A Difference Maker

Affordable housing offers institutional investors an impact investment opportunity, as well as steady income and solid returns.
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The NHP Foundation Symposium & Dinner

WEDNESDAY, OCTOBER 14
UNION STATION
WASHINGTON, DC
Preserving America’s Affordable Housing
by Richard Burns

The NHP Foundation’s (NHPF) success for the last 30 years is owed to 21 early institutional investors who saw the potential of the affordable housing asset class to produce worthy returns, both financially and socially. Those initial investments from pioneering companies such as Aetna, John Hancock, Northwestern and PNC created the original capital that NHPF has leveraged into today’s portfolio.

Investment in NHPF coincided directly with the passage of the highly successful LIHTC (Low Income Housing Tax Credit) tool created by Congress, which has made possible the vast majority of affordable housing. This remarkable, bipartisan legislation benefits everyone in the equation—renters, developers and investors.

Our founding investors contributed approximately $6 million, an investment which, over 30 years, has been leveraged into 100 multifamily properties containing 18,000 affordable housing units. We currently serve more than 29,000 residents at 56 properties, providing over 10,000 affordable housing units in 15 states and the District of Columbia.

These early affordable housing investors were pioneers of impact investing, setting the stage for future corporate investors. Since that time, many traditional funders have successfully entered the affordable housing market, including a variety of private equity and private debt funds.

However, the need remains great. At a time when traditional investors such as pension plans are falling short of their projected returns, we are calling for a new generation of institutional investors to take up the challenge.

Incorporating the concepts of impact investing and ESG criteria enhances the attractiveness of affordable housing investment. By combining these with our own empirical affordable housing investment database, we are able to demonstrate to institutional investors the benefits of including this stable asset class in their portfolios.

Everyone in the affordable housing ecosystem needs to seek ways to overcome these barriers and provide a host of new solutions aimed at increasing institutional investment.

We partnered with Kingsley Associates, a real estate industry research leader, to gain insight into institutional experience with this asset class. The firm conducted dozens of in-depth confidential interviews with fund managers to gauge their perceptions of investing in affordable housing as well as some recommendations for the industry. The results of the study were presented at the highly successful 3rd annual NHPF Symposium & Dinner. The presentation served as the springboard for a thought-provoking panel, led by Jonathan Schein of Institutional Real Estate, Inc., that discussed the ongoing need to provide millions of Americans with quality, service-enriched affordable housing.

As this special report will illuminate, the study found there are significant barriers hampering or preventing participation by institutional investors at this time. Meanwhile, the average full-time worker earning the minimum wage cannot afford the rent for a modest two-bedroom apartment in any state, metropolitan area or county in the United States. Everyone in the affordable housing ecosystem needs to seek ways to overcome these barriers and provide a host of new solutions aimed at increasing institutional investment.

Richard Burns is president and CEO of The NHP Foundation.
Solving the affordable housing crisis in this country is a daunting task that will require a collaborative effort from a myriad of public, private and philanthropic capital sources. Institutional investors have an opportunity to take a bigger step into the affordable housing sector, and, in the process, drive positive social and financial results for their companies, shareholders and communities.

The shortage of affordable housing is a well-documented issue across the country from rural towns to major metros. According to The State of the Nation’s Housing 2019, published by the Joint Center for Housing Studies of Harvard University, nearly half of all renter households (47.4 percent) are cost-burdened, paying more than 30 percent of incomes for housing. Institutional capital fills a critical need with investment opportunities on both the equity and debt side of both financing new development and preserving existing affordable housing rental properties.

“Institutional capital has come to understand affordable housing more as an asset class, and come to understand some of the unique
characteristics of it,” says Reuben Teague, vice president of impact & responsible investing at Prudential. “You can see that in the size of vehicles or funds that managers are raising these days, and the interest from institutional managers and pension fund managers and others investing in those vehicles.”

Prudential has had an impact investing group since the 1970s. Over that time, it has executed more than $2.2 billion of impact investments and currently manages a portfolio of impact investments for the company valued at about $1 billion. About half of the portfolio includes real assets that fall into three main categories: affordable housing, transformative development and sustainable infrastructure. The mission is to make investments that can produce both a social and a financial return. “I think institutional capital in general has developed a greater appetite for affordable housing investments as a steady source of returns, particularly when they are managed really well,” says Teague.

Similar to Prudential, many institutional investors are already at the table, putting capital to work in affordable housing projects. According to a 2019 Perceptions of Affordable Housing Investment study commissioned by The NHP Foundation (NHPF) and conducted by Kingsley Associates, three out of four respondents (74 percent) currently invest in affordable housing. Survey results were based on confidential interviews conducted with 31 key decision makers in the institutional investment world. 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?

The survey found that a further 10 percent who do not currently invest plan to do so in the future, and 16 percent do not currently invest and have no plans to do so. The survey also revealed that 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. Specifically, the three main hurdles are:

- Miseducation, under-education or confusion related to affordable housing development
- Views of “onerous” government regulations in the development and funding process
- Investing only to satisfy mandates or requirements, and not recognizing other value-add benefits

One of the goals for NHPF is to expand the breadth and depth of capital commitments from institutional investors to help move the needle on the housing crisis in this country. Driving that change starts with opening a dialogue with investors to help them better understand both the social and financial benefits to investing in affordable housing. “The lack of affordable housing is such a national crisis right now, and there is so much capital looking to invest,” says Richard Burns, president and CEO of NHPF. “We need to find a way to marry the two, and I think that requires creative solutions and education of investors to the opportunities that are out there.”

Overcoming obstacles
Adequate housing stakeholders broadly agree there is more education needed to better inform the institutional investor community on the nuances of affordable housing, and to correct some of the misperceptions related to challenges and opportunities. True affordable housing is defined as housing for a renter population that earns 80 percent or below of AMI (area median income). This asset class is often confused with workforce housing, which is often defined as households earning 80 percent to 120 percent of AMI. Some groups, such as the Urban Land Institute, have an even broader definition of workforce housing that includes households earning 60 percent to 120 percent of AMI.

Investors frequently use the terms affordable and workforce housing interchangeably. Further confusing the definitions is another subset, “naturally occurring affordable housing” (NOAH), which refers to unsubsidized rents that are relatively low compared to the regional housing market. Mixed-income projects is another subcategory under the broader affordable housing umbrella that can include a portion of units as a set aside for low-income renters at fixed and/or subsidized rents.

Part of changing the dialogue on affordable housing is getting private capital to look beyond the generic issue of affordable housing. The depth of affordability is a real issue in the

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affordability housing crisis, notes David Wood, director of the Initiative for Responsible Investment, a project of the Center for Public Leadership at Harvard Kennedy School. Investors that say they are participating in affordable housing don’t necessarily distinguish between “deep” affordable housing that serves the population below 60 percent AMI and workforce housing at between 80 percent and 120 percent AMI.

“I do think we need more public policies that support affordable housing, but from the investor’s side, we want investors actively seeking and changing their behavior in order to create new affordable units, deeper affordable units and affordable units that are linked to other services, like transit or health,” says Wood.

One impediment that survey respondents cited to investing in affordable housing is “onerous” government regulations in the development and funding process. Respondents commented 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 reasons for staying out of this asset class.

“Government programs can actually work to your benefit,” notes Burns. For example, project-based Section 8 vouchers provide an incredible insurance policy for steady income at a property. In addition, the default rates on affordable housing are miniscule, he adds. “Government programs are designed to financially support the residents so they can afford to live in apartments. For that, the government wants some restrictions on the rents going forward. Is that such a bad thing? I don’t think so, not if you

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## Case Study: Multiple Factors Influence UnitedHealthcare’s Affordable Housing Investment Strategy

UnitedHealthcare Group looks at affordable housing investment through a fairly wide-angle lens. The group is looking to be an investor, a partner with public housing agencies and developers, a policy influencer to support advocacy efforts around housing, as well as a data analyzer to better understand the impacts of safe, affordable housing.

Part of that commitment to affordable housing is linked to its own core mission. “As an organization, we fundamentally believe that housing is healthcare, and that absent a safe, affordable place to live, it is impossible to have positive health outcomes in your life,” says Andy McMahon, vice president, Health & Human Services Policy at UnitedHealthcare Group.

The organization does recognize that building safe, affordable housing helps with community development and community revitalization for its members, while at the same time serving as a solid investment instrument.

“As part of our impact investing strategy, we’re certainly looking to make a modest return on our investment, but candidly if we were just looking to maximize our investment, we wouldn’t invest in that way. We are absolutely looking to understand the health impacts that our investments are having on individuals and families that they serve,” says McMahon.

Over the last nine years, UnitedHealthcare has invested a little over $400 million in LIHTC deals. UnitedHealthcare has further refined its affordable housing investment strategy over the past year in three core ways that allows it to take a more targeted investment approach. One, the firm is focusing investment on extremely vulnerable populations, such as extremely low income families, seniors and people experiencing homelessness. Two, the group is targeting investments in affordable housing that have some integration or connection with healthcare services. Three, they are looking at investing in projects where they can track the outcomes and impacts that having a safe, affordable place to live has on residents.

Two other areas where UnitedHealthcare has been active in a limited capacity is on direct equity projects and also “pay for success” and other outcomes-based financing mechanisms. For example, UnitedHealthcare was the senior investor in Just-in-Reach, a 300-unit supportive housing initiative in Los Angeles County that focuses on getting people off of Skid Row and out of the L.A. County jail and into housing that is connected to support services that they need. “We are currently looking at other initiatives where we could diversify the ways that we are investing to better use our resources to create housing opportunities,” says McMahon.

— Beth Mattson-Teig
can get meaningful returns relative to the risks you’re taking,” says Burns.

Another stumbling block for investors is they think they need to have expertise in the sector. The reality is they can obtain the necessary expertise by working with an experienced partner. Investors that invest in properties that have a component that requires operating expertise, such as hotels or assisted living, typically partner with those experts. The same is true for affordable housing.

Changing investor perception is another big challenge, adds Cherie Santos-Wuest, NHP Foundation trustee and a managing partner at Celadon Venture Partners. Santos-Wuest worked as principal investment officer for the Connecticut State Pension Funds and served as a director on TIAA’s (now Nuveen) Global Social and Community Investment’s private equity team. “The perception that one has to give up some returns to do good is a misconception that remains in the investment world today. And many institutional investors are held to fiduciary standards, which requires them to maximize returns,” says Santos-Wuest. “The investor simply needs to pick their spot on the spectrum of investment risk, from philanthropic [foundations] to market rate [institutional investors]. Educating the investment community to the risk-adjusted basis of returns on capital is a long, arduous and not-so-sexy task, in my experience.”

**Strong business case for affordable housing investing**

Investors can be quick to focus on obstacles, preventing them from investing in affordable housing projects. At the same time, institutions are attracted to affordable housing for a myriad of different reasons. According to the NHPF study, 62 percent of respondents said they have an impact investing policy. Half of investors cited good return on investment and an ESG mandate/social benefit as their top motivations for investing in affordable housing, while 42 percent also said it was a required set aside; 21 percent noted the stability of the renter base as an incentive and 4 percent said investment was due to the right project at the right time.

When asked to describe the unique benefits of affordable housing investing, one respondent wrote: “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.”

Adequate housing is not going to offer the same returns that investors are finding in market-rate housing opportunities. That being said, affordable housing can deliver favorable risk-adjusted returns. Most respondents would categorize returns on affordable housing investments as core (35 percent) or core-plus (27 percent). In
addition, affordable housing is a very stable performer. “While the conventional market is riding really high right now, it's a lot more cyclical than affordable housing is, because there is so much more demand than there is supply,” notes Burns.

Some investors have an impact investing mandate, or simply a desire to be more socially responsible, to support investments in their communities. The growing focus on environmental, social, and governance (ESG) scores, and specifically the social component of ESG also is bringing impact investing and affordable housing more to the forefront. ESG refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. Increasingly, investors have an opportunity to look at the benefits of affordable housing more holistically and the overall value in terms of the risk-adjusted returns and portfolio diversification, as well as the value to be gained for a brand in corporate social responsibility and higher ESG scores.

When asked to describe their clients’ primary motivations for investing in affordable housing, one survey respondent wrote: “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.”

**Investors’ strategies span different vehicles**

There are different entry points into affordable housing on both the equity and debt side. The U.S. system has been built around tax credits that leverage private capital to support affordable housing. The Low Income Housing Tax Credit (LIHTC) program has long been a key financing tool for affordable housing projects. “Especially, in the United States where we have these different forms of blending public and private subsidies; the role of private capital in marrying up to philanthropic and government subsidy in order to generate affordable housing is part of the way we produce it,” says Wood.

Additionally, private capital investors have been actively partnering with developers and sponsors in joint ventures and commingled funds. For example, Prudential actively invests
The NHP Foundation is grateful for the sponsors who made this special report possible.
in affordable housing across different channels, including lending to affordable housing providers, investing directly through joint venture deals and indirectly investing with sponsors who have created affordable housing funds. In particular, Prudential’s impact & responsible investing group likes doing direct investment deals, because it provides more insight and exposure into transactions, as well as an ability to develop more meaningful relationships with partners.

In particular, Prudential is looking to partner with developers that have an authentic commitment to impact that goes beyond the four walls of the unit, adds Teague. “We believe that affordable housing should really be a platform for economic opportunity, and we look for partners that have that same philosophy and are trying to implement that at the project level,” he says. For example, Prudential looks for developers who are trying to create housing that has a positive impact on tenant health, or projects with locations that afford good economic opportunities for residents, such as proximity to transit, jobs or good schools. “Those are the kinds of things that over the long run are going to make a difference in people’s earning capacity and their ability to get to the next rung on the economic ladder,” says Teague.

Affordable housing can play an important role within investment portfolios in terms of delivering safe, stable returns that are often countercyclical to other property and asset types. “That discussion is going on, it’s just not being taken up by as many investors as you might imagine given broader commitments to responsible investment or ESG information and those sorts of things that we associate with this growing field,” says Wood.

On the impact investing side, there is still a lot of education that needs to be done on what the opportunities are and how they can fit within portfolios, he says. “There is still a disconnect between the people who have interest in taking up impact investment and the consultants and managers who have input into actual decisions on investment portfolios,” he adds.

Part of the problem is spending time to convince investors that affordable housing is a worthwhile venture, and then sending them out to find opportunities. More work needs to be done in generating projects that meet social goals and are investable, notes Wood. “I have certainly talked to institutional investors who think affordable housing is an obvious target of interest; however, financial conventions push them to find vehicles that are at the right scale, that meet their criteria, that fit into their portfolio and have staff and consultants who are familiar with the field in order to execute on investments, and that is not always easy,” he says.

When asked what should be done to generate more interest in affordable housing investment, one survey respondent wrote: “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.”

Beth Mattson-Teig is a freelance writer based in Minneapolis.
Providing trusted news and information to investors around the globe

Institutional Real Estate, Inc. (IREI) publishes a diversified portfolio of news magazines, special reports and directories for the benefit of the global infrastructure and institutional real estate investment community and for private wealth advisers in the United States. Each publication provides subscribers with news, insights and perspectives on the trends and events shaping the industry and the investment landscape.

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2019 saw a year of remarkable change and recognition for The NHP Foundation’s Resident Services subsidiary, Operation Pathways. Provider of strategic, results-oriented onsite services for nearly 5,000 residents of NHPF’s affordable communities, Operation Pathways employs innovation and works side by side with residents to effect real change in their daily lives.

Operation Pathways offers comprehensive programs in five categories: academic achievement, healthy living, financial success, aging in place, and case management — a one-on-one guidance and referral process.

In addition, data show that resident services in affordable family properties, working in combination with local social services, can reduce rental property management costs. Reductions in turnover and nonpayment of rent have been observed, likely as a result of families becoming more financially stable. This is often the result of forming relationships with a network of reliability, beginning with resident services coordinators, and an overall stronger sense of community. This data demonstrates how properties and owners can improve their bottom lines by implementing resident services programs.

By comparing family properties with resident services to family properties without resident services, Operation Pathways was able to determine that resident services programs reduced property vacancy losses, legal fees and bad debts. The organization’s analysis also shows that Operation Pathways’ resident services programs decrease the number of skips and evictions. These results indicate that 83 percent of evictions and skips were from households that had not received any assistance from resident services.

This information underscores the value of resident services programs to a property’s bottom line, but the value of resident services programming goes much deeper.

Operation Pathways was one of the first resident services providers in the U.S. to adopt Family-Centered Coaching, rooted in an understanding of the combined institutional forces preventing families from moving forward. Family-Centered Coaching, developed by the Prosperity Agenda with the support of the W.K. Kellogg Foundation, equips staff with the mindset, skills and ongoing resources to work holistically with families toward financial wellness. The approach teaches human service organizations to better engage with, and assist, families experiencing poverty and other hardships.

The entire Operation Pathways staff has been trained in Family-Centered Coaching and several of its senior leaders are certified trainers of the process. In 2019, residents took part in coaching, creating more productive and meaningful relationships with resident services coordinators, and leveraging their mutual strengths as creative, capable and resourceful partners to problem-solve together.

Family-Centered Coaching transcends the traditional, transactional method of helping a resident fix a problem, which, while well-intended, falls short in bringing about long-term positive lifestyle changes. Residents achieve more for themselves and their families via the Family-Centered approach, which focuses on their strengths and the value they bring to the table. The results of this approach have included important breakthroughs in the
daily lives of the people who live in NHPF’s properties.

For example, Dorothy Williams had a family emergency and needed to travel out of state. She spent her rent money on her travel and found herself and her 3-year-old son in danger of eviction. Operation Pathways resident services coordinator (RSC), Adeela, immediately helped Dorothy find an agency to pay the rent and late fee.

The focus had been: find a solution to the problem, “check the box” for eviction prevention, case closed. But based on her training, Adeela adopted a more holistic approach.

Dorothy recognized her need for a financial safety net for situations such as these, so she wouldn’t need to spend her rent money on emergencies. Adeela offered financial coaching, and Dorothy started working toward that goal. Adeela recognized Dorothy’s strengths — steady work, childcare, a network of friends and family — and Dorothy did the rest.

Charles and Gennifer Ratliff represent another shining example of coaching at its best. The couple has built a strong and trusting relationship with their RSC, Tiffany, who used Family-Centered Coaching techniques to assess the couple’s readiness to partner with her to help achieve their goals.

The Ratliffs worked with Tiffany to uncover short-term objectives to eventually achieve their larger goal of maintaining financial security throughout retirement. Of utmost importance to the Ratliffs was identifying a new, affordable prescription plan that would cover Gennifer’s medication costs to treat the chronic diabetes that has confined her to a wheelchair. Through active listening and asking the right questions, the Ratliffs and Tiffany strategized and found a new, more affordable prescription plan.

The couple next worked with Tiffany to create a household budget so they could be ready for future unexpected expenses.

In addition, Charles and Gennifer, who previously were socially isolated from other residents, began to participate in community events and meet their neighbors. Charles started attending weekly fitness classes, and his doctor soon noted his decreased blood pressure levels.

Dorothy and the Ratliffs are perfect examples of the capable, creative and resourceful individuals who live in affordable housing communities.

Family-Centered Coaching reminds us that it is not our job to empower residents. In fact, the power already resides in them. It is the purpose of Operation Pathways’ staff to walk alongside these residents as they work toward their goals and coach them along the way.

Operation Pathways realizes that recognizing and emphasizing residents’ strengths makes us all stronger.

Kenneth White is vice president, resident services for Operation Pathways.
About The NHP Foundation

Headquartered in New York City with offices in Washington, D.C., and Chicago, The NHP Foundation (NHPF) was launched on Jan. 30, 1989, as a publicly supported 501(c)(3) not-for-profit real estate corporation. NHPF is dedicated to preserving and creating sustainable, service-enriched multifamily housing that is both affordable to low- and moderate-income families and seniors, and beneficial to their communities.

NHPF has realized extraordinary achievements in the preservation and creation of value-added affordable housing, operating with both a charitable mission and business-like financial discipline.

This has led to the preservation of 100 multifamily properties containing 18,000 affordable housing units. We currently serve more than 29,000 residents at 56 properties, providing more than 10,000 affordable housing units in 15 states and the District of Columbia.

NHPF accomplishments include:

• 20 tax credit deals completed in the last 30 years
• Received $187,589,957 in total funding from Low Income Housing Tax Credits and Historic Tax Credits
• One of 12 founding not-for-profits forming the Housing Partnership Equity Trust, an $80 million private real estate investment trust for the acquisition and preservation of affordable housing
• The NHPF Affiliate Program, which offers our development, financial, asset management, resident services, and fundraising support to local housing not-for-profits facing financial and organizational challenges. We also partner with state housing agencies, helping them preserve properties in their portfolios as well as develop land they own into new affordable housing
• Ongoing, effective resident services via NHPF onsite services provider, Operation Pathways, Inc.
• Measurable results, producing and tracking outcome-based programs and services and continuously seeking the best results for our residents
• Producers of three highly successful symposia tackling critical affordable housing issues via panel discussions, presentations and opportunities for those from our industry as well as policymakers, advocates, healthcare leaders, and others to engage and forge new relationships

For more information, visit www.nhpfoundation.org.

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IREI publishes a diversified portfolio of news magazines, special reports and directories for the benefit of the global infrastructure and institutional real estate investment community and for private wealth advisers in the United States. Each publication provides subscribers with news, insights and perspective on the trends and events shaping the industry and the investment landscape. The company also is the sponsor and operator of the Institute for Real Estate Operating Companies (iREOC).

The firm’s flagship publication, Institutional Real Estate Americas, has been the industry’s go-to resource for 30 years. Other IREI titles include Institutional Real Estate Europe, Institutional Real Estate Asia Pacific, Institutional Real Estate Newsline, Institutional Investing in Infrastructure, Institutional Real Estate FundTracker and Real Assets Adviser.

IREI also offers subscriptions to its proprietary FundTracker database, which contains information on more than 4,800 real estate funds and more than 700 infrastructure funds sponsored by investment managers from across the globe.

In 2006, the firm launched a conference and seminar division. IREI’s events have gained a stellar reputation and solid following within the industry. The firm’s menu of events includes Visions, Insights & Perspectives (VIP) conferences in North America, Europe and for Infrastructure, as well as a new event for young, promising executives titled IREI Springboard.

On the consulting side, IREI has more than two decades of experience providing research and advice to the investment-management, brokerage, development and technology communities. Services include strategic information and advice on presentations, organizational structures, product development, proposal responses, and design and implementation of market research projects.

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