Investing for Impact: Lessons from MacArthur Foundation's Housing Preservation Initiative

By Kimberly Burnett, Laurie Gould, and Jeffrey Lubell

Overview

As the economic crisis precipitated by the COVID-19 pandemic has unfolded in 2020, nonprofit institutions have stepped up to provide shelter for the homeless, food for the hungry, and health care for those in need. A financially strong nonprofit organization that can provide this support through economic downturns does not happen by itself, however. It takes planning, investment, skill and hard work. As funders, policymakers, and practitioners consider how to foster financially strong nonprofit institutions that can help with the current and future crises, it is worth reflecting on the effectiveness of past efforts to support the growth of nonprofit institutions.

In the early 2000s, the John D. and Catherine T. MacArthur Foundation (MacArthur) launched an effort to support the growth and sustainability of a group of nonprofit affordable housing developers through program-related investments (PRIs) that provided long-term flexible equity-like capital. This brief summarizes the results of Abt Associates' evaluation of this initiative. Among other findings, Abt found that these investments played an important role in helping the developers survive and even thrive during the last major economic upheaval, the Great Recession. The flexible financing provided by the PRIs helped the nonprofit developers achieve larger scale, improve financial and staff capacity, and react creatively to changes in economic and social conditions.

The rental housing preservation challenge

Most of the federal rental subsidies used to make properties affordable end, or can be terminated, after a set time period. This has led to the gradual loss of units from the subsidized inventory as developments in neighborhoods with strong rental markets convert to market-rate housing. By the late 1990s, this loss of units had contributed to a growing shortage of affordable housing that left millions of low-income Americans struggling to afford their rent.

Beginning in 2000, in response to widely shared concerns over the rapid loss of affordable rental housing, MacArthur launched what eventually became known as the Window of Opportunity (WOO) Initiative. The Initiative employed a range of strategies designed to help preserve affordable rental units in multiple communities nationwide and to raise the

Key Findings

- The MacArthur PRIs enabled developers to pursue much more preservation activity than they would otherwise have been able to conduct.
- WOO borrowers have accessed more than $5.6 billion in other non-PRI funding in the preservation transactions they completed during the terms of their PRIs.
- Many WOO borrowers used MacArthur PRIs to make major capital investments and increase staff capacity that improved their ability to engage in preservation activities.
- WOO borrowers are emerging from their loan terms in much stronger financial positions than when they entered them.
- The WOO Initiative demonstrated that entity-level investments could facilitate significant affordable housing preservation and development.
- Between 2000 and 2018, other large nonprofit affordable housing developers that did not participate in WOO gained access to entity-level capital in other ways, albeit somewhat later than WOO borrowers.
- The Initiative demonstrated that, with access to the equity-like capital of a PRI, affordable housing developers could survive – and even thrive – in the aftermath of the Great Recession of the late 2000s.

©2020 Abt Associates

profile of affordable rental housing as an essential part of a balanced national housing policy. Over time, MacArthur's investment in the WOO Initiative grew to $187 million and took on the ambitious aim to preserve or improve thousands of affordable rental homes nationwide by 2020.

MacArthur commissioned Abt Associates and VIVA Consulting to evaluate the effect of the Initiative's PRIs in strengthening the capacity of nonprofit developers to preserve affordable housing.[1] The principal findings of the evaluation are summarized in this brief.

Evaluation focus: PRIs to affordable housing developers

This evaluation focuses on one of the Initiative's key strategies: $42.25 million in PRIs to 20 nonprofit affordable housing developers working in at least 40 states and the District of Columbia. A PRI is a below-market interest rate loan made by a foundation primarily to further its charitable purposes, not to produce income.[2]

MacArthur intended these PRIs to strengthen the financial and organizational capacity of the recipients to engage in affordable housing preservation efforts at scale. In addition, a handful of developers received capacity-building grants from the Foundation to strengthen their ability to increase preservation activities; some of these developers eventually received PRIs.

MacArthur made these PRIs at the entity level, meaning they were not tied to any particular project. The PRIs had low interest rates (ranging from 1 to 3%), long terms (generally 10 years) and were unsecured. PRIs were specifically designated for one of two eligible uses: revolving pre-acquisition/acquisition/bridge capital; and organizational working capital. Some borrowers received both types of PRIs.

These characteristics combined to make these investments, which averaged $2.1 million per organization, unusually flexible sources of equity-like capital for their recipients.

MacArthur made the PRIs to affordable housing developers between 2001 and 2009. As of this writing, all but one of 22 PRIs are current or have been repaid in full.[3] To date, the Foundation has had a loss on only one loan, to a developer that ultimately ceased operations, in the amount of approximately $1 million. Despite this write-off, when combined with interest earnings, the annual rate of return from the PRIs to the MacArthur was still positive (0.81%).

Evaluation questions

MacArthur commissioned Abt Associates and VIVA Consulting to conduct this evaluation to study the effects of access to PRI capital on developers' capacity and financial condition from the date developers received the PRI through the end of 2018. This evaluation addressed four questions:

1. To what extent and by what means did the WOO PRIs enable borrowers to expand preservation activities or pursue new preservation strategies? How did this capital help these borrowers to leverage other sources of funding to further their preservation efforts?

2. Did access to entity-level financing influence borrowers' organizational capacity?

3. To what extent were the PRIs associated with changes in borrowers' (i) balance sheet strength or profitability, (ii) sources of subsidy or (iii) ability to access capital?

4. To what extent do other large nonprofit affordable housing developers have access to entity-level financing? How have they used that financing to support their activities and growth?

This brief highlights key findings on these questions; for more detail on evaluation methods and findings, see the full report.[4]

PRESERVATION IN ACTION

Harold Washington Apartments

Mercy Housing Lakefront • Chicago, IL

Historic property renovated to house formerly homeless

Through this project, Mercy Housing Lakefront preserved a three-story, mixed-use building that provides 69 units of permanent supportive housing for formerly homeless, low-income, and disabled adults. The historic property was originally a hotel with shared bathrooms; these were eliminated as part of the preservation. Over time, residents have aged in place in the building, making the project a naturally occurring retirement community.

Total Development Costs: $12.2 million

©2020 Abt Associates

Evaluation methods

The evaluation used a mixed-methods approach drawing on both qualitative and quantitative data. Data collection included interviews with 17 of the 20 WOO borrowers and a review of their financial statements and preservation history over time. Of the remaining borrowers, two are no longer in operation and one returned the funds after deciding not to focus on preservation.

We also conducted interviews with six industry stakeholders for context about the availability of equity-like capital, the impact of the WOO Initiative on the industry, and insights about future challenges in preserving affordable rental housing.

Finally, our data collection included interviews with and a review of financial data from a comparison group of 13 successful nonprofit developers. We used the comparison group to shed light on how other non-profit developers fared in the absence of a MacArthur PRI.

We view the comparison between the WOO borrowers and other developers to be informative but not dispositive. Affordable housing preservation is complex, occasionally opaque, and highly multivariate. Although the comparison group allows us to consider the effect of some confounding factors—notably the global financial recession of 2008—we encourage readers to consider the probability that other factors, such as local economic conditions, good fortune, and the skill of individual organizations, at least in part determined the results we observe in comparing the two groups.

Key Findings

Certain themes cut across investigations of all four of the evaluation questions. Most importantly, every WOO borrower interviewed for this study described the MacArthur PRIs as transformative for their organization. Although their experiences varied, most described:

- Expanded preservation activity after the receipt of PRIs, manifesting in a greater volume of units preserved, more ambitious projects undertaken, deepening sophistication in preservation activities, and expanded geographic reach;
- A greater ability to take advantage of development opportunities that became available in their market, especially in comparison to private-sector developers; and
- Increased organizational and financial resilience, facilitating greater ability and willingness to take risks.

The following sections address each evaluation question in turn.

Evaluation question 1: WOO PRI influence on expanding preservation activities

The first evaluation question examines how WOO developer borrowers deployed the MacArthur funds they received and what they accomplished during the term of their PRI. We found the following:

WOO borrowers primarily used PRIs on a revolving basis for acquisition and predevelopment

Though the PRIs provided entity-level capital, MacArthur made the loans with certain expectations for how the funds would be used. All borrowers received funds to be used for transactions, either as bridge capital or for acquisition and short-term financing. Most of the WOO borrowers we interviewed described using the MacArthur PRIs on a revolving basis for transactional purposes—typically for predevelopment and acquisition of preservation properties. For these borrowers, the PRI was recycled and redeployed once the projects closed on longer-term financing.

Sometimes borrowers used the PRI as quasi-permanent, equity-like resources (for example, to buy out limited partner interests in expiring Low-Income Housing Tax Credit (LIHTC) properties, and to fill gaps in development budgets for which tax credits or soft loans fell short of project needs). Repayment of the PRI in these quasi-equity cases derived from other capital sources such as net revenues from the overall portfolio or equity harvested from other refinanced properties.

WOO PRIs increased developers' focus on rental housing preservation

The WOO funds facilitated greater attention to rental housing preservation among WOO borrowers. Although all WOO borrowers had preservation experience prior to receiving a MacArthur PRI through the WOO Initiative, almost half of the borrowers (7) had previously focused primarily on new construction of affordable housing developments (rather than acquiring or preserving existing ones). These borrowers reported focusing more specifically on preservation after receiving the WOO funds, developing specific expertise in acquisition and rehab of existing properties. In most cases, they eventually integrated the preservation work into their overall development and asset management operations, rather than maintaining it as an entirely separate activity. In all cases, adding a focus on preservation facilitated greater business diversity (and thus resilience).

Most of the remaining borrowers (8) already included preservation as either an important or an exclusive focus of their business at the time they received the MacArthur PRIs. They reported that the PRI enabled them to expand and enhance these activities, focusing on preservation to a significantly greater extent than they had previously. They described hiring new staff, building acquisition departments, and steadily building their book of preservation projects in a manner that allowed them to develop acquisition- and rehab-related skills. The two remaining WOO borrowers used the MacArthur funds somewhat differently: primarily as gap financing to help preserve properties already in their portfolios. The refinancing enabled by the PRIs resulted in substantial financial benefits, which facilitated the organizations' overall growth and furthered their missions of creating and preserving affordable housing.

For the most part, the comparison group of 13 developers did not have the same specific focus on rental housing preservation as the WOO borrowers. Comparison group developers described shifting in and out of acquisition versus new development based on current economic conditions. Some comparison organizations had moved towards acquisition versus construction as a way of coping with increasing construction prices; others described moving in the other direction as acquisition prices were on the upswing.

Flexibility, low interest rates, and long loan terms were helpful features of the PRI

Borrowers cited flexibility, low interest rates, and long loan terms as helpful features of the WOO Initiative's PRIs that facilitated the results they were able to achieve. The PRIs' flexibility stemmed largely from the fact that they were unsecured, not tied to a specific transaction, and could therefore be used in a variety of ways. This made it possible for borrowers to move nimbly to acquire projects even in a competitive marketplace. The PRIs' low interest rates helped WOO developers keep their carrying costs low – and by extension lower their overall project costs – which is especially important for buy-and-hold or bridge financing approaches to preservation. By reducing carrying costs, the low interest rate of the PRI allowed developers to hold acquired properties longer, giving them more time to arrange permanent financing. The lengthy (10 years or more) time horizon of the PRIs gave the WOO borrowers the opportunity to deploy the PRI in an equity-like manner, allowing them to take on projects when permanent financing may not be obtainable in the foreseeable future and revolving funds for use on multiple projects.

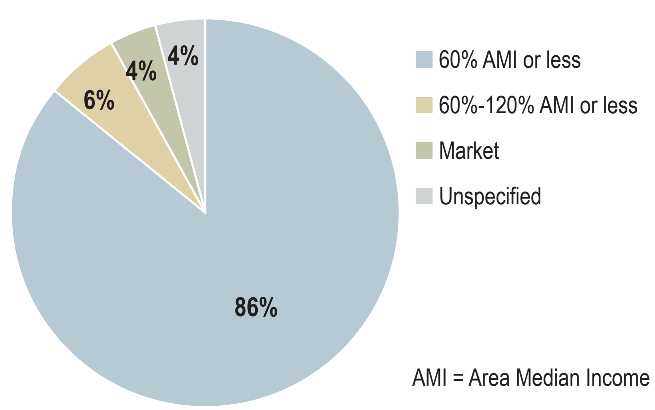
WOO borrowers preserved nearly 51,000 units during the term of their PRIs

During the periods in which their PRI loan was outstanding, the 17 WOO developer borrowers included in the study report preserving 507 properties through 485 transactions, leading to the preservation of 50,803 units of affordable housing (see appendix).

Of these, 16,007 units in 162 properties represented the preservation of properties the developers already owned in order to maintain them as quality affordable resources over the long-term. In these cases, preservation involved predevelopment expenses, refinance, and generally rehabilitation as well.

As shown in Exhibit 1, fully 86 percent of units preserved were designated for residents earning 60 percent of AMI or less. Another 6 percent were targeted for those earning between 60 and 120 percent of AMI; and the remaining 8 percent were either market rate or unspecified (data on income levels were not available).

Exhibit 1. Income Groups Served by Units Preserved (WOO Developers)



©2020 Abt Associates

WOO PRIs both created and catalyzed capital accumulation

WOO developers reported a number of ways in which the PRIs contributed to their financial strength. Many used the funds to help establish a revolving pool of acquisition and predevelopment funds (typically of $5 to $10 million) to fuel their organization's ongoing pipeline of both preservation and new construction projects. The fact that MacArthur had selected the organizations for PRIs also offered developers credibility that was helpful in their efforts to raise additional funds. One interviewee described the PRI as equivalent to the Good Housekeeping Seal of Approval.

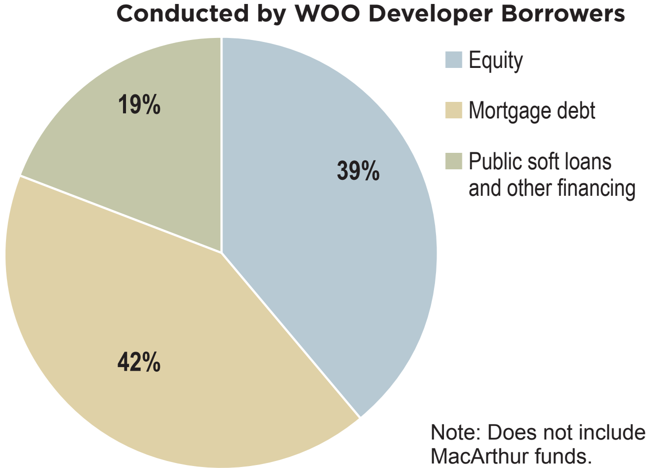
Many of the borrowers described receipt of the MacArthur loans as pivotal in shifting their organization's approach to raising capital. The PRIs helped developers set their aims higher, raising both their awareness of and ambitions for attracting entity-level capital in greater amounts. Their efforts include launching patient equity funds, capital campaigns, and active pursuit of new PRIs and other entity-level financial resources.

WOO PRIs leveraged $5.6 billion in capital from other sources

WOO borrowers reported using a number of sources of capital in addition to WOO funds to preserve units, including LIHTCs; federal funds through the HOME program, American Recovery and Reinvestment Act of 2009 and 2008 Housing and Economic Recovery Act; conventional financing and others. In some cases, the WOO funds were the essential piece of capital that allowed deals to go forward.

WOO borrowers reported securing a total of $5.6 billion in third-party funds on top of the MacArthur PRI capital to support the 485 preservation transactions they conducted during the terms of their PRIs. This leverage represents roughly $11.6 million per transaction, and about $110,000 per unit.[5] As illustrated in Exhibit 2, non-WOO financing was divided among LIHTC equity (39 percent); mortgage debt (42 percent); and public soft loans and other financing (19 percent).

Exhibit 2. Third-Party Financing for Preservation Deals Conducted by WOO Developer Borrowers



Note: Does not include MacArthur funds.

Evaluation question 2: Changes in WOO borrowers' organizational capacity

WOO PRIs expanded borrowers' development of organizational capacity in two main ways: through PRIs designated specifically for organizational working capital and through the experience borrowers gained in deploying the PRIs designated for revolving pre-acquisition/acquisition/bridge capital. The PRIs also provided borrowers with the liquidity many needed to weather the recession.

PRIs designated for working capital

The six borrowers that received PRIs designated specifically for organizational working capital generally described the PRI as a critical resource at pivotal points in their development. In some cases, this was during the early years of launching a new line of business. Several of these borrowers used the PRI to invest in staff to expand their preservation program, hiring staff specifically to identify and pursue opportunities to preserve affordable properties.

Borrowers' gains in experience

Organizational capacity expansion was not limited to borrowers with PRIs designated for working capital. Borrowers with both types of PRIs described a virtuous cycle of expanded volume and sophistication of their activities making it possible for them to recruit increasingly skilled staff, who in turn had the connections and the capacity to initiate and pursue an increasingly broad and sophisticated range of new projects. The majority of WOO developers specifically mentioned building asset management capacity—the ability to effectively assure long-term stewardship of the property portfolio, including maximizing its value—as a major accomplishment, which mirrors an industry-wide commitment in the same period.

Several interviewees spoke of growing sophistication and formal structure in their decision-making processes in response to their expanding acquisition activity. All borrowers reported that their sophistication, skills, and systems have evolved as a natural by-product of the growth that was spurred in significant part by the PRIs from the WOO Initiative.

©2020 Abt Associates

Effect of PRIs during the Great Recession

Interviewees reported that the PRIs enabled them both to weather adverse financial conditions and to take advantage of promising opportunities as they arose.[6] Some borrowers reported that the PRIs contributed to their liquidity when the financial markets froze during the Great Recession of the late 2000s and development projects were unable to raise either debt or tax credit equity. This liquidity helped them to avoid layoffs and other adverse organizational impacts. Other borrowers relied on the PRIs to maintain possession and upkeep on particular projects that were stuck without adequate capital to proceed during the crisis. The PRIs served as patient capital and saved both the projects and their sponsors from far more adverse consequences.

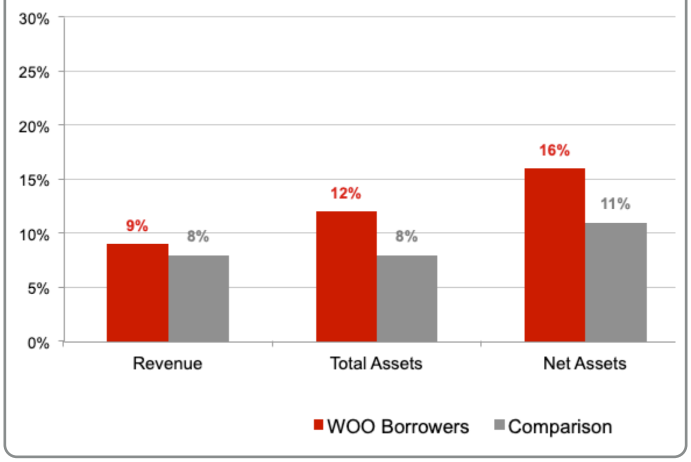
The 2008 federal funding packages designed to address the financial crisis ultimately created significant new resources for community development. With their PRIs in place and staffing intact, the borrowers were well positioned to take advantage of these resources. Despite the challenges of finding equity and debt capital for real estate projects in the difficult economic environment of 2009, a number of borrowers described the subsequent years of recovery as a time of substantial growth in their development activity and balance sheet.

Evaluation question 3: Changes in WOO borrowers' financial condition

All 17 of the WOO borrowers we analyzed ended their loan terms in a stronger financial position than before the PRI.[7] They also ended in a somewhat stronger financial position than the other nonprofit affordable housing developers we examined, despite having started out in a somewhat weaker position. This was true as measured on a number of dimensions, including changes in net worth and liquidity, revenues, total assets, and net assets. In addition, the WOO borrowers' housing portfolios expanded significantly, though our methodology did not permit us to compare this growth to that of the comparison developers.

This section first compares statistics on growth of revenue and assets for the WOO borrowers and comparison groups. It then reports on other changes during the course of the PRI for the WOO borrowers only.

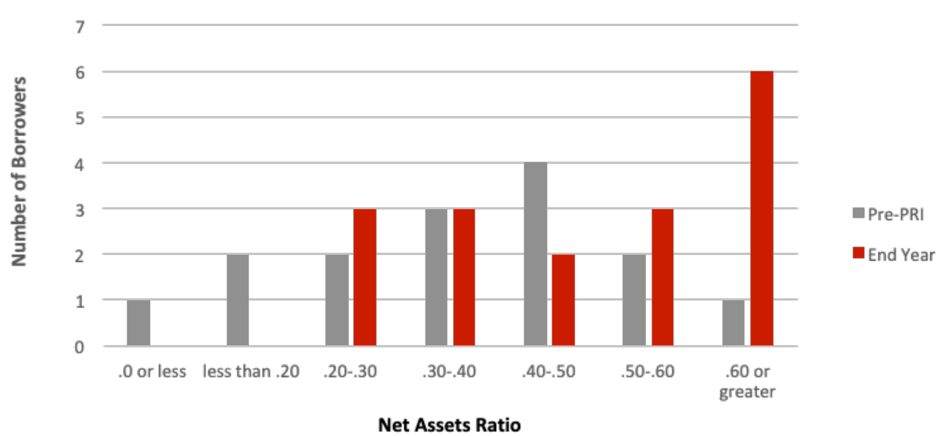
Exhibit 3. Comparison of Annual Revenue and Asset Growth (Parent), WOO vs non-WOO Developers, Baseline vs End Year



Revenues, net assets, and total assets all grew steadily for WOO borrowers over the study period. As shown in Exhibit 3, all three of these measures of financial condition grew at a faster pace for WOO borrowers than for the comparison group developers during this period. For example, the annual net asset growth of WOO borrowers averaged 16 percent, almost 50 percent higher than the comparison group's rate of 11 percent. Likewise, at 12 percent, WOO borrowers' average annual total asset growth was 50 percent higher than that of developers in the comparison group (8 percent). The WOO borrowers' annual revenue also grew faster than that of the comparison borrowers, but only modestly so.

WOO borrowers also saw improvement in net and total assets and in measures of liquidity (the current ratio and months of unrestricted cash). Current ratios improved for almost all WOO borrowers; by the end of their PRI period, all WOO borrowers had current

Exhibit 4. Number of WOO Borrowers with Specified Net Assets Ratios (Parent), Baseline vs End Year



ratios at 1.2 or above, which is a frequent underwriting target minimum. The current ratio measures a developer's ability to meet its short-term obligations. It compares current assets (those that are expected to be converted to cash within a year) to current liabilities (amounts that are owed within a year). A high current ratio indicates significant liquidity, and it is a sign of financial strength and stability.

In addition, all WOO borrowers (for which comparative data were available) saw growth in unrestricted cash at the parent level, which grew at an average annualized rate of 11 percent.

All WOO borrowers also exceeded a target .20 net assets ratio—a key indicator of financial strength —by the end of their PRI period (Exhibit 4). The net assets ratio is the ratio of equity (assets – liabilities) to total assets. A net assets ratio of .20 means an entity has equity equal to 20 percent of its total assets.

As another indication of growing financial strength, the WOO borrowers reduced reliance on contributions/donations as a source of revenue, from about 25 percent of revenue to 16 percent. Over the course of the term of their PRI, other sources such as developer fees, property portfolio revenue, and interest/investment income all increased as a share of total revenue. Fees for service and "other" decreased. With less reliance on contributions and donations, WOO borrowers became more self-reliant and better able to generate earned revenues needed to sustain their operations.

Finally, all of the WOO borrowers significantly expanded their overall property portfolios during the term of their PRI, some through preservation alone, others through a combination of preservation and new development. From a baseline average portfolio size of 4,905 units, borrowers added an average of 3,236 housing units to their portfolios (ranging from 914 and 10,424 units). They added an average of 36 properties to their portfolios (ranging from 11 and 101 properties).

Evaluation question 4: Access to equity-like capital in the broader nonprofit affordable housing development sector and current challenges to preserving affordable housing

Comparison developers were slower to find access to equity-like capital than WOO developers. When they did get access to capital that could be used like equity, comparison developers used it in largely the same ways that WOO borrowers did. In addition to providing funds directly to a number of developers through PRIs to developers, the WOO Initiative had wider impacts on the affordable housing sector both through the "demonstration effect" of issuing the PRIs to non-profit developers (which other lenders have since emulated) and through PRIs to intermediary organizations who then invested the funds in local development organizations.

PRESERVATION IN ACTION

Leydon Woods

The Community Builders • Greenfield, MA

Preserving rental subsidies in rural Massachusetts

The Community Builders replaced 56 deteriorated buildings in rural Western Massachusetts with 49 newly constructed, Energy Star© rated modular structures that house 200 families. The redevelopment project successfully preserved the rental subsidies for the scattered-site affordable rental housing. The project included the creation of new recreational and green spaces including a community garden, basketball court and playgrounds.

Total Development Costs: $78.9 million

Availability of entity-level financing to nonprofit affordable housing developers

Nearly all of the comparison group developers found access to entity-level capital by the time we interviewed them in 2019, but most achieved this access somewhat later than their WOO counterparts did. One significant source of this capital was self-financing: like many WOO borrowers, nearly all of the comparison developers took advantage of existing portfolio strength to harvest equity and cash flow to strengthen their financial position to engage in affordable housing activities. Developers achieved this in several different ways. For example:

- Re-syndication of year 15 LIHTC properties (providing developer fees and harvested equity);
- Refinance of Section 202 portfolios, which provided an opportunity to harvest equity; and
- Long-term operation of rental subsidy-enhanced properties in high-rent markets, yielding substantial cash flows year after year.

©2020 Abt Associates

The opportunity to generate capital through self-financing resulted from rising housing prices and rapid growth in equity in many of the housing markets where developers work.

Comparison group developers also found access to entity-level capital from a few other sources, some of which became available in part as a result of the WOO Initiative. These sources included:

- **Below-market loans and grants from other foundations.** A few comparison developers reported sizeable grants or very low interest, long-term loans from other foundations or donors.
- **Bank financing.** Many comparison group developers arranged access to lines of credit and/or equity equivalent loans (called EQ2).[8] These loans tended to be much shorter term than the MacArthur PRIs (two or three years, often renewable), but were frequently described as having below-market interest rates (1-3 percent). This capital was primarily from programs at USBank and Wells Fargo, which were both launched several years or more after the WOO Initiative started.
- **Membership organizations.** Some comparison group developers had equity-like loans or grants issued by membership organizations to which they belonged. One of these was the Housing Partnership Fund, which was seeded in 2001 using funds from a WOO Initiative PRI (among other sources). This investment was intended to work synergistically with the PRIs to developers, and it is the only source of entity-level capital we are aware of that was available to nonprofit developers at the same time the WOO Initiative was starting. The second was NeighborWorks America, which provides capital grants to its member organizations that can be deployed for acquisition and predevelopment.
- **Government sources.** Federal, state, and municipal governments provided capital to the comparison group developers in several ways, some of them based on unique circumstances not typically available to most nonprofit affordable housing developers. For example:
    - » One organization secured a large grant from a U.S. Department of Justice program in the aftermath of the housing crisis, funded by claims against banks as a result of financial fraud that contributed to the mortgage crisis.
    - » Another secured $4 million through a successful Capital Magnet Fund application to the CDFI Fund.
    - » One works exclusively in a municipality that has made acquisition and predevelopment financing readily available, in very large increments, to its nonprofit preservation partners.

Many WOO recipients also raised capital from these sources.

Once comparison group developers gained access to equity-like capital, they used it in largely the same way as their WOO borrower counterparts: as revolving funds for acquisition and predevelopment. Every comparison group developer described establishing a pool of funds, held at the corporate level, which enabled them to move quickly to acquire properties or to fund predevelopment activities; these funds were repaid from permanent financing sources.

Influence of developer PRIs on the nonprofit affordable housing sector

Beyond expanding the capacity of the nonprofit affordable housing developers who received them, the WOO Initiative developer PRIs had additional effects. These include serving as a demonstration that may have contributed to other lenders' decisions to make entity-level capital available, developing an infrastructure that helped strengthen the industry as

PRESERVATION IN ACTION

Skyline Towers

Common Bond Communities • St. Paul, MN

Residents of urban preservation project help design adjacent park

Common Bond Communities preserved a 24-story apartment building whose population is largely East African. Skyline Towers residents successfully advocated for green space adjacent to the property, and were heavily involved in the design of a new urban park. The result is Midway Peace Park, which has been described as one of the most ambitious park designs in St. Paul's recent history. The park includes playgrounds, gardens, a stage, a walking loop, and a rain-fed stream feature.

Total Development Costs: $31.5 million

a whole, and helping to change the national discourse about preservation.

Industry observers noted that some of the entity-level, equity-like capital now available to nonprofit affordable housing developers drew on lessons learned from the WOO Initiative. In particular, the Initiative provided early evidence that nonprofit affordable housing developers could put such funds to good use, manage this type of debt, and repay it.

In addition, the WOO Initiative made a series of grants to create and sustain Strength Matters®, a peer learning resource focused on financial and accounting issues intended to improve the financial strength of nonprofit housing enterprises and help them improve their access to capital. This grant was one of many intended to increase the amount of capital flowing to nonprofit developers. As grants to an entity other than a nonprofit developer, it is beyond the scope of this report, but we note it here because it seems to have played an important complementary role to the developer PRIs. As designed, the investment helped to build the field synergistically. Industry observers believe this resource has helped to increase developers' capacity to manage much larger organizations.

In addition to these influences, several WOO borrowers and industry observers also credited MacArthur with bringing a new national focus to the issue of affordable housing preservation. For example, one borrower spoke of the power of the MacArthur WOO Initiative's focus on preservation at a time when federal government commitment to housing was retreating, calling the Foundation "the most important player in affordable housing" in 2010 to 2012.

Ongoing challenges to preserving affordable housing

Both WOO borrowers and comparison group developers identified several ongoing challenges to preserving affordable housing:

- **Competition from the private sector to purchase multifamily housing, even with long-term use restrictions in place.** Many borrowers describe being regularly outbid by private-sector competitors.

- **High construction costs and limited contractor availability.** High construction costs are a by-product of a heated real estate market. Borrowers expect to do some level of rehab on the majority of preservation projects; rapidly escalating construction costs and limited availability of contractors make it difficult to fund an appropriate level of work.

- **Limited subsidy resources.** The value of tax credits decreased with the reduction in the corporate tax rate enacted in late 2017; the temporary additional volume of LIHTC created in early 2018 was not enough to make up for the price drop. Meanwhile, the need for affordable housing continues to increase.

Developers identified a need for financing such as the PRIs provided by the WOO Initiative to help overcome these challenges. Specifically, interviewees expressed the desire for additional funding models with similarly low interest rates, long terms, and flexibility. Ideally this funding could be raised at scale and then deployed, like the MacArthur PRIs, with nimbleness and flexibility to acquire properties strategically.

Concluding Thoughts

Having had access to the long-term, low-rate entity-level capital that the WOO PRIs provided, borrowers are hungry for more of this type of financing. Although many of them have found ways to fill some of the same functions as their PRI, most borrowers say they could make good use of additional equity-like capital if it were available.

Equity-like capital is only one piece of the solution to solving the nation's affordable housing challenges, but it is an important piece. The Window of Opportunity Initiative not only left behind 17 stronger, higher-capacity, more sophisticated affordable housing developers, it also contributed to a growing appreciation among funders and nonprofit developers alike of the importance of equity-like capital for preservation and affordable housing efforts. Through this "demonstration effect," the Initiative is indirectly helping to expand the financial resources available to additional developers who are now better able to carry on this important work.

©2020 Abt Associates

Appendix. WOO PRIs to Nonprofit Affordable Housing Developers

Developer	Headquarters State	Amount of PRI	Purpose of PRI	Dates of PRI (Funding to Maturity)	PRI Repaid?	Units Preserved during PRI
Aeon	Minnesota	$1,500,000	Bridge and predevelopment capital	2008-2018	Yes	2,964
AHC	Virginia	$750,000	$250,000 for working capital; $750,000 for bridge and predevelopment capital	Working capital: 2004-2009 Bridge capital: 2004-2014	Yes Yes	1,208
Breaking Ground (formerly Common Ground)	New York	$2,000,000	Bridge and predevelopment capital	2008-2018	Yes	1,574
BRIDGE Housing Corporation	California	$3,000,000	Bridge and predevelopment capital	2008-2020	Still outstanding	3,428
CommonBond Communities	Minnesota	$1,500,000	Bridge and predevelopment capital	2007-2017	Yes	3,073
The Community Builders (TCB)	Massachusetts	$2,000,000 (also $500,000 grant)	Bridge and predevelopment capital	2007-2018	Yes	4,981
TCB	Massachusetts	$2,000,000	Bridge and predevelopment capital	2009-2020	Still Outstanding	
Community Housing Partners	Virginia	$2,000,000	$500,000 for working capital; $1.5 million for bridge and predevelopment capital	2004-2020	Still outstanding	3,973
Community Preservation and Development Corp (CPDC)	Maryland	$2,000,000 (also $500,000 grant)	Bridge and predevelopment capital	2008-2018	Yes	3,530
Community Services of Arizona (CSA)[1]	Arizona	$1,350,000 (also $100,000 grant)	$350,000 for working capital; $1 million for bridge and predevelopment capital	2006-2016	Partial: write-off of $1,072,030	Not available
Gulf Coast Housing Partnership	Louisiana	$1,500,000	Bridge and predevelopment capital	2008-2018	Yes	1,455
Hispanic Housing Development Corporation	Illinois	$1,250,000 (also $500,000 grant)	Bridge and predevelopment capital	2005-2013	Yes	1,764
Homes for America	Maryland	$1,750,000	$250,000 for working capital; $1.5 million for bridge and predevelopment capital	2003-2011	Yes	2,925
Mercy Housing, Inc.	Colorado	$3,000,000	$1.5 million for working capital; $1.5 million for bridge and predevelopment capital	2002-2020	Still outstanding	4,302
Mercy Housing Lakefront	Illinois	$1,750,000	Bridge and predevelopment capital	2008-2018	Yes	
National Church Residences	Ohio	$3,000,000	Bridge and predevelopment capital	2007-2018	Yes	4,319
NHT/Enterprise	Washington, DC	$4,000,000	Bridge and predevelopment capital	2001-2023	Still outstanding	3,198
Phipps Houses and Homes for New Yorkers	New York	$700,000[2]	Bridge and predevelopment capital	2004-2015	Yes	Not available

[1] CSA is no longer in operation.

[2] Phipps Houses and Homes for New Yorkers was awarded $2 million, but drew down only $700,000 before repaying the PRI in 2011.

Developer	Headquarters State	Amount of PRI	Purpose of PRI	Dates of PRI (Funding to Maturity)	PRI Repaid?	Units Preserved during PRI
Preservation of Affordable Housing (POAH)	Massachusetts	$3,000,000	$500,000 for working capital; $2.5 million for bridge and predevelopment capital	2003-2014	Yes	5,881
POAH	Massachusetts	$1,000,000	Bridge and predevelopment capital	2007-2017	Yes	
San Antonio Alternative Housing Corporation (SAAHC)	Texas	$1,200,000 (also $100,000 grant)	Bridge and predevelopment capital	2006-2016	Yes	Not available
Volunteers of America (VOA)	Virginia	$2,000,000	Bridge and predevelopment capital	2008-2018	Yes	2,228
Total		**$42,250,000**				**50,803**

Endnotes

[1] A 2016 study led by the RAND Corporation evaluated the Initiative as a whole. That evaluation found that MacArthur met a majority of its goals for the WOO Initiative, but did not closely examine the effect of the MacArthur PRIs on the financial sustainability of the developers.

[2] A complete definition is in Mintz, Joshua, and Chelsey Ziegler, Mission-Related Investing: Legal; and Policy Issues to Consider before Investing, MacArthur Foundation, March 2013. According to Mintz and Ziegler, "PRIs are explicitly defined in Section 4944 of the Internal Revenue Code (the "Code") as an exception on the jeopardizing investment rules. . . To qualify as a PRI, the Code sets out a three part test: (1) the primary purpose of the investment must be to further one or more exempt purposes of the foundation, (2) no significant purpose of the investment will be to generate financial return, and (3) no electioneering or lobbying activity will be supported by it. PRIs are similar to grants in that they are required to further a charitable purpose and count towards a foundation's five percent 5% payout requirement. However, PRIs seek to generate a return on the funds expended, plus some modest return, differentiating them from a grant."

[3] As of the date of publication of this brief, most had been repaid.

[4] Abt Associates and VIVA Consulting. Follow-Up Evaluation of the MacArthur Foundation's Window of Opportunity Initiative. Laurie Gould, Kimberly W. Burnett, and Jeff Lubell. 2020.

[5] Note that there are some projects currently in developers' portfolios that have been preserved, for which the final total development cost is not yet known. The costs for these projects are not included in the totals; inclusion of these amounts would have boosted both the total and per-unit amount of third-party funds raised to support the units preserved by WOO borrowers.

[6] In addition to having the PRIs available at the onset of the recession, in response to the economic downturn, the MacArthur Foundation modified borrowers' loans, forgiving interest payments that otherwise would have come due from July 1, 2009, through June 30, 2010.

[7] We collected financial data from WOO borrowers and developers in the comparison group from consolidated financial statements as well as at the "parent organization" level. This section presents parent-level financial data, because baseline consolidated data was not consistently available for all developers.

[8] EQ2 is a long-term deeply subordinated loan. It functions much like equity in that it enhances developers' flexibility to acquire projects and increases debt capacity by protecting senior lenders from losses.