

SDS Capital Group Raises \$150 Million To Combat Los Angeles' Homeless Crisis

Variety of New Investors Are Looking To Bank on Impact Funds, CEO Says



Debbie La Franchi, founder and CEO of SDS Capital Group, on a construction site in Los Angeles at the first SDS Fund investment. (SDS Capital Group)

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A group of diverse investors has raised \$150 million for what is being called the first private real estate impact fund to build housing for the homeless in the Los Angeles region.

SDS Capital Group and its development partner are starting construction to develop 1,800 units spanning 30 permanent housing projects in Los Angeles aimed at getting homeless individuals off the streets and into homes.

The fund raise comes as there has been more of an interest from new investors to financially back impact funds, which invest in economically distressed areas with projects that create housing or other development that is needed such as healthcare facilities.

There has especially been more of an interest in backing impact funds run by women or minority money managers, with "the door being open now where it wasn't before" from university endowments, pension funds and large companies, said Deborah La Franchi, founder and CEO of [Los Angeles-based](#) SDS Capital Group, in a phone interview with CoStar News.

"More doors are being opened with more investors starting to say, 'Let's start looking at impact funds and make a positive change in our community,'" said La Franchi, whose firm is one of only a few woman-owned real estate fund managers. "Impact funds are often seen as having below-market returns, but a lot of investors are now looking at our returns compared with similar products and seeing they can have an impact and market returns."

The team builds housing for the homeless in California for half the cost — its average cost per unit is \$200,000 — and three times as fast as when government subsidies are involved, the company said. The fund is backed by private investors, including banks, foundations and a real estate group.

"The diversity of our investor base was tremendously expanded with this homeless fund," La Franchi said. "In the past, 95% of the capital came from banks, but in this fund, about 40% of our capital came from non-bank investors. Those non-bank investors included a national healthcare provider, foundations and a real estate developer. Usually, real estate developers don't fund us, but those non-bank investors are here in California, and they see the extent of the homeless crisis and it has continued to worsen."

California's homeless crisis has grown, with estimates totaling the homeless population at more than 161,000 people.

"Corporations and private investors have to be part of the solution," La Franchi said.

"This is a completely new approach from the private sector that is scalable, and this state needs new approaches."



Each project is expected to range in size from 40 units to 100 units, with each unit, on average, totaling about 500 square feet of space. (SDS Capital Group)

The newest investors in the fund include Charles Schwab Bank, First Republic Bank, California Community Foundation and the Annenberg Foundation. Other investors that were part of an earlier raise include Ally Bank, Synchrony Bank, East West Bank, Western Alliance Bank, the Weingart Foundation and Hudson Pacific Properties.

To date, the fund has financed six of its proposed 30 projects, including five developments in Los Angeles and one prototype modular housing development and a project in the Bay Area. Los Angeles-based RMG Housing is the developer of the buildings, which have 40 to 100 single-bedroom units averaging about 500 square feet of living space. The capital group and developer plan to construct more modular developments to expedite the time it takes to deliver homes from 24 months to 14 months.

The project builds on the "aha" moment La Franchi had more than two decades ago when she got introduced to what is now called impact funds through her work with Genesis L.A., the then-mayor's inner-city economic development initiative, taking the executive from a future she saw for herself in grant writing or government work into finding funds to finance community-driven real estate projects "with the sole purpose of engaging the private sector in the battle against poverty" and making a good return for her investors.

Most government programs aimed at combating homelessness typically extend the timing and costs of projects.

"I knew we needed to engage the private sector because we needed money that could be nimble and quick," La Franchi said. "There are many of thousands of projects around the country that could benefit from this type of funding."
