brings to a different credit metrics to to our reviews of how we underwrite this stuff.

Luba Kim Reynolds [00:28:41] So let's switch gears a little bit into social impact. So we have a great real estate. We are really comfortable underwriting it, so a great credit story. Ultimately, these loans will be backing our social bonds in the future. So I'm sure our investors who would like to invest into the social bonds would love to think about what our real social outcomes here. In example, we are saying "this is underserved population, but is it really underserved?" And I think Matt you touched on it very beautifully when we once again were preparing for this podcast hard, there is still a gap of funding for the specific product. Would you mind to touch on that a little bit more?

Matt Pettinelli [00:29:30] Sure, so it's not so much the funding as it is a gap and accessibility to the appropriate number of community based homes. The alternative, again, is an institutional setting, and the institutional settings are predominantly governed and operated by the state governments. That has proved to to not work out well. And that is why the advocates and parents for these individuals and overall guardians have been such staunch supporters of community based housing and the further allocation of available homes. It's a problem as such that in 1999 the Olmstead Act was passed, which was a Supreme Court case that said institutional living is deemed segregated living and thus is not allowed. That was in 1999 and so there was a precedence to deinstitutionalize completely and integrate into full community based housing. We are obviously in 2021 and I think by last count there are only 14 or 15 states in full compliance. So the demand remains rich, unfortunately, because that means that more individuals are unable to appropriately live in the community and are being forced to remain in an institutional setting. So the demand is high and unfortunately will remain high for the foreseeable future. Some positive news has come out recently, however, with the new administration that there is a full commitment to continuing to support and expand funding for individuals with IDD and TBI and other cognitive needs, as well as further accelerate the deinstitutionalization, deinstitutionalization efforts at the state level and further support community based housing efforts. So we will see how that goes. Obviously, time will tell. Of course, we remain at the forefront of that state government and the provider community knows us on a first name basis. They know that we are standing at the ready to buy as many homes as they continue to need and are able and willing to remain patient as those deinstitutionalization efforts come to fruition, but unfortunately, it does remain a waiting game. You know, related to funding, I will say that state and federal governments will always remain supportive of funding related to the behavioral health community. It's because they they have to. And this is a harsh statement, but it's one that is accurate and is that programs for the elderly, veterans, homeless, etc, will be tinkered with all day long. Programs for individuals who are on a intelligence bell curve are deemed to have clinically the term 'mental retardation,' politically referred to as 'IDD,' are unable to care for themselves and need a guardian. And oftentimes that guardian is the state, so these are individuals that are wards of the state. Any time there is a threat to the overall cut in Medicaid, the IDD community firmly stands up and says, "listen, you you are not allowed and able to mess with our funding." And ultimately, although it may sound draconian at first, the cuts, if any, are are slight and usually it's done through a backroom deal where it's made up some other way. That is not to say that the provider community is sitting on piles of cash, and truthfully, I don't know if there is honestly enough money that could be given to them for the services they provide. It is a tremendous amount of work, a great deal of responsibility and oftentimes a thankless action and service because the individuals are unable to appropriately emote their appreciation for the care that they are receiving. So the funding is stable, it's constant and often predictable, plus or minus, and that is how we have gotten comfortable on the real estate side. But importantly, it attributes to the underwriting that we that we forego for each new client to make sure that they, too, are advocates and staunch supporters within their local state government and at the federal level to further enhance and the funding streams that are made available.

Luba Kim Reynolds [00:35:06] And Tony, I know you have great additions throughout the podcast. Any thoughts for any skeptics out there who still do not believe this is a social impact product with the really, really great social impact outcomes, anything we should be considering? Anything else?

Anthony Cinquini [00:35:26] Sure. So the individuals that are housed in these homes, it's it's it's not, maybe this might get cut, but it's not Bill Gates' child that is living in the houses. These are these are individuals that can be, again, without families or aging families who can't take care of them anymore. And as Matt alluded to, the care on site is typically twenty four hours a day, there's typically three shifts. The care providers don't actually sleep at the houses, they're just there in three different shifts taking care of them. The, you know, the the loosley from out of institutions into this kind of housing, according to the studies, has proven to be extremely beneficial for a much better quality of life for the individuals. So, yeah, I don't I can't imagine seeing anything that's not having a positive social impact considering the product. Again, the houses, as Matt mentioned, it's indistinguishable from the front and mostly on the inside, you know, other than a bathroom or maybe bleach coating on the walls, wheelchair ramp. It's housing in typical Single-Family homes and a typical Single-Family neighborhoods for people that may otherwise need to, if this didn't exist, would live in more institutional hospitalize settings where they don't need to be.

Matt Pettinelli [00:37:18] And Luba, I just want to make one last point on this topic related to social impact. We have a saying in our office that "we do well by doing good", and we mean that. And it's something that is our primary driver for the effort and attention that we put in every single day to identifying the the right home, the best home, and making sure that the services are able to excel in that residential setting rather than just saying to a provider, "hey, yeah, I have a home, it is what it is. Do you want it or not?" Rather, we say to them, you tell us the location, you tell us the layout, and then we go and vet the quality of that home. And we determine through a collaboration with the provider, by reading and reviewing inspection reports and neighborhoods to say, "hey, this is a great home. We think this is an appropriate solution." There are oftentimes we will say, "hey, we don't think this is a good home". And remember, we're in the business of buying real estate and leasing it, so one could say, "Matt, what do you care? You get the lease and then it's their problem." That's not our outlook, nor is that ever the way we could take a view to be successful in this industry. Our partners partner with us because of our integrity and our level of expertize, but more importantly, our commitment to serving the individual's needs who will ultimately live in this home to the best that we're able to on the real estate side by empowering the provider to execute the most appropriate and best services possible. So there is a lot that goes into it more than just saying, "yeah, I own a bunch of these homes that are vacant do you want to come in or not? They're they're actually kind of falling apart, but that's not my problem." And unfortunately, there are some local landlords that take that approach. And those are not the ones that Freddie would ever work with, nor are there the ones that the providers we worked with are attracted to. They're attracted to the the quality and the service that a group like CapGrow offers met.

Luba Kim Reynolds [00:39:54] I love the saying "do well by doing good." I think this is a great example how it starts with the need to really provide a unique specialized product to underserved population. You have a great business model and expertize and with the help of Tony's expertize, Freddie's commitment to support the impactful projects like this and also these deals backing our social bonds, it solidifies our 360 degree approach to our housing mission of supporting affordable housing. Thank you all very much for being here today and sharing your knowledge.

Luba Kim Reynolds [00:40:32] Thanks for listening to this special. Addition of the optical extra Sparkasse to keep up with the latest episodes, be sure to subscribe wherever you get your pockets.