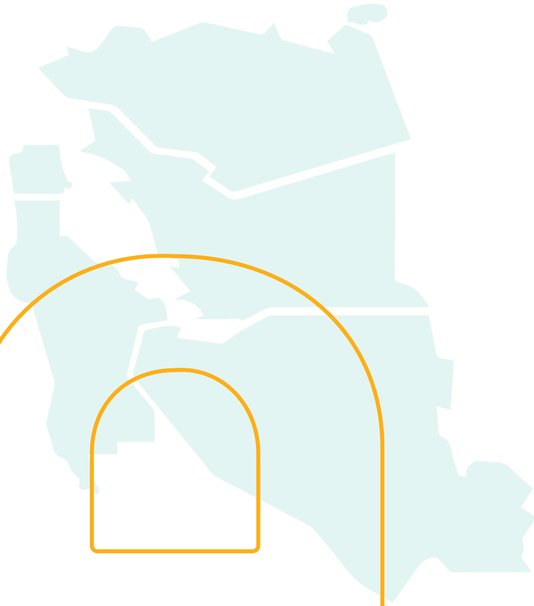
PARTNERSHIP FOR THE BAY'S FUTURE

Advancing Economic and Racial Equity with the Family of Funds

Measuring the Impact

MARCH 2022



As all residents of the Bay Area can attest, the housing affordability crisis is the most pervasive barrier to health, wealth, and opportunity in Northern California. The Partnership for the Bay's Future was launched in January 2019 as a regional, multi-sector initiative to address the crisis through coordinated investments in policy and–most importantly–housing development.

The Local Initiatives Support Corporation (LISC) was selected as the fund manager to leverage a $40M seed investment from the Chan Zuckerberg Initiative (CZI) into a $500M family of affordable housing investment funds. The goals for the funds included increasing the supply of affordable housing, alongside building a more economically and racially equitable Bay Area.

It has been three years now since the launch, and we have much to be proud of:

- The Partnership closed **$500M in investments** from corporate and philanthropic impact investors including CZI, Genentech, Kaiser Permanente, San Francisco Foundation, Morgan Stanley, First Republic Bank, Silicon Valley Community Foundation, JPMorgan Chase, Facebook, Ford Foundation, Packard Foundation and Destination Home.

- By the end of 2021, we had deployed nearly **$300 million to support the new construction or preservation of 3,200 units of affordable housing in the Bay Area with our lending partners** Corporation for Supportive Housing, National Equity Fund, and Capital Impact Partners, providing much needed affordable housing to local families, individuals who have experienced homelessness, and former foster youth.

- The family of funds' impact on economic and racial equity so far:

Indicator	Our Goal	Impact to Date	Delta
Units 0–50% AMI	20%	37%	+17%
Units 0–80% AMI	75%	91%	+16%
Households in preservation projects that identify as nonwhite	57%*	**95%**	**+38%**
New construction units likely to house nonwhite households once complete**	57%*	63%	+6%
Borrowers of color	35%**	39%	+4%

** Goal set by baseline percentage of POC in 5-county Bay Area*

*** Goal set by baseline percentage of Bay Area LISC's historical lending to POC borrowers*

- We have coordinated with the Partnership's **Policy Fund Challenge Grant** and **Breakthrough Grant** recipients to strategize the development of policy and delivery ecosystems that **support community-owned affordable housing in local jurisdictions across the Bay Area.**

LISC has been committed to impact measurement since the inception of the funds, developing a robust framework to hold ourselves accountable to the mission of the Partnership. As impact measurement is still an emerging discipline, we are sharing this report to memorialize and celebrate the key lessons we have learned as well as encourage the industry to engage in the practice. And we certainly have learned and accomplished a lot!

What is impact measurement?

Impact measurement is **the practice of collecting and analyzing data to evaluate the performance of the impact of specific activities on specific goals. I**n the context of the Partnership for the Bay's Future family of funds, it is **how we measure the impact of our investments on increasing housing affordability and racial equity in the Bay Area.** Impact measurement is a critical mechanism for ensuring accountability to performance (we are delivering on what we publicly committed to) and to mission (the impact of our investments remain aligned with the impact goals of the funds).

We built our impact framework guided by the following criteria:

- Only measure the funds' direct activities
- Grounded in reliable, accessible, and consistently available data
- Relevant to key stakeholders: community, investors, advisory board, lending partner
- Easily reportable and tells the story

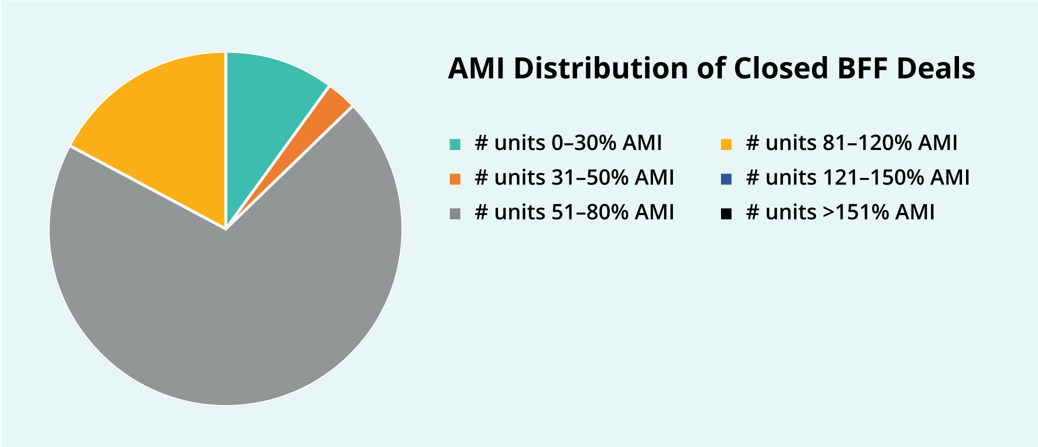
We started by identifying the specific impact goals of the Partnership, and then built a crosswalk between those goals and data that our lending partners already collect from borrowers or could reasonably be collected. We created indicators based on that crosswalk and vetted them with the Partnership stakeholders before beginning to originate investments. We have had three years now to test the framework by collecting impact data on the **31 deals** closed through the funds so far. **We are happy to report that the framework provided strong impact measurement infrastructure and produced significant insights on housing affordability and racial equity.**

Insights from three years of investing in affordable housing

Beyond increasing the supply of much needed affordable housing, the broader goal of the Partnership is to build a more economically and racially equitable Bay area. Toward that end, we focus our measurement efforts on the impact of our investments on economic and racial equity through four primary indicators:

ECONOMIC EQUITY: # UNITS PER AMI BAND

Are we increasing the supply of affordable housing for households earning the lowest incomes?



There's a clear concentration so far: most of the housing we have financed through the Bay's Future Fund will be permanently affordable to households earning between 51-80% of Area Median Income (AMI). Why are so many of our investments are serving this AMI band? Within the 51-80% AMI band, most of the units are actually concentrated at the 80% AMI level. There are a couple reasons for this:

- **Households earning 80% AMI or less are considered "low income" by HUD**. Thus, 80% AMI is the maximum AMI required for a project to be considered affordable for low income households, which also determines whether investments in affordable housing meet the **IRS's charitability requirements** for tax exemption. In the Bay Area, **where development costs are highest in the country**, there is always an enormous financing gap that needs to be filled in order to make a new construction project "pencil out" (rents and operating subsidies that are high enough to cover development costs and operating expenses). Targeting units at 80% AMI offers the greatest flexibility to borrowers trying to make a project economically feasible while also maximizing affordability.
- The 80% AMI concentration is present in our preservation deals too, where our borrowers are acquiring tenant-occupied apartment buildings that are at risk of losing their affordability and converting them to permanently affordable, quality housing. The 80% AMI threshold offers more flexibility to be inclusive of the range of AMIs tenants currently living in the building may earn.
- The Low Income Housing Tax Credit (LIHTC) is the most common source of equity for affordable housing development, but they are a limited resource that is too competitive to meet the demand of all projects in the pipeline. Some of our borrowers are innovating other ways to "**fill the gap**." One strategy is to include units that rent to higher AMIs to cross-subsidize units affordable to lower AMIs, with the goal of course to maximize the number of lower AMI units while still being economically feasible.

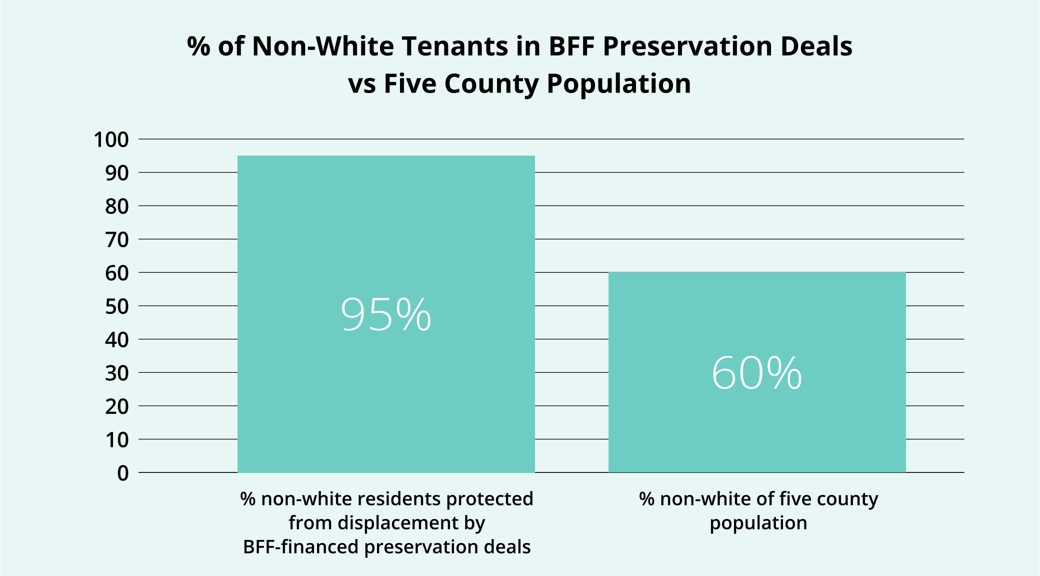
With the conclusion of the first year of the **Community Housing Fund**, which is focused on financing new construction projects with AMIs less than 30% (Extremely Low Income, or ELI), the AMI distribution has started to skew lower. **Half of the units financed via the Community Housing Fund (CHF) will be affordable to households earning below 30% AMI, exceeding the minimum requirement**

that CHF projects have at least 20% of its units below 30% AMI. There are a few reasons for this:

- All of the projects financed via CHF are designated as LIHTC projects, meaning that they will be financed with Low Income Housing tax credits and debt. As noted above, LIHTC is a limited resource that is highly competitive. In order to compete within this statewide program, developers must designate as many units as can be supported at their deepest level of affordability.
- Within the above, there is the question of why all of the CHF projects are LIHTC. It was previously thought that higher rent units could offset the loss of revenue from the lower rent ones, but the high costs involved in building new affordable housing do not permit this. The subsidy from LIHTC becomes essential in making ELI housing projects feasible.
- 2/3 of the CHF financing is committed to Santa Clara County, which has the Measure A program as an important source of subsidy funding. Measure A has strict and deep affordability requirements.

RACIAL EQUITY: RATIO OF RACE OF PRESERVED HOUSEHOLDS TO POPULATION OVERALL

Are we investing in projects that are protecting people of color from eviction and displacement?



The PBF's family of loan funds include financing tools that support both the Preservation and Production of affordable housing, per **the 3Ps framework**. Measuring the impact of our investments on racial equity looks different whether we are looking at tenant-occupied acquisition/rehabilitation deals (Preservation) or new construction (Production). The preservation loan products we are offering keep our existing stock of affordable homes affordable whether those homes were built by the private market, affordable housing developers, or local housing authorities.

Since we launched, the family of funds has invested in the preservation of **550 units of affordable housing, including these examples acquired by The Unity Council**, **Bay Area Community Land Trust**, and **HIP Housing**, helping maintain them as permanently affordable. **95% of the tenants living in these apartments who have disclosed their race/ethnicity identify as non-white.** This figure is **58%** higher than the non-white population within the five counties that the PBF serves, meaning **we are effectively investing in an equitable way**.

As Enterprise Community Partners demonstrates in their *Preserving Affordability, Preventing Displacement* report published in 2020, the acquisition and rehabilitation of tenant-occupied unsubsidized housing by nonprofit housing developers is one of **the most efficient, effective, and equitable tools we have to combat the displacement of low-income residents and communities of color.**

RACIAL EQUITY: # NEW CONSTRUCTION UNITS LIKELY TO HOUSE NON-WHITE HOUSEHOLDS ONCE COMPLETE

Are we creating new affordable housing that will house households of color?

The advantage of measuring the impact of Preservation deals over Production deals is that there are actual tenants already living in the apartments that we can collect data from, if they consent to share that information. However, the new construction buildings we are investing in won't finish development and start to sign leases for several more years. There is an interest, of course, in attempting to project the impact of these new units as much as possible. We have gone through a few methodological iterations, but have landed on an evaluation of the % non-white population in the five Bay Area counties covered by the Partnership by AMI band relative to the AMI bands of the new construction units as a proxy to determine the likely race/ethnicity of the tenants who may ultimately be housed in those units. Although imperfect, we settled on this methodology based on the recommendation of the City of Oakland's Director of Racial Equity and the lessons learned from the Oakland Equity Indicators project. We partnered with Policy Link's Bay Area Equity Atlas to validate the methodology and benchmark population data.

Using this methodology, **63% of the new construction units we have financed will likely house non-white households once ready to be occupied.** 60% of the five county population covered by the Partnership identify as non-white, so our investments are exceeding parity with the population. This is good, but truly

equitable investing would ultimately house a disproportionately **larger** percentage of non-white residents compared to the population overall. Theoretically, increased investments in projects for lower AMI bands would lead to more equitable affordable housing new construction.

Of course, once the Production deals start to lease up in the next couple of years, we will attempt to collect race/ethnic data from tenants who consent to the disclosure in order to analyze the validity of our assumptions and measure the impact more accurately.

RACIAL EQUITY: % BORROWERS OF COLOR

Are we serving development organizations led by people of color that have historically had less access to capital and TA?

Per our lending partner Capital Impact Partners, "developers who identify as racial or ethnic minorities are severely underrepresented in a market dominated by large global and national firm. Though the local population is primarily Asian, Hispanic, and Black, the real estate development industry is dominated by white-owned and managed firms." It is important to the Partnership that the family of funds supports affordable housing developments led by borrowers of color as much as it supports developments that house Bay Area residents of color. In our investments so far, **39% of borrower leadership identify as people of color.**

Since its founding, LISC's focus has been serving neighborhood-based nonprofit developers in historically redlined, majority-people of color communities. In order to develop a benchmark goal for this indicator, we did an historical analysis on data available for borrowers of all investments in LISC's 40 year history in the Bay Area, and found that 35% of our investments have been made to organizations led by people of color. We are exceeding that historical benchmark but hopefully programs like our lending partner Capital Impact Partner's Equitable Development Initiative and our borrower Richmond NHS's Emerging Developers Program can increase the population of BIPOC-led developers in the Bay Area.

Conclusion

These insights reveal that we are investing in economic and racial equity. In particular, preserving tenant-occupied affordable housing has the greatest impact on racial equity. Additionally, investing in projects that serve lower AMIs will create more equity in housing opportunity. Overall, in the family of funds, we have financed new housing models with new players. We have been able to support emerging diverse developers, community ownership and innovations in design and construction. We hope that detailing this framework helps to instruct and inspire others to develop Equity Impact Frameworks for future initiatives and funds.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