Freddie Mac steps in to help nonprofit investors preserve affordable housing

As the Twin Cities market struggles, Freddie Mac is helping CommonBond.

By Jim Buchta, Star Tribune, December 3, 2016

More than a year ago, Deidre Schmidt, leader of CommonBond, one of the biggest nonprofit property owners in the Midwest, had a chance meeting with some Freddie Mac executives who were visiting the Twin Cities.

After lamenting how difficult it was for nonprofits to compete with private investors in purchasing rental housing, the Freddie Mac folks asked what would level the playing field. “Equity,” said Schmidt, thinking nothing more would happen.

As a result of that discussion, Freddie Mac is now rolling out a pilot program that matches nonprofits with socially conscious investors. “We’re creating the infrastructure to help impact investors channel their capital,” said Corey Aber, lead manager of Freddie Mac’s multifamily finance efforts.

The move comes as the rental market in the Twin Cities metro area, one of the tightest in the nation, nears a crisis for low-income renters. The program, which was developed with the help of Mercy Housing and Twin Cities-based NorthMarq, aims to radically improve the chances for nonprofits like CommonBond to preserve and acquire unsubsidized low-income housing, also known as naturally occurring affordable housing (NOAH), at a time when such buildings are garnering dozens of offers.

CommonBond is in a unique position to test the model it helped create. Mercy, a Denver-based nonprofit, is offering the organization a $2 million grant to acquire two apartment buildings.

But the clock is ticking. CommonBond has to identify two candidates by February and close the deals by this summer, or forfeit the money.

That’s an unprecedented challenge. Apartment buildings around the Twin Cities are getting dozens of offers from investors with deep pockets. Many are selling for more than the list price. CommonBond has already shopped more than 40 properties. All were either sold quickly to more aggressive bidders or failed to meet the organization’s purchase criteria.

At one recent site visit, Diana Dyste, a CommonBond housing development manager, and more than a dozen construction experts, designers and engineers inspected a classic, but worn, building to determine whether it could be renovated affordably.

Many investors are now targeting no-frills buildings that can be spiffed up and repositioned, enabling the new owners to increase rents and property value. These investors are formidable competitors to CommonBond and other nonprofits because they are able to make a much larger down payment and offer the seller the assurance that the deal will close.

CommonBond's efforts are part of a broader trend toward the acquisition of affordable housing that's financed without the kinds of subsidies, including tax credits, rent subsidies and government bonds, that have become scarce. Often, acquisitions that rely on such public assistance are complex and can require multiple funding sources, so they can take years to underwrite and close. That makes such deals less attractive to sellers.

Freddie Mac hopes to eliminate those concerns by creating a streamlined underwriting process that gives investors and sellers the confidence the deal will close. The model also creates a stable mechanism to finance those deals using equity from individuals, foundations and organizations who are looking for opportunities to make socially conscious investments.

"Right now we're reinventing the wheel in every single transaction," Schmidt said. "What we want to test is whether this is something that puts us on even footing with those that have equity."

CommonBond, Mercy and other nonprofits have been buying and developing apartment buildings for low-income renters, but they haven't been able to keep pace with demand. The situation is worsening.

The Minnesota Housing Partnership (MHP) recently analyzed the market for unsubsidized, affordable rental housing across the Twin Cities and discovered that with a rapid increase in the sale of these properties and the subsequent increases in rent that follow, it's becoming much more difficult for low-income renters to find housing.

"We are very concerned about the loss of unsubsidized housing," said Chip Halbach, MHP's executive director. "We need investors and developers like CommonBond to preserve some of the more affordable, lower-rent housing."

CommonBond and other nonprofits have been particularly successful at managing affordable housing because they provide on-site support services that help renters manage the many aspects of their life, including employment and education. CommonBond now manages more than 5,500 affordable rental units in Minnesota, Wisconsin and Iowa, but would like to do more deals like the one it did in August, when CommonBond paid $16 million for the 112-unit Boulder Ridge Apartments in Apple Valley.

Other investors were interested, but CommonBond was able to put the deal together by leveraging the investments of two social impact investors, including the national Enterprise Community Loan Fund and a local foundation.

Minneapolis, which is facing a particularly dire shortage of affordable rentals, is also pledging its support to the effort. The City Council recently approved revisions to its investment policy that allow the city to invest in mortgage-backed securities in which the underlying mortgages are for NOAH properties in the city.

Brad German, Freddie Mac’s director of public relations, said the pilot fits with the organization’s mission to preserve affordable rental housing. The organization is already on track to finance $50 billion in multifamily loans, the vast majority of which is for low- and moderate-income renters. He’s optimistic the pilot will help CommonBond and others preserve even more affordable housing.

“We believe this effort could have real potential to attract more money from direct-impact investors for affordable housing preservation in communities across the country,” he said.