

The **Preservation** Compact

A Rental Housing Strategy for Cook County

Opportunity Investment Fund Overview

Background: Families in areas of concentrated poverty face violent crime, high unemployment, and poor school performance. These factors have adverse impacts on children – from permanent cognitive changes, to lower wages. Moving to better areas improves education, earnings and overall life chances. Yet moving to better neighborhoods becomes more difficult as rents continue to climb. Public resources for new construction of affordable housing are scarce, and competition is fierce to acquire buildings in these markets. The typical, complex subsidy models simply cannot compete.

Opportunity Investment Program

A new Opportunity Investment Fund is a streamlined model to encourage the creation and preservation of affordable rental units in strong markets. Project-based vouchers (PBVs) are subsidies that attach to a building and provide market rents to owners. This means that in strong markets, owners can maintain consistent cash flow even while renting to extremely low-income households. Housing authorities are very eager to place PBVs in strong markets. Yet many market rate owners in strong markets are seeing near 100% occupancy, and would not have a reason to enter into a PBV contract. Non-profits would like to use PBVs to create affordability in strong markets, but rarely have sufficient equity to execute a deal without cumbersome federal capital subsidies.

The Opportunity Investment Fund (the Fund) will provide low-cost mezzanine debt or preferred equity to developers who purchase existing, functioning rental buildings in strong markets. In exchange, they must enter into at least a 20% PBV contract to keep those units affordable. After maximizing private debt, developers can access the Fund to cover up to half of their equity requirement. For instance, an owner might borrow 80% LTV from a private lender. Of the remaining 20% equity requirement, the Fund would cover 10%, and another 10% would come from the developer. Program highlights:

- The Fund will have below-market interest rates.
- The Fund term will be 10 years.
- The PBV contract with the housing authorities will be at least 15 years.
- The PBV contract works even if buildings have no vacancies and no income-qualified tenants. The PBV units would come into play with turnover of occupied units.

This approach allows for a speedy acquisition, allows both for-profit and non-profit developers to participate, and helps eliminate the need for scarce public subsidies for capital. Owners could also refinance their existing portfolio if they enter into the minimum 15 year PBV contract.

Impact

The Fund will allow the lowest income households access to excellent schools, and the many economic advantages found in vital communities. CIC's goal is to raise \$25-\$50 million for the Opportunity Investment Fund. With a fund of \$30 million, this program will generate:

- 300 affordable units in strong markets,
- 1,500 units overall.