**Memo**

**From:** Grounded Solutions Network and National Housing Trust
**To:** LISC Houston
**Date:** July 16, 2020
**Re:** Options for NOAH Preservation in Houston

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**Background**

LISC Houston hired Grounded Solutions Network and the National Housing Trust to conduct a feasibility study for a potential fund to preserve naturally-occurring affordable housing (NOAH) in Houston. After the consultant team's initial findings did not support the immediate launch of a NOAH preservation fund, LISC Houston asked the consultant team to briefly investigate the potential for two other mechanisms to preserve NOAH properties in Houston in the short term: attracting an existing NOAH preservation fund to become active (or more active) in Houston, and attracting developers who do NOAH preservation elsewhere to become active in Houston, while simultaneously helping local developers build the necessary skill-set to ultimately complete the work themselves.

The consultant team conducted interviews with three NOAH preservation funds (the Austin Strike Fund, the NALCAB Catalyst Fund, and the Enterprise Multifamily Opportunity Fund) to investigate whether there might be potential for those funds to invest in NOAH preservation in the Houston region in partnership with LISC Houston and/or local investors. The team also conducted interviews with three national developers (POAH, Jonathan Rose Companies, National Church Residences) to determine what it would take for them to be interested in—and capable of—doing NOAH preservation work in Houston. We also interviewed Avenue CDC, who benefitted from a JPMC capacity-building grant and has since been successful in acquiring and preserving NOAH properties in Houston, to explore what might be most valuable for any future capacity-building initiative.

This memo provides a summary of each of those interviews and concludes with some reflections and options for next steps for LISC Houston and its partners.

**Interviews with NOAH Preservation Funds**

<u>Austin Strike Fund – David Steinwedell</u>
*Key point: He would want to see a minimum of $50m-$100m in equity made available in order to expand to a new market like Houston.*

The Austin Strike Fund was profiled in detail in Grounded Solutions' and NHT's final report to LISC Houston for this project, *Feasibility Assessment for a Houston-focused Fund to Support the Preservation of Naturally-Occurring Affordable Housing*. The fund has been considering expanding to other markets in Texas. They have discussed Dallas, San Antonio, and Houston. Houston consistently comes in behind the other two cities as a prospect due to two main factors:

- The first factor is broader economic conditions. Rapid economic growth in Austin means owners (and therefore investors) can be confident that if they are able to maintain rents at a certain level they'll have high occupancy and low turnover. This helps with underwriting. In Houston, factors like recovery from flooding and the economic downturn in the oil & gas industry mean the basic economic conditions are not as strong as in Austin.

- The second factor is the lack of zoning in Houston. According to David, the lack of long-term vision and sense that things could change at any moment (lack of stability) make investing riskier.

When we asked whether there were any factors that could make expanding to Houston more appealing, David frankly responded “Money!” He added that he would want to see a minimum of $50m-$100m in discretionary capital raised locally because he had a big struggle getting started in Austin with less than that.

In terms of cooperating with local Houston stakeholders, David said that should they choose to expand to Houston, they would hire local talent as part of their staff. With respect to whether local investors could have some influence over specific projects, David suggested that there could be three options by which capital could come to his fund and be spent in Houston:

1. Investors come to him, invest in the fund, and he has full discretion over how to use that funding.
2. Project-by-project joint ventures between the Austin Strike Fund and LISC Houston or another entity, where both sides bring capital to the table.
3. A hybrid, where someone invests a significant amount in the Austin Strike Fund and the Fund does a “sidecar” that would be focused on a certain defined box of properties in a given market.

David was very open to having another call with LISC Houston to “hash through some ideas.”

We also asked David about what it would take to attract developers who do NOAH preservation to Houston. He observed that “you have to have an exceptionally good developer partner if you’re in Houston because it’s such a local game there and things can change pretty rapidly.” He also observed that “there’s this bias against Houston throughout Texas” which might make it more difficult to entice other Texas developers who do NOAH preservation work to engage in Houston.

<u>NALCAB Catalyst Fund – Noel Poyo</u>

*Key points: The first step is to make sure Avenue CDC is “drinking from a firehose” in terms of available capital. Before launching something broader (like a fund), be crystal clear on what the value-add is.*

The NALCAB Catalyst Fund was profiled in detail in Grounded Solutions’ and NHT’s final report to LISC Houston for this project. Noel described that NALCAB is a fundamentally different type of organization from LISC and others in that they have chosen not to open up local offices. Instead, as a membership organization, they engage in a market if they have a member that asks them to engage, which means they enter and exit markets over time.

Avenue CDC is a NALCAB member and has partnered with the Catalyst Fund on multiple deals. Noel wanted to be sure we also invited Robert from Avenue CDC to be on the call with him as we explored potential next steps. Noel emphasized that there’s no one else in the Houston market with the same level of commitment and capacity to do NOAH preservation deals as Avenue CDC. He was skeptical of the role of intermediaries and emphasized that it was important to be very clear about what the value-add would be of a group like NALCAB or LISC being involved.

He also emphasized that it would be very important to have more conversations with a wider group of stakeholders before launching a large NOAH preservation effort – the approach should “deeply reflect the diverse communities of color and immigrant communities that make up the low- and moderate-income community" in Houston. When probed more on what types of organizations he thought it would be important to involve, he noted that there will be a political push needed to achieve these NOAH preservation goals so it would make sense to involve advocacy organizations early.

He did recognize that there are optics challenges of just trying to get investors to invest in one developer; many major investors need to see involvement of national organizations to have confidence and enthusiasm. That's the main value that some sort of fund (either an existing fund like the NALCAB Catalyst Fund or a new fund put together by LISC Houston) could provide, in Noel's opinion. Robert added that an intermediary could also add value by helping to raise equity capital, specifically from national foundations and banks where local developers don't have connections.

With respect to the concept of local investor input/influence, Noel said that with the Catalyst Fund, when investors come in they agree to an operating agreement that gives them no say in how or where the fund will invest (though NALCAB will listen to their advice). He mentioned that sometimes they will enter into a CRA side agreement to commit to investing a certain amount in a given state or region. If investors want some concessions, e.g. on geography, NACLAB would want concessions as well, e.g. on terms. But they have never allowed investors to choose partners or projects.

<u>Enterprise Multifamily Opportunity Fund – Chris Herrmann</u>

*Key points: This fund seeks market-rate returns. It invests project-by-project, not in certain geographies. The fund would be more likely to fund Houston-area projects if there were also a local source of capital.*

The Enterprise Multifamily Opportunity Fund is a conventional equity product used to finance the acquisition and preservation of existing restricted affordable and unrestricted workforce rental housing communities by responsible operators. To date, the fund and its predecessors have preserved over 8,000 affordable homes. Project are acquired on a joint venture basis between Enterprise and local real estate operators. Under this program, the majority of the acquisition cost will be financed by conventional debt (up to 80 percent LTV) and the Fund will provide 80 to 90 percent of the resulting equity gap. The joint venture partner will be responsible for co-investing the balance of the equity gap. The Fund invests in existing multifamily residential rental projects with 100 or more units, with a minimum current occupancy rate of 80%. Projects must have at least 50% of their units occupied by and affordable to households with incomes at or below 80% of the AMI.

This fund is trying to get as close to market-rate returns as they can (double-digit IRRs that are fully leveraged) and using that to get to scale . Chris acknowledged up front that their focus on market-rate returns doesn't allow them to go as "deep on mission" as they might like or as we might be looking for. He pointed out how challenging it can be to try to get cheap capital at any kind of meaningful scale and noted that there is example after example from around the country of that being a challenge—including David Steinwedell's difficulty raising capital for the Austin Strike Fund, Enterprise's challenge raising capital for their Housing for Health fund in the Bay Area, the Housing Partnership Equity Trust's difficulty raising equity in particular, and the JBG Smith Washington Housing Initiative vehicle's similar challenges.

This fund invests project-by-project rather than in targeted geographies, although they do have some general geographic targets that their CRA investors ask them to work in. However, since they have six different large CRA investors, their geographic targets tend to add up to almost the entire country. They are more likely to invest in a project if there are local resources available to supplement Enterprise's funds—be that a local tax exemption, the opportunity to obtain Section 8 vouchers, other investors willing to subordinate their investment to Enterprise's, or clear take-out sources for bridging to Housing Credit syndication. So they generally rely on sophisticated local developers to pull together a compelling deal. They have done many deals with the Austin Housing Authority.

To date they have invested in two projects in Houston: one Housing Credit project and one market-rate project that's being converted to 51% affordable (presumably in partnership with the Housing Authority to get the tax exemption). Both of these projects have been with for-profit developers. Chris thinks there's an opportunity to "drag value-add developers in [the direction of NOAH preservation]" with the right financing resources.

With respect to how a potential partnership might work, Chris was clear that this would not be a situation of "Houston-area investors, come invest in our fund at Enterprise, take a low return, and we'll go invest in Houston projects with that money." However, they would likely be more willing to fund projects in the Houston area if there were a local source of capital that could contribute to the deal and make Enterprise's money more impactful. That would also of course allow for more local control, as the local investors would choose which projects they invest in (and therefore which projects would be more likely to get Enterprise funding).

With respect to what it might take to attract national developers who do NOAH preservation to the Houston market, Chris felt very confident that if we create a "uniquely attractive financing structure" developers will follow the money and come. When I asked whether, say, a $25m local fund that only needed 2% returns would be attractive enough to bring both developers and Enterprise's resources to Houston, Chris hedged and said it would depend. He pointed out that additional local resources (e.g. a tax exemption) would make it more appealing. He also pointed out that value-add is "out of style" right now, perhaps meaning there will be less competition for NOAH properties in the short term.

**Interviews with Developers**

<u>POAH – Julie Creamer and Rodger Brown</u>
*Key points: NOAH preservation is challenging under any circumstances and nearly impossible without public participation and buy-in. POAH would be hesitant to enter a market where NOAH preservation was not a clear priority of the local government.*

POAH is a national nonprofit organization whose mission is to preserve, create, and sustain affordable, healthy homes that support economic security and access to opportunity for all. As a nonprofit developer, POAH owns and operates more than 11,000 affordable homes in eleven states and the District of Columbia. (POAH has not preserved or created any affordable homes in Texas.) Founded in 2001, POAH has been in the NOAH space for nearly 5 years, and has developed specific criteria related to affordability, risk, return and project characteristics when considering potential NOAH deals. (See attached.) Preserving NOAH is a priority for POAH, and the organization has earmarked specific funds to use in this pursuit.

When we asked POAH about their experience in the NOAH space, Julie and Rodger launched into a detailed discussion of how challenging preserving NOAH is, in any market/environment. For the most part, their experience acquiring NOAH properties has been consistent with the obstacles identified by

Houston developers in the first part of this work: competition is fierce and affordable developers who intend to maintain rents as affordable are competing with value-add developers who drive up the acquisition price. When they look at NOAH properties, then, part of what POAH considers is the level of public participation, noting that it is an absolute necessity to getting these deals done. This participation can come in several forms – soft funds, subsidy, land/property donation, tax abatement, etc. – but having the local government committed to and prioritizing NOAH preservation is critical.

In Massachusetts, where POAH is based, they've had great success getting public agencies to prioritize NOAH preservation and commit funding to it. Part of this success came from POAH and others making the case that preserving NOAH required less pubic investment than building new affordable units. The biggest motivator to getting the public to prioritize NOAH preservation, though, was when a NOAH property was acquired by a value-add developer who immediately raised rents on 325 units in the Mattapan neighborhood of Boston. As a result, councilmembers and other elected officials received phone calls from residents who were concerned about their ability to pay the increased rents. Preventing this from occurring again become a priority for the City. POAH had bid on the property and was ultimately just $250,000 shy of the winning offer on a $56 million deal. Though the City had agreed to provide some capital for the acquisition, POAH had been unable to secure the City's participation through tax abatement, land banking play, or project-based vouchers, each which may have made the difference in POAH's ability to acquire and ultimately preserve the property.

Since the loss of these naturally affordable units, the City of Boston, in the 2018 update to *Housing a Changing City: Boston 2030*, has committed to preserving 1,000 units of naturally occurring affordable housing, recognizing that "the fastest way to increase supply of affordable housing and prevent displacement is to acquire, not build." To reach this goal, the City and the Massachusetts Department of Housing and Community Development (DHCD) recently launched CAMA (Capturing Affordability through Market Acquisitions), an initiative to support high capacity developers to acquire larger portfolios of naturally occurring affordable market developments. (LISC Boston is a CAMA originator.) CAMA aims to "create partnerships between high capacity developers with access to equity and strong track records & lenders, equity and subsidy providers to:

- Certify eligible developers for partnership with the City of Boston and lending partners;
- Help identify potential properties;
- Expediate and coordinate review of potential acquisition deals;
- Respond quickly about funding availability and eligibility requirements;
- Coordinate on the road map from project identification to acquisition;
- Share best practices about competitive private market offers."

Outside of Boston, Columbus, Ohio has been POAH's next highest priority for acquiring and preserving NOAH. Columbus is home to both a lot of "product" – naturally affordable properties that are being sold and flipped – and a lot of warehouse workers who need affordable housing but earn too much money to qualify for traditionally subsidized affordable housing (like Housing Credits). Recognizing both of these, the City reached out to POAH, asking what they could do to attract high-capacity, mission-oriented developers like them. This level of interest from the public sector caught POAH's attention.

There are, of course, some limitations to public resources, primarily the fact that they can be slow (and in order to compete with market-rate developers, POAH and others need access to fast capital). Being able to bridge to public dollars is important, and in many cases LISC has played this role for POAH.

Another challenge POAH identified was convincing a seller that their NOAH property was already an affordable property. Because the NOAH property is, by definition, unsubsidized, some owners struggled to recognize their property as an affordable housing asset. In at least one case, POAH was able to match an offer from a market-rate developer, but ultimately the seller chose to go with the traditional (non-affordable) buyer. The seller didn't recognize their property as an affordable property and was hesitant to enter into a deal with a nonprofit (even one with an impressive track record like POAH) whose aim was long-term affordability.

<u>Jonathan Rose Companies – Nathan Taft</u>
*Key points: Jonathan Rose has access to tremendous resources (both through their own funds and though outside relationships) and very frequently partners with local developers who bring invaluable knowledge of the market and the political landscape. Texas has not been one of Jonathan Rose's target markets and, from their current perspective, Houston does not match their priorities. Would need a very competent local partner to make it attractive. For now, even in markets with which they're familiar, Jonathan Rose is proceeding very cautiously with NOAH as a result of COVID-19 and the uncertain economic outlook.*

Jonathan Rose Companies (Jonathan Rose) is a national development, owner's representative and investment management firm that has developed and preserved over 12,000 units of affordable and mixed-income housing. By either doing the work alone or working in joint venture with local partners, Jonathan Rose acquires affordable and mixed-income multifamily housing in transit-oriented or walkable locations and preserves its affordability, improves its economic and environmental performance, and enhances the lives of its residents.

Jonathan Rose was mentioned during some of the consultant team's other calls as a valuable partner in the NOAH space, and when we spoke with Nathan he confirmed that they are in the process of launching an Affordable Housing Preservation Fund which will consist of $500 million (of conventional real estate private equity) to purchase properties. Though the fund is not exclusive to NOAH, NOAH is an eligible use for the fund. This fund, expected to launch by the end of the year, will be the fifth such fund rolled out by Jonathan Rose Companies. Though affordability restrictions will be project specific, the fund as a whole has a minimum affordability mandate that matches Housing Credit affordability restrictions.

Whether through its own fund or by leveraging national debt relationships, Jonathan Rose is well positioned to provide needed capital, and co-development and redevelopment expertise. When looking for development partners, they seek someone with a lot of on-the-ground experience, knowledge of the local market and specific neighborhoods, and sensitivity to local politics. Though Texas is not currently on their list of target markets, and Houston, specifically, isn't immediately attractive to them (Nathan noted the sprawling nature of Houston, which is different than the dense urban areas where they traditionally work and makes it challenging for an outsider to get a handle on price differentiators), Jonathan Rose would look for similar on-the-ground experience in a partner if they were to consider a Houston deal. More specifically, they would seek someone who has the reputation for doing the right thing and the relationships needed to readily walk into local public agencies to get a deal done.

Throughout our conversation, Nathan emphasized the importance of “brand consistency” when partnering on deals.

Because Jonathan Rose is an outsider to the Texas market, they’d be especially interested in a local partner focused on a particular submarket. Though Nathan acknowledged that bidding on properties on the open market is the best way to get to know the intermediaries in the market (and encourages developers to continue this pursuit, even if just to better understand the market and the players), he recognizes that “special circumstances,” like acquiring a property off-market, can be the most successful way to preserve NOAH. To work in Houston, Jonathan Rose would need a partner capable of identifying these properties.

Though Jonathan Rose has acquired NOAH properties “coast to coast,” they were specifically asked by stakeholders and constituents to do work in Minneapolis. Several factors made this prospect attractive to them, including good economic metrics, a local NOAH fund (the Greater Minnesota Housing Fund, profiled in the feasibility assessment), general happiness/satisfaction of Minneapolis residents, and “a progressive focus on housing by the local government who wants to see some of this stock preserved.” This observation echoes what we heard earlier from POAH, about the importance of public participation and commitment.

Despite all of these promising factors in Minneapolis, Jonathan Rose has pulled back here and in other markets where they’ve been pursuing NOAH. The economic uncertainty that is resulting from COVID-19 makes it difficult to underwrite revenue on NOAH properties. For now, they have a lot more confidence on 100% affordable deals.

<u>National Church Residences – Matt Rule</u>
*Key points: National Church Residences is active throughout Texas and have had great success doing Housing Credit preservation deals in the state. Though they’ve acquired NOAH properties and preserved them as Housing Credit properties in other markets (especially Michigan), doing so in TX doesn’t seem viable given the competitiveness of the 9%s (and TDHCA’s definition of “at-risk,” which excludes NOAH properties) and the size of project needed to make 4%s work. To make local Houston developers more attractive potential partners, Matt suggested getting certified as a Historically Underutilized Business (HUB).*

National Church Residences (N^^) is a not-for-profit organization that is committed to excellence that transforms the lives of the people it serves. N^^ is an innovative leader in integrating housing, health care and supportive services, serving seniors of all income levels and families. With 340 communities in 28 states and Puerto Rico, National Church Residences is the nation’s largest not-for-profit provider of affordable senior housing. N^^ owns and operates 29 properties in Texas, five of which are in Houston.

Since 2010, N^^ has had a Texas-based team member. Though previously based in San Antonio, that staff member is now based on Austin, granting N^^ with access to the policy making and legislative process of the state capital. Though N^^ has done several Housing Credit preservation deals throughout the state (three last year and expect to do another three this year), they haven’t done any in Houston. (N^^ does own several properties in Houston, though none of them are Housing Credits properties.)

As an organization, N^^ has acquired several NOAH properties and repositioned them as Housing Credit properties. This work has been primarily in Michigan, where there are significant midrise, mixed-income senior apartment complexes. Once acquired, N^^ transitions the tenant base to preserve the property through the use of the Housing Credit. While this model as worked exceptionally well for N^^, Matt was clear that such a model didn't seem practical in Texas. Like many states, the 9% Housing Credit is incredibly competitive in Texas. As Matt explained, in order to be competitive in the 9% round as an existing property, an applicant has to compete in the "at-risk" pool, which mandates existing TDHCA debt or HUD financing. This requirement excludes NOAH, by definition, from competing. (Matt did mention that some owners in the state buy NOAH properties and immediately put a small amount of TDHCA debt on them in order to them compete in the 9% round.) If the 9% Credit isn't an option for preserving NOAH, then, it leaves only the 4% as a Housing Credit option. Making the numbers work on a 4% deal, however, requires a large property (or pool of properties) – Matt suggested 100+ units, which, according to Matt, is larger than the typical NOAH property.

Matt went on to explain that even if a NOAH property were able to compete for 9%s or make the 4%s work, the structure of the state's property tax exemptions for nonprofits makes it less appealing to use the Housing Credit. Once Credits are placed on the property, the ownership structure converts to a for-profit, as tax credit limited partnerships are for-profit, taxable entities. (The general partner and/or limited partners may be nonprofits but the tax credit LP is for-profit.) As a for-profit entity, the property is no longer eligible for the state property tax exemption provided to nonprofits and the property. N^^ owns several properties throughout Texas that they'd be interested in converting to Housing Credit properties but doing so would increase property taxes by $100,000 per year, which would immediately put the property underwater.

On the subject of partnering with local developers, Matt said that N^^ has done this fairly successfully, though primarily on new construction. As we heard from Nathan Taft, local partners bring knowledge of the local communities and their dynamics, which is the same point that Matt made. N^^ also relies on local partners to identify appropriate local contractors, etc. As a final reflection, Matt mentioned Historically Underutilized Businesses (HUBs), and TDHCA's emphasis on them. N^^ has partnered with two HUBs and had very positive experiences, but because of demand to partner with HUBs, both have been at full capacity each time they worked with them. Matt offered that the lack of quality HUBs and the demand to partner with them makes HUBs a hot commodity throughout the state. If local Houston nonprofits are able to get certified as HUBs, Matt suggested that they would be more valuable and attractive as potential partners.

Lastly, Matt encouraged LISC to be in touch with Jervon Harris, a real estate developer who lives in Houston. N^^ has partnered with Jervon on several deals and is currently in the process of working with him to find a new construction site in Houston.

<u>Avenue CDC – Robert Fiederlein</u>

*Key points: Building capacity requires learning by doing. The best way for local Houston developers to build the skill-set necessary to preserve NOAH is partner with a competent developer (either Avenue CDC or a national organization) to work alongside them as they do an actual deal, after which the nonprofit will be ready to lead on a NOAH transaction with Avenue (or a national org) providing assistance.*

While the first portion of the consultant team's engagement in Houston uncovered that there aren't many local developers actively pursuing NOAH deals, Robert made it clear that this doesn't mean they can't learn to do it. In fact, he emphasized that NOAH is easier than doing a Housing Credit deal – if a developer can do a Housing Credit deal, it would be an easy transition for them to learn to do a NOAH deal. Because Avenue CDC has already "learned by doing" by virtue of JPMC's capacity-building grant, they're now in a position to help other nonprofits learn the ins and outs of identifying, acquiring, and preserving NOAH properties.

To do this, Robert proposes having a local nonprofit sit with Avenue while Avenue completes a NOAH transaction and, once the nonprofit has experienced the process, have them go through the process on their own NOAH deal with Avenue's assistance. Doing this would require multiple resources:

1) Operating support for the time spent doing the work;
2) Predevelopment funding to do due diligence on potential properties;
3) Capital to actually acquire and preserve the property.

Going through these steps would impart the skills needed to:

- identify appropriate properties (Robert suggested that the best approach, as explained in the white paper the Avenue team wrote about the JPMC grant, is to pursue off-market deals);
- arrange financing;
- understand the typical legal and property documents;
- manage the property from both an asset management and property management perspective.

Additionally, local nonprofits would learn how to become "lendable" to a major lender, i.e. how to make themselves attractive to large banks, understand how both the organization and the project get underwritten, etc. Since the consultant team presented to Houston stakeholders in April, Robert said that they've been approached by several potential investors, all of whom are interested in better understanding how NOAH fits into the larger affordable housing field and how they can best support it. Robert admitted that while potential investors in Houston are still figuring out how to structure a potential investment (for the most part, they feel more comfortable with traditional grants), Avenue CDC is, simultaneously, still figuring out how they would work with an investor. Avenue has a very clear sense of their own financial limits and have been clear throughout our engagement on this process that what they need is equity.

**Reflections and Options for Next Steps**

When we began this investigation into other options for NOAH preservation, LISC, JPMC, and the consultants were hopeful that there might be an existing NOAH preservation fund that was immediately interested in expanding to (and bringing resources to) the Houston market, and/or non-Houston developers who currently do NOAH preservation elsewhere who were immediately interested in expanding to the Houston area. Unfortunately, neither of those proved to be the case.

That said, these additional interviews did highlight some additional next steps that build on the recommendations included in the feasibility assessment, and which LISC Houston and its partners could choose to pursue to advance NOAH preservation in Houston. We outline them here. These next steps are presented as a set of viable options, rather than a strong set of recommendations; LISC Houston may choose to pursue only a subset of these steps, rather than the whole list.

Note: Short-term, medium-term, and long-term refer to the timeframe required to bring the described options to completion, rather than a *sequence* of tasks to complete. LISC Houston will likely want to begin taking action now, simultaneously, on all the options they choose to advance, including those that will take longer to bring to fruition.

Short-term Options

1. **Help Avenue CDC get access to additional equity to preserve NOAH**. Avenue clearly has the interest, ability, and capacity to preserve more NOAH properties; their current barrier is lack of capital in the form of equity. In the short term, helping them get access to more equity is by far the most effective way of advancing NOAH preservation. This step could include:
    a. **Helping local investors figure out how (mechanically) to invest in Avenue CDC**. Local investors are still figuring out how to structure a potential investment; for the most part, they feel more comfortable with traditional grants. LISC could provide technical assistance on structuring investments.
    b. **Helping Avenue CDC figure out how to work with investors.** Robert acknowledged that, just as investors need assistance structuring their investments, Avenue needed assistance on how to work with investors of that type.
    c. **Connecting Avenue CDC to potential national investors, including Jonathan Rose Companies and the Enterprise Multifamily Opportunity Fund.** While Jonathan Rose Companies are wary of doing business in Houston, they did say that a very competent local developer could potentially attract them to bring their equity to the table. The Enterprise Opportunity Fund might be willing to invest in Houston-area projects if those projects also brought local investment (see step 1a above).

2. **Launch a "learn by doing" capacity-building initiative for local Houston-area developers,** as Robert outlined (see interview notes earlier in this memo)**.** This option builds on the recommendation in Phases 1 and 2 of the feasibility assessment around building developer infrastructure for NOAH preservation work.

Medium-term Options

1. **Bring together interested local philanthropic investors to create a small (~$25 million) NOAH preservation fund and use those funds to leverage additional investment from the Enterprise Multifamily Opportunity Fund**. Because the national developers we spoke with were clear that they would want to see local public-sector support for NOAH preservation before entering the Houston market, the success of this option relies on there being local Houston-area developers who have the capacity to do this work.

Long-term Options

1. **Engage in education and build consensus around local NOAH preservation to get commitments for significant local investment in NOAH preservation, particularly from the public sector.** After securing public commitment for NOAH preservation, re-evaluate whether to form a Houston-specific NOAH preservation fund or seek a partnership, e.g. with the Austin Strike Fund, and reach out to national NOAH developers to provide an update. This option builds on the recommendation in Phases 2 and 3 of the feasibility assessment around securing commitments for investment in NOAH preservation and re-evaluating whether to launch a

NOAH preservation fund.

2. **Consider engaging in education and advocacy around state policies or regulations that make NOAH preservation difficult**, such as TDHCA's narrow definition of "at-risk" that excludes NOAH properties from being competitive for 9% Housing Credits, and the structure of the state's nonprofit property tax exemption, which excludes Housing Credit partnerships from taking advantage of it (and thereby makes preserving NOAH properties with the Housing Credit less attractive). (*Note that this property tax exemption, available to nonprofits, is separate from the tax exemption factored into the financial analysis included in the feasibility assessment, which requires partnering with the housing authority.)*

Regardless of which options LISC Houston chooses to pursue, there is value in LISC Houston having additional conversations with those parties engaged in NOAH preservation. Three people with whom we spoke who merit further conversation are Noel Poyo from NALCAB, Nathan Taft from Jonathan Rose Companies, and Robert Fiederlein from Avenue CDC.