

Attachment 4

Concept Paper

Strategic Acquisition Fund for Transit Oriented Development

Background

The first phase of the Milwaukee's Streetcar system will soon become operational, providing additional transportation options for Milwaukee residents and employees. Planning is underway that would extend the benefits of the system to adjacent neighborhoods north and south of downtown, as well as to construct an East-West Bus Rapid Transit line connecting the lakefront and downtown to Milwaukee's Near West Side neighborhoods and the regional Medical Center on the County's West Side. Coupled with significant new investment in downtown and adjacent neighborhoods, Milwaukee has undertaken a major planning effort to ensure that new development and investment in transit directly benefits low and moderate income residents in the neighborhoods surrounding downtown.

These benefits include affordable and high quality housing options connected by high-frequency transit to major regional job centers. The City of Milwaukee is finalizing an Equitable Growth through Transit Oriented Development Planning Study that has recommended a number of strategies to promote and preserve affordable housing near transit. In addition, the Department of City Development has recently completed an "Anti-Displacement Plan" that recommends policies and programs to ensure that positive change in Milwaukee neighborhoods is equitable and benefits *rather than displaces* residents. These goals are also consistent with the vision and action agenda of MKE United.

An important strategy that has emerged in this work is the creation of a Strategic Acquisition Fund (Fund). The Fund would be a proactive tool that would be utilized to finance the acquisition of key properties nearby current or planned transit corridors and in neighborhoods at risk of displacement that can be developed or preserved for mixed income and affordable housing.

Need

Affordable housing development involves a complex array of financing resources which require time to assemble. The Fund would provide a patient and responsive source of capital for acquisition purposes. This will allow sites to be controlled as they become available, so development opportunities are not lost or become unaffordable as transit and other investments drive up land costs.

The Fund would also encourage and spur development interest, not only by providing an additional financing tool, but as evidence of a priority and a commitment to the development and preservation of affordable and mixed-income housing in near downtown neighborhoods.

Similar funds that have been deployed elsewhere in the country in conjunction with planned transit investments have proven to be a critical step in creating and preserving affordable housing in areas experiencing rising housing prices.

Partners

The City of Milwaukee will work with outside partners to develop and implement the Fund. These efforts have been informed and supported by a number of local stakeholders, including Harbor District Inc., the Historic King Drive Business Improvement District, Near West Side Partners and the Greater Milwaukee Foundation.

Goals

The goals of the Fund are to:

- Provide financing for the acquisition of key properties that will be developed and preserved for affordable and mixed income housing consistent with residents' vision for their neighborhoods.
- Create a financing tool that is nimble and will be able to accommodate the need to rapidly respond to acquisition opportunities in neighborhoods with rising property values.
- Support the strategic development goals of the City and its partners in City neighborhoods.

Sites

The Fund would prioritize sites that will be developed with projects that:

- Are consistent with the housing goals and needs identified in recent planning efforts, including mixed income and affordable housing (including the preservation of naturally occurring affordable housing), and preventing the displacement of existing neighborhood residents.
- Can be catalytic to encouraging additional development and improvement in the neighborhood.
- Will leverage other financial and neighborhood support.

Borrowers

Likely borrowers for the loan Fund:

- Non-profit and for profit housing developers that have the capacity to undertake affordable and mixed income projects.
- Established rental property owners with a proven track record of responsible property ownership and management.

Structure

A multi-investor Fund will help disperse the risk perceived in “pre-development” lending. The City will work to assemble a number of investment partners for the Fund, which could include the City, as well as local philanthropic organizations, lenders and investors. The array of partners will allow the risk associated with acquisition financing to be stratified to meet both the needs and limitations of the participants and the goals of the Fund, with the City of Milwaukee accepting a greater level of risk to encourage a broad array of investors.

In general, the Fund will be:

- Revolving, with the anticipation of payback. Loan terms will generally be between 2-5 years, with competitive interest rates and repayment when a project has been structured, financing commitments have been obtained and the project has been closed.
- Responsive, with an expedited underwriting and decision making processes built in so as to be able to quickly react to changing real estate market conditions and acquisition and preservation opportunities.
- Mission driven, in that projects utilizing the Fund will comply with restrictions to ensure long-term affordability. The Fund will have the ability to serve projects that target multiple levels of affordability and could finance the acquisition of sites for development models that maximize the term of affordability including limited equity cooperatives or land trusts.

The Fund will collaborate with local financing and resource partners, as well as technical assistance providers to insure successful outcomes for applicants and users.

Administration of Loan Fund

The City will identify a Fund manager with experience in underwriting and lending for real estate development transactions. The Fund manager would collaborate on implementing the Fund, including developing operating procedures and underwriting and application guidelines for projects which would include criteria to qualify both applicants and projects. Once established, the Fund manager would administer applications and service loans.

In addition, an oversight structure (committee) will be established to guide the operation and mission of the Fund.

Initially, a Funding source will be identified to cover the costs of the Fund administrator. Once implemented, operating costs will be covered by loan fees.

Next Steps

- Finalize detailed plan for the Fund
- Identification of preliminary financial commitments for the Fund
- Identify a source of “startup” support for the Fund administrator
- Obtain preliminary commitments from Fund participants
- Identify Fund manager
- Work with Fund manager to develop oversight structure, operating procedures, applications process and underwriting guidelines
- Finalize financial commitments with participants and close
- Launch Fund and begin accepting applications