# San Francisco Bay Area Property Acquisition Fund for Equitable Transit-Oriented Development

## Feasibility Assessment Report

*FINAL DRAFT*


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STRATEGIC ECONOMICS

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GREAT COMMUNITIES COLLABORATIVE


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# Executive Summary

This report was prepared for the Great Communities Collaborative (GCC) by the Center for Transit-Oriented Development and Strategic Economics (CTOD). The CTOD was asked to advise the GCC on the feasibility of developing a regional San Francisco Bay Area property acquisition fund dedicated to securing developable property near transit for affordable and mixed-income housing. Report findings and recommendations are based on a review of documents regarding the development of other funds across the country as well as extensive interviews with managers of existing and emerging mission-driven property acquisition funds in other parts of California, Bay Area local government staff responsible for planning and production of transit oriented development and affordable housing, potential public sector investors, and affordable housing and market rate developers,. The report includes:

- Findings regarding the need for a fund in the Bay Area;
- Background on the GCC's role in advancing the regional discussion on equity and sustainability beyond advocacy and planning to development of implementation tools like an acquisition fund;
- Explanation of what a property acquisition fund is and how it works;
- Description of the different types of mission-driven property acquisition financial tools in existence or under development around the country;
- Recommendations for the creation of a property acquisition *loan* fund;
- Key guidelines for the fund, such as fund size, loan terms and governance structure; and,
- Suggested next steps for advancing the fund.

Key findings and recommendations are summarized below:

- **In 2006, the Great Communities Collaborative was formed to work towards a future where mixed-income, transit-oriented communities can become prevalent in the Bay Area.** Its goal is for 50 percent of Bay Area households to live in complete communities, affordable across all incomes, with nearby access to quality transit by 2030; its 24-member organizations, including four regional sustainability and equity non-profits, three community foundations, a national transit advocacy non-profit, and many grass-roots organizations bring their resources and expertise together to work towards this goal. As described below, the barriers to equitable transit-oriented development are such that the **GCC has realized that planning, policy, advocacy and community outreach efforts are not sufficient, and that the creation of new implementation tools, such as an affordable transit-oriented property acquisition fund is critical**

- There is projected demand for an additional 423,000 homes near transit in the Bay Area by 2030. 54 percent of this demand is estimated to come from households earning less than $75,000 per year (2000 dollars).[1] Unfortunately, **the regional track record for producing affordable housing, let alone affordable housing with good access to employment, is inadequate.** Between 1999 and 2006, the Bay Area produced only 29 percent of needed moderate-income housing, 72 percent of needed low-income housing, and 35 percent of needed very-low income housing.[2]

- There are **three key challenges to focusing affordable housing near transit: limited land supply and relatively high costs, insufficient local policy support for affordable housing near transit, and the inability of affordable housing developers to secure property in**

[1] CTOD, 2006; US Census, American Community Survey, 2004.
[2] ABAG, *A Place to Call Home: Housing in the San Francisco Bay Area,* 2006.

**advance of available project financing.** The current recession provides a special opportunity, while land prices are weaker and market-rate developers have reduced access to credit, for developers of affordable housing to secure scarce developable properties near transit. If concrete steps aren't taken to build equitable transit-oriented development, moderate to lower income households may be permanently priced out of locations with good access to job centers. If this comes to pass, these households suffer, the Bay Area quality of life is degraded by increased traffic, and the economy as a whole is less efficient.

- Additional measures are necessary, most critically the creation of **new pro-active financing tools that allow the securing of property *in advance* of the availability of permanent financing from traditional affordable housing resources**. This would allow properties to be secured as they become available, so that opportunities aren't lost as projects wait to receive long-anticipated awards of below-market rate credit, and, over the long term, result in more transit-accessible land being dedicated to affordable housing.

- In the past 30 years, financial instruments that support "socially responsible" investment have become common. They promote various types of positive social impact and run a continuum of return expectation from grants to investment funds with near-market rate returns. In the past ten years, **mission-driven property acquisition funds have emerged as a particularly attractive investment tool that allows community foundations, public sector environmental funding streams, and national and local community development finance institutions to join resources and bridge a critical gap in the financing of affordable housing**: the time lag between when development opportunity sites become available and when traditional affordable housing financing mechanisms kick-in to provide permanent financing.

- **A property acquisition fund is a specialized kind of fund that directly acquires, or provides loans, to assist with the acquisition of property.** The property could be vacant or have structures on it. Property acquisition funds with social missions are usually designed to assist with acquisition of land and buildings, as well as other "predevelopment" costs, typically for affordable housing. A key benefit of property acquisition funds is that they can offer the opportunity to move quickly to purchase property opportunistically, before other project financing is identified. This is especially important where there is limited land supply and/or a very competitive market for development sites. Because these conditions are common in centrally-located neighborhoods near transit, a property acquisition fund is particularly well-suited for promoting equitable transit-oriented development.

- **The most common model for a property acquisition fund is a low-interest loan fund that issues loans at rates sufficiently below market to allow affordable housing developers to secure land for affordable housing**. Borrowers make payments back into the fund, which either revolves allowing additional lending, or is held as security until the fund expires and investors are repaid. Because affordable housing has fixed rental or selling prices, affordable housing developers cannot pay market-rate interest and build quality housing, so the lower the interest rate, the higher quality the project and the deeper the potential affordability. This type of mission-driven loan fund attracts investment from public sector entities with funding streams that can be dispersed without interest expectations, community foundations with project-related investment funds that have below market-rate return expectations, and community development finance institutions that make below-market rate loans.

- Acquisition funds are typically comprised of multiple sources of capital organized into different levels of risk. Even loan funds with a specific social mission have different fund investors who are willing to take different levels of risk, and have different expectation for returns. Private capital sources such as banks or pension funds want to have other money in the fund that will be "at risk" before their money is, should a loan go bad. Because these acquisition funds are considered to be somewhat risky, but are structured to achieve a social mission, **public agencies will typically put in the first increment of capital and thus take the greatest level of risk** ("top loss" or "lead equity"). This money then leverages investments from other more risk-averse investors.

- A matrix is appended (Appendix B) that provides a **summary description of mission-driven property acquisition funds around the country.** There are currently 16 such funds with more under development, and none in the Bay Area.

- **The Center for Transit-Oriented Development recommends that GCC pursue development of a Bay Area TOD Property Acquisition Loan Fund.** Based on research and interviews conducted for this report, development of a fund has a good chance of success, and several possible investors have been identified. A Fund can play an important role in meeting the demand for equitable TOD, and in serving as a model for regional efforts. A Fund also has a near-term opportunity to facilitate the purchase of key properties near transit for affordable housing development at reduced prices. The participation and investment of the GCC's member organizations, other community foundations, local community development financial institutions, as well as the regional governmental organizations are critical to the success of the Fund. All existing and proposed mission-driven property acquisition funds across the county have benefitted from and succeeded with the participation of local foundations.

- The report recommends the following general activities for the fund: **provide loans for property acquisition and predevelopment costs; provide patient and affordable capital that is responsive to property acquisition opportunities; allow for flexibility over time; diversify the investments. It identifies the Metropolitan Transportation Commission as the most likely source of "lead equity," and suggests an initial target fund size of $25 to $30 million.** The report suggests structures for fund governance, recommends various project loan terms, and outlines requisite qualifications for projects eligibility and competitiveness, including affordability and transit access.

- Finally, if the GCC were to proceed to develop a Fund further, the **recommended next steps** include the following:

    1. The GCC needs to identify the source of "top loss" or equity capital;
    2. The GCC would identify a Fund Manager;
    3. The GCC would provide "start up" support for the Fund;
    4. The GCC and the Fund Manager would form a governance structure to guide the mission and mechanics of the Fund;
    5. The Fund Manager would raise funds and develop the internal operating mechanisms; and
    6. The Fund Manager would develop guidelines for proposals and steward applications.

# I. Introduction

This report offers a summary of research findings and recommendations regarding the development of a San Francisco Bay Area Property Acquisition Fund (the Fund) for Equitable Transit-Oriented Development. The contents of the report address the need for a property acquisition fund and background history on the impetus for its development, describes the different types of mission-driven property acquisition financial tools in existence or under development around the country, explains key real estate financing concepts, and makes a recommendation for the creation of a property acquisition low interest *loan* fund. It makes specific recommendations regarding the development, functions and operation of such a fund and lays out critical next steps in bringing a fund into existence.

Findings and recommendations are based on a review of documents regarding the development of other funds as well as extensive interviews with managers of existing and emerging mission-driven property acquisition funds in other parts of California and across the country, Bay Area local government staff responsible for planning and production of transit oriented development and affordable housing, potential public sector and other local investors, and affordable housing and market rate developers. These interviews informed recommendations regarding the goals, structure and operation of the fund, in particular key issues regarding how best to manage risk for both lender/investors and borrowers, as well as appropriate terms for project loans. Notes from these interviews are summarized in Appendix A, page 17.

This report includes:

- An overview of barriers to equitable transit-oriented development (TOD) in the Bay Area;
- The impetus behind the development of a Bay Area Fund and the Great Communities Collaborative's leadership in this area;
- An explanation of what a property acquisition fund is and how it functions;
- A discussion of the ongoing importance of participation by the Great Communities Collaborative and its member organization, local community foundations, regional governmental organizations and community development finance institutions in bringing the Fund to fruition;
- Specific recommendations about facilitating the creation of a Bay Area TOD Acquisition Loan Fund and its appropriate structure and operation;
- Recommended next steps;
- Summary of key informant interviews (Appendix A);
- A matrix itemizing relevant existing and emerging funds across the country (Appendix B); and
- Map of Transit-Oriented Development Opportunities in the San Francisco Bay Area (Appendix C).

# II. The Need for a Property Acquisition Fund for Equitable Transit Oriented Development

The need for a fund dedicated to securing property near transit for affordable and mixed income housing arises from the on-going affordable housing crisis and dwindling supply of developable land in the Bay Area, as well as financing challenges particular to the development of affordable housing. The Great Communities Collaborative (GCC) has been focused on these issues as part of its on-going work advancing sustainable and equitable solutions to urban sprawl and its negative impacts on Bay Area quality of life. This section of the report describes the current barriers to building affordable housing near transit in the Bay Area and the critical need for a property acquisition fund dedicated to building equitable transit-oriented development (TOD), as well as the impetus for such a fund and the GCC's role in this.

## *Barriers to Equitable Transit-Oriented Development in the San Francisco Bay Area*

The San Francisco Bay Area is expected to grow significantly over the next 30 years, with an additional 1.9 million people and 1.8 million jobs projected by 2035.[3] Given the relative ongoing strength of the Bay Area economy, and the continued appeal of the region's natural amenities and cultural richness, there is increasing need to cultivate appropriate locations for housing the economy's workforce and to ensure that all Bay Area residents can participate in the regional economy. By 2030 there will be a potential demand for an additional 423,000 homes near transit in the Bay Area, according to an analysis by the Center for Transit-Oriented Development (CTOD). At least 54 percent of demand for nine-county Bay Area TOD is likely to come from households earning less than $75,000 per year (2000 dollars).[4]

Unfortunately, the regional track record for providing affordable housing in places near quality public transportation and jobs has been dismal. In job-rich areas, cities have consistently under-produced their share of regional housing demand, contributing to higher prices in these valuable locations and a shortage of housing affordable to moderate, low and very-low income households. The ongoing housing crisis has illustrated the inherent instability of the region's de facto "drive until you qualify" housing policy, with ex-urban jurisdictions facing steep foreclosure levels, dramatically falling home values and a depleted tax base. As a whole, between 1999 and 2006, the Bay Area produced only:

- 29 percent of needed moderate-income housing, and
- 72 percent of needed low-income housing;
- 35 percent of needed very-low income housing.[5]

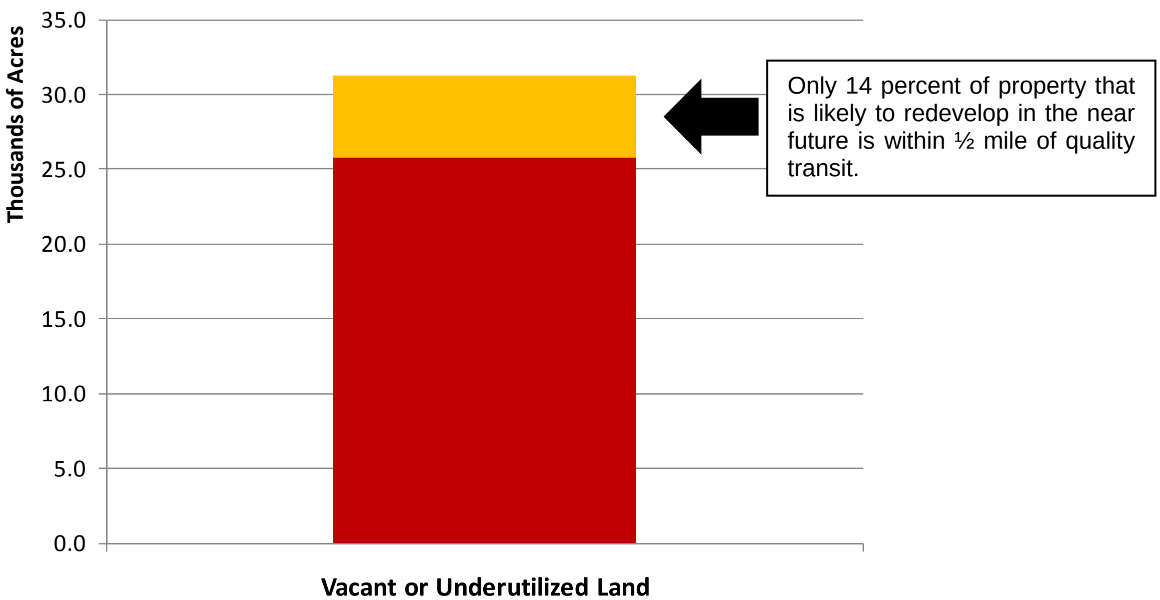
There are a variety of reasons why jurisdictions have not produced their fair share of affordable housing, and why there continues to be a shortage of affordable housing near quality public transportation. Some key issues are:

1. **Limited land supply and relatively high costs**. Out of the 1.1 million acres of land located in urbanized parts of the Bay Area, only about 3 percent are considered vacant or underutilized, and therefore likely to (re)develop. Of this, only 14 percent are within one half mile of a fixed-guideway transit station (see Figure 1, below). [6] Those vacant or underutilized parcels that do exist near transit are often more expensive than those in the surrounding area, particularly compared to parcels located at the periphery of the region.

[3] ABAG, Projections 2007
[4] CTOD, 2006; US Census, American Community Survey, 2004.
[5] ABAG, *A Place to Call Home: Housing in the San Francisco Bay Area*, 2006.
[6] *Mixed Income TOD Acquisition Fund Business Plan Framework*, Center for Transit Oriented Development, November 2008. Estimate does not include Resolution 3434 stations.

2. **Insufficient local policy support for affordable housing near transit.** While an increasing number of Bay Area jurisdictions are recognizing the need to promote affordable housing near transit, cities often find themselves with competing priorities, and are not always consistent in their support of equitable TOD. Furthermore, inclusionary policies alone will not be sufficient to meet the need for affordable housing near transit, both in terms of number of units needed and in terms of affordability levels.
3. **Inability of affordable housing developers to secure land in advance of project financing or acquire unrestricted affordable housing to make it permanently affordable.** In a strong market, affordable housing developers face strong competition for good development sites near transit, and a lack of ready capital to secure sites. In the current "cool" market, affordable housing developers find it difficult to gain control of property even where there is not significant competition, due to a combination of limited short-term resources and questions about the timing of long-term project financing.

***Figure 1: Scarcity of Development Sites near Transit in the Bay Area***




Source: CTOD.

The above described factors combine to make it both critical and difficult to secure land near transit for affordable housing, whether part of a mixed income project or strictly affordable housing. The current recession provides a window of time while land prices are escalating more slowly than usual, at the same time that the market-rate housing credit market is weak and cannot take advantage of this temporary opportunity. If this window passes and concrete steps are not taken to ensure that affordable housing is built in Bay Area neighborhoods surrounding transit, reasonable access to job centers may become permanently limited to upper middle- and upper- income households while the low and moderate income households' current disconnection from the regional economy is further exacerbated.

Moderate, low and very-low income households include workers who play an integral role in the success of job centers in the Bay Area. If they are priced out of housing with good access to these centers, these households suffer, the Bay Area quality of life is degraded by increased traffic, and the economy as a whole is less efficient. The affordable housing financing industry and local land use and affordable housing policies cannot adapt quickly enough to take advantage of the temporary slow-down in the real estate market. Additional measures are necessary, most critically the creation of new pro-active financing tools that allow the securing of developable property for affordable housing in advance of the availability of permanent financing from traditional affordable housing resources. This would allow properties to be secured as they become available, so that opportunities are not lost while projects wait to receive long-anticipated awards of below-market rate credit, and, over the long term, results in more TOD land being dedicated to affordable housing.

## Impetus for a Fund in the Bay Area – the Role of the Great Communities Collaborative

With the growing realization of the social and environmental unsustainability of urban sprawl, the Bay Area's Great Communities Collaborative (GCC) was formed in 2006 to work towards a future where mixed-income, transit-oriented communities can again become prevalent in the Bay Area. The purpose of the Great Communities Collaborative is to bring the resources and expertise of all of its member organization to bear in making the Bay Area a place where at least 50 percent of households live in complete communities, affordable across all incomes, with nearby access to quality transit by 2030.

There are eight Core Partners in the Collaborative – the four regional nonprofits, Greenbelt Alliance, the Nonprofit Housing Association of Northern California, TransForm and Urban Habitat, as well as Reconnecting America, a national transit advocacy and research non-profit, of which the Center for Transit-Oriented Development is a core project. The nonprofits are joined by three community foundations that have a strong commitment and history of engagement in Bay Area communities: East Bay Community Foundation, The San Francisco Foundation, and Silicon Valley Community Foundation. Each member of the Collaborative brings key issue expertise, geographic diversity, and new constituencies. With strong relationships with community leaders, elected officials, and community-based organizations, the community foundations play a critical role in convening and ensuring ongoing cross sector conversations are as constructive as possible. The strengths of the Core Partners are complimented by the local expertise of grassroots community organizations that work with in specific communities, as well as by technical assistance providers that create tools and provide additional expertise on specific issues like community health and mixed-income housing. In total, the Collaborative consists of 24 organizations throughout the Bay Area.

As articulated by the GCC, Bay Area transit-accessible neighborhoods should have a mix of jobs, shops, community services and homes affordable to families of all income levels. The term sometimes used to encapsulate this living environment is *equitable transit-oriented development* (equitable TOD). One key aspect of equitable TOD is the ability for people of diverse incomes, particularly very-low and low income people, to live near quality public transportation and therefore reap the benefits of TOD, which include reduced transportation costs, improved access to jobs, economic opportunity and other critical services and amenities. Creating these types of places at the scale envisioned by the GCC will require not only good plans that provide a guiding vision and goals for neighborhoods, but also and a range of implementation tools, strategies and financial resources that will ensure that vision can become reality. Ensuring that the needed levels[7] of affordable housing are built in these critical TOD locations across the Bay Area is one of the most important areas of work the GCC and other regional actors can engage in, and also one of the most challenging given the range of barriers associated with affordable infill development.

Thus far, GCC members have been very successful in ensuring that TOD specific planning processes are inclusive of community voices and visions; that the final plans incorporate a demonstrable commitment by local jurisdiction to support more dense, compact and mixed-use development; and that they also include greater levels of affordable housing to serve the needs of their current and future population.

[7] As defined by the Association of Bay Area Government's (ABAG's) Regional Housing Needs Determination (RHND) and based on CTOD's demand estimates for TOD among diverse income groups.

Having expressed the desire to help move plans from the vision stage to on-the-ground implementation, the GCC has the opportunity to play an important role in developing key implementation tools and strategies that will successfully ensure that affordable housing is built, rather than swept to the side when developers and jurisdictions face the social and fiscal pressures of the development process. A TOD property acquisition fund is one such tool that can stake a claim for affordable housing developers who might otherwise not have access to valuable property near transit, and ensure that equitable TOD can become a standard development practice, rather than an aberration.

# III. Acquisition Funds as an Emerging Tool for Ensuring Equitable TOD

In the past thirty years, a range of financial instruments have been developed with the intention of producing not only financial returns, but also social returns such as affordable housing, infill development, community development, environmental benefits, and other beneficial goals. These instruments are often referred to as "double bottom line" or "socially responsible" investments, and exist on a spectrum from grants—where no financial return is contemplated—to market or near-market rate investments that also have a positive social impact. The instruments vary widely in terms of their risk – return profiles, and the nature of their investors. In the past five years, mission-driven property acquisition funds have started to emerge as a particularly attractive and effective socially responsible investment tool. These new funds allow the resources of community foundations, public sector environmental funding streams, and national and local community development finance institutions to join in bridging a critical gap in the financing of affordable housing: the time lag between when development opportunity sites become available and when traditional affordable housing financing mechanisms kick-in to provide permanent financing.

This section of the report explains real estate financing concepts key to understanding what a property acquisition loan fund is and describes the current opportunity to create such a fund focused on the San Francisco Bay Area. Appended is a matrix that outlines 16 of the existing and emerging mission-driven property acquisition loan funds from around the country, none of which are focused on the San Francisco Bay Area (see Appendix B, page 21).

## *Key Real Estate Financing Concepts*

A fund is a pool of money set aside for specific kinds of investments, usually with contributions from multiple investors. Funds with a social mission vary widely in terms of their goals, activities, and funding sources, and include double-bottom line funds (DBL), community loan funds (CLF), and other kinds of investment and loan funds. Most double bottom line funds, for example, are equity funds that make direct investments in projects, and many expect a "market rate" return. These funds are typically designed to take advantage of market imperfections that lead many investors to overlook communities that are suffering from disinvestment, but where there are, in fact, good investment opportunities that have the potential to achieve market-rate returns.[8] At the other end of the scale are grant programs, which do not require repayment, and have no return expectations. In the Bay Area, where there are several DBL funds operating, these funds have not been useful to affordable housing developers because the return expectations are too high.

A property acquisition fund is a specialized kind of fund that directly acquires, or provides loans to assist with the acquisition of land or property.[9] Property acquisition funds with a social mission are usually designed to assist with acquisition of land and buildings, as well as other "predevelopment" costs, typically for affordable housing.[10]

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[8] *The Double Bottom Line Handbook*, Ford Foundation, 2007, p. 29.

[9] Note: certain property acquisition funds are designed to generate returns for investors by purchasing property with the intention of selling it for a higher price later. However, these funds do not typically have a social mission. Instead, they are market rate funds that aim to benefit from rising property values or the value created by entitlements (e.g., purchasing an underutilized property and obtaining city approval to build to a higher density or a more valuable land use).

[10] Predevelopment costs include feasibility studies, title clearance costs, financing costs, architectural plans, engineering studies, legal fees, and other costs that a developer must incur prior to the actual development of a project. In some cases, acquisition funds are also used to secure land for public facilities such as schools: an example is the Delaware Advanced Planning real Property Acquisition Fund, a revolving loan fund that assists state agencies and school districts in developing new facilities.

A key benefit of property acquisition funds is that they can offer the opportunity to move quickly to purchase property opportunistically, before other project financing is identified. This can be especially important in situations where there is limited land supply and/or a very competitive market for development sites. Because these conditions are very common in centrally-located neighborhoods near transit, a property acquisition fund is particularly well-suited for promoting equitable TOD. To date most acquisition funds do not specifically target properties near transit; however, there is a growing recognition of the need to preserve opportunities near transit for affordable housing and the important role an acquisition fund might play in implementation. For example, a Denver TOD Fund was recently created with the goal of preserving opportunities for affordable housing near existing and planned light rail (see Appendix B, page 21). The concept is also being discussed at the national level as a potential way to support TOD implementation.

As mentioned there are property acquisition funds that acquire and own land directly, as well as funds that make loans to developers to acquire land. The direct acquisition model can be higher risk, because the fund holds the property for some period of time and can be stuck with it if the anticipated project deal with a developer falls through. It is for this reason that the direct acquisition model is most frequently associated with for-profit acquisition funds that are not mission-driven and offset the risk undertaken by investors with a high level of expected return from the rising value of the property. While some mission-driven funds, such as the Denver TOD Fund, do acquire property directly, they have a unique situation in which a land conservancy, the Urban Land Conservancy, is a major investor as well as the fund administrator and has the capacity to assist directly in implementation.

The most common model is that of a low-interest loan fund that issues loans at rates sufficiently low to allow affordable housing developers to secure land for affordable housing. Borrowers make payments back into the fund, which either revolves to allow additional lending, or is held as security until the fund expires and investors are repaid. Affordable housing development projects are very cost-sensitive, because they generate a limited amount of revenues from rents or sales prices. A low interest loan can provide funds that would otherwise not be available for property acquisition, and helps to offset some of the up-front costs associated with affordable housing development. These types of mission-driven loan funds attract investment from public sector entities with funding streams that can be dispersed without interest expectations, community foundations with project-related investment funds that have below market-rate return expectations, and community development finance institutions that make below-market rate loans.

Acquisition funds are typically comprised of multiple sources of capital organized into “traunches” or levels of risk. Even loan funds with a specific social mission have different fund investors who are willing to take different levels of risk and have different expectation for returns. Private capital sources such as banks or pension funds want to have other money in the fund that will be “at risk” before their money is, should a loan go bad. Because these acquisition funds are considered to be somewhat risky, but are structured to achieve a social mission, public agencies will typically put in the first increment of capital and thus take the greatest level of risk. This money then leverages investments from other more risk-averse investors. The investment that takes the greatest level of risk is said to take a “top loss” or lead equity position.

## Opportunity to Support the Creation of a Fund

In order for the GCC to meet its target goal of having all Bay Area residents living in complete communities, affordable across all incomes, with nearby access to quality transit by 2030, it will be important for GCC members to play a role in ensuring that affordable housing is produced and preserved, as well as planned for, in critical TOD locations across the Bay Area. The production and preservation of affordable housing is a measurable goal that is a component part of fostering equitable TOD. A TOD acquisition fund could be an essential tool for securing key properties in transit locations for the purpose of developing affordable housing and ensuring that very-low, low and moderate-income individuals and families reap the economic, social and environmental benefits of living in proximity to quality transportation.

Given the housing crisis and the downward pressure on property values, this is an opportune time to purchase properties. At the same time, developers are having difficulty securing project financing given constraints on lending by banks and investors. A TOD property acquisition fund will serve as a critical source of capital to allow developers and/or other entities to secure key properties during this period of price depreciation, and hold those properties until they are able to assemble the needed project financing. Otherwise, there is the risk that the future of these properties will be controlled by developers who do not have affordable housing as a primary goal.

A TOD property acquisition fund has the opportunity to operate at the regional scale and benefit from complementary regional planning efforts. In response to efforts by the Association of Bay Area Governments (ABAG) and the Metropolitan Planning Commission (MTC), cities throughout the Bay Area have identified FOCUS Priority Development Areas (PDAs) where city leadership has agreed to support denser and more compact development in transit-served locations. A TOD property acquisition fund has an opportunity to target these areas that are more likely to have supportive policies, including zoning, and a more accommodating political environment. Fund activities will also benefit from investments in infrastructure and amenities that target the PDAs.

The Bay Area TOD Acquisition Fund will be distinct in having a regional focus, investing in neighborhoods that help achieve greenhouse gas emission targets informed by SB375 and the regional Sustainable Communities Strategy[11]. To date, other acquisition funds for affordable housing operate at the city or county level, which means that the Bay Area fund can serve as a national model for how targeted place-based development and investments can serve to meet regional goals.

The GCC would decide as the TOD property acquisition fund is developed how to engage with the fund over time. The investment the GCC has made thus far in supporting CTOD's research and analysis testing the feasibility of a fund, and in hiring a Fund Manager to fully establish the fund, are critical contributions towards the implementation of equitable TOD in the Bay Area. The participation and investment of the GCC's member organizations, other community foundations, local community development financial institutions, as well as the regional governmental organizations, are critical to the success of the Fund. All existing and proposed mission-driven property acquisition funds across the county have benefitted from the participation of local community foundations and local government; they would not have succeeded otherwise.

[11] In 2006, California passed AB 32, the *Global Warming Solutions Act*, making California the first state in the nation to commit to achieving the Kyoto Protocol. Under AB 32, California will reduce its greenhouse gas emissions. In December 2008, the State Air Resources Board adopted the targets for a range of industries and practices, including land use. SB 375 is known as the *Steinberg Bill* and was passed by California lawmakers in late August 2008. It is a compliment to AB 32 in that it calls for a regional greenhouse gas reduction/transportation planning process that results in a "Sustainable Communities Strategy" for each region and an alignment of a number of housing planning processes mechanisms, including those for housing and transportation.

## *The Role of Local Foundations In the Development of Acquisition Funds*

Local foundations have played an initial convenor, and key investor and/or insurer role in the development of most mission-driven acquisition funds across the country. In many situations, the roles that local foundations play have proved to be catalytic. Some funds, such as the Lower San Antonio Community Development Fund in Oakland, were initiated by foundations, one of which contributed a loss reserve for project loans that fail (see below). Foundation contributions to most other acquisition funds came from project-related investment (PRI) capital with low return expectations and no risk tolerance. This allowed the funds to keep the interest rate on loans low, while leveraging public sector investment that can occupy a "top loss" or lead equity position, but requires private sector investment in the fund as well.

Itemized below are descriptions of the role played by local foundations in three mission-driven property acquisition loan funds from around the country.[12]

- **Lower San Antonio Community Development Fund (Oakland, California)**

  The Annie E. Casey Foundation and the Evelyn and Walter Haas, Jr. Fund, two organizations that have consistently invested in the Lower San Antonio neighborhood of Oakland, initiated the Lower San Antonio Community Development Fund in 2005 after identifying the need to preserve affordable housing in an escalating real estate market. Aiming to finance pre-development and property acquisition costs to preserve unsecured affordable housing, the fund does not rely on any public or private bank financing and is not impacted by regulatory requirements for private lenders. Instead, the two organizations contribute both PRI funds and grant funding to finance the loan fund, predevelopment grants and administrative costs in partnership with the Local Initiative Support Corporation (LISC), the Low Income Investment Fund, and the Northern California Community Loan Fund. Each entity contributed $2 million, with the Haas Fund monies allocated for predevelopment grants and a loss reserve.

  In 2008, the partnership of the foundations and LISC allowed an interest rate of 5.5 percent, with a loan-to-value ratio of 100 percent. Operating on its own, LISC would have required an interest rate of 7.0 to 7.25 percent and loan-to-value ratio of approximately 80 to 90 percent. The fund's model also differs from others in that borrowers are pre-approved and underwritten in an effort to streamline the loan approval process. The fund has been successful because the investors and lenders had previous relationships and share common interests when reviewing potential projects. As of 2008, two loans have closed and one was pending.

- **New York City Housing Acquisition Fund (New York City, New York)**

  The Starr Foundation made an initial commitment of $12.5 million and sought other foundations to contribute, eventually raising $26.5 million in foundation capital. Now at over $200 million, the fund structure is complex and involves many partners. It took two years to form this fund, and extensive work was done to make sure that funds' objectives met the foundations' programmatic goals. Contributing foundations include F.B. Heron Foundation, Ford Foundation, Gimbel Foundation, MacArthur Foundation, New York Community Trust, Open Society Institute, Robin Hood Foundation, Rockefeller Foundation, Starr Foundation and Enterprise Community Partners, Inc.

- **Denver Transit-Oriented Development Fund (Denver, Colorado)**

  The Denver TOD Fund is unique because the Urban Land Conservancy (ULC), an independent non-profit organization initiated by and supporting the Denver Community Foundation, is the sole borrower of its project loans, as well as contributing as the lead equity contributor. The ULC takes out loans from the fund to secure properties *in advance* of transit investments and then partners with

[12] Living Cities, Summaries of Existing Funds, 2008.

different non-profit developers to ensure each property is redeveloped into a neighborhood asset. Another local foundation, the Mile High Community Loan Fund, provides funding that occupies a senior debt position.

# IV. Bay Area Equitable Transit-Oriented Development Property Acquisition Fund Recommendations

The Center for Transit-Oriented Development recommends that the GCC pursue development of a Bay Area Property Acquisition Loan Fund dedicated to securing property near transit for affordable and mixed income housing. Based on research and interviews conducted for this report, development of a fund has a good chance of success, and several possible investors have been identified. A Fund can play an important role in meeting the demand for equitable TOD, and in serving as a model for regional efforts. A Fund also has a near-term opportunity to facilitate the purchase of key properties near transit for affordable housing development at reduced prices.

This section outlines recommendations for a Bay Area TOD Acquisition Fund related to fund activities, structures for fund governance, the role of a fund manager, project loan terms, and outlines requisite qualifications for projects eligibility and competitiveness, including affordability and transit access. It identifies the Metropolitan Transportation Commission as the most likely source of "lead equity," and suggests an initial target Fund size of $25 to $30 million. General recommended activities for the fund are summarized as follows:

1. Provide loans for property acquisition and predevelopment costs;
2. Provide patient and affordable capital quickly;
3. Allow for flexibility over time; and,
4. Diversify investment.

It is important to note that the ultimate details regarding the structure and activities of the Fund will be determined once investors are identified and the ultimate fund structure is defined. The fund structure and activities will be the result of a discussion and negotiation among Fund investors. The activities and priorities of the Fund will be influenced by the nature of the investors and the size of the Fund. For example, the interest rates that can be offered to borrowers will largely be a function of the requirements of Fund investors.

## *Fund Activities*

**Provide Loans for Property Acquisition and Predevelopment Costs**

It is envisioned that the Fund will make loans to developers for purchase and holding of property, as well as predevelopment cost such as environmental analysis and entitlements. CTOD recommends against the Fund making direct acquisition of property itself. The degree of risk involved in direct acquisition and holding of property is high given that anticipated projects may not materialize. Prior to the current recession, market-rate property acquisition investment funds were attractive to private, for-profit investors because they offset this high risk with very high potential returns based on the increasing value of property for market-rate housing. Because the Fund will be focused on developing or preserving affordable housing, which does not escalate in value with the housing market, it could not derive any real profit from reselling properties without endangering the affordability of prospective projects.

Loan funds provide investors with a much lower risk investment opportunity, because the borrower owns the land, rather than the Fund itself. The borrower owes the Fund the principal amount borrowed, as well as interest on the principal. As described by fund managers of other mission-driven property acquisition loan funds, it is likely that loans will need to be *full-recourse*. This means that the Fund can recoup outstanding loan balances on loans that fail, should developers not succeed in advancing projects, directly from the borrower including all of the borrower's assets, and not just the property in question. This will be challenging for smaller affordable housing non-profits, as it exposes them to a high degree of risk, but much safer for investors in the Fund.

A loan fund is also better suited to the smaller scale of most affordable housing projects. While most larger scale mixed-use projects do include an affordable component, these projects often receive other sources of public subsidy, including for land acquisition, and therefore are not appropriate for a targeted affordable housing acquisition fund.

Acquisition loans may be sized to include money to assist with selected predevelopment costs that must be incurred before a construction loan is obtained. Because projects cannot advance without significant predevelopment expenditures and assistance with predevelopment costs is almost as scarce as it is for land, some acquisition loans may be more secure when predevelopment expenses can be included in the acquisition loan.

The Fund could make loans exclusively for unimproved or underdeveloped land to be (re)developed with affordable housing, or it could also make loans to assist in the preservation of existing housing that are currently affordable, but in private ownership with no guarantee of future affordability, should market conditions change and the property owner be able to charge higher rents. The specific uses of funds will need to be determined through discussions with fund investors, and adjusted to reflect their desires and what is possible given the fund structure and risk/return profiles.

**Provide Patient and Affordable Capital Quickly**

In order for project loans to be attractive and useful to developers that build and preserve affordable housing, loans will need to allow for a long enough term (i.e., at least five years or more) to allow developers to make it through the predevelopment phase and take out a construction loan, as well as being queued up for permanent affordable housing debt. Furthermore, project loans need to be made at a rate of interest that is not so high as to drive the cost of project financing beyond what affordable housing developers can support. Finally, the fund should be capable of responding quickly to loan applicants, so that time-sensitive opportunities to acquire land near transit are not lost.

**Allow for Flexibility Over Time**

It is key that the fund requirements be flexible, allowing the fund’s loan targets to shift as the need for the fund changes over time with the ups and downs of the housing and credit markets, while maintaining the overarching goal of securing property for affordable housing near transit. Fund requirements may also need to be flexible to accommodate the goals of its capital sources (e.g., public sector funds and program related investment funds from foundations).

**Diversify the Investments**

Because affordable housing projects compete for the same pool of financing and most of these financing tools have requirements regarding geographic distribution of debt, it is recommended that the fund also require a geographic distribution of financed projects across the Bay area. At the same time this requirement should not be so specific as to significantly limit the pool of qualified applicants. The Fund should also consider diversification among a number of borrowers, in order to mitigate risk.

## *Fund Governance*

To ensure that the Fund continues to meet its mission, as defined by the GCC and Fund Investors**,** the loan committee that reviews the project level funds should include representatives of the investors, as well as individuals with financial expertise. The inclusion of a representative of the Metropolitan Transportation Commission is a requirement of investment by MTC. In addition, all loans should be approved by unanimous vote. Additionally, clear guidelines regarding the mission of the fund should be developed before the fund manager is selected.

The following structures should be put in place by the fund manager, once selected, to ensure that the fund succeeds:

1. Strict guidelines for uses and terms of the Fund;
2. Strict criteria to qualify users of the Fund;
3. A loan committee able to act quickly to approve of deals brought forward to the fund manager; and
4. An advisory committee.

## *Fund Investors and Fund Size*

CTOD recommends an initial target Fund size of $25 to $30 million, though the size of the fund depends greatly on the amount of lead equity investment that can be attracted (see following discussion).[13] Our projection is that this amount could yield four to six acquisitions in the first year. The size of the Fund could become greater over time, once it has demonstrated its effectiveness.

The Fund should be structured similarly to other acquisition funds for affordable housing, with a series of investment tiers with different rates of return and with different risk profiles (the "capital stack"). Because the goal of the Fund will be to provide loans to affordable housing developers at the lowest interest rate achievable, the Fund is not likely to attract investors with market-rate return expectations. Likely investors consist of public sector agencies, foundations, intermediaries and Community Development Financial Institutions (CDFIs). The relatively low return expectations of these groups helps ensure that the Fund will be able to offer relatively low interest rates for borrowers, although maintaining a sufficiently low rate of interest for project loans has been an on-going issue for many existing funds.

A key requirement for success of the Fund will be to attract an investor willing to contribute funds that occupy the "top loss" or lead equity position. This is the investor who is willing to accept the greatest risk position should a borrower default, making its capital available with very low or no return expectations. All existing and proposed acquisition funds reviewed for this report had a public sector investor that contributed no or extremely low return expectation funds that assumed this position. The most likely source of lead equity capital in the Bay Area is Transportation for Livable Communities funds from the Metropolitan Transportation Commission (MTC). For this fund's purpose, the TLC funds would be an ideal source of top loss money. These funds can be used anywhere in the region, as opposed to having a city contribute top loss money that would then limit the loans to projects only in that city. Also, because the fund will be focused on the Priority Development Areas, there is a clear nexus between the fund's geographic target and those of MTC. In addition, because the TLC funds are intended to be used as grants, there is no expectation that the money would earn interest. Having "no cost" money as a source of top loss capital is very helpful in holding down the Fund's overall interest rate for borrowers.

However, while MTC has identified affordable housing as a program area in which it would like to invest TLC monies, this is not technically a legal use of the federal transportation dollars that MTC currently uses to fund the TLC grants. This is a significant barrier to using a TLC grant, although not necessarily insurmountable. Assuming that the major technical problem with the TLC money can be resolved, MTC will likely have other stipulations for the use of its money, such as the additional amount to be leveraged (assuming that the fund amount would be $25 million, if MTC contributed $5 million, then MTC's contribution would leverage four dollars for every one dollar it contributed), a time frame for raising the balance of the capital, and a clear process for oversight. However, if the US HUD Community Sustainability pilot funds were available, for example, this could serve as first loss and/or could increase the size of the Fund. It is important to note that because the top loss capital source is willing to accept the

[13] Note: the initial fund size was estimated based on an amount that is likely to be achievable and is also of a sufficient size to attract an experienced fund manager, not based on need, which is significantly greater.

greatest risk for little financial return, they will judge the value of their investment based on how much other capital can be leveraged.

The other potential source of top loss funding is the United States Department of Housing and Urban Development's new Sustainable Communities pilot project funds. There are two major constraints to working with this funding source. First, the process and timing for applying for these funds has not yet been identified. Second, the funds will be very competitive and there is no guarantee that the Fund would be a recipient of Federal money.

## Loan Terms

Loan terms will vary according to the needs and characteristics of specific applicants, as well as the requirements of Fund capital sources. However, the goal should be to provide acquisition and predevelopment loans with terms of five years or more, with very low interest rates. For some borrowers, interest payments may need to be deferred and "rolled into" the total loan amount. In some or all cases, loans may need to be recourse loans that require a pledge of additional assets beyond the property itself in the case of default.

While individual loan sizes will vary depending on project size and location, a ceiling on project loan size should be set that is in keeping with the total loan fund amount so that the fund is sufficiently diversified to be secure. If the recommended target $25 to $30 million is successfully raised, an appropriate land acquisition project loan ceiling might be approximately $5 million. Given land prices in the Bay Area, it is likely that a fund of this size would issue four or five loans with the first round of capital. This is a minimum number for the fund to be sufficiently diverse.

**Loan Example:**

A local non-profit affordable housing developer discovers that a desirable development site near a BART station is for sale. The developer knows that there are other offers on the table, and that she will need to move quickly to secure the site. However, permanent financing for a project has not yet been identified, and it may take several funding cycles to be approved for low-income housing tax credits. The developer requests, and is quickly granted, a five year loan with deferred interest payments to acquire the site and begin to plan for future development.

After four years, the developer obtains other financing for the affordable housing project, and uses that to repay the loan, with interest. These funds are made available once again for other projects for the TOD fund to pursue.

## Project Eligibility

The Fund Manager will develop detailed criteria for project eligibility related to the topics below.

1. **Loans are exclusively for properties where the expected project includes significant affordable ownership or rental housing near transit.**

   Loans should be primarily for the purpose of promoting affordable housing, and can allow for both ownership and rental projects. The affordability requirement may allow for a range of income levels. Prospective projects or existing properties may include other supporting uses such as market-rate housing and ground floor retail, but the predominant purpose of the fund should be to secure land near transit for permanently affordable housing.

2. **Properties must be located in Priority Development Areas and be transit accessible.**

   Loans should be limited to properties in Planned Priority Development Areas (Planned PDAs) in the Bay Area with good transit access to the regional employment centers, as defined by ABAG.[14] The Fund can have specific requirements about thresholds for transit access, such as transit service headways.

3. **All borrowers must meet strict financial and development track record criteria, and prospective projects should have strong permanent financing expectations.**

   Loan opportunities will need to be evaluated based on the experience and financial capacity of the developer, as well as the likelihood of loan repayment and "takeout" financing sources. For example, projects that are expected to be financed using low income housing tax credits should be evaluated in terms of their likely competiveness for financing under that program.

## *Project Competitiveness*

Should there be more qualifying properties than funds available, the following additional criteria for distinguishing competing applicant projects can be applied. The acquisition enabled by the loan would be likely to:

1. **Catalyze other nearby transit-oriented development.**
   Prospective projects that can demonstrate the ability to catalyze further development activity (i.e. availability of nearby development sites, interest of other property owners in housing development, public control of other opportunity sites) should be given lending preference.

2. **Leverage funds from other sources to fund project and meet equitable TOD goals.**
   Projects that leverage other sources of land acquisition or preservation capital for equitable transit-oriented development can be given a competitive advantage in securing a loan from the fund.

3. **Coordinate a diverse set of partners in the region/city/neighborhood**.
   Development projects that are likely to bring together different partners, such as the local municipality, community groups, and advocacy entities, may be given lending preference.

[14] Planned PDAs are PDAs with both an adopted land use plan and a resolution of support from the city council or county board.

# V. Next Steps

Although there is a clear need for a TOD acquisition fund in the Bay Area and raising some of the funds seems promising, there are still several major tasks to be accomplished in bringing the Fund to fruition. These tasks are outlined below:

## *1. Secure the source of "top loss" or lead equity capital*

As described previously, there are two possible sources of top loss capital for the Fund. The first is a Transportation for Livable Communities (TLC) grant from the Metropolitan Transportation Commission. The second is a contribution from the HUD Office of Community Sustainability. Both sources have their strengths and weakness. To bring either scenario to fruition, the GCC should continue working with MTC and the Association of Bay Area Governments (ABAG) on identifying sources of lead equity capital for the fund. MTC staff will be accepting recommendations for TLC grants to the Commission at the end of January, 2010. Therefore, the GCC should continue working with MTC staff to explore the acquisition fund as a TLC grant recipient, even before the identification of a Fund Manager.

## *2. Identify a Fund Manager*

- **Define the role of a Fund Manager**

  The preliminary role of the Fund Manager will be to identify additional sources of capital for the Fund and facilitate the development of the fund structure. Once the Fund is capitalized, the Fund Manager will be responsible for underwriting the loans and reporting to investors. The Fund Manager will also conduct outreach to affordable housing developers and communities (e.g. cities and redevelopment agencies) to identify and best target loans.

- **Prepare a Request for Proposals for the Fund Manager**

  The Request for Proposals (RFP) will specify the "social mission" for the fund, identify the roles and responsibilities of the fund managers, and set performance deadlines. The RFP should be ready for issuance in January, so that a Manager can be selected by the end of January or February 2010.

- **Review the Fund Manager proposals and select the Fund Manager**

  The GCC will need to appoint a selection committee to review the fund manager proposals, conduct interviews, and select a manager.

## *3. Provide "start up" support for the Fund*

Once the fund manager has been selected, the organization will require financial support while structuring the Fund. The GCC can provide the initial funds for the fund manager to do the initial work of identifying the various sources of capital and structuring the fund. After the fund is structured, depending on the RFP responses, the Fund Manager's compensation is expected to come from lending and/or a management fees.

## *4. Form the governance structure that will guide the mission and mechanics of the Fund*

In consultation with the selection committee or other advisory board that includes the GCC and other likely investors such as MTC and community foundations, the fund manager will develop an appropriate governance structure for the Fund that ensures that the Funds mission is carried out by its activities and that all project loans support the mission.

### 5. The Fund Manager would need to raise funds and develop internal mechanisms

Once the governance structure is in place, the fund manager can begin securing investments in the Fund from the many public and private entities that have already expressed interest in the fund, as well as soliciting investments from a broader range of potential investors. The fund manager will sort through the various interested investors, their possible contribution levels and return expectations to develop a "capital stack," which designates fund investment by risk position and absorbable percentage of loss. As described previously, sources of investment for mission-driven property acquisition funds are public sector entities with capital resources that may be utilized without interest expectations and can assume the lead equity risk position, community foundations with project-related investment funds that have below market-rate interest rate return expectations but cannot be in a first loss position, and investors such as banks looking to invest money as mandated by the Community Reinvestment Act, (see Appendix B, pg 21 for descriptions of the blends of investment in other existing funds). The fund manager will develop an auditable legal and financial structure that separates and tracks the different investment pools within the fund as a whole, as well as each individual project loan, its unique blend of debt sources, securitization and return expectations.

### 6. The Fund Manager would develop guidelines for proposals and steward applications

The fund manager will then begin developing guidelines for loan applicants, in consultation with Bay Area affordable developers likely to apply for loans and an advisory board. The fund manager should begin cultivating applicants prior to issuance of the guidelines to ensure that the loan fund criteria is achievable and that prospective borrowers are apprised of the opportunity and have potential property purchases in development.

# Appendix A: Summary of Key Informant Interviews

The following interviews were conducted by Strategic Economics in the fall of 2009 to ascertain the interest, issues and opportunities associated with creation of a San Francisco Bay Area property acquisition fund for affordable transit-oriented development.

## Interviewees

Tom Evans and Kate Hartley, San Francisco Redevelopment Agency

Wells Lawson, Mayor's Office of Economic and Workforce Development, City of San Francisco

Charles Rivasplata, Municipal Transportation Agency, City of San Francisco

Laurel Prevetti and Paul Kruptka, Planning Department, City of San Jose

City of San Jose Redevelopment Agency Staff

James Lindsay, City of Milpitas Planning Department

John Clawson, Equity Community Builders

Linda Mandolini, Eden Housing

Lydia Tan, Bridge Housing

Brian Prather, Low Income Investment Fund (LACHIF)

Peter Solomon, California Department of Housing and Community Development (GSAF)

Doug Johnson, Metropolitan Transportation Commission

Ken Kirkey, Association of Bay Area Governments

## Summary of City Staff Interviews

- Property along the 3rd Street light-rail corridor in San Francisco is in small parcels with individual owners that are very difficult to assemble, especially for a public entity. The psychology of such owners generally ignores larger economic conditions. Redevelopable property in other parts of the City near transit is prohibitively expensive (i.e. Market Street and Octavia Boulevard). A private, mission-driven land fund that could help w/some increment of land cost would be very helpful.

- Assistance with preserving at-risk existing affordable housing is also a critical need.

- Smaller affordable housing projects are difficult to finance given HCD's threshold 50-unit count and the way that affordable projects compete for tax credit financing. (The sweet spot for development is 7 stories high, up to 79 feet tall, of Type 1/3 construction.)

- Developable sites in San Francisco will be $2-7 million per acre. A prototypical half acre site with an allowable density of 75 units per acre would be approximately $3 million.

- In San Jose, both the current state of the economy & on-going neighborhood politics works to push proposed housing projects below their allowable density. An outside mission-driven property acquisition entity with explicit transit-supportive, sustainability objectives could make headway on density where the City and for-profit developers cannot.

- Much of the property available for new transit-oriented development in San Jose is industrial land in North San Jose that is now convertible to residential and mixed use. Because these areas have been strictly commercial/industrial, there are significant infrastructure needs to support housing and create neighborhoods. It would be strategic to link infrastructure funding to property acquisition fund investments.

- Existing real estate financing sources tend to be conservative regarding mixed use. The fund would be most useful if it allowed for mixed use, so as to meet needs for retail services and contribute to a transit-supportive, equitable neighborhood, not just an individual project.

- In Milpitas, the areas with transit and significant redevelopment potential are in redevelopment areas. Because most affordable housing projects have tax-exempt permanent financing, exclusively affordable projects could have a negative impact on the tax roles, particularly the redevelopment tax increment which is key to paying for the extensive new infrastructure investments required to support the introduction of residential into previously commercial/light industrial areas (i.e. $8 million sewage treatment facility/water reservoir, model streetscape project, new library/community center). Preferable would be projects that have affordable components, but also market-rate, so that some part of it contributes to the city services needed to support residential projects.

- HCD has not updated the affordable income categories since 2003, so moderate income ownership units are at market and the deed-restrictions make them unattractive to potential moderate income buyers. So ownership units would have to be aimed at low income to be of interest, which may not be developable.

- The major TOD catalyst Milpitas needs is a demonstration that the low concrete/steel construction types can work (i.e. 12 stories high, 90 welling units per acre), as they want towers & real density around their transit, as opposed to stick or woodframe construction.

- The Bay Area Metropolitan Transportation Commission is interested in contributing some of its funds aimed at reducing greenhouse gases; these funds are focused on the Priority Development Areas (PDAs) submitted by Bay Area jurisdictions and approved by MTC (all meet a transit accessibility threshold, as well as having significant opportunity for redevelopment intensification). For MTC funds to be contributed, projects would need to be in the PDAs. The MTC funds could occupy the first loss or equity position in the capital stack.

**Summary of Developer Interviews**

- An acquisition loan fund would be helpful, given how difficult it currently is to figure out how to finance land acquisition for affordable housing. Bridge is considering setting up their own property acquisition fund, but has not figured it out yet.

- The time tolerance for project loans from the fund would need to be long, probably more than 5 years or else have the ability to extend. It takes a long time to put together project financing, especially right now; it might require three or more tax credit rounds to get permanent affordable financing.

- A loan for land acquisition that would only be secured by the land would be at a 100% loan-to-value ratio, which is risky. Perhaps the fund could lend most but not all of the funds needed to secure the land; it is uncertain whether this would work.

- The issue of recourse in the case of project failure is challenging and critical. While the developers understand why these would need to be full-recourse loans, it would be rough even for largest affordable housing developers and probably impossible for the smaller ones. If the loan could be secured by the land, this would help significantly with the borrower's risk. Eden is currently doing a deal involving Project-Related Funds from the Marin Community Foundation that required a corporate guarantee from Eden. This almost made the deal fall through, despite Eden's size. They ended up guaranteeing the loan as long as the MCF looks to the land first for recovery.

- The fund should consider how to treat entitlement risk. Would it allow developers to buy land before it is entitled? Experienced developers wouldn't buy something pre-entitlement unless they felt like they were pretty sure they could do it.

- Another key issue is the interest rate. The double bottom line funds charged about 12% interest, which was too high to be useful. An interest rate around 3 to 5 percent would be more appropriate, if achievable.

- Besides loans for acquisition, options are a good way to tie up land, especially as there are currently limited resources for this. These would need to be an up-front grants, rather than loan, however, and they would need to be forgivable if a deal was not ultimately made. It's a good time for options, as sellers are currently willing to be patient. One example of a recent option from Petaluma: $250,000, 36 months, 6 acres.

- In a down market, it's better to focus on land, rather than existing buildings. There are ways to get cities involved in securing at-risk properties and then go to a bank to finance the rehabilitation itself.

- It would be most efficient to have a fund administrator that the affordable housing developers already deal with, such as the Northern California Community Loan Fund or the Opportunity Fund.

- The total amount of funds available and maximum loan size are big factors in determining how the funds can be used. Even relatively small projects in San Francisco have land costs in the "many millions". You can get more land per dollar if you concentrate on less central locations. If the maximum project loan amount is small, the fund will need to be more opportunistic and get involved with smaller deals.

- There may be an opportunity for the fund to assist with predevelopment costs for larger transit-oriented redevelopment projects with public benefits, but where the need is not specifically related to affordable housing. Major TOD projects in places that are not redevelopment areas (so there is less opportunity for public assistance), but have high expectations regarding public benefits (i.e. open space, subsidized retail) are difficult to make feasible; assistance with land costs would help.

**Summary of Fund Manager/Investor Interviews**

- There are only a handful of national entities (Low Income Investment Fund, Enterprise, LISC, Century Housing and Corporation for Affordable Housing), as well as a your regional community development finance institution (Northern California Community Loan Fund) that can take on managing funds like these. Talking to them as the fund structure is developed, before a request for proposals is issued, is critical.

- The Golden State Acquisition Fund is part of the State's Affordable Housing Innovation program, along with a practitioner fund. The California Housing and Community Development Department has $25 million of Prop 1C money to issue, pursuant to passage of SB586. The purpose of the fund is to get the State out of the way and give affordable non-profits access to real estate that only market-rate for-profits could tie up in previous overheated market. The legislation requires a 3:1 leverage of other funds, charges no interest for public money, and mandates 5 year terms (plus extensions) for project loans.
    - While the GSAF's 25 percent contribution to each project loan is already allowed to take first loss in case of project failure, stakeholders (i.e. CDFIs) are also asking if the remaining fund loan (i.e. the whole $25 million contributed by the state) can be part of the over-all risk pool and potentially absorb even more of any individual project loss. HDC is open to this though but this could limit the other loans going out. LACHIF (the LA County Fund) is leading the way on this issue in California, and HCD is likely to follow their lead on this. What lendor/investor portion of the fund takes first loss in the capital stack is *the* critical issue in putting together a fund.
    - The fund allows predevelopment costs, as well as acquisition, because of the high cost of putting together these kinds of deals. They estimate 6.5 percent out the back end for investors requirements and other business costs.
- The lower the interest rate the better, so having public sector investment with no interest is key. Interest rates are currently low, which is helpful, but they could spike upward. The interest rate will also vary by project, as the senior loan money will vary. Land loans are also 100 percent recourse loans.

# Appendix B: Matrix of Existing and Emerging Mission-Driven Property Acquisition Funds

The following matrix provides a summary description of mission-driven property acquisition funds around the country. It includes the name and location, goals, origin, fund type & size, fund manager, capital stack and top loss position, key project requirements, loan terms, the number of loans made, as well as any lessons learned for each fund. The information in the matrix was gathered from work done previously by Livable Cities, as well as the key informant interviews and fund documents.

*TABLE 1: Matrix of Existing and Emerging Mission-Driven Property Acquisition Funds Around the Country*

| Fund & Location | Goal | Initiation Date & Origin of Fund | Fund Type & Size | Fund Manager | Capital Stack/First Loss Position | Affordability or Other Key Project Requirements | Terms | Number of Loans Made | Lessons/Complexities |
|---|---|---|---|---|---|---|---|---|---|
| ***Western States*** | | | | | | | | | |
| Lower San Antonio Community Development Fund, Oakland, CA | Pre-development and land acquisition financing for affordable housing | In 2005; initiated by the Annie E. Casey Foundation and Evelyn & Walter Haas, Jr. Fund. | Loan fund; $8 million | Northern California Community Loan Fund | Loss reserve given by the Evelyn & Walter Haas, Jr. Fund. | Borrowers are individually pre-approved and underwritten. | Max. loan term: 3 years; max. loan amount: $1.5 mil per project ($3 mil per borrower); loan-to-value (LTV): 100%; Interest rate: 5.5%; loan loss reserve: 5% | Two; One pending | Omitting private bank involvement protects the fund from regulatory requirements for private lenders. |
| LA County Housing Innovation Fund, LLC, Los Angeles, CA | Pre-development and land acquisition financing for supportive affordable housing projects. | In 2007; invested in by the Los Angeles County Board of Supervisers | Revolving Loan Fund; $60 million | Corporation of Supportive Housing and Wells Fargo | Top loss: L.A. County (33%); Second loss: CDFIs (13%each); Senior lenders (53%) | N/A | Max. loan term: 5 years; max. loan amount: $500k; LTV: 100%; Interest rate: stuck | N/A | N/A |
| New Generation Fund, Los Angeles, CA | Pre-development and land acquisition financing for affordable rental or homeownership housing. | In 2008; initiated by the City of Los Angeles and Enterprise Community Partners. | Loan fund; $150 million | Forsyth Street Advisors | By project, Top loss: City of Los Angeles ($10 million guarantee fund outside of transactions); equity: borrowers (5%) | N/A | Max. loan term: 3 years; Max. loan amount: $10 million; Interest rate: 30-day variable rate or 12 month fixed rate; Max. LTV: 130% (non-profit borrowers) or up to 95% (for-profit borrowers) | Two ($5.85 million and $9.55 million) | N/A |

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|---|---|---|---|---|---|---|---|---|---|
| Metro Transit-Oriented Development and Centers Program, Portland, OR | Land acquisition and holding for housing and mixed-use developments in transit corridors and commercial nodes. | In 1998; established by FTA funding | Direct Acquisition; $5 million every two years | The Metro, using Metro Transportation Improvement funds | N/A | N/A | N/A | 11 projects funded | |
| Washington State Land Acquisition Program, WA | Land acquisition financing for multi- or single- family affordable housing. | In 2007; funds appropriated by state legislature | Rolling Revolving Loan Fund; $6 million | Washington State Housing Finance Commission | N/A | Target of up to 80% AMI; 30 year affordability restriction | Max loan term: 4-8 year; construction between year 4 and year 8; Interest rate: 1%; Repayment: 4-6 years from proceeds of construction financing | N/A | N/A |
| Rapid Response Program, WA | Land acquisition financing for affordable housing and community facilities in areas with rapid gentrification. | In 2008, WSHFC announced the creation of the new fund. | Loan Fund; $10 million | Washington State Housing Finance Commission | N/A | N/A | Priority to: mobile home parks facing closure; King County areas facing gentrification or redevelopment; City of Spokane areas facing displacement due to loss of affordable units | N/A | N/A |
| ***Mid-Western States*** | | | | | | | | | |
| Louisiana Loan Fund, New Orleans, LA | Pre-development and land acquisition financing for affordable and mixed-income housing affected by Hurricanes Katrina & Rita | In April 2007, LISC & Enterprise approached the State of Louisiana | Loan fund; $47 million, $2M for predevelopment | 2 pools administered by LISC itself & by Enterprise LLC | $17M - State of Louisiana (CDBG) - first 1/3rd of losses, limited to 1/3 of each project loan | 51% of units at 80% area median income, majority of funds to used in 8 parishes most affected by Katrina | Predevelopment - $200,000 at 0% interest for 12 mos., Acquisition - $3 million at 5.5% interest for 24 mos., Loan to Value 100% for non-profits & 95% for for-profits | N/A | State CBGB funding complicates and limits project loans. |

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| Fund & Location | Goal | Initiation Date & Origin of Fund | Fund Type & Size | Fund Manager | Capital Stack/First Loss Position | Affordability or Other Key Project Requirements | Terms | Number of Loans Made | Lessons/Complexities |
|---|---|---|---|---|---|---|---|---|---|
| Denver Transit-Oriented Development Fund, Denver, CO | Property acquisition for the preservation and creation of affordable housing along existing and planned transit corridors. | Established in 2003 and staffed in 2007; run by the Urban Land Conservancy (ULC), a nonprofit that supports the Denver Community Foundation | Direct Acquisition; $17 million | ULC | Equity: ULC ($1.5 mil); First loss: Denver ($2.5 mil); Second loss: foundations & housing finance agency ($4.5 mil); Senior Debt: Enterprise & Mile High Community Fund ($6.5 mil) | In 2008, over 80% of very low income households were served; 350 very low and extremely low income (below 30%AMI) people served. 15% of fund is focused on households below 30% AMI. | Interest rate: 2-3%; Max. LTV: 100%; Equity: $1 mil; when possible, uses a 99-year land lease to ensure permanent public benefit | Sole borrower is the ULC | N/A |
| Capital Acquisition Revolving Fund, Minneapolis, MN | Land acquisition financing for commercial, mixed-income, rental and multifamily homeownership properties in commercial and transit corridors | In 2006; created by the Minneapolis City Council | Revolving Loan Fund; $1 million | City Community Planning and Econ Dev. Dept | Top Loss: City of Minneapolis | At least 20% of housing units at <50% Metro Median Income (MMI) | N/A | N/A | N/A |
| Hiawatha LRT Land Assembly, Minneapolis, MN | Financing for mixed-use, pedestrian and TOD projects located near Hiawatha LRT transit stations. | In 2005, the City of Minneapolis issued an RFP requesting for land acquisition proposals | Grant Fund; $5 million | Minneapolis Metropolitan Council | N/A | Either: 20% of units must be affordable ( <50% MMI ). legal commitment to build affordable units elsewhere in the City, or $80,000 per unbuilt affordable unit. 15-year affordability restriction. | One time grant | 3 grants | N/A |

*TABLE 1: Matrix of Existing and Emerging Mission-Driven Property Acquisition Funds Around the Country*

| Fund & Location | Goal | Initiation Date & Origin of Fund | Fund Type & Size | Fund Manager | Capital Stack/First Loss Position | Affordability or Other Key Project Requirements | Terms | Number of Loans Made | Lessons/Complexities |
|---|---|---|---|---|---|---|---|---|---|
| Land Acquisition for Affordable New Development, Minneapolis, MN | Land acquisition financing for affordable housing projects. | In 2007, established by the Metropolitan Council | Revolving Loan Fund; $4 million | Minneapolis Metropolitan Council | Minnesota Housing, the Metropolitan Council, Family Housing Fund | 20% of units at 60% AMI in the Metro area and 80% of AMI in Greater Minnesota; 7-year affordability restriction for homeownership projects. | Construction between Year 1 to Year 5; Repayment based on appraised value of the site at the time of repayment | N/A | N/A |
| ***Eastern States*** | | | | | | | | | |
| New York City Acquisition Fund, New York, NY | Pre-development and land acquisition financing for affordable housing in five boroughs of NYC. | In March 2006; created by the Corporation for Supportive Housing, Enterprise, LISC, NYC HDC, and LIIF. | Early stage capital for loans; $243.1 million | Forsyth Street Advisors | Risk Waterfall: Borrower Equity (5%), Recourse to the Borrower (25%), Originating Lender (2%), Fund Balance ( $8 mil Public and $32 mil PRI funds), Senior lendors (Bottom 50%) | All loans must meet the Fund's charitable purpose requirements. | Max. Loan Term: 3 years; Max. loan amount: $400,000- 750,000; Interest rate: Variable; LTV: 130% ( Non-profit Borrower) or up to 95% (For-profit) | 23 projects funded | As loans are credit-enhanced, underwriting was crucial for senior lenders to be comfortable with loan approval process and credit enhancement. |
| Atlanta Acquisition Pool, Atlanta, GA | Property acquisition financing for affordable and mixed-income housing | In 2008; announced by the City of Atlanta, ACoRA, and Enterprise Community Partners | Loan fund; $25.5 million | Enterprise Community Loan Fund | Borrower minimum 4% equity | Units in mixed-income <60% AMI ; Units in rental: 20% affordable if funded by the city and >30% if funded by ACoRA; Homeownership units: 30% to households up to 115% AMI and >50% units <80% AMI with ACoRA funding | Max. loan term: 2 years; Max. loan amount: $3 million; Interest rate: 6-7%; Repayment: construction/equity financing; 2% commitment fee; LTV: <120% of collateral | At the end of 2008, two projects were approved totaling $1.6 million. | N/A |

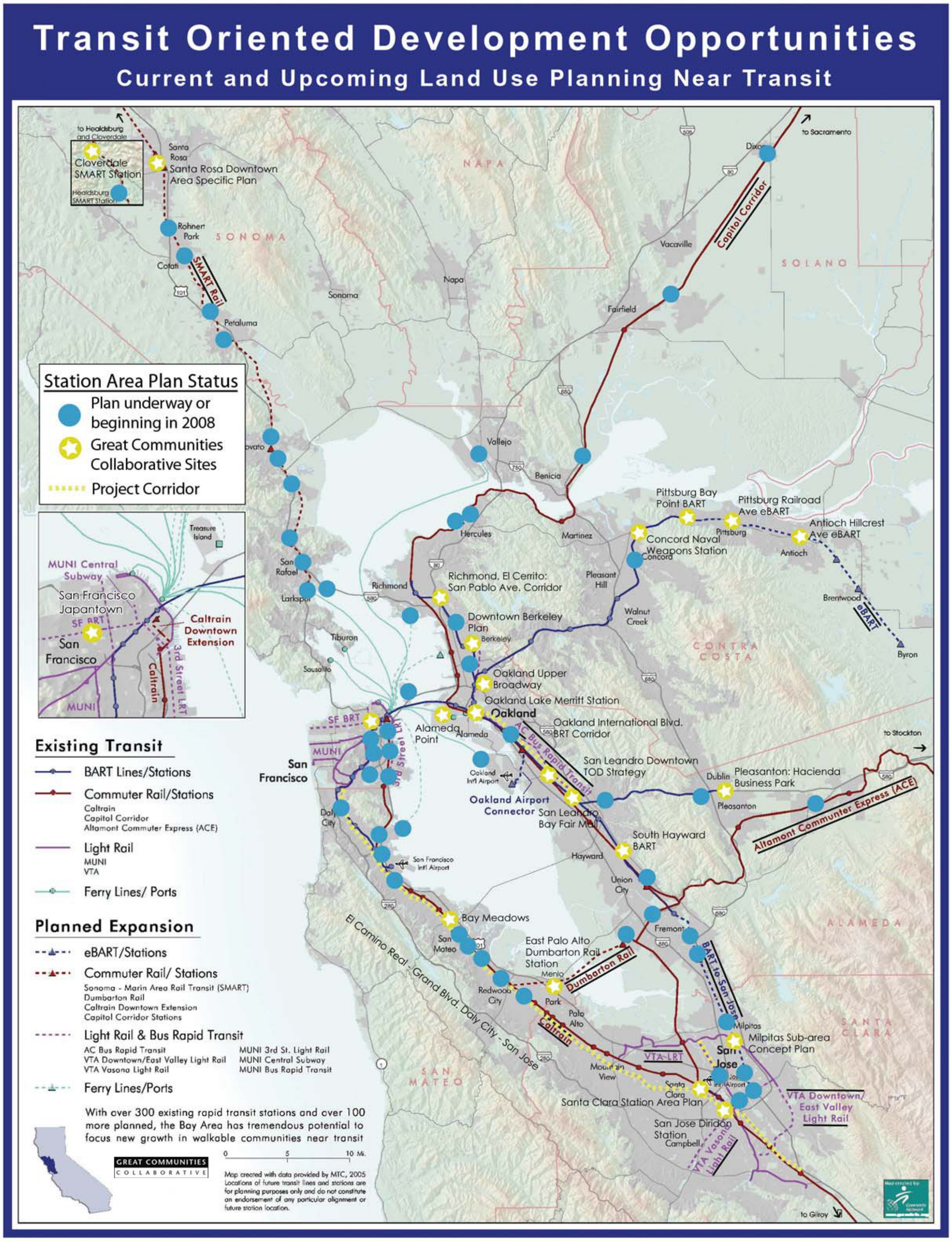
*TABLE 1: Matrix of Existing and Emerging Mission-Driven Property Acquisition Funds Around the Country*

| Fund & Location | Goal | Initiation Date & Origin of Fund | Fund Type & Size | Fund Manager | Capital Stack/First Loss Position | Affordability or Other Key Project Requirements | Terms | Number of Loans Made | Lessons/Complexities |
|---|---|---|---|---|---|---|---|---|---|
| Washington D.C. Preservation Loan Fund, Washington D.C. | Provide acquisition and pre-development financing for existing multi-family affordable and mixed-income properties | N/A | Loan fund; $28 million | Enterprise Community Loan Fund | N/A | N/A | N/A | N/A | N/A |
| ***Funds Under Development*** | | | | | | | | | |
| Golden State Acquisition Fund (GSAF), CA | Pre-development and land acquisition financing for affordable housing | In 2006; created as part of the Affordable Housing Innovation program in state legislation | Loan fund; $100 million | Not yet selected | $25 million from State, 3:1 leverage ratior required of Fund Manager, State fund available for top loss for 25% of project loan | Mixed-Use and Mixed Income: 75% square footage sold at <60% AMI; Rental: 50% units at 30% of 50% of AMI; Homeownership: >40% of units at <60% AMI | Max. loan term: 5 years; Max. loan amount: $8.25 million; Interest rate: 0% for State contribution; Max. LTV: 100% (non-profit) or 90% (for-profit) | N/A | N/A |

Source: Livable Cities (2008); informational interviews conducted by Strategic Economics and recent fund development documents , 2009.

# Appendix C: Map of Transit-Oriented Development Opportunities

Source: GreenInfo Network using MTC data (2005) for the Great Communities Collaborative


Transit Oriented Development Opportunities
Current and Upcoming Land Use Planning Near Transit
Station Area Plan Status
Plan underway or beginning in 2008
Great Communities Collaborative Sites
Project Corridor
Existing Transit
BART Lines/Stations
Commuter Rail/Stations
Caltrain
Capitol Corridor
Altamont Commuter Express (ACE)
Light Rail
MUNI
VTA
Ferry Lines/ Ports
Planned Expansion
eBART/Stations
Commuter Rail/ Stations
Sonoma - Marin Area Rail Transit (SMART)
Dumbarton Rail
Caltrain Downtown Extension
Capitol Corridor Stations
Light Rail & Bus Rapid Transit
AC Bus Rapid Transit
VTA Downtown/East Valley Light Rail
VTA Vasona Light Rail
MUNI 3rd St. Light Rail
MUNI Central Subway
MUNI Bus Rapid Transit
Ferry Lines/Ports
With over 300 existing rapid transit stations and over 100 more planned, the Bay Area has tremendous potential to focus new growth in walkable communities near transit
GREAT COMMUNITIES COLLABORATIVE
Map created with data provided by MTC, 2005 Locations of future transit lines and stations are for planning purposes only and do not constitute an endorsement of any particular alignment or future station location.
Cloverdale SMART Station
Santa Rosa Downtown Area Specific Plan
SMART Rail
Capitol Corridor
Pittsburg Bay Point BART
Pittsburg Railroad Ave eBART
Antioch Hillcrest Ave eBART
Concord Naval Weapons Station
Richmond, El Cerrito: San Pablo Ave. Corridor
Downtown Berkeley Plan
Oakland Upper Broadway
Oakland Lake Merritt Station
Oakland International Blvd. BRT Corridor
San Leandro Downtown TOD Strategy
Pleasanton: Hacienda Business Park
Altamont Commuter Express (ACE)
Oakland Airport Connector
San Leandro Bay Fair Mall
South Hayward BART
Bay Meadows
East Palo Alto Dumbarton Rail Station
Dumbarton Rail
BART to San Jose
Milpitas Sub-area Concept Plan
Santa Clara Station Area Plan
San Jose Diridon Station
VTA Downtown/ East Valley Light Rail
VTA Vasona Light Rail
El Camino Real - Grand Blvd. Daly City - San Jose
Caltrain
MUNI Central Subway
San Francisco Japantown
SF BRT
Caltrain Downtown Extension
3rd Street LRT
eBART
SONOMA
NAPA
SOLANO
CONTRA COSTA
ALAMEDA
SAN MATEO
SANTA CLARA