



Roles for impact investors in affordable housing in Missoula County, Montana

Researched and written by Rosalie Sheehy Cates, Senior Advisor, The Giving Practice

For Missoula Invest Health, a project funded by the Robert Wood Johnson Foundation

October, 2020

Project Overview

The purpose of the project is to identify strategies that might leverage impact investing to increase and maintain affordable housing in Missoula. This report on the project 1) describes Missoula's affordable housing and impact investing ecosystems; 2) gives examples of current impact investing within those ecosystems; 3) describes potential impact investing models, some from other cities; and, 4) outlines important capacities that Missoula has and could orchestrate more deliberately to increase impact investing for affordable housing in Missoula

Thanks to these people who contributed leadership and ideas for this project: Missoula County's entire Invest Health Team; Lisa Becskiewicz of Missoula County Health Department; Kaia Peterson of NeighborWorks MT; Justin Metcalf of Wishcamper Development Partners; Dawn McGee of High Stakes Foundation and Good Works Ventures. Thanks to United Way Missoula and Susan Hay Patrick for providing a home for the work.

What is affordable housing?

Affordable housing refers to efforts to make both home ownership and rental units affordable to residents of a community. "Affordable" housing costs should not exceed 30% of a household's income. Many affordable housing efforts emphasize the housing needs of residents who earn 60% or less of the Area Median Income (AMI). Certainly most federal programs concentrate on helping people in this income band.

In Missoula, higher-earning or "workforce" families also struggle with affordable housing. There is no formal definition of this category, but workforce housing efforts often seek to help people who earn 80-100% of AMI. That upper income band may have to be even higher, however, when housing prices are escalating rapidly as they are in Missoula. Many higher-earning workers are challenged in our market to find housing priced at 30% or less of their monthly paycheck.

Affordable housing work can further sub-divide, reaching out to help populations with particular needs, for instance, the elderly, people with disabilities, people with behavioral health challenges.

The impact investing findings of the report can be applicable to the full spectrum of all of these affordable housing “definitions” in Missoula.

What is impact investing?

Impact investing provides funding to either a for- or non-profit entity, with the expectation that the funds will earn both financial and impact returns. The funding can be provided either as loan or purchase of an equity share. Sometimes impact investor simply provides a guarantee, for instance, when an impact investor guarantees a bank loan for construction of a housing project.

Impact investors expect to earn a financial return, but it may not have to be the return expected in the commercial marketplace. In addition to sometimes accepting lower financial returns, the impact investor may offer flexible terms, such as long amortizations, weak security, or a period of interest-only payments. On the impact side, the investor expects the transaction to create “returns” that are social or environmental. For instance, the investment may create jobs, revitalize a neighborhood, increase affordable housing, mitigate climate change, or create environmental benefits. There are as many potential impacts as there are investor interests.

Who is currently involved in impact investing for Missoula County?

Please note that many examples of impact investments for affordable housing are noted here.

Intermediaries

Impact investors often work through intermediaries rather than make direct investment in a project or business. Intermediaries are for- and non-profit organizations that can pool funds from any combination of government programs, banks, foundations and individual impact

investors. The intermediary then makes the direct loans to businesses, homebuyers and affordable housing developers, to create the impact their investors seek.

Intermediaries are sometimes organized through a U.S. Treasury program that designates organizations called Community Development Financial Institutions (CDFIs). Some CDFIs are formed as banks and credit unions that serve low-income people and places. Others form as non-profit loan funds. These funds aggregate funds from government and private sources, including impact investors, and then make loans for affordable housing, community development, and business.

Here are the CDFIs that serve Missoula County, and the types of lending they offer:

- [MOFI](#) - Non-profit that makes loans for business, community development and mortgage down payment.
- [NeighborWorks Montana](#) Non-profit that makes loans for home purchases, establishing manufactured housing cooperatives, and affordable housing projects
- [Clearwater Credit Union](#) A full service non-profit credit union that offers bank accounts and makes personal, home and business loans.

There are also for-profit intermediaries that work with impact investors. One is [HomeStake Venture Partners](#) and its affiliate [45North Partners](#). This intermediary works only with private capital holders. It is housed in Bozeman, but can work with accredited investors statewide in Montana. 45 North Partners helped one client complete:

- A \$1.5mm 3-yr bridge loan to Human Resources Development Council (HRDC) in Bozeman, to purchase the Boulevard apartments so they could stay affordable.
- A \$500k loan to help HRDC purchase temporary housing for homeless elders and families.

Individual impact investors

In Missoula County, High Stakes Foundation/[Good Works Ventures](#) is an informal hub for a loose network of individuals who make impact investments. (Some of those individuals are also connected with foundations.) Good Works has become a hub because it shares its staff members' expertise on investing, and helps less-experienced investors learn about impact investing, or consider specific transactions. This has sparked an informal network, and resulted in a number of affordable housing investments in the county:

- In 2018, 12 individuals invested in NeighborWorks Montana, supporting its efforts statewide to loan money to home buyers and affordable housing developers.
- In 2019, Several investors financed HomeWord's purchase of a large parcel of land on Cooley Street. Clearwater Credit Union financed 60% and the investors took 40%. HomeWord was assembling land for the Trinity Project, a large multi-family affordable housing project.
- In 2018, several investors financed HomeWord's purchase of land next to the Missoula Food Bank, for eventual development with tiny houses.

Foundations

Many foundations around the country embrace impact investing as tool to further their charitable purposes. As noted above, High Stakes Foundation in Missoula is an active impact investor, and organized Good Works Ventures as a sister LLC to house its impact investments. Some national foundations that fund in Montana are impact investors, such as Northwest Area Foundation, but it does not generally get involved in Montana affordable housing projects.

Two Montana-based foundations could be important to affordable housing efforts in Missoula. [Montana Healthcare Foundation](#) and [Headwaters Foundation](#) are "health conversion" foundations. Their assets come from former non-profit health entities (Blue Cross Blue Shield insurance company, and Community Medical Center). These two foundations embrace the importance of housing as a social determinant of health, and, therefore, are pre-disposed to

work on the issue. In fact Montana Healthcare Foundation has an initiative working toward providing housing that supports homeless people who are heavy users of the healthcare system, especially emergency rooms. That could eventually include direct investment in a housing development, and Missoula is one of the initiative cities.

At this time, neither of these Montana health conversion foundations is making impact investments, but both foundations participated in a meeting to gauge interest in housing investment. On follow-up, both foundations asked to stay in touch as impact investing in affordable housing continues to develop.

Financial institutions

A number of Missoula's financial institutions are strong partners to affordable housing and routinely provide construction loans, bridge financing and lines of credit to affordable housing projects. One regulated institution that plays (and could play) an even more direct role within the Missoula County ecosystem for impact investing is Clearwater Credit Union. As mentioned above, Clearwater is both a CDFI (dedicated to serving low and moderate income people and places) and a regulated credit union. It serves 20 counties in western Montana from its Missoula home base. The credit union directly aggregates local capital, with 99% of its assets derived from local depositors, and then deploys those funds, when it can under credit union regulations, toward the CDFI part of its mission. As such it has developed programs that provide low and moderate income people with access to banking, financial education, and lending products.

Examples of Clearwater Credit Union's current and potential roles in affordable housing lending include:

- Manufactured home lending products: Clearwater developed a specific product to finance manufactured housing, a critical component of affordable housing in the county. Clearwater makes loans to about 35 manufactured home borrowers per year in western Montana. Clearwater has also financed the land under manufactured home parks for cooperatives that were organized by NeighborWorks Montana.

- Loans to multi-family housing developers: Clearwater structured the unique Cooley Street/Trinity Project (described above) with local impact investors. The credit union says that it has an appetite and willingness to be nimble on more financing projects of this type in the future.
- Naturally occurring affordable housing (NOAH) lending: Clearwater already holds a portfolio of loans on private, non-government subsidized multi-family rental properties in Missoula County. The credit union is engaged in this market and could mobilize its board and membership around creative financing options that preserve affordable rents in NOAH properties, if there is demand and momentum in the community.
- Energy Efficiency Offsets: Clearwater partnered with Climate Smart Missoula, the Missoula Housing Authority and the architecture firm MMW on a carbon offset project for the Housing Authority's new Cornerstone Apartments. Clearwater funded half the cost of installing heat pumps instead of electric resistance heat in exchange for the rights to the energy savings, which came out to 877 metric tons of avoided CO₂e, enough for about two years of Clearwater's operational emissions. This investment allowed the Housing Authority to access the capital needed to invest in more energy efficient systems and is projected to save over \$10,000 in annual operating costs. This was a pilot of Climate Smart Missoula's Footprint Fund, and they're hoping to find more projects like this in the future.

Which affordable housing developers could accept impact investments and how does that move the work forward?

Here are some of the project developers for affordable housing in Missoula:

- HomeWord is a non-profit affordable housing developer serving the entire state of Montana. Since 1994 they have built housing and provided homebuyer education, emphasizing environmental sustainability in their developments. They built and manage a number of affordable housing projects in Missoula, including Montana Street Homes

(involvement of impact investors in described above). They are in the process of developing multiple sites as the Trinity Project, which also included impact investors.

- NeighborWorks Montana is a CDFI, as described above. It lends to local housing developers that build units, and it makes home loans to Montana residents who are challenged to meet bank lending standards. Finally, NeighborWorks partners with a national organization called [ROC USA](#) to create cooperatives that buy manufactured home parks. A number of impact investors have invested in the NeighborWorks loan fund.
- Missoula has a [Human Resource Council](#) that is very involved in housing assistance, home weatherization and workforce development. It also has a [Housing Authority](#) that has built and manages many units of affordable rental housing in the city. While we are not aware of any impact investing in either of these organizations, they could develop projects of interest to investors.
- [Habitat for Humanity Missoula](#) is the local chapter of this international organization, which mobilizes local volunteers to build homes. A family contributes sweat equity during home-building, and then purchases the home with a 30-year, 0% interest mortgage from Habitat. Habitat Missoula builds two new homes most years. Director Heather Harp is on the verge of launching an ambitious plan to expand capacity and be able to build closer to 30 homes per year. She is very interested in bringing impact investors into that effort.
- Missoula is home to a number of private, for-profit affordable housing development companies, for instance [Summit Housing Group](#), [Blue Line Development](#), [Housing Solutions](#) and [Wishcamper Development Partners](#). These companies build and preserve multi-family rental projects, using a combination of investor funds, tax credits, debt (sometimes subsidized by government programs) and government rental assistance programs. For-profit firms sometimes work in partnership with non-profit developers. For example, after impact investors helped HomeWord secure and hold land for an affordable housing project (see description above), Blue Line Development became [the](#)

[private co-developer of Trinity Apartments with Missoula Housing Authority and HomeWord.](#)

What are examples of impact investing that have already occurred for Missoula's affordable housing?

Examples of impact investments that have already been made in Missoula and Bozeman are given above. Here is a list of the general types of these opportunities:

Help a non-profit secure land for future affordable housing development

Scenario: Land is available and must be secured and held until a housing project is fully ready to start construction.

Investment: A bank or credit union provides a conventional mortgage to a non-profit developer for 60% of the purchase, and impact investors finance the remaining 40%.

Impact: The loan makes the whole eventual project possible, by securing the land.

Sample Terms: In one transaction, investors made a short-term loan to the non-profit (1-3 years) at low interest (1-2%). The loan was secured by the land, subordinate to the bank loan. Interest was paid quarterly with the entire loan to be paid off in one balloon payment when the project was ready to construct.

Help create or grow an affordable housing loan fund

Scenario: A CDFI manages a capital pool to make mortgages or to finance the work of affordable housing developers. It needs additional funds to expand the work.

Investment: Investors lend additional capital to the CDFI.

Impact: Through the fund, investors support a whole portfolio of mortgages and affordable housing units. Investors are also supporting the "infrastructure" of the affordable housing industry by supporting and strengthening the CDFI and its work.

Sample Terms: For the NeighborWorks Montana loan pool, investors make a loan for the term of their choice (1-5 years) at 1-4% interest depending on the length of the loan. The

loan is unsecured, interest is paid quarterly with a balloon pay-off of the entire principle amount at the end. Minimum investment of \$10,000.

Help preserve existing multifamily rental properties in Missoula

Scenario: Privately-owned, for-profit affordable housing is scattered across Missoula. These multifamily rental buildings were built with government subsidies, based on being rented to low-income people for a specified number of years. When those years are up, the properties are at risk of being converted to market-rate units.

Investment: Investors can help finance a new buyer who will perform needed repairs and upgrades, and reinstate and maintain affordability. The buyer could be any of the for- or non-profit affordable housing organizations listed above.

Impact: With a gaping need for additional affordable units in the community, it is essential and efficient for Missoula to maintain the units that have already been built and subsidized with tax dollars. Unfortunately, market forces favor conversion to market-rate for many of these projects, and the competition to acquire projects is fierce.

Terms: Investors usually become a limited partner with the buyer, providing equity with the expectation of cashing out of the project within 10 years. They earn return of capital and returns up to market-rate. If the project has strong cash flow the investor can earn annual cash-on-cash returns as well. Sometimes limited partner contributions are structured as debt.

What about NOAH?

Naturally occurring affordable housing (NOAH) refers to privately owned rental units that have no government “strings attached.” These are smaller, often older apartment complexes, often in poor-to-moderate repair, available at affordable lower rent rates. NOAH is essentially the first rung of any community’s affordable workforce housing. But NOAH in Missoula is at risk to be purchased and upgraded, and then rented at higher rates, pushing many workers out of the housing market. This situation has been exacerbated by the COVID-19 pandemic, which brought

an influx of new Missoula renters who can work from any geographic location in the country. For this purpose Missoula is a cheap-rent destination when compared to the national market.

Retaining the supply of NOAH is gaining attention across the country as an important affordable housing activity, especially in high-amenity communities like Missoula where land and housing prices are escalating rapidly and squeezing workers out of the market.

We explored with impact investors one innovative model for Missoula to preserve NOAH. The idea was developed by Justin Metcalf of Wishcamper Development Partners. Wishcamper is a for-profit housing developer based in Missoula and working throughout the Pacific Northwest. Under the model, Wishcamper would team up with impact investors to purchase a given NOAH property. The units would be improved for safety and dignity but not beyond, carefully managing rehabilitation costs in order to maintain affordable rents in the project. Wishcamper would voluntarily place a deed restriction on the property, guaranteeing future NOAH supply for the county. Investors could earn competitive returns, and the properties could be resold in just a few years to a new buyer. The investment would achieve 1) improvement of existing units; 2) a permanent deed restriction maintaining affordable rents; and, 3) smooth operation of the complex under good management.

We convened a group of active and potential impact investors to learn about this model, and received a very positive response. Investors asked to see a “live” project and detailed pro forma, and requested ongoing information as Wishcamper continues to explore the model.

[NOAH initiatives](#) like this are popping up throughout the country. The [NOAH Impact Fund in Minnesota](#) is a particularly robust effort. The Missoula model under development by Wishcamper stands out for innovative use of a deed restriction to ensure long-term affordability without hampering resale value of the project. That makes the model particularly useful for impact investors.

A community impact investing model for affordable housing from Portland OR

The Portland Affordable Housing Preservation Trust (PAHPT) houses and drives a number of community-driven, innovative affordable housing initiatives that involve impact investors. Founder Ted Gilbert is a generous font of ideas and information for Missoula. Here is a sample of ideas he described to us, which appear transferrable to Missoula should the right leadership emerge.

PAHPT was established as a non-profit around 2000, by a diverse group of real estate developers, architects, brokers and bankers looking to contribute and combine forces to work on Portland's affordable housing challenges. They formed a non-profit and used a start-up grant of \$1 million from Meyer Memorial Trust to buy and preserve a Section 8 property. Many acquisition and preservation deals followed.

PAHPT has repurposed vacant buildings; created live-work space for "creatives;" and bought failing real estate loans in order to acquire property and turn it around. They are carefully monitoring the emerging opportunity to acquire smaller Portland hotels that are struggling in the pandemic. They are also developing a loan program for Accessory Dwelling Units (ADUs) in partnership with a CDFI. PAHPT is specifically developing an impact investor financial model for affordable housing, in a joint venture with Guerilla Development Company called [Atomic Orchard Project](#).

Ted Gilbert points out that all of these mechanism are just tools, and that the "magic" of PAHPT is the people. PAHPT has been able to tap the deep expertise and connections of various real estate professionals who help to find and structure its innovative projects. The key to their success is to "buy well and move quickly" on viable, impactful housing projects.

What capacities does Missoula need to develop to advance impact investing for affordable housing?

Missoula appears to have all the ingredients needed to build impact investing into its affordable housing approach. Certain capacities are critical to the effort. These capacities are vibrantly present in our affordable housing ecosystem, and could be more deliberately combined:

- *Access to and experience with private investors* – We need the capacity to nimbly structure debt and equity positions that meet various investors’ expectations for financial *and* impact returns. Timing is always an issue for investors – their funds do not languish in cash accounts for long periods, so time is of the essence in proposing and moving on deals. Investors may present other issues such as a unique tax situation, or requirements from a family office that handles the investor’s business. Developers do become more and more adept at working with investor needs with each project they complete, which in turn increases these developers’ access to more investors. Missoula’s for- and non-profit affordable housing developers could be helpful to each other here, and they are already combining forces. For-profits tend to have a lot of depth on the structuring side, and they have good access to a fairly wide array of investors. Non-profits might be deeper on community impact and innovation, and have access to grants and public subsidies. Both capacities have to be combined in a successful impact investing approach.
- *Access to available land or apartment complexes* – Every unit of affordable housing we create or preserve starts with securing either bare land, or an existing apartment complex. In a competitive real estate market like Missoula, the acquisition advantage goes to developers who are positioned to learn about and acquire these deals. A model such as Portland’s PAHPT illustrates the possibility for the community to work together with some level of shared “intel” on promising land or properties.
- *Financial efficiency and scale* – Impact investing structures have to “pencil out” and pay acceptable financial returns in order to attract a loyal pool of investors. It is

important to work with for- and non-profit developers who can achieve financial efficiencies and work at the scale that makes investor financial returns possible.

- *Innovation to address racial equity and income disparities* – Rent rates alone no longer define affordable housing, which is a tangled situation involving both racial and income disparities in our community. All of our efforts need concrete outreach, services and innovations addressing race and income disparities. These capacities are already present in Missoula, and can be supported and moved forward with impact investment.

Conclusion and summary

Missoula has a rich affordable housing ecosystem of for- and non-profit developers, bankers, investors, intermediaries and foundations. Within this ecosystem, some impact investing is already happening, on a limited but promising scale. Missoula's informal impact investing network expressed continued interest in the work, and the meeting we hosted to explain one possible new investing model was well-attended and received. Looking outside the region, an initiative in Portland shows the importance of leveraging the skills and connections of our for-profit players as part of the impact investing equation. Ultimately, however, Missoula needs both its for- and non-profit developers, lending institutions, investors and intermediaries if it is to combine all the critical capacities needed for sustained impact investing in affordable housing.