

"It's been a tsunami of new funding, but it's a good thing. It's all part of our mission—to alleviate poverty and produce quality affordable housing," says Bobby Wilkinson, Executive Director of Texas DHCA."

P17

A detailed architectural rendering of a modern multi-story apartment building at dusk. The building features a mix of brick and dark panels, with many windows illuminated from within, showing interior details and balconies. A red car is parked in the foreground, and several people are walking on the sidewalk. The sky is a mix of blue and orange from the setting or rising sun.

# TEXAS DHCA THE NEED TO SERVE

# Making Money, Making a Difference

Impact investment fund manager continues track record of investing in affordable housing while generating market rates of return

The reality of today's affordable housing landscape is that the United States' housing crisis has grown too large for government alone to solve. By leveraging private equity from corporate America, impact fund manager SDS Capital Group aims to alleviate red tape and financing gaps for developers and make it easier to build new affordable and workforce housing, all while providing investors solid returns.

CEO Deborah La Franchi built SDS centered on a mission of making a difference in low-income communities by tapping the private sector, rather than relying on government agencies or nonprofit organizations.

"Out of college, I thought I needed to work in government or at a nonprofit to have a career focused on eradicating poverty. Some very fortunate and unique experiences with private equity led me to realize I could start my own company focused on convincing private-sector investors that there's a way for them to be engaged in making a difference," La Franchi says. "Of course, they're focused on making money, and they can make money and make a difference through impact funds. It's not an either or."

Today, the company manages six successful impact funds/products with a total portfolio of \$1 billion. SDS has financed 1,800 affordable housing units and has even more on the way. While each fund has a distinct geographical focus and unique financial and impact goals, they all share a common purpose and serve as a testament to the success this innovative funding model can achieve.

## BLAZING THE TRAIL

Despite impact investing's growth in recent years, the concept was relatively new when SDS first began. La Franchi not only had to prove the concept to prospective investors but also had to weather tough financial roads in the wake of the 2008 recession.



SDS Capital Group

President & CEO :: Deborah La Franchi | Location :: Los Angeles, California





The company began by managing a \$25 million fund of New Markets Tax Credits to aid New Orleans after Hurricane Katrina. After this, it took years for SDS to launch its first private equity fund—the Develop Michigan Real Estate Fund in a joint venture with Cinnaire— and its second fund—the American South Real Estate Fund.

This work prepared SDS for its most transformative effort yet—the SDS Supportive Housing Fund, a first-of-its-kind private-equity impact fund that invests in permanent supportive housing for homeless individuals in California. By funding the developments without government subsidies or other capital sources, SDS supports the work of RMG Housing to build units faster, cheaper and more efficiently.

“This is a very unique private equity fund. We set it up as a revolving fund, so we can keep investing in permanent supportive housing for six years,” La Franchi says. “We’re funding one developer that is very effective at producing permanent supportive housing at less than \$200,000 per unit. This is virtually unheard of in California. Permanent supportive housing for those experiencing homelessness is running \$500,000 per unit up to \$900,000 per unit. The units we finance are less than one-third the cost of the average PSH unit, and

the fund provides the developer 100 percent of the capital they need for a project. Notably, our model requires no subsidy for land or construction.”

The fund is expected to reach \$150 million by May, which would help house up to 1,800 individuals. SDS has made four investments through the fund to date and is closing financing on one project every 45 to 60 days throughout 2021.

#### THE FUTURE OF IMPACT INVESTMENT

A key part of SDS’s operation is ensuring its funds both make an impact and deliver expected returns to investors. The company seeks market rates of return that are on par with other non-impact funds, proving that private equity can really do good and do well. In order to maintain this, SDS’s investment process relies on very strong underwriting criteria, research and due diligence and intensive asset management.

“Great impact never trumps our financial diligence. If we fail on the financial side of the investment, we will fail on the impact side; investors will lose confidence in our fiduciary abilities and stop entrusting us with their capital,” La Franchi says. “For the SDS team, impact investing is about making sure we embed the same high degree of financial diligence and stewardship



in our process as an investor would expect from a top-tier non-impact fund in the marketplace.”

While the SDS team employs deep diligence relative to its funding of construction draws, it also taps additional experts as an added layer of analysis. SDS’s use of industry partners like CM Advisors, LLC reduces its risk and helps it make informed decisions.

“CM Advisors, LLC is impressed by the attention to the detail from Strategic Development Solutions (SDS) during the monthly draw and payment review process of which demonstrates their commitment to conformance with the contract documents,” says Brett Isen, Managing Director for CM Advisors. “Their staff is very knowledgeable with the stringent regulatory requirements of the affordable housing market. SDS relies upon our own third-party monthly construction inspection reports, amongst other vendors, to make their well-informed decisions for the project on a monthly basis during construction. SDS and their staff are consistently committed to help deliver low-income and affordable housing projects on time and on budget to those in our community who need it most.” Over the past 20 years, the landscape of impact investing

has changed dramatically. Not only is impact investing becoming more commonplace, but the types of investors are also changing. Where SDS’s initial investors were primarily banks, new types of organizations have emerged to make a difference.

Healthcare company Kaiser Permanente was a game-changing investor for the SDS Supportive Housing Fund, making a \$50 million investment in the throes of COVID-19. Another first was Hudson Pacific Properties, a real estate development company itself.

“The investor base is changing and expanding, which is incredibly exciting for us. Our biggest challenge to growth has always been that the impact investor space was a mere sliver of the total real estate dollars invested in funds,” La Franchi says. “Now, we’re seeing this broadening where companies are saying, ‘We want to put our assets to work and make a difference outside of our core business.’ This is a very positive change for society—we need private-sector capital to be a larger combatant in the battle against poverty. Impact investing is an ideal means for the private sector to engage and play its part in this tremendous challenge.”

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