Investing for Impact: Lessons from MacArthur Foundation's Window of Opportunity Initiative

Final Report

July 2020

Submitted To:
MacArthur Foundation
Attn: Joanna Cohen,
Senior Evaluation Officer
Office of Evaluation
jcohen@macfound.org

Submitted By:
Abt Associates
Kimberly Burnett
Jeff Lubell
10 Fawcett Street, Suite 5
Cambridge, MA 02138-1168

In Partnership With:
VIVA Consulting
Laurie Gould

Exhibits

Case Studies

Executive Summary

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 one such effort. MacArthur sought to support the growth and sustainability of a group of nonprofit affordable housing developers through program-related investments (PRIs)[1] that provided long-term flexible equity-like capital. This report summarizes the results of Abt Associates' evaluation of this initiative. Among other conclusions, 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 availability of affordable rental housing in the United States in general and expiring rent restrictions in federally subsidized rental housing in particular, MacArthur initiated what eventually became known as the Window of Opportunity (WOO) Initiative. Through a series of grants and loans that ultimately totaled $187

[1] A PRI is a below-market interest rate loan made by a foundation primarily to further its charitable purposes, not to produce income. 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." (See Mintz and Ziegler, 2013 for a detailed discussion of 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."

million, MacArthur sought to help preserve affordable rental units nationwide and to raise the profile of affordable rental housing as an essential part of a balanced national housing policy.

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.

MacArthur intended these PRIs to strengthen the financial and organizational capacity of the recipients to engage in affordable housing preservation efforts. The Foundation made these investments 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. 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.[2] 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%).

Key findings

In 2018, 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. The Abt-VIVA evaluation complements a previous study conducted by the RAND Corporation, in partnership with the University of Southern California's Lusk Center for Real Estate, which evaluated the WOO Initiative more broadly.

Over the course of 18 months, the Abt-VIVA team conducted interviews and collected financial and administrative data from 17 PRI recipients (the WOO borrowers)[3] and a comparison group of 13 non-recipient developers otherwise similar to the PRI recipients in financial and organizational maturity. The team also interviewed six industry observers familiar with the affordable housing landscape. Based on an analysis of these data sources, the Abt-VIVA team found the following in response to the evaluation questions addressed by the study:

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 aid these borrowers to leverage other sources of funding to further their preservation efforts?

---

2 As of the date of publication of this report, most had been repaid.

3 We did not interview three of the recipients. Two went out of business between their initial receipt of WOO funds and data collection, so we could not contact them. A third was not interviewed because it ultimately opted not to focus on preservation activities and prepaid the PRI to MacArthur.

WOO borrowers reported that the MacArthur PRIs facilitated greater attention to rental housing preservation and enabled them to pursue a much larger amount of preservation activity than they would otherwise have been able to conduct. As a group, WOO developer borrowers report preserving 50,703 affordable rental housing units to date during the term of their PRIs. Borrowers emphasized that the flexible nature of the loan they received from MacArthur enabled them to expand and formalize their preservation activities in a manner that would otherwise have been unavailable to them. For example, the availability of equity-like capital through the PRI allowed them to act quickly to purchase a property, even before they had lined up permanent financing sources for its preservation, which helped them compete against private-sector actors for acquisitions.

WOO borrowers have accessed more than $5.6 billion in other non-PRI funding in the 485 preservation transactions they completed during the terms of their PRIs. This represents a substantial leverage of the Foundation's $42.25 million investment. These funds were primarily mortgage debt and LIHTC equity, but also include public soft loans and other financing.

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

WOO borrowers reported using MacArthur PRIs to make major capital and staff capacity upgrades that materially improved their ability to engage in preservation activities. All borrowers received PRIs for bridge and acquisition financing; some also received PRIs specifically designated for working capital. Borrowers who received PRIs for working capital activities described using the PRIs to hire staff, upgrade IT systems, and—in one case—open an office wholly dedicated to preservation work. More generally, WOO developers—including those who received only PRIs designated for pre-acquisition and bridge financing—reported that participating in the WOO Initiative increased the sophistication of their approach to preservation by allowing them to engage in transactions that afforded their staff experience they might not otherwise have had. This, along with the pace of organizational growth developers were experiencing, contributed to a virtuous cycle that also helped developers attract more qualified staff. WOO borrowers perceived their ability to develop staff experience in-house through work completed using the PRI, and to attract better staff, as an enduring benefit likely to continue even after repayment of the PRIs.

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?

All but one of the group of large nonprofit affordable housing developers we interviewed as a comparison to the WOO developer borrowers reported that they had achieved access to entity-level capital during the study period. Sources for this capital included below-market loans and grants from other foundations, harvesting financial benefits from existing portfolios, bank financing, membership organizations, and government sources.

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?

WOO borrowers are emerging from their loan terms—which included the Great Recession—in much stronger financial positions than when they entered them. In addition to holding larger property portfolios than they did at the beginning of their loan terms, PRI recipients showed improvement in measures of net worth and liquidity (the current ratio and months of unrestricted cash). Revenues, total assets, and net assets all grew at a steady clip during this period, which was marked by significant tumult across the affordable rental housing industry and indeed across the economy writ large. As of this writing, WOO borrowers' portfolios have grown at a compounded annual growth rate of 7 percent per year; total assets have grown 12 percent per year, and net assets have grown 16 percent per year.

As another indication of growing financial strength, the WOO borrowers' sources of revenue indicated increasing self-reliance. Over the course of the term of their PRI, developer fees, property portfolio revenue, and interest/investment income all increased as a share of total revenue. Contributions/donations as a share of revenue decreased. With less reliance on contributions and donations, it appears that WOO borrowers are becoming better able to generate earned revenues needed to sustain their operations.

In contrast to the 13 developer borrowers who made up our comparison group, WOO borrowers showed slightly higher rates of annualized growth in revenues and substantially higher rates of annualized growth in total assets and net assets. While we do not know for sure why the WOO borrowers' assets grew much more than the comparison group members, one potential explanation is that the WOO borrowers received access to equity-like capital earlier in the study period than the comparison group as a result of the MacArthur PRIs.[4]

The greater financial strength and larger balance sheets of the WOO borrowers mean that, as a group, they were more "bankable" at the end of the study period—meaning they have greater ability to access capital now than they did prior to receiving the Initiative's funds.

The PRIs have also performed well. Only one WOO borrower failed to fully repay the PRI; all other WOO borrowers are either making payments as scheduled and are on track for timely, full repayment, or have already repaid the PRI as agreed.

The WOO Initiative also demonstrated—at a time when it was not yet clear that this was the case—that entity-level investments could facilitate significant affordable housing preservation and development. These efforts appear to have paved the way for other similar investments by other funders—which has made equity-like capital available to a wider range of nonprofit developers—and stimulated the WOO borrowers and other nonprofit developers to seek out other forms of equity and equity-like capital to expand their ability to preserve and produce affordable housing.

[4] Most of the PRIs were still outstanding by the end of 2018, so only three of the borrowers had repaid their PRIs by this date. Because of this timing, we were unable to study in detail the ability of PRI borrowers to sustain their financial position after repayment of the PRIs to MacArthur. Two of the three organizations were in a strong financial position following repayment and one was in an acceptable financial position.

1. Introduction

For many years, federal rental subsidies designed to preserve affordable housing have for the most part been time-limited, leading 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, due to rising rents and land prices, coupled with flat or declining rental assistance from the federal government and an insufficiently robust policy response from all levels of government, affordable rental housing was out of financial reach for a large and growing number of low-income Americans.[5] This evaluation considers the influence of a unique response to this set of conditions.

Window of Opportunity Initiative

In 2000, in response to widely shared concerns over the availability of affordable rental housing generally and expiring rent restrictions in federally subsidized rental housing in particular, the John D. and Catherine T. MacArthur Foundation (MacArthur) launched a major effort to help preserve affordable rental units nationwide and to raise the profile of affordable rental housing as an essential part of a balanced national housing policy. That effort—dubbed the Window of Opportunity (WOO) Initiative—and the mechanisms by which it advanced towards the goals MacArthur set for it, is the subject of this report.

WOO began as a package of grants and loans[6] to nonprofit affordable housing developers and certain special-purpose financial vehicles. These resources were intended to work synergistically with strategic investments in supports for the field (described in Chapter 4). Together, the investments were intended to improve the financial capacity of their recipients and thereby contribute to the preservation of 100,000 units of affordable rental housing by 2013.

In 2007, the MacArthur investment in WOO grew to $150 million. In conjunction with that increase in investment, the foundation revised its housing goal for the Initiative from 100,000 affordable units preserved by 2013 to 300,000 units preserved by 2020. The preserved units would reflect efforts on the part of a number of organizations in addition to nonprofit affordable housing developers, including community development financial institutions (CDFIs), special purpose vehicles, and added state and local governments to the Initiative. The state and local component included provisions for both impact investments and grants to support collaborative policy initiatives. It also expanded the scope of the Initiative's aim to include, among other goals, the catalysis of a federal policy framework likely to achieve the preservation of 1 million affordable rental units by 2020 and the establishment of new federal incentives for the preservation of affordable rental housing.

---

5 *The State of the Nation's Housing, 2018*. The President and Fellows of Harvard College, Joint Center for Housing Studies at Harvard University, 2018.

6 Stasch, Julia, Greg Ratliff, and Debra Schwartz, "Investments in Housing Preservation," Internal MacArthur Foundation memo, September 27, 2001.

Through late 2018—the period covered by this report—MacArthur has invested $187 million towards achieving those goals through WOO (the $37 million invested above the $150 million figure announced in 2007 came mostly in additional awards made between 2007 and 2014).

A 2016 evaluation of the WOO Initiative, conducted by the RAND Corporation in collaboration with the University of Southern California's Lusk Center for Real Estate (USC), found that MacArthur met a majority of its goals for WOO, particularly those related to increased standing of its beneficiaries, including organizational size, sophistication, and experience. [7] While that report examined the general effects of the WOO initiative on preservation outcomes, it did not closely examine the effect of the MacArthur PRIs in boosting the capacity of nonprofit developers to carry out rental preservation activities.

Goals of the Current Evaluation

The present study, conducted by Abt Associates in collaboration with VIVA Consulting, was designed to dig deeper into the *how* and *why* of the WOO Initiative's impact to date in order to inform future efforts to preserve affordable rental housing nationwide. In particular, this study examines one portion of the Initiative: the mechanisms by which $42.25 million of program-related investments (PRIs) MacArthur made in 20 nonprofit developers as part of WOO contributed to the Initiative's overall goals.[8] Thus, this study has a narrower scope than the 2016 evaluation and does not revisit the many topics covered there.

The PRIs that are the principal subject of this study were intended to strengthen the capacity of recipients to engage in affordable housing preservation efforts and were made with low interest rates and long terms. Importantly, they were entity-level loans, meaning that they were unsecured, and the funds were the obligation of a developer, not a specific project. These features meant that borrowers had much greater flexibility for their use of the funds than they would with loans tied to a specific transaction.

Our data sources included qualitative interviews and administrative data provided by WOO developer borrowers. To better understand the impact of the PRIs on the growth and development of the organizations that received them, we also reviewed and analyzed data from 13 nonprofit developers that did not receive WOO loans. The goal was to select a group of organizations as comparable as possible to WOO borrowers in terms of size, activities, and geographic scope.[9] Understanding the

---

7 The RAND Corporation and the University of Southern California's Lusk Center for Real Estate. *Preservation of Affordable Rental Housing: Evaluation of the MacArthur Foundation's Window of Opportunity Initiative*. Heather L. Schwartz, Raphael W. Bostic, Richard K. Green, Vincent J. Reina, Lois M. Davis, and Catherine H. Augustine. 2016.

8 The RAND/USC report indicates "a combined total of $60 million in the form of loans and grants to a total of 30 nonprofit developers/owners over the course of WOO" (p. 34). Our analysis focuses on only the 20 organizations that received loans; removing the grant funds and grantee-only organizations from that "combined total" brings us to the $42.25 million discussed here.

9 Ideally, we would have selected these organizations based on their characteristics in 2001. Lacking that data, we selected comparators based on their characteristics in 2018.

growth and development of WOO non-recipients during a comparable period provides a context for evaluating the trajectory of organizations that did receive loans.

With our data collection and analysis, we sought to address four evaluation 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 aid 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 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?*
4. *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?*

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

Overview of the Report

The remainder of this report is laid out as follows:

- Chapter 2 describes the PRI design and award process to provide context for the results;
- Chapter 3 describes the data sources we used in our data collection and the limitations of this evaluation;
- Chapter 4 reports our findings on evaluation questions 1 through 3;
- Chapter 5 reports our findings on evaluation question 4; and
- Chapter 6 concludes.

2. Making PRIs Through WOO

Early in its design process for the WOO Initiative, MacArthur identified entity-level capital as an important tactical component of its overall strategic effort to preserve affordable rental housing. In a 2001 strategy memo, MacArthur observed that "to responsibly and effectively take on the capital-intensive and challenging work of housing preservation, even large nonprofit organizations with strong track records are likely to need initial 'seed' funding to build the necessary business plans, staffing, management infrastructure, and base of 'risk' capital."[10]

In particular, MacArthur identified a need among nonprofit developers for long-term, entity-level, low interest rate capital. At the time the initiative launched, in 2002, 10-year Treasury bonds had an average yield of between 4 and 5 percent, significantly higher than the 1 to 2 percent interest rate offered by MacArthur through the PRIs. MacArthur intended this capital, available to the entity generally, for approved activities, without the burden of deal-specific underwriting for each advance of funds, to enable the nonprofit borrowers to act with agility and flexibility in response to opportunities in the market.

To help meet these needs, the Foundation committed $42.25 million towards a series of PRIs to 20 nonprofit housing developers. The Foundation intended the PRIs to serve two specific purposes: some were for organizational working capital, intended to expand and strengthen operations of borrowers; and others were for pre-acquisition/bridge capital, to be used in the process of acquiring at-risk properties prior to the developers obtaining permanent financing. All borrowers received PRIs designated for pre-acquisition/bridge capital; six borrowers also received PRIs for working capital.

Lending

MacArthur made PRIs to developer borrowers through WOO in three phases between February 2001 and December 2009, with more than half of loans by dollar value ($24.6 million) awarded between 2006 and 2008.

- ***Phase 1.*** Four organizations received PRIs early in the development phase of the WOO Initiative (2001-2002).
- ***Phase 2.*** MacArthur selected most of the 20 final recipient organizations from a pool of 55 respondents to its 2002 Request for Qualifications.[11] The Foundation assessed respondents against a pre-determined scoring grid. Among other criteria, that grid included standards related to the degree to which affordable rental housing preservation was already a focus of the organization, the reputation and capacity of the organization's senior leadership with respect to preservation, and the credibility of a clear commitment to preserving a large number of affordable units over the term of the proposed loans. With few exceptions, to

[10] John D. and Catherine T. MacArthur Foundation, "Capacity and Capital for Housing Preservation," August 2001. Revised.

[11] Some of these organizations received capacity-building grants prior to receiving PRIs.

qualify for consideration, nonprofits had to be working across a broad geographic area, have a rental housing portfolio of at least 1,000 units, and have both experience with preservation and the intention to preserve at least 2,000 affordable rental housing units during the following five years.[12]

- ***Phase 3.*** MacArthur made the third phase of PRI awards between 2005 and 2009 against the same standards, typically to organizations that had initially applied for PRIs in Phase 2 but had been awarded capacity-building grants instead and had since demonstrated measurable progress. Two developers received a second PRI award during this period, for a total of 22 awards to 20 recipients.

Disbursing

Once awarded, the Foundation typically disbursed PRIs to recipients in several installments, both to reduce risk for MacArthur and to ensure—on the basis of activity during the first year of fund receipt—that developers could effectively deploy the capital they received. Later disbursements was typically contingent on progress against pre-determined performance standards, including (among other criteria) reaching an initial target of affordable rental units preserved.

Repaying

As of this writing, all 22 PRIs but one are current or have been repaid in full. The Foundation has had a loss on only one loan, to a developer that ultimately ceased operations, in the amount of approximately $1 million (Exhibit 1). Most of the remaining 21 PRIs were repaid relatively recently, as scheduled. Five organizations still have outstanding PRIs (four of these PRIs have repayment dates in 2020). Ten borrowers repaid the last of their MacArthur funds in the last two years (late 2017 through 2018), as scheduled; another six had repayments dates scheduled from 2011 through 2016. Despite the write-off, as of the end of 2018, the annual rate of return from the PRIs to the MacArthur Foundation was still positive (0.81%).

Loan Amount and Geographic Distribution

The MacArthur PRIs carried interest rates of 1 to 2 percent, usually for terms of 10 years. The long duration of the PRIs was designed to give developers time to revolve the funds, allowing them to be used for multiple preservation projects.

All told, recipients received a combined $42.25 million in PRIs, with an average amount per organization of $2.1 million. (Two organizations, The Community Builders (TCB) and Preservation of Affordable Housing (POAH), received two awards each.) By design, the awardees were geographically distributed throughout the United States. They are headquartered in 11 different states and the District of Columbia, although many operate in multiple states. A summary of the PRIs made is in Exhibit 1.

[12] John D. and Catherine T. MacArthur Foundation, "Regional Housing Leaders: Request for Qualifications," June 2002.

Exhibit 1. 22 WOO PRIs to 20 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)[13]	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

[13] CSA is no longer in operation.

Developer	Headquarters State	Amount of PRI	Purpose of PRI	Dates of PRI (Funding to Maturity)	PRI Repaid?	Units Preserved during PRI
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[14]	Bridge and predevelopment capital	2004-2015	Yes	Not available
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**

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

3. Data Sources

To better understand the outcomes of the PRIs, in early 2019 our study team collected administrative and interview data from three groups: (1) nonprofit affordable housing developers that received WOO PRIs; (2) a comparison group of nonprofit affordable housing developers that did *not* receive WOO PRIs but were otherwise generally similar to PRI recipients in terms of size, activities, and geographic scope; and (3) industry observers selected for their capacity to reflect upon and refine our understanding of the mechanisms observed in the other two groups. Exhibit 2 summarizes these groups and our data collection methods.

Exhibit 2. Data Collection Methods, by Group

	Collected Administrative Data	Collected Interview Data
WOO Developer Recipients (*n*=17)	X	X
Comparison Group of Non-Recipient Developers (*n*=13)	X	X
Industry Observers (*n*=6)		X

WOO Developer Recipients

We interviewed representatives of 17 of the 20 developers that received PRIs as part of the WOO Initiative. In each organization, we interviewed the individual or team of individuals who had held the greatest responsibility for deploying the PRI and implementing the organization's preservation strategy over the course of the loan. The interviewee was typically the Chief Executive Officer (CEO). In organizations with a relatively new CEO, we included at least one person in the interview who had been involved with the PRI throughout its history, such as the Chief Financial Officer (CFO), Chief Operations Officer (COO), or Director of Real Estate Development. In one organization in which the entire current executive team is fairly new, the previous CEO (who had served during the entire course of the loan term) provided her perspective in an interview.

One PRI recipient, Community Services of Arizona, went out of business between its initial receipt of WOO funds and data collection, so we could not contact them. Another, the San Antonio Alternative Housing Corporation restructured significantly and replaced its leadership team, so we also could not contact anyone there who was familiar with the PRI. A brief case study of each of these borrowers is provided in Appendix D.[15] One additional organization, Phipps Houses/Homes for New Yorkers, was not interviewed because it ultimately opted not to focus on preservation activities and prepaid the PRI to MacArthur.

The financial and other quantitative data we collected from WOO developer borrowers is described in detail in Chapter 5, under "Analysis Methodology."

[15] The San Antonio Alternative Housing Corporation repaid its loan in full. The PRI to Community Services of Arizona is the only loss to the WOO Initiative, in the amount of $1,072,030.27. (Source: email correspondence with Allison Clark, August 29, 2019.)

Comparison Group of Non-Recipient Developers

Much of the administrative data we analyzed from the 13 non-WOO developers were originally collected for a study completed in 2017.[16] That study analyzed data collected from 16 member organizations of Strength Matters®, a collaborative of three national networks of nonprofit owners and developers in the affordable housing field: Housing Partnership Network (HPN), NeighborWorks America (NWA), and Stewards of Affordable Housing for the Future (SAHF).[17,18] Strength Matters is an information resource for nonprofit housing enterprises, intended to improve their financial strength and gain greater access to capital.[19] The 2017 study collected information about the number of units in its participants' portfolios, details of organization staff size, and financial statements from a period running from 2006 to 2016.

Of the 16 participants in the Strength Matters study, we included data on only the nine organizations whose 2019 portfolios of owned or controlled properties included 2,000 units or more who were not WOO PRI borrowers. In general, the minimum portfolio size to qualify for a WOO PRI was 1,000 units, so these nine organizations were most similar to WOO borrowers in portfolio size. We also recruited four organizations of similar size not included in that earlier study and asked them to provide data in its same format.

In some sense, these developers are not a true comparison group, but instead represent a "best case" comparison. If we had selected a comparison group of developers in 2001, when the WOO Initiative was making its first PRIs to developers, instead of in 2019, we almost certainly would have selected a different group. Some of our conceptual group of 2001 developers might have failed by now or shrunk in size. Our comparison group includes only organizations that survived the economic volatility of the last 18 years. Regardless, the comparison group provides a sense of how other sophisticated and largely successful developers grew and developed over this period.

We were able to interview 12 of these 13 organizations to inform this analysis, and we collected at least some data from all 13. The developers comprising the comparison group are listed in Appendix A.

Industry Observers

We interviewed industry stakeholders[20] in order to contextualize and inform our analysis of the broader landscape of affordable rental housing preservation during the period under study. Through these interviews, we sought to understand two factors: (i) the extent to which larger nonprofit

---

16 Vasys, Mary White, Chelsea Maupin, and Laura Vennard. 2017. "Celebrating Ten Years of Strength Matters: Strength Does Matter!" *StrengthMatters.net*, September 17.

17 Of the 16 participants in the Strength Matters® study, three were recipients of WOO PRIs. Of the remaining 13 SM participants, nine were used as part of the comparison group for the present evaluation.

18 The WOO Initiative provided grant funding to all three of these organizations.

19 Strength Matters® website: https://strengthmatters.net/about-us/mission/

20 Industry stakeholders included representatives of NeighborWorks America, Wells Fargo, Housing Partnership Network, and Stewards of Affordable Housing for the Future.

borrowers that were not participants in WOO nonetheless had access to entity-level capital from philanthropic or other sources, and (ii) the capacity of nonprofit affordable housing developers to deploy additional entity-level capital for housing preservation. We also discussed our initial findings from our interviews with WOO recipients with them, to gain their perceptions of the mechanisms at play for recipients over the course of the study period.

Limitations of the Study

Like the broader RAND/USC study that preceded our effort, we can make definite claims only about *what* transpired for WOO borrowers and non-borrowers during the period after which MacArthur made its PRIs. Our analysis that considers *why* certain differences between the groups manifested during that period, although well-informed and grounded in a thorough examination of the best available data on the subject, is necessarily somewhat speculative. Affordable housing preservation is complex, occasionally opaque, and highly multivariate. Although the comparison group effectively allows us to consider 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 here.

4. Findings: Evaluation Questions 1-3

As outlined in the Introduction, our evaluation examined four evaluation questions. One will be discussed in chapter 5; three we discuss in this chapter. They are:

Evaluation Question 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 aid these borrowers to leverage other sources of funding to further their preservation efforts?*

Evaluation Question 2: *Did access to entity-level financing influence borrowers' organizational capacity?*

Evaluation Question 3: *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?*

Certain themes cut across our investigations of all three questions, and therefore merit brief summary here. Most importantly, every WOO borrower we interviewed for this study described the MacArthur PRIs as transformative for their organization. Although their experiences with the PRIs in particular and during the period of the loan in general 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 resilience, facilitating greater ability and willingness to take risks.

To reduce the likelihood that readers will be able to identify specific borrowers from the financial information provided, we represent borrowers by letter (A-P) throughout chapters 4 and 5. Some information is missing for some developers; exhibits include all organizations for which information is available.

The remainder of this chapter presents our findings with respect to Evaluation Questions 1, 2, and 3.

Evaluation Question 1: WOO PRI Influence on Expanding Preservation Activities

In this section, we examine how WOO developer borrowers deployed the MacArthur funds they received and what they accomplished during the term of their PRI. We begin by considering how WOO borrowers have used the PRI, both on a deal-by-deal basis and in their longer-term efforts to accumulate capital from sources other than the WOO Initiative. We also examine the use of WOO PRIs to leverage other sources on a deal-by-deal basis. We conclude the section with a count of total units preserved by WOO borrowers during the term of their PRIs.

WOO Borrowers Have Used PRIs Primarily as Revolving Funds

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

Though the PRIs provided entity-level capital, MacArthur extended 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. In addition, six borrowers received PRIs specifically as working capital. All but one 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). In contrast to the more common transactional acquisition/predevelopment deployment, where repayment funds were provided by permanent project financing, PRI fund repayment in these quasi-equity cases derived from other capital sources. These included cash flow from the overall portfolio or equity harvested from other refinanced properties.

The one borrower that did not describe using its PRI for transactional purposes at all requested funds specifically for working capital, to open an office and launch preservation activities in an adjacent community with significant housing needs. That borrower used the loan funds to pay for the staffing and start-up costs of that new office. Eventually, the organization acquired a portfolio of more than 1,000 units in the target city using funds other than the PRI, attained financial self-sufficiency for its properties in that community, and repaid the PRI.

Several other borrowers also had PRIs designated for organizational working capital, especially in the earlier years of the Initiative. They described the PRI as a critical resource at pivotal points in their development, during the early years of launching a new venture or during the 2008 financial crisis when capital was unavailable (or both, as was the case for most of the borrowers interviewed). Most of them transitioned the funds to transactional uses over time.

Effect of PRIs on WOO Borrowers' Ability to Engage in Preservation Activities

Most borrowers reported that the WOO funds directly enabled them to expand their preservation portfolios. Seven WOO borrowers have significantly expanded their preservation activity as a direct result of receiving the MacArthur funds. Prior preservation experience was a prerequisite for receiving a MacArthur PRI through the WOO Initiative, but these organizations had previously focused primarily on creating new affordable housing developments (rather than acquiring or preserving existing ones). Though the organizations all continued their new housing development activities, after receiving their PRI they each began focusing more specifically on preservation, 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. In all cases, adding a focus on preservation facilitated greater business diversity (and thus resilience).

Eight other borrowers already included preservation as either an important or an exclusive focus of their business at the time they received the MacArthur funds. They reported that receipt of 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 build acquisition- and rehab-related skills.

As discussed in more detail below, the two remaining WOO borrowers used the MacArthur funds primarily to finance preservation of properties in their portfolio.

As noted above, we also examined data from 13 comparison developers. For the most part, the comparison group did not have the same specific focus on rental housing preservation as the WOO borrowers.[21] 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.

The WOO funds appear to have facilitated greater attention to rental housing preservation among WOO borrowers. Two WOO borrowers focus specifically on preservation, but most WOO borrowers have continued to engage in new construction as well, focusing on one strategy or the other in response to market conditions.

Flexibility, Low Interest Rates, and Long Loan Terms were Helpful Features of the PRI

Borrowers cited several helpful features of the WOO Initiative's PRIs that facilitated the results they were able to achieve. Understanding these features could guide other funders in thinking about how to most usefully structure entity-level financing for nonprofit affordable housing developers.

---

[21] One comparison group member has developed a team focused on property rehab/refinance. Though these activities do meet the definition of "preservation" in this study, WOO borrowers that built preservation capacity were focused to a greater extent on building the capacity to acquire properties from third parties, rather than on the refinance and rehab of properties already owned.

Thirteen mentioned the funds' flexibility. One interviewee appreciatively described the PRIs as "go-anywhere money, as long as it was tied to preservation." Borrowers were grateful that they could deploy the funds quickly and without needing approval for specific projects: it gave them agility and flexibility to use their creativity, judgement and act upon timely opportunities that arose. Though predevelopment and acquisition loans are available elsewhere, those are more frequently tied to specific projects, requiring underwriting and more elaborate approvals, which reduces their timeliness and limits the developers in using the funds creatively. That they can deploy WOO funds based on broad mission criteria and their own judgement made it possible for these borrowers to move nimbly to acquire projects even in a competitive marketplace.

Ten mentioned the low interest rate. Especially for buy-and-hold / bridge financing approaches, the low interest rate lets WOO developers keep their carrying costs—and by extension, their overall project costs—in check. The low rate also limits the risk of this strategy to the developers, which ultimately must cover a project's carrying costs should it fail to obtain permanent financing. One WOO borrower reported that it re-loaned the PRI to projects with an interest rate spread, further diversifying its sources of revenue. Many borrowers mentioned that though they have found replacement financing for predevelopment and acquisitions, they regretted its relatively higher interest rates.

Six expressed appreciation for the long loan term. The 10-years-plus time horizon has given 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. Most subsequent PRI and predevelopment loan financing obtained by the organizations, even when not limited to discrete projects, has a shorter time horizon (often just three to five years). These shorter terms require significantly more juggling of projects and repayment plans.

Borrowers appreciated the relatively light reporting requirements. Several borrowers mentioned with appreciation that the reporting requirements of the MacArthur WOO loans were not burdensome, further reducing the overall cost to the borrowers.[22]

WOO Borrowers Have Used Different Approaches to Strengthen Preservation Lines of Business

Most WOO borrowers reported using the PRI to purchase preservation properties from third parties. These borrowers said that the most powerful impact of the PRI was the ability it gave them to secure properties quickly and to hold properties for some period of time while they sought permanent financing. As intended, the long duration, flexibility, and low cost of the PRI loans enabled the borrowers to take risks on properties before securing firm commitments for permanent financing. Borrowers generally described this as a "buy and hold" approach, although as the funds were used on a revolving basis, the holding period was intended to extend only until permanent financing could be secured. Thus, the funds functioned more like bridge financing.

[22] WOO borrowers submitted financial statements to the MacArthur Foundation annually, as well as semi-annual and annual narrative reports on the use of the PRI.

This ability to use funds like bridge financing is a powerful tool in the preservation toolbox: it means that nonprofit developers can compete with private-sector firms to acquire existing properties in need of preservation and take risks on securing real estate before all the details are worked through. Each of the WOO borrower executives interviewed described this method as a key feature of their current preservation strategy—the tactic that enables them to compete and ultimately to succeed even with very difficult and challenging prospects. One CEO referred to the funds as "capital to wait out a fight," offering the example of a property that needed to undergo a controversial zoning change to convert a failed condo development to affordable rental housing.

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

Several other interviewees identified the importance of the PRI in carrying preservation projects and the sponsor/developer organizations themselves through long periods of uncertainty with specific troubled assets (for example, when debt and equity markets stalled during the 2008 financial crisis). The long term of the MacArthur money allowed borrowers to persevere in finding financing solutions when otherwise the properties might ultimately have been lost—to the great economic detriment of both residents and sponsors.

Borrowers and industry stakeholders interviewed for the evaluation noted that the ability to take these kinds of risks is critical for competing for and completing challenging real estate transactions in a competitive market. During our interviews, borrowers did not describe any cases where taking these risks backfired. To the extent they experienced problems with particular properties, they held onto the properties until they could find a solution—and almost always did.

As noted above, two borrowers used the MacArthur funds somewhat differently: primarily as gap financing to help preserve properties already in their portfolios, although this use was approved relatively late in the PRI period. These preservation projects resulted in substantial financial benefits, which facilitated the organizations' overall growth and furthered their missions of creating and preserving affordable housing. These financial benefits came in the form of equity cash-outs, developer fees earned on the refinance/rehab projects, and in some cases through taking advantage of other opportunities provided by the local real estate environment (such as the sale of air rights).

PRIs both Created and Catalyzed Capital Accumulation for Recipients

All of the WOO developers we interviewed reported a significant increase in financial strength and stability since receiving the PRI loans. A majority of them credit the MacArthur funds for this growth.

WOO developers reported a number of ways in which the PRIs have contributed to their financial strength. Many CFOs 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 MacArthur PRIs were in some cases the very first money secured for this purpose. For developers that are members of NeighborWorks® America, capital provided by it was another such early (and continuing) source. For some developers, the MacArthur PRIs are still part of this revolving pool; others have replaced the MacArthur funds with PRIs from other foundations, Equity Equivalent (EQ2) loans from banks,[23] lines of credit, and net assets or retained earnings that the organizations have built over time from property cash flow and refinancing. As discussed below, interviews with developers in the comparison group indicated that organizations without direct access to the MacArthur PRI were eventually able to build similar types of revolving acquisition/predevelopment pools, although perhaps later in time than the WOO borrowers.

Many borrower interviewees reported that MacArthur's PRIs offered credibility and gravitas that was enormously helpful in their efforts to raise additional funds. One interviewee described the PRI as equivalent to the Good Housekeeping Seal of Approval. Another said that receiving funds from a foundation of MacArthur's stature makes "other foundations sit up and take notice."

Many of the borrowers described receipt of the MacArthur loans as pivotal in their organization's approach to raising capital. These initial PRIs helped developers set their aims higher, raising both their awareness of and ambitions for attracting entity-level capital in greater amounts.

Some borrowers hired staff to specifically focus on raising equity-like resources. Their efforts include launching patient equity funds (primarily for investment in "naturally occurring affordable housing" projects), capital campaigns, and active pursuit of new PRIs and other entity-level resources.

Other WOO developers used the momentum from the MacArthur PRI to launch large-scale capital-raising initiatives. One developer used $5 million of its own assets to leverage another $45 million from a large commercial bank to assemble a "quick strike" fund for acquisitions. MacArthur funds were not used in this initiative; nevertheless, this CEO described the MacArthur PRI as providing the model that enabled the organization's Board to become comfortable with the risks and opportunities of working at much greater scale.

The MacArthur PRIs were not the only financial boost available to the developers during the past decade and a half. Growth in real estate values in many markets and evolving federal housing policies have enabled many nonprofit affordable housing developers to reap financial benefits from their

[23] The equity equivalent investment product (EQ2) is debt with equity-like characteristics. For banks, making EQ2 investments can be a mechanism for receiving Community Reinvestment Act (CRA) credit. The CRA is a federal law intended to encourage depository institutions to help meet the credit needs of low- and moderate-income neighborhoods.

affordable housing portfolios. Most of the WOO Initiative borrowers have benefited in recent years from the ability to harvest equity from assets in their portfolios that have appreciated in value. These organizations were able to earn developer fees and sometimes to pull equity out of projects—in some cases, many millions of dollars—while enhancing the physical condition of the properties and preserving their affordability for the long term. Organizations have taken advantage of opportunities to harvest equity from their housing portfolios and then deploy that equity to further their missions to develop and preserve affordable housing. Some of these opportunities have arisen because of federal policies that allow the rental subsidies of certain multifamily assisted rental housing to be marked up to market levels, which have risen over time, and because maximum LIHTC rents are tied to the Area Median Incomes (AMIs), which have also risen over time. Other opportunities are attributable to changes in federal policy (for example, easing restrictions to enable owners to more easily refinance their Section 202 portfolio)[24]; or have arisen simply from the length of time the developers have owned the properties, what one CEO called the "echo effect" of long-term ownership.

In some cases, regardless of changes in asset values, developers reported that they would not have been able to refinance properties in their portfolios without funds like those provided by MacArthur. They used the money to do the predevelopment work (for example, cover the costs of architects and attorneys) needed to secure new financing.

Some borrowers reported that access to PRIs prompted a conscious shift towards greater reliance on cash flow from properties (versus developer fees) to fund their staff and other organizational expenses. The majority of borrowers, however, reported that this balance has not materially changed, either because they have always had a focus on cash flow or because they remained comfortable with their reliance on developer fees. That said, most borrowers reported pursuing broader strategies for revenue diversification after receiving the PRI. A common theme of the borrower interviews was that PRIs (and subsequently raised layers of entity-level capital) provided flexibility to take effective advantage of opportunities in the market environment. For example:

- When HUD created programs to enable Section 202 property refinancing, one borrower with a substantial portfolio of senior housing properties used the organizational capital generated through the MacArthur PRI to engage new staff to refinance dozens of these properties at a time, achieving significant efficiency and scale in these transactions.
- At least five borrowers described using their preservation skills to branch for the first time into preserving public housing through the Rental Assistance Demonstration program.[25]
- Borrowers embracing a comprehensive community revitalization mission took advantage of new subsidized financing programs (such as New Markets Tax Credits, Capital Magnet Fund,

---

[24] Through the Section 202 program, HUD provides interest-free capital advances to help expand the supply of affordable housing with supportive services for the elderly. Some Section 202 loan prepayments require HUD consent. In recent years, HUD has loosened the requirements for obtaining this consent, particularly when the owner will address the physical needs of the project as part of the refinance and maintain affordability.

[25] The Rental Assistance Demonstration (RAD) program was initiated in 2012 to convert public housing to private ownership using financial structures including project-based Section 8, debt, and frequently also LIHTC equity.

and Choice Neighborhoods) to finance community amenities such as charter schools and public health centers in the neighborhoods where residents work, simultaneously creating benefits for residents and diversified revenue opportunities for themselves.

A number of borrowers also took advantage of the financial flexibility provided by entity-level finance of one part of their business to free up other capital to build separate mission-driven activities. Though the MacArthur PRI loans were not directly deployed in these ventures, WOO interviewees reported that the PRIs contributed to greater overall organizational liquidity that facilitated pursuit of ventures unrelated to preservation. For example:

- One organization developed a significant health care business, creating skilled nursing facilities and assisted living facilities throughout the country. It believes it could not have grown this part of its organization as effectively if its funds had been tied up in the preservation of its housing portfolio.
- Another organization took advantage of funding streams created in the American Recovery and Reinvestment Act of 2009 (ARRA) to launch a major weatherization training effort, eventually taking on a leading regional role in that function.
- A third organization built on its growing expertise in energy efficiency in its preservation portfolio to launch a solar installation company (funded, in part, with a PRI from a component of the MacArthur Foundation WOO Initiative specifically focused on energy efficiency).

These diversified activities contribute both to the organizations' broader missions and to their financial resilience.

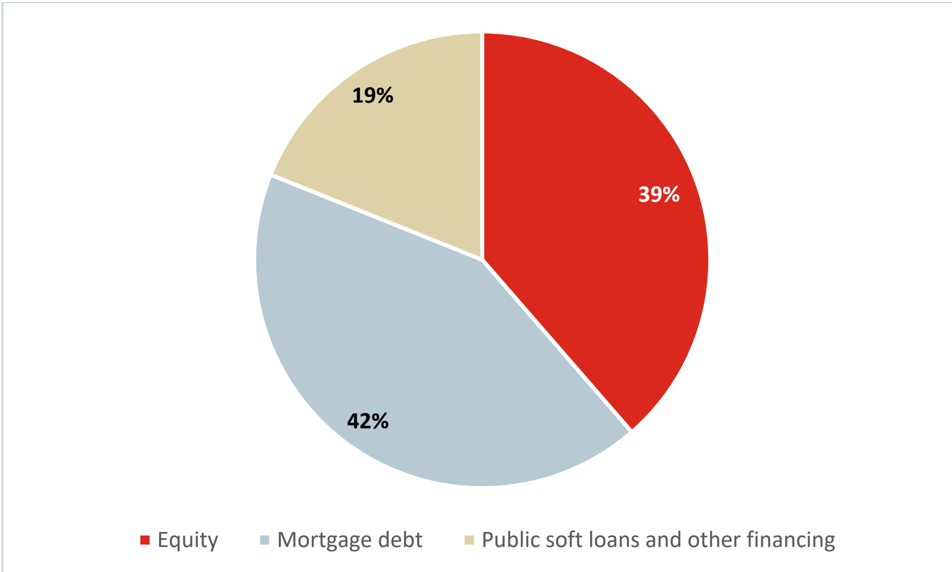
PRIs Leveraged More Than $5.6 Billion in Capital from Other Sources

WOO borrowers reported using a number of sources of capital in addition to WOO funds to preserve units, including LIHTCs, HOME funds, ARRA and 2008 Housing and Economic Recovery Act (HERA) funds, conventional financing, and others. In some cases, WOO borrowers told us that the WOO funds were the essential piece of capital that allowed deals to go forward.

Based on administrative we collected, WOO borrowers reported securing a total of $5.6 billion in third-party funds to support 485 preservation transactions conducted during the terms of their PRIs. This total does not include MacArthur funds. This is roughly $11.6 million in leverage per transaction, and about $110,000 per unit. 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. As shown in Exhibit 3, non-WOO financing was divided among:

- $2,168,225,000 LIHTC equity (39 percent);
- $2,384,814,000 mortgage debt (42 percent); and
- $1,063,526,000 public soft loans and other financing (19 percent).

Exhibit 3. Third-Party Financing for Preservation Deals Conducted by WOO Developer Borrowers



Note: Does not include MacArthur funds.

The nonprofit developers currently retain an ownership interest in 463 of these 485 transactions (95 percent). Some of remaining properties may have been sold because they were no longer a good fit for the developer (in terms of project size or geography, for example). In general, it appears that most if not all of these were transferred or sold to other nonprofits for long-term preservation.

As an example of the use of leverage, one WOO borrower purchased a 120-unit property in 2006. Eighteen of the units were market rate and 102 were affordable to households with incomes at 60 percent of AMI. The purchase price was roughly $4 million, and the developer intended to apply for an allocation of 9 percent LIHTCs and refinance the mortgage.

At this point, the developer hit a snag that could have jeopardized not only the transaction, but the affordability of the building and perhaps even the financial stability of the developer. Among other things, the housing market downturn and resulting financial crisis of 2008 greatly reduced demand for LIHTCs.[26] Without a buyer for the LIHTCs, the developer was forced to—and because of the WOO PRI, had the ability to—postpone the refinancing and hold the property until the LIHTC market improved.

The developer eventually was able to close on the 9 percent LIHTC deal in 2010. The initial temporary $4 million investment, some of it from the WOO PRI, ultimately leveraged a total of $17.6 million in capital. Of this, about $8.9 million was LIHTC equity, $2.8 million was a first mortgage, $0.8 million was sponsor financing, and $5.2 million was other financing (likely city and state gap financing).

---

26 To help loosen the LIHTC market for federally subsidized properties, the MacArthur Foundation partnered with JP Morgan Chase, Mass Mutual, and other financial institutions and contributed to a $100 million Enhanced Tax Credit Fund. The Fund is intended to help improve the flow of capital to Section 8 LIHTC properties. The fund reduces the risk to equity investors that federal contracts might not be renewed (called appropriations risk) by assuming a top loss position of 20 percent.

WOO Developer Borrowers Preserved Nearly 51,000 Units during the Terms of Their PRIs

We have described how PRI recipients used the funds they were awarded. Now we turn to the results of these uses in terms of their impact on the number of units preserved. In total, the WOO developer borrowers that are the focus of this evaluation report preserving almost 51,000 units during the term of their PRIs.

Each of the 17 developer borrowers included in this study provided us with a list of the properties for which they engaged in a preservation transaction (including those in their own portfolio) during the period when their WOO PRI was outstanding. Because MacArthur funds were entity-level and not tied to particular projects, we asked the borrowers to provide details about all preservation transactions completed during this time, whether or not MacArthur funds were directly involved.

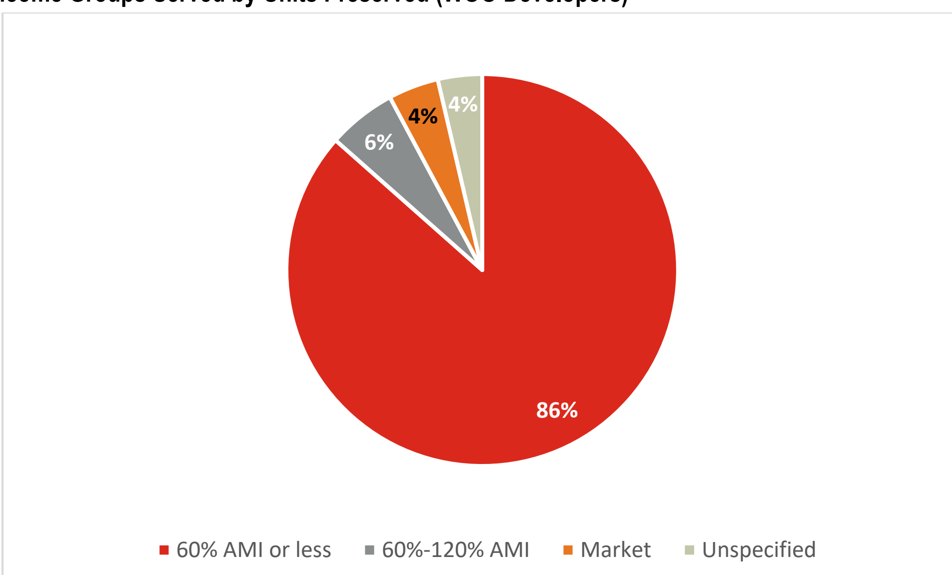
During the periods when their PRI loan was outstanding, the WOO developer borrowers preserved:

- 50,803 units of affordable housing; and
- 507 affordable properties, in 485 transactions.

Of these, 16,007 units in 162 properties involved the preservation of housing the developers already owned. In these cases, preservation involved predevelopment expense, refinance and generally rehabilitation, as well.

As shown in Exhibit 4, fully 86 percent of units 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).

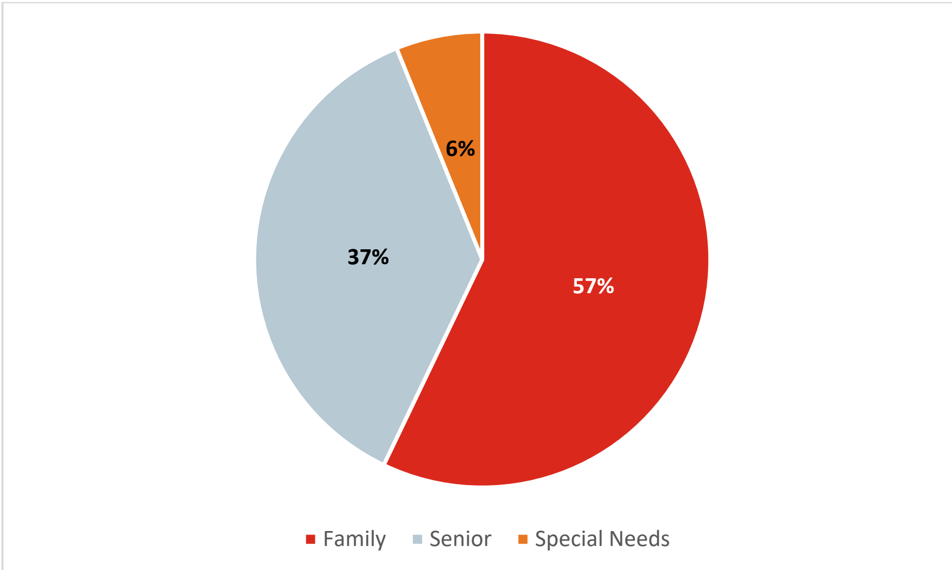
Exhibit 4. Income Groups Served by Units Preserved (WOO Developers)



AMI = Area Median Income

Nearly three in five units (57 percent) were in family projects that served a range of households. Approximately two in five (37 percent) were focused on seniors (Exhibit 5). Some 6 percent of units were in service-supported housing projects for people with special needs, such as formerly homeless individuals or youth, though people with special needs are eligible to live in all of these project types.

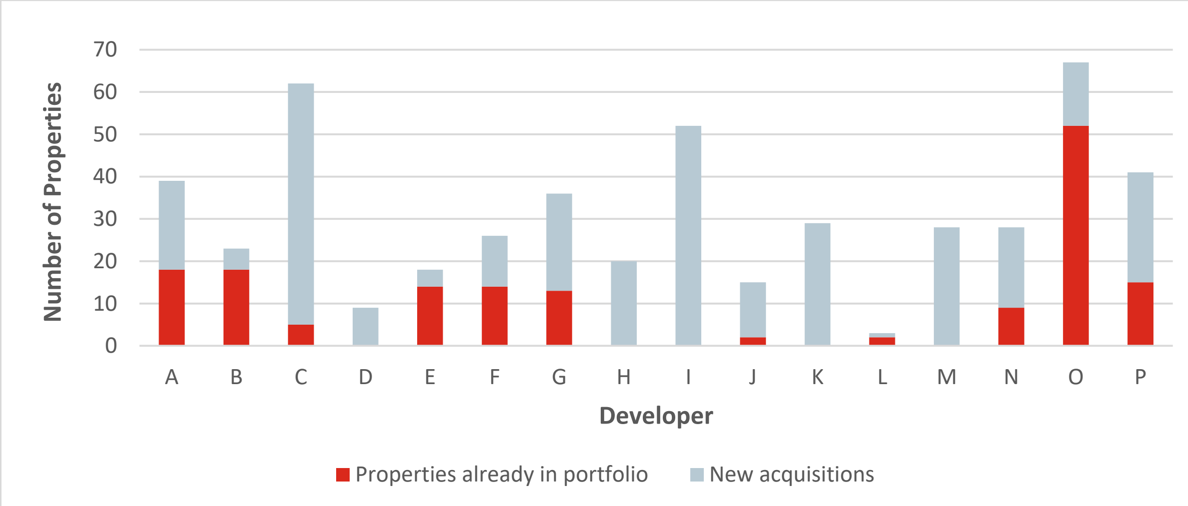
Exhibit 5. Population Groups Served by Units Preserved (WOO Developers)



Organizations differed both in total preservation volume and in their overall strategies regarding acquisition versus internal preservation. As shown in Exhibit 6, five organizations preserved 20 or fewer properties and four preserved more than 40 properties, with the balance falling in between.[27] Five organizations focused primarily on preserving properties in their own portfolio, but this type of activity was reported by six additional organizations, as well.

[27] Developers are referred to by a letter, rather than a name, to preserve confidentiality.

Exhibit 6. Number of Properties Preserved, Owned Portfolio vs. Acquisitions (WOO Developers)[28]



It is worth noting that a few of the borrowers were relatively new ventures and owned very few properties at receipt of their PRI, making the acquisition of properties their only option.

Evaluation Question 2: Changes In WOO Borrowers' Organizational Capacity

In addition to influencing WOO PRI borrowers' preservation activities, MacArthur hoped the PRIs would help build their *organizational capacity*. The foundation saw one of the existing challenges to preservation being that the risks and resources needed to preserve affordable housing properties exceeded the scale of most smaller-scale affordable housing nonprofits.[29] MacArthur saw affordable housing nonprofits as needing the capacity to develop a pipeline, acquire at-risk property, re-develop/strengthen properties; transfer properties to another local nonprofit; permanently recapitalize property, and hold property long-term. In addition to added financial capacity, investments in systems and qualified staff might be needed to skillfully perform these functions.[30] This section describes our findings in this area.

Investments in Staff and Systems

A number of borrowers with working capital PRIs used the PRI to invest in staff to expand their preservation program, hiring staff specifically to identify and pursue opportunities to preserve affordable properties. Others viewed the PRI as impetus to expand preservation expertise through other funding sources. Several interviewees spoke of growing sophistication and formal structure in their decision-making processes in response to their expanding acquisition activity. All borrowers

---

[28] Two of the WOO developer borrowers are related entities. They provided combined portfolio data for both entities, so portfolio data are reported for 16 WOO developer borrowers rather than 17.

[29] John D. and Catherine T. MacArthur Foundation, "Capacity and Capital for Housing Preservation," August 2001.

[30] Ibid.

reported that their sophistication, skills, and systems have evolved as a natural by-product of the growth that was spurred in large part by the PRIs from the WOO Initiative.

One borrower we interviewed also received a capacity-building grant from the MacArthur Foundation prior to receiving a PRI. This recipient deployed those funds for new staff, IT systems, and other capacity investments. Of the 17 WOO developers, 10 specifically mentioned building asset management capacity—the 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. Four of the 17 specifically mentioned investments in staff capacity to increase their portfolio's energy efficiency. WOO borrowers have been leaders in spurring this industry-wide trend. Many borrowers 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 have the connections and the capacity to initiate and pursue an increasingly broad and sophisticated range of new projects.

Influence of PRIs during the Recession

By the end of 2008, all of the borrowers had received at least their initial tranches of loan disbursements from MacArthur. Thus, all of the borrowers had these funds available to them when the worst of the financial crisis hit. The interviewees' accounts of how they weathered the recession, with the benefit of the PRI capital on their balance sheets, are consistent with the bigger picture of how MacArthur borrowers were served by this entity-level finance: this money enabled them both to weather adverse conditions and to take advantage of promising opportunities as they arose.[31]

Many borrowers described running into difficulty when the financial markets froze, and when, for a period, development projects were unable to raise either debt or tax credit equity. The stalled projects meant that organizations relying on developer fees did not have access to that revenue. Some borrowers reported that the PRIs contributed to their liquidity during this period, helping them to avoid layoffs and other adverse organizational impacts.

Other borrowers relied on the PRIs to wait out the crisis for particular projects that were stuck without adequate capital to proceed. For example, they may have used funds for property taxes, basic maintenance, operating costs (when properties were temporarily operating at a loss), and in some cases, acquisition costs. All of these projects did eventually move forward but having the PRI money in hand as patient capital saved both the projects and their sponsors from far more adverse consequences.

The 2008 HERA and 2009 ARRA federal funding packages ultimately created significant new resources for community development. With the PRI in place, plus 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 great financial growth:

---

[31] 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.

- Several borrowers were able to use the newly created Neighborhood Stabilization Program to purchase and rehabilitate significant additions to their portfolios.
- One borrower took advantage of temporarily low real estate prices to secure developable land—land that has since escalated significantly in value. This land has since provided a steady pipeline of opportunities for new construction of affordable housing, which the organization would be far less likely to produce if it had to purchase land at current prices.
- Another borrower took advantage of the energy retrofit funds and other stimulus package resources to such an extent that during 2010 and 2011, in the heart of the recovery, its production rate of housing rehab more than doubled its usual pace.

Evaluation Question 3: Availability and Influence of Entity-Level Financing on the Nonprofit Affordable Housing Development Sector

As described above, the WOO borrowers reported benefitting substantially from the flexible financing provided by the WOO PRIs. But MacArthur was not the only potential source of equity-like capital. In this section, we describe the availability of these other sources of capital to developers that did not receive WOO PRIs, and industry observers' conclusion that the WOO Initiative may have had a demonstration effect in promoting the availability of equity-like capital. We then review how non-WOO borrowers have used the entity-level capital they were able to obtain. Last, we summarize WOO borrowers' thoughts on current challenges to preservation.

Availability of Entity-Level Financing to Nonprofit Affordable Housing Developers

To understand better the extent to which the WOO borrowers may possibly have had access to other sources of entity-level capital in the absence of the WOO Initiative, we interviewed a comparison group of 13 developers. This comparison group did not receive WOO PRIs but were similar to WOO developer borrowers in size, activities, and geographic scope. We asked about their experiences during the period of the Initiative, and in particular about the sources of capital available to them.

All but one comparison group developer we interviewed reported that they had achieved access to entity-level capital during the study period (and this last organization was in the process of initiating an effort to find such funds). Sources for these entity-level pools included:

- **Below-market loans and grants from other foundations.** In some cases, these loans and grants eventually approached the size of the MacArthur PRIs. The largest cumulative WOO PRI to a single organization was $5.5 million, whereas three of the comparison developers reported $5 million grants or very low interest, long-term loans from other foundations or donors.
- **Harvesting financial benefits from existing portfolios.** Like the WOO borrowers, comparison group developers took advantage of opportunities to raise capital from their existing assets. 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.

As with the WOO borrowers, the comparison group developers reported that some of these transactions were highly beneficial in increasing the equity available to them to engage in affordable housing efforts: one reported harvesting $10 million in equity from a single transaction. Two of the developers (both located in very strong real estate markets) used the strength of their assets to self-finance acquisition pools in the $50 million range apiece.

- **Bank financing.** Many comparison group developers arranged access to lines of credit and/or EQ2 financing. These loans tended to be much shorter term than the MacArthur PRIs (two or three years, often renewable), but they were frequently described as having below-market interest rates (1-3 percent).
- **Membership organizations.** Some comparison group developers had equity-like loans or grants from membership organizations.
  - A number of comparison group developers currently have entity-level loans of $1-2 million through the Housing Partnership Fund, a nonprofit lending affiliate of Housing Partnership Network (HPN), that provides capital to HPN members for the development and operation of affordable housing for low- and moderate-income families and individuals. MacArthur provided a PRI that was used to start the fund, as one of the investments made to work synergistically with the PRIs to developers.
  - NeighborWorks America provides capital grants to its member organizations that can be deployed for acquisition and predevelopment. Though these funds were restricted in the past, it has more recently become NeighborWorks America's practice to convert these funds to unrestricted capital for successful member organizations. The two CDFIs that are part of the NeighborWorks network, Community Housing Capital and NeighborWorks Capital, also provide capital to member organizations.[32] But developers we interviewed did not see these CDFIs as being sources of entity-level capital, but rather as deal-specific financing.[33]
- **Government sources.** Federal, state, and municipal governments provided capital to the comparison group developers in numerous ways. For example:

[32] MacArthur also provided a PRI that was used to start this fund.

[33] NeighborWorks Capital does offer one entity-level loan, for new business loans, but none of the developers we interviewed referenced using that capital. Likewise, Community Housing Capital offers a multifamily acquisition line of credit, which is apparently intended to serve a similar function as the PRIs, but the loans are ultimately secured by the real estate, and the terms are limited to 36-48 months.

- One organization secured a large cash settlement through a U.S. Department of Justice program in the aftermath of the housing crisis, obtained from 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.
- The sole comparison group developer that has not yet secured entity-level capital works exclusively in a municipality that has made acquisition and predevelopment financing readily available, in very large increments, to its nonprofit preservation partners. In essence, this municipal pool has served the same role as the entity-level acquisition pools accessed by other developers.

Many WOO recipients also raised capital from the sources listed above. Several WOO borrowers are NeighborWorks America member organizations and thus received capital grants from that organization at various points. Others have successfully sought funds from other foundations and donors, often in amounts that equaled (or even surpassed) their MacArthur funding. Most WOO borrowers, similarly, reported making at least some use of EQ2 loans and lines of credit. Nearly all have taken advantage of existing portfolio strength to harvest equity and cash flow to strengthen their financial position to engage in affordable housing activities.

Timing of Entity-Level Financing to Nonprofit Affordable Housing Developers

Nearly all of the comparison group developers have found access to entity-level capital, but it appears that most achieved this access somewhat later than their WOO counterparts did. One comparison group developer described searching out alternative sources of entity-level capital only after applying to the MacArthur Foundation (unsuccessfully) for a WOO loan.

Two sources of entity capital frequently named by the comparison group developers—the EQ2 programs at USBank and Wells Fargo—were launched after the WOO Initiative. USBank's EQ2 lending program was launched only in the past decade. Wells Fargo's program was launched somewhat earlier than that, during the mid-2000s.[34] Other sources of entity-level capital described above, such as the CDFI Fund's Capital Magnet Fund, also came after the WOO Initiative. Likewise, policies allowing the refinance of Section 202 properties date back only to 2011.

We are aware of only one source of entity-level capital available to nonprofit developers at the same time the WOO Initiative was starting: the Housing Partnership Fund, referenced above. This fund started in 2001 using funds from a WOO Initiative PRI (among other sources).

[34] Wells Fargo's EQ2 loans carry an interest rate of about 2 percent. Loans to developers are for terms of about 5 to 6 years and range from about $200,000 to $1 million and sometimes more. Like the WOO PRIs, loans are intended to be used as revolving funds rather than permanent financing, such as to temporarily cover predevelopment costs. Unlike the WOO PRIs, they can be used for either new construction or preservation projects.

Uses of Entity-Level Financing among Nonprofit Affordable Housing Developers

Comparison group developers used their capital 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. These internal revolving funds were described with similar terminology to that used by their WOO counterparts (for example, the "Quick Strike Fund" or the "Housing Ventures Fund").

Interviewees at the comparison group organizations tended to speak more conservatively about their acquisition strategies than did WOO borrower interviewees. All WOO borrowers talked about using the MacArthur funds, and subsequent additions to their entity-level capital pools, to execute "buy and hold" transactions, in which they would purchase a property in need of preservation before having secured permanent financing commitments to do the necessary work and bring the property into a subsidy program. Many of the WOO borrowers we interviewed explicitly identified the WOO capital as a source for taking on properties and projects with less certain outcomes. Asked about such a buy and hold strategy, interviewees at several of the comparison group developers were more hesitant, saying that they would not consider buying a property unless they had a clear picture of the ultimate permanent financing plan.

On the other hand, it is not necessarily the case that practices on the ground actually differ. The WOO borrowers describing their buy and hold activities spoke of securing and holding properties for three to four years before executing permanent financing transactions. The comparison group interviewees who spoke more hesitantly about buy and hold strategies also described three to four years as an acceptable timeframe for executing a permanent financing transaction. The differences here may be more in language than in practice.

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 others' decisions to make entity-level capital available, developing an infrastructure that helped strengthen the industry as a whole, and helping to change the national discourse about preservation.

In at least one case, the WOO Initiative seems to have had a demonstration effect. 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. For example, the WOO Initiative provided grant support for the research that was used to help advocate for the creation of the Capital Magnet Fund. The WOO PRIs were important examples that informed the new policy. The experience of the WOO Initiative also provided examples that helped NeighborWorks America members advocate for capital grants.

In addition, the WOO Initiative made a series of grants to create and sustain Strength Matters®. As described above, Strength Matters® is a resource for financial learning, intended to improve the financial strength of nonprofit housing enterprises, and help them improve their access to capital. Subscribers have access to publications, webinars, tools, and other resources. This grant was one of many intended to increase capital flowing to nonprofit developers. As an investment in 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 project has helped to increase developers' capacity to manage much larger organizations.

In addition to these influences, several WOO borrowers and industry observers also credited the MacArthur Foundation with bringing a new national focus to the issue of affordable housing preservation. One borrower described the mutually reinforcing enthusiasm for preservation among the PRI awardees and the powerful impact of having the chance to meet with the other WOO participants—an effect described as "the exuberance of it all." Another 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" eight to 10 years ago. Another said, "Nobody measured up to what MacArthur did."

These borrowers, along with industry observers, credit MacArthur's WOO Initiative with raising awareness of preservation as an issue, and they express gratitude for the impact of the funds on their own organization's growth trajectory. Importantly, the borrowers are largely now "bankable," meaning they can obtain financing from conventional lenders. At the same time, they regret that the availability of MacArthur's PRI is winding down. Though all have found alternative means of capitalizing their organizations and their acquisition/predevelopment activities, many have not found debt with costs as low, timeframes as long, or flexibility as comprehensive.

Current Preservation Challenges

WOO borrowers identified the following current challenges to preserving affordable housing:

- **Competition from the private sector to purchase multifamily housing, even with long-term use restrictions in place.** Many interviewees spoke of the presence of private investors who are willing to pay prices for properties, even with long-term use restrictions in place, which the interviewees find bafflingly high. Many borrowers describe being regularly outbid by private-sector competitors; several shared incidents in which they were outbid by as much as 100 percent, when they had considered their own bid to have been highly aggressive. As a result of this overheated market, many of the WOO developer borrowers have curtailed their acquisition activities at least in some of the priciest markets (such as California and New York City).
- **High construction costs, and contractor availability.** High construction costs are a second 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, with the overheated real estate market putting rents out of reach for an increasing number of people and driving up costs to develop or preserve affordable housing (as described above). Even as the supply of subsidy needed to permanently preserve affordable housing has diminished, it is more in demand than ever.

In addition to financing such as the PRIs provided by the WOO Initiative, developers identified other types of financing needed to close an increasing gulf between the cost of acquiring and repairing properties and the permanent resources to do so. Interviewees expressed the desire for additional funding models with similarly low interest rates, long terms, and flexibility. A number of interviewees also spoke of the need for patient equity funds that could serve as mezzanine financing for "naturally occurring affordable housing" (NOAH) acquisitions. The developers' vision is of funding that is truly equity—i.e., capital that creates an ownership stake in a project, is available long-term, has a target rate of return, but does not have a specific window for return of capital.

Ideally this funding could be raised at significantly greater scale and then deployed, like the MacArthur PRIs, with nimbleness and flexibility to acquire properties strategically. In this structure, a property might be financed with a combination of conventional debt and patient equity, and then the cash flow from the property would be used to provide a modest return to the equity investors. Eventually investors' capital might be returned with a refinance, perhaps using LIHTC.

Comparison group developers identified the same set of challenges to preservation that the WOO borrowers did: heightened competition from private-sector buyers, rising construction costs, and lack of public subsidy were the most common responses. Interestingly, comparison group developers' sights were set somewhat lower than those of WOO borrowers. They did not identify the need for mezzanine financing, perhaps because they were not, for the most part, looking to do deals as ambitious as those described by WOO borrowers.

5. Findings: Evaluation Question 4

This chapter responds to Evaluation Question 4: *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?* In it we report on our financial analysis of WOO developer borrowers to identify the relationship (if any) between MacArthur's investment of PRIs and borrowers' productivity, capacity, and financial strength.

Of the 20 nonprofit affordable housing developers that MacArthur selected to receive PRIs, one has gone out of business, one significantly downsized and restructured, and one returned the funds after determining that preservation activities did not fit with its strategic approach. All 17 of the remaining organizations experienced significant growth and increased financial strength over the period during which their PRI was outstanding. By all the measures we examined—property portfolio size, staff size, revenue growth, balance sheet strength, and unrestricted cash—every one of these 17 organizations ended the PRI period in a substantially stronger financial position than at its outset.

This chapter summarizes what we learned about these changes in WOO borrowers from a review of their financial statements and interviews, placed in the context of the performance of the comparison group of non-WOO developers. As discussed below, the comparison organizations also gained in financial strength during the study period, likely aided by equity-like financing structures similar to that of the PRIs from MacArthur. One key difference is that the MacArthur organizations experienced a larger growth in total assets. One possible explanation is that they may have obtained access to equity-like financing, as a result of the WOO PRIs, earlier in the study period than did the comparison group developers.

We first describe the methodology used to conduct the analysis. The next section describes borrowers' portfolio size, balance sheet strength, liquidity, and diversity of revenue sources prior to receiving the PRI. The following section analyzes changes over the PRI term in each of these measures. The section, "Sustainability after the PRIs," analyzes the financial stability of three of the 17 organizations since repaying their PRIs. "Project Financing and Subsidy Dependence" reviews the extent to which WOO developers have been able to reduce their dependence on subsidies, and in particular LIHTC. The remainder of the chapter reports what WOO borrowers described as being the most helpful features of the PRI.

Appendix D includes case studies of two WOO borrowers, Community Services of Arizona and San Antonio Alternative Housing Corporation. Because we were not able to interview staff at these organizations, we drew on WOO Initiative loan documents, quarterly and annual financial reports submitted to the MacArthur Foundation under the terms of the loan, and regularly submitted narrative reports to try to understand the factors driving their demise.

Analysis Methodology

This section describes our approach to analyzing WOO developer borrower performance over the term of their PRIs, and how we analyzed the performance of developers in the comparison group in order to place WOO borrowers' results in context. A discussion on how we handled changes in accounting standards during the term of many borrowers' PRIs, and how that affects our analysis, is in Appendix B.

WOO Developer Borrowers

The Foundation awarded WOO PRIs between 2001 and 2009 to the developer borrowers we analyzed, with the largest share of loans advanced between 2006 and 2008. To understand changes in their financial strength after receiving the PRIs, we requested organizational audits and other descriptive materials from them for three dates:

- The year prior to receipt of their PRI;
- The last year before they fully repaid the PRI (if applicable); and
- The most recent audited year (for most organizations, this was 2017; for organizations with fiscal year-ends other than December 31, it was 2018).

For some of the borrowers, we do not have a complete picture of the relationship between the PRI and financial performance. Five of the PRIs are still outstanding as of this writing; several others were repaid in 2018, which is after the most recent data available for this analysis. Only six borrowers had repaid the entire balance of the PRI before 2017; other borrowers' loans are still outstanding.

We conducted an analysis of each organization's financial statements and then vetted the results with its financial leadership (often the CFO) to ensure we had interpreted them correctly. In evaluating WOO borrowers' financial strength, we considered a number of factors:

- Does the organization have sufficient liquidity (enough cash and short-term resources) available to pay its bills in a timely way?
- Is the organization over-leveraged (has it acquired its assets with excessive debt) or has it built net assets through retained earnings over time?
- How robust are the organization's revenues? Do they come from a single source, or are they diversified enough to provide resilience?

We measured these factors for each organization by several indicators of liquidity (current ratio and number of months of cash), net asset ratios (which indicates the degree of balance sheet strength), and the range of revenue sources. Our findings from this analysis are described in the next sections.

Comparison Group Developers

To provide context for understanding the impact of the MacArthur Foundation's WOO PRIs on the growth and development of the organizations that received them, we also reviewed and analyzed data from the comparison group of similar developers that did *not* receive these loans. Understanding the growth and development of non-WOO recipients during a comparable period provides a context for evaluating the trajectory of organizations that did receive PRIs. Much of the comparison data was originally collected for a study completed by Vasys, *et al.*, in 2017.

Clean and consistent data were available for 12 of the 13 comparison group developers at the "parent organization" level for both 2006 and 2016.[35] Many comparison group developers had not yet begun to prepare consolidated financial statements, so baseline consolidated data was available for fewer comparison group members than WOO borrowers.

Consolidated data include the assets, liabilities, income, and expenses associated with not only wholly owned (or at least majority-owned) properties, but also properties in which the developer has only a controlling interest—even if that ownership interest is as small as 0.01 percent (as is typical with LIHTC properties). Since 2005, GAAP guidelines for financial reporting require consolidated financial statements, but not all organizations always produced them prior to that shift in GAAP rules, and the comparison group developers began to report on a consolidated basis on different dates. (A detailed discussion of this issue is in Appendix B.)

In general, we present parent-level financial data for both WOO borrowers and the comparison group developers below; we have included most of the exhibits with consolidated financial data in Appendix C.

WOO Borrower Profile Prior to PRI

The 17 WOO developer borrowers analyzed for this study had many hallmarks of operational success and financial stability before receiving the PRIs, including growing property portfolios, balance sheets, measures of liquidity, and diverse revenue sources, as described below. This is not surprising: all had to compete for the funds and were chosen in part for their likelihood of success.

A profile of the comparison group is provided to show the degree of similarity with WOO borrowers at "baseline" (the start of the study period). As noted above, for WOO borrowers, this date ranged from 2001 to 2009; for the comparison group, this date was 2006.[36]

Property Portfolios

The developers that received WOO PRIs had, for the most part, already had fairly substantial property portfolios, as shown in Exhibit 7. In general, developers awarded WOO PRIs were required to have a portfolio with a minimum of 1,000 units, although there were two exceptions. Both were relatively recently formed organizations at the time they received the funds: one was new enough to have had no units in its portfolio yet, and the other had only 330 units.

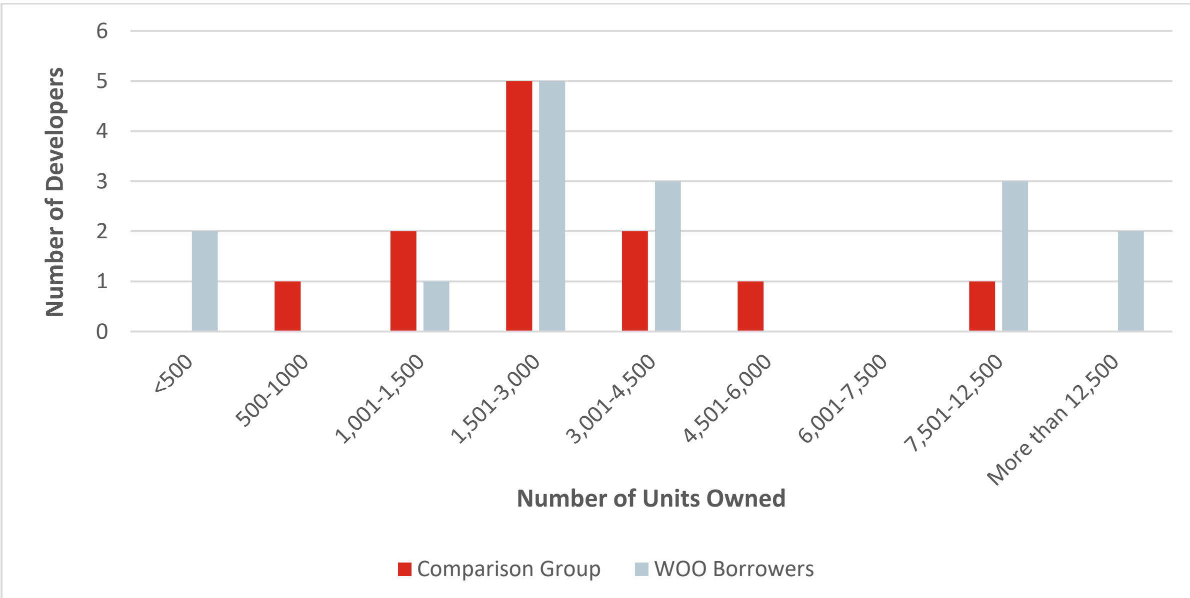
---

[35] Over the 2000's, guidelines for financial reporting changed regarding the inclusion of tax credit properties in a sponsor/developer organization's financial statements. Previously, it had been the practice of most (but not all) housing organizations to include only the assets, liabilities, income, and expenses associated with wholly owned (or at least majority-owned) properties in their financials. Following guidance issued by the Financial Accounting Standards Board) in 2005, many housing organizations began to consolidate into their financial statements both properties in which they had a full ownership interest and those in which they had only a controlling interest.

[36] We selected 2006 as the baseline year for comparison group members because most of those developers had responded to a financial survey conducted for Strength Matters® that covered the period from 2006 through 2016. (Vasys, *et al.*, 2017.)

Though we screened comparison candidates to favor larger organizations, the comparison group developers, on average, held smaller portfolios than the WOO developers. The median WOO borrower portfolio included 2,918 units the year prior to the PRI (4,905 average); the median comparison group member portfolio included 1,840 units (2,792 average). The WOO group included a higher concentration of very large organizations (Exhibit 7).

Exhibit 7. Units Owned per Developer, Baseline



Note: Exhibit includes 12 comparison group borrowers and 16 WOO borrowers for which we have data.

Balance Sheet Strength

Balance sheet strength is indicated using both total assets and the net assets ratio; both are described below.

Total Assets

Total assets include everything with economic value that an organization owns: cash, investments, real estate, receivables. The greater the total assets, the bigger the organization's economic scope: larger organizations have more money and real estate on their books. Total assets are a key indicator of the scale of a developer's operations. Larger scale tends to be associated with greater capacity and a higher degree of professionalism and is often related to the developer's ability to successfully engage in multiple simultaneous transactions and manage a large property portfolio. Developers with greater total assets tend to have better access to capital than developers with fewer total assets.

Comparison group developers were larger than WOO borrowers at baseline, on average. As discussed above, this suggests that they might be expected to outperform the WOO borrowers. Exhibit 8 compares the total assets in each group's "start year" (the year before their PRI for the WOO borrower group, and 2006 for the comparison group). (See also Exhibit C-1 in Appendix C.) The exhibit shows that the comparison group started with about 50 percent more assets than WOO borrowers, on average. WOO borrowers were a more diverse set of organizations than the comparison group in terms of total assets. In particular, unlike the comparison group, the WOO borrower group included two start-up organizations.

Exhibit 8. Total Assets (Parent) at Baseline

	WOO Borrowers[a]	Comparison Group
25th Percentile	$8,781,232	$22,001,367
Average	$30,821,659	$46,025,150
Median	$30,038,069	$39,920,717
75th Percentile	$42,999,421	$54,323,133

[a] Excluding the organization that started with 0 units, the numbers for WOO borrowers are 25th percentile: $10,408,868; average $32,465,281; median $30,142,877; 75th percentile $45,767,211.

Net Assets Ratio

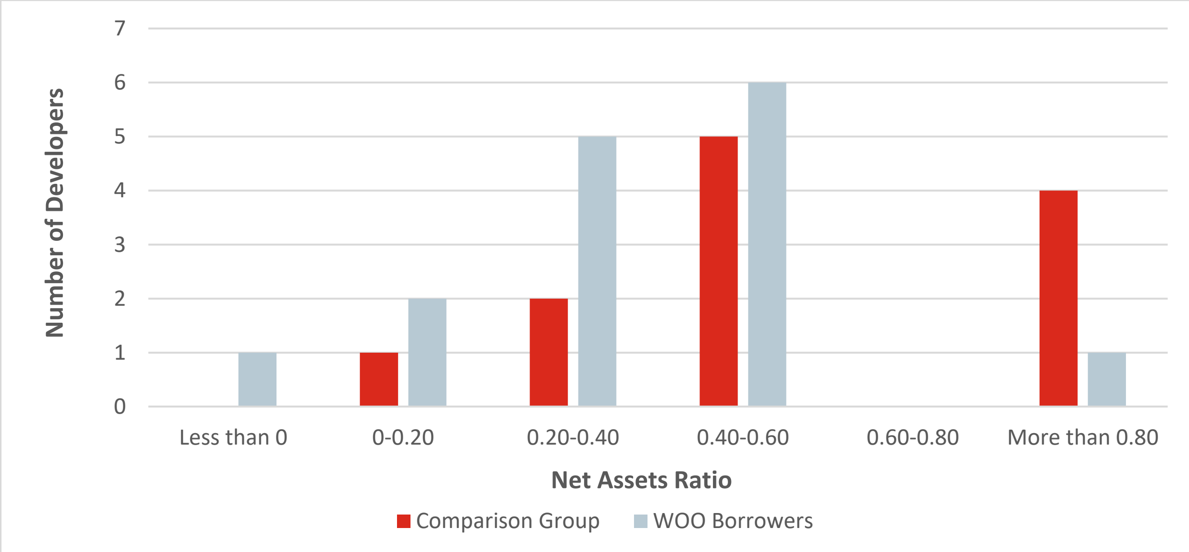
An organization's ***net assets ratio*** (net assets divided by total assets) shows how much of its assets are backed by equity rather than by debt. In general, financially healthy nonprofit developers have a net assets ratio above .20, which is a common underwriting target. A net assets ratio of .20 means that the organization has built equity worth 20 percent of the value of its assets. That said, there are limits to the benefit of a high net assets ratio. Appropriate use of debt may be necessary to best serve the organization's mission, so developers must manage the tension between mission and financial stability. An extremely high net assets ratio may mean that the organization could be using additional debt to serve its mission more effectively.

All but three of the 15 WOO borrowers for which we have relevant data (80 percent) had a net assets ratio above this target,[37] as did all but one of the 12 comparison group developers for which we have data (92 percent), as shown in Exhibit 9.[38]

[37] These pre-PRI measures are presented for the parent entities only, because many of the developers did not start to consolidate their financial statements until several years after receiving their PRI.

[38] Note that the WOO borrower with a negative net assets ratio at baseline was one of the start-up organizations funded.

Exhibit 9. Net Assets Ratio (Parent) at Baseline



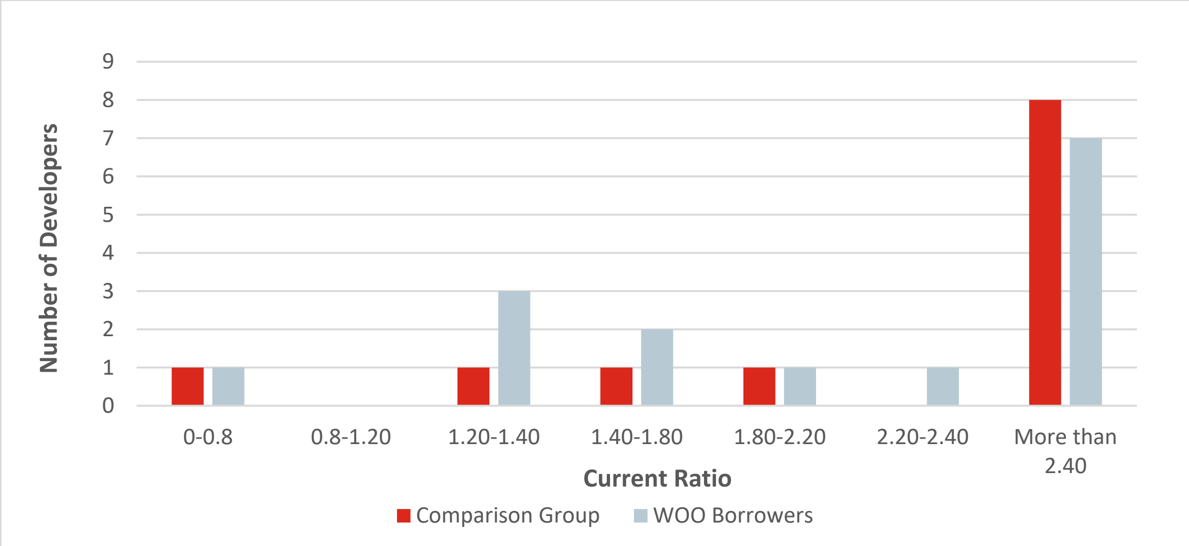
Note: Exhibit includes 12 comparison group borrowers and 15 WOO borrowers for which we have relevant data.

Measures of Liquidity

Measures of liquidity were more mixed. One liquidity measure is the ***current ratio***, which 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).

All but one of the 15 WOO borrowers and one of the 12 comparison group of developers for which we have data started the study period with a current ratio better than the frequent underwriting target minimum of 1.20-1.25 (Exhibit 10). Some developers (in both groups) had current ratios much higher than this. A high current ratio indicates significant liquidity, and it is a sign of financial strength and stability. However, the positive correlation between high liquidity and good financial management is not necessarily limitless: an organization with an extremely high current ratio is not necessarily better managed than one whose current ratio is only very high. The developer may be missing opportunities to employ those assets to better serve its mission.

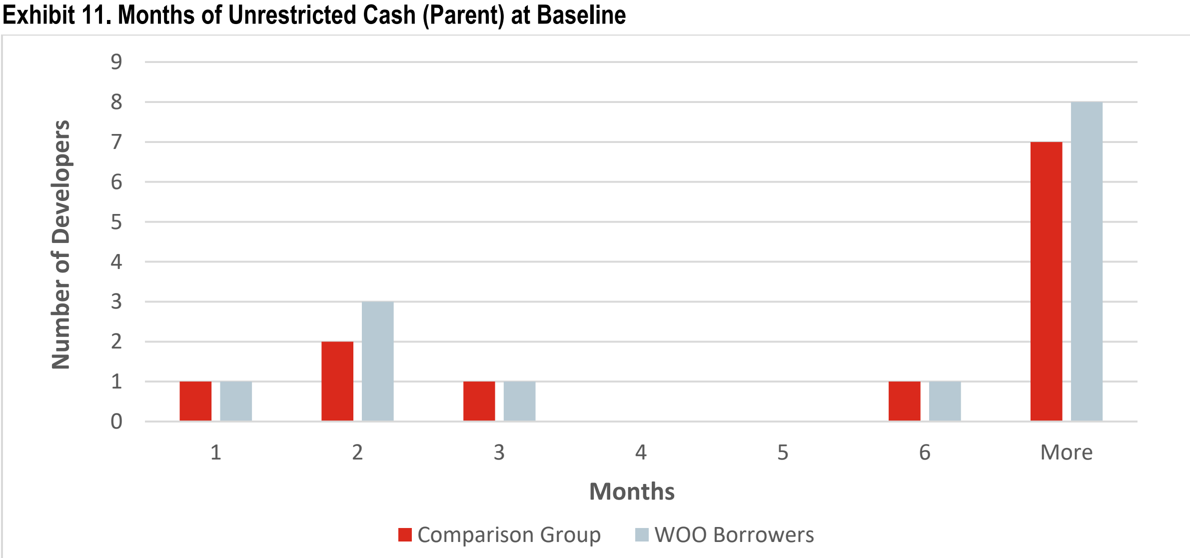
Exhibit 10. Current Ratio (Parent) at Baseline



Note: Exhibit includes 12 comparison group borrowers and 15 WOO borrowers for which we have relevant data.

The availability of ***unrestricted cash*** is another measure of liquidity. Among both WOO developer borrowers and developers in the comparison group, there were a few cash-strapped developers, but a majority held more comfortable reserves (Exhibit 11). Four of the 14 WOO borrowers and three of the 12 comparison group developers for which we have data had only enough cash to cover less than three months of operating expenses; the rest of them had far more (Exhibit 11). Three months is generally considered the minimum suggested standard (although the ideal amount for a specific organization should respond to its particular business mix and the volatility of its revenue sources).

Exhibit 11. Months of Unrestricted Cash (Parent) at Baseline



Note: Exhibit includes 12 comparison group borrowers and 14 WOO borrowers for which we have relevant data.

Revenue Sources

All of the WOO borrowers were in the business of developing affordable housing, but their range of other businesses and revenue pools varied widely. Some organizations had adopted accounting practices that resulted in the inclusion of a substantial amount of their property portfolio on the books of the parent, and thus reported a major share of revenue from residential rents.[39] Some organizations managed their own properties rather than hiring a property manager, and thus included substantial management fees. Still others had related subsidiary businesses such as construction management, providing substantial income in the "Other" category.

The number of revenue sources identified on the financial statements of the WOO borrowers ranged from three (for one developer) to seven (for seven developers); the rest of the borrowers were somewhere in the middle. Overall, of the 15 WOO developers for which we had data[40]:

- Developer fees made up the largest share of revenue (an average of 24 percent), reported by 14 borrowers[41];
- Contributions/donations were the next largest source of revenue (an average of 25 percent, reported by all 15 developers;
- Property management fees (12 percent), fees for service (11 percent), and "other" sources of revenue (11 percent) accounted for roughly the same share of revenue;
- Portfolio revenue was the smallest contributor, at 3 percent, reported by only six developers.

Growth over PRI Term

Having reviewed the condition of the WOO developer borrowers relative to a comparison group of non-WOO developers at baseline, we now turn to the influence of the PRIs on the borrowers' growth on several dimensions, including size of their property portfolio, staff size, and financial condition.

Every WOO borrower included in our analysis experienced substantial growth on all three dimensions over the course of their PRI period. In this section, the "end years" shown are either the year the organization repaid its PRI *or* the most recent available audited financial statement, whichever is earlier. The end year is 2017 in most cases; as noted above, a significant number of

---

[39] The inclusion of rents in reported parent-level revenue does not necessarily mean that the parent organization gets to keep those rents: even if there is cash flow left after paying operating expenses and debt service, there may be distribution limitations or requirements to repay subordinate/public lenders. Similarly, even when rental revenues for tax credit properties are *not* reported at the parent level, the parent organizations may nonetheless be entitled to cash flow from those properties—it may be paid out as deferred developer fees, asset or incentive management fees, or subordinate debt repayments or as investment revenue for the general partner entity.

[40] Data on revenue sources for two WOO developer borrowers was not comparable to the rest because of differences in consolidation practices.

[41] One borrower did not report developer fees. However, this is probably related to the way it reports revenue across its subsidiaries (but not at the parent level), and not because it does not earn developer fees.

borrowers repaid their loans in 2018, so the 2017 audit represents both the final pre-repayment year *and* the most recent year for which data are available.

We review WOO borrower growth first, followed by a discussion of results for the comparison group.

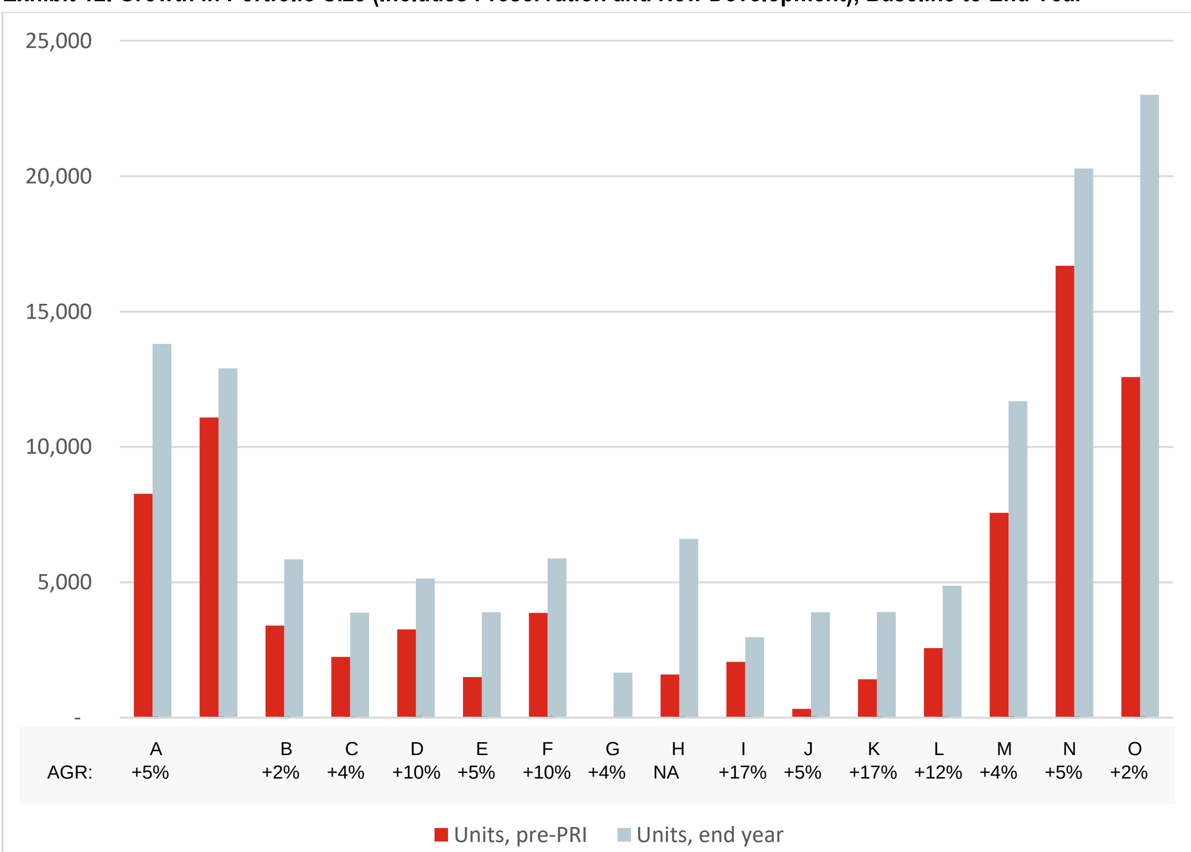
WOO Borrower Portfolio Growth

All of the WOO borrowers significantly expanded their overall property portfolios during their PRI period, some through preservation alone, others through a combination of preservation and new development:

- The WOO borrowers added between 11 and 101 properties to their portfolios (36 properties on average, median of 35)
- They added between 914 and 10,424 units of housing to their portfolios (average of 3,236 units added, 2,416 median).

Annualized growth rates of number of housing units ranged from 2 percent to 17 percent. The average annualized growth rate was 7 percent; the median was 5 percent. These changes are summarized in Exhibit 12. (Note that a growth rate could not be calculated for developer H, because it did not own any properties at the time it received its PRI.)

Exhibit 12. Growth in Portfolio Size (Includes Preservation and New Development), Baseline to End Year



AGR = Annualized Growth Rate

WOO Borrower Staff Growth

All WOO borrowers added staff over the term of their PRI, with annualized growth rates between 0.4 percent and 26 percent. The average annualized rate of growth in the number of staff was 9 percent; the median was 8 percent. The most dramatic rates were connected to the new developers that launched successfully and expanded, and to those that branched into new business lines. In several cases, the new business line was property management; in another, it was significantly expanded social services.

Staff sizes varied widely, from three employees for the smallest borrower to 518 employees pre-PRI. By the end year, staff sizes ranged from 10 to 595.

WOO Borrower Growth in Financial Strength

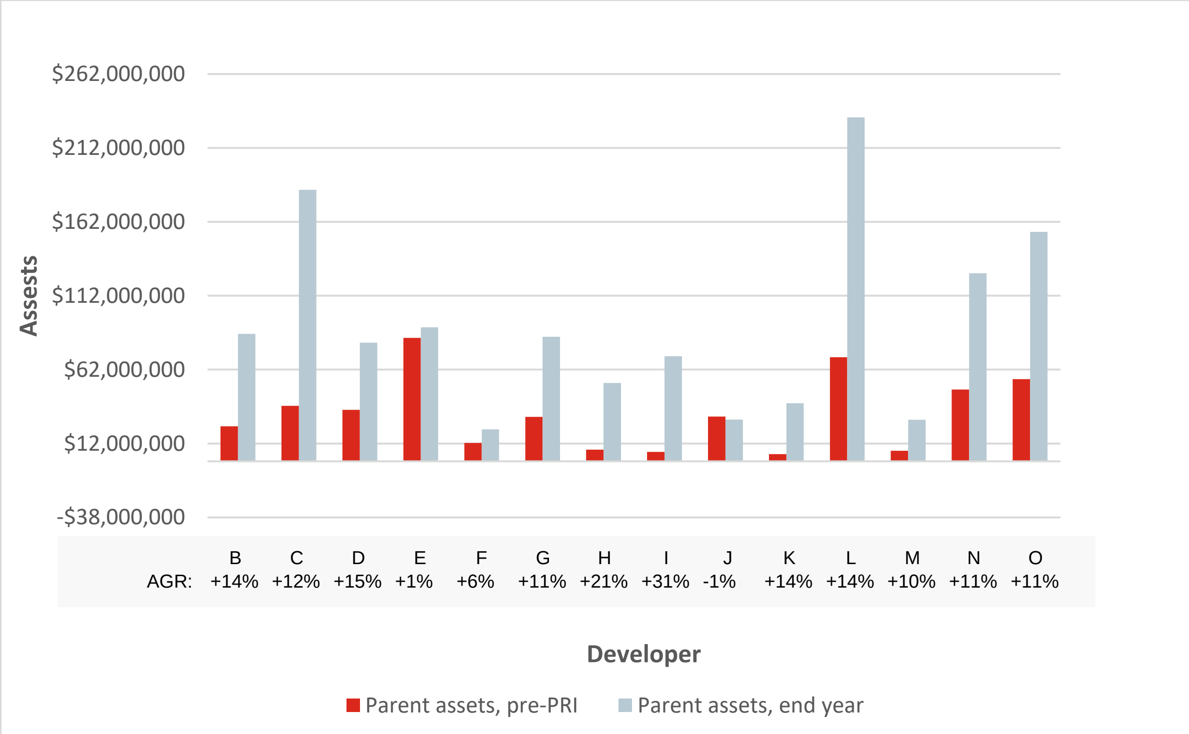
Over the period of our analysis, WOO borrowers grew in financial strength along a number of dimensions: in terms of revenues, assets, and net assets. They also showed improvements in measures of liquidity, and showed reduced reliance on contributions and donations. These changes are described in this section.

Total Assets

Total assets increased substantially for most borrowers (Exhibit 13; see also C-2 in Appendix C). Over the period during which borrowers had access to their PRI,[42] the average and median annualized growth rate of parent assets were both 12 percent. Growth rates ranged from 6 percent to 21 percent for the bulk of borrowers. There were three outliers. One had an annualized growth rate of 31 percent, but on a very low base, as this developer started with the fewest assets.

[42] One borrower repaid the PRI in six years; others have had the loans outstanding for as long as 16 years.

Exhibit 13. Growth in Total Assets (Parent), Baseline to End Year



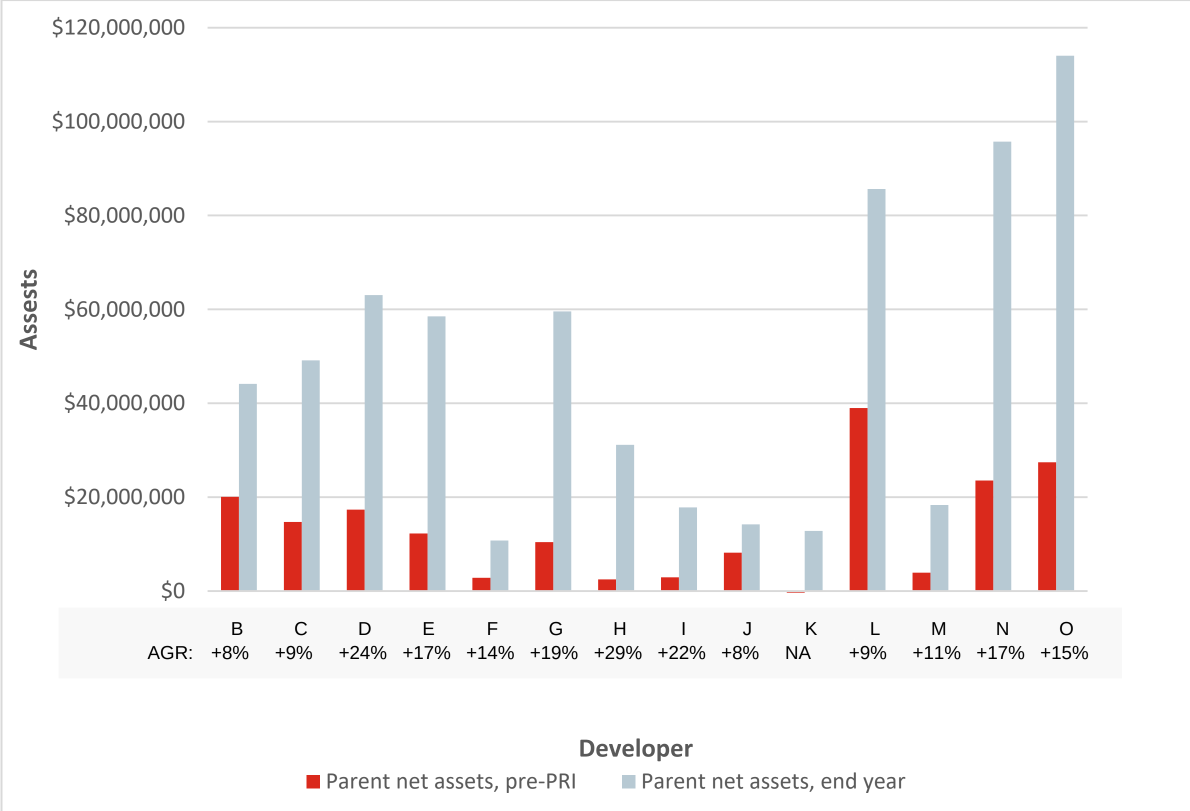
AGR = Annualized Growth Rate

The other two showed assets remaining essentially flat (-1 percent and 1 percent), likely due to accounting consolidation practices. If a property was wholly owned by the parent before the PRI and subsequently refinanced through tax credits, in subsequent financial statements the property would appear at the consolidated level but not at the parent level. The parent's assets would appear to be diminished, regardless of the fact that the organization still controls the property, the property is likely more valuable due to rehab, and the developer may have earned substantial fees and perhaps even pulled equity out of the transaction. For example, developer E refinanced some of its assets with tax credits that had formerly been wholly owned. Thus, though the properties' rents had previously been included in parent-level revenues, in the later period the parent-level revenues were diminished by the exclusion of rents from these properties.

Net Assets and Net Assets Ratio

Net assets are the total assets of an entity minus its total liabilities. The revenue growth described above led to strengthened net assets positions, as net assets grew at a greater rate than total assets. At the parent level, net assets grew at an average annualized rate of 16 percent and a median annualized rate of 15 percent (Exhibit 14; see also Exhibit C-2 in Appendix C). As expected, borrowers that were very small to begin with tended to have large annualized growth rates (as high as 29 percent) whereas borrowers that were relatively large to begin with (such as developer L) grew substantially, but at lower rates (9 percent annually, in the case of developer L). Note that developer K had negative net assets pre-PRI, so an annualized growth rate for net assets cannot be calculated.

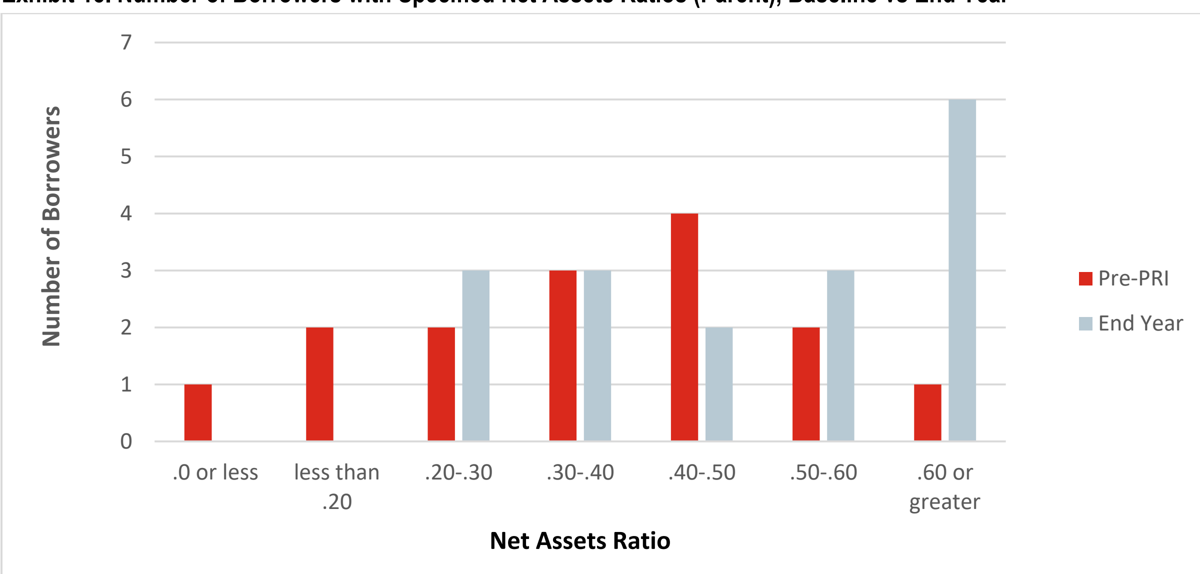
Exhibit 14. Growth in Net Assets (Parent), Baseline to End Year



AGR = Annualized Growth Rate

All borrowers also exceeded the target .20 net assets ratio—a key indicator of financial strength—by the end of their PRI period (Exhibit 15).

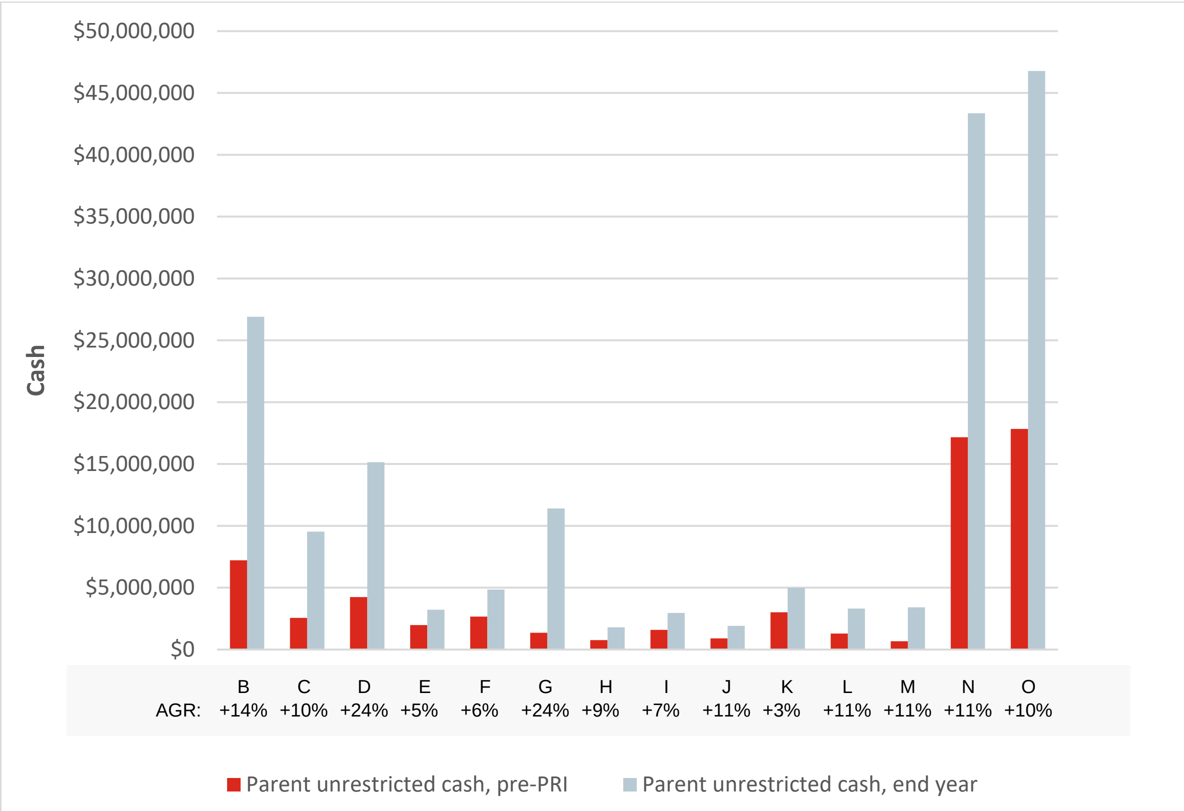
Exhibit 15. Number of Borrowers with Specified Net Assets Ratios (Parent), Baseline vs End Year



Measures of Liquidity

Liquidity measures improved considerably, as 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 and a median of 10 percent (Exhibit 16). WOO borrowers showed similar growth in consolidated unrestricted cash, at an average annualized growth rate of 8 percent and a median of 9 percent (see Exhibit C-3 in Appendix C).

Exhibit 16. Growth in Unrestricted Cash (Parent), Baseline to End Year



Current ratios improved for almost all borrowers; by the end of their PRI period, all of them were at 1.2 or above (Exhibit C-7 in Appendix C).

Revenues

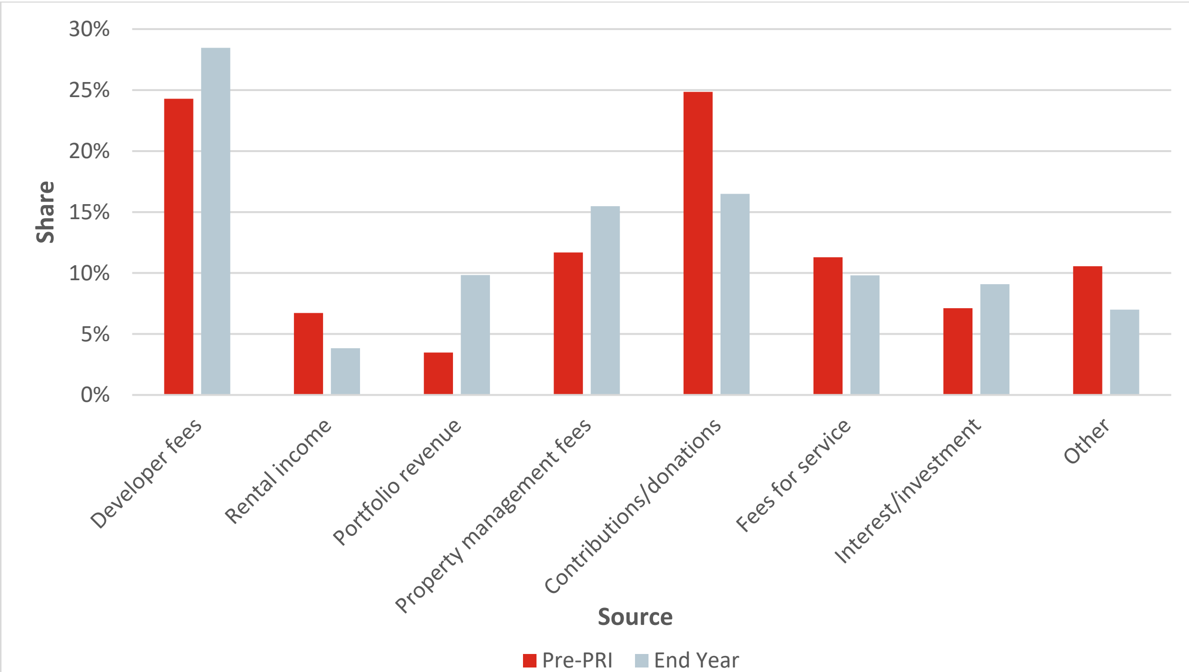
Parent organization revenues grew for all WOO borrowers except one. This growth ranged substantially–the lowest annualized rate of revenue growth was −4 percent; the highest was 18 percent. Overall, the average and median annualized rates were both 9 percent (see Exhibit C-15 in Appendix C; see also Exhibit C-1 in Appendix C).

Revenue Sources

As another indication of growing financial strength, and consistent with interviewee reports, the WOO borrowers continued to have diversified sources of revenue. Exhibit 17 compares revenues by source across all WOO borrowers (see also Exhibits C-8 and C-9 in Appendix C). Over the course of the term of their PRI, developer fees, property portfolio revenue, and interest/investment income all increased as a share of total revenue (see Exhibit C-13 in Appendix C). Rental income, fees for service, and "other" all decreased.

It is worth noting that contributions/donations as a share of revenue also decreased, from about 25 percent of revenue to 16 percent. With less reliance on contributions and donations, WOO borrowers are becoming more self-reliant and better able to generate earned revenues needed to sustain their operations.

Exhibit 17. Comparison of Average Share of Revenue, by Source, Baseline vs End Year



Developer fees are an unpredictable source of revenue. The timing is irregular, and the fees are hard to predict: projects are often delayed, sometimes for long periods of time, and frequently for reasons that are beyond developers' control. This irregularity can result in cash-flow problems for developers that primarily rely on developer fees, so one financial goal frequently stated by community development organizations (although not of the WOO Initiative) is to decrease reliance on developer fees as a revenue source. On this score, results are mixed. Of the 14 WOO borrowers for which comparative parent-level data are available, most (eight of 14) increased the portion of their revenues provided by developer fees (see Exhibit C-10 in Appendix C).

WOO Borrowers' Growth in Financial Strength Compared with Other Developers

Having completed our review of changes in the WOO borrowers' financial conditions, we turn now to examining how they compare to changes in the comparison group of developers.

If this were a randomized experiment, we would have presented the results together from the outset and focused mainly on how the two groups differed, which could be said to be the "treatment" effect of providing the PRIs. But the comparison group here differs in important ways from a comparison group in a randomized experiment. In addition to not being selected randomly, this comparison group of non-WOO developers eventually gained access to equity-like capital that was fairly similar to what the WOO developers got from the WOO Initiative. This fact in and of itself is significant—while the WOO PRIs may have been a pioneering source of equity-like capital, other sources soon followed. Another issue, discussed in more detail above, is that we selected the comparison group at the end of the study period, rather than the beginning; it thus consists of organizations that we know to have been successful rather than a group selected at the outset that may have included some organizations that did not ultimately do well.

Ultimately, these limitations mean that the comparison developers are most helpful for providing a broader context for understanding the WOO results, rather than as a strict "counterfactual" (what the WOO developers would have experienced absent the Foundation's investments).

That said, we found that in most respects the WOO borrowers and the non-WOO developers generally followed fairly similar financial trajectories during the study period:

- Almost all members of the comparison group found some way to gain access to entity-level capital during this period, although many accessed funds later than their WOO counterparts did.
- Overall, members of the comparison group used their entity-level funds in basically the same general manner as the PRI recipients: as revolving funds for acquisition and predevelopment.
- Property portfolio growth was nearly identical for the two groups (an increase in the number of units of 7 percent per year on average).
- Annual revenue growth was slightly faster for WOO borrowers than for the comparison group developers (9 percent compared with 8 percent, respectively).
- Financial resilience, as measured by ratios reflecting balance sheet strength, followed a similar pattern. For example, at the beginning of the study period, most developers had current ratios above a standard underwriting target of roughly 1.20-1.25 (all but two WOO borrowers and all but one non-WOO developer); by the end of the period, all developers in both groups had met this target. Again, these changes over the period do not appear to be materially different.

Though mostly similar, the two groups did differ somewhat more in some notable dimensions:

- Most of the comparison group members pursued preservation both at the beginning and at the end of the study period as part of their overall affordable housing activity. Unlike several of the WOO borrowers, however, the non-WOO developers did not purposely expand their preservation programs during the period.
- Most WOO borrowers specifically called out a "buy and hold" bridge finance approach as a preservation and growth strategy, in which they would purchase a property in need of preservation before having secured permanent financing to do the necessary work and bring the property into a subsidy program. That model requires access to equity or equity-like capital. The comparison group developers were less likely to explicitly identify that approach.

- Profitability and balance sheet ratios were nearly identical at the end of the study period for the two groups; however, the WOO borrowers grew faster than their non-WOO counterparts. Average annualized growth in consolidated and parent total assets was, respectively, 14 percent and 12 percent per year among WOO borrowers, compared with 8 percent in both categories for the comparison group.

The remainder of this section compares changes over the study period between the two groups in number of staff, number of preservation units, and organizational finances.

Staff and Unit Count Growth Rates

Staff and unit count growth rates among the comparison group developers were similar to those of WOO borrowers:

- Average annualized rate of growth in the number of staff was 9 percent for both the WOO borrowers and the comparison group. The median rate of staff growth was a bit higher for the WOO borrowers: 8 percent for the WOO group, 6 percent for the comparison group.
- On an annualized basis, the WOO borrowers increased the number of units in their property portfolios by an average of 7 percent, with a median annual increase of 5 percent. Both rates were identical for the comparison group.

WOO borrowers and comparison group developers also described other elements of their growth in similar terms:

- Many comparison group developers expanded geographically during the study period, expanding into new neighborhoods, cities, and even states.
- Most developers expanded the range of housing types that they would take on (targeting different populations than they had previously reached, or taking on public housing through the RAD program).
- Many developers described expanded commitments to "greening" their property portfolios and to resident services.
- Like the WOO borrowers, the comparison group developers built out their IT systems, moved into new and better offices, and deepened their asset management capacity.

Most comparison group developers described a broadening tool set for financing affordable properties, much as the WOO borrowers did (for example, using 4 percent LIHTC where previously they had only used 9 percent credits). Like the WOO borrowers, the comparison developers reported remaining heavily reliant on the LIHTC program for developing and preserving affordable properties.

Growth in Organizational Finances

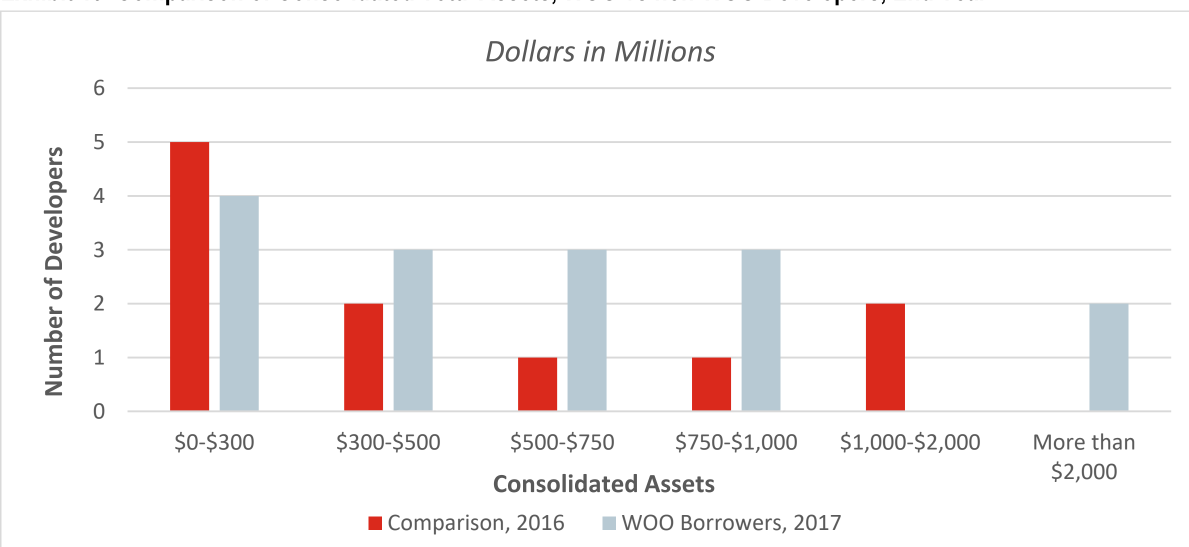
Revenue growth was brisk for both the WOO borrowers and the comparison group developers (Exhibit 18; see also C-12 in Appendix C). Developers in both groups also saw growth in balance sheet size and strength during the study period. However, the WOO borrowers saw their total and net assets grow at a faster pace over the period. For example, as shown in Exhibit 18, the median and average annualized growth in total assets were both 12 percent for WOO borrowers but only 6 and 8 percent for the comparison group, respectively. Similarly, WOO borrowers averaged net asset growth of 16 percent, almost 50 percent higher than the comparison group's rate of 11 percent.[43]

Exhibit 18. Comparison of Annual Revenue and Asset Growth (Parent), WOO vs non-WOO Developers, Baseline vs End Year

Annualized Growth Rate	WOO Borrowers	Comparison Group
Revenues		
Median growth	9%	9%
Average growth	9%	8%
Total Assets		
Median growth	12%	6%
Average growth	12%	8%
Net Assets		
Median growth	15%	9%
Average growth	16%	11%

This is important because absolute balance sheet size is another flag for financial strength and bankability. WOO borrowers began the study period somewhat smaller, in terms of consolidated total assets, than the comparison group developers. However, by the time of the most recent data available (2017 for the WOO borrowers, 2016 for the comparison group), the WOO borrowers showed bigger totals (Exhibit 19).

Exhibit 19. Comparison of Consolidated Total Assets, WOO vs non-WOO Developers, End Year



[43] Since revenue growth was similar between the WOO borrowers and the comparison group, it is not entirely clear what produced the sizeable differences in total and net assets between the two groups. We have revenue information for only the baseline and end year for each developer, so it is possible that the WOO borrowers had higher revenues in the intervening years. As another possibility, total assets can be financed by debt as well as retained earnings, so growth in total assets (but not net assets) could be fueled by greater debt. To the extent that developers have successfully raised equity-like capital that is not classified as debt, this could contribute to net asset growth as well.

Our methodology does not provide a way of definitively determining the reason for these differences. To the extent that enterprise-level capital played a role in fueling this growth, it could be because the WOO borrowers appear to have gained access to such capital earlier due to the MacArthur PRIs and thus had access during a greater share of the study period.

Contrarily, unrestricted cash grew more rapidly for the comparison group (Exhibit 20). One potential explanation is that WOO borrowers were more aggressive in using their capital to do deals than the comparison group were, although there is no way to verify this.

Exhibit 20. Comparison of Annual Growth in Unrestricted Cash, WOO vs non-WOO Developers, Baseline vs End Year (Parent)

Annualized Growth Rate	WOO Borrowers	Comparison Group
Unrestricted Cash		
Median growth	10%	16%
Average growth	11%	16%

By the end of the study period, cash positions among both WOO borrowers and comparison group developers had improved, and most organizations were in a comfortable cash position relative to their operating budgets (see Exhibit C-14 in Appendix C). As noted above, three months of operating cash in reserves is often quoted as a minimum for healthy nonprofit organizations. Using this standard, only one member of the comparison group was cash-strapped at the end of the study period, and two of the WOO borrowers fell into that category. The comparison group developers had bigger cushions, with an average of 16 months' unrestricted cash, compared to 10 months' cash for the WOO borrowers. Again, this indicates the possibility that the WOO borrower developers were a bit more aggressive with their cash than the comparison group.

Another measure of liquidity also showed improvement over the study period. Current ratios improved for almost all organizations. By the end of the period, both WOO borrowers and comparison group developers were all comfortably north of the underwriting target of roughly 1.20-1.25 (see Exhibit C-15 in Appendix C). This was an improvement over baseline, when one of the WOO borrowers had a current ratio well below that level.

All developers—both WOO and non-WOO—also exceeded the .20 net assets ratio target by the end of the study period (see Exhibit C-16 in Appendix C). Again, this was an improvement over the baseline, when three WOO borrowers had net assets ratios below this target. Overall, the picture as WOO borrowers are winding down their PRI terms was one of greater bankability and flexibility. With bigger and more liquid balance sheets, these organizations have become more attractive borrowers and better credit risks. This growth in liquidity is consistent with what developer interviewees reported: many organizations have built working capital and investment pools that offer them agility and flexibility to acquire new properties. Though the comparison group developers experienced similar financial strengthening in many respects, their total assets and net assets grew less than the WOO borrowers did, whereas the comparison group developers unrestricted cash grew more.

Sustainability after the PRIs

Only three of the 17 WOO borrowers for which we collected data had loan maturity dates before 2017 (the end of the study period). In two cases, developers repaid the PRIs using permanent financing for the deals in which they deployed the capital (for predevelopment and acquisition purposes). The third developer repaid the funds from operating profits from other sources.

Given the small number of developers in this category, it is possible for us to make only limited statements about how well PRI recipients are performing several years after the loans are off of their books. That said, these three developers appear to be in reasonable financial shape in 2017, with two looking very strong (D and I) and the third (J) in an acceptable range (Exhibit 21).

Exhibit 21. Sustainability after PRIs: Comparison of Three Developers

Developer D: Repaid in 2010	Pre-PRI	Pre-Repayment	2017
Parent net assets ratio	0.50	0.79	0.85
Parent current ratio	11.57	19.39	5.96
Consolidated current ratio	N/A	2.90	1.61
Operating profit margin	0.42	0.28	0.21
Months cash	20	24	33

Developer I: Repaid in 2012	Pre-PRI	Pre-Repayment	2017
Parent net assets ratio	0.46	0.25	0.42
Parent current ratio	2.21	3.31	3.74
Consolidated current ratio	N/A	2.36	1.79
Operating profit margin	(0.18)	0.56	0.63
Months cash	7	3	5

Developer J: Repaid in 2013	Pre-PRI	Pre-Repayment	2017
Parent net assets ratio	0.27	0.50	0.70
Parent current ratio	0.53	1.70	1.10
Consolidated current ratio	N/A	0.59	0.29
Operating profit margin	0.31	0.52	0.25
Months cash	3	5	2

Since receiving their PRIs, 17 WOO borrowers have pursued a diverse range of strategies to build their organizations' capital, increasing their ability to pursue acquisitions and development opportunities and increasing their financial strength and resilience. Though many of the interviewees at those organizations described the MacArthur PRIs as having a catalytic effect, they also all described a range of additional strategies that amplified the impact over time.

We cannot judge whether all WOO borrowers, following repayment of their PRI, can sustain the increased financial strength observed over the study period, because we have data for only the three organizations noted above. However, we did examine the strategies that all 17 are using for capitalizing their companies, which may help to support sustainability after PRI loan repayment:

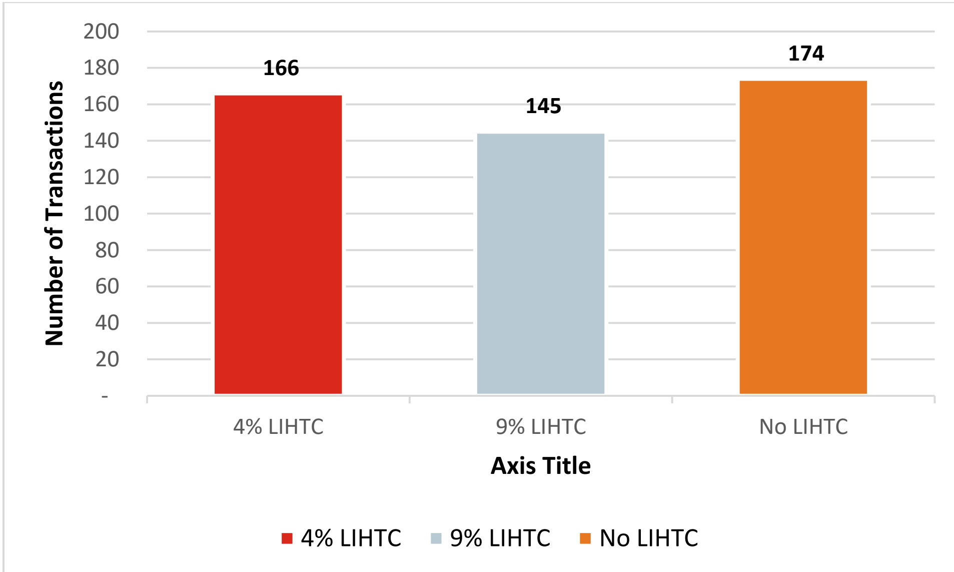
- All 17 of the organizations have greater unrestricted cash balances; most use these funds at least in part for acquisition and predevelopment activity.
- Many of the organizations have pursued project-specific bridge loans for acquisition or predevelopment.
- Some have established a revolving pool of acquisition and predevelopment funds for both preservation and new construction projects.
- Some WOO borrowers are also actively pursuing PRI loans from other funders as part of their predevelopment/acquisition strategies. A number of foundations and nonprofit lenders besides MacArthur appear to be providing PRIs for community development organizations. These include some local and regional foundations as well as several national foundations and nonprofit lenders that have engaged with multiple WOO borrowers (Calvert Impact Capital and Ford Foundation appear as PRI lenders on numerous balance sheets).
- Several of the organizations have loans targeted specifically for acquisitions, at a mix of market and below-market interest rates and terms. (One even refers to such loans in its audit as "quick-strike" funds for acquisition.)
- A number of the organizations have general-purpose lines of credit available, although they vary in the extent to which they draw on them (some keep the funds available "just in case" but don't use them; others actively include the funds in their working capital pool).

Some of the 17 organizations have no unsecured debt on their books at this point; others have one or two below-market foundation loans; and still others have pursued an aggressive strategy of securing credit from a wide range of lenders. It is interesting to note that the four developers that include acquisition of NOAH properties as an important part of their current activities are all in this latter category, with acquisition financing available from multiple lenders on a range of terms. One of these organizations has also worked to raise an equity fund to purchase NOAH properties (with a total of $675,000 in equity raised by the end of 2017).

Project Financing and Subsidy Reliance

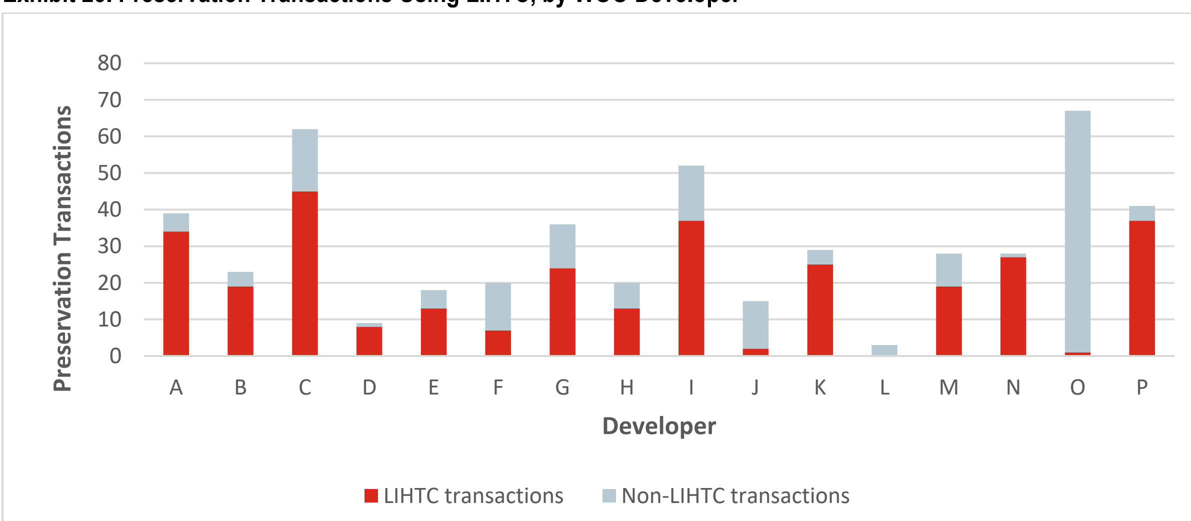
Although it was not a goal of the WOO Initiative, we also explored whether the PRIs enabled WOO developer borrowers to create new financing strategies that would ultimately reduce their reliance on LIHTC and other conventional forms of affordable housing financing. Most reported that it did not. Although we do not have data on how project financing changed over the PRI term, about two-thirds of transactions completed during the study period relied on either 4 percent or 9 percent LIHTCs (Exhibit 22).

Exhibit 22. LIHTC Used in Preservation Transactions by WOO Developers, by Credit Type



However, WOO borrowers varied in their reliance on LIHTC. Most used LIHTC to finance the majority of their transactions, but the highest-volume developer rarely did so (Exhibit 23).

Exhibit 23. Preservation Transactions Using LIHTC, by WOO Developer



Though a significant number of the 17 organizations have obtained at least a few properties they describe as NOAH projects, in many cases their intent is to hold the properties for some period before eventually rehabbing them more extensively, funded most frequently with 4 percent LIHTC credits.

Four WOO borrowers reported that they have expanded their NOAH acquisitions funded only with debt and no subsidy, but that their LIHTC-funded activity continues at its previous volume. (Two of these four developers work in the same metropolitan market, and they describe these debt-only NOAH projects as largely driven by market opportunities.) On the other hand, another borrower has reduced its volume of debt-only preservation projects, opting for a greater level of LIHTC-funded rehab for its more recent acquisitions.

The majority of interviewees reported that LIHTC and other subsidy funds remain essential for preserving housing at the levels of affordability and physical quality to which they aspire.

6. Conclusion

This was not a randomized controlled trial that could provide evidence of both correlation and causation, and there were many factors affecting the WOO developers during the term of their PRIs. Still we did uncover a great deal of evidence about the possible influence of the WOO Initiative PRIs.

We conducted this evaluation to address four evaluation questions. We review the evidence for each evaluation question in turn.

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 aid these borrowers to leverage other sources of funding to further their preservation efforts?

The 17 developers we interviewed that received WOO PRIs were clear on this point: the funds enabled them to pursue preservation activity they would not otherwise have been able to accomplish. As a group, those borrowers preserved 50,803 units—an average of nearly 3,000 units each—over the study period. While this is not entirely surprising—the WOO borrowers were selected specifically for their experience with and commitment to preserving affordable housing—it is nevertheless a substantial achievement. With one exception, the borrowers we interviewed all described expanding and formalizing their preservation activities after receiving the PRI, sometimes creating separate lines of business dedicated to this purpose.

They also described the many benefits of having long-term, low-cost capital that was not tied to specific projects. These benefits included the ability to act more decisively in competing for properties with for-profit buyers, to take on the risk of not having permanent financing secured prior to acquiring a property, and the ability to buy a property and hold it while waiting for problems to be resolved.

The borrowers accessed more than $5.6 billion in other non-PRI funding in the 485 preservation transactions they completed during the terms of their PRIs—impressive leverage for the Foundation's $42.25 million investment. These funds were primarily mortgage debt and LIHTC equity, but also include public soft loans and other financing.

More broadly speaking, the borrowers were able to leverage the PRIs in less direct ways. For example, some borrowers described their PRI as offering credibility that was helpful in their efforts to raise additional money for preservation and other affordable housing activities from other funders.

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

Some WOO borrowers—likely those that received working capital PRIs—described using WOO funds to increase the capacity of their organization to do preservation. For example, borrowers used funds to hire staff, upgrade IT systems, and open an office dedicated to preservation work.

More generally, WOO developers—including those who did not receive working capital PRIs—reported that participating in the WOO Initiative increased the sophistication of their approach to preservation. The WOO funds gave them the capacity to engage in transactions that afforded their staff experience they might not otherwise have had. Having had the opportunity to make use of a type of capital that was new for some of them and of great utility, some WOO borrowers also increased their sophistication in their approach to raising and using capital.

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?

The short answer to the first question is yes—all but one of the non-WOO borrowers we spoke with had access to entity-level capital. But it appears that the MacArthur Foundation may have contributed to this outcome, both through other parts of the WOO Initiative, and through the "demonstration effect" of making the PRI investments, which induced other entities to follow suit.

In addition to the MacArthur WOO Initiative, an important source of entity-level financing for both WOO borrowers and the comparison group developers was homegrown. That is, housing prices in the markets where many of these developers were working rose such that the developers were able to refinance the properties, achieving an affordable housing trifecta in the process: they secured the affordability of the units, improved the properties' condition, and extracted equity that was then available on the developers' balance sheets to use exactly as they used the WOO PRIs—as long-term, low-cost, highly flexible capital.

Once they had access to entity-level financing, the comparison group developers used the funds in very much the same ways as the WOO borrowers did their PRIs. They used the funds as a type of bridge financing, to acquire a property and hold it for periods of up to a few years until they could obtain permanent financing.

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?

WOO developer borrowers were in a significantly stronger financial position at the end of their PRI term than they were at the beginning. In addition to having larger property portfolios, they showed improvement in measures of financial strength (the net assets ratio) and liquidity (the current ratio and months of unrestricted cash). Perhaps more importantly, their revenues, total assets, and net assets all grew at a steady clip during this period. The greater financial strength and larger balance sheets of the WOO borrowers mean that, as a group, they were more "bankable" at the end of the study period—meaning they have greater ability to access capital now than they did prior to receiving the Initiative's funds.

The 13 developers in the comparison group had a similar trajectory to the WOO borrowers' in several ways, showing similar improvements in portfolio size, net assets ratio, and liquidity. But there the paths diverged: WOO borrowers showed slightly higher rates of growth in revenues and substantially higher rates of growth in total assets and net assets. We cannot know whether the MacArthur PRIs *caused* this additional growth, but the PRIs certainly were associated with it. Notably, all but one of the non-WOO borrowers gained access to equity-like capital similar to the MacArthur PRIs. In general, however, they gained it later in the study period than the WOO borrowers which might potentially explain (or have contributed to) their lower annualized average rate of asset growth.

The MacArthur PRIs did not radically shift the sources of subsidy being used by borrowers to finance their properties. WOO borrowers—including those that still have their PRIs and those that have repaid it—are still certainly reliant on subsidies, especially in the current environment of high housing prices. (As noted above, this was not an explicit goal of the Initiative.) As before, they still rely primarily on LIHTC as a source of subsidy. There have been smaller shifts, however. 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. Many of them have used equity from refinancings or grants or PRIs from other funders to capitalize acquisition funds that play a similar role to the PRIs; others are tapping innovative financial products to perform some of the same functions as their PRI, such as equity-like loans with low interest rates. But most borrowers say they could make good use of additional equity-like capital if it were available.

It is also not trivial that all but two of the WOO borrowers survived the financial crisis of 2008 and its aftermath, which was the worst economic downturn in the United States since the Great Depression. During a period when the price of LIHTC equity was falling, many investors were wary of anything related to housing, and mortgage debt was difficult to obtain, several borrowers reported that PRIs were important to finding workable financing solutions for troubled properties. Without this backstop, the properties might have been lost to the affordable housing stock and resulted in significant financial losses to the developer.

It is important to note that only a few of the WOO borrowers had repaid their PRIs as of the time period covered by our analysis (most of the loans were still outstanding). Accordingly, we were not able to fully assess how well the developers will be able to thrive once they have repaid their PRI. However, two of the three developers that had repaid their PRI appear to be in strong financial condition and the third is in acceptable condition, though not as strong as the others.

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 of the importance of equity-like capital for preservation and affordable housing efforts, indirectly helping to expand the capacity of many additional developers who are now better able to carry on this important work.

Appendix A. Comparison Group Developers

Exhibit A-1. Comparison Group Developers

Developer	Geography Served
Abode Communities	Throughout California
Action Housing	Western Pennsylvania
Community HousingWorks	San Diego and throughout California
DHIC, Inc.	Triangle region of North Carolina
Eden Housing	Throughout California
Foundation Communities	Austin and North Texas
Jamboree Housing	Throughout California
MidPen Housing Corporation	Throughout California
Mission First	Delaware, Maryland, Pennsylvania, Virginia
Nevada HAND	Southern Nevada
NHP Foundation	15 states and the District of Columbia
Tenderloin Neighborhood Development Corp	Tenderloin and throughout San Francisco
Wesley Housing	Washington, DC region

Appendix B. Impact of Consolidation on Financial Analysis

The primary financing tool for affordable housing since the late 1980's—including for the developers included in this evaluation—has been the Low-Income Housing Tax Credit (LIHTC). This federal program offers taxpayers (most frequently, widely held C corporations) tax benefits in exchange for equity capital to build housing with below-market rents. Typically, the affordable housing financed with LIHTC is owned by limited partnerships (LPs) or limited liability companies (LLCs). The investor receiving the tax credits is a passive partner but owns a majority interest in the LP/LLC. The sponsor/developer organization (which can be a nonprofit or a private-sector group) usually owns a very small share (often 0.01 percent) of the LP/LLC that owns the housing, although the developer controls the development and operation of the property.

Over the 2000's, generally accepted accounting principles (GAAP)[44] guidelines for financial reporting changed regarding the inclusion of tax credit properties in a sponsor organization's financial statements. These changes in auditing standards and conventions complicate the analysis of the WOO organizations' progress over time. The most important of these changes involves standards of consolidation.

Previously, it had been the practice of most (but not all) housing organizations to include in their financials only the assets, liabilities, income, and expenses associated with wholly owned (or at least majority-owned) properties. Following guidance issued by the Financial Accounting Standards Board (FASB) in 2005, many housing organizations began to consolidate into their financial statements all of the assets of their properties, not only those wholly owned but also those in which they had a controlling interest, no matter how small that interest was.

This convention has the effect of ballooning an organization's consolidated balance sheet, starting in the year in which it began to consolidate its financial statements. (That year, for many housing organizations, was somewhat later than 2005.) Consequently, most housing organizations now provide supporting schedules in their audits showing the assets and liabilities as well as the income and expenses of the "parent organization," separate from the property owned or controlled by that organization.[45]

---

[44] GAAP refers to a common set of accepted accounting principles, standards, and procedures that companies must follow when they compile financial statements to be distributed outside the company. GAAP combines authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. GAAP is intended to improve the clarity of the communication of financial information.

[45] Even when organizations consistently follow GAAP accounting practices, the impact of these practices can lead to misleading results. One PRI recipient, for example, used LIHTC to refinance a number of properties that the organization wholly owned. Though these properties remained on its consolidated financial statements, after the refinance the properties were removed from parent-only supporting schedules. Thus, though the organization's growth is fully apparent in the consolidated statements, this group's assets appear to have shrunk over time using only the parent schedules.

Exhibit B-1. Impact of Consolidated Financial Statements

Pre-2005 FASB Guidance Financial Statements[a]	Post-2005 FASB Guidance Consolidated Financial Statements
Assets, liabilities, income, and expenses of: A. Parent organization *Or* A. Parent organization *plus* B. Real estate wholly (or at least majority) owned by parent organization	Assets, liabilities, income, and expenses of: A. Parent organization *plus* B. Real estate wholly (or at least majority) owned by parent organization *plus* B. Real estate *controlled* by parent organization

[a] The Financial Accounting Standards Board (FASB) is an independent, nonprofit organization that establishes accounting and reporting practices for public and private companies and nonprofits that follow Generally Accepted Accounting Principles (GAAP).

Most, but not all, of the organizations that received PRIs did not consolidate all controlled-but-not-wholly-owned real estate into their financial statements before 2006; many, but not all, started to consolidate thereafter. Because of the changes during the PRI time period covered and the range of practices regarding consolidation, we requested and evaluated information on both a consolidated basis and a parent-level basis. We compared "before" and "after" financial pictures for each developer only when we could make "apples to apples" comparisons. In many cases, the full range of information is not available. Where comparable data are not available (usually because an organization has consolidated financial data for the "after" but not the "before" picture), our analysis excludes both "before" and "after" data in that category for that organization.

The section of this report describing the WOO borrowers' portfolios and financial health prior to receipt of the PRI ("WOO Borrower Profile Prior to PRI") primarily presents "parent" financial information, because information at the parent level is available pre-PRI for most of the borrower organizations. However, underwriters and investors typically consider both parent and consolidated financial statements in making lending/investment decisions; both comparisons provide important insights.

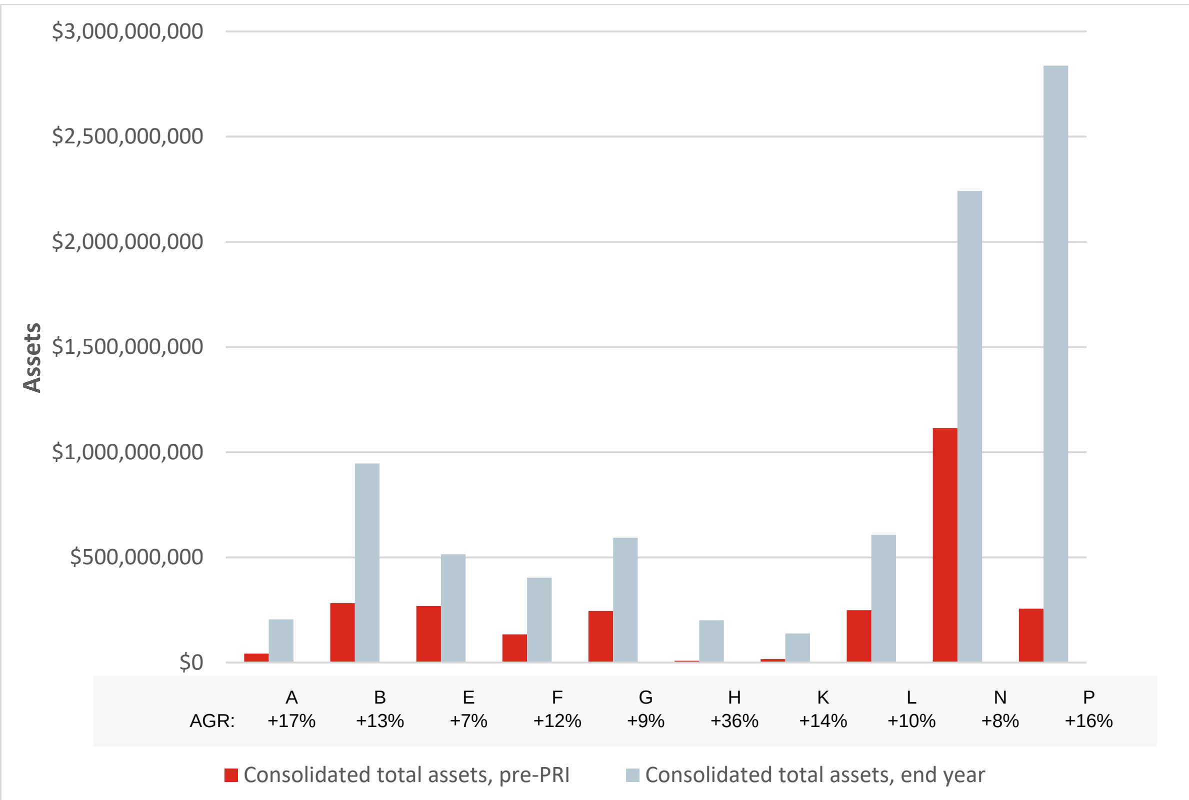
Appendix C. Financial Growth Exhibits

Exhibit C-1. Total Assets (Consolidated), First Year of Consolidation, WOO Borrowers and Comparison Developers

	WOO Borrowers[a]	Comparison Group
25th Percentile	$59,904,045	$140,672,683
Average	$245,008,886	$247,127,231
Median	$245,095,386	$227,713,517
75th Percentile	$262,786,063	$331,962,077

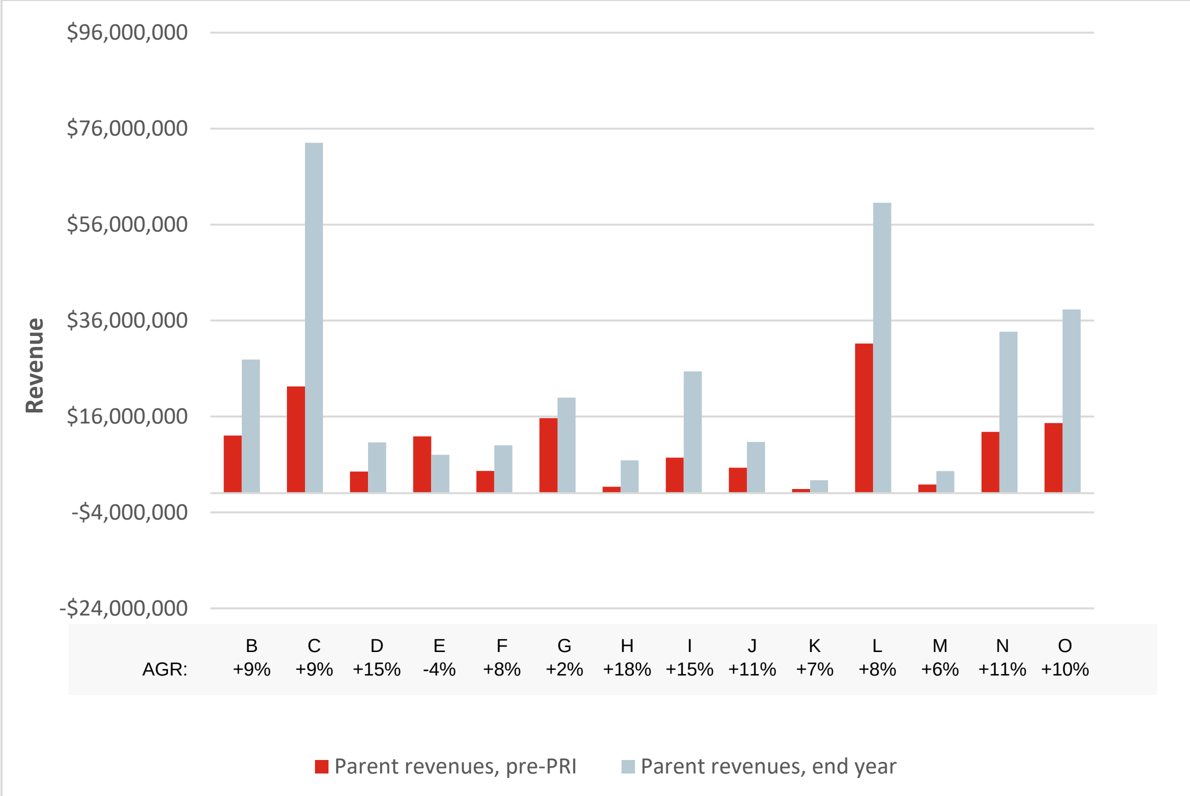
[a] Excluding the organization that started with 0 units, the numbers for WOO borrowers are 25th percentile: $91,289,290; average $268,604,207; median $245,095,386; 75th percentile $265,815,401.

Exhibit C-2. Growth in Total Assets (Consolidated), Baseline to End Year, WOO Borrowers



AGR = Annualized Growth Rate

Exhibit C-3. Growth in Revenues (Parent), Baseline to End Year[46], WOO Borrowers

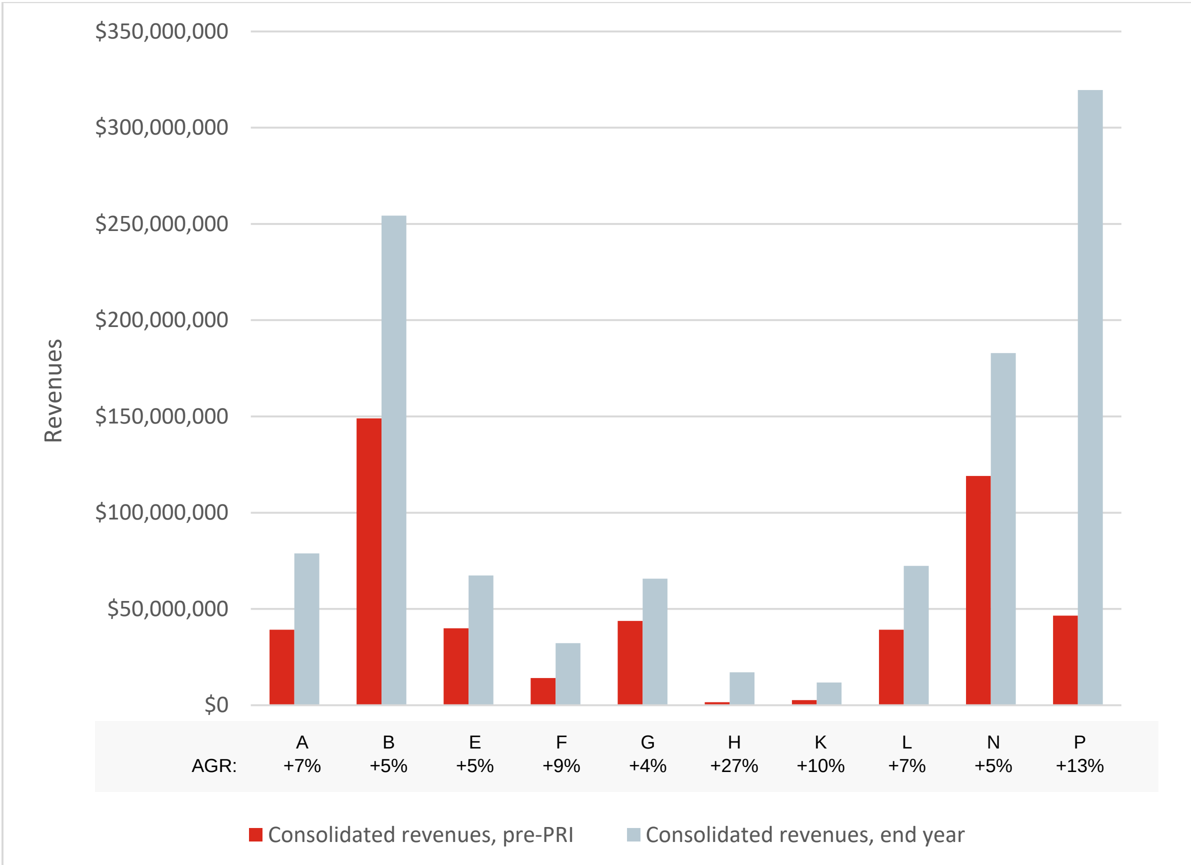


AGR = Annualized Growth Rate

---

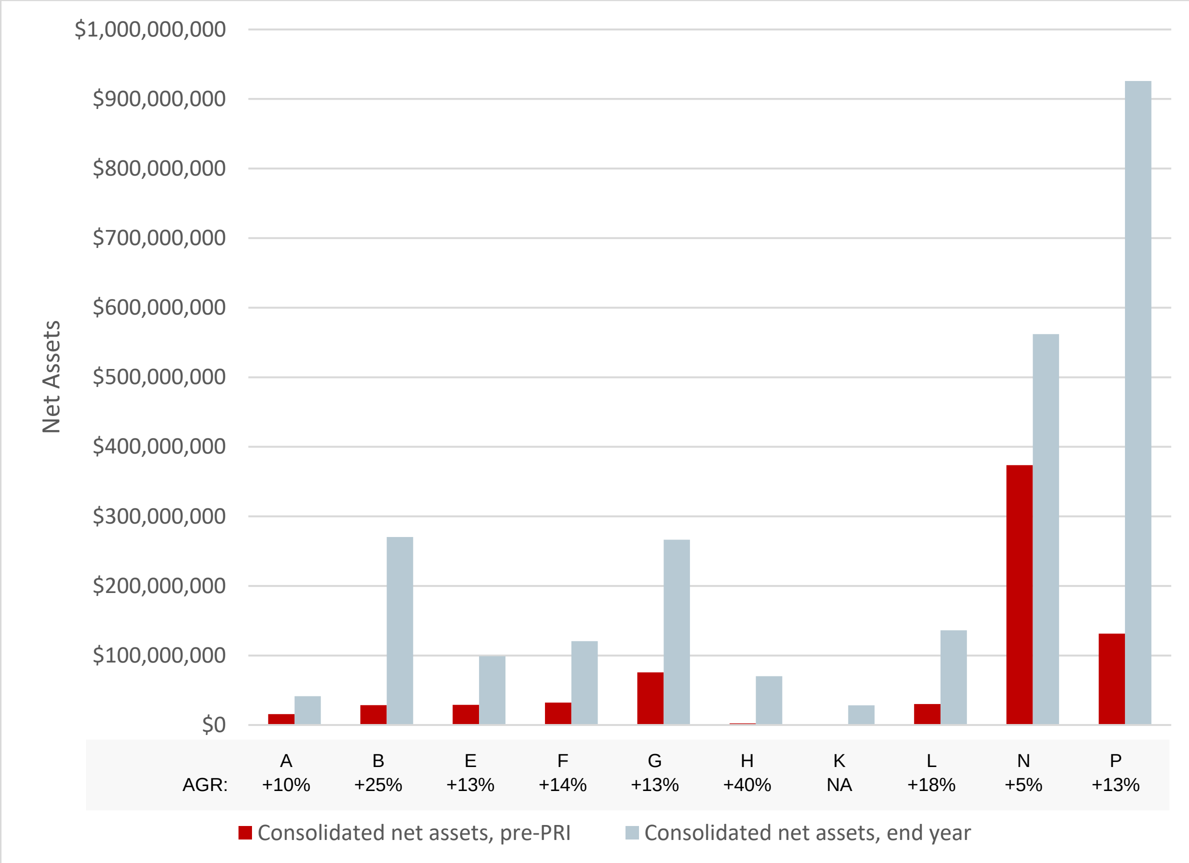
[46] One organization in Exhibit C-3 shows negative revenue growth at the parent level. This developer (Group E), refinanced some of its assets with tax credits that had formerly been wholly owned. Thus, though the properties' rents had previously been included in parent-level revenues, in the later period the parent-level revenues were diminished by the exclusion of rents from these properties.

Exhibit C-4. Growth in Revenues (Consolidated), WOO Borrowers



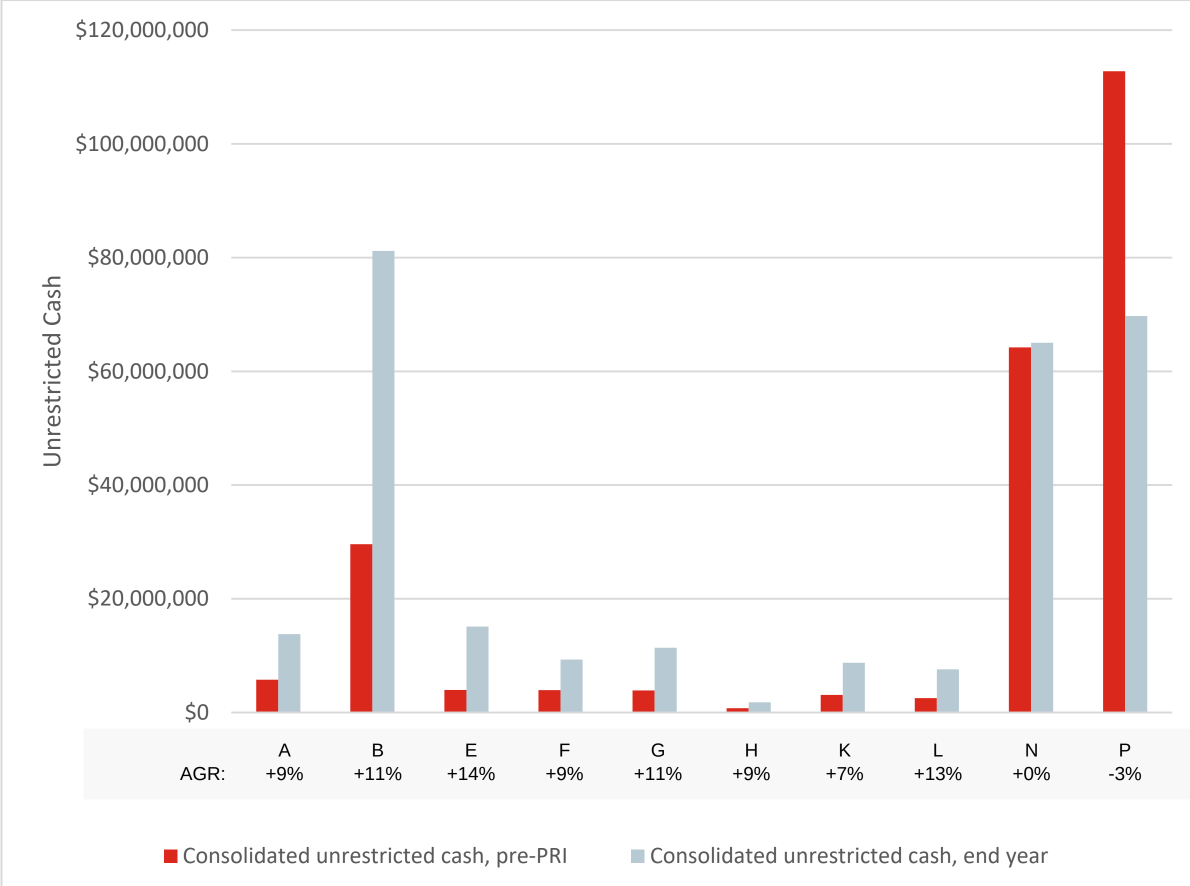
AGR = Annualized Growth Rate

Exhibit C-5. Growth in Net Assets (Consolidated), WOO Borrowers



AGR = Annualized Growth Rate

Exhibit C-6. Growth in Unrestricted Cash (Consolidated), WOO Borrowers



AGR = Annualized Growth Rate

Exhibit C-7. Comparison of Current Ratio (Parent), Baseline vs End Year, WOO Borrowers

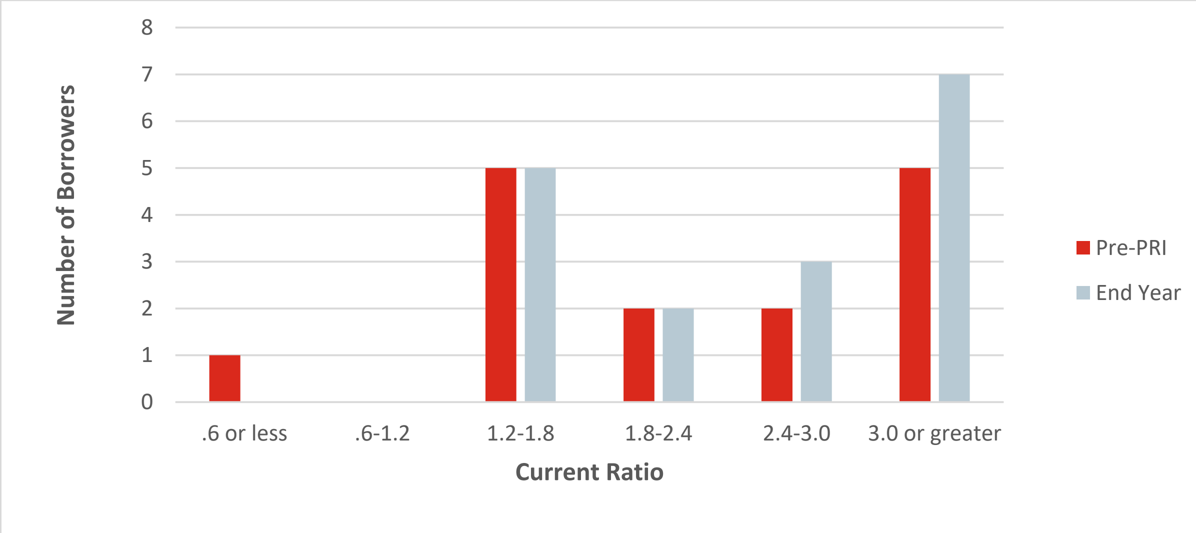


Exhibit C-8. Distribution of Revenue Sources, WOO Borrowers, at Baseline, by Share of Total Revenue, WOO Borrowers

Source	Number of Developers with Revenue Source (*n*=15)[47]	Average Share of Total Revenue Across Developers	Maximum Share of Total Revenue Across Developers
Developer fees	14 [a]	24%	65%
Contributions/donations	15	25%	64%
Property management fees	9	12%	40%
Fees for service	10	11%	46%
Rental income	8	7%	54%
Interest/investment income	15	7%	23%
Portfolio revenue	6	3%	17%
Other	12	11%	65%

[a] One borrower did not report developer fees. However, this is probably related to the way it reports revenue across its subsidiaries (but not at the parent level), and not because it does not earn developer fees.

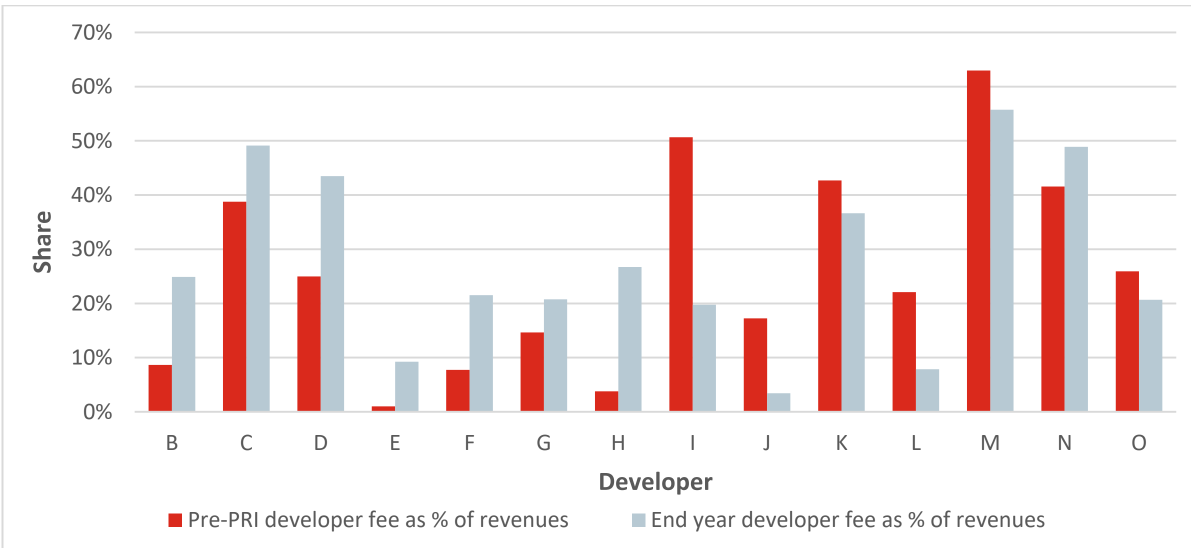
---

[47] Data on revenue sources for two WOO developer borrowers was not comparable to the rest because of differences in consolidation practices.

Exhibit C-9. Distribution of Revenue Sources, WOO Borrowers, at End Year, by Share of Total Revenue

Source	Number of Developers with Revenue Source (*n*=15)[48]	Average Share of Total Revenue across Developers	Maximum Share of Total Revenue across Developers
Developer fees	15	28%	56%
Contributions/donations	15	26%	57%
Property management fees	11	15%	46%
Fees for service	10	10%	52%
Rental income	9	4%	26%
Interest/investment income	14	9%	28%
Portfolio revenue	12	10%	36%
Other	10	7%	42%

Exhibit C-10. Comparison of Developer Fees as a Share of Revenue, Baseline vs End Year, WOO Borrowers



[48] Data on revenue sources for two WOO developer borrowers was not comparable to the rest because of differences in consolidation practices.

Exhibit C-11. Comparison of Developer Fee Risk, Baseline vs End Year, WOO Borrowers

Note. *Developer fee exposure* is defined as developer fees as a percentage of operating expenses.

Exhibit C-12. Comparison of Annual Revenue and Asset Growth, WOO vs non-WOO Developers, Baseline vs End Year (Consolidated)

Annualized Growth Rate	WOO Borrowers	Comparison Group
Revenues		
Median growth	7%	8%
Average growth	9%	7%
Total Assets		
Median growth	12%	8%
Average growth	14%	8%
Net Assets		
Median growth	13%	7%
Average growth	17%	7%

Exhibit C-13. Comparison of Portfolio Revenue and Interest/Investment Income as a Share of Revenue, Baseline vs End Year, WOO Borrowers

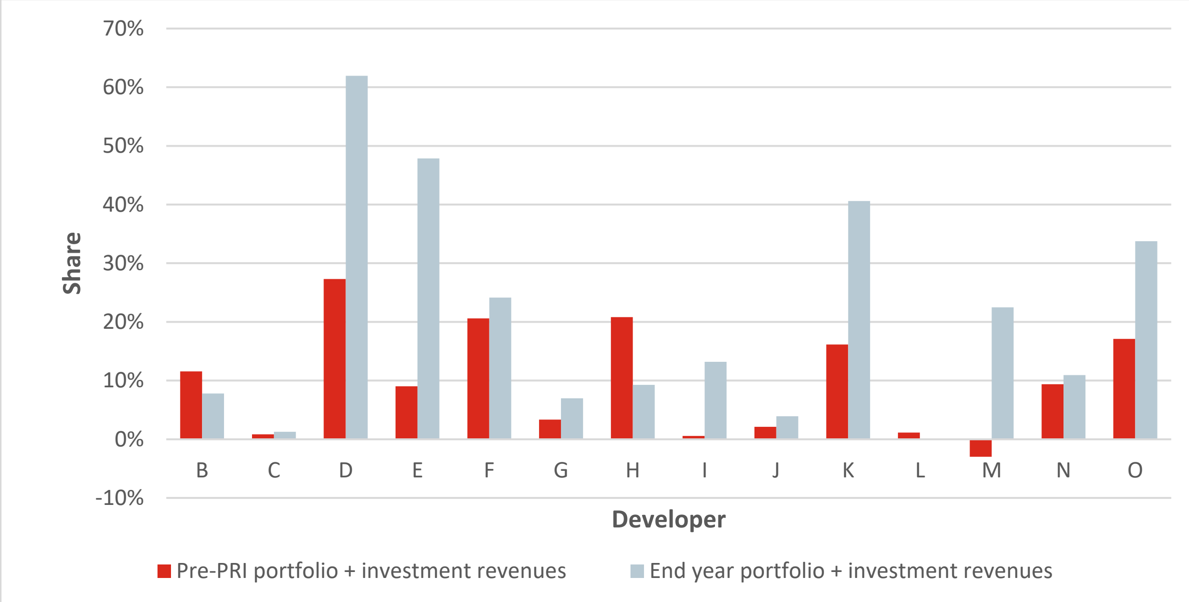


Exhibit C-14. Comparison of Months' Unrestricted Cash, WOO vs non-WOO Developers, at End Year (Parent)

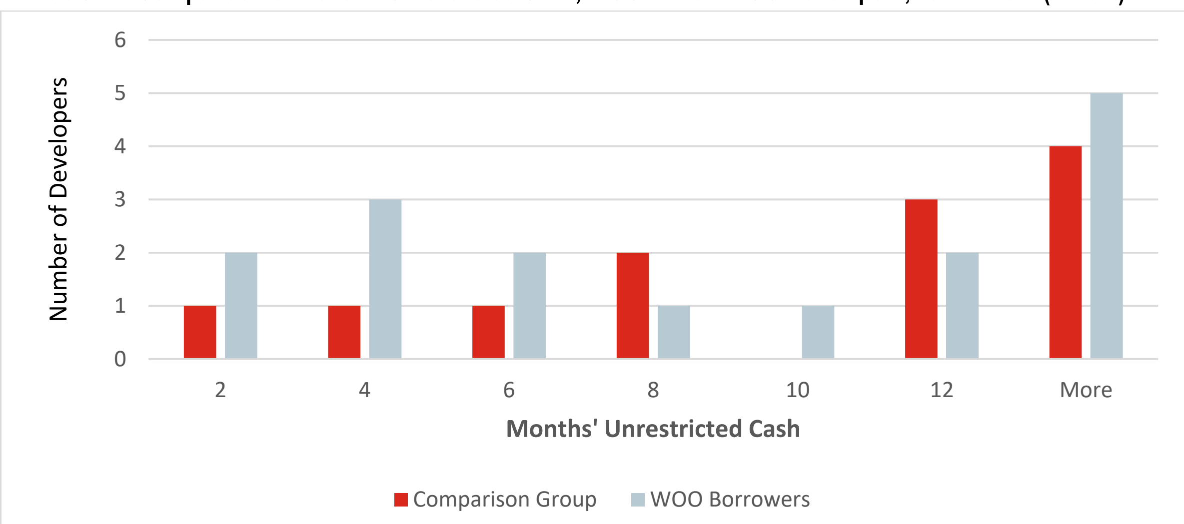


Exhibit C-15. Comparison of Current Ratio, WOO vs non-WOO Developers, at End Year

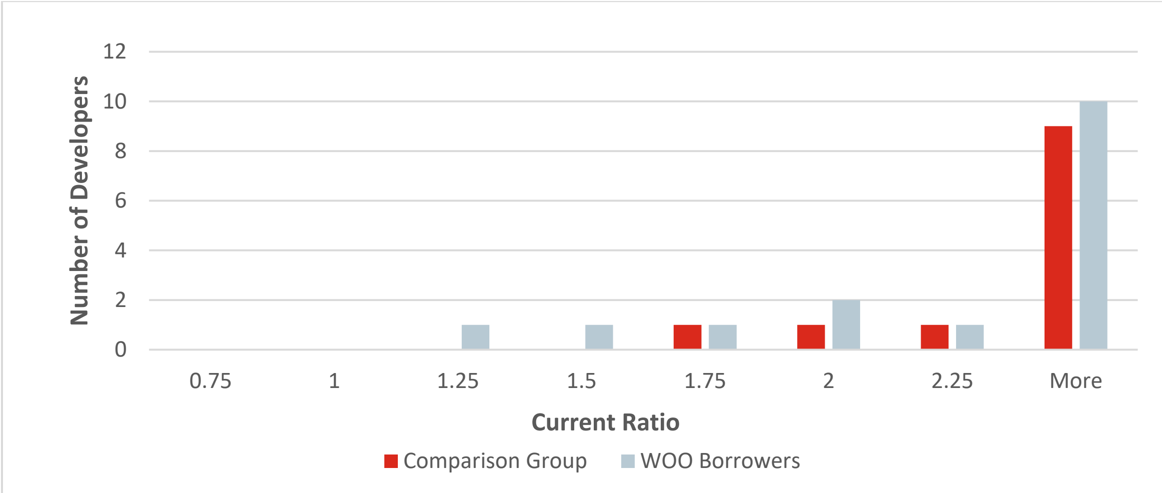
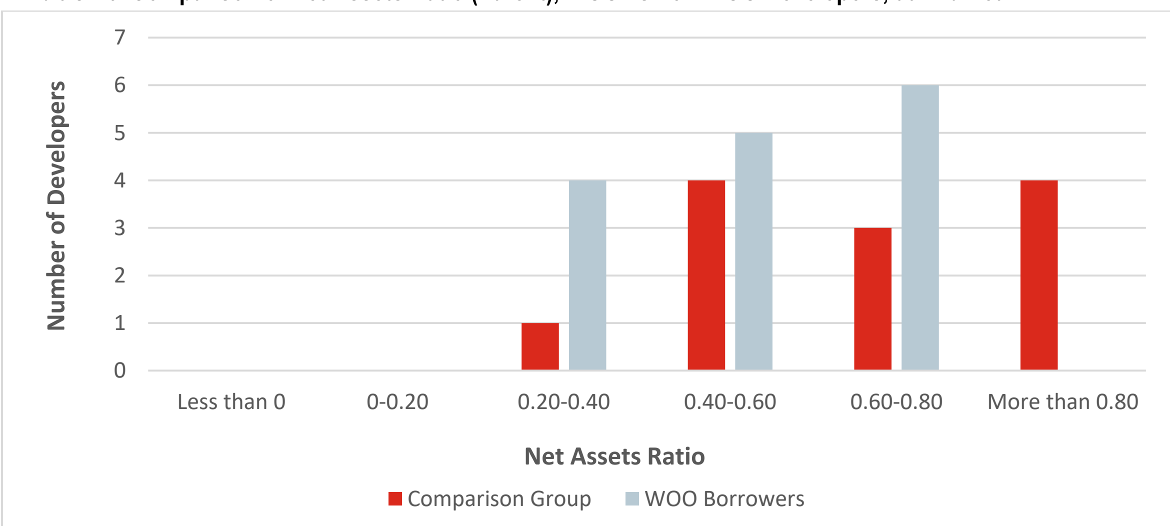


Exhibit C-16. Comparison of Net Assets Ratio (Parent), WOO vs non-WOO Developers, at End Year



Appendix D. Case Studies

San Antonio Alternative Housing Corporation

The San Antonio Alternative Housing Corporation (SAAHC) was established in 1993 to provide housing and support services for low- and moderate-income communities in Texas, and in particular in San Antonio and Austin. SAAHC had a significant multifamily portfolio, but also developed single-family homes, homes for disabled persons, and other special-needs housing.

MacArthur originally awarded SAAHC a capacity-building grant of $100,000 in 2003. Foundation staff cited a lack of creditworthiness for a PRI at the time, identifying issues with the organization's internal operations and information systems. Specifically, MacArthur saw a need for a more focused strategy for future acquisitions and better asset management systems. The developer had experienced rapid growth, straining its organizational capacity and financial stability, and resulting in an operating loss for fiscal year 2003.

By late 2005, PRI staff believed SAAHC had addressed its internal issues, and MacArthur awarded the developer a PRI of $1.2 million to be used for predevelopment and bridge financing over a period of 10 years. An initial $600,000 was disbursed, and the remaining $600,000 was distributed after SAAHC preserved 400 units, during the latter half of 2007.

At the time, SAAHC owned more than 3,900 units of low-cost rental housing, almost 90 percent of which were preservation units. With the PRI, SAAHC planned to preserve more than 5,000 units of affordable housing, with at least 3,000 of them targeted at the 60 percent or lower median level income. In the process, SAAHC planned to add the communities of El Paso and Hidalgo to its geographic reach.

SAAHC soon encountered obstacles in its efforts to expand. Reports from 2006 and 2007 are not available, but SAAHC reported that in 2008 declines in the value of LIHTCs—which fell from a high of $1.06 per credit in 2006 to as low as $.90 per credit in early 2008, effectively reducing the amount of equity available to fund development by 15 percent—rendered preservation projects in the pipeline temporarily financially infeasible.

By 2010, several of SAAHC's properties were experiencing financial difficulty, which they attributed to weak rental markets in Austin and San Antonio. In two cases, properties were located in severely distressed neighborhoods. Over the next several years, several properties that not were "cash flowing"—that is, that were losing money—were lost to foreclosure, short sale, or a deed in lieu of foreclosure.

During this period, SAAHC was forced to focus its energies on improving the operating performance of existing properties in its portfolio, rather than new development or preservation activities. What new development or preservation activities SAAHC conducted were primarily financed using its allocation of Neighborhood Stabilization Program funding.

By 2015, the value of SAAHC's assets had fallen to about $18 million, from about $100 million in 2007. Nevertheless, SAAHC repaid its MacArthur PRI in full several months ahead of schedule, in late 2015, using proceeds from the sale of a property.

Community Services of Arizona (CSA)

Community Services of Arizona (CSA), located about 25 miles southeast of Phoenix in Chandler, was founded as a social services agency in 1970. Services included first-time homebuyer programs, senior centers, childcare and youth programs, and Community Action programs. In 1993, CSA expanded operations to provide affordable home ownership and rental housing for low-income households. Profits from CSA's development activities were intended to subsidize its social services and reduce the agency's reliance on government and community funding for providing its services, a strategy that was successful for a number of years.

In 2003, the MacArthur Foundation awarded CSA a capacity-building grant of $100,000. The organization was not considered sufficiently creditworthy for a PRI at the time, and the grant was intended to strengthen its ability to increase housing preservation activities. Specifically, internal MacArthur memos note: "Rapid preservation growth has strained organizational capacity, and CSA needs to expand its internal development staff to minimize reliance on consultants, hire a full-time Chief Financial Officer (CFO), and improve asset management for its properties."

At the time, CSA was one of the largest nonprofit affordable housing developers in Arizona, with a portfolio of 2,100 units of low-cost rental housing in the metropolitan Phoenix and Tucson areas, most of which were preservation units.

It also had close partnerships at the state and local levels and was successful in attracting local, state, and federal funding. Over the previous decade, CSA had attracted more than $10 million in state, local, and federal funding—more than any other organization in Arizona. The group primarily used Low-Income Housing Tax Credits and bonds to finance larger deals, and city and HOME funds for smaller deals.

With the encouragement and help of the grant funds provided by MacArthur, by 2006 CSA had, among other things, hired a CFO, a Vice President of Operations, upgraded systems and hardware, and added staff to its asset management group. It was considered a strong candidate for a PRI. Between 2003 and 2006, CSA had preserved more than 900 units of affordable housing, and the Foundation believed that additional PRI support would enable further success—CSA had plans to preserve an additional 2,500-3,000 units over the next five years—as well as extend the Initiative's reach to the region.

MacArthur awarded CSA a PRI totaling $2 million in late 2006, consisting of a $500,000 seven-year working capital loan to build management and organizational capacity and a $1.5 million 10-year loan for bridge and predevelopment financing. Of this total amount, $1.35 million was initially disbursed. The remaining $650,000 was to be disbursed if the terms of the initial disbursement were satisfied. These included preserving 500 units as low-income rental housing, among other things.

Initially, prospects for CSA to succeed in meeting its goals and repaying the PRI appeared promising. By the end of the first fiscal year after receiving the PRI (ending July 2007), CSA reported using the PRI to help support the "rehab, maintenance, and operation" of six projects containing more than 1,000 units of low-income housing.

But issues arose soon thereafter. Although the housing market downturn that started around 2008 almost certainly played a role, CSA was also affected by factors unique to Arizona. CSA reported that it, along with other affordable rental providers in Arizona, were affected by the Legal Arizona Workers Act, which prohibited businesses from knowingly or intentionally hiring an "unauthorized alien" after December 31, 2007. This limited the ability of many of CSAs' renters to find work, leading to a loss of income, increasing vacancy rates, and ultimately declining revenue from the real estate portfolio.

A number of CSA's real estate investments failed to perform as expected and began to drain cash from the organization. In addition to declining occupancy rates—in some properties as low as 50 percent—some of CSA's investments appear to have been weak financial prospects at the outset. Financial reports indicate that some properties would not have been able to reach break-even at affordable rents even at full occupancy. Of the 24 properties in CSA's real estate portfolio in 2008, nine were operating at a loss.

Declines in local property values meant that CSA's equity positions declined, and the agency struggled to sell properties to raise cash needed to support money-losing properties. Ultimately, CSA defaulted on a number of loans, including the MacArthur Foundation PRI in 2010, and eventually ceased operations.