Affordable Housing: A Strong Institutional Investment

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As every MFE and AFT reader knows, the shortage of affordable housing has reached crisis levels around the country. And the following oft-cited, sobering statistic from The National Low Income Housing Coalition is worth repeating: For every 100 extremely low-income renter households there are just 35 affordable and available rental homes—a shortage of over 7 million homes affordable and available to extremely low-income renter households.

Between 1987 and 2016, the low income housing tax credit (LIHTC) program created 3.05 million units in 46,554 projects. Despite that success, it's clear that solving the housing crisis will require capital in scale from the private sector, as well.

As an investment management firm with a 20-year track record of investing on behalf of institutional investors in affordable multifamily housing, IMPACT believes it is well positioned to change the conversation and help educate institutional investors about the potential financial and social benefits of investing in affordable housing.

In order to encourage institutional investors to allocate capital to affordable housing, we need to clear up some misperceptions about the sector; namely:

Misconception 1: Affordable Multifamily Housing Isn't Commercial Real Estate
Affordable housing is underwritten just like other kinds of commercial real estate, with a focus on debt service, leverage, property management, and project sponsorship. On top of that, developments using LIHTCs benefit from the additional scrutiny of the tax credit equity investor and local housing agencies.

Misconception 2: Affordable Housing Underperforms
When investors hear the word "affordable" preceding the word "housing," some mistakenly assume subpar asset performance and quality will follow. While it's true that housing built with LIHTCs includes restrictions on rent, these transactions are generally thoroughly underwritten and managed by experienced operators.

IMPACT has found that LIHTC-financed developments have had lower default rates than traditional multifamily projects, due to the tax credit equity structure. Similarly, from inception to date, IMPACT's affordable housing loan portfolio has experienced total realized losses of just $340,000 on more than $1 billion in loan originations (0.04%).

Misconception 3: Affordable Housing Can't Happen at Scale
Some institutional investors believe affordable housing deals are too small for them to efficiently invest in. The use of a familiar Wall Street financial vehicle, mortgage-backed

securitization, is an approach IMPACT has used in affordable housing to create investment scale and attract large amounts of capital from institutions.

Institutional investors can invest a scale of capital that can create systemic change. Let’s redirect the conversation using their language and dispelling their misperceptions to allow them to deliver capital in scale and achieve the “positive returns” of investing in affordable housing …

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