

# Enhancing Access to Capital for Smaller Unsubsidized Multifamily Rental Properties

Written by:

William C. Apgar, Harvard University and  
Shekar Narasimhan, Beekman Advisors

Presented by:

Shekar Narasimhan, Beekman Advisors  
November 14, 2006



# Problem Statement

*“Financing for small multifamily properties (defined here as 5 to 49 unit properties) is one of the most significant gaps in the mortgage industry”*

Millennial housing commission, 2001

## ISSUES

- Most lowest-income renters live in non-subsidized small multifamily structures
- Much of the small multifamily inventory is at risk of loss
- Fragmented ownership patterns makes it difficult to achieve the scale economies of property management and spread the fixed costs of financing

# New Approaches To Accessing Capital For Small Rental Properties

*In 2001 Narasimhan proposed the concept of an S-REIT as a new equity vehicle to help expand access to capital for small multifamily structures*

## KEY ADVANTAGES OF S-REIT APPROACH

- Use scale economies to reduced operating expenses
- Avoid the costs associated with single asset financing
- Encourage owners to transfer properties

# Demonstrating Proof Of Concept

*The challenges of securing the needed federal legislative changes to enable the S-REIT approach to go forward are substantial. At the same time, building on the innovative financing arrangements that are emerging at the state and local level, it would be possible to launch local pilot programs that would test many of the key assumptions of the S-REIT approach*

## **A PROTOTYPE PROGRAM**

- Essential function bonds (EFBS) have emerged as a flexible tool for acquiring and preserving affordable rental housing in selected states across the country
- Using EFBS, A local housing agency could aggregate a pool of small multifamily properties and demonstrate the potential to capture the economies to scale in preserving, operating, financing, and subsidizing this vital segment of the nation's affordable housing inventory