

HEALTHY INVESTMENTS SPOTLIGHT



Kaiser Permanente Thriving Communities Fund

health care investments in housing and community development



The Spotlight series is a publication of the Social Investment Initiative, which promotes health plan investments in the creation of affordable housing and community development projects that will have a positive social and financial return. The Social Investment Initiative is a partnership among Community Catalyst with expert support from Boston Medical Center, the Conservation Law Foundation and Nancy Turnbull, Senior Lecturer, Health Policy, Harvard T.H. Chan School of Public Health.

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Kaiser Permanente Thriving Communities Fund

BACKGROUND

Kaiser Permanente (Kaiser) is one of the country's largest not-for-profit health plans and the largest integrated health system. Founded in 1945, Kaiser has a mission to provide high-quality, affordable health care services and to improve the health of its members and their communities. Kaiser currently serves 12.2 million members in eight states and the District of Columbia, guided by their personal Permanente Medical Group physicians, specialists and caregivers. In addition to providing direct care to its members, Kaiser is also dedicated to care innovations, clinical research, health education and the support of community health.

Kaiser is a founding partner of the [Healthcare Anchor Network](#), a collaboration of over 50 leading healthcare systems from across the country, committed to building more inclusive and sustainable local economies. Kaiser took a leadership role in making significant investments in housing, a critical social determinant of health and large community development need.

Kaiser has developed a robust Housing for Health Strategy, a multi-pronged initiative with four core components to tackle the homelessness and affordable housing crisis in the communities it serves. Among the four key components is work to increase the affordable housing supply. Unlike many other affordable housing investment strategies, Kaiser is not investing in low-income housing tax credit equity, partly because it is a non-profit and not benefited by tax credits. Instead, Kaiser is striving to bring new kinds of capital to finance affordable housing development. As part of this work, in 2018, Kaiser committed up to \$200 million of its investment holdings to create the Thriving Communities Fund, which targets investments that address community health needs within Kaiser regions and prioritizes investments in affordable and supportive housing.

Kaiser's Housing for Health Strategy is a multi-pronged initiative aimed at tackling the homelessness and affordable housing crisis in the communities it serves.

INVESTMENT STRATEGY

To deploy the Thriving Communities Fund, Kaiser has prioritized investing in funds managed by experienced third parties. These fund managers have already-proven housing investment strategies and are capable of achieving scale. To date, Kaiser has partnered with Enterprise Community Partners (Enterprise), a large, national non-profit housing organization, to create two funds, both of which are managed by Enterprise. The RxHome Fund is a revolving loan fund in which Kaiser invested \$50 million, matched by an additional \$50 million from Enterprise. The Housing for Health Fund is a multi-investor equity fund to which Kaiser has committed \$50 million, \$35 million of which is contingent on matching capital. To date, JP Morgan Chase has committed \$15 million of this matching capital. Kaiser books these as investment holdings on its balance sheet.



Kaiser's unique investment strategy demonstrates its desire to bring new kinds of capital to finance affordable housing development. Typically, equity isn't available for most affordable housing investments, so the Housing for Health Fund is a fairly unique source of capital.

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BENEFITS TO INVESTORS

For Kaiser, the impact investments generate financial returns of 2 percent for the RxHome Fund and 4-4.5 percent for the Housing for Health Fund, net of fees. By partnering with Enterprise, a large, national, experienced housing investment manager, Kaiser can achieve impact at scale in a rapid timeframe, as well as reach the multiple geographies it serves. Additionally, by being the anchor investor in each fund, Kaiser can specify the geographies its investments target. However, because Kaiser's investments benefit the greater communities it serves and are not specifically targeted for its own members, it does not anticipate reaping cost savings related to its housing investment strategies. Nevertheless, Kaiser has benefited from substantial press coverage of its impact investing initiative, which enhances its brand and builds on its intent to address "total health."

INVESTMENT HIGHLIGHTS

RxHome Fund

- **Purpose:** Financing the development and preservation of affordable housing, increasing access to stable, quality housing for low-income individuals and families and developing eligible healthy retail and services in mixed use developments
- **Structure:** Revolving loan fund
- **Geographies:** California, Colorado, District of Columbia, Georgia, Hawaii, Northern Virginia, Maryland, Oregon, and Washington
- **Projects:** Multifamily and senior rental housing, single room occupancy, transitional housing facilities and shelters, mixed use projects with housing units and eligible non-residential uses such as health centers, social services, and neighborhood retail that meet community needs
- **Uses:** Predevelopment, acquisition, construction/renovation, bridge, mini-permanent
- **Terms:** 5-7 percent interest rate to borrower
- **Health components:** For financed projects that include new construction or major rehabilitation, the Fund supports development of a Health Action Plan that incorporates design and operations features into properties in order to mitigate health risks; Projects should seek to improve resident health outcomes over 2-5 years



Housing for Health Fund

- **Purpose:** Acquisition and preservation of existing affordable rental housing, and prevention of residents' displacement
- **Structure:** Multi-investor equity fund
- **Counties:** San Francisco, Alameda, Marin, Contra Costa, and San Mateo; Napa and Sonoma; Sacramento, Yolo, El Dorado, Placer, Sutter, Yuba, and Nevada. 51 percent of funds targeted to the city of Oakland.
- **Terms:** Equity investments underwritten to 8-10 percent internal rate of return (IRR) to Kaiser
- **Health components:**
 - Supports development of a Health Action Plan that incorporates design and operations features into properties in order to mitigate health risks
 - Conducts study to determine specific health needs of residents in each investment, and annual surveys will monitor resident health outcomes over 5-7 years

Health Performance Strategy

Kaiser has layered health performance into its housing investment strategies by requiring all qualifying developers and building owner/managers to create Health Action Plans. Originally designed as part of Enterprise's Green Communities Criteria, Health Action Plans identify the health needs of the local population and propose design measures and social services for addressing such needs. Data is collected, monitored, and reported on over a five- to seven-year investment period for each investment.

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Looking to the Future

For its housing investments, Kaiser is looking at all pieces of the affordable housing puzzle. For instance, to supplement its current Thriving Communities Fund portfolio, it is currently assessing investments in aging low-income housing tax credit (LIHTC) properties that are reaching the end of their deed-restricted terms. Kaiser is also exploring other private equity funds managed by different external managers.



SUMMARY OF INVESTMENT HIGHLIGHTS

Rx Home Fund	
FUND STRUCTURE	Revolving Loan Fund
FUND TERM	8 years
FUND SIZE	\$100 million (\$50 million from Kaiser, \$50 million in matching funds from Enterprise Community Partners)
TARGET RETURN TO INVESTORS	2 percent annual interest to Kaiser
INVESTMENT TERMS FOR BORROWERS	Target 5-7 percent interest on loans, although sometimes a lower borrowing rate is negotiated; spread differential covers management costs; flexible amortization
GEOGRAPHIC FOOTPRINT	All Kaiser's service areas: California, Colorado, District of Columbia, Georgia, Hawaii, Northern Virginia, Maryland, Oregon, and Washington
NUMBER OF INVESTORS	Two: Kaiser and Enterprise
FUND MANAGER	Enterprise Community Partners (external manager model)
FUND PRODUCT OFFERINGS	Senior Debt, 1st lien
INVESTMENT FOCUS	Flexible capital to finance creation and preservation of affordable housing for long-term stewardship and affordability; majority of loans are for predevelopment, repaid with construction financing



SUMMARY OF INVESTMENT HIGHLIGHTS (continued)

Housing for Health Fund	
FUND STRUCTURE	Equity Fund
FUND TERM	10 years
FUND SIZE	\$85 million
TARGET RETURN TO INVESTOR	4-4.5 percent internal rate of return (IRR) to Kaiser
INVESTMENT TERMS FOR BORROWERS	Target 8-10 percent project IRR
GEOGRAPHIC FOOTPRINT	San Francisco Bay Area only (counties include Alameda, Contra Costa, Marin, Napa, Placer, Sacramento, San Francisco, San Mateo, San Joaquin, Santa Clara, Santa Cruz, Solano, Sonoma and Yolo). At least 51 percent of funds must be targeted to the City of Oakland.
NUMBER OF INVESTORS	Multi investor fund: Kaiser (\$50 million), JP Morgan (\$15 million), others TBD
FUND MANAGER	Enterprise Community Partners (external manager model)
FUND PRODUCT OFFERINGS	Equity
INVESTMENT FOCUS	Preservation of naturally-occurring affordable housing