Spotlight on Underserved Markets

Furthering Opportunity in Areas of Concentrated Poverty

Freddie Mac MULTIFAMILY

Furthering Opportunity in Areas of Concentrated Poverty

Three Case Studies on Mixed-Income and Social Impact Housing

Over 61 million people in the United States live in an Area of Concentrated Poverty[1] (ACP), representing 19% of the nation's population. These are locations that are characterized by persistently high poverty levels, low economic opportunity and high housing costs relative to income. While statistically ACPs share certain characteristics[2], there are significant variations across communities and in state and local approaches to addressing the challenges faced by residents.

Recent studies have shown that the community where a person grows up has long-term impacts on life outcomes. Concentration of poverty can have negative effects on the people who live and grow up in these communities; the tax base is typically lower, the amenities may be fewer, the quality of education — and public investment in that education — can be lower, and health outcomes can be less favorable than in areas that are more economically vibrant.

ACPs need not remain that way. Many such areas are in the midst of transformation and economic revitalization. This revitalization can have many benefits — increases in tax base, public investment, economic opportunity in the form of new business and new jobs, access to transportation, and access to healthy food, and improved health outcomes over time. Essentially, revitalization is necessary to turn an ACP into an area of high opportunity. However, revitalization can bring with it other challenges and unintended consequences, including the displacement of long-time residents through the demolition of affordable housing or conversion to higher-income housing.

To this end, the encouragement of residential economic diversity through mixed-income housing can help to both support economic revitalization of a community and preserve or improve affordable housing options for residents. Developing new or rehabilitated mixed-income housing stock can even increase the quality of affordable housing in an area. This is particularly important in areas of long-term public disinvestment where deterioration of the housing stock further negatively impacts residents.

Mixed-income housing can help to deconcentrate poverty and provides access to neighborhoods of opportunity for all residents. It also expands the availability of quality affordable housing throughout a metropolitan area. Perhaps the most prevalent and economically viable form of mixed income is the 80/20, where 80% of the units are market rate and 20% are rent and income-restricted, affordable units. This type of development is only possible in markets where there is demand from high-income earners so that enough units can be created to cross-subsidize lower income units. From a city's perspective, 80/20 deals offer a dual benefit of both increasing the number of affordable units and the overall supply of new market rate housing for a higher income demographic, which will expand the city's tax base and incent developers to invest.

Mixed-income housing is not the only solution to improving opportunity for residents in ACPs. More targeted efforts at the property level to support residents' education, safety and health can be integrated through the provision of services and deliberate incorporation of first responders, health professionals and teachers who live in the community. Essentially, an apartment community itself can promote economic mobility for residents without public subsidy, and without requiring residents with materially higher incomes.

In this paper, we look at four different ACPs to understand both the uniqueness of local markets and their commonalities — as well as efforts undertaken in these markets to foster economic revitalization and

[1] 12 CFR Section 1282.1 (2016)

[2] https://mf.freddiemac.com/docs/Affordable_Housing_in_Areas_of_Concentrated_Poverty.pdf

promote economic opportunity for residents. We look at three properties to understand the types of mixed-income housing that can realistically be created in ACPs, and what financing and policy tools are used to foster their creation. We also look at a fourth property that is not mixed-income but does promote economic opportunity for residents through its innovative integration of occupations and services that those professions can provide to residents.

(1) Walker House – located in Newark, New Jersey. This property is an adaptive reuse of an historic art-deco office building into a mixed-income, mixed-use property. It was financed by leveraging 4% Low-Income Housing Tax Credits (LIHTC), Federal Historic Tax Credits (HTC), New Market Tax Credits (NMTC), as well as a local payment in lieu of taxes (PILOT) program. The property, scheduled to be completed in December 2019, will provide 263 new apartment units, 80% (210) units at market rents and 20% (53) units were set-aside for households earning up to 40% and 50% of area median income (AMI) levels.

(2) Capitol Lofts – located in the city of Hartford, Connecticut. This property is an adaptive reuse of a former Hartford Office Supply Company headquarter, which was converted to a mixed-income residential building. This historic office building was converted into a 112-unit building using a combination of tax-exempt, private activity bonds (PABs) by the city of Hartford, acting by and through the Hartford Development Agency, as well as investor equity through the 4% LIHTC program. This property provides 80% (89) market rent units and requires 20% of the total units (23 units) to be rented to households earning 40% and 50% of AMI. All of these units are new to the market.

(3) The Aspire – located in New Brunswick, New Jersey. This property is a newly constructed 238-unit mixed-income, mixed-use residential building located at 135 Somerset Street. The property provides 80% (190) market rent units and is subject to a regulatory agreement with the New Jersey Housing and Mortgage Finance Authority (NJHMFA) that requires 20% of the total units (48 units) to be rented to tenants earning 50% AMI or less. This property leveraged tax-exempt financing, Urban Transit Hub Tax Credits, a Community Development Block Grant (CDBG) and a local PILOT program to make the project economically viable.

(4) Regency Pointe – located in Forestville, Maryland. This property, which was acquired by Turner Impact Capital, is a 599-unit garden-style apartment located within the suburban Maryland portion of the Washington, D.C. metropolitan statistical area (MSA). This property — and the approach taken by the owner — is fundamentally different from mixed-income housing but serves the policy goals of creating opportunity in ACPs. Turner Impact Capital provides discounted rents to teachers, first responders and other community-serving professionals in exchange for the provision of services at the property to help improve public safety and foster better life outcomes for residents.

From these four communities and properties we can see clearly the needs and opportunities in ACPs. We demonstrate replicable methods of using public subsidy and revitalizing — and repurposing — through existing structures, to provide mixed-income housing that increases the supply of affordable units in ACPs while improving living standards for low-income residents. And in the case of Regency Pointe, we demonstrate that increasing economic opportunity in these markets without federal or state subsidy can be accomplished by fostering a stronger community at the property with residents providing services to other residents.

Case Study #1: Walker House – Newark, New Jersey

The city of Newark, like many other cities across America, has suffered from urban sprawl as city residents moved to the suburbs in droves post-World War II. Newark was the 14th most populous city in the U.S. in 1910. In 2018 it was the 73rd. During that time, Newark went from one of the state's economic drivers to "a struggling urban area with a high crime rate, failing schools and deep poverty in the span of just a few decades."[3] As a result, most of downtown Newark is deemed an ACP.

Exhibit 1: Property Characteristics

Geography	**State**	New Jersey
	MSA	New York-Newark-Jersey City, NY-NJ-PA
	County	Essex County
Property Details	**Style**	High-rise
	Year Built/Reno.	1929/2018
	Number of Units	263
Ownership and Management	**Owner**	A joint venture by and between L&M, Prudential and Goldman Sachs Development Partners
	Manager	C&C Property Management

Source: Freddie Mac Investment Brief

Today, Newark is in the midst of a revitalization, ushering in new development to Newark's historic downtown. The city has set forth the Living Downtown Redevelopment Plan, which has "a vision for a revitalized, vibrant and sustainable downtown Newark using residential development as a primary catalyst."[4] Part of the city's revitalization includes converting former office buildings in the city's historic center into mixed-income, mixed-use residential properties. These properties will create new, high quality affordable and market rate housing, the combination of which can foster residential economic diversity and increase opportunity for residents of all incomes.

Property Overview

A joint venture by and between L&M Development Partners Inc., Prudential Financial and Goldman Sachs Urban Investment Group (UIG) acquired an historic office building and converted it into a mixed-income, mixed-use residential building called Walker House. Located at 540 Broad Street, at the north end of Newark's central business district, the 21-story office building was constructed in 1929 as New Jersey Bell Telephone Company's historic home, and until recently served as the regional headquarters of Verizon Communications Inc. In 2005, the landmark building was added to the National Register of Historic Places for its architectural design and historical significance as a symbol of New Jersey's progress in telecommunications and construction.

Source: Apartmenthomeliving.com

Upon completion in December 2019, the property will provide 263 apartment units, 51,000 square feet of office space, 25,000 square feet of telecom storage

[3] https://www.njspotlight.com/2019/09/19-09-02-newark-before-the-comeback-a-city-marked-by-white-flight-and-poor-policy/

[4] https://www.njfuture.org/smart-growth-101/smart-growth-awards/2009-award/broadstreet/

space (pre-leased to Verizon), and 21,000 square feet of retail space, including cellar space that will be home to the city's first climbing gym.

The residential component will be mixed-income, with 80% of units (210 units) leased at market rates and 20% (53 units) set aside for households earning up to 40% and 50% of AMI. Amenities housed on the 21st floor, which previously hosted the building's mechanical systems, will include a fitness center, yoga studio, library game room, tenant lounge and bike storage. The commercial component will feature three floors of office space and retail space on the ground floor and cellar levels.

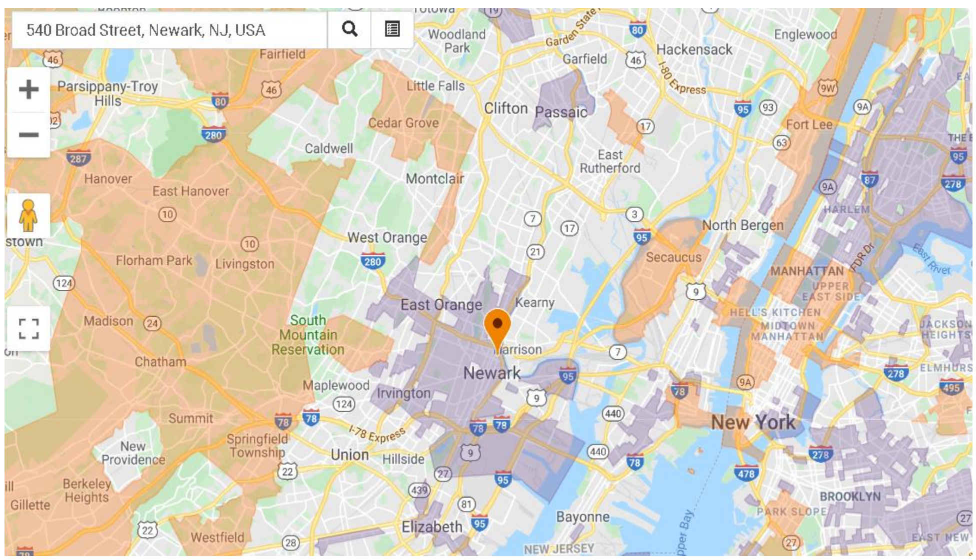
The downtown Newark area has seen a resurgence in construction of new apartment buildings as it draws renters attracted to the highly sought-after urban amenities including transit, cultural and recreational. Mixed-income housing helps to alleviate negative perceptions of subsidized housing by removing visual indicators of poverty and providing low-income residents with higher-quality construction. All the tenants, regardless of income qualifiers, have access to the same amenities.

As such, the project achieves the 24/7 goals of the Living Downtown plan: with residential, office and retail uses, the building is active at all hours.

Market Overview

Historically, the city of Newark has struggled from disinvestment and concentrated poverty. In 2017, approximately 28% of the city's population was living below the poverty line and the unemployment rate was nearly double the national rate. The census tract where Walker House is located has a poverty rate of 40% and a nearly 25% unemployment rate. Approximately 70% of the census tracts located in the city of Newark qualify as an ACP. While the majority of ACP census tracts are in a qualified census tract (QCT)[5], around one-third are racially/ethnically concentrated area of poverty (R/ECAP)[6], higher than the national average of roughly 25%. This indicates there is a higher concentration of census tracts that qualify as R/ECAPs in the city of Newark compared with the national average. Walker House is in a tract that qualifies as both a QCT and a R/ECAP.

Exhibit 2: ACPs and High Opportunity Areas around Walker House



Source: Freddie Mac's Duty to Serve Mapping Tool. Purple regions represent ACPs; Orange regions represent high opportunity areas

[5] For Duty to Serve purposes, defined by reference to 26 U.S.C. 42(d)(5)(B)(ii)
[6] For Duty to Serve purposes, defined by reference to 24 CFR 5.152

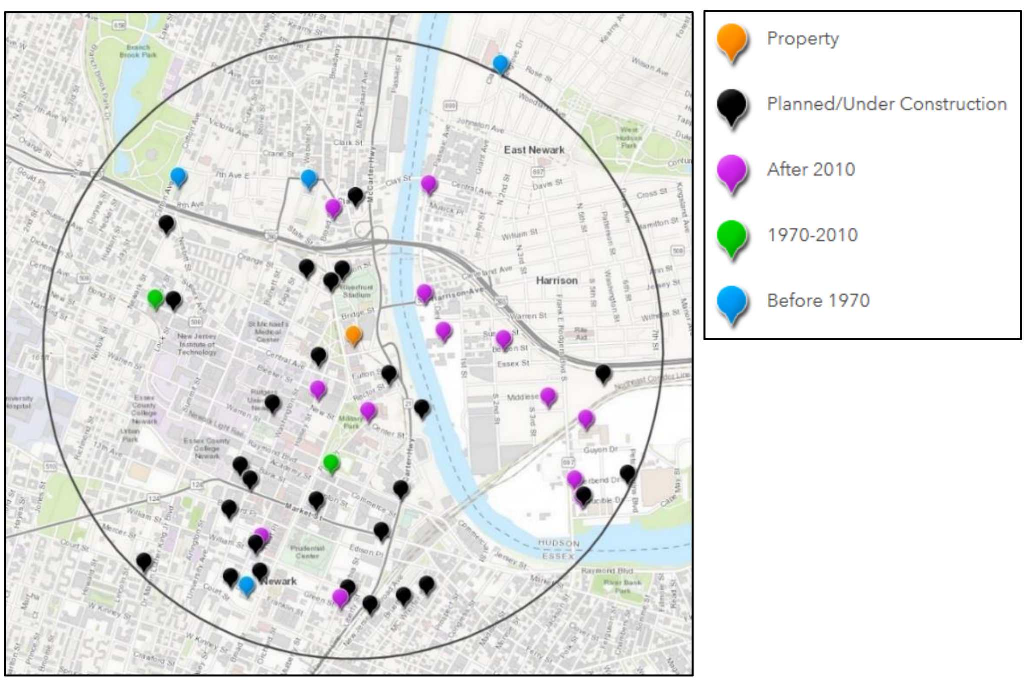
Exhibit 3: Demographic Characteristics Data per Census Tract, State and National Averages

	Tract	County	State	Nation
Population Density	9,381.3	6,341.0	1,218.3	90.9
Median Income	$40,733	$57,365	$76,475	$57,652
Median Income - Owner	-	$108,656	$101,103	$73,252
Median Income - Renter	$40,398	$34,745	$43,991	$36,653
Poverty Rate	40.0%	16.7%	10.7%	14.6%
Renter Rate	94.8%	55.5%	35.9%	36.2%
Cost Burdened Renter %	50.0%	55.8%	52.8%	50.6%
Unemployment Rate	24.7%	10.4%	7.0%	6.6%

Source: Freddie Mac. Tabulations of 2017 5-Year American Community Survey. Note: While data from Exhibit 3 represents five-year American Community Survey data from 2012-2017 and reflects a higher national unemployment rate than current figures, it provides a view into how the census tract compares across the county, state and nation.

In addition, the city's apartment stock is aging. Nearly 70% of the current apartment inventory was built before 1970.[7] Per Yardi Matrix, in a 1-mile radius around Walker House, there were no apartment buildings built from 1966-2003, and this area has only seen development pick up more recently starting in 2011. Exhibit 4 shows the properties in a 1-mile radius surrounding Walker House and the current construction pipeline. Under the current pipeline, 1,600 units are under construction with 6,500 more units planned or perspective. This is compared with the current 5,000 units, of which about one-third were built prior to 1966. The pick-up in development points toward the increased investment opportunity in the area.

Exhibit 4: Multifamily Properties within One Mile of Walker House, by Year Built



Sources: Yardi Matrix, ArcGIS Online

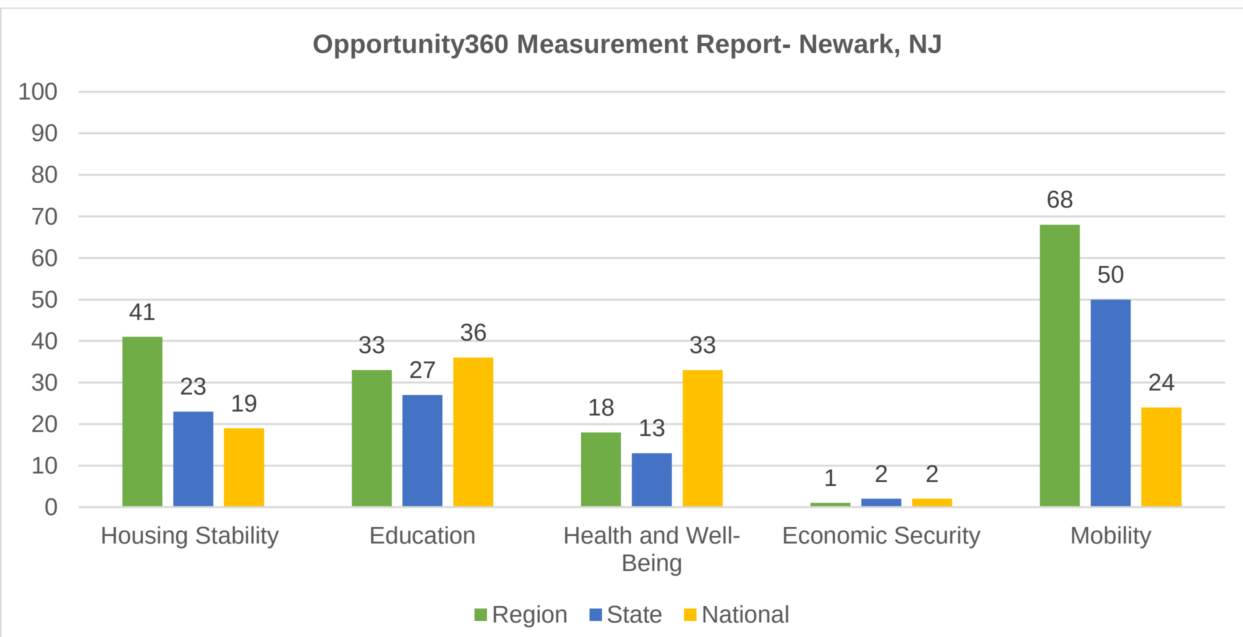
[7] Per Yardi Matrix, using the submarkets Newark-central, south, north and west, removing fully affordable properties

This growth has been accompanied by substantial public and private investment in the downtown area. Noteworthy projects include the Newark Light Rail Center extension in 2006, the Prudential Center – a 18,000-seat arena developed in 2007, the Panasonic headquarters building in 2013, the Prudential Tower in 2015, and the renovation of the historic Hahne & Co department store, led by L&M Development Partners, into a mixed-use, rental building in 2016. The area also hosts the Rutgers University Newark Campus, New Jersey Performing Arts Center, and several nearby parks and recreation spaces.

Enterprise Community Partners (Enterprise), an organization that advocates and builds affordable housing for lower-income households, created Opportunity360 to assess areas of opportunity. Opportunity360 is a tool that measures opportunity in census tracts across the country. Based on an Opportunity360 report, the census tract where Walker House is located does not score favorably, which is typical of ACPs.

The census tract is compared with all other census tracts in the region (which is defined as the New York City MSA), New Jersey and the nation. The numerical value is the percentile the census tract represents in those respective geographies. The census tract around Walker House ranks well below the 50th percentile in all the measures for the region, state and nation except in mobility when compared with the state and region. This implies the area has below average access to all the opportunity measures (housing stability, education, health and well-being, economic security and mobility), except for average to above-average access to transportation compared with the region and state. The high scores for mobility exemplify the area's access to public transportation: a high walkability score of 94 and bikeable score of 70.[8] However, the area does feature a higher percentage of workers who commute over an hour compared with the nation and of households for which no vehicles are available.

Exhibit 5: Opportunity Indices for Walker House Census Tract



Source: Opportunity360. All numbers are percentiles denoting the strength of the tract relative to each geography. A higher value is more favorable, with 50 representing the average.

[8] Walkability and bikeable scores are measured from 0 to 100, where 100 is a walker and biker's paradise where daily errands do not require a car and biking is convenient for most trips https://www.walkscore.com/score/540-broad-st-newark-nj-07102?utm_campaign=tilefooter&utm_medium=address_search&utm_source=policymap.com

Despite these challenges, the northern New Jersey economy benefits from its diversified economic base, extensive transportation network, and linkages to New York City and the Northeast. The proximity to Manhattan, plus increasing job opportunities in downtown Newark, have attracted a younger, more affluent demographic to Newark's urban core. From 2005 to 2017, the city's population grew by 12.2%. From 2010 to 2017, and the number of households earning greater than $100,000 increased by 14.6% citywide, per the American Community Survey.

Exhibit 6: Multifamily Rental Market Overview

	Submarket (Newark)	Market (Newark - Jersey City)	National
2013 Rent	$1,153	$1,592	$1,063
2018 Rent	$1,282	$1,884	$1,334
5-Year Rent Growth	11.2%	18.4%	25.5%
2013 Vacancy Rate	5.4%	3.4%	5.4%
2018 Vacancy Rate	1.9%	3.2%	4.6%
5-Year Vacancy Difference	-1.1%	-0.1%	-0.8%

Source: RealPage

Increased demand for downtown living has driven an increase in submarket rents by a modest 11.2% from 2013-2018. While rent growth has lagged the national five-year growth rate, vacancy rates are well below the national average and, at a very low 1.9%, illustrate the increased demand for apartment rentals in the submarket. This tight of a vacancy rate also indicates there is not enough supply to keep up with the demand. The appeal of downtown Newark continues to draw renters of all incomes. Walker House is conveniently near parks and cultural institutions, and near both the light rail and the NJ Transit commuter rail station which provides access to Manhattan. [9]

Harnessing increasing rents and continued demand for new multifamily units in the downtown area, the city of Newark has incentivized developers to construct mixed-income rental housing in an area that has historically had concentrations of poverty. They have done this through a variety of local tools and subsidy programs meant to fill the gap between the cost of construction and the project's value. Approximately, 13,300 units of designated affordable housing have been developed in Newark since 2000, including the 53 units in Walker House.

Federal and State Actions to Support Affordable Rental Housing

The project was financed through a variety of private and public sources, including federal, state and local funds. As an 80/20 deal, the project benefited from a combination of tax-exempt PABs issued through the New Jersey Housing Mortgage Finance Agency (NJHMFA) as well as investor equity through the 4% LIHTC program. Tax-exempt financing reduces the overall cost of debt on a project. The interest earned by holders of tax-exempt bonds is exempt from federal income taxes, resulting in a lower interest rate passed on to the developer. However, tax-exempt financing is extremely competitive in New Jersey, as states are limited by an annual volume cap allocated to LIHTC projects. Therefore, NJHMFA must deploy its PABs strategically to maximize the impact of this scarce resource. To stretch the impact of public financing, states often prioritize the allocation of PABs to projects that are also eligible for other federal or local subsidy programs. This was certainly the case on Walker House, which leveraged tax-exempt

[9] https://njbmagazine.com/njb-news-now/leasing-starts-at-walker-house-in-newark/

financing, 4% LIHTC, NMTCs, HTCs and a local tax abatement PILOT program, to make the project economically viable.

Property Financing

Equity

The project will receive $23,239,000 in 4% LIHTC and HTC equity. Under the 4% LIHTC program, the property is subject to a regulatory agreement with the NJHMFA that requires 20% of the total units (53 units) are to be restricted as affordable. Of those 53, 45 are to be rented to households earning 50% of AMI for a minimum of 15 years while 8 are to be rented to tenants whose income does not exceed 40% AMI. The remaining 80% of units will be rented at market rate, which are $1,425 in this market and affordable to households making $63,300, which equates to about 73% of AMI.

Enacted in 1976, the Federal HTC program encourages private funds to facilitate the preservation and reuse of historic buildings. Taxpayers who make investments in eligible entities or projects claim credits against federal income taxes. The tax credit is equal to 20% of the Qualified Rehabilitation Expenditure and claimed in one year, when the project is placed in service. The program requires the developer to maintain and rehabilitate the building's existing elements to preserve its historic significance.[10] The property has historic features – most notably, the exterior art-deco façade, lobby and select areas on upper floors, elements of which will be preserved as part of the construction scope.

In addition, the property will receive $14,000,000 of NMTC equity associated with the development and operations of the commercial components of the project. NMTC is a federal program enacted in 2000 to catalyze community development and job creation in low-income communities through incentivizing private capital.[11] NMTCs are permitted for operating businesses and real estate development, but primarily used for commercial, non-residential, or mixed-use development (20% of gross income must be generated by commercial components). NMTCs provide federal income tax credits for investors that make investments in certified financial intermediaries called Community Development Entities (CDEs). In turn, CDEs use the investments to make Qualified Low-income Community Investments (QLICIs) such as business loans, in low-income communities. Businesses qualify if they are in low-income communities and meet eligible requirements, including that at least 40% of services must be performed in the low-income community and at least 50% of gross income must be derived in the low-income community.[12]

Debt

Citibank N.A. provided a $17,494,000 construction loan to fund the acquisition and rehabilitation. At the initial closing, Citibank also provided a forward commitment to a $15 million tax-exempt loan (TEL) and a

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[10] During the rehabilitation process: 50% or more of the existing external walls of such buildings are retained in place as external walls; 75% or more of existing walls are retained in place as internal or external walls; and 75% or more of the exhibiting internal structural framework of the building is retained in place.

[11] The CDFI fund defines low income communities as census tracts where the poverty rate is at least 20%; or where the median family income does not exceed 80% of the area median family income; or where the median does not exceed 85% of the area median family income provided the census tract is located in a high migration rural county; or where the census tract has a population of less than 2,000 and is contained within a federally designated Empowerment Zone and is contiguous to at least one other low income community.

[12] Business must meet the following criteria and remain qualified throughout the seven-year programmatic compliance period:

- At least 50% of gross income must be derived from activity performed at the subject location
- At least 40% of tangible property must be located within the low-income community
- At least 40% of the employees' services are performed within a low-income community

$43.6 million taxable subordinate loan (Taxable Tail). The TEL will have a first lien position, and the Taxable Tail will be structured as a subordinate loan. Freddie Mac committed to purchase both loans upon property stabilization after the rehab is complete.

Additional Public Support

On the local level, the property benefits from a PILOT Agreement with the city of Newark. The PILOT program stems from a New Jersey state law that gives municipalities discretion over tax abatements as part of a statewide effort to spur development. This state law allows the city of Newark to exempt a housing project financed by the NJHMFA from real property taxation if the housing sponsor enters into an agreement with the municipality for payments in lieu of taxes. The Agreement calculates the PILOT based on 6.28% of the residential income and 11% of the commercial income. The PILOT Agreement will commence at construction closing and is scheduled to expire at the earlier of (i) 35 years from the date of the Financial Agreement or (ii) 30 years from the construction closing; provided that the tax abatement shall not extend beyond the date the project loan is paid in full.

Impact on the Market

The Newark market is in the midst of revitalization efforts benefiting from both downtown offices and proximity to Manhattan jobs. Consequently, it is becoming an increasing attractive place for higher-income earners to live. Newark has areas with strong assets and strategic advantages that, despite also having concentrated poverty, can be suitable for mixed-income development with substantial affordable units and market rate units that can command a high enough rent that projects can be economically viable with sufficient public subsidy. The Walker House was made possible through the layering of four different types of federal and state subsidies, as well as cost-effective debt financing from Citibank and Freddie Mac. While it may not normally be the case that cities consider Newark a template, this model can be replicated in other markets where there are sufficiently high market rate rents. However, if market rate rents are lower, then either the amount of public subsidy will have to increase or the number of affordable units would have to decrease in order to render a project economically feasible.

Additional application of this model may allay challenges to implementation; with greater familiarity, transactions and documents will more likely better address elements of these financings.

Case Study #2 Capitol Lofts – Hartford, Connecticut

Historically, the city of Hartford has struggled from disinvestment and concentrated poverty.[13] Hartford has suffered from new highways dividing the city and large-scale office complexes that never met their desired goals of creating a well-connected downtown area. Along with failed revitalization plans, the city was devastated by the Great Recession due to the concentration of financial services as the primary economic driver. The city has also suffered from the mainstay insurance industry contracting, corporate headquarters moving out and property taxes taking a toll on commercial properties.[14]

Exhibit 7: Property Characteristics

Geography	**State**	Connecticut
	MSA	Hartford-West Hartford-East Hartford, CT MSA
	County	Hartford County
Property Details	**Style**	Mid-rise
	Year Built/Reno.	1915/2018
	Number of Units	112
Ownership and Management	**Owner**	Dakota Partners, Inc.
	Manager	HallKeen Management

Source: Freddie Mac Investment Brief

Recent improvements in the local economy since the Great Recession have been fueled by smaller entrepreneurial companies, medical related industries, financial groups, technology companies and other service-based corporations. Despite struggles in prior decades at revitalizing the downtown area of Hartford, today the city is taking a new approach aimed at smaller projects that capitalize on underused land as opposed to large-scale complexes that can be hard to fill and can disrupt neighborhoods.

Property Overview

Dakota Partners Inc., a Massachusetts-based developer, substantially rehabilitated the former Hartford Office Supply Company headquarters, an historic office building, into a 112-unit mixed-income residential building called Capitol Lofts. Located at 390 Capitol Avenue in Hartford's downtown, the location straddles the Capital Center and Frog Hollow neighborhoods. The property is surrounded by a diverse group of businesses and residents, and is conveniently located within walking distance of Hartford's business district, the State House building, Aetna's local headquarters building and other mixed-use multifamily housing.

[13] In 2012, the poverty rate in Hartford was nearly eight times that of the surrounding suburbs. *See* https://www.nbcconnecticut.com/news/local/Poverty-Rate-Gap-Second-Highest-in-Nation-162279656.html. It is recognized that the difference of a few blocks can make a dramatic difference in economic opportunity for Hartford youth. *See* https://www.courant.com/news/connecticut/hc-news-opportunity-atlas-hartford-20181002-story.html.

[14] https://www.courant.com/hartford-magazine/hc-hm-hartford-revitalization-20190822-v3fwryexpjdkjipxpjczu55roy-story.html

Originally built in 1915 and listed on the Connecticut State Historic Register, the four-story former mill and office supply building spans approximately 123,000 square feet. The property had been vacant since 2005 after the departure of the Hartford Office Supply Company. Between 2015 and 2017, the property underwent a $23.8 million rehabilitation and adaptive reuse. The renovation involved a complete gut rehab of the building, including new interiors, exterior doors, windows, roof, and all mechanical, electrical and plumbing components. The demolition phase included remediation of all hazardous materials in the building, including asbestos-containing materials and lead-based paint. All work was consistent with the NPS Historic Guidelines.

Source: Capitolloftshartford.com

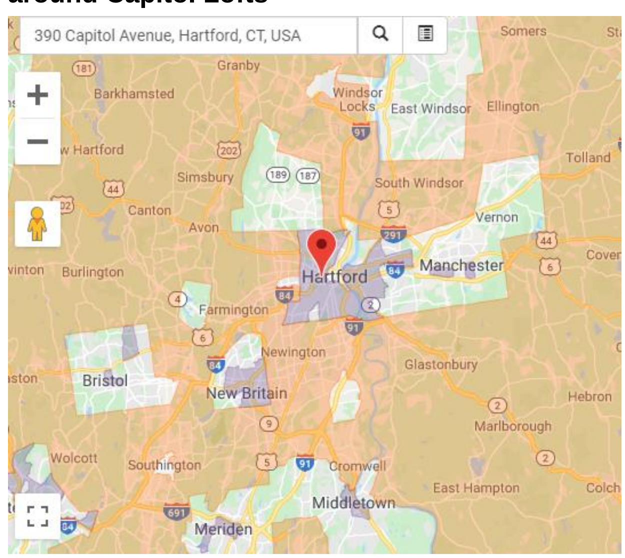
The converted building includes a total of 112 units, of which 23 units are affordable to families earning 50% AMI. The remaining 89 units are at market rate. Property amenities include a fitness center, lounge, theatre, yoga studio, kitchenette and areas designed for future storage.

This form of mixed-income multifamily housing is essential to deconcentrating poverty and is mutually beneficial for the surrounding neighborhood and the city of Hartford's economy. The proximity to the business district will attract higher income families, which will introduce a boost to the economy. Likewise, the affordable units will provide much needed housing for very low-income families, not only preserving affordable housing, but creating new units that may help to mitigate potential displacement of lower-income residents as the neighborhood undergoes economic revitalization.

Market Overview

Capitol Heights is located in a census tract with a poverty rate of 27.6%, nearly double the national average and 2.7 times greater than the state average. Approximately 90% of the city's census tracts qualify as ACPs. The higher rate of poverty can be attributed to the unemployment rate of 14.4%, which is more than double the national average. And while renter income is in line with the national and state average, the overall median income for the area is much lower. In 2017, 36.8% of renters were cost-burdened, meaning that they spend more than 30% of their income on housing costs (rent plus utilities). This is significant given that 92.2% of the population are renters.

Exhibit 8: ACPs and High Opportunity Areas around Capitol Lofts



Source: Freddie Mac's Duty to Serve Mapping Tool. Purple regions represent ACPs; orange regions represent high opportunity areas

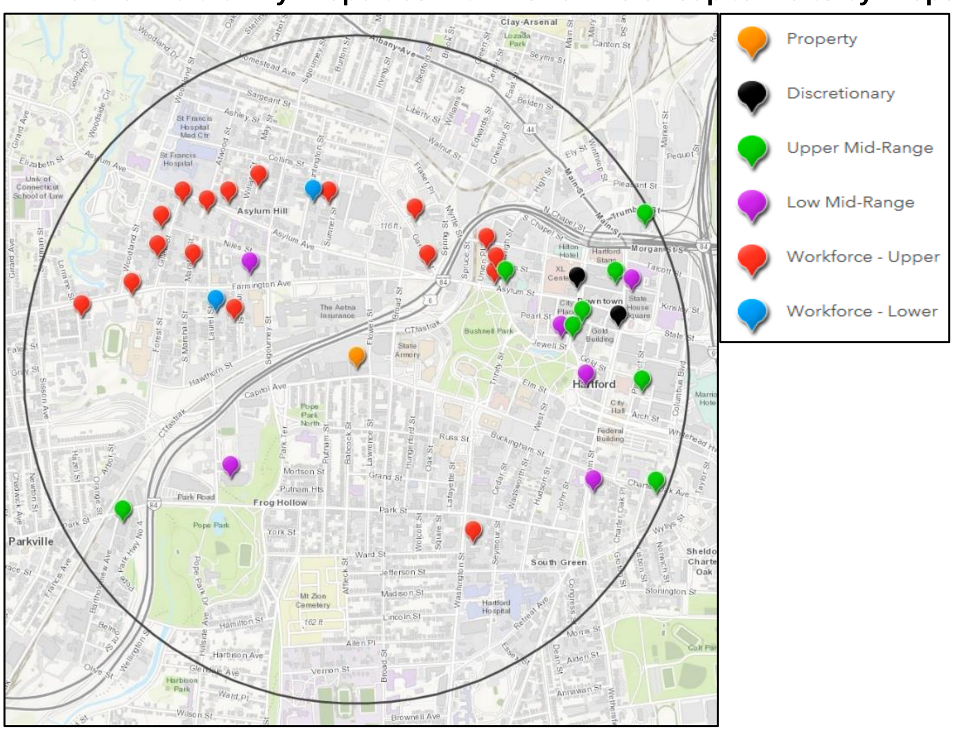
Exhibit 9: Demographic Characteristics Data per Census Tract, State and National Averages

	Tract	County	State	Nation
Population Density	6,422.2	1,220.8	742.3	90.9
Median Income	$36,509	$69,936	$73,781	$57,652
Median Income - Owner	$52,778	$94,582	$97,169	$73,252
Median Income - Renter	$35,259	$36,499	$39,110	$36,653
Poverty Rate	27.6%	11.2%	10.1%	14.6%
Renter Rate	92.2%	35.4%	33.4%	36.2%
Cost Burdened Renter %	36.8%	50.1%	52.3%	50.6%
Unemployment Rate	14.4%	7.4%	7.2%	6.6%

Source: Freddie Mac Tabulations of 2017 5-Year American Community Survey. Note: While data from Exhibit 9 represents 5-year American Community Survey data from 2012-2017 and reflects a higher national unemployment rate than current figures, it provides a view into how the census tract compares across county, state and nation.

In the area around Capitol Lofts, we see a distinction between newer, high-end apartment units on the east side of Interstate 84 and workforce housing on the west side of the interstate. Capitol Lofts, while on the east side of I-84, is located between those two clusters and provides a mix of affordable and market rate housing within close proximity to downtown.

Exhibit 10: Multifamily Properties within One Mile of Capitol Lofts by Property Class

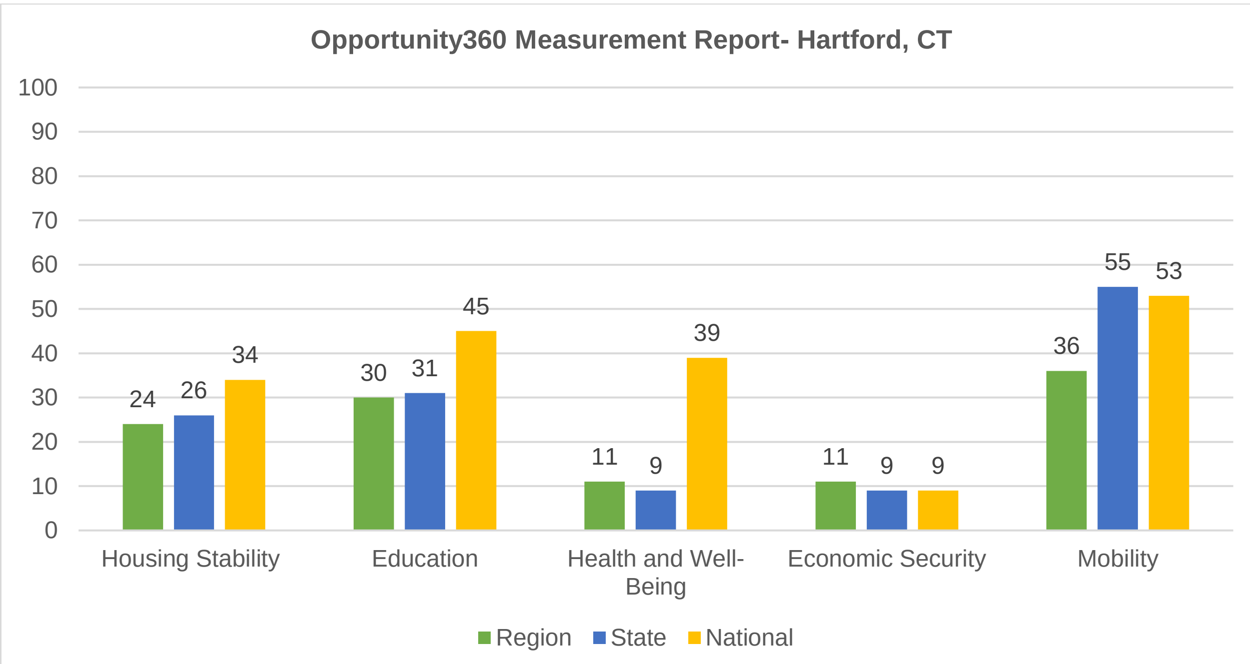


Source: Yardi Matrix, ArcGIS Online

Downtown Hartford has continued to see a resurgence in the past several years. Vacant office buildings are being converted into housing units, a new minor league ballpark opened in 2017 and University of Connecticut Hartford opened a campus in downtown in 2017.

Despite the increased development and cultural attributes of downtown Hartford, the area around Capitol Lofts received low scores based on the Opportunity360 report. Hartford fell below the 50th percentile in all aspects except for mobility compared with the state and nation. The census tract scored moderately well in education and health and well-being when compared with the nation, 45th and 39th percentiles, respectively. The strong scores in mobility compared with the state and nation are due to the availability of local transportation and walkability in the downtown Hartford area.

Exhibit 11: Opportunity Indices for Capitol Lofts Census Tract



Source: Opportunity360. All numbers are percentiles denoting the strength of the tract relative to each geography. A higher value is more favorable, with 50 representing the average.

Population and job growth in the broader Hartford-East Hartford-Middletown, Connecticut metropolitan area has been lackluster at best. Population has been on the decline since 2011, albeit only -0.8% from 2011-2018. During that time, about 31,000 jobs have been added to the labor force. The metro has seen the largest gains in the professional and business services and education and health services industries. However, that growth rate falls well below the national average of 13.1% from 2011-2018.

As a result of lower population and job growth, rents have trailed the national growth rate in the past five years by roughly half. At the same time, vacancy rates in the broader market are below the national average, but rates in the submarket are well above the national average. Vacancy rates have increased 120 bps in the past five years when the MSA and nation saw rates decline by 30 and 80 bps, respectively. The submarket experienced vacancy rates increase from 3.8% in the third quarter of 2013 to 8.3% in the first quarter of 2016, due to higher new supply that entered the market. Vacancy rates have been trending down since then as demand has absorbed most of the new supply. These vacancy rate fluctuations can be typical when looking at the smaller submarkets as it can take time for new supply to be absorbed. Historically, the submarket of central Hartford has run at an average vacancy rate of around 5.7% (going back to 2011, the inception of data for this submarket reported by RealPage).

Exhibit 12: Multifamily Rental Market Overview

	Submarket (Central Hartford)	Market (Hartford - West Hartford - East Hartford)	National
2013 Rent	$1,133	$1,122	$1,063
2018 Rent	$1,269	$1,290	$1,334
5-Year Rent Growth	12.0%	15.0%	25.5%
2013 Vacancy Rate	4.6%	4.4%	5.4%
2018 Vacancy Rate	5.8%	4.1%	4.6%
5-Year Vacancy Difference	1.2%	-0.3%	-0.8%

Source: RealPage

The city of Hartford continues to transform into a community that promotes living and working in the downtown area. In the revitalization effort, the focus is on smaller projects throughout the city, and developers have been incented to construct mixed-income rental housing. These incentives come from a variety of local tools and subsidy programs meant to fill the gap between the cost of construction and the project's value. Approximately, 5,800 units of designated affordable housing have been developed in Hartford since 2000, including the 23 units in Capitol Lofts.

Federal and State Actions to Support Affordable Rental Housing

The property benefits from a substantial degree of public support including federal, state and local funds. These included tax-exempt PABs and associated 4% LIHTC equity, HTCs and four different subordinate loans from four different state and/or local entities: the State of Connecticut Department of Economic and Community Development, the Connecticut Department of Housing, the Capital Region Development Authority, and the city of Hartford. The property also benefits from a tax abatement received from the city of Hartford under the Blighted Property Deferral Program. All of these were necessary to support this transaction and evidence the priority put on developing mixed-income housing in downtown Hartford.

Property Financing

Equity

The project will receive $8,468,114 through 4% LIHTC equity investment. Under the 4% LIHTC program, the property is subject to a requirement that 20% of the total units (23 units) be rented to households earning 50% of AMI for a minimum of 15 years.

Debt

Bank of America provided a $26,348,521 construction loan to fund the acquisition, rehabilitation and conversion of the property. Once the property has been built and occupied, Freddie Mac will provide permanent financing through a $5,300,000 unfunded forward TEL. The $5,300,000 TEL and other financing sources discussed above, including 4% LIHTC equity, HTCs and subordinate loans, will take out the construction loan. These additional sources of funding are required for long-term support of the affordable rent levels for 20% of the units.

Additional Public Support

This project benefits from several forms of public financing:

1. The Hartford Preservation Alliance (HPA) provided an HTC loan in the amount of $5,908,272. As a condition of receiving the HTC loan, the development is required to rent at least 20% of the units at rents affordable to those earning no more than 100% of AMI. This requirement is satisfied by compliance with the LIHTC equity restrictions.
2. The State of Connecticut Department of Economic and Community Development provided a $1.3 million Brownfield loan with a 20-year term and 1% simple interest per annum.
3. The Connecticut Department of Housing, Housing Trust Fund Program Loan provided a $5 million subordinate loan with a 30-year term and 1% simple interest per annum. This loan also requires 23 units be set aside as affordable (matching the LIHTC equity restrictions) with the following additional restrictions:
    - Two one-bedroom units for households earning no more than 50% AMI, at rents that are 30% or less of annual income;
    - Four two-bedroom units for households earning no more than 50% AMI, at rents that are 30% or less of annual income
    - Seven one-bedroom units for households earning no more than 80% AMI, at rents that are 30% or less of annual income
    - Ten two-bedroom units for households earning no more than 80% AMI, at rents that are 30% or less of annual income.
4. The Capital Region Development Authority (CRDA) provided a $7 million 20-year term subordinate loan. The $7 million CRDA loan stipulates the following affordability requirements on 23 units:
    - Seventeen units must be leased to individuals or families with incomes at or less than 80% of AMI, at rents no greater than 30% of such individual's or families' annual income;
    - Six units must be leased to individuals or families with incomes at or less than 50% of AMI, at rents no greater than 30% of such individual's or families' annual income.
5. The city of Hartford provided a $3.1 million, 20-year term loan. The affordability restrictions require 17 units to be rented to individuals or families earning 80% AMI of less and six units to be rented to individuals or families earning 50% AMI or less.

Finally, the property received a tax abatement from the City of Hartford under the Blighted Property Deferral Program. The program is designed to reduce the annual assessment for a blighted building that is rehabilitated. To meet the definition of blighted the building must be “a menace to the public health, safety or welfare in its present condition or use.”[15]

Impact on the Market

Despite its location and role as the state capital, Hartford has been beset by disinvestment, high unemployment and high poverty. Properties like Capitol Loft are part of a new downtown revitalization effort in Hartford through mixed-income, mixed-use properties that greatly benefits the market. The combination of tax-exempt financing and LIHTC equity investment reduces the overall cost of debt on the project, allowing borrowers to achieve target Net Operating Income (NOI) while providing affordable rental housing and promoting economic mobility. The additional substantial local investment makes the project possible and represents a clear commitment from the city to its revitalization efforts. This extensive combination of public capital sources, LIHTC equity and Freddie Mac debt is replicable in other localities, particularly where there is deliberate strategic effort from the locality.

[15] http://www.hartford.gov/images/assessment/Deferral_Application_REVISED2.pdf

Case Study #3: The Aspire – New Brunswick, New Jersey

New Brunswick, New Jersey is located between Trenton and Newark, along the Interstate 95 corridor. While not as large as many of the other cities between Washington D.C. and Boston, New Brunswick has experienced similar challenges brought on by residents leaving the city for the suburbs in the decades after World War II. Over the past several decades, this has led to disinvestment and increased concentration of poverty.

Exhibit 13: Property Characteristics

Geography	**State**	New Jersey
	MSA	New York-Newark-Jersey City, NY-NJ-PA
	County	Middlesex County
Property Details	**Style**	High-rise
	Year Built	2015
	Number of Units	238
Ownership and Management	**Owner**	Boraie Development
	Manager	Paragon Management

Source: Freddie Mac Investment Brief

Similar to many other urban areas, a downtown revitalization has been underway in New Brunswick, focusing on bringing needed investment and development to the area. These projects are working to make the city a more livable place for all income levels through mixed-use, mixed-income housing, as well as culturally rich amenities, such as a new performing arts center and the city's connection to Rutgers University. These investments in downtown New Brunswick can help create economic opportunity for residents of all income levels.

Property Overview

Boraie Development constructed a 238-unit property in 2015 called The Aspire. It is at 135 Somerset Street at the corner of Easton Avenue and Somerset Street. The New Brunswick train station is located one block east and is easily accessible via a brand-new pedestrian walkway that connects the street to the rail platform. This station offers direct access to New York City and Trenton, making it an urban node suitable for mixed-use and mixed-income development. As part of the financing structure, the New Jersey Housing and Mortgage Finance Authority (NJHMFA) requires 20% of the total units, or 48 units, to be rented to tenants earning 50% AMI or less. The remainder of the units can rent at market rates. The high-rise building consists of 24 studio units, 156 one-bed/one-bath units, and 58 two-bed/two-bath units with estimated averages of 514 square feet, 773 square feet, and 1,096 square feet of rentable area, respectively. The first four stories comprise a 242-space parking deck, providing a ratio of 1.02 spaces per unit. There is a single 8,900 square feet commercial space on the ground floor.

Source: Apartments.com

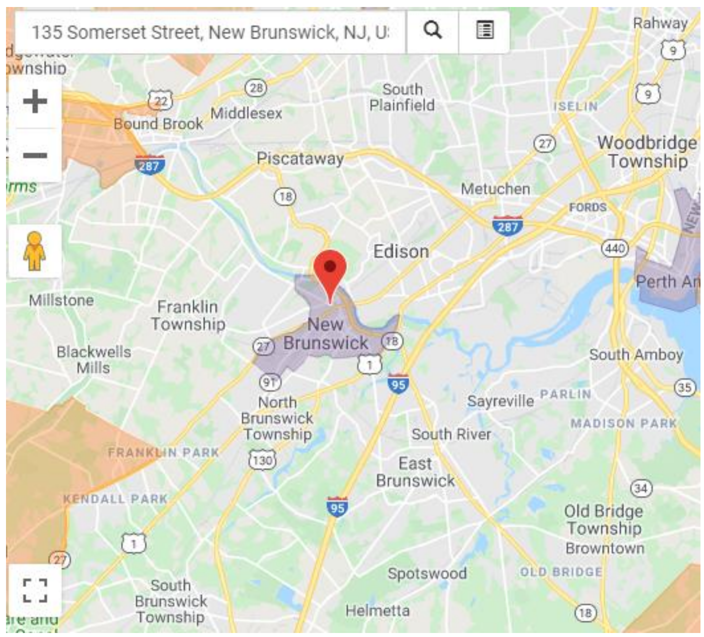
The Aspire showcases hardwood flooring in living quarters and carpeting in the bedrooms, quartz countertops, professional finishes, and stainless-steel appliances, including washers and dryers. Units are energy efficient, to minimize heating costs for residents. The building also provides a state-of-the-art fitness center, rooftop terrace and sun deck for resident use. Furthermore, the property offers a resident clubhouse with library, dining area and kitchen available for all to use. On the ground floor of the building, the 8,900 square feet commercial suite is under lease with Rutgers University. These amenities are available to all residents.

Market Overview

Similar to the first two case studies, New Brunswick shares the struggles of disinvestment, high cost of housing relative to incomes and concentrated poverty. In 2017, 91% of census tracts in the city of New Brunswick qualify as ACPs, with 20% of those as R/ECAPs. The Aspire is located in a census tract with a poverty rate of 53.8% and qualifies as both a QCT and a R/ECAP.

The poverty rate of 53.8% at the tract level is well above the county, state and national level. The tract's median income of $25,506 is about one-third of the statewide median income of $76,475. As a result, we see a much higher percentage of cost-burdened renters. A total of 74.3% of the population spends more than 30% of their income on housing (rent plus utilities).

Exhibit 14: ACPs and High Opportunity Areas around The Aspire



Source: Freddie Mac's Duty to Serve Mapping Tool. Purple regions represent ACPs; orange regions represent high opportunity areas.

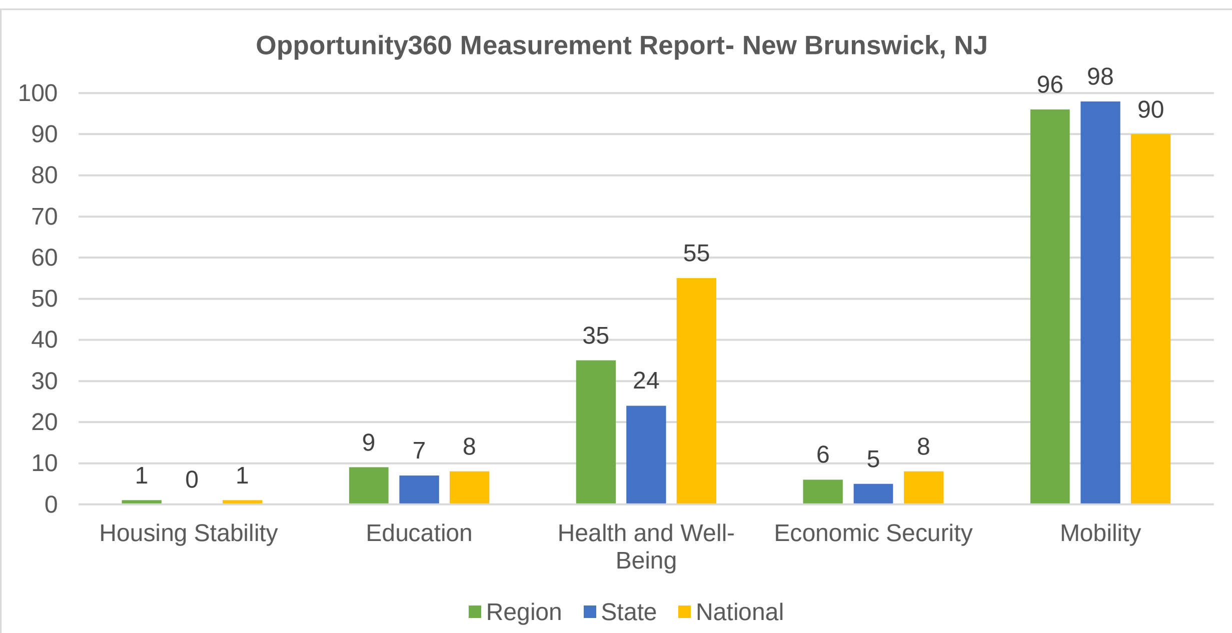
Exhibit 15: Demographic Characteristics Data per Census Tract, State and National Averages

	Tract	County	State	Nation
Population Density	25,105.9	2,709.2	1,218.3	90.9
Median Income	$25,506	$83,133	$76,475	$57,652
Median Income - Owner	$65,625	$104,806	$101,103	$73,252
Median Income - Renter	$25,320	$53,884	$43,991	$36,653
Poverty Rate	53.8%	8.6%	10.7%	14.6%
Renter Rate	95.4%	36.4%	35.9%	36.2%
Cost Burdened Renter %	74.3%	48.9%	52.8%	50.6%
Unemployment Rate	7.2%	6.4%	7.0%	6.6%

Source: Freddie Mac Tabulations of 2017 5-Year American Community Survey. Note: While data from Exhibit 15 represents 5-year American Community Survey data from 2012-2017 and reflects a higher national unemployment rate than current figures, it provides a view into how the census tract compares across county, state and nation.

Educational attainment in the area is considerably less than the national average. Only 63% of adults in the Middlesex County have a high school diploma, which is less than the regional average of 86%. Only 11% of adults have a bachelor's degree or higher, again scoring below the regional average of 39%. In Opportunity360's assessment, education received a score of 9 out of 100. Additionally, economic security scored 6 out of 100, and housing stability scored 1 out of 100. The homeownership rate is 5%, which is 10 times less than the regional average of 52%, according to Opportunity360. Some supporting indicators are the median price for existing single-family homes of $359,700 in 1Q2019 (inclusive of a 4.3% increase more than the previous years), the median income of an owner of $65,625, and median income of a renter of $25,320, which demonstrate the substantial gap between renters and homeowners.

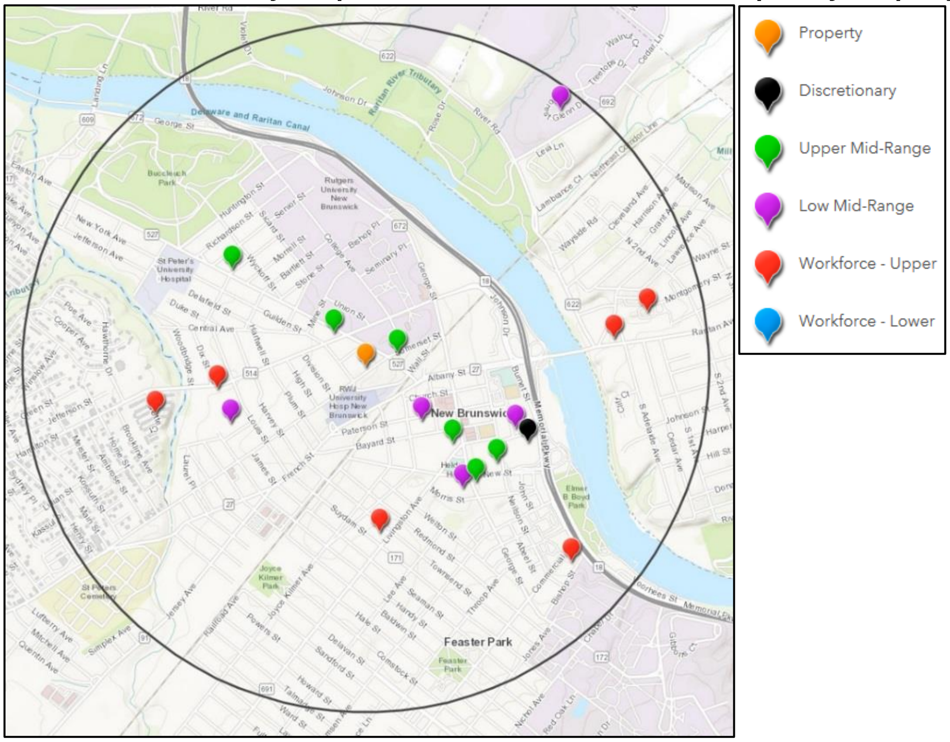
Exhibit 16: Opportunity Indices for The Aspire Census Tract



Source: Opportunity360. All numbers are percentiles denoting the strength of the tract relative to each geography. A higher value is more favorable, with 50 representing the average.

Compared with the other two case studies, there is less development, but we do see a trend of newer, mixed-income properties centered on the downtown area. In addition to housing, downtown New Brunswick has seen several new development projects, such as the new performing arts center that opened in 2019, and the city continues to house a branch of Rutgers University.

Exhibit 17: Multifamily Properties within One Mile of The Aspire by Property Class



Sources: Yardi Matrix, ArcGIS Online

This new development is capitalizing on the potential of the city. New Brunswick benefits from a diversified economic base, extensive transportation network, and linkages to the northeast and mid-Atlantic regions. The city is roughly one hour outside of New York City and 45 minutes from Trenton. The Aspire is located in the Central Middlesex County submarket, which has seen strong rent growth over the past five years of 16.7% but has fallen short of the national average growth of 25.5%. However, at the same time, vacancy rates in the submarket – which were below the national average already – have dropped even more, down to 2.9%. The broader metro area, including Newark, also boosts tighter vacancy rates compared with the national average, indicating a lack of supply in the metro relative to demand.

Exhibit 18: Multifamily Rental Market Overview

	Submarket (Central Middlesex County)	Market (Newark - Jersey City)	National
2013 Rent	$1,221	$1,592	$1,063
2018 Rent	$1,425	$1,884	$1,334
5-Year Rent Growth	16.7%	18.4%	25.5%
2013 Vacancy Rate	4.0%	3.4%	5.4%
2018 Vacancy Rate	2.9%	3.2%	4.6%
5-Year Vacancy Difference	-1.1%	-0.1%	-0.8%

Source: RealPage

As New Brunswick, along with other cities in New Jersey, works to revitalize their downtown, urban core areas, they continue to attract residents. Access to the downtown amenities, including transportation, the new performing arts center and Rutgers University helps New Brunswick serve more residents of different income levels. Buildings like The Aspire that provide mixed-use, mixed-income rental units allows for residents of all income levels to move downtown or remain in their neighborhoods. Approximately 1,100 units of designated affordable housing have been developed in New Brunswick since 2000, including the 48 units in The Aspire.

Federal and State Actions to Support Affordable Rental Housing

The property was financed through a variety of private and public sources, including federal, state and local funds. The Aspire leveraged LIHTC, tax-exempt financing, Urban Transit Hub Tax Credits, a Community Development Block Grant (CDBG) and a local PILOT program to make the project economically viable.

NJHMFA issued tax-exempt bonds for the acquisition and construction of the property. In addition, the property had significant subordinate financing including a $4.8 million CDBG loan and a $1.5 million New Jersey Redevelopment Authority (NJRA) loan. These funds were committed to the project and were available following closing. The NJRA loan has been paid off prior to the origination of the permanent loan.

A unique feature of The Aspire among these case study properties is that it was financed with $23,810,000 in Urban Transit Hub Tax Credits ($2,380,000/a year). The UTHTC program is specific to New Jersey and was originally authorized in 2007. It is administered by the New Jersey Economic Development Authority (EDA). Since inception only 26 projects have received an allocation and The Aspire was one of the first projects to receive an allocation as a residential property[16]. The goal of the program is to spur private capital investment, business development and employment by providing tax credits for business planning large expansion or relocation to designated transit hubs located within 1 of 9 New Jersey municipalities (Camden, East Orange, Elizabeth, Hoboken, Jersey City, Newark, Paterson and Trenton are the others). The UTHTC requires the property to remain residential in nature for 10 years from the date of the restriction.

[16] https://www.njeda.com/public_information/incentive_activity/urban_transit

Property Financing

Equity

The project received $17,800,00 of tax credit equity investment. Consequently, the property is subject to a regulatory agreement with the NJHMFA that requires 20% of the total units, or 48 units, to be rented to tenants earning 50% AMI or less. The remaining units are rented at market rate rent.

Additional funding at the 2013 origination consisted of a $1,500,000 NJRA construction loan and $4,800,000 NJHMFA CDBG funds.

Debt

The project benefited from an unfunded forward commitment for a 7-year credit enhancement loan (forward funding) for the tax-exempt bonds issued by NJHMFA at the original closing in the amount of $53,000,000. Simultaneously, NJHMFA issued $60,350,000 in tax-exempt bonds, whose proceeds were utilized by the borrower to acquire and develop the property. Tax-exempt financing reduces the overall cost of debt on a project. The interest earned by holders of tax-exempt bonds is exempt from federal income taxes, resulting in a lower interest rate passed on to the developer. However, tax-exempt financing in New Jersey is extremely competitive, as states are limited by an annual volume cap allocated to LIHTC projects. Therefore, the NJMFA must deploy its bonds strategically to maximize the impact of this scare resource. To stretch the impact of public financing, states often prioritize the allocation of tax-exempt bonds to projects that are also eligible for other federal or local subsidy programs.

Additional Public Support

There were approximately $23,810,000 in Urban Transit Hub Tax Credits ($2,380,000/a year) that were issued in conjunction with the LIHTCs.

Impact on the Market

New Brunswick is located in the heart of New Jersey with easy access to New York City, Trenton and the rest of the I-95 corridor. Similar to the other two case studies, New Brunswick is working toward revitalizing its downtown from an area of concentrated poverty and disinvestment to a vibrant city partially through the development of mixed-use, mixed-income housing units. The common thread throughout all three of these properties is the various sources of funds that were required to come together to make these projects economically viable. In this instance, the majority of the capital stack came in the form of a tax-exempt bond credit enhanced by Freddie Mac rather than a TEL. Both methods of providing tax-exempt financing are readily replicated in other localities.

Case Study #4: Regency Pointe – Forestville, Maryland

Mixed-income housing is not the only way to further opportunity for residents in ACPs. Naturally occurring affordable housing (housing that is affordable without project-based public subsidy or public affordability requirements) can also help further economic mobility in the local communities when it is managed with that strategic goal in mind. Regency Pointe is one such property. It is located in the Washington-Arlington-Alexandria market and nestled in the Suitland-District Heights-Capitol Heights submarket in Maryland. The neighborhood is approximately 4 miles southeast of Washington, D.C. It consists of a mixture of residential and commercial uses. Even though the poverty rate is 12%, which is below the average rate for ACPs, 50% of the residents within the tract are below 60% AMI.

Exhibit 19: Property Characteristics

Geography	**State**	Maryland
	MSA	Washington-Arlington-Alexandria, DC-VA-MD-WV
	County	Prince George's County
Property Details	**Style**	Garden
	Year Built	1963
	Number of Units	599
Ownership and Management	**Owner**	Turner Impact Capital
	Manager	TI Communities

Source: Freddie Mac Investment Brief

Property Overview

Turner Impact Capital acquired Regency Pointe, a 599-unit garden-style apartment complex located in Forestville, Maryland. The property offers resident-focused enrichment programs centered on five pillars: 1) Education, 2) Health and Wellness, 3) Safety and Security, 4) Community Building and 5) Green Initiatives. The programs are free to residents and are provided by on-site resident professionals who live in the community and specialize in education, health and wellness, or safety and security. The needs-based enrichment services and environmental sustainability initiatives were designed by the investor, Turner Impact Capital. The services include on-site after-school support facilitated by resident teachers, health education and fitness programs provided by resident health professionals, safety programs run or organized by resident police officers, and other activities to facilitate community connection. These resident professionals provide their services in exchange for significantly reduced rent. In addition to providing needed services, the involvement of these professionals helps create a cohesive and stable community feeling. Over the past five years of ownership, the property has offered over 6,500 hours of participant programming. Through time, this has developed a community culture in which residents who participate in programs have significantly increased tenant tenure over non-program participants.

Source: Regencypointeaps.com

The property is located in close proximity to retail centers with grocery and department stores, fitness clubs, pharmacies and restaurants. There are two elementary schools within 2 miles of the property. The nearest public middle school and nearest public high school are 1.5 miles northwest of the property.

The largest employers in the immediate vicinity are the U.S. Census Bureau (2.5 miles west of the subject) and Andrews Air Force Base (5 miles southeast of the subject); however, there are no significant tenancy concentrations from either employer. Interstate 495 is 2 miles east of the property.

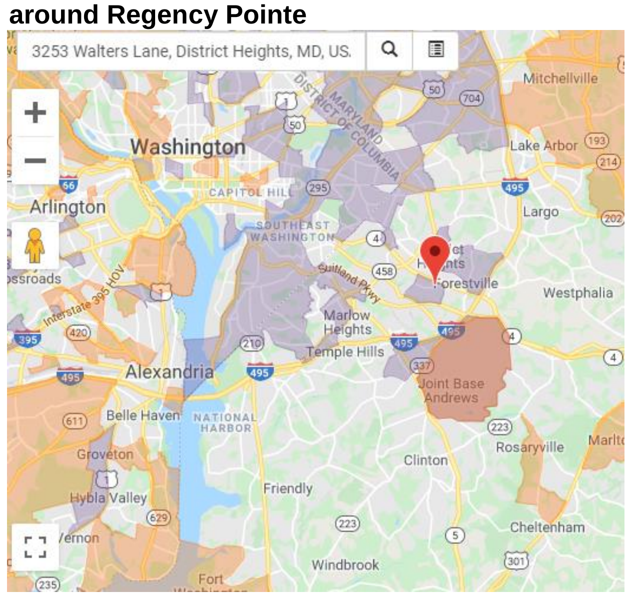
Residents benefit from common area amenities including a swimming pool with a newly renovated resident enrichment center, business center, two playgrounds, fitness center, laundry facilities and enhanced security features.

Market Overview

Regency Pointe is in Prince George's County, Maryland, east of Washington, D.C. The county makes up roughly 15% of the total Washington, D.C., metro area population. However, the county has one of the lowest median income levels for the entire metro area: Per the American Community Survey, the median family income in the broader metro area is $97,148 compared with $78,607 in Prince George's County. While incomes in the county are higher than the state and nation, they are low compared with the surrounding area.

The census tract where Regency Pointe is located reports even lower income levels, in line with the national average. The lower income but still higher cost of living due to proximity to the nation's capital results in a substantial percentage of renters who are cost burdened at 64.6%. The tract also experiences a higher poverty rate and unemployment rate compared with the county, state and nation. Properties like Regency Pointe provide much needed naturally occurring affordable housing.

Exhibit 20: ACPs and High Opportunity Areas around Regency Pointe



Source: Freddie Mac's Duty to Serve Mapping Tool. Purple regions represent ACPs; orange regions represent high opportunity areas.

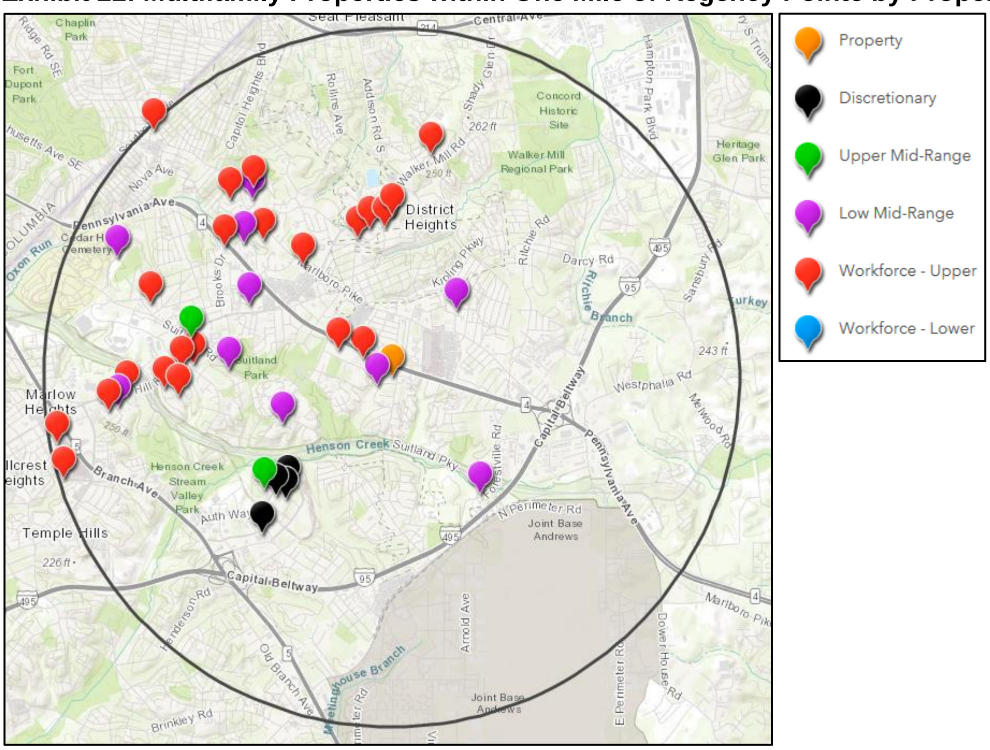
Exhibit 21: Demographic Characteristics Data per Census Tract, State and National Averages

	Tract	County	State	Nation
Population Density	10,261.1	1,875.2	617.5	90.9
Median Income	$47,768	$78,607	$78,916	$57,652
Median Income - Owner	$73,688	$99,749	$99,209	$73,252
Median Income - Renter	$36,855	$53,529	$48,919	$36,653
Poverty Rate	12.0%	9.3%	9.7%	14.6%
Renter Rate	68.5%	38.2%	33.2%	36.2%
Cost Burdened Renter %	64.6%	51.5%	50.4%	50.6%
Unemployment Rate	13%	7.3%	6.1%	6.6%

Source: Freddie Mac Tabulations of 2017 5-Year American Community Survey. Note: While data from Exhibit 3 represents 5-year American Community Survey data from 2012-2017 and reflects a higher national unemployment rate than current figures, it provides a view into how the census tract compares across county, state and nation.

Below we look at the properties around Regency Pointe. We look at a 3-mile radius due to this property being located in a suburban market with more properties spread out compared with the prior three case studies. We see there are a large number of workforce housing and low mid-range properties, and only a small concentration of discretionary or upper mid-range properties, clustered around the Branch Avenue metro station, which provides access to downtown Washington, D.C. Furthermore, there have been very few new properties built in the past three years; of the roughly 13,000 units in this radius, 85% of the units were built prior to 1986.

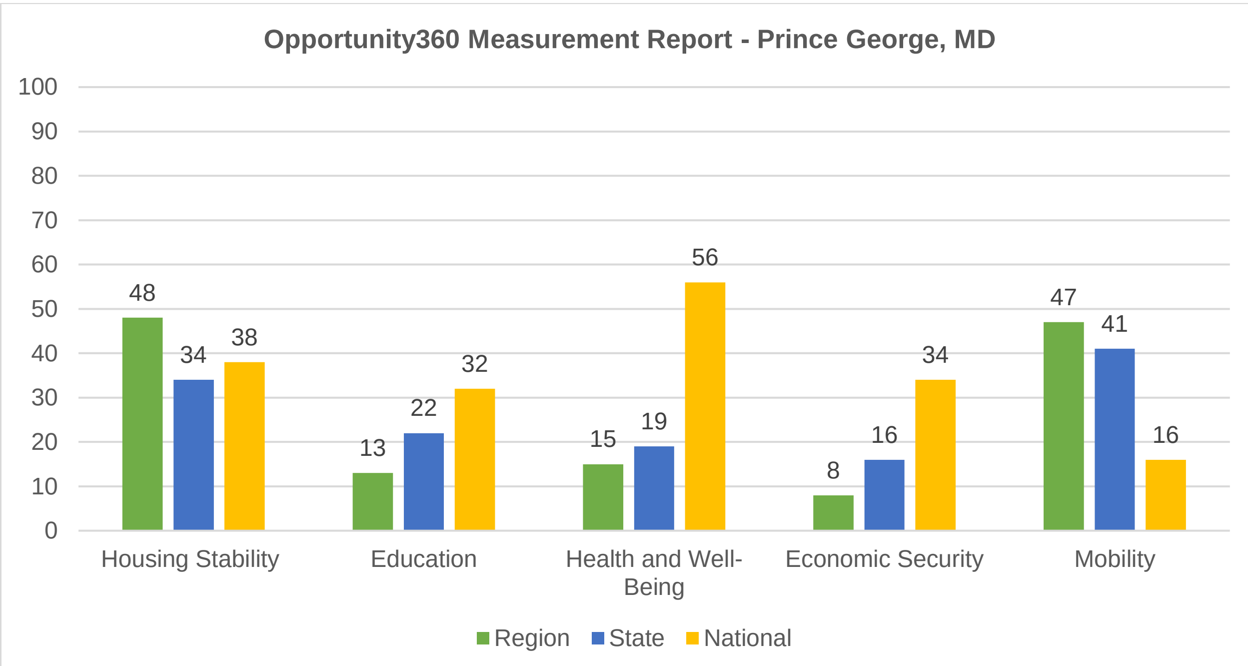
Exhibit 22: Multifamily Properties within One Mile of Regency Pointe by Property Class



Sources: Yardi Matrix, ArcGIS Online

Based on the Opportunity360 report, the census tract where Regency Pointe is located typically scores below the median in the region, state and nation, except for health and well-being compared with the nation. However, the area is relatively close to the median in housing stability and mobility compared with the region, which indicates the potential for opportunity in the neighborhood.

Exhibit 23: Opportunity Indices for Regency Pointe Census Tract



Source: Opportunity360. All numbers are percentiles denoting the strength of the tract relative to each geography. A higher value is more favorable, with 50 representing the average.

Regency Pointe is located in the Suitland/District Heights/Capitol Heights submarket, which has seen strong rent growth over the past five years, up 18.3%. While this is lower than the national average of 25.5%, it is faster than the broader metro area of 11.7%. At the same time, vacancy rates have dropped by 210 bps in this submarket, compared with only 50 bps and 80 bps for the market and nation, respectively. This drop in vacancy rates now puts the submarket in line with the metro and national average.

Exhibit 24: Multifamily Rental Market Overview

	Submarket (Suitland/District Heights/Capitol Heights)	**Market** (Washington - Arlington - Alexandria, DC-VA-MD-WV)	**National**
2013 Rent	$1,148	$1,545	$1,063
2018 Rent	$1,358	$1,726	$1,334
5-Year Rent Growth	18.3%	11.7%	25.5%
2013 Vacancy Rate	7.0%	5.0%	5.4%
2018 Vacancy Rate	4.9%	4.5%	4.6%
5-Year Vacancy Difference	-2.1%	-0.5%	-0.8%

Source: RealPage

Considering the economic advantages of Prince George's County and the fact that a total of 85% of the multifamily inventory was built before 1986, the area shows a need to continue to utilize resourceful financial structures to preserve safe and affordable housing. Supporting affordable housing that focuses on providing added benefits to the community can continue to help expand socioeconomic diversity and provide greater opportunity for all residents.

Impact Fund Established to Support Affordable Rental Housing

This transaction is unique in that there are no regulatorily imposed affordable housing requirements and its development and financing was not dependent upon federal or state subsidy. Instead, the guarantor of this transaction is a social-impact investment fund committed to investing in diverse urban markets throughout the country, targeting naturally occurring affordable housing in underserved areas.

Turner Impact is one of the nation's largest social impact investment firms focused on harnessing market forces to create scalable, durable and profitable solutions to some of the country's most pressing social issues. Over the past 25 years, the Turner team has established itself as one of the more prominent private equity real estate investors as well as a pioneer in the area of social impact investing. Turner Impact Capital introduces the concept of "Property Management with a Purpose" in their approach.[17] As a social impact investor, the Turner Multifamily Impact funds are committed to the preservation and enrichment of affordable rental workforce housing for households earning 80% of AMI or below. The funds drive profits without increasing rents by using an innovative property management model based on the idea that if one can create a pride in rentership by enriching a property with community services, then residents treat the properties where they live better and stay longer. This in turn drives down maintenance costs, insurance costs and economic loss leading to higher returns while preserving rent affordability.

While the impact via Regency Pointe is brought about within the property, Turner Impact Capital focuses beyond housing. They also manage the Turner Healthcare Facilities Fund, which targets the overlooked but critical need for proximate community-serving health care infrastructure that can improve health care outcomes and reduce health care costs for residents of low- and moderate-income communities, and the Turner-Agassi Charter School Facilities Funds, which target the development of educational facilities for best-in-class public charter school operators. This focus on housing affordability with services and health care and education is consistent with several of the opportunity indicators common in state LIHTC Qualified Allocation Plans, which we discuss in our papers entitled "Opportunity Incentives in LIHTC Qualified Allocation Plans,"[18] and "Affordable Housing in High Opportunity Areas Defined in State LIHTC QAPs."[19]

[17] https://www.ticommunities.com/
[18] https://mf.freddiemac.com/docs/Opportunity_Incentives_in_LIHTC_Qualified_Allocation_Plans.pdf
[19] https://mf.freddiemac.com/docs/qap_case_study.pdf

Property Financing

Equity

The development benefits from an equity investment from the Turner Multifamily Impact Fund, L.P. The fund invested $16,500,000.

Debt

Citibank provided a $42,000,000 loan with a 7-year term and 30-year amortization. The simplicity of this structure underscores the impact mission-driven private equity can have when paired with enrichment programs.

Impact on the Market

Federal and state support is critical in developing new mixed-income affordable housing in ACPs. However, there are multiple ways to preserve and enrich communities. Turner Impact Capital's approach with Regency Pointe demonstrates that, with motivated investors and a deliberate strategy, it is possible to acquire and preserve affordable housing without public subsidy. Further, it is possible to enhance opportunities for residents through enrichment programs that are facilitated by residents such as teachers, health care workers and law enforcement professionals. The investor has applied this model to other properties across the country, including in Texas, Georgia, Nevada and Illinois, collaborating closely with its own health care and education-focused equity funds to recruit resident professionals, design and deliver quality programs, and measure targeted social outcomes.

Conclusion

Fostering residential economic diversity and increasing access to opportunity for low-income residents through the development of mixed-income housing in ACPs is not an easy task. There must be something in each market to attract high-income earners to an area of high poverty. There likely needs to be proximity to either an urban center that is already vibrant or to a center that is in the midst of revitalization with high-profile job opportunities.

We have seen that public subsidy is often necessary to support revitalization efforts and to create mixed-income housing. This is demonstrated in our three mixed-income housing case studies in the northeast in Newark, Hartford and New Brunswick. Each of these properties successfully leveraged LIHTC, state and/or local subsidy, and Freddie Mac debt to create mixed-income housing, which included both new affordable housing that did not previously exist and new higher-rent units that attract high-income residents to a part of their cities in the midst of revitalization. In each of these cases, the affordable housing component of the property was 20%, and the market-rate portion was 80%. Seeking a higher percentage of rent-restricted units on each property would likely not have been economically feasible. Likewise, seeking a lower percentage of higher rent units would also be infeasible. Either the rents on the unrestricted units would have to be above market rate, which would likely lead to unsustainable vacancy rates, or even more public subsidy, which is a limited resource, would be required. Ultimately, the optimal percentages of restricted and unrestricted units are dependent upon market conditions.

Developing mixed-income housing — and fostering residential economic diversity within a property — is not the only way to increase the opportunity for economic mobility for low-income residents. In this paper we also demonstrated that socially conscious private equity firms, such as Turner Impact Capital, can preserve and improve affordable housing without public subsidy.

Both of these approaches have an important role to play in increasing economic mobility for residents, for turning ACPs into areas of opportunity and for improving communities one property at a time.