Innovative financing structures to meet housing needs in Metro Denver
Estructuras de financiación innovadoras para cumplir con las necesidades de viviendas en la región metropolitana de Denver

Innovate!
A Solutions Forum on Housing

¡Innovar!
Un Foro de Soluciones para la Vivienda
Innovative financing structures to meet housing needs in Metro Denver
Estructuras de financiación innovadoras para cumplir con las necesidades de viviendas en la región metropolitana de Denver

- Moderator: Ed Briscoe, Managing Director, Weave Social Finance, LLC
- Confirmed speakers:
  - Mary Wickersham, Co-founder and Principal, Social Impact Solutions
  - Terry Barnard, Multifamily Production and Outreach Manager, Colorado Housing and Finance Authority
  - Heather Lafferty, Executive Director and CEO, Habitat for Humanity of Metro Denver
  - Christi Smith, Vice President | Strategy and Communications, Urban Land Conservancy
Leveraging Success: The Potential of Pay for Success to Address Permanent Supportive Housing
What is Pay for Success?

**Definition of Pay for Success:**
A Model through which a Government (or another “End-payer”) Pays for a Measurable Long-term Outcome, Rather than for a Program or a Service.
Monetize Down-Stream Cost Savings

Program Costs

Break-Even Point
Source: Nonprofit Finance Fund, payforsuccess.org
Denver Social Impact Bond: Supportive Housing for Chronically Homeless Individuals
Even with all the progress made, there is not enough existing housing and resources to meet the needs of various populations.

- There were over **800 chronically homeless** individuals identified in the 2015 point in time survey.
- The proportion of respondents reporting serious mental illness, a serious medical or physical condition or a problem with substance abuse has **increased** from 43.4% in 2011 and 44.1% in 2012 to 47.6% in 2013 (limited years reporting).
- The **proportion of chronically homeless respondents increased** over the past five years—8.4% in 2011, 8.9% in 2012, 12.7% in 2013, 20.8% in 2014, and 18.8% in 2015.

### Rental Gap by Income, 2012, Mayor’s Housing Task Force

<table>
<thead>
<tr>
<th>Denver Renters</th>
<th>Number of Affordable Rental Units</th>
<th>Shortage of Affordable Rental Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>21,300 earn less than $10,000</td>
<td>8,400</td>
<td>-12,900</td>
</tr>
<tr>
<td>45,400 earn less than $20,000</td>
<td>18,200</td>
<td>-27,200</td>
</tr>
</tbody>
</table>
We are currently paying for costly, ineffective emergency and penal services.

- **High Utilizers (“Front-End Users”)**—Individuals, typically chronically homeless, who are frequently before the court, in jail and habitually using a spectrum of resources.
  - Frequent usage of emergency rooms, detox, and ambulatory services.
  - High level of public safety usage (i.e. arrests, jail admissions and discharges).

- **Low-level offense types**: Public nuisance (22%), Alcohol (30%), Panhandling (4%), Trespass (19%), Drug (11%), Other (14%)
High Utilizers: Top 250 Averages

On average, the top 250 homeless “high utilizers” use a lot of government resources—over,

- 14,000 days in jail,
- 2,200 visits to detox,
- 1,500 arrests, and
- 500 emergency room visits.

It is an extremely ineffective and expensive system, costing taxpayers over $7 million per year.
High Utilizers: Service Usage

On a given year, the High Utilizers can touch multiple systems at extremely high rates ...

<table>
<thead>
<tr>
<th>Average Usage Per High Utilizers (2013)</th>
<th>Top 100</th>
<th>Top 150</th>
<th>Top 200</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Arrests</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cite &amp; Release</td>
<td>5.2</td>
<td>5.2</td>
<td>4.9</td>
</tr>
<tr>
<td>Custodial</td>
<td>4</td>
<td>3.7</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Justice System</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jail Days</td>
<td>144</td>
<td>104</td>
<td>79</td>
</tr>
<tr>
<td>Court Dates</td>
<td>4.6</td>
<td>4.5</td>
<td>4</td>
</tr>
<tr>
<td><strong>Medical Expenses</strong>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detox Visits</td>
<td>8.2</td>
<td>8.2</td>
<td>8.2</td>
</tr>
<tr>
<td>ER Visits</td>
<td>2.1</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Other Medical Visits</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
</tbody>
</table>

High Utilizers may have high and low years, but they have high multi-year averages ...

(Target group = those who spent more than 7 days in jail in 2010)

<table>
<thead>
<tr>
<th>2010 Target Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Total Bookings</td>
</tr>
<tr>
<td>Yearly Average Bookings</td>
</tr>
<tr>
<td>Average Total Jail Days</td>
</tr>
<tr>
<td>Yearly Average Jail Days</td>
</tr>
</tbody>
</table>

*Cannot be reduced to individual level given privacy restraints
Based upon 5 year usage data, average costs across systems can be aggregated.

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Usage</th>
<th>Front-End User Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Jail Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marginal</td>
<td>$24</td>
<td>56.3 days</td>
<td>$1,352</td>
</tr>
<tr>
<td>Variable</td>
<td>$45</td>
<td>56.3 days</td>
<td>$2,535</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>$3,887</strong></td>
</tr>
<tr>
<td><strong>Arrest Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custodial</td>
<td>$1,414.04</td>
<td>2.7 arrests</td>
<td>$3,750</td>
</tr>
<tr>
<td>Cite &amp; Release</td>
<td>$707.02</td>
<td>5.16 arrests</td>
<td>$3,430</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>$7,180</strong></td>
</tr>
<tr>
<td><strong>Court Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$150.98</td>
<td>2.7 arrests</td>
<td>$400</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>$400</strong></td>
</tr>
<tr>
<td><strong>Medical Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denver Cares</td>
<td>$431.88</td>
<td>8.23 visits</td>
<td>$3,554</td>
</tr>
<tr>
<td>ER Visits</td>
<td>$4,065.88</td>
<td>2.13 visits</td>
<td>$8,647</td>
</tr>
<tr>
<td>Other Medical</td>
<td>$8,039.91</td>
<td>1.76 visits</td>
<td>$14,177</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>$26,378</strong></td>
</tr>
</tbody>
</table>

**Average Annual Cost** $37,846
Proposed SIB Intervention

By properly serving this population, the City can both reduce costs and create long-term solutions...

| Eligibility Criteria | Eligible participants are individuals with a record of at least eight arrests over the past three years; and a documented case of transiency at the time of their last arrest (i.e. homelessness). |

Housing First + Intensive Case Management
Health and Community Supports

Assertive Community Treatment (ACT) & Intensive Case Management Models

- Small Caseloads between 1:10 and 1:15
- Coordinated, team oriented approach to care
- Mobile support services, services come to the individual
- Proactive engagement with voluntary services
- Tailored services provided available 24/7 based on individual need
- Comprehensive, integrated care including:
  - Psychiatrists
  - Employment specialists
  - Substance-abuse specialists
  - Nurses
  - Mental health professionals
- Single site developments include front desk and some onsite supports
- Services tailored to meet specified needs - intensity of supports varies over time and with each person
National Evaluation Outcomes

Average Reduction Based Upon National Studies of ACT and Housing First

<table>
<thead>
<tr>
<th></th>
<th>Jail Days</th>
<th>Police Contact</th>
<th>Arrests</th>
<th>Detox</th>
<th>ER Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction (%)</td>
<td>62-95%</td>
<td>68%</td>
<td>53-92%</td>
<td>72%</td>
<td>50-89%</td>
</tr>
</tbody>
</table>

**Housing First Outcomes**
- Reduced jail days
- Reduced ER visits
- Reduced detox use
- Reduced alcohol use

[In one Seattle study it reduced health & jail costs more than $4million in one year for 95 individuals from average annual cost of $42,964 per person to $13,440 per person]

**ACT Model**
- Team Approach
- Supported Housing
- Substance Abuse & Mental health Treatment
- Small Caseloads (10:1)
- Services 24/7
- Wraparound services
- SAMSHA approved
- Benefits support

**ACT Outcomes**
- 73% less hospital days (OK)
- 64% less jail days (OK)
- 76% less hospital days (VA)
- 92% had no arrests (VA)
- 83% stable housing (VA)
- 78% decrease in jail days (GA)
- 53% less arrests (GA)
- 89% drop hospital days (GA)

**Housing First**
Stable supported housing is the 1st and highest priority even before requiring treatment and abstinence from alcohol and drugs (Reverses the usual treatment continuum)
SIB Project Details

Project Goals:
1) Demonstrate that housing and intensive case management can improve lives and reduce taxpayer costs.
2) Add to the City’s capacity to house vulnerable populations.
3) Develop new mechanisms and funding to pay for case management services that formerly received federal support.

Size:
- 250+ chronically homeless individuals

Duration:
- 5 years of SIB funding, additional time for evaluation and payment

Services:
- 2-3 new Assertive Community Treatment teams (ratio of ~ 1 case manager to 10 individuals)
- Connection to preventative health + additional services

Housing Details:
- Possible use of two new housing developments with an anticipated 210 new units of housing (one Mental Health Center of Denver (MHCD) building, one Colorado Coalition for the Homeless (CCH) building, new 20 units at CCH’s North Colorado Station, 30 units at St. Francis’ new building).
- Provision of additional services and subsidies to 40 units that are vacant through turnover and/or landlord recruitment.
Innovative Financing Structures to Meet Housing Needs in Metro Denver

Middle Income Rental Housing Finance

April 19, 2019
The Issue

- Unmet demand for housing that serves tenants earning above 60% AMI
- In metro areas where the median market rate rent is affordable to 80%+ AMI (mostly the Front Range)
- In rural areas, particularly rural resort counties, and adjacent counties
- Inability to use traditional affordable housing tools
- Gap financing need
Deal Structure

- Construction to Perm Loan: 61%
- Mezzanine Loan: 13%
- Equity: 26%
- Institutional and other PE sources
- Freddie Mac Non-LIHTC Forward or other senior debt provider
Middle Income Access Program

- Low-cost mezzanine-like debt for Middle Income projects
- Meets Freddie Mac Non-LIHTC Forward product requirement for Public/Mission-Driven Investment
- CHFA originates loans with intention to simultaneously sell participation(s)
- CHFA goal to keep approximately $1 million per transaction and act as lead servicer
  - Achieve mission
  - Multiple transactions
  - Hedge risk
## Basic Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan Size</strong></td>
<td>$2 million to $6 million (before participation)</td>
</tr>
<tr>
<td><strong>Security</strong></td>
<td>2&lt;sup&gt;nd&lt;/sup&gt; DOT</td>
</tr>
<tr>
<td><strong>Term/Amortization</strong></td>
<td>10 - 15 years / 30 years</td>
</tr>
<tr>
<td><strong>Expected Interest Rate</strong></td>
<td>5.0% - 6.0%; interest only possible for early years; step up rate for later years</td>
</tr>
<tr>
<td><strong>Expected Equity Sharing</strong></td>
<td>6.0% - 10.0% of net sale or refinance</td>
</tr>
<tr>
<td><strong>Affordability Requirement</strong></td>
<td>At least 20% of the units affordable to middle income earners</td>
</tr>
<tr>
<td><strong>Participation Size</strong></td>
<td>Target of $1 million CHFA capital per project</td>
</tr>
</tbody>
</table>
## Examples

<table>
<thead>
<tr>
<th></th>
<th><strong>PENA STATION</strong></th>
<th><strong>WINTERGREEN APARTMENTS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Transaction</strong></td>
<td>Multi-family Development, 216 units</td>
<td>Multi-family Development, 156 units</td>
</tr>
<tr>
<td><strong>Population Served</strong></td>
<td>54 units at 80% AMI</td>
<td>156 units at 100% AMI</td>
</tr>
<tr>
<td><strong>Other Affordability</strong></td>
<td>162 units at 100% AMI</td>
<td>None</td>
</tr>
<tr>
<td><strong>Developer</strong></td>
<td>MGL Partners</td>
<td>Gorman &amp; Company</td>
</tr>
<tr>
<td><strong>Project Costs</strong></td>
<td>Approximately $39,800,000</td>
<td>Approximately $46,000,000</td>
</tr>
<tr>
<td><strong>CHFA</strong></td>
<td>$4,000,000 loan</td>
<td>$2,865,000 loan</td>
</tr>
<tr>
<td><strong>Lien</strong></td>
<td>2nd DOT</td>
<td>2nd DOT</td>
</tr>
<tr>
<td><strong>Rate</strong></td>
<td>6.0% Fixed</td>
<td>5.0% Fixed Years 1-3, 6.0% Fixed Years 4-5, 7.0% Remainder of term</td>
</tr>
<tr>
<td><strong>Term</strong></td>
<td>3 years with 2 year extension option</td>
<td>18.5 years</td>
</tr>
<tr>
<td><strong>Repayment</strong></td>
<td>Interest Only</td>
<td>Interest Only Years 1-5, P &amp; I based on 33 year amortization thereafter</td>
</tr>
<tr>
<td><strong>Equity Sharing</strong></td>
<td>Entitled to 10% of net refi or sale proceeds</td>
<td>Entitled to 6% of net sale proceeds</td>
</tr>
</tbody>
</table>
Next Steps

- Refine program questions
- Find Loan Participation Partners
- Define participation sale procedures
- Draft program documentation
- Pipeline of three additional transactions totaling approximately $10-12 million
Affordable Mortgage Solutions, LLC

Social Impact Term Loans
We believe that everyone deserves a decent place to live.

We believe that quality, affordable housing is something we all need to thrive.

We believe strong and stable homes help build strong and stable communities.
Core Competencies

Nearly 40 years of experience building high quality homes and lending affordable mortgages

150-200 Homes Annually
Currently, we build, renovate and repair homes in partnership with low-income families and volunteers

0.3% Foreclosures
800+ loans in current mortgage portfolio

Partnership Housing
Homeowners invest their own time (sweat equity), energy (financial literacy classes) and financial resources (closing costs).
Meaningful and Lasting Impact

98% High School Graduation Rate for children 18+ who lived in Habitat Denver homes.

Colorado’s average is 79%.

$1.5 MM An estimated $1,500,000 in public assistance funding was saved in 2016 because Habitat homeowners no longer needed it.

70% of Habitat homeowners feel that they are doing better financially now than they were in the past.
Habitat Homeowners

Average annual income of $53,900 (60% AMI) and an average credit score over 760

Lab Technicians
Teachers
Construction Workers
Nurses
Grocery Store Clerks
Airport Employees
Servers
Taxi Drivers
Veterans
Problem: More Families Need Assistance

Declining Homeownership

Homeownership rates across the country are declining in low-income and communities of color. Colorado’s rate is 62.4%, down from 71.1% in 2005.

Decreasing Affordable Supply

Denver’s hot housing market is creating limited inventory of <$400K homes for sale.

Limited Mortgage Lending

Securing an affordable mortgage is challenging for low-income buyers at 60–100% of Area Median Income (AMI) with enough purchasing power in current market.
Solution: Expand Affordable Mortgage Lending

Habitat is uniquely positioned to expand affordable mortgage lending to more low and moderate income homebuyers. Homeowner’s monthly housing costs will not exceed 30% of their gross monthly income.

- Below-Market Interest Rate ~3.25%
- Private Mortgage Insurance - Waived
- Down Payment - Minimal
Affordable Mortgage Impact - Example

<table>
<thead>
<tr>
<th>Monthly Housing Costs</th>
<th>Market-Rate Model</th>
<th>Affordable Model</th>
<th>Habitat/AMS Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate</td>
<td>6.00%*</td>
<td>4.75%</td>
<td>3.25%</td>
</tr>
<tr>
<td>Payment (P+I)</td>
<td>$ 1,499</td>
<td>$ 1,304</td>
<td>$ 1,088</td>
</tr>
<tr>
<td>Utilities, Ins., etc.</td>
<td>$ 350</td>
<td>$ 350</td>
<td>$ 350</td>
</tr>
<tr>
<td>Total</td>
<td>$ 1,849</td>
<td>$ 1,644</td>
<td>$ 1,438</td>
</tr>
</tbody>
</table>

*The Habitat loan increases purchasing power by over 35% and saves $148,000 over the life of the loan.*

* Mortgage insurance included in interest rate.
### Impact: Increased Purchasing Power

#### $1,438 Monthly Payment Example

<table>
<thead>
<tr>
<th></th>
<th>Interest Rate</th>
<th>Maximum Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Rate*</td>
<td>6.00%</td>
<td>$182K</td>
</tr>
<tr>
<td>Affordable Program</td>
<td>4.75%</td>
<td>$210K</td>
</tr>
<tr>
<td>Habitat/AMS</td>
<td>3.25%</td>
<td>$250K</td>
</tr>
</tbody>
</table>

*The Habitat loan increases purchasing power by more than 37%.*
Impact Investment Model

$5 Million Annual Impact Investment

Affordable Mortgage Solutions (AMS)

Nearly 700 New Affordable Mortgage Loans

Ongoing Mortgage Loan Sales

Each dollar raised is used more than 3x a year
Social Impact Investment Opportunity

Habitat is seeking an initial **$5 million** to originate affordable mortgages for low and moderate-income families, growing to $25 million over five years.

**Terms:**
- 8-10 year term; principal due at maturity
- 2% or lower fixed interest rate paid quarterly
- Target $500k-$1 million commitments
- Unsecured
- Subject to customary covenants
Thank You!
Innovative Financing Structures to Meet Housing Needs in Metro Denver

April 19, 2019
Who is ULC

Fair Cities would be committed to inclusive growth through a variety of tools, including the creation of public Land Banks such as Denver’s Urban Land Conservancy.

Denver group is a major player behind the scenes in affordable housing.

Part Land Bank, Part Community-Focused Credit Line  Denver’s Urban Land Conservancy aims to put transit-oriented development to work for the greater good.
Creating Unique Resources for Strategic Real Estate Acquisitions

ULC’s Track Record: Acquisition Loan Funds

Denver $15 million Transit Oriented Development Fund
- The country’s first TOD Fund created to develop and preserve affordable housing along transit. ULC fully deployed the $15M Denver Fund in 8 acquisitions, all loans are repaid.
- Proven success led to the expanded $24M Regional TOD Fund, ULC has 1 active loan.

$10 million Calvert Impact Capital Facility Fund
- Created to preserve and develop affordable housing and community facilities in Metro Denver.
- Unable to expand resource due to Calvert’s capacity.

These two resources resulted in over $28 million invested into 12 properties:
- Preserving 80,000 sf of commercial space and 52 units of affordable housing
- Developed 52,000 sf of commercial space and 352 units of affordable housing
- Created a pipeline for over 200,000 sf of commercial space and 650 affordable units
Structuring Resources
$24M Denver Regional TOD Fund
City of Denver is a $2M Investor

- **Borrower Equity** – 10%
- **Top Loss Capital** $5 million
- **Second/Third Tier Capital** $7.75 million
- **Senior/CDFI Capital** $11.25 Million

Acquisition Loans – max loan amount is $5M
- 5 Year Term
- 3.69% in Denver
- 4.06% outside Denver
- Interest Only

ULC was sole borrower of the $15M Denver TOD Fund
Denver TOD Fund at Work

Evans Station Lofts
50 affordable units + 7,500 sf commercial

Mile High Vista
80 affordable units + 10,000 sf commercial
Corky Gonzales Denver Public Library
$10M Calvert Facility Fund

Acquisition Loans – max loan amount was $4.5M
Up to 5 Year Term – Option to extend 2 years
2.75% Blended Interest Only
Calvert Facility Fund at Work
$10,500,000 Million Deployed in 12 months

Mountain View Nonprofit Tower

Race Street TOD

Social Enterprise Foundry
$50M Metro Denver Impact Facility
$24.5M in Capital Currently

Purpose: Acquisition Loans + Option for Capital Needs Financing

Term: 5 or 7 year interest only, Blended rate of 3% or less

Current Partner Lenders:
• Colorado Health Foundation
• The Denver Foundation
• Colorado Housing and Financing Authority
• The Colorado Trust
• Northern Trust

MDIF is a **locally managed revolving facility** for ULC real estate acquisitions, a flexible resource to invest in affordable housing **AND** nonprofit facilities.
MDIF at Work in 2018
$10 million invested into three properties

**Harlan Nonprofit Center:**
Affordable, transit accessible commercial space for nonprofits and mission minded businesses - home to Lutheran Family Services headquarters.

**South Platte Crossing and Future Affordable Housing:**
80,000 sf building at a rail station for city services, healthcare facilities and nonprofits serving the Denver region. Future affordable housing to be developed on excess land.

**Inca Commons:**
This .41 acre parcel near Denver’s Arts District will be developed into 86 affordable for-sale condominium units including studios, two- and three bedrooms. The land will held in a 99 year ground lease.
Thank You!
csmith@urbanlandc.org
urbanlandc.org
Thank you!
¡Gracias!

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