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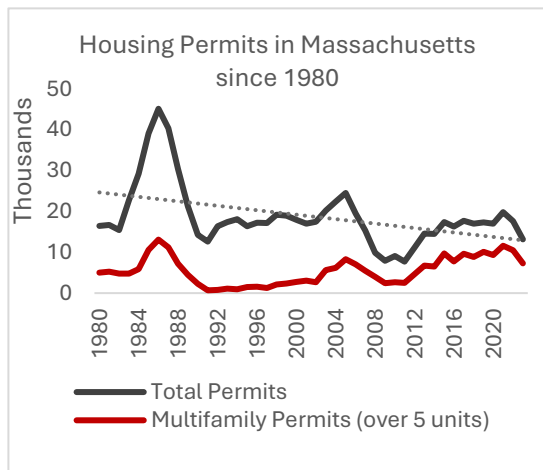
Capital for Affordable Housing: Launching the Momentum Fund in Massachusetts
From Concept to Execution, the Momentum Equity Fund Sets a Precedence in the U.S.

By Samya Mishra (HKS MPA 2024, Rappaport Research Fellow)

I. Context and Challenge

Massachusetts has experienced a persistent housing shortage¹. Over the last four decades, housing permit approvals have steadily declined, even as the state’s population has grown. According to the Unlocking Housing Production Commission, the state needs an estimated 222,000 new homes by 2035 to meet projected demand.² (Fig. 1)

Figure 1: Total Housing Permits (MA)



Source: MAPC DataCommons

Since 2020, rising housing costs and limited supply have been a contributor to domestic out-migration, with Boston-Newton-Cambridge ranking among the top five U.S. metro areas for net migration losses

as of March 2023 (Freddie Mac)³. These pressures fall hardest on low- and middle-income households, who face barriers to both homeownership and rental housing.

The COVID-19 pandemic intensified these challenges. Nationwide, construction material prices surged—reflected in the Producer Price Index increase of almost 50% from March 2020 May 2022⁴. In Massachusetts, residential construction costs have doubled since 2016, driven by rising labor and material costs and interest rates on financing. The high-interest rate environment made access to debt and equity costly. These factors contributed to many projects stalling and a resultant backlog of permitted but unbuilt homes across Massachusetts.⁵⁶

This prolonged imbalance between housing supply and demand, coupled with limited supply of capital in a high interest environment has further driven up rents and home prices, limiting economic mobility and talent retention statewide.

This brief summarizes research completed by Samya Mishra as part of a Rappaport Fellowship with the Massachusetts Housing Finance Agency where she worked on the design and execution of the Momentum Equity Fund for BILD Program Investments.

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This research was developed in consultation with key stakeholders from MassHousing and the Commonwealth of Massachusetts, including:

- Mark Attia:** Director, Capital Formation, MassHousing
- Michael Kaneb:** Principal Legal Advisor, MassHousing
- Chrystal Kornegay:** CEO, MassHousing
- Lt. Governor Kim Driscoll:** Lt. Governor for MA State

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¹ Housing Production and Preservation, Capital Budget Briefing – FY25-29 CIP, Office of the Governor.

² Unlocking Housing Production Commission report “Building For Tomorrow”, February, 2025

³ Freddie Mac Research Brief, May 2024 – Top 10 Metro areas homebuyers are moving into and out of

⁴ U.S. Bureau of Labor Statistics Producer Price Index – Cited in the Greater Boston Housing Report

⁵ Boston’s Economy 2024: Recovery, Resilience and Growth

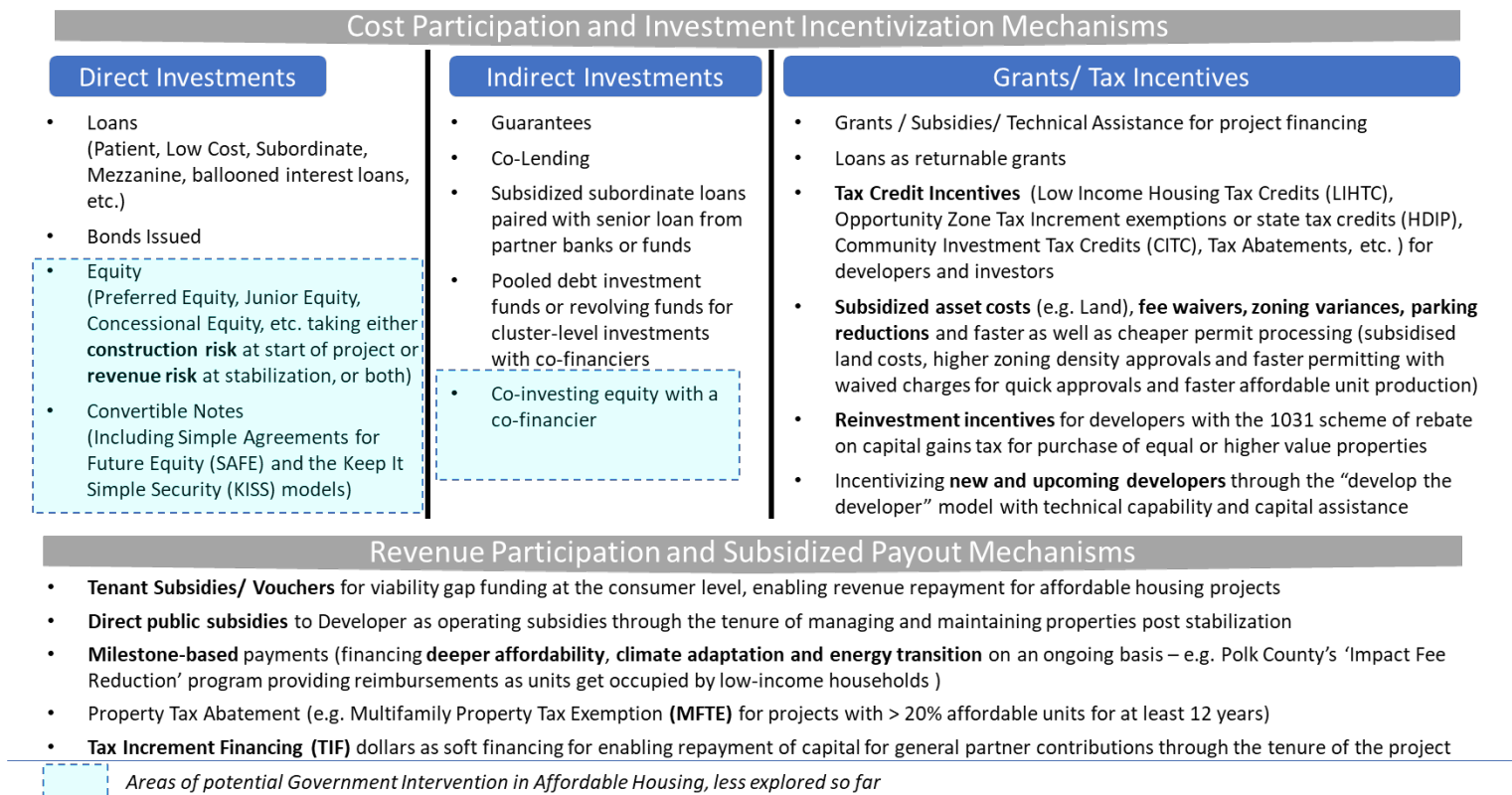
⁶ US Census Survey of Construction - as quoted in the Greater Boston Housing Project Report by Boston Foundation

In response, the Healey-Driscoll Administration passed a \$5.2 billion Affordable Homes Act- the largest housing bond bill in state history, more than tripling the previous authorization from 2018.⁷ The Act supports the creation, preservation, and rehabilitation of over 65,000 homes and includes \$50 million to launch the Residential Production Momentum Fund, a new housing investment tool administered by MassHousing (Massachusetts Housing Finance Agency).

Globally, governments and public agencies use financial mechanisms and incentives to spur

infrastructure development by supplementing direct private investment. These incentives generally fall into two categories: capital-based mechanisms like tiered equity investments, subordinated or mezzanine debt, subsidies, guarantees and grants that reduce upfront capital needs or subsidize capital costs; and operating revenue-based tools like rent subsidies or vouchers that ensure steady returns over time. Thus, the Government investment or incentive can help address construction risk, revenue risk or both for a given infrastructure project. (Fig. 2)

Figure 2: Illustrative of Government Investment Mechanisms and Incentives Used for Urban Infrastructure Development



⁷ [Governor Maura Healey Signs Most Ambitious Legislation to Address Housing Costs in State History | Mass.gov](https://www.mass.gov/news/governor-maura-healey-signs-most-ambitious-legislation-to-address-housing-costs-in-state-history)

In the U.S. particularly, affordable housing infrastructure growth has been supported by financial incentives and policies offering grants, subsidies, tax incentives (like the Low-Income Housing Tax Credits program), fee waivers, zoning policy changes and debt-based mechanisms predominantly. Policies like Chapter 40B statute in Massachusetts have encouraged private development by easing zoning restrictions and streamlining local approvals for projects with at least 20–25% affordable units. The Momentum Fund builds on this legacy by offering a next generation policy tool with an innovative equity-based public investment strategy for affordable housing infrastructure to unlock stalled projects and accelerate mixed-income housing production.

II. Policy Considerations and Solutions

To support housing production in Massachusetts the state focused on accelerating development of large-scale, mixed-income rental housing. These projects represent a large share of housing supply, yet they face mounting financial hurdles due to rising construction costs, interest rates, and equity requirements. Chapter 40B developments alone generate ~1,000 units annually, representing \$500M in development costs with roughly \$200M of that requiring to be invested in the form of equity.

To address this capital requirement, the **Momentum Fund** was created as a novel public equity investment tool. Unlike traditional grants or loans, the fund injects patient, flexible and concessionary equity capital into qualifying projects, taking more cashflow risk and helping to unlock stalled developments, attract private capital, and stretch public dollars further.

In October 2024, MassHousing launched the BILD program (an acronym for **B**ringing **I**nnovation to **L**ending and **D**evelopment), which creates financing solutions for market-oriented, mixed-income rental housing construction to catalyze private capital investment. Through BILD, MassHousing will provide a one-stop financial solution to the borrower by offering a competitive senior debt product coupled

with innovative and concessionary equity financing. Rental developers were eligible to apply if their developments consisted of new production, with at least 50 units total, where at least 20% of the units are affordable to residents earning up to 80% of AMI.

Key design features and policy goals include:

- **Lowering the cost of capital:** The main aim of the BILD program with flexible equity and debt offering was to reduce the weighted average cost of capital (WACC) for the projects and borrowers. By investing Momentum Equity at 10%–20% of the capital stack at affordable rates compared to market (*Ref. Fig. 6, Section III*), and pairing it with a 10% subordinated debt offering in the form of FORGE Loan (10% of the senior debt of Freddie Mac is funded by MassHousing), the Momentum Fund lowers the developers' blended cost of capital while preserving their upside potential of returns for reinvestment. This is particularly helpful when rising interest rates raised the cost of capital for borrowers in the market.
- **Market-acceptable returns to the borrower with concessionary equity offering:** The BILD program's equity offering operates with a preferred return capping at threshold coupon rates in the waterfall distributions, thus taking more risk than traditional secured debt while drawing capped cashflows akin to a fixed income debt product for the borrower, enabling the borrower to partake in the upside of all return distributions made above the threshold coupon rate for reinvestments. Any shortfall in distributions through the years are accrued for repayment at the time of sale and capped at repayment of principal along with cumulative threshold rate of return with accruals. Thus, this frees up the borrower's capital and returns as compared to pari-passu equity share distributions in cashflows and commensurate returns at sale. As compared to traditional debt products, Momentum Equity allows the State to participate in higher risk with the Sponsor without increasing the cost of equity or the burden of upfront fixed cashflow returns of a debt

instrument owing to the flexibility of the accrual feature. Further, there is more flexibility introduced in the end use of the equity capital proceeds as compared to traditional debt financing.

- Revolving public dollars for sustainable growth:** The Momentum Fund is designed to be an evergreen fund which continually revolves the capital earned by reinvesting in new deal commitments for increasing affordable housing production and buying deeper affordability levels across the state, thereby making the fund self-sustainable with minimal dependence on additional State or Federal funding.
- Supporting stalled or cost-burdened projects:** Momentum Equity funds disbursed during stabilization and prior to lease-up can be used flexibly to replace expensive sponsor equity or cover reasonable cost overruns incurred during the construction phase for financing costs or

operating costs —offering a more targeted, flexible and sustainable alternative to grants, debt or subsidies by using equity injection as a capital stimulus. Such uses may include but are not limited to refinancing a construction loan, funding required reserves, paying the closing fees and expenses for the refinancing, and for other such uses that may be defined in the term sheet agreement.

- Attracting private investment:** Momentum Equity is structured to attract and blend in private capital in a 1:1 ratio by co-investors in the project’s equity capital stack. This can result in leveraging state dollars up to 5 -to-7 times for the total development costs and up to 3-to-4 times on the equity portion of the capital stack. (Figs. 3, 4, 5). Blending private capital helps stretch the agency’s money across more projects and spur the production of more affordable units across the State.

Figure 3: Illustrative Blending of Rates of Return within the Equity Component

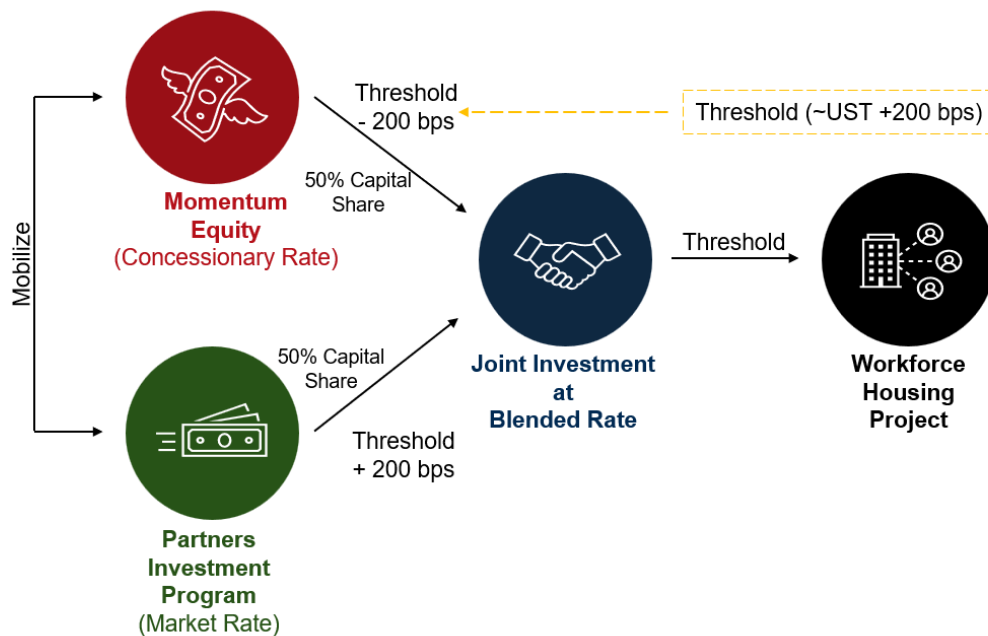
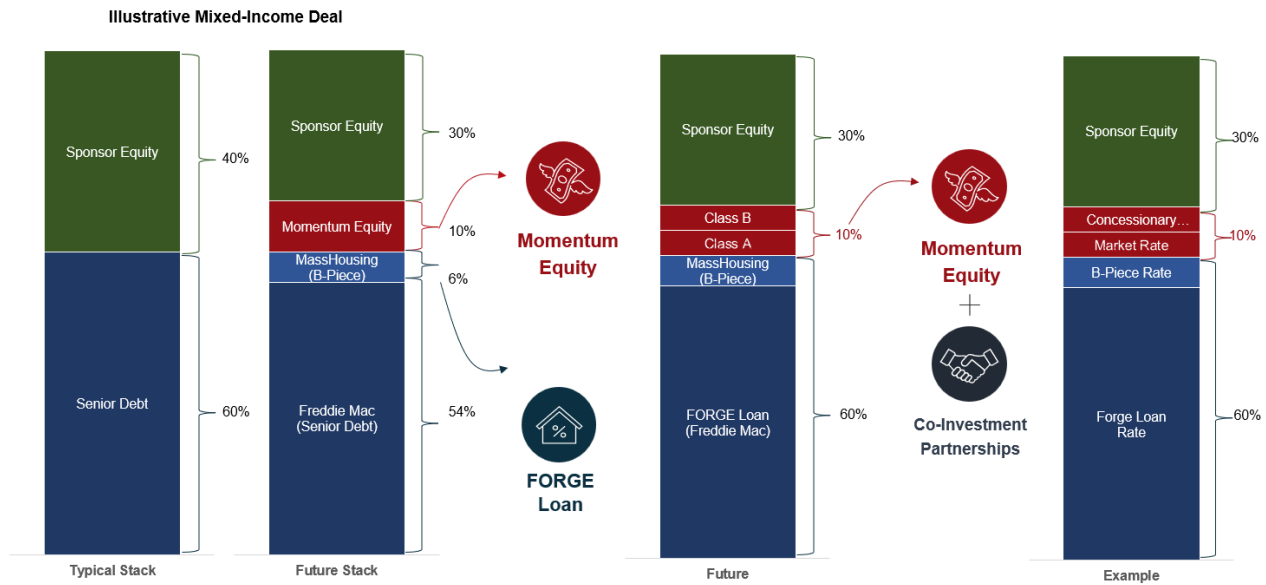


Figure 4: Illustrative Capital Stack Formations across Debt and Equity



- Promoting social mobility and inclusion:** Requiring at least 20% of units to be affordable at 80% Are Median Income (AMI), the Fund supports economically integrated housing near transit locations, upcoming job hubs and commercial centers. It works at integrating rather than isolating affordable housing units from market rate units, leading to upward socio-economic mobility for the resident workforce and families in these subsidized housing units.
- Advancing climate resilience and design quality:** Projects are evaluated for alignment with green building and energy codes, climate adaptation strategies, and equity-based development priorities—laying the foundation for sustainable, future-ready communities.

III. Program Design and Pilot Execution

The Momentum Fund was developed following rigorous market benchmarking and pipeline analysis. The product design, eligibility criteria, and financial structure were informed by affordable housing fund practices across the public and private sectors.

Product Focus and Target Developments

The Fund supports mixed-income multifamily rental projects where at least 20% of units are affordable to households earning up to 80% of Area Median Income (AMI). Projects may also include up to 10% commercial areas or community-serving spaces. This structure encourages economically integrated communities, promotes upward mobility, and provides proximity to transit, jobs, and services.

Financial Terms and Structure

- Average investment per project: \$2M–\$12M in equity.
- Equity covers 25%–35% of total equity stack.
- Paired with a subordinated Forge Loan (Freddie Mac-backed) at 10% of total debt stack.
- With \$100M in funding, MassHousing expects to support 1,000–1,538 units as per the share of Momentum equity (25%-35% of total equity) and the overall share of debt to equity in a deal. (Fig. 5)

Figure 5: Approximate Units Funded with 100 Mn of Momentum Funds (Illustrative)

Share of Debt in total Capital Stack ->	60% LTV Scenario		80% LTV Scenario	
	25% Momentum Funds in Equity	35% Momentum Funds in Equity	25% Momentum Funds in Equity	35% Momentum Funds in Equity
Share of Momentum Equity in Total Equity ->				
Number of Units (Mimimum)	50	50	50	50
x Avg. TDC per Unit (Total Development Cost per Unit)	\$500,000	\$500,000	\$500,000	\$500,000
= Total Average TDC	\$25 Mn	\$25 Mn	\$25 Mn	\$25 Mn
Total Equity Capital as % of TDC	40%	40%	20%	20%
Momentum Equity out of total Equity Capital (25% to 35%)	\$2.5 Mn	\$3.5 Mn	\$1.25 Mn	\$1.75 Mn
Total Debt Amount	\$15 Mn	\$15 Mn	\$20 Mn	\$20 Mn
FORGE Loan at 10% of Total Debt from MassHousing	\$1.5 Mn	\$1.5 Mn	\$2 Mn	\$2 Mn
Total Momentum (BILD) Investment (% of TDC)	16%	20%	13%	15%
Total Momentum (BILD) Investment	\$ 4 Mn	\$ 5 Mn	\$ 3.25 Mn	\$ 3.75 Mn
Number of Units supported with \$100 Mn from Momentum Funds	1250	1000	1538	1333

Equity investments are priced at between the 10-year US Treasury and up-to 200 basis points (e.g., roughly 4.5%-6.5% in early 2025) preferred return—below industry norms of 9%–12% IRR and significantly less than private offerings that reach 14%–15%. This return level balances affordability goals, investor participation, and fund sustainability. (Fig. 6)

Figure 6: Fund-Types and Usual Benchmark Returns

Fund-Types	Examples	Benchmark IRR
Real Estate Funds– Debt, Mezzanine, Distressed Assets, etc.	Oaktree Special Situations Fund, Pine Street Capital Partners III, GoldenTree Distressed Fund III, etc.	18% - 35% or more
Real Estate (mostly affordable) – Equity Funds Only	Harrison Street, Abacus Multifamily, FCP	9% - 12%
Real Estate Mutual Funds	Vanguard, Nuveen, Fidelity	5.0% - 8.0%

Returns are distributed pro-rata until the return hurdle is met. Excess returns may be shared with the sponsor or reinvested. In partnership deals, MassHousing may offer a lower return to allow for higher partner returns and maintain a moderated blended rate for the developer. This helps stretch the agency’s money across more projects and spur the production of more affordable units across the State. (Figs. 5 and 6)

Risk Management and Loan Standards

- The preferred equity investment is designed to be paired with a permanent first mortgage that Freddie Mac, under a risk-share agreement with MassHousing, offers on highly favorable terms for these mixed-income developments. Such mortgages would be prepayable balloon mortgages with up to 40-year amortization, a 1.15x debt service coverage requirement, and up-to 80% loan-to-value ratios. The mortgages will be originated and serviced by Berkadia on behalf of Freddie Mac.

- Loan-to-Value (LTV): up to 80%; up to 90% with subordinate debt.

- Debt Service Coverage Ratio (DSCR): 1.05–1.25, depending on the deal.

- Mortgage terms: up to 40-year amortization, prepayable, originated by Berkadia under a risk-share agreement with Freddie Mac.

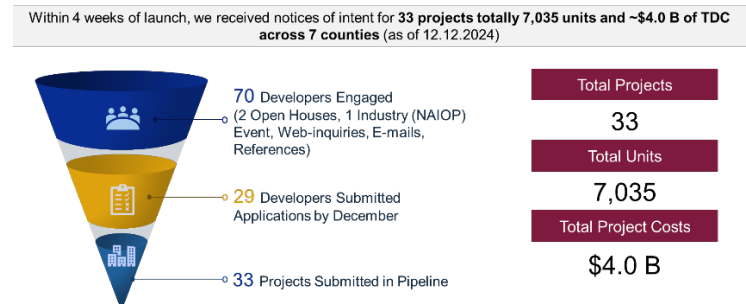
Distribution Waterfall

MassHousing’s preferred equity is senior to sponsor equity and accrues returns up to the threshold rate. Net proceeds are distributed to Momentum Fund investors first until their cumulative threshold return is achieved before passing any proceeds to the sponsor. Any shortfall in cashflow payment is accrued. During a capital event, the cumulative preferred equity returns till the threshold rate along with any prior accruals are paid before passing on the proceeds to the sponsor. Excess proceeds above the threshold rate plus 1000 basis points at the time of sale are shared proportionally as per share of equity of all investors. This clause of Momentum Fund investors participating pari-passu in excess returns above the threshold preferred equity rate plus 1000 basis points is created to allow the State to participate in windfall returns from an invested project for reinvestment via the revolving fund in future projects across the state. All returns are paid from property cash flows and during capital events.

Pilot Launch and Project Selection

Since its launch in October 2024, the BILD program engaged with 70 developers within 1 month, received 33 proposal submissions with project pro forma by 29 developers, and shortlisted 10 key projects for pilot investment commitments of the first USD 50 Mn over 12 months. (Fig. 7)

Figure 7: Pilot Launch and Selection Methodology (Part 1)



These pilot project submissions showed distributions across counties, total units and total capital requirements as shown in Figures 9 and 10 (see below). Almost 25% of projects had a unit count between 50-100 units. Suffolk and Middlesex counties comprised of 47% of the total units being developed but 88% of the total development capital requested. These 2 counties also comprised of large-scale single projects of 250 units and more.

Projects were evaluated across three dimensions:

- 1. Readiness and Eligibility** – project timeline, permit readiness, completeness of submissions, and affordability compliance.
- 2. Cost and Investment Efficiency** – cost per unit, size of financing support needed, private capital leverage, and financial structuring of costs and projected returns.
- 3. Impact and Additionality** – location-specific housing need, developer experience, and alignment with climate related energy codes, green building standards as well as the Qualified Allocation Plan (QAP) developed by the Executive Office of Housing and Livable Communities. standards.

Figure 8: Pilot Launch and Selection Methodology (Part 2)

Screening Methodology of Deals

Criteria for Prioritization

1. Readiness and Eligibility

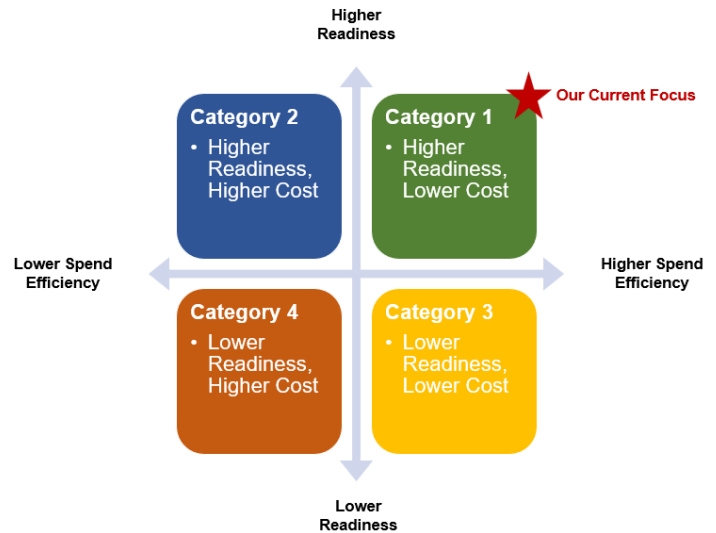
- Project Readiness
- Submission Completeness
- Affordability Level Readiness

2. Project Cost & Investment Efficiency

- Cost Efficiency (Units per Dollar)
- Investment Efficiency (size of ask)

3. Impact and Additionality

- Local Impact on Housing Opportunity
- Geographic Equity
- Additionality of Investment ("but for")
- Climate Alignment



These projects were divided into peer groups to evaluate and peer benchmark the above parameters as per project location and size. Further, the projects were then stacked in a 2 by 2 matrix as shown in *Figure 8*, where 4 quadrants were divided and allocated projects based on project readiness and spend efficiency within peer groups. These quadrants can be explained below:

Category 1: Projects that displayed higher readiness and higher spend efficiency of public dollars with lower cost as compared to their peer set.

Category 2: Projects that were ready compared to peers but were also more costly and were moved to

phase 2 of consideration with more co-investment capital. Certain Boston-based projects fell in this category due to sheer size of capital with higher cost for lesser number of affordable units.

Category 3: Projects that showed better spend efficiency than their peer set but were going to be shovel-ready after at least 6-12 months. Thus, these projects were moved for consideration in phase 2 or phase 3 of the BILD program investments.

Category 4: Projects that had lower readiness levels and much higher costs compared to their peer benchmarks, thereby making them less competitive or infeasible for selection.

Figure 9 (a,b,c): Pipeline distribution by units

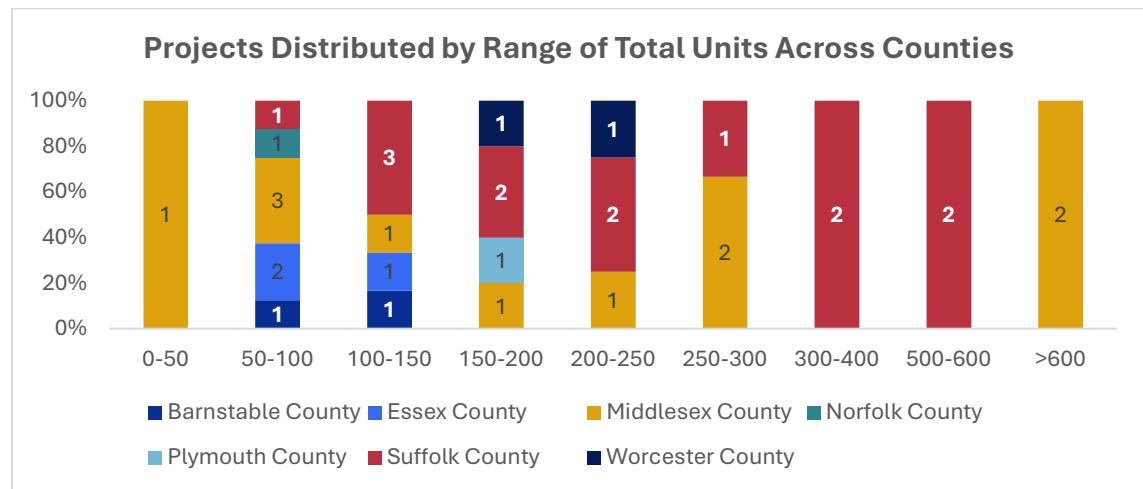
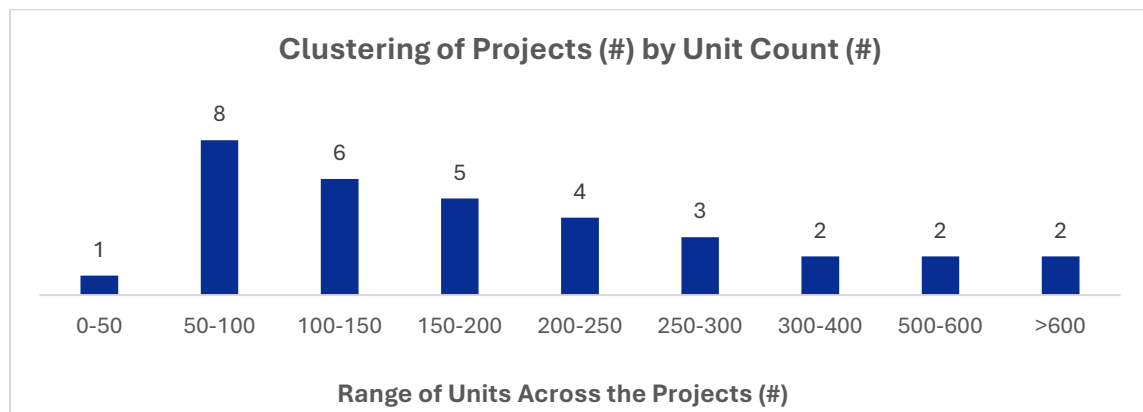
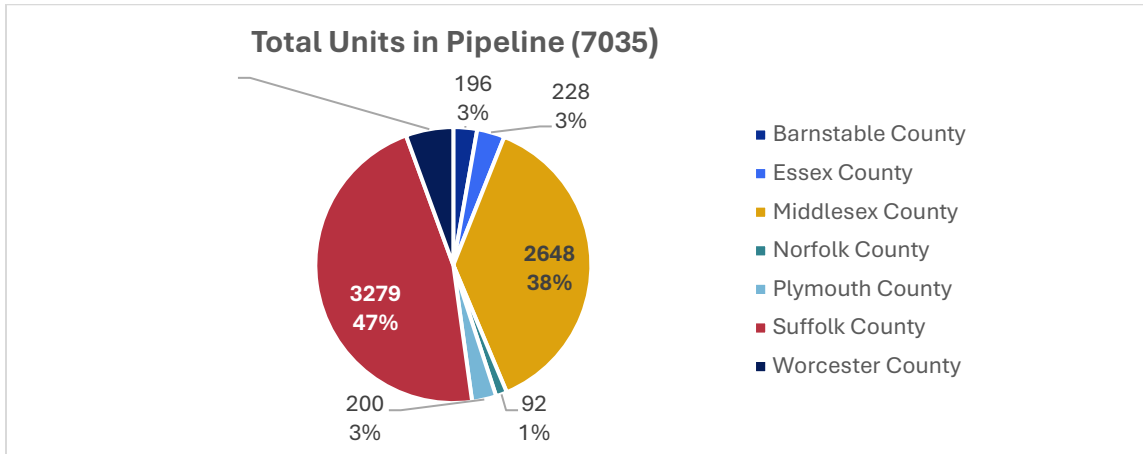
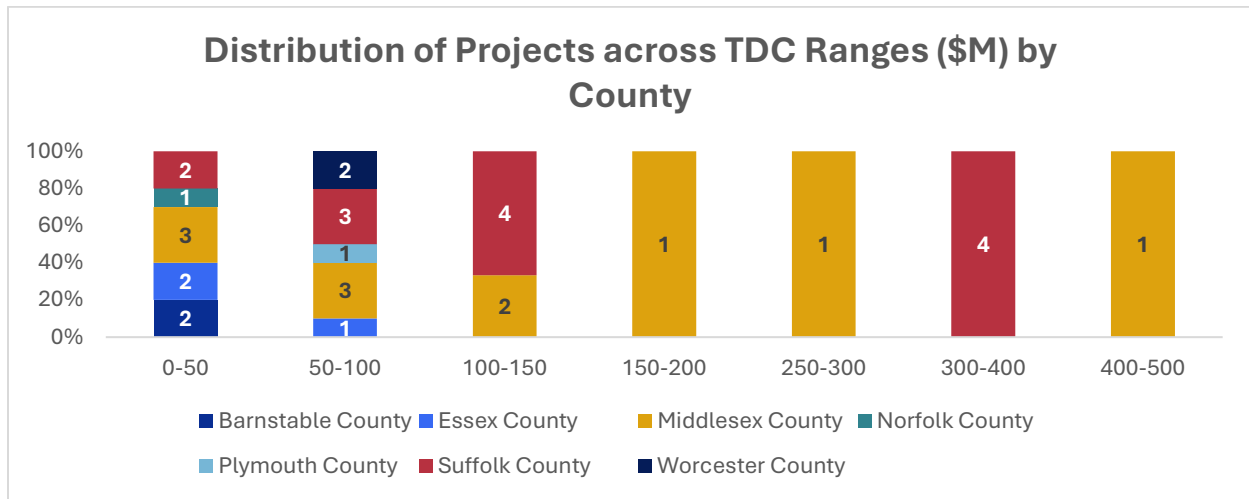
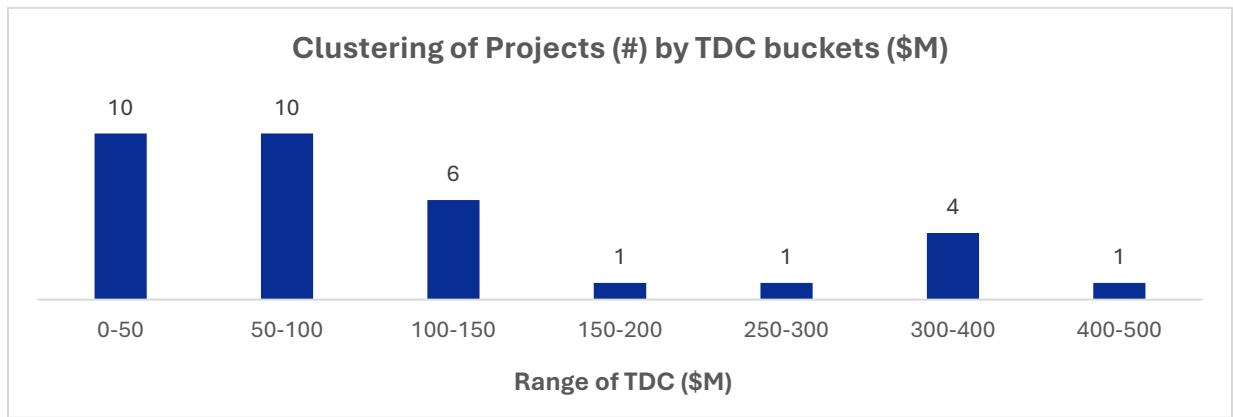


Figure 10 (a,b): Pipeline distribution by total development costs (\$Mn)



IV. Case Study: East Milton



The first project approved through the Momentum Fund and BILD program is the Residences at East Milton, developed by Joseph J. Corcoran Company and Falconi Companies. This mixed-income project will deliver 92 rental units, including 23 affordable units at 80% AMI and 69 market-rate units.

The project received a \$5 million Momentum Equity investment at a 6.34% preferred return (U.S. Treasury + 200 basis points, March 2025), along with a \$29.82 million FORGE Loan—10% of which is backed by MassHousing as a B-piece investor.

Without Momentum Equity, the project would have faced \$3.1 million in added carrying costs, lowering its common equity IRR to 5.94%. With the Fund’s support, the common equity IRR improves to 7.03%, and the cash-on-cash return jumps from 2.30% to 5.29%. The common equity multiple also rises from 2.02x to 2.25x, enabling the sponsor to attract the required private equity investment.

The development is located on a 1.1-acre site in East Milton Square, one block from the Southeast Expressway and near a range of neighborhood services. The site currently includes vacant homes, a commercial building, and a parking lot, which will be demolished to make way for a five-story wood-frame building over a concrete podium. The building will

include 107 parking spaces (70 enclosed), a leasing office, and residential amenities.

The project was selected for its strong alignment with BILD criteria, including readiness, cost efficiency,

affordability, and community impact. Despite higher costs associated with redevelopment and affordability mandates, the project met MassHousing’s investment benchmarks.

Key Metrics	
Total Construction Cost	\$34,200,000
Gross Square Footage	133,176 GSF
Construction per Gross Square Foot	\$ 257 / GSF
Construction per Unit	\$ 371,739 / unit

Sources	Construction (millions)	Per Unit	Permanent (millions)	Per Unit
Metro Credit Union Construction	\$ 29.8	\$ 324,130		
Fidelity Equity	\$ 5.0	\$ 54,348		
First Mortgage Loan			\$ 26.8	\$ 291,717
Subordinate Mortgage Loan			\$ 2.98	\$ 32,413
Momentum Equity			\$ 5.0	\$ 54,348
Syndicated Limited Partner Equity	\$ 14.8	\$ 160,572	\$ 14.8	\$160,572
Falconi Companies Equity	\$ 1.3	\$ 14,293	\$ 1.3	\$14,293
Joseph J. Corcoran Equity	\$ 1.3	\$ 14,293	\$ 1.3	\$14,293
Total	\$ 52.2	\$ 567,637	\$ 52.2	\$ 567,637

Uses	Permanent (millions)	Per Unit
Acquisition	\$ 2.97	\$ 32,261
Construction	\$ 34.20	\$ 371,739
Contingency	\$ 1.67	\$ 18,098
General Development	\$ 11.14	\$ 121,096
Developer Overhead and Fee	\$ 2.25	\$ 24,444
Total	\$ 52.2	\$ 567,637



V. The Way Forward: Scaling the Momentum Fund

MassHousing is focused on expanding the reach and impact of the Momentum Fund to address the Commonwealth's urgent housing needs. The next phase of work centers on four core strategies:

1. Scaling with Public Authorizations

MassHousing is seeking additional authorization from the State to grow the Fund's investment capacity. A \$50 million co-investment with the City of Boston was arranged in summer 2025, and the State has filed for an additional \$50 million—doubling the potential investment pool for future projects.

2. Building a Long-Term Co-Investment Platform

To attract sustained private capital, MassHousing is formalizing partnerships with institutional investors and financiers, including Freddie Mac (via Berkadia), the City of Boston, and other private equity funds.

The goal is to create a durable structure for co-investment, with public funding serving as a catalyst to leverage at least \$150 million in total capital.

3. Executing Deals and Strengthening Asset Management

The Fund has already shortlisted 10 priority projects, with three investments moving forward in Q2 2025 and more planned in subsequent quarters. A comprehensive asset management framework is being developed to monitor financial and non-financial performance—tracking metrics like emissions, cost efficiency, income mobility, and neighborhood development.

4. Codifying an Investment Playbook

To ensure consistency and strategic alignment, MassHousing is preparing formal program guidelines, impact criteria, and a selection playbook for future deals. This will help developers tailor their proposals to meet state goals and facilitate more transparent, data-driven decision-making.

Conclusion

The Momentum Fund represents a bold new approach to affordable housing finance in Massachusetts—using concessional capital in the form of an innovatively designed public equity offering to unlock stalled projects, reduce borrowers' costs, and attract private capital through a sustainable and revolving fund mechanism. With its early success, strong pipeline, and growing partnerships, the Fund is well-positioned to scale its impact and serve as a national model for innovative, mission-driven housing investments.