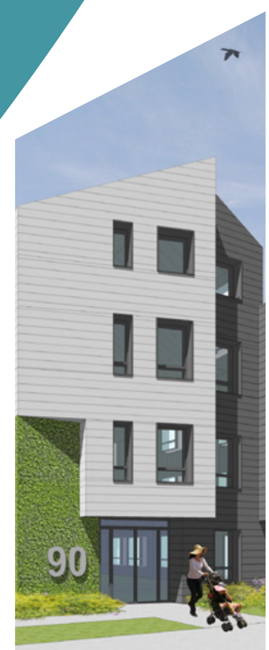
10 Steps to Investing for Equitable Impact on Community Health and Sustainability



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Massachusetts Housing Investment Corporation

About Us

The Conservation Law Foundation is focused on forging a healthy, thriving New England – for generations to come. The health, well-being, and economic success of our communities are tightly linked to the health and well-being of our environment and our planet, and vice versa. CLF protects New England's environment for the benefit of all people. We use the law, science, and the market to create solutions that preserve our natural resources, build healthy communities, and sustain a vibrant economy. Through partnerships with public and private investors, philanthropy, and community development financial institutions, we provide capital to invest in creating more walkable, affordable, vibrant neighborhoods for people to live healthier lives in healthier, inclusive neighborhoods. We focus on investing in opportunity, measuring impact, and creating data with people and for people in making decisions about the future of communities.

The Massachusetts Housing Investment Corporation is a leading private investor and lender providing innovative financing for affordable housing and community development throughout New England. As a mission-driven nonprofit, we are committed to stimulating private investment in neighborhoods of greatest need. As a flexible, proactive, hands-on partner, we add value to sponsors and developers looking to create better neighborhoods through quality affordable housing and sustainable community development. In our 30 year history, MHIC has raised $2.9 billion to finance over 620 developments that have created or preserved more than 24,000 homes and 5.9 million square feet of commercial space.

Everyone should live in a thriving community that supports good health and a sustainable future. Yet many people live in places that have experienced disinvestment for generations—this is bad for residents' health and for the local economy. Traditional models of investment in housing and retail tend to exclude low-income communities and reinforce the cycle of disinvestment, perpetuating disparities across generations.

This brief is focused on a new, unique model of investment designed for equitable impact on health and sustainability. This impact-focused approach is accomplished by raising funds with lower-cost capital and longer-term investment periods, paired with rigorous screening for community, health, and environmental benefits. This investing approach offers a more realistic timeline for seeing appreciation of real estate value in historically marginalized neighborhoods and does not rely on significant rent increases to pay back investors. This report is designed as a high-level overview to inform other efforts to invest in housing and retail in ways that catalyze equitable changes in neighborhood health and environmental conditions, based on what we have learned from creating the first fund of this kind in Massachusetts.

This report is grounded in our experiences creating the Healthy Neighborhoods Equity Fund (HNEF), a private equity fund investing in mixed-income, mixed-use real estate developments along transit systems in Greater Boston urban neighborhoods. Co-sponsored by Massachusetts Housing Investment Corporation (MHIC) and Conservation Law Foundation (CLF), HNEF invests in developments that improve the environment, spark economic growth, strengthen neighborhoods, and have the potential to improve community health over time. HNEF I, our first fund of $22+ million, supported nine developments that created 586 new units of mixed-income housing, 48,323 square feet of commercial space, and more than 110 permanent jobs, primarily in low- and moderate-income neighborhoods. HNEF also pioneered the use of HealthScore, an innovative investment screening tool that integrates qualitative and quantitative data to examine a range of potential impacts.

While our learnings are presented in a step-by-step fashion in this document, the process, by design, is far from linear. Every step in this process is a chance to learn, reflect, and improve the fund model based on real-world conditions and development proposals. We hope by sharing what we have learned from creating HNEF, we can make more funds of this kind possible to support a healthier, more prosperous, more sustainable future—for everyone, in every neighborhood.

10 Steps to Investing for Equitable Impact on Community Health and Sustainability

Designing the Fund

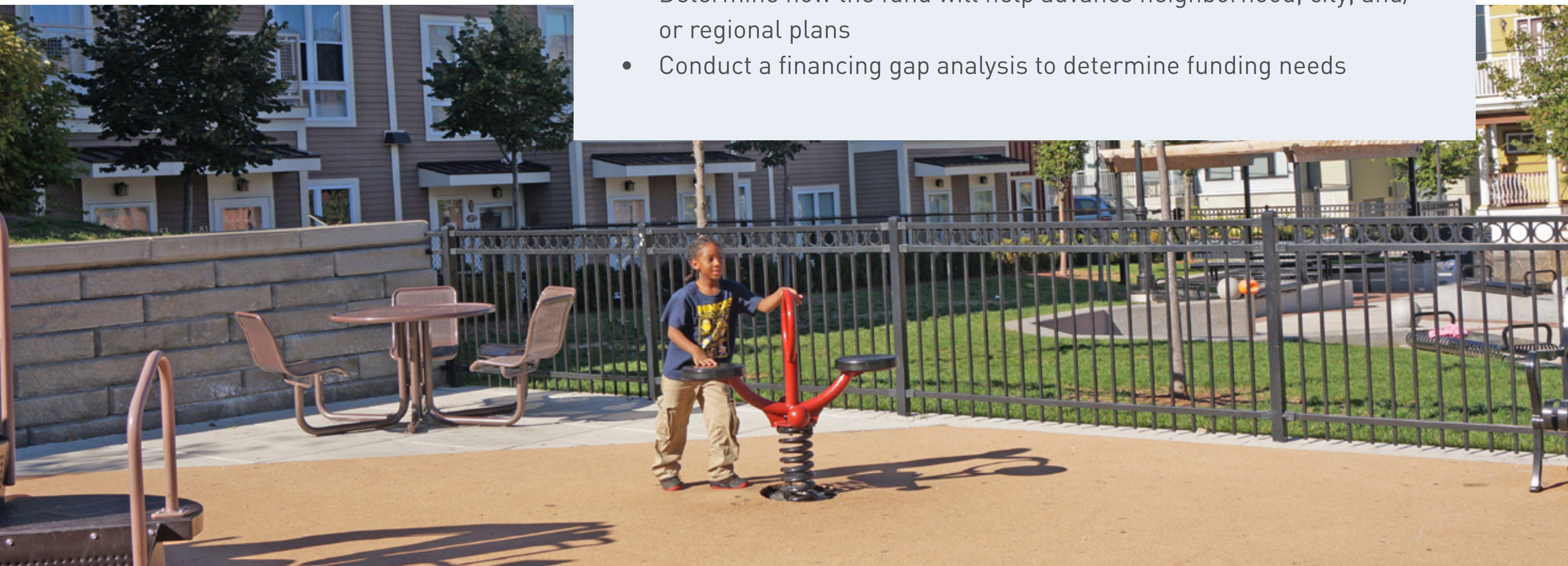
STEP 1

Determine policy context and goals

The first step is tapping into existing planning efforts to understand community needs and investment opportunities in the region. This process often brings together public and private stakeholders in order to determine goals of new investments. In designing HNEF I, the fund co-sponsors, CLF and MHIC, connected with the Metropolitan Area Planning Council's (MAPC) 30-year planning process for the Greater Boston Region. Through extensive public outreach and participation, MAPC established a series of development goals for the region. The plan also determined that the historic pace of development around transit station areas was insufficient to meet development goals of creating 76,000 housing units and 133,000 new jobs in transit station areas by 2035. Additional analysis found a significant need for patient, longer term investments for mixed-income, mixed-use projects and loans for acquisition and pre-development of affordable housing and community facilities.

Actions in this step include:

- Convene a working group on fund development, including local stakeholders such as resident advocacy groups, developers, and local planners to serve as advisors on fund goals, structure, strategy, and impacts
- Determine how the fund will help advance neighborhood, city, and/or regional plans
- Conduct a financing gap analysis to determine funding needs



STEP 2

Develop a Theory of Change

Fund co-sponsors developed a research-based Theory of Change to guide the work and provide rationale for how and why a change is expected to occur. Informed by a review of relevant research and literature, the theory of change outlined the problem, activities, and potential near- and long-term outcomes. This is an important step because gaining clarity on the pathways for how change is expected to occur can both guide decisions about how to operationalize the work and provide the groundwork for evaluating the fund's impact. Though in HNEF I we developed the Theory of Change after designing the fund, we learned it would have benefited from incorporating this step to guide the work from the start.

> [HNEF is] a huge missing ingredient, especially when trying to develop a health equity-improving property in an area of distress. **– HNEF Developer**

Building on the HIA and lessons learned from early investments, the investment team expected to see outcomes including mixed-use, mixed income communities with conditions that promote good health and opportunity, along with changes in residents' perceptions of their neighborhood, sense of hope and control, lifestyle and behaviors, and ultimately, changes in health outcomes. The HNEF Theory of Change was later modified based on discussions with community partners in the Healthy Neighborhoods Study to include three contextual factors that are essential to achieving these outcomes: 1) transit-oriented development (TOD) is designed for current and incoming existing residents; 2) current residents are authentically and meaningfully engaged in the development process; and 3) residents experience new TOD and related features and opportunities.

> [Before HNEF], we had no internal ability to even try and measure neighborhood impact – nor any internal mandate to pursue such a platform. This has led to healthy dialogue that we should and must do this as we expand investments with our CDFI partners. **– HNEF Investor**

STEP 3

Develop or select an impact screening framework tied to the Theory of Change and consider complementary research approaches

Early in the conceptual development of HNEF I, we realized that we needed a robust framework for evaluating the potential impact of proposed developments on financial returns, environmental returns, community returns, and health outcomes. To support this process, we undertook initial research and a literature scan and commissioned a Health Impact Assessment (HIA) conducted by MAPC to guide the development of metrics to assess the health, environmental, and community benefits of proposed investments. Completed in 2013 and conducted at three sites around Boston, this HIA laid the groundwork for HealthScore, HNEF's impact screening framework. HealthScore uses a mix of qualitative and quantitative data to evaluate whether investments in real estate development have the potential to improve health, increase economic opportunity, and support environmentally sound developments. HealthScore 1.0 has more than 50 measures in total. At the neighborhood level, measures include:

- transportation access and utilization,
- alignment with community vision and priorities, and
- opportunities to reduce health disparities and advance regional health equity.

At the development level, measures include:

- housing choice and affordability,
- neighborhood walkability,
- economic opportunity,
- healthy food access
- green space access, and more.

The Theory of Change should guide the design of the impact screening framework used to screen investments.

> We've been considering the neighborhood impacts of our projects but only by gut feel. The metrics have been very interesting to learn about.
> **– HNEF Developer**

> The HNEF team taught us more about looking out for health impacts—to make sure the [project] has kayaks, bicycles, and walking paths. The sponsor typically looks at these as amenities but there is a health aspect to it as well. **– HNEF Developer**

CLF in partnership with MIT's Department of Urban Studies and Planning has co-designed a study to understand the impact of neighborhood changes, including new development on residents using a Participatory Action Research model. This research includes community-based organizations, and Resident Researchers, and is known as the Healthy Neighborhoods Study, which is underway in 9 communities in metropolitan Boston. HNS is not an evaluation of the fund but rather a parallel research study that continues to inform and shape the strategy and approach of the fund.

> Community trust is key. You can't go into a community and catalyze change unless the community wants you there. The community has to want the project and trust the developer. **– HNEF Developer**

Activities within this step include:

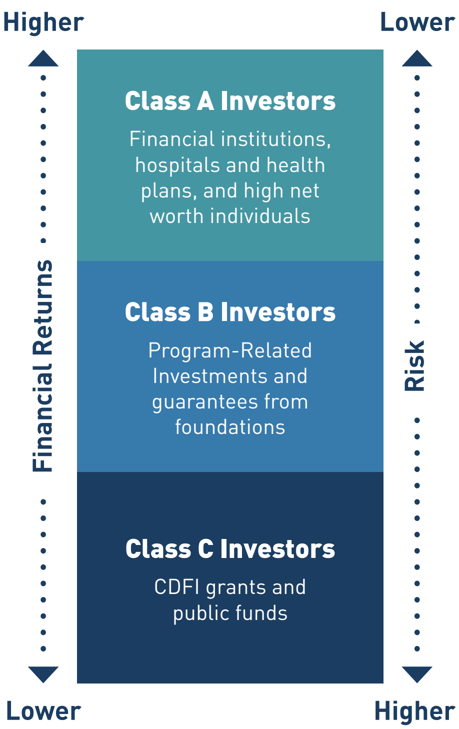
- Select or develop an overarching impact framework to screen potential developments for impact and guide decisions about which developments to fund and where they are most needed
- Develop metrics and supporting data to assess the potential health and environmental impacts as well as potential community benefits of proposed investments
- Consider using participatory research methods to explore and better understand the lived experience and priorities of local residents where the investments will be made

STEP 4

Build the financial and legal framework

Capital Stack

To attract investors, capital is "stacked" in the fund, so investors with greater flexibility (class B or C investors) are put in a "first loss" position in front of investors who require greater certainty on their returns in order to invest (class A investors).



Fund co-sponsors developed and tested the fund structure and financial model and assessed investor interest. This process helped the team understand how to distribute the funds raised to ensure that investors could meet their target returns. By investing in some developments with higher potential returns, the fund could also invest in weaker markets and double down on impact over financial returns. The team determined that a blended capital model was important to attract investors and mitigate risk. To attract investors, the capital is "stacked" in the fund, so investors with greater flexibility (class B or C investors) are put in a "first loss" position in front of investors who require greater certainty on their returns in order to invest (class A investors). After assessing the housing market in several locations, the HNEF I team decided to target a 10% return for each fund investment, with the goal of producing at least an 8% return to Class A investors over ten years, net of fees. Potential Class A investors included financial institutions, hospitals and health plans, and high net worth individuals.

This is how the HNEF I fund was designed, but other funds might look different—fund managers will need to determine what level of financial return is feasible and desirable and what their capital stack will look like.

The HNEF I team also obtained pro-bono legal counsel to provide input on securities matters for consideration in order to help frame the Offering Memorandum, the legal document explaining the terms and risks involved in a private investment to potential investors. Through this process, the HNEF team and partners decided to market the fund to only accredited investors, which exempted us from the need to register HNEF I securities with the Securities and Exchange Commission (SEC). However, it meant that we were not able to seek investment from the general public (i.e., unaccredited investors) via crowdfunding or other means.

Activities in this step include:

- Determine the financial structure of the fund
- Develop the financial model
- Determine fund size, mix of investment classes, and associated rates of return, balanced with impact goals
- Have early conversations with potential investors at different levels
- Run forecasts reflecting anticipated returns and various sensitivity analyses for investors
- Obtain legal counsel and draw up the legal structure and operating agreement for the work
- Frame and draft an Offering Memorandum, the legal document explaining the terms and risks involved in a private investment to potential investors
- Develop or refine an Investment Policy that details the goals & objectives of the investment, the process to identify and review potential investments, the underwriting standards, baseline underwriting assumptions, and basic business terms

Fundraising

STEP 5

Prepare for fundraising

HNEF is structured to provide "catalytic" capital to fill a gap to help make high-impact deals happen where they otherwise may not be feasible through traditional financing models. The team set out to raise Class B & C capital first—the "first loss capital" that would be more risk-tolerant and flexible on rate of returns. This outreach focused on public sector and philanthropic funds. The HNEF team also continued conversations with Class A investors to assess availability of Class A capital as we continued to raise funds from Class B and C investors.

A new and untested product is always an initial primary obstacle. But we came over for a meeting with MHIC staff to discuss the model, and from that point on we considered ourselves enthusiastic supporters. **– HNEF Investor**

Activities in this step include:

- Assemble a list of potential investors who care about environmental, community, and health outcomes that are not typically assessed or measured (foundations, advisors, family fund managers, key healthcare and education institution executives, high net worth individuals, and financial institutions)
- Identify "Champions & Enablers"—a group that can help expand marketing activities to cover a broad yet targeted base of contacts to raise Class A investor capital
- Develop initial marketing materials to explain the concept and show the value of investing in the fund for Class B and C investors
- Continue conversations with Class A investors to ensure the right balance of capital across the "capital stack"

STEP 6

Pitch potential investors

Fundraising for HNEF I started in late 2012 and picked up steam in 2013 as CLF and MHIC launched a "road show" to meet with a wide variety of high net worth individuals, family funds, foundations, and others. HNEF's blended risk and return profile was innovative and meant that potential funders often had trouble determining whether it would fit within the debt, equity, or philanthropic portion of their portfolio. Outreach required substantial education about impact investing, but through this process of outreach and education, HNEF I was successful in raising a $22+ million fund, with $7 million of Class B & C capital and $15+ million of Class A. MHIC invested $2 million in Class C from a combination of a CDFI Grant and a 0% interest loan from the state. The HNEF team secured Class B funding from the Boston Foundation and Northern Trust, supported by guaranties from the Robert Wood Johnson Foundation and Kresge Foundation. Class A investors included banks, Boston Medical Center, and high net worth individuals.

Activities in this step include:

- Meet with potential investors, share marketing materials, and answer questions
- Secure funding commitments

Building the Investment Pipeline

STEP 7

Produce marketing materials for developers

Beginning in 2014, as the HNEF I team gained traction on the fundraising front, we began creating marketing materials to support investment pipeline development. We created a slide deck to share with developers in March 2015 as well as a developer "tear sheet" (executive summary) in May 2015. We launched a dedicated HNEF website (HNEFund.org) in the spring of 2015. In addition, we created complementary marketing materials, including a HealthScore graphic, two-page project summaries, a one page "backgrounder" for use with investors, and a variety of presentations and publications.

Activities in this step include:

- Build out materials geared towards a developer audience including a web site, slide deck, term sheet, and other materials
- Get the word out via blogs, articles, presentations, and other publications and public appearances

STEP 8

Engage and pitch developers

As we refined our approach, we focused more on smaller mission-driven private developers and larger non-profit developers, including Community Development Corporations, that needed flexible, lower-cost equity to make the deals work. HNEF I set a 10-year investment timeframe, and HNEF developers typically receive a modest payment at closing and throughout construction to cover their overhead, while their investment returns come from operating cash flow and sale of the property. Because a portion of developers' returns come from the sale of the property, their interests remain aligned with those of long-term equity investors over the life of the investment.

Activities in this step include:

- Determine the right developers to engage with the fund
- Reach out to target developers, share information about the fund, confirm fit, and learn about relevant investment opportunities
- Encourage developers to engage community-based organizations and residents early in the planning and permitting process

Growing & Managing the Portfolio

STEP 9

Evaluate impact of investment opportunities

Financial underwriting and asset management are key to the success of the HNEF investment portfolio and HNEF's ability to meet its investors' return expectations. The HNEF team built upon this financial foundation with HealthScore, our unique impact scorecard to screen developments based on their potential to improve community and environmental health. HealthScore gave us a structured way to talk with developers about impact and what they could do to improve their score and increase the overall impact of their development. Sponsors perceived the HealthScore rating to be a seal of approval, creating "brand value" for their developments. However, combining impact scoring with financial underwriting meant that some developments that were otherwise financially attractive did not meet the impact threshold. Conversely, some projects that were attractive from an impact perspective did not meet the fund's financial underwriting criteria.

As part of the governance of HNEF I, both CLF and MHIC sit on the investment committee, which puts the impact scoring on equal footing with the financial underwriting. The investment committee structure also creates an opportunity to engage with other investors and community developers who bring additional expertise and perspectives to the work.

Activities in this step include:

- Establish governance systems and processes, and set up an investment committee
- In addition to financial underwriting, systematically screen investments based on their potential to improve health, increase economic opportunity, and support environmentally sound solutions
- Talk with developers about impact and where there are opportunities to improve plans based on initial HealthScore impact assessment
- Seek to make development more equitable, including prioritizing Minority Business Enterprises (MBEs) for construction contracts, requiring developers to seek out and respond to resident input in decision-making, and working with community residents to ensure that development plans reflects their needs and priorities

The biggest impact was making us think more deeply about retail. We became more knowledgeable about food deserts, for instance, and got to know the players there. We talked more seriously with partners about healthy food. We also used the scoring as an internal education tool. We often would show screenshots to staff and board and community meetings to talk about how the work was helping to transform the neighborhood. **– HNEF Developer**

STEP 10

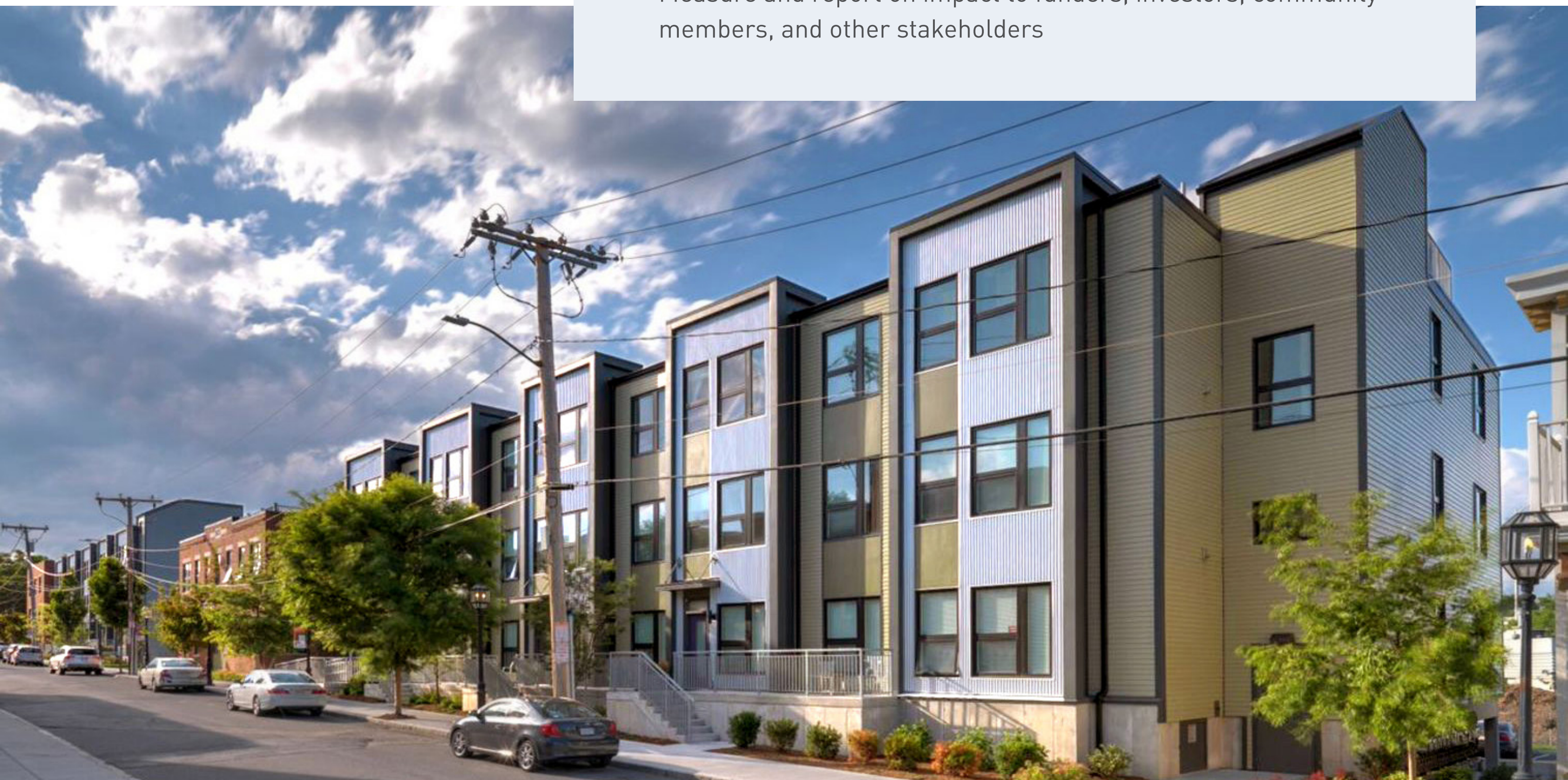
Measure and track impact

HNEF I effectively deployed over $22 million into new mixed-income, mixed-use development projects within a half-mile of public transit in Chelsea, Braintree, Haverhill, Beverly, and Boston, Massachusetts. HNEF developers have engaged 17 community-based organizations in the planning and permitting process, and HNEF investment has also leveraged an additional $144 million of investment, providing nearly $20 million in contracts to Minority-owned Business Enterprises (MBEs) in communities where the projects are located. Together, these projects will create 586 new homes affordable to a variety of income levels, and they will provide homes for more than 850 people, develop 48,323 square feet of commercial space, and create more than 110 permanent jobs. Finally, HNEF developments will plant over 100 trees, create three new healthy food businesses, include 137 bike storage spaces, and clean up long-vacant and toxic sites, impacting the lives of more than 20,000 people living in surrounding neighborhoods.

> I wish there were more funds out there that have other social purposes.
> **– HNEF Developer**

Activities in this step include:

- Continue to seek feedback from community organizations and residents about development impacts
- Measure and report on impact to funders, investors, community members, and other stakeholders



Lessons Learned

Our experience developing and implementing HNEF I surfaced numerous additional insights and key learnings, which we have summarized below.

Convene Key Players—Key stakeholders including resident advocacy groups, developers, and local planners informed the development of the fund and helped to tightly connect the fund strategy with the regional vision for transit-oriented development.

Grow Great Partnerships—It was critical to identify the right partners in order to make the fund a success, in this case including:

- Metropolitan Area Planning Council and other research partners
- Pro-bono legal counsel
- Catalytic (first loss) investors (e.g. government and philanthropy), health-focused investors (e.g. hospitals) and other institutional and private investors (e.g. banks and high net worth individuals)
- HNEF Committee members

Find the Right Fund Manager—It was critical to identify an experienced and trusted fund manager with real estate expertise, in this case MHIC.

Build the Financial Model Before Building the Fund—It was critical to develop a financial model that clearly presented the fund's economics in order to support management decision making and to inform investors. As the impact investing market continues to mature and allow for alternative impact investment models, communicating how this type of fund works and recruiting investors is likely to become easier.

Plan on Educating Your Investors—Investor outreach often requires educating and advising investors about what impact investing is and how it works.

Prioritize Impact Management—It was critical to identify an experienced and trusted organization to lead the development of an impact scorecard for the fund, in this case CLF.

Identify the Right Data Sources—It was critical to identify the right data sources in order to effectively assess and track project and portfolio impacts.

Bring Capital to the Table—MHIC's ability to invest its own capital allowed HNEF I to attract other investors.

Build the Project Pipeline Proactively—It was necessary to identify a network of high-capacity and mission-driven developers who could deliver high quality real estate projects in parallel with raising capital.

Learn, Iterate, and Improve—Every step in this process is a chance to learn, reflect, and evolve. For example, as the team learned from investments on the ground, from data uncovered through the Healthy Neighborhoods Study and from resident input, the theory of change evolved. Therefore, the HealthScore framework for measurement evolved along with it. For example, HealthScore 2.0 has added criteria around investing in more affordable housing in "communities of opportunity" with excellent public schools, while still focusing primarily on historically disinvested communities. In addition, it includes more robust criteria focused on climate resilience, mitigation, and adaptation.

Recognize That Fund Development Takes Time—Establishing HNEF I as an impact investment fund required considerable time and patience, which is typical for a first-time fund, especially one with an innovative structure and theory of change.

Link Housing to Healthy Retail and Commerce—Through the work the team learned that alongside affordable and workforce housing, successful retail and commercial businesses are a vital part of healthy neighborhoods. They create jobs, support local wealth, increase walkability, and foster social connections and a sense of place. However, there are significant barriers to their success in low-income neighborhoods. The CLF/MHIC team created a low-interest, high-impact Healthy Retail and Commerce loan fund that specifically addresses health disparities through the provision of free or affordable healthy food, among other health-promoting services. Our first two HRCF investments are creating roughly 50 full-time equivalent jobs for local residents in communities hit hard by job losses due to the pandemic.

All told, we've learned an extraordinary amount from our experience with HNEF I, and we look forward to using these experiences and learnings to shape future funds that create value for investors while benefiting communities, people's health, and the environment. In addition, we are building a suite of tools and resources to support other mission-oriented investors across the country in creating HNEF-like funds that adapt to the particular needs and assets of their communities.

Resources for Action

Everyone should live in a neighborhood that supports good health, a thriving local economy, and a sustainable future. We won't achieve health equity if the voices of community members aren't prioritized in decisions that affect their future.

We believe it's possible to meet these priorities by ***investing in health and sustainability, measuring impact,*** and ***creating data with people and for people*** in making decisions about the future of communities. For those interested in learning more about how to invest for equitable impact on community health and sustainability, check out the following resources and contact us to learn more about technical assistance and training opportunities.

Participatory Action Research Guide: This guide provides concrete and detailed steps to conducting Participatory Action Research based on the learnings from the Healthy Neighborhoods Study. The guide describes the steps of our PAR process, including funding the research; establishing community partnerships; recruiting Resident Researchers; creating a team structure; developing research questions collaboratively; designing and testing research tools; ethics and field research trainings; data collection; and data analysis. As a PAR project, the Resident Researchers drive all aspects of the study.

Measuring Healthy and Equitable Community Investment: This report of the Healthy and Equitable Community Investment Working Group, issued in the spring of 2020, provides recommendations for tools, approaches, and data sources to support measuring and tracking community investment's impact on health equity in communities. The recommendations center the social determinants of health as a strong framework for measuring health impacts of investment. The report also details how power inequity is the root of all inequity, and suggests both process and outcome measurement approaches when working toward health equity.

HealthScore Online Platform: HealthScore is a unique approach to measuring and tracking how investments in real estate development can improve health, increase economic opportunity, and support environmentally sound solutions based on a Theory of Change that is specific to each community. HealthScore has multiple domains that capture each community's overall well-being, such as housing affordability, access to green space, economic opportunity, transit use, and more. CLF is developing a new online platform that will enable investors to find HealthScore information and examples and access trained facilitators for technical assistance to create and implement a locally-tailored impact scorecard.

Healthy Retail Commerce Fund (HRCF): HRCF provides financing for health-promoting businesses, such as community grocery stores that sell healthy food at affordable prices or nonprofits that provide services to address health disparities in low- and moderate-income neighborhoods throughout New England. This unique fund, created through a partnership of the Conservation Law Foundation (CLF) and the Massachusetts Housing Investment Corporation (MHIC), leverages financing from health systems and philanthropy to provide loans to retail and commercial enterprises that can positively impact community health.

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What's Next

Building on the experience and lessons learned in HNEF I, we are now launching HNEF II in Massachusetts, Connecticut and Rhode Island. HNEF II will invest in mixed-income, mixed-use development near transit that would not otherwise be possible in historically disinvested neighborhoods, as well as affordable housing in higher-income neighborhoods with excellent public schools. CLF is also launching a Northern New England Healthy Neighborhoods Initiative to spur the creation of moderately priced, energy-efficient housing that supports job growth and helps to revitalize Main Streets in smaller cities and towns. The work will span the states of New Hampshire, Maine, and Vermont and aims to create economic, environmental, community, and health benefits for residents of small cities and towns in rural areas.