

Second Party Opinion

Preservation Of Affordable Housing Inc.'s \$75 Million Taxable Bonds Series 2022 (Sustainability Bonds)

March 25, 2022

Preservation of Affordable Housing Inc. (POAH) is a nonprofit organization that preserves, creates, and sustains affordable rental homes for low- and moderate-income families, seniors, and individuals. POAH is one of the largest affordable housing developers and owners in the U.S. with a presence in the Northeast, Mid-Atlantic, Southeast, and Midwest. Since its founding, POAH has acquired and developed a portfolio of 12,276 affordable rental apartments, serving just under 21,000 residents across 57 cities in 11 states and the District of Columbia.

POAH plans to issue \$75 million of taxable bonds Series 2022 (Sustainability Bonds) with a 2032 maturity. It will use the net proceeds from this issuance to refinance a portion of its existing debt, which it used to finance various affordable housing projects, as well as to finance additional mission-aligned projects that promote affordable housing.

In our view, POAH's Series 2022 bonds, issued March 28, 2022, are aligned with:

- ✓ Social Bond Principles, ICMA, 2021
- ✓ Green Bond Principles, ICMA, 2021
- ✓ Sustainability Bond Guidelines, ICMA, 2021

Issuer's Sustainability Objectives

POAH's mission is to preserve, create, and sustain affordable, healthy homes that support economic security, racial equity, and access to opportunity for all. It achieves its mission by partnering with various private and public stakeholders to build and operate affordable housing projects offering deeply discounted rents that it preserves for the long-term. POAH's affordable units are generally targeted toward very low-income residents, with an average household income of 23% of area median income (AMI) across all of the organization's properties. In addition to providing stable affordable housing, POAH has dedicated staff to provide residents with personal financial coaching and programs to promote employment, health, education, and community engagement.

Additionally, POAH focuses on ensuring its affordable housing communities are environmentally sustainable and energy efficient. This commitment includes reducing energy and water usage to save money for its residents and improve the financial viability of its properties, as well as improving the sustainability of its facilities to reduce the disproportionate harm that climate change is having on low-income individuals and their communities. POAH prioritizes sustainability and energy efficiency in the design of its new construction and major renovation projects through its Basis of Design, which is an open-source design guideline that incorporates various environmental standards. Since 2010, POAH has implemented more than 340 discrete water and energy projects across its portfolio. In total, these projects have cut the organization's annual CO2 emissions by more than 10 million pounds, enabled it to conserve over 100 million gallons of water

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Second Party Opinion

each year, and reduced its annual energy usage by over 60 million kilo-Btus (kBtus), which--combined--provide it with more than \$2.5 million in savings on its annual utility expenses.

Second Party Opinion Summary


Use of proceeds

Alignment  POAH's Series 2022 is aligned with this component of the Principles.

Score Not aligned Satisfactory **Strong** Advanced

POAH will use the net proceeds from the issuance to refinance a portion of its existing debt, which it used to finance various affordable housing projects, as well as to finance additional mission-aligned projects that promote affordable housing. POAH also outlines several key sustainability initiatives that meet various social and green eligible project categories in the Principles.


Process for project evaluation and selection

Alignment  POAH's Series 2022 is aligned with this component of the Principles.

Score Not aligned Aligned Strong **Advanced**


POAH clearly communicates its process for project evaluation and selection. This involves vetting projects for mission alignment, racial equity, and affordability, among other attributes. POAH has processes by which it identifies and manages the environmental and social risks for its eligible projects. Additionally, POAH identifies the internal bodies responsible for its project selection process, which includes a board-designated Investment and Development Committee.

Management of proceeds

Alignment  POAH's Series 2022 is aligned with this component of the Principles.

The Series 2022 bonds include provisions that require the proceeds to be placed in separate accounts to avoid the commingling of funds. Undisbursed funds will be temporarily held in an interest-bearing account and all funds will be tracked annually.

Reporting

Alignment  POAH's Series 2022 is aligned with this component of the Principles.


Score Not aligned Aligned **Strong** Advanced

POAH commits to reporting on the allocation of the net proceeds from the transaction until full disbursement. It also commits to disclosing some actual and expected environmental and social metrics, both qualitative and quantitative, annually until the funds are fully allocated.

Transaction Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 POAH's Series 2022 is aligned with this component of the Principles.

Commitments score

Not aligned

Satisfactory

Strong

Advanced


We consider POAH's overall use of proceed commitments to be strong.

The Preliminary Offering Memorandum (POM) clearly details that POAH will use the proceeds exclusively for eligible sustainability projects. Specifically, the organization will use the net proceeds from the issuance to refinance debt it used to finance various affordable housing projects (\$53.5 million), refinance three loans it used for acquisition and development activities related to affordable housing projects (\$14.7 million), fund other mission-aligned projects to promote affordable housing (\$5.8 million), and cover transaction costs (\$1 million). The POM clearly communicates the proportion of its refinanced debt that it will allocate the net proceeds to, which we view as a strong practice. POAH has also identified 12 projects that it intends to refinance with the bond proceeds. The acquisition dates for these projects range from 2005-2020. POAH intends to refinance some of its older housing stock to recapitalize and invest in project upgrades, including adding new sustainable technologies to its projects, such as by retrofitting water systems and renewable energy sources like solar thermal collectors.

We believe POAH's projects span the social themes of affordable housing and socioeconomic advancement and empowerment, which are two categories identified by the Social Bond Principles. This is demonstrated by the deeply discounted rents POAH maintains, with an average AMI of 23% for residents across all of its properties, as well as the socioeconomic benefits that its residents have access to through the organization's financial coaching, employment, health, education, and community empowerment programs. We also believe that POAH's projects span the themes of energy efficiency and green buildings, which are two categories identified by the Green Bond Principles. This is demonstrated by POAH's commitment to finance projects with strong environmental standards and sustainable design features, such as products or systems that minimize water use and nonrenewable energy consumption.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 POAH's Series 2022 is aligned with this component of the Principles.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider POAH's overall process for project selection and evaluation to be advanced.

The POM clearly describes the rigorous process POAH follows to determine how potential projects fit with its eligible project categories and its screening criteria include strict standards. These criteria include screening for projects that are consistent with POAH's mission, including projects that promote racial equity and economic security, as well as those that are affordable and socially viable, which it defines as projects that can become viable communities and support positive social outcomes for its residents. Additionally, POAH prioritizes sustainability and energy efficiency in the scoping and design for both its new construction and major renovation projects. POAH follows its Basis of Design, an open-source design guideline used by all POAH project

Second Party Opinion


managers, to ensure its projects meet certain environmental standards. These include Energy Star, Leadership in Energy and Environmental Design (LEED), Passive House US (PHIUS), and Enterprise Green Communities certifications, as well as ensuring that projects are fitted with energy- and water-efficient technologies, such as programmable thermostats, low-flow water fixtures, and LED lighting, among others.

POAH also has processes to identify and manage environmental and social risks for its eligible projects. Through a team of Community Impact Coordinators, POAH provides stable tenancy through rental assistance and budgeting help; helps residents maintain safe, clean, and healthy homes through one-to-one housekeeping support; promotes access to fresh and healthy foods through on-site food distribution programs; and provides on-site nursing services through local community partners and/or health workshops to support health management and overall wellbeing, among many other services. Additionally, POAH requires its projects to have strategies to identify, mitigate, and manage environmental risks stemming from climate change. For example, its Basis of Design includes a Generator and Resiliency Strategy section that requires projects to have back-up power in place and established resident and staff areas of refuge. POAH aggregates data on power outage vulnerabilities and capabilities for the properties it owns, including the frequency and causes of outages, and uses this data to risk-rate each property's vulnerabilities and prioritize its investments in power generation and other resiliency approaches.

Finally, the POM delineates a robust decision-making process, which includes POAH's Internal Investment Committee, the CEO, a board-designated Investment and Development Committee, the Senior Vice President of Acquisitions, and the Managing Director of Development. All transactions must be approved by the full board of directors. Moreover, the POM includes the qualifications of each board member, including their field of environmental, social, and governance (ESG) subject-matter expertise, such as renewable energy, green redevelopment, and urban sustainability, which we view as a best practice.

Management of proceeds


The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 POAH's Series 2022 is aligned with this component of the Principles.

The bond indenture clearly details the management of the proceeds from the Series 2022 issuance. POAH will deposit the proceeds in segregated accounts that are held by a designated trustee. These funds are subject to a clear set of covenants that ensure the funds are allocated to their designated purposes, which we believe limits any potential leakage. Furthermore, the indenture specifies that unallocated proceeds can only be invested in a broad list of permitted investments, which include direct obligations of the U.S. and 'AAA'-rated money market securities.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 POAH's Series 2022 is aligned with this component of the Principles.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider POAH's overall reporting practices to be strong.

Second Party Opinion

POAH commits to reporting on the allocation of the net proceeds from the transaction until full disbursement. This information will follow POAH's Form of Sustainability Bonds Annual Reporting guidelines found in the POM. As a nonprofit organization subject to federal regulations, POAH is also legally mandated to conduct annual financial audits, which include delineating the allocation of the proceeds from each series of bonds.

POAH commits to disclosing some actual and expected environmental and social metrics annually, until the funds are fully allocated, which we view as a strong practice. This will include both qualitative and quantitative metrics. However, we note that despite POAH's tracking of environmental metrics, such as the amount of CO2 emissions avoided, gallons of water saved, and kBtus of energy conserved at its projects, it has not committed to including these metrics in its annual reporting. The disclosure of additional impact metrics will continue per POAH's ongoing reporting requirements. While the documents do not stipulate a third-party verifier of its impact metrics, we note that these metrics are otherwise subject to audit by federal, state, and local governments, as well as mission-aligned third parties, as part of the associated Low Income Housing Tax Credits (LIHTC) and/or soft debt associated with a given development.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

POAH's taxable bonds Series 2022 (Sustainability Bonds) are intended to contribute to the following SDGs:

Use of proceeds

SDGs

Affordable Housing



1. No poverty*



11. Sustainable cities and communities*

Socioeconomic Advancement



1. No poverty*



10. Reduced inequalities*



11. Sustainable cities and communities*

Affordable Basic Infrastructure



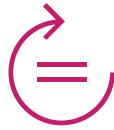
7. Affordable and clean energy*

11. Sustainable cities and communities*

Access to Essential Services



1. No poverty*



10. Reduced inequalities*

Green Buildings



11. Sustainable cities and communities*

Energy Efficiency



7. Affordable and clean energy*

Climate Change Adaption



1. No poverty*

*The eligible project categories link to these SDGs in the ICMA mapping.

Second Party Opinion

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