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Opening Doors of Opportunity:
A Guide for Advancing Housing Equity in the Multifamily Industry

Apartment Investment and Financing

About this Resource

This Guide is for NMHC members and other stakeholders that seek to leverage housing as a primary vehicle for more equitable and just communities. NMHC contracted Enterprise Community Partners to support the creation of this Guide. Enterprise conducted interviews and focus groups with NMHC members and staff, reviewed relevant literature, developed case studies and drafted select content for the Guide. NMHC staff worked closely with Enterprise throughout the development process and edited the final version of the Guide.

Learn more about NMHC's Diversity, Equity and Inclusion commitment at **www.NMHC.org/DEI**.

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About NMHC

Based in Washington, D.C., the National Multifamily Housing Council (NMHC) is a national association representing the interests of the largest and most prominent apartment firms in the United States. The NMHC's members are the principal officers of firms engaged in all aspects of the apartment industry, including ownership, development, management and financing. The NMHC advocates on behalf of rental housing, conducts apartment-related research, encourages the exchange of strategic business information and promotes the desirability of apartment living. Nearly one-third of Americans rent their housing, and almost 15 percent live in apartments (defined here as buildings with five or more units). For more information, contact the NMHC at 202/974-2300, email the NMHC at **info@nmhc.org** or visit the NMHC's website at **www.nmhc.org**.

About Enterprise Community Partners

Enterprise is a national nonprofit that exists to make a good home possible for the millions of families without one. We support community development organizations on the ground, aggregate and invest capital for impact, advance housing policy at every level of government, and build and manage communities ourselves. Since 1982, we have invested $64 billion and created 951,000 homes across all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands – all to make home and community places of pride, power and belonging. Join us at **www.enterprisecommunity.org**.

Apartment Investment and Financing

Section Overview:

This section describes a series of practices and examples in apartment investment and financing of how some organizations are advancing housing equity. Practices described include engaging investors about housing equity, and addressing developer capacity, balance sheet and location risks.

Scan this QR code to access the full contents of this section of the Guide.

Introduction

The apartment industry views itself as being responsive to investor expectations – about returns; about risk; and increasingly about creating better social outcomes. But the ongoing shifts toward an Environmental, Social and Governance (ESG) lens in the perceptions, expectations and practices of our capital sources invite us to both encourage this shift and provide responsive investment strategies that enable better outcomes for residents and communities.

While there has been growing interest and awareness of ESG goals in recent years, a common expectation is that we should be able to deliver on these goals while continuing to deliver competitive financial returns. There are ways that we can and already are doing so in many cases, including by investing in housing with green building features that:

- is affordable to a range of income levels;
- provides resident services; and/or
- is located in areas that have historically lacked access to capital.

In many cases, investment portfolios can deliver some combination of these outcomes without compromising on risk and returns, and may even have a positive impact on the financial performance of a property or portfolio.

We as an industry must also create alternative investment options that seek a different balance between returns, risk and resident and community outcomes. There are existing investment models that utilize public or philanthropic capital, which carry different expectations related to risk and return. However, these capital sources may be limited in supply, have limited roles for private capital, and come with their own requirements that make them unworkable for many applications. While this model will continue to play an important role, we must think beyond it to invent new models and partnerships that address housing equity. For example, some investors may be willing to accept a higher risk profile in order to direct capital to developers, operators or communities who have historically faced challenges in accessing capital. Others may be willing to commit to lower return expectations if it means the portfolio is delivering more substantial social outcomes. Creating these alternative investment models will enable us to invest in developers, communities or developments that we might otherwise have been unable to reach, respond to the growing demand among our investors for ESG-aligned options and ultimately ensure the continued success and growth of our industry.

By contrast, creating a new fund or investing an organization's own capital allows more space for reassessing tradeoffs between risk, returns and potentially creating more equitable outcomes.

The following practices include a few examples of how organizations have advanced housing equity through apartment investment and financing.

Incorporating an ESG Lens with Specific Emphasis on Social Outcomes

What is this action?

When discussing or reporting on housing investments, take the opportunity to go beyond financial risk and returns and emphasize the positive role that apartments can play in creating better individual and community outcomes. The inclusion of this lens will help the organization and the broader industry respond to the growing interest in ESG investment. It also provides an entry point for talking about housing and racial equity in spaces where it is too often lacking.

A deep understanding of ESG frameworks and the ability to have these conversations will be increasingly important for securing capital for our industry over time.[95] Interest in ESG housing investments is likely to continue to rise, in part from increased public awareness of climate change threats and social injustices that are rooted in systemic racial discrimination.

This includes an emphasis on measurement, as impact-oriented investors will require evidence that the organization and/or portfolio is delivering on ESG goals. Although there are many different approaches to ESG outcome measurement, environmental criteria include the potential property's contributions to climate change threats, such as its carbon footprint and projected energy usage. Social criteria include the property's impact on community outcomes, such as the amount of affordable and stable housing provided, proximity to essential services like jobs and transit, or accessibility of supportive services that can boost upward mobility. Finally, governance criteria may examine how the organization runs its business, which could include the diversity of the board members and shareholder returns policies.

Why might this be relevant to an organization's efforts to advance housing equity?

Keeping the dialogue about ESG related efforts in the space of financial calculus is comfortable. Making change will require us to move outside this comfort zone. We have an opportunity to change that in our interactions to improve overall awareness of housing equity as an issue and the role that we and others in the investment community play to advance it.

Increasing awareness of the needs and opportunities to improve equity and normalizing discussing equity in these forums is itself a way to make progress in our industry and the broader investor community. These efforts may even lead to building new kinds of relationships and starting new conversations that may not have seemed possible previously.

Working with ESG or impact-oriented capital will also create an incentive to stretch toward housing equity goals and create accountability for achieving these goals. This includes supporting developers and/or apartment housing portfolios that advance both equitable environmental and social outcomes for communities.

This investment strategy can support greater housing stability, especially in lower-income communities, as well as advance equitable environmental outcomes for communities at higher risk of extreme weather events and reduce residents' costs of energy consumption. According to the Joint Center for Housing Studies' recent America's Rental Housing 2022, 40 percent (17.6 million units) of the nation's occupied rental stock and 44 percent (33.9 million units) of the owner-occupied stock is located in areas that are expected to have at least moderate expected annual losses from disasters.[96] This is particularly important for lower-income BIPOC communities, who have suffered for years from systemic underinvestment in quality and stable housing and continue to disproportionately experience the threats of natural disasters.

Implementation spotlight: Avanath Capital Management + Amplify ESG Framework

Avanath has created a thoughtful approach to ESG in its +Amplify framework, which it created not only to report on ESG outcomes, but also to provide a framework for integrating an ESG lens into its day-to-day operations, decision-making and due diligence for new investments. Avanath's framework includes environmental outcomes related to reducing energy and water usage to limit climate impacts; social outcomes that include delivering services and support to residents such as those focused on improving health and wellness; and governance outcomes that recognize the need for significant staff development to effectively deliver on the organization's ESG goals and mission. The inaugural ESG report for the +Amplify program reported on their ability to identify and record a 30 percent reduction in energy consumption and a 13 percent reduction in water consumption and identified additional ESG-related objectives for Avanath to embark upon. Learn more about Avanath's +Amplify framework at https://www.avanath.com/esg/.

Addressing Developer Capacity or Balance Sheet Risk

What is this action?

To access the capital needed for apartment development, developers must meet requirements set by investors demonstrating their ability to successfully develop and operate a rental property, as well as to pay their debt obligations and provide a desirable return on their equity investment. Developers who cannot meet these requirements can be an impediment to smaller, BIPOC-led organizations who struggle with access to capital. These developers may bring familiarity with the communities that will help advance housing equity and result in successful developments.

Identifying alternative requirements or metrics for developers to demonstrate their capacity, connecting developers with more established partners who can help to mitigate this risk (for example by providing guarantees), providing or connecting developers to additional capacity building or other support resources to help them overcome these barriers, or designing funds that specifically seek to accommodate these risks are some approaches that can be used to support BIPOC developers.[97, 98, 99]

Increasing the number of BIPOC developers has the potential to impact perceptions about capacity and improve awareness of the other benefits these developers may bring.

Why might this be relevant to an organization's efforts to advance housing equity?

Small-scale BIPOC developers are often unable to meet capacity standards set by investors which can limit their visibility in the development community. This does not mean that investors and lenders are explicitly considering race in decision-making processes, but lack of capital is a limiting factor for BIPOC developer success.

Some apartment housing stakeholders have launched programs designed to build the capacity of small-scale BIPOC developers, provide them with seed capital or otherwise mitigate their capacity risks.

Keys to success

Finding new ways to help smaller BIPOC developers build their capacity includes building up their balance sheets, liquidity and net worth for long term success in the apartment housing space.

Implementation spotlight: Blue Vista

Blue Vista, a Chicago-based real estate investment firm, launched a flagship equity fund dedicated to providing emerging apartment housing developers, including BIPOC and female real estate entrepreneurs, with access to equity, capital and support. The fund is designed to be used as seed capital to finance pre-development activities and meet debt capital down payment requirements. Blue Vista has also created a mentorship and peer networking program component intended to build the participating developers' technical capacity to successfully navigate and close on larger-scale apartment housing development deals. Learn more about Blue Vista at: https://bluevistallc.com/.

Addressing Local Market and Location Risk

What is this action?

Investors considering providing capital to a new or existing property study the property's location and local real estate market to assess their impact and associated risks on the projected net operating income and returns on investment. In many cases, risks to housing investments captured during this process, while legitimate, are equally a result of historic underinvestment and structural disparities in public and private financing. Overcoming these historic barriers is an important element to bringing new development opportunity to these communities, including many lower-income and/or BIPOC communities.[i]

Organizations that are investing their own capital or are starting a new fund may be in a better position to think creatively about the tradeoffs between this kind of location risk and broader housing equity goals. It may be more difficult for those who have already committed to a particular risk/return investment profile to accommodate this kind of risk effectively.

Place-based impact investing deploys capital into specific areas or communities, especially those that have seen sustained periods of systemic disinvestment, to create positive economic and social outcomes. Such investments make capital available to apartment developers and operators who would otherwise face barriers to accessing capital due to location risk. Although the risks can be high, this strategy has the potential to both create positive resident and community outcomes and produce substantial returns for investors, since these investments can spur additional investing value appreciation over time.

In communities where related public sector revitalization efforts exist, there may be opportunities to align private investments with public sector and community goals to advance housing and racial equity. The public sector can also bring tools to address negative consequences of rapid increases in investment like displacement of residents with lower incomes through incentives or strategies for preserving long-term affordability in the area that enable residents to remain in the neighborhood and benefit from the investment.

Why might this be relevant to an organization's efforts to advance housing equity?

Bringing private capital to communities that have historically lacked access can be a challenging but impactful way to advance housing equity. Investments, when they are made in concert with local goals, have the potential to benefit not only the residents who will ultimately call the property home, but also nearby homeowners, businesses and others in the community who will gain from positive spillover effects of investment.

Keys to success

Addressing barriers to financing created by perceived location risk requires participation from local stakeholders, including local community-based housing developers, who may be in a good position to identify community housing needs, including lower-income and majority-BIPOC communities. Ensuring goals are aligned with those of the community is useful to help achieve local buy-in.

The potential for investment in these communities to result in displacement pressure for lower-income residents may also be a concern. When evaluating investments in these areas, consider whether there is any public sector or other targeted strategy to preserve affordability in the neighborhood. If there is, incentives or programs that help the organization contribute positively may exist. If there is not, consider whether there are independent actions within the organization's business model to do so.

[i] Note that this section refers specifically to addressing legitimate property or market risks and not to unsupported biases against particular communities. Care must always be taken to avoid allowing perceptions or assumptions related to neighborhood desirability, safety, demographics or other characteristics that are not supported by market data and best practices in risk assessment to influence investment decisions. Unsupported perceptions can have a disparate impact on investments in majority-BIPOC and lower-income neighborhoods, even when they are not intentional or conscious.

CASE STUDY

SoLa Impact's Black Impact Fund

SoLa Impact is a family of social impact real estate funds focused on high-quality, affordable housing, catalyzing economic development, and providing access to educational opportunities in under-resourced communities. SoLa staff contributed to this case study.

In 2020, SoLa Impact launched its $1 billion Black Impact Fund to create shared prosperity and racial equity, through a commitment to invest entirely in Black and brown communities in major urban markets across the U.S.[100] Building on its experience investing in Los Angeles' Black and brown communities, Black Impact Fund delivers near-term and long-term dividends for both the investors and communities served. The fund started financing investments across major cities in California with a plan to expand its investments across the West Coast and eventually other parts across the U.S.

The emphasis of the fund is on identifying undervalued assets in communities of color that have stable populations and high potential for both financial and meaningful social impact. Of the $1 billion designated for the Black Impact Fund, half is allocated through an Opportunity Zone (OZ) Fund, with the other half to be disbursed through a non-Opportunity Zone Fund. More than 80 percent of the OZ fund will be invested in apartment housing, including affordable and workforce housing, and the $500 million non-Opportunity Zone Fund will invest in similar apartment housing development projects in areas of need that are not within designated Opportunity Zones.

"The side-by-side non-OZ structure allows the Black Impact Fund to access undervalued real estate assets and broaden its reach and its impact." According to CEO Martin Muoto, "While Opportunity Zone legislation has the potential to significantly benefit these communities, the areas designated as OZs have been somewhat inconsistent. As a result, we are seeing incredible deals literally 'across the street' from our Opportunity Zone properties that our OZ Fund could not invest in."

SoLa Impact's efforts catalyze further economic and community development in underserved Black and brown neighborhoods.[101] By providing more stable and affordable housing options, these investments and activities will put local residents in positions to seek better educational, employment, and entrepreneurship opportunities. And by committing a portion of the proceeds from the fund back into the community, SoLa Impact intends to show that it can provide both financial and social benefits simultaneously.

Key features that supplement Black Impact Fund's investments include:

- More than 80 percent of the fund's OZ investments will be apartment housing.
- Structured to ensure that Black and brown communities benefit from the fund's investments, SoLa Impact will direct 13 percent of all asset appreciation and fees earned from the Black Impact Fund toward The Black Impact Community Fund, a non-profit social impact fund designed to leverage the Black Impact Fund's size, operating efficiency, and purchasing power to increase economic opportunities for Black and brown families.
- This includes creating accessible ownership opportunities, such as townhomes and condominiums that would be purchased by local residents at cost, to ensure that wealth is created and retained in the communities of color receiving those investments.
- The Black Impact Community Fund will utilize surplus and underutilized land, partnering with faith-based organizations, local governments, and other non-profit partners to identify these underutilized assets for affordable housing and community development projects.
- Finally, the fund will offer scholarships to local youth to pursue educational opportunities, further advancing their potential for long-term success.

> "Our local partners gain the benefit of our experience in investing in Black and brown communities; our rigorous operating procedures and financial reporting; our national, volume-based purchasing platform; and importantly, our programs to deliver real and sustainable social impact. **These levers materially drive down the costs of development and construction, which results in higher-quality, lower-cost housing for the community and better returns for the investors and developers.**"[102]

- Martin Muoto, CEO, SoLa Impact[103]

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