



Perceptions of Affordable Housing Investment: 2019 Study Key Findings

As housing prices around the country have risen in recent years, groups like The NHP Foundation (NHPF) are encountering new populations in need of affordable housing such as retirees, public servants, and recent graduates. NHPF sought to address this growing need by gauging institutional investor interest in affordable housing.

To achieve this goal, NHPF engaged Kingsley Associates, a firm with over 30 years' experience in market research consulting for the real estate sector, to conduct confidential interviews with 31 key decision makers in the institutional investment world. Institutional Real Estate Inc. (IREI), a global media firm specializing in institutional real estate and infrastructure marketplaces, also provided expertise in shaping the study. Most of the participants are part of IREI's list of the largest Global Investor Managers and are responsible for real estate investments in North America totaling more than \$550BN.

Defining Affordable Housing

The definition institutional investors use for affordable housing varies, with the terminology sometimes getting confused with a couple of different terms. True affordable housing is defined as housing for a renter population which earns less than 80% of AMI (Area Median Income). This asset class is often confused with "workforce housing," which The Urban Land Institute defines as: "housing that is affordable to households earning 60% to 120% of the AMI." Fifteen percent of respondents use the terms interchangeably. Further confusing the definitions, is Naturally Occurring Affordable Housing (NOAH) which simply refers to affordable, unsubsidized rents that are relatively low compared to the regional housing market.

The Top 3 Industry Challenges

Very simply, NHPF leadership was seeking answers to two primary questions: “Do you currently advise clients to invest in affordable housing?” And “If not, why not?”

Candid and confidential answers from the leading global investment managers participating in the study reveal that a majority (74%) currently invest in affordable housing, 10% do not invest, but plan to in the future, and 16% do not currently invest and have no plans to do so. However, the barriers for those who do not invest, those who invest because of requirements, or those who wish to do more but aren't, fall into three very compelling categories that set up fascinating opportunities for affordable housing developers and providers.

1. The Federal Government’s “onerous rules and regulations”

The first issue investment advisors cited as a challenge to investing in affordable housing, is “onerous government regulations in the development and funding process” commenting that government red tape and bureaucracy make investment in affordable housing “more cumbersome than investment in conventional multifamily projects.” Additionally, those who do not invest in affordable housing and do not intend to in the future, perceive the regulations and “specialized knowledge on how to navigate these unique rules” as their top reason for staying out of this asset class. Respondents indicated that the bureaucracy around housing programs should be simplified, to create a more streamlined process. There is also this question raised by some participants: Since the most common form of government subsidy, the Low Income Housing Tax Credit (LIHTC), does not offer a real benefit to public pension funds since they are already tax-exempt, how do such investors profit?

INDUSTRY TAKEAWAY: The discussion around government barriers provides the industry with an opportunity to work with top housing advocacy groups to lobby Congress to simplify the rules and look for a different set of benefits to encourage more pension fund investment.

2. The miseducation (or under-education) of the investment community

According to respondents, the second greatest roadblock to institutional investment in the affordable housing sector is miseducation or under-education. The areas cited here include confusion or lack of resources to determine “the right return on investment,” though half of those who currently invest cite “good return on investment” as incentive for continuing work. The lack of awareness of proven ROI coupled with a solid way to categorize returns (Core? Core-plus? Core-minus?) keeps many investors out of the sector but a majority believe that simple case studies of successful projects will help generate more interest.

INDUSTRY TAKEAWAY: The affordable housing ecosystem needs to develop more tools to communicate accurate information and create more opportunities to present the data.

3. Investing in affordable housing solely to meet a mandate

Based on the quantitative and qualitative interviewing conducted by Kingsley, it was concluded that the third challenge for those considering affordable housing investment is finding ways to affect an attitudinal shift. Those who currently invest in affordable housing strictly because “it is required by the local jurisdiction as a set-aside for the development rights” or to “satisfy an ESG or Environmental, Social and Governance mandate” will benefit by decision-making that couples financial returns with the halo effect of investing for social good. There are growing segments of investors—particularly environmental and socially conscious millennials and women—who look past the requirements and invest because “doing well to do good” is inherent in their lives.

INDUSTRY TAKEAWAY: Those in affordable housing need to use creative and thoughtful storytelling—in addition to financial returns—to engage investors.

“It is hard to argue that housing is not a fundamental human need. Decent, affordable housing should be a basic right for everybody in this country. The reason is simple: without stable shelter, everything else falls apart.”

—MATTHEW DESMOND,
AUTHOR OF *EVICTED: POVERTY AND PROFIT IN THE AMERICAN CITY*

Conclusion

This study was just the beginning of a larger conversation about investment in affordable housing.

Given the continuing confusion between workforce housing, affordable housing and NOAH, the industry must become better informed about the differences in investing in each.

Those in the affordable housing equation must also seize the opportunity to work with housing advocacy and governmental bodies to push for eased entry into tax benefit and other stimulus programs to fund the creation and preservation of future affordable housing.

The study shows that investors with institutional capital are familiar with meeting guidelines for sustainable practices or ESG criteria. However, meeting ESG goals or set-aside requirements are never the only benefit of building and preserving America’s affordable housing.

To help generate more interest, it will be important for those that have experienced success to share their stories through data, case studies, events, hands-on experiences and other forms of storytelling to help educate investors and bring them into the fold.

Perceptions of Affordable Housing Investment Presentation by Kingsley Associates

Project Overview

Goals

- Gauge investor perceptions of affordable housing:
 - Current or future investment
 - Factors influencing investment decisions
 - How to generate more interest
- Broaden the conversation about affordable housing

Methodology

- Phone interviews: 31 respondents.
- Respondents are primarily institutional investment management firms.
- All responses anonymized for confidentiality reasons.

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Does your company have an impact investment policy?

Response	Percentage
Yes	38%
No	62%

“Yes, we definitely have policies and directives based upon developing communities within urban settings and making positive changes to those communities.”

“From my understanding, no, but obviously we are big on ESG (Environmental, Social, and Governance) in all aspects of our business.”

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Do you advise clients to invest in affordable housing?

Response	Percentage
Yes	74%
No, but plan to in future	10%
No, and no plans in future	16%

Yes. Types of Investment:

- Required as a Set Aside: 59%
- Subsidized Low-income: 36%
- Naturally Occurring Affordable: 32%

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What are your clients’ primary motivations for investing in this sector?

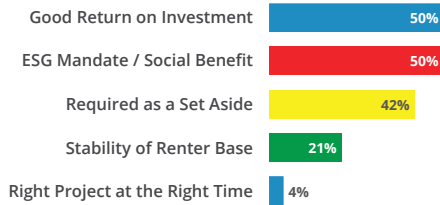
“Definitely to fill ESG requirements, as well as to find favorable returns. If we see that there is a need for affordable housing and we can find a way to make it accretive as well as promote ESG, that’s what we’re trying to do.”

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Perceptions of Affordable Housing Investment Presentation by Kingsley Associates

Primary Motivations for Investing: Common Themes



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What are some of the unique benefits of investing in the affordable housing sector?

“People are looking for yield opportunities with downside protection because the capped or regulated rent properties will always be full. You don’t have the risk of vacancy or falling rent in a recessionary period of time. We think the income stream would be very durable and would be able to provide a very consistent return throughout economic cycles.”

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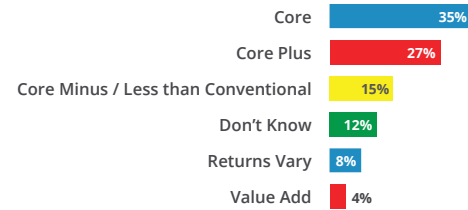
What are the biggest challenges your clients face with investments in the affordable housing sector?

“There are increasing restrictions and government oversight. The government can change the rules at any time midway through the underwriting process. When this happens, it results in an inability to rely on the stability of the program in order to forecast valuations.”

“Understanding the returns. There is a need to educate the investor base on how the returns work on these set aside deals. Recently we have seen more lenders and joint venture partners that better understand how to look at the returns to better evaluate value.”

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How would you categorize the returns on affordable housing investments?



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Challenges to Investing: Common Themes



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What do you think should be done to generate more interest in affordable housing investment?

“Increased awareness is what is really needed. Today, affordable housing is predominately considered a negative because it is seen as something that dilutes returns. I would stress the good that comes from affordable housing investments, the benefits for the city, and the benefits outside of the ballot process. It just needs more positive press.”

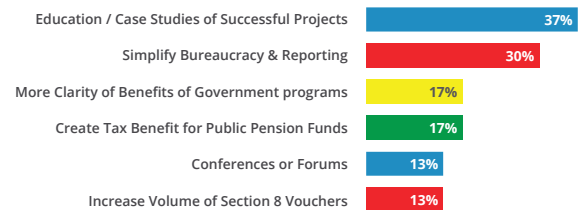
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What are some of the unique benefits of investing in the affordable housing sector?

“As a business venture, it’s a recession-proof element of our business. In fact, we have not started a conventional deal in the last three years, but we have a constant revenue stream from the development fees from the affordable communities.”

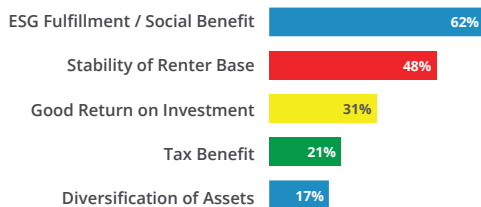
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Generate More Interest: Common Themes



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Unique Benefits: Common Themes



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Key Takeaways

Affordable Housing Definition

- Lots of misconceptions
- Need is greater than ever

Win-Win For ESG Goals and Returns

- Variety of tools & incentives if you know where to look
- Solid return on investment
- Meet Environmental, Social, and Governance (ESG) goals

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