The Philadelphia Accelerator Fund

Market Challenge Plan

Octo

Prophetik Soul Branding + Design

This Market Challenge Plan is a part of a branding campaign to differentiate Philadelphia Accelerator Fund (PAF) from other competitors using research and analysis to develop a brand strategy and a brand identity.

Philadelphia Accelerator Fund's (PAF) Mission

PAF's mission is to support the production and preservation of affordable housing and community development projects in the City of Philadelphia that benefit low-income communities.

PAF seeks to carry out its mission by offering financial products that increase opportunities for developers outside of traditional lending networks.

History

The Philadelphia Accelerator Fund (PAF) is a new investment vehicle to enable non-traditional financing products that support affordable housing and community development in the City of Philadelphia. The idea for PAF emerged from the City of Philadelphia's "Housing for Equity" plan in 2018, to provide an avenue for assisting a greater range of affordable projects and filling gaps within the market.

PAF was established in the fall of 2019 as a nonprofit corporation. It is governed by a 13-member Board of Directors comprised of both public and private sector individuals. PAF applied to the IRS for federal tax-exempt status in October 2020, and intends to apply to the US Department of Treasury as a Community Development Financial Institution (CDFI) after it has invested in several initial loans (as necessary to qualify to apply for CDFI status). PAF is currently administered by staff at the Philadelphia Housing Development Corporation (PHDC) through a Memorandum of Understanding. PAF intends to separate from PHDC in its third year of operations (second year of lending).

PAF received seed funding through a $2 million grant from the City of Philadelphia and an $8 million loan (20 years at 0% interest) from the Philadelphia Redevelopment Authority, intended to serve as loan loss reserve to leverage private capital. Other similar entities around the country have successfully used public funding in this way—such as the San Francisco Accelerator Fund that started with a $10M loan from the City which it used to leverage over $165M in private funds from commercial banks and philanthropy. PAF's initial capital raise goal is $100M and it plans to start publicly marketing products and originating loans in Q1-Q2 of 2021.

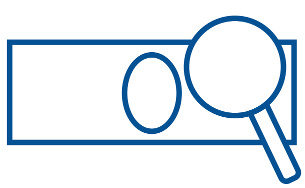
OVERVIEW

Cost-burdened Residents Research

Low income residents in Philadelphia are the most impacted by the affordable housing shortage in Philadelphia. Municipal/State/Federal reports and plans, academic papers and articles will be analyzed to understand the barriers to housing security for this group.

Developers’ Survey (Email and Facebook)

A survey created using surveymonkey.com will be emailed to a developers’ list acquired by Octo Design Group (Octo) and approved by PAF. This 11-question qualitative and quantitative survey will also be advertised on Facebook. The goal is to get a minimum of ten developers to respond.



Investors/Lenders Research

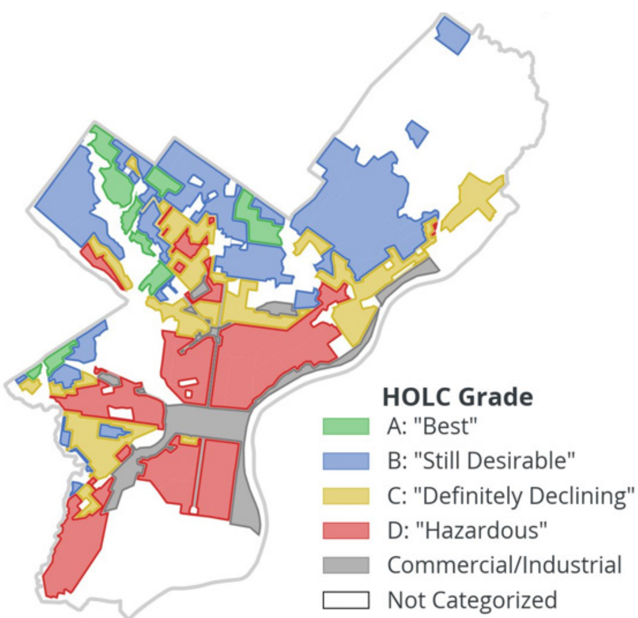
Qualitative and quantitative research from articles and reports will be used along with perceptive maps (page 10) and comparable table (pages 18-19) detailing the areas that intersect with the affordable housing and workforce industry.

INDUSTRY ANALYSIS

After the Great Depression, the U.S. government involved itself in the national economy in an attempt to revive the struggling housing market. The New Deal enacted by President Franklin D. Roosevelt between 1933 and 1939 gave birth to an array of federal agencies intended to assist the housing market, create jobs and shelter for those in need. The Home Owners' Loan Corporation (HOLC) stalled foreclosures by refinancing existing mortgages. The Federal Housing Administration (FHA) jump-started housing construction by insuring millions of mortgage loans issued by private lenders. During the same period, the federal government began to finance the construction of urban public housing units to provide homes for working-class families.

All of these efforts helped save millions of Americans from foreclosure, unemployment and homelessness. But the FHA refused to insure in Black neighborhoods and worked to enforce segregation in America's rapidly growing suburbs after World War II.

1937 "Redlining" Map from the Homeowners' Loan Corporation (HOLC)



Sources: 2014-2018 ACS estimates; Police Department; HOLC map via 'Mapping Inequality'

This process came to be known as redlining, because of the way that banks and federal agencies marked maps of the neighborhoods where mortgages should be withheld. Residential Security Maps[21] (see left) created by HOLC graded neighborhoods on their perceived investment risk and creditworthiness. Areas deemed to carry the least risk of mortgage default were graded A and colored green, while those neighborhoods considered hazardous and high-risk received a D grade and were colored with red.

As African Americans migrated to northern U.S. cities from the Southern U.S., many urban neighborhoods were starved of credit instituted by the Federal Government.

> **"The federal government may not have had their hand in every transaction, but they are the ones who shaped the commercial lending culture across the country,...**
>
> *–N. D. B. Connolly, professor of history at Johns Hopkins University*

INDUSTRY ANALYSIS

HOLC hired local real estate agents to appraise the properties and neighborhoods who often employed discriminatory judgments. Black neighborhoods and recently immigrated groups (like white Europeans and Jews) were labeled high-risk. Some of today's trendiest Philadelphia neighborhoods (Fishtown, Manayunk and South Philadelphia) were also redlined but for different reasons such as sections of rowhouses mixed in with factories. Suburban looking sections of Philadelphia earned the highest ratings. As a result, they have weathered white flight and economic destabilization.

Systemic disinvestment between the federal government and the private sector caused long-term damage, in particular to urban neighborhoods of color. Philadelphia, the Commonwealth of Pennsylvania and the Federal Government are working to provide additional resources and programs to boost economic development and affordable housing.

According to a Philadelphia Tribune article, West Philly native Derek Jeune has a real estate investment firm. JP Holdings, LLC, has done more than $30 million in real estate sales, flipped more than 30 properties and completed more than 250,000 square feet of new construction. Now, Jeune wants to acquire land from the City of Philadelphia and develop affordable housing.

He started raising money for his first investment property by throwing college parties, renting out properties for his landlord and with financial assistance from his mother. He eventually received a line of credit and mentoring through Wells Fargo helping him to grow his business.

Although Jeune was successful in acquiring financing from a major commercial bank, developers of color who want to build affordable housing often encounter barriers. PAF plans to create a more efficient process for them that will eventually benefit cost burdened residents and housing insecure communities. In addition, providing business support services for potential borrowers who come from historically disadvantaged populations will demonstrate the diversity and inclusivity of PAF's mission. This is one of the ways that PAF can help fill the affordable housing gap along with other local and regional public and private lenders.

COMPETITIVE INDUSTRY REVIEW

PAF has to navigate through a complicated array of lenders, investors, political and civic leaders in the public sector and private sector involved in the affordable housing industry.

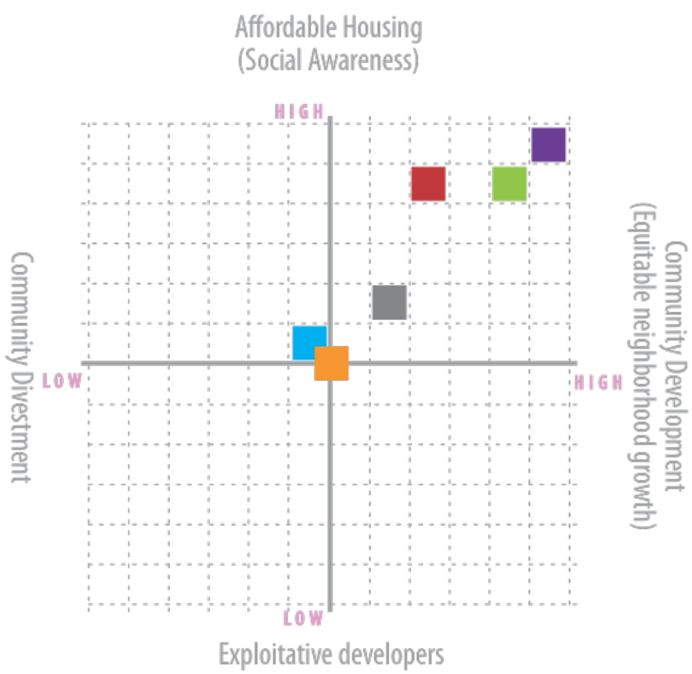
A traditional comparable table would capture the facts and figures of each actor/area of influence. But this isn't sufficient when the various actors intersect and overlap with each other. Focusing on the perceived strengths and limitations of each area, a perceptive map visually highlights the complexity of movement in the industry from a developer's perspective. It also yields insights of how PAF should position itself. The placement of each color square is based on interpreting qualitative and quantitative research. It is subject to change.

There are four major interests highlighted in the PAF Business Plan: Affordable Housing, Community Development, Independent Funding and Free from City Bureaucracy.

Perceptual Map A:

A diagrammatic technique that attempts to visually display the perceptions of lenders/investors by developers.

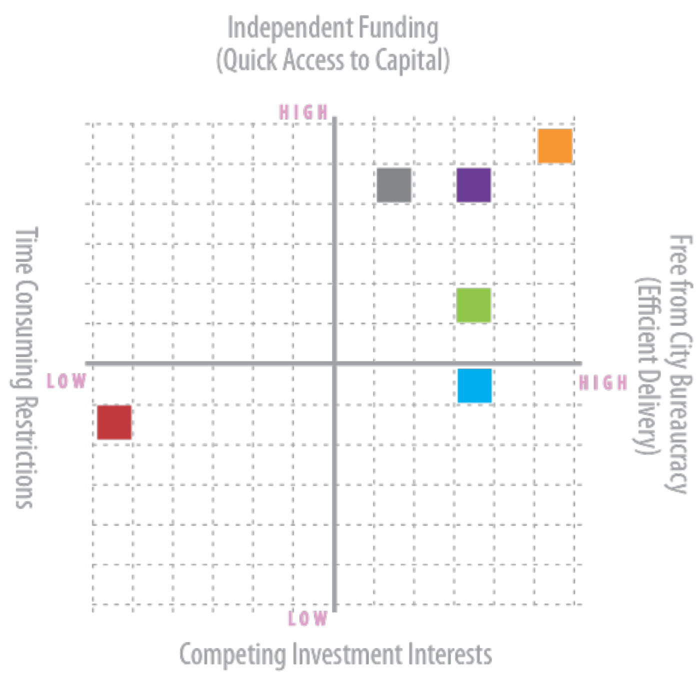
The Philadelphia Accelerator Fund (PAF) is a new investment vehicle to enable non-traditional financing products that support affordable housing and community development in the City of Philadelphia.



Perceptual Map B:

A diagrammatic technique that attempts to visually display the perceptions of lenders/investors by developers.

An independent loan fund that can raise private capital and is free from the City's bureaucracy could serve an important role to efficiently deliver new, flexible investment products in the market.



Public Sector | Federal Home Loan Banks (FHLBs) | Community Development Financial Institutions (CDFIs)

Commercial Banks | Private Lenders | Nonprofit accelerators (PAF)

Lenders/Investors' Strengths and Limitations

PUBLIC SECTOR

Strengths

Municipal, state and/or federal actors allocating financing to appropriate agencies and investors to improve market position of the city and to boost economies in targeted distressed areas.

Limitations

Dependent upon slow moving consensus, political climate and economy (tax revenue).

FEDERAL HOME LOAN BANKS (FHLBs)

Strengths

U.S. government-sponsored network of banks borrow money from global investors to provide reliable liquidity to member institutions involved in support home ownership and community investment.[22]

Limitations

Downturns in the global financial system could spread impact beyond member institutions. Overly lax lending standards could lead to unnaturally high housing prices. FHLBs will lend only a certain amount based on asset size and lending capacity to members regardless of the specific challenges of distressed communities; legacy of racial housing discrimination.[23]

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIs)

Strengths

Private sector banks that focus primarily on personal lending and economic development in underserved communities and can receive funding from private sector sources (individuals, corporations and religious institutions);[24] lower interest rates and higher rates of loan approval.

Limitations

Dependent upon partnerships for some of their funding; typically have fewer total assets, higher loan delinquency and lower returns on assets compared to their non-CDFI peers.[25]

REFERENCES

[1]https://www.pewtrusts.org/en/research-and-analysis/reports/2019/04/11/10-trends-that-have-changed-philadelphiain-10-years

[2]Schwartz, Mary and Wilson, Ellen, US Census Bureau. Who Can Afford To Live in a Home?: A look at data from the 2006 American Community Survey.

[3]The Pew Charitable Trusts. The State of Housing Affordability in Philadelphia Report. September 2020.

[4]Philadelphia Accelerator Fund Business Plan. 2020.

[5]https://www.pewtrusts.org/en/research-and-analysis/reports/2020/09/the-state-of-housing-affordability-inphiladelphia

[6]Joint Center for Housing Studies of Harvard University. America's Rental Housing. 2020. p.4

[7]The National Low Income Housing Coalition. Out of Reach: The High Cost of Housing. 2020.

[8]City of Philadelphia. Housing for Equity: An Action Plan for Philadelphia. September 2018.

[9]https://www.huduser.gov/portal/datasets/lihtc.html

[10]The J-51 program in New York City allows landlords that rehabilitate rental properties to abate their taxes so long as rehabilitated properties remain rent stabilized. The J-51 program was among the largest and most successful affordable housing programs ever undertaken by the City. The program has been one of the largest creators of rentstabilized properties in the City's history. At the time of its implementation, New York's housing stock was in poor condition, but broadly affordable, a status which resembles Philadelphia today.

[11]In 2014, the District of Columbia passed the Disposition of District Land for Affordable Housing Amendment Act, which requires all new multifamily residential projects developed on City-owned surplus land include at least 20% affordable housing. The requirement is increased to 30% in areas with transit access. The Act allows the District to dispose of land for below market value, so that developers can use the cost savings to subsidize affordable housing units and allows the District to provide additional subsidies to ensure that affordability requirements are met. The affordability requirements can be waived or reduced under specific conditions, such as a subsidy being provided by the difference between the appraised market value and the free or discounted value at which the developer receives the land. The waiver system is designed to respond to differences in development economics across the city.

[12]Philadelphia Housing Trust Fund. Expanding Housing Opportunities & Revitalizing Neighborhoods. 2018-2019

[13]https://www.phila.gov/2020-09-28-city-announces-housing-trust-fund-spending-plan/

[14]https://www.nbcphiladelphia.com/news/local/phillys-new-building-tax-abatement-changes-to-pay-for-moreaffordable-housing/2618165/

[15]Merriman, Anna. The construction tax bill, explained. September 12, 2020.
https://philly.curbed.com/2018/9/12/17850876/construction-tax-bill-explained-kenney-council

[16]D'Onofrio, Michael. Philly Council delays tax abatement bill as lawmakers call for 1% construction impact tax.
October 16, 2020. https://www.penncapital-star.com/government-politics/philly-council-delays-tax-abatement-billas-lawmakers-call-for-1-construction-impact-tax/

[17]Federal Reserve Bank of Philadelphia. Gentrification and Changes in the Stock of Low-Cost Rental Housing in Philadelphia. January 2017.

[18]https://www.phila.gov/2020-09-28-city-announces-housing-trust-fund-spending-plan/

[19]McCabe, Caitlin. Philly region's housing market in 2019: The slowdown will continue, experts say. November 23, 2018.
https://www.inquirer.com/philly/business/real_estate/residential/2019-real-estate-predictions-philadelphiasuburbs-housing-slow-down-tax-abatement-20181123.html-2

[20]https://whyy.org/articles/no-deed-no-deal-pa-real-estate-industry-stymied-by-move-online/

[21]Rhynhart, Rebecca. Mapping the Impact of Structural Racism in Philadelphia. Office of the Controller, Philadelphia.
Philadelphia Accelerator Fund Business Plan (10.14.2020)

[22]https://nextcity.org/daily/entry/how-i-got-to-know-federal-home-loan-banks-and-why-you-should-too

[23]https://nextcity.org/daily/entry/how-i-got-to-know-federal-home-loan-banks-and-why-you-should-too

[24]https://www.investopedia.com/terms/c/cdfi.asp

REFERENCES

[25]Benjamin, Lehn, Sass, Julia, Brown, Rubin and Zielenbach, Sean. Community Development Financial Institutions Current Issues and Future Prospects. https://community-wealth.org/sites/clone.communitywealth.org/files/downloads/paper-benjamin.pdf

[26]https://whyy.org/articles/philadelphia-housing-authority-vows-to-send-240-vacant-properties-to-nonprofitdevelopers/

[27]http://www.phila3-0.org/housing_affordability_and_income

[28]https://www.memphis.edu/socialwork/research/files/documents/2017philadelphiapovertyfactsheet.pdf

[29]https://www.pewtrusts.org/en/research-and-analysis/reports/2020/09/the-state-of-housing-affordability-inphiladelphia

[30]https://www.pewtrusts.org/en/research-and-analysis/reports/2020/09/the-state-of-housing-affordability-inphiladelphia

[31]https://www.pewtrusts.org/fr/research-and-analysis/reports/2018/09/26/philadelphias-poor-experiences-frombelow-the-poverty-line

[32]https://whyy.org/articles/philadelphia-housing-authority-vows-to-send-240-vacant-properties-to-nonprofitdevelopers/

[33]https://www.lisc.org/philly/what-we-offer/loans/

[34]https://www.nreionline.com/lending/banks-focus-cra-dollars-affordable-housing

[35]https://www.urban.org/urban-wire/how-affordable-housing-gets-built

[36]https://www.marketplace.org/2020/06/18/an-updated-community-reinvestment-act-faces-criticism/

[37]https://wpfsi.com/banks-dont-lend-small-businesses/