

# American South Fund Management Targets Affordable Housing, Other Real Estate in Economically Distressed Areas

By **MARISSA LUCK** | JULY 16, 2021



*American South Fund Management funded renovations of the St. James historic hotel in Selma, Alabama, now part of the Hilton-branded Tapestry Collection. (Betty Johnson)*

Real estate fund chief executive Deborah La Franchi often gets calls from developers looking for cash to turn properties into upscale apartments in disadvantaged areas. Her answer is usually no.

Despite the fact that her joint venture focuses on distressed areas, La Franchi and her firm, Los Angeles-based SDS Capital Group, aren't interested in the standard value-add apartment deals that could price out existing residents. Instead, they want to transform properties into high-quality, livable communities that remain affordable for low-income residents. And they want to turn a profit while doing so.

That's no small feat in a world where many private multifamily investors shy away from affordable housing projects, which are notoriously difficult to make profitable without complicated financing structures and government programs. SDS Capital initially launched by working with government-based New Market Tax Credits, but after the Great Recession, it eventually expanded into funding more market-rate projects that were not as dependent on government sources.

"What's unique about what we do is this is a for-profit private equity fund but yet we're doing things that people equate more with nonprofit and government," La Franchi said in an interview with CoStar News. "We're using private-sector capital to create housing [and other investment] that is desperately needed."

La Franchi's joint venture, American South Fund Management LLC, has closed the initial \$28 million round of its second fund to invest in economically distressed areas in 10 Southern states. The fund is targeting projects ranging between \$7.5 million and \$20 million, including apartments, industrial, office, educational and medical properties in Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas.

The fund provides equity to third-party real estate developers, with a focus on minority developers who know how to create positive cash flow but are still mission driven, Franchi said. The goal is to invest in underserved areas in projects that could help to set off further economic revival. The first investment from the second fund is expected by the end of the month.

After noticing a particular need for investments in impoverished areas in the South for years, La Franchi teamed up with another mission-oriented real estate leader, David Alexander of Louisiana-based Vintage Realty Co., in 2016 to launch American South Fund Management LLC.



*Deborah La Franchi (Founder/ CEO SDS Capital Group; Principal American South Fund Management)*

The team has raised and invested \$58 million into projects throughout the Sun Belt through its first fund called American South Real Estate Fund I.

The dollar size of the second fund is expected to grow substantially and the joint venture wants it to significantly outpace the first fund, La Franchi said.

Investments from the first fund focused on low-income areas where the average poverty rate was 36% and the average demographic was 80% minority residents, 51% of those being Black, La Franchi said.

Those investments included a handful of apartment projects in Texas, including two in Houston, as well as \$10.6 million for a public-private partnership with Dallas-based Provident Realty and the San Antonio Housing Trust to transform the long-closed Friedrich Air Conditioning Plant into affordable housing in San Antonio's East Commerce area. Called Friedrich Lofts, the \$70 million project represents one of the larger projects for American South Fund Management and is still in the early stage of development, La Franchi said.

While many Sun Belt cities are still relatively affordable compared to East and West coast cities, some housing advocates are worried that rising rents and home prices could threaten the affordability of places such as Houston.



*Friedrich Lofts is a proposed adaptive reuse of a former manufacturing plant in San Antonio into an apartment complex. (Provident Realty Advisors)*

"I live in California, and the shortage of affordable housing has led to a homeless crisis. We have encampments everywhere," La Franchi said.

La Franchi said the homeless crisis in California has created real estate instability.

"It's not good for society if we are having parts of our urban communities that are just abandoned and boarded up," she said. "It's a vicious downward cycle, and we need to reverse that."

Part of breaking the cycle goes beyond housing, and American South Fund Management's work extends to other commercial real estate assets. For example, the first fund provided \$1.9 million to NFL Hall of Famer Emmitt Smith's real estate development firm, E Smith Communities, to fund the purchase and renovation of a long-dormant hub in South Dallas into a new office-retail project called 4315 Innovation Center.

Construction is complete on the Lancaster Road project, which is 70% leased to tenants including offices for E Smith Communities, Guru Capital LLC, Circle GX Technologies, University of North Texas at Dallas, ReBirth Empowerment Education, Dallas College and a cafe.

American South Fund Management "has been a great financial partner in our Lancaster project in South Dallas," said Smith, founder of E Smith Communities, in a statement.

Another project the fund financed was the renovation of an historic hotel catering to tourists visiting the Civil Rights mecca of Selma, Alabama. The hotel opened earlier this year as a Hilton-branded Tapestry Collection hotel, La Franchi said.

## For the Record

Bank of the Ozarks, Cadence Bank and Texas Capital Bank provided the initial financing for American South Fund Management's second fund.