



Guidelines for Owner Operators of NOAH Properties

June 2024

Asset	<p>Assets will be existing, occupied, multifamily rental housing.</p> <p>While it may be permissible on a case-by-case basis to consider multifamily properties that include some commercial space, any commercial rent will be disregarded in the underwriting of project revenue.</p> <p>NOAH Impact Fund is intended for projects that have not previously been funded with government housing subsidy programs. However, on a case-by-case basis, projects with expiring program requirements or limited subsidy utilization, particularly if the affordability is at risk, may qualify.</p>
Equity Ratio to TDC:	<p>Equity from NOAH Impact Fund is anticipated to comprise 35% to 40% of total development costs (TDC) per transaction, subject to negotiation and agreement with the Operating Partner and all applicable lenders.</p> <p>Generally, the total equity in a transaction will be comprised 90% from NOAH Impact Fund and 10% from the Owner Operator. However, the Owner Operator may receive credit for securing deferred, 0% interest gap loans. Further, the Owner Operator's equity and/or any gap loans would be in first-loss position and subordinate to NOAH Impact Fund's Exit Payment.</p>
Sizing of Equity Investment:	<p>NOAH Impact Fund investment is \$1 million minimum and \$8 million maximum. Typical NOAH Impact Fund investment is anticipated to be \$3 million (approximately 60-80 units).</p>
Property Size:	<p>Transactions may include multiple addresses and/or buildings.</p> <p>Single-Family Home portfolios will not be permitted.</p>
First Mortgage Financing:	<p>The owner must be able to secure and close a first lien position first mortgage on the property that meets the following qualifications:</p> <ul style="list-style-type: none">• Maximum 80% Loan to Purchase Price. Mortgage proceeds may exceed 80% of Purchase Price if directly tied to the funding of capital improvements of measurable added value where the final proportion is 80% of the improved value of the property.• Minimum 1.25 Debt Service Coverage Ratio throughout 10-year term of the first mortgage and concurrent 10-year hold of NOAH Impact Fund.• 25 to 40 year amortization (30 years typical).• Fixed rate through a term of at least 10 years (rate resets may be reviewed but must not occur prior to the 6th year and must be limited by ceiling; loan may not come due in full unless in default before the 10 year anniversary of closing).• Mortgage prepayment must be available starting no later than month 120 without prepayment penalties to allow for the disposition of the asset.

	<ul style="list-style-type: none"> Interest Only may be permitted for up to 3 years subject to underwriting and in some cases may be favorable in Years 1 – 2. <p>NOAH Impact Fund is working closely with Freddie Mac and loans meeting the above requirements, with some flexibility in terms, can be discussed with a Freddie Mac seller-servicer. Freddie Mac has requested a first-look, last-look opportunity on NOAH Impact Fund projects. Further, NOAH Impact Fund requires a first mortgage proposal from Community Preservation Corporation (CPC). Although owners are not required to use GSE financing, in the case that the first mortgage is planned to come from a source other than a GSE, the owner must determine that the loan conforms to Freddie Mac standards.</p>
Other Subordinate Financing:	<p>Other subordinate financing will be allowed on a case-by-case basis subject to underwriting as long as the additional funding:</p> <ul style="list-style-type: none"> Enhances the project. Is fully subordinate and deferred with no interest and no principal repayment for at least 15 years from the closing date on the asset. Will not create any negative tax consequences for NOAH Impact Fund. Does not add any regulations to the project such as construction contracting requirements or affordability requirements that NOAH Impact Fund deems to be detrimental to its interest in the asset. Is not secured in a position senior to NOAH Impact Fund's interest. <p>Most importantly, NOAH Impact Fund requires monthly cash flow distributions. Any subordinate financing or project-based rental assistance programs that would add outside regulatory oversight over the property financials would be seen as detrimental to NOAH Impact Fund's interest.</p>
Underwriting Standards:	<p>NOAH Impact Fund will underwrite transactions using the following standards:</p> <ul style="list-style-type: none"> Hurdle Return: The property can achieve the IRR hurdle taken as an average over the Fund's 10-year investment term. Exit Strategies: The proforma includes analysis of the property's net equity/value at the 10-year anniversary of the investment to demonstrate the ability to repay the Fund's equity. Financial Condition: Currently stable or could be stabilized quickly, with no extensive "turn-around" of the financials or tenant base required. If any stabilization is needed, it must be modeled in the proforma and not result in diminished cash flow. Rents: Overall at an affordable level at time of acquisition. Some initial upward adjustments to rent may be allowed if supported by local market conditions so long as the impact would not be to displace low-income households. Inflation Trending: Current market participants assume 3% annual revenue increases and 3% annual operating expense increases. The underwriter will consider 2-3% annual revenue increases and 3-5% annual variable operating expense increases, based on historical operations and current market conditions.

	<ul style="list-style-type: none"> • Economic Vacancy: Minimum 5% vacancy rate or higher if historical operations or expected market conditions indicate a higher vacancy rate. May phase in (ie, 10% in Year 1, 7% in Year 2, 5% in Years 3+). • Operating Expenses: Evaluated by comparing the budget to historic expenses and making any adjustments deemed appropriate by the underwriter. Must include a market rate property management fee (typically 4-5% of receipts) and deposits to reserves of \$250-350 per unit per year (or as otherwise indicated through physical condition assessment). • Taxes: Projected taxes will account for anticipated changes in assessed value due to the acquisition and expected market conditions. May propose a reduction in property taxes in the year applicable if the project will be eligible by statute for the Low-Income Rental Classification tax rate (aka LIRC or 4d). <p>NOAH Impact Fund considers potential asset appreciation, current and stressed cap rates and interest rates, and debt sizing metrics like LTV and DSCR when projecting a NOAH property's ability to repay the Fund's equity in Year 10.</p> <p>NOAH Impact Fund will review at least 3 years of property financial statements and rent rolls during the underwriting process, as well as market comparables if necessary to establish reasonable operating expenses.</p> <p>NOAH Impact Fund will also review standard due diligence third party reports. In general, the Fund will rely on reports ordered on behalf of the first mortgage lender, including an appraisal. All Fund reviews will be expedited.</p>
Market Conditions:	Eligible Property underwriting and acquisitions will take into account current market conditions.
Physical Condition:	<p>Property may be modest and not updated, but must be in average, good, very good, or excellent physical condition as confirmed by a third-party capital needs assessment report prior to final closing.</p> <p>Any identified critical capital needs through the 10-year investment period must be addressed through up-front capital escrows of up to \$15,000 per unit and/or proposed deposits to reserves during the course of operations in excess of projected capital needs.</p> <p>Center for Energy and Environment is expected to conduct a free energy audit to identify potential energy-saving improvements. Completing these improvements is not mandatory. The intent is to gain the information and incorporate the improvements that make sense based on the planned scope of work and the financial resources that are available.</p>

Location:	<p>Within the 7 Counties of Metropolitan Minneapolis-St Paul:</p> <p>Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington</p> <p>Includes core cities of Minneapolis and Saint Paul in addition to suburban cities and townships. Excludes Northfield and Cannon Falls (in Dakota County), Hanover and Rockford (in Hennepin County), and New Prague (in Scott County).</p> <p>Properties will likely not meet NOAH Impact Fund standards if they would be designated rural: https://www.ruralhealthinfo.org/am-i-rural.</p>
Affordability:	<p>Minimum threshold for affordability is 75% of the units must be rented at 80% AMI incomes and rents and either 20% of units at 50% AMI or 40% of units at 60% AMI.</p> <p>Freddie Mac requires 50% of the units to be affordable at 60% AMI at closing.</p> <p>Further targeting will be created and enforced by negotiation among the parties. The preferred affordability targets are a majority of units at 60% or below.</p>
Affordability at Risk:	<p>NOAH Impact Fund's goal is to preserve affordability at risk. The property should be located in an area where nearby rents are substantially higher indicating a risk of rent increases at the property, or in an area experiencing rent escalation, or likely to suffer dramatic rent increases over time due to market forces.</p> <p>A third-party market analysis should confirm that there are pressures on the property and the surrounding community toward higher-than-average rent increases and that preserving a property as NOAH will preserve an affordable housing opportunity where otherwise it would be lost. The property should be in an area experiencing:</p> <ul style="list-style-type: none"> • Low vacancy rates in the sub-market area. • Rent escalation beyond average market growth in the region. • A target for upscaling and re-marketing, as may be indicated by recent property sales and upscaling. • Potential displacement of the current residents based on repositioning and/or restrictive leasing policies. • Will no longer be affordable but for the Fund's intervention. <p>While these factors are difficult to measure and predict, NOAH Impact Fund staff will work with the buyer to determine the property's market position and predict the outcome if not for the Fund's involvement.</p>
Opportunity Area:	<p>The owner must make an affirmative case with evidence that the property is located in an opportunity area where low-income households will have access to high-quality schools, transit, shopping, and amenities.</p> <p>While not all factors need to be present in order for the project to be considered, the owner should analyze the project's opportunity area designation including a review of the following factors:</p> <ul style="list-style-type: none"> • School Quality: Locate the in-district public schools for the asset and indicate quality from Great Schools. Add analysis of other school choices available to residents (such as magnets and charters).

	<ul style="list-style-type: none"> • Transit and Walkability: Using Google Maps and Walk Score, analyze the connectivity of the property to the surrounding community and job centers, shopping, and amenities (parks, playgrounds, attractions). • Infrastructure Improvements: Description of recent investments in the surrounding area that may indicate rising property values and rents. • Employers: Note any proposed expansions or news about workforce housing needs in the area. • Other: Policy Map (subscription service) and CoStar (fee-based service) and other data demonstrating the property's relative affordability in an opportunity area.
Competition:	Where more than one owner is requesting equity commitments for the same asset, the Fund may supply preliminary indications of interest in equity provision to more than one owner, but in the case that the Fund must choose between two developers it will prioritize the viable proposal with the greatest mission impact demonstrated through affordability.
Partner Expectations:	NOAH Impact Fund anticipates partnering with both nonprofit and for-profit Owner Operators. The Fund expects that its partners will operate transparently, sharing the same information with all involved parties. The Fund expects that due diligence calls will include all funders as appropriate, so information can be received in real time by all involved parties.
Confidentiality:	<p>Operating Partners may expect all terms and conditions discussed among the parties, including the Operating Partner's interest in a particular development, will be held in confidence by NOAH Impact Fund.</p> <p>However, to avoid the risk of more than one NOAH Impact Fund partner entering unknowingly into a bidding competition with another NOAH Impact Fund partner, Operating Partners may benefit from providing NOAH Impact Fund with the option to tell other potential partners of the existence of competing bids.</p>