Affordable and Workforce Housing: Market Opportunities and Challenges

An Equilibrium Market Point of View.

May 2017
About Equilibrium

Equilibrium innovates and manages sustainability-driven real asset strategies and funds for institutional investors.
Sustainability is the strategic long-term management of resources. We believe sustainability drives economic value, portfolio advantage and alpha returns and intentional positive impact on our environment and community. Each of our real asset investment strategies and portfolios delivers on these macro-trends and economic advantages.

We build proprietary Equilibrium real asset strategies in three sectors:

Agriculture and Food  Renewable Resources  Sustainable Real Estate

We seek to generate institutional quality returns and sustainable alpha through our investment manager-operator teams that combine the asset management capability of sophisticated managers with the on-the-ground experience of world-class operators. Over the long term we believe the manager-operator teams will deliver both superior risk management and returns. Equilibrium is organized around four functions:

• Innovate unique investment products
• Manage and operate portfolios of productive real assets
• Administer and structure our portfolio to deliver transparency and value
• Raise and scale capital from institutional investors

With offices in San Francisco, Portland, and London, we are able to serve our investors, globally.

Disclaimer and Forward-Looking Statements

Europe
This presentation may not be disseminated, distributed or used without the prior written consent of Equilibrium Capital Group Europe Limited and Sapia Partners LLP (the “Companies”). This investor presentation is a summary and is not an offering or a solicitation of an offer to purchase an interest. Any such offer or solicitation will be made to qualified investors only by means of a confidential private offering memorandum and related offering materials, and only in those jurisdictions where permitted by law. Such offer or solicitation may only be made by means of delivery of that document which contains important information (including investment objective, policies, risk factors, fees, tax implications, and accredited investor qualifications) relating to such investment product or fund. There is no guarantee that the investment objective will be achieved. Moreover, the past performance of the investment team should not be construed as an indicator of future performance. Without limitation, this document does not constitute a recommendation to enter into any proposed transaction or investment. You should not construe the contents of this document as legal, tax, investment or other advice. By accepting this document, you acknowledge that the Companies are not acting as your broker, financial advisor, in any other fiduciary capacity or otherwise as your advisor or agent with respect to transactions or investments. The information contained in this document is based on material that Companies believe to be reliable. Assumptions, estimates and opinions contained in this document constitute information we received from reliable sources as of the date of the document and are subject to change without notice.
Neither the Companies or any of their respective officers, directors, employees, agents, controlling persons or affiliates makes any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this document, and nothing contained herein is, or shall be relied upon as, a promise or representation, whether as to past or future facts or results. The market analysis, projections, targeted returns, estimates and similar information, including all statements of opinion and/or belief contained in this document (collectively, “forward looking information”), are subject to inherent uncertainties, contingencies and qualifications and are based on a number of assumptions. Forward looking information involves significant elements of subjective judgment and analysis that may or may not be correct.
For Professional Investors only. This investment is considered high risk and Investors are exposed to market fluctuations which will impact the value of their investments.
Equilibrium Capital Group Europe Limited is an Appointed Representative of Sapia Partners LLP, an entity which is authorized and regulated by the Financial Conduct Authority.
Equilibrium Capital Group Limited is registered under section 115 of the Companies Act 2006 and has company number 8957700.

US & International
Information contained herein and any other forms of communication related thereto are for information purposes only, and should not be regarded as an offer to sell or a solicitation of an offer to invest in any security. Past performance is not indicative or a guarantee of future performance. Equilibrium Capital is not a registered investment advisor and does not provide tax, accounting, or legal advice. Investors are advised to consult with their tax, accounting, or legal advisers regarding any potential investment. This information and all the material shared in conjunction with it whether verbal or oral are confidential.
In every major U.S. market, demand for affordable housing exceeds supply and this imbalance is forecast to grow.

Real estate is inherently local and affordable housing dynamics are particularly tied to regional, city and neighborhood-specific networks, regulations and financing tools.

Strong developer, asset and property management partnerships are critical. Deal sourcing and financing depend on local relationships. Strong management expertise drives yields.

“You can’t come in from the outside and expect to compete.” – Affordable housing developer

It will be important to minimize dependence on public sector subsidies, particularly the federal LIHTC.

“LIHTC doesn’t play well with private equity” – Affordable housing developer

Challenge is sourcing and scaling innovative investment approaches.

Pricing advantage requires strong partner network with off-market access or unique land strategies.

Operational advantage requires players with green and active social design operational expertise.

Market advantage requires judicious selection of markets on the edge of affordability thresholds.

Returns, Risk, Institutional Opportunity Implications:

Workforce housing remains fragmented.

Competition for properties is compressing returns in active markets.

Investors are still primarily impact- and long-term oriented, e.g., family offices, high-net-worth individuals, foundations, socially-motivated institutional capital.

Institutional capital opportunity in scale and a core strategy.

Industry has demonstrated stable core returns (net IRRs of 8-9% and cash-on-cash annual yields of 4% to 6%).

New development with market rate units is risky at this point in the cycle, absent pre-identified pipeline of approved and highly-discounted sites.
01 MARKET REPORT

Photo courtesy of Avanath Capital Management
Market Overview-Demand

- The National Low Income Housing Coalition (NLIHC) “The Gap” report highlights a national shortage of 7.2 million affordable rental units for households earning less than 30% of area median income (AMI).
- For every 100 households earning 30% to 50% and 50% to 80% of AMI, only 57 and 96 affordable and available units exist, respectively.
- In many markets, the affordability gap extends to households earning up to 120%+ of AMI. No federal housing subsidies exist for renters earning more than 60% of AMI; this 60% to 120% of AMI group is also referred to as the “workforce” segment.
- In total, 11.5 million U.S. renters spend more than 30% of income on rent and nearly 6 million workforce households pay more than 50% of income to rent.
- Homeownership has dropped to a 48-year low with the number of renters increasing by 9 million in the past 10 years.
- Demand for multifamily rental units surged from 2010 through 2015 with rents increasing faster than incomes.
- While the overall multifamily market softened in 2016, flattening rents and an uptick in vacancies is attributable to the delivery of new luxury product in expensive markets.
- The affordable housing sector is not cyclical and continues to see robust demand.
- With the growth of new renters forecast to exceed that of new homeowners over the next 25 years, fundamentals will remain strong, particularly for affordable housing.

Primary sources: NLIHC, Census Bureau, Zero Hedge, Urban Land Institute (ULI).
Multifamily Vacancy Rates

Affordable vs. Market-Rate Housing

U.S.—Vacancy Rates

FLORIDA—Vacancy Rates

CALIFORNIA—Vacancy Rates

WASHINGTON, D.C.—Vacancy Rates

Primary sources: Costar, Avanath Capital Management.
80%+ of newly-developed units in the largest U.S. metropolitan areas target the luxury market.

Given the costs of land acquisition and construction, production of new affordable housing is impossible without subsidies.

Lengthy local regulatory approval processes and community opposition can exacerbate supply hurdles.

The existing stock of subsidized affordable rentals is decreasing.

More than 320,000 subsidized units were lost between 1998 and 2012 as owners opted out of federal assistance programs. More than 2 million units are at risk of loss over the next decade.

Current levels of new affordable multifamily development – approximately 100,000 annually – will replace only half of what is at risk of loss.

Primary sources: U.S. Census Bureau, CoStar, NLIHC, ULI, Harvard Joint Center for Housing Studies.
Regulated affordable housing

Subsidized or publically-owned properties with strict income criteria, rent restrictions and compliance regulations.

- **Public housing**: Established to provide for eligible low-income families, the elderly and disabled, public housing includes single family homes and apartment buildings. The US Department of Housing and Urban Development (HUD) administers aid to local Public Housing Authorities (PHAs) which own and manage the properties. Income limits vary by area but generally target very low income households, or those earning <50% of AMI. Rents are set at 30% of household income. The Rental Assistance Demonstration (RAD) Program allows the conversion of public housing to Section 8 contracts, a process intended to stimulate investment to address a $25.6 billion backlog in capital improvements.

- **Section 8 housing**: The Housing Choice Voucher program targets a similar demographic as public housing. Eligible renters receive vouchers from PHAs that can be used at any property where the owner has agreed to rent under the program. Rents are limited – generally to 30% of household income – and a subsidy is paid directly to the landlord by the PHA.

- **Tax-credit housing**: Nearly 5 million privately-owned multifamily rental units have been developed over the past 40+ years with the assistance of tax credits, the most common being the Low Income Housing Tax Credit (LIHTC). Owners are required to cap rents for 15 to 30 years so units remain affordable to households earning no more than 60% of AMI. LIHTC credits give investors a dollar-for-dollar reduction in their federal tax liability in exchange for financing. Investors’ equity contribution subsidizes construction and rehabilitation. In return, investors receive tax credits over a 10-year period. This segment is highly complex but has attracted an established, sophisticated group of players. Current political uncertainty has negatively impacted tax credit valuations, introducing a degree of instability.

*Primary sources: US Department of Housing and Urban Development (HUD).*
Non-regulated, non-subsidized workforce (naturally-occurring affordable) housing

These properties’ rents are affordable because of location, age and/or lack of amenities. They may once have been subsidized but owners are no longer required to cap rents or serve a specified income group.

- Costar estimates the workforce segment – defined as 1- and 2-star multifamily properties with more than four units – encompasses approximately 5.5 million units, primarily in second- and third-tier markets.

- Almost 50% of the workforce inventory is in 50+ unit buildings.

- Workforce housing generally services higher income levels than subsidized stock, i.e., households earning 60% to 120% of AMI.

- The average workforce property is 40+ years old and is in poor or declining physical condition with out-of-date design elements.

Ownership is concentrated amongst regional and local players.

- Vacancy rates are generally below those in the market-rate segment and for this reason, average economic rent growth has historically been comparatively healthy.

Primary sources: Costar, ULI.
While workforce rents have not grown as fast as those in the luxury segment since 2013, year-over-year (2015) saw luxury rents plateau (and in 2016, decline in some markets). Workforce rents have performed relatively well.

An attractive spread between workforce housing cap rates and luxury 4- and 5-Star cap rates exists (outside of New York and Los Angeles).

Cap rate graph excludes New York and Los Angeles.
Many for- and non-profit developers are involved in mixed-income construction. Numerous jurisdictions are mandating or incentivizing mixed-income with inclusionary zoning policies that require projects to include a certain percentage (10% to 20%) of below-market rate units. Affordability levels and control periods vary and density bonuses, expedited approvals and fee waivers can be used to offset costs. This works best in expensive markets where market rents can subsidize below-market ones; however, high land costs also require mitigation in the form of a discount or grant.

Even with incentives, discounted land, and (potentially) tax credits, additional funding sources are typically required. This complexity means long predevelopment processes, particularly if tax credits are being used.

A project’s success is dependent on the strength of market rate demand and will only work if new development is occurring.

In some cases, social benefits are debatable and these projects can face community opposition.
# Segmentation Summary

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Households Earning</th>
<th>Subsidized/Regulated</th>
<th>Opportunities</th>
<th>Risks</th>
<th>Investment Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Properties</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Housing</td>
<td>Public housing authority owned/managed properties. Rent set at 30% of income.</td>
<td>&lt;30-50% AMI</td>
<td>Yes</td>
<td>Strong demand; Rental Assistance Demonstration (RAD) allows Housing Authorities to convert to Section 8 to capture additional funding.</td>
<td>Highly regulated with extensive compliance requirements; subsidy-dependent and vulnerable to policy changes; Housing Authority-controlled.</td>
<td>None</td>
</tr>
<tr>
<td>Section 8 Housing</td>
<td>For- and non-profit owned/managed properties that accept Section 8 vouchers. Owners receive subsidies for renting to low income households.</td>
<td>&lt;30-50% AMI</td>
<td>Yes</td>
<td>Strong demand; opportunity to capture tax credit funding.</td>
<td>Highly regulated with extensive compliance requirements; subsidy-dependent and vulnerable to policy changes; large pool of established players.</td>
<td>None</td>
</tr>
<tr>
<td>Regulated (Tax Credit) Affordable Housing</td>
<td>Tax credit subsidized properties with remaining affordability compliance periods. Tax credits may have expired (year 10); affordability period extends 15-30 years.</td>
<td>&lt;60% AMI</td>
<td>Yes</td>
<td>Strong demand, predictability of tax credits; resyndication with additional tax credit allocation in year 15; qualified contract exit after year 15.</td>
<td>Highly regulated with extensive compliance requirements; vulnerable to policy changes; high operating costs; large pool of established players; tax credit equity does not align well with private equity.</td>
<td>Minimal</td>
</tr>
<tr>
<td>Workforce (Naturally-Occurring Affordable) Housing</td>
<td>Properties in which rents are &quot;naturally affordable&quot; due to location, age, or lack of amenities.</td>
<td>60-120% AMI</td>
<td>No</td>
<td>No public subsidy dependence or compliance requirements; large inventory; stable demand; renovations can reduce costs and drive NOI.</td>
<td>Increasingly competitive; fragmented market makes deal sourcing difficult.</td>
<td>Good</td>
</tr>
<tr>
<td><strong>New Construction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulated (Tax Credit) Affordable Housing</td>
<td>Leveraging LIHTC and other public subsidies (e.g., New Market Housing Credits) to develop 100% affordable housing projects.</td>
<td>&lt;60% AMI</td>
<td>Yes</td>
<td>Tax credits (and other subsidies, grants, and public funding sources) can make affordable housing development feasible.</td>
<td>Must acquire land below market; large pool of established players; compliance requirements can translate to high costs; vulnerable to policy and entitlement risk; tax credit equity does not align well with private equity; can be subject to community opposition.</td>
<td>Minimal</td>
</tr>
<tr>
<td>Mixed-Income Housing</td>
<td>A specific number (generally 20+ percent) of units rent below-market to households making 30-120% AMI. Can have a tax credit component for units targeting &lt;60% AMI but generally more feasible at 80-120%.</td>
<td>&lt;120% AMI</td>
<td>Potentially</td>
<td>May be possible to leverage subsidies; combine stable demand for affordable and workforce units with upside from market-rate rents; green construction can drive yields.</td>
<td>Must acquire land below market; high construction costs; cyclical market rate and entitlement risk; large field of established players; compatibility of mixed incomes; vulnerable to policy changes if reliant on public subsidy.</td>
<td>Fair</td>
</tr>
</tbody>
</table>

Primary sources: Novogradac & Company, HUD, ULI, Equilibrium interviews.
Varying degrees of inefficiencies exist at the following stages of the affordable housing value chain:

- **Land acquisition and property development**: Look for opportunities to acquire well-located land at below-market pricing, either through public sector subsidies or donations, or via incentives such as density bonuses.
- **Project financing**: Leverage tax credits, grants, and other forms of subsidies.
- **Design and construction**: Find ways to reduce construction costs via value engineering (e.g. modular construction) and/or standardized design.
- **Asset management and operations**: Rehabilitate, upgrade, and “green” properties at a scale that allows for consolidated purchasing and lower operating costs. Services that promote residents’ well-being (active design) will boost demand, create tenant “stickiness”.

Land Acquisition, Development and Construction

- The ability to unlock well-located, underutilized land at a discount or zero-cost basis can make it feasible to include below-market units (typically 30% or less) in a mixed-income project.
- This highlights the importance of deep public sector relationships and the use of unique strategic partnerships, e.g., acquiring school or public utility sites.
- The affordable units provide stable income; the market-rate units provides both upside and risk, depending on the market cycle.
- Other risks include construction costs, regulatory approval processes and community opposition.
- Opportunities to incorporate green technologies can drive occupancy and rents while reducing operating costs.
- Modular construction (although still unproven at scale in North America) could offer future opportunities:
  - Building all or part of the units in an off-site factory can address significant inefficiencies in traditional design and construction.
  - Time savings of 25% of 40% can drive cost savings of 20% or more.
  - Hurdles are numerous and include supply chain reliability and sustainability, quality control, union opposition, political issues and market cycles.
  - Even so, a number of large-scale multifamily properties have been successfully constructed, e.g., Equity Residential’s 444-unit Domain project in San Jose.
  - Developers and manufacturers continue to innovate.
  - Modular housing could soon become a viable affordable housing development strategy.

Primary sources: Equilibrium interviews.
Asset Management and Operations

• The preservation of existing affordable housing allows investors to leverage asset management and operations inefficiencies in what remains a relatively fragmented (in terms of ownership) segment.
• Investing in the existing housing infrastructure for lower- and middle-income renters can be a higher-yielding financial and social investment vs. building new projects.
• Financially, preservation costs 30% to 50% less. Underwriting is predictable and current income means returns are immediate vs. having to rely on long-term capital appreciation.
• Preservation can also contribute to community stability and result in a more environmentally sustainable and cost effective use of resources.

PRESERVATION FINANCING VEHICLES

<table>
<thead>
<tr>
<th>Vehicle</th>
<th>Purpose</th>
<th>Strengths</th>
<th>Limitations</th>
<th>Capital Sources*</th>
<th>Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below-market debt funds</td>
<td>Acquisition of existing subsidized properties and land for development (often not limited to housing).</td>
<td>Revolving funds providing a continuous source of capital. Facilitate ability of affordability-focused developers to compete in strong markets.</td>
<td>Complex administration, significant start-up costs. Dependent on availability of permanent &quot;takeout&quot; financing.</td>
<td>Local public agencies, foundations, CDFIs, financial institutions.</td>
<td>Interest rates to senior lenders from 2% to 6% depending on capital source and fund structure.</td>
</tr>
<tr>
<td>Private fund vehicles</td>
<td>Acquisition of existing subsidized and unsubsidized workforce properties</td>
<td>Ability to act at market speed, capital scale.</td>
<td>Varying degrees of commitment to long-term affordability. Liquidity limitations.</td>
<td>Financial institutions, pension funds, endowments, foundations, high-net-worth individuals.</td>
<td>Annual yield averaging 6% to 12%.</td>
</tr>
<tr>
<td>Real estate investment trust (REITs)</td>
<td>Acquisition of existing subsidized and unsubsidized workforce properties</td>
<td>Focus on long-term preservation of affordability. Facilitate ability of affordability-focused developers to compete in strong markets.</td>
<td>Requires significant expertise to manage (only two exist that focus solely on the affordable and workforce sectors).</td>
<td>Foundations, financial institutions, CDFIs.</td>
<td>Total annualized returns typically from 4.5% to 8%.</td>
</tr>
</tbody>
</table>

*Financial institutions’ Community Reinvestment Act (CRA) requirements have been a significant driver in affordable housing investment.

Primary sources: ULI, HUD, Equilibrium interviews.
Private Funds Investment

- Conventional institutional capital has not yet moved substantially into workforce housing investing and has historically been resistant to perceived below-market returns.
- The majority of investors have social impact motivations or seek stable yields vs. high returns.
- However, yields can be attractive if properties target middle-income renters and if viewed as core investments.
- Scalability and deal velocity are challenges. For large scale capital deployment, it is necessary to consider higher volumes of smaller deals from off-market sources.
- The success of mixed-income development is dependent on healthy multifamily demand in the market rate segment.
- Financing new construction requires the use of multiple funding sources, making for a complicated capital stack.
- Local partnerships are essential in building community relationships and trust, as well as in navigating complex local funding opportunities.
- Non-profit and Community Development Corporations (CDCs) can be advantageous partners due to their eligibility for property tax exemptions and preferential tax credit treatment.
- Opportunity exists for institutional scaling of innovative features in core and core-plus or redevelop-to-core-markets.

CASE STUDIES

Preservation
- Private Funds I and II
- Non-Profit Funds I and II
- Southwest Non-Profit

CASE STUDIES

New Development
- Northeast Developer
- Northwest Developer

Primary sources: ULI, Equilibrium interviews.
National Funds

Private Funds I & II

• Preservation funds starting in 2008.
• They have built considerable internal expertise and a network of deal-sourcing relationships.
• The platform includes property management and a compliance team. The latter, together with in-place PHA approvals, supports investment in workforce and subsidized housing.
• More than 70% of transactions are off-market deals where the Fund’s ability to close quickly was key.
• Fund III being raised.
• Strategy targets:
  • Second-tier urban and ex-urban submarkets with attractive growth and supply constraints.
  • Markets with a 150-200 basis point spread between Class A and B-/C cap rates.
  • Post-year 10 LIHTC properties priced below replacement cost.
  • A 75% to 25% LIHTC-workforce mix where adjacencies allow for operating scale efficiencies.
  • Opportunities to renovate and “green” to Class B standards.
• Properties have low (10%) turnover rates and long average stays. Waiting lists are up to 2 to 3 years.

Non-Profit Funds I & II

• This non-profit and community development financial institution (CDFI) has a robust national platform and partner network, and deep roots in tax credit housing.
• Its first workforce housing preservation fund was launched in 2013.
• This fund raised $35 million, which has been deployed in 11 properties located mainly in second-tier cities and close-in suburbs.
• The fund leveraged traditional debt at the property level and provided up to 90% of equity (JV partners were responsible for co-investing the balance). It has achieved 10% returns and cash-on-cash yield of 7%.
• Initial fund investors were mainly CRA-driven financial institutions and socially-motivated high-net-worth individuals.
• For its next fund, the non-profit is focused on attracting more institutional capital and conventional private equity, and is marketing as “market grade” with steady returns and near-zero volatility.
• Current fundraising target is $100 million with anticipated deployment of 1 to 2 years.

Primary sources: Private company website and materials, Equilibrium interviews. Primary sources: Non-profit website and materials, Equilibrium interviews.
Regional Players

Southwest Non-Profit

• Targeting a $200 million equity raise over five years.
• Investing in workforce (naturally-occurring affordable) housing where rents are no more than 30% of 80% of AMI, and joint venturing with operating partners.
• Geographically focused where growth is putting upward pressure on affordability, still an opportunity for preservation to have an impact. The local perspective is a key part of the strategy as investors are drawn to the idea they are helping to address a local problem.
• There is a sufficiently large inventory to scale regionally.
• Targeting current returns in the 3% to 5% range (with leverage) and IRRs of 6% to 8% over ten years. Open-ended, goal to preserve affordability in perpetuity.
• Initial investor interest from high-net-worth individuals, foundation and banks. “Institutional investors want closed-end funds and 12% returns.” –Executive Director

Northeast Developer

• This developer’s affordable/ workforce housing strategy seeks to acquire and upgrade existing assets and to develop new, green properties.
• Target acquisitions are pre-specified (with no broker involvement).
• Land is acquired at well below market value (generally 50% to 75% lower).
• 10% to 20% of the capital stack is comprised of non-repayable grants in lieu of debt, e.g., energy efficiency, housing tax credits, EB-5, USDA, NMTCs or other forms of tax-advantaged capital.
• Investment in green building technologies reduces operating costs.
• Exits are planned via single asset sales, bulk disposition, refinancing (preferred way to monetize increased NOI as an LP option for early distributions), or as a REIT IPO.
• Targeted returns of are 18% to 20% with a 1.5x equity multiple.

Northwest Developer

• Focused on infill development of workforce and student housing.
• Projects are typically 75 to 100 units and have a transit orientation.
• Developer is able to set aside up to 30% of the units for a combination of 65%, 75% and 85% of AMI renters by securing land below market, plus avoiding high end amenities and parking requirements.
• Target IRRs are 12% over a 10-year hold with 6% cash yield.

Primary sources: Developer materials, Equilibrium interviews.
## Selected Fund Summary

<table>
<thead>
<tr>
<th>Company</th>
<th>Fund</th>
<th>Focus</th>
<th>Strategy</th>
<th>Geography</th>
<th>Assets</th>
<th>Year Launched</th>
<th>Number of Properties</th>
<th>Total Units</th>
<th>Capitalization</th>
<th>Investor Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jonathan Rose</td>
<td>Rose Affordable Housing Preservation Fund IV</td>
<td>Preservation Fund</td>
<td>Acquire and improve/green affordable (subsidized and naturally occurring) and mixed-income multifamily properties in high demand, gateway markets.</td>
<td>Chicago, Denver, Washington, DC, Newark, Pittsburgh, Ontario, Detroit, Stamford, other MI and CA</td>
<td>Existing multifamily</td>
<td>2016</td>
<td>21</td>
<td>4,711+</td>
<td>$150-$200 million (target)</td>
<td>Institutions, foundations and high-net-worth individuals.</td>
</tr>
<tr>
<td>Avanath</td>
<td>Avanath Affordable Housing I</td>
<td>Preservation Fund</td>
<td>Acquire and improve/green affordable (subsidized and naturally occurring) multifamily properties in proximate locations.</td>
<td>California, Texas, Florida, Michigan, Illinois, Virginia, Maryland (second-tier submarkets)</td>
<td>Existing multifamily</td>
<td>2008</td>
<td>14</td>
<td>2,200</td>
<td>$134 million</td>
<td>Foundations, endowments, family offices, banks, insurance companies, pension funds</td>
</tr>
<tr>
<td>Avanath</td>
<td>Avanath Affordable Housing II</td>
<td>Preservation Fund</td>
<td>Acquire and improve/green affordable (subsidized and naturally occurring) multifamily properties in proximate locations.</td>
<td>Washington, California, Florida, North Carolina, Maryland, New York (second-tier submarkets)</td>
<td>Existing multifamily</td>
<td>2013</td>
<td>15</td>
<td>3,287</td>
<td>$203 million</td>
<td>Three state pension funds, three insurance companies, two banks, one foundation, one family office.</td>
</tr>
<tr>
<td>New Boston Real Estate Investment Funds</td>
<td>Urban Strategy America Fund</td>
<td>Preservation Fund</td>
<td>Acquires and develops or redevelops multifamily, commercial and light industrial properties.</td>
<td>East Coast</td>
<td>Newly developed and redeveloped mixed-income (for-rent and for-sale) and commercial</td>
<td>2004</td>
<td>9 (with a residential component)</td>
<td>1.219 (residential plus 1.6 million SF commercial)</td>
<td>$190 million n/a</td>
<td></td>
</tr>
</tbody>
</table>

Primary sources: ULI, company websites and materials.
**Summary of Findings**

- **Workforce housing preservation** can provide an attractive investment strategy offering steady returns and low volatility.
  - View as low-risk, core assets with an emphasis on predictable cash flows.
  - Challenges include increased competition (including value-add buyers), scalability, and an exit strategy that aligns with ongoing affordability preservation goals.

- **Mixed-income development** makes sense only where uniquely compelling land acquisition or construction strategies exist, and where market and entitlement risks are minimal.
  - Virtually impossible to avoid an upfront J-curve with new construction.
  - Challenges include current market cycle peak, land/construction costs, and financing without LIHTC or other funding sources that come with regulatory compliance requirements.

- **Success factors:**
  - Partners with financing and operational expertise, access to off-market deals, and strong community relationships.
  - Regional models that leverage locally-focused impact-oriented investors including foundations, family offices and endowments, in addition to institutions.
  - Geographic targets based on partner expertise and data-driven models.
  - Pre-identification of seed investments.

*Primary sources: Equilibrium interviews.*
Equilibrium Interviewees

Equilibrium thanks the following people for sharing their insights.

- Al Levine, Seattle Housing Authority (former), OneBuild
- Brett Meringoff, WinnCompanies
- Carol Galante, UC Berkeley
- Christine Looney, Ford Foundation
- David Steinwedell, ULI Austin
- Diane Olmstead, BRIDGE Housing
- Doug Lawrence and Lewis Jones, 5 Stone Green Capital
- Ed McGovern and Alexandra Moravec, Security Properties
- Elizabeth McGeveran and Eric Muschler, The McKnight Foundation
- Gabe Grant, Spectrum Development
- Gary Gorman, Gorman & Company
- John Williams, Avanath Capital
- Julia Shin and Lori Chatman, Enterprise Community Partners
- Kristin Koch, Jonathan Rose
- Kristin Neal Ryan, BarrientosRYAN
- Mark Edlen and Jill Sherman, Gerding Edlen
- Matt Fiascone, The Habitat Company
- Nathan Kennedy, consultant
- Reuben Teague, Prudential
- Rick Holliday, Holliday Development
- Robert Sheppard, CBRE
- Scott Nordheimer, Urban Atlantic
- Shaw Lupton, Costar
- Steve O’Connor: Community Development Trust (former)
- Stockton Williams, ULI Terwiliger Center for Housing
- Tim Overland, Overland Real Estate
- Stephen Whyte, Vitus Group
- Warren Horvath, The Michaels Organization