

AFFORDABLE HOUSING: CONSIDERATIONS FOR INVESTORS NEW TO THE ASSET CLASS

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IMPACT Community Capital hosted a recent webinar with experts from IMPACT, Wespath and Nationwide to discuss the nuances of investing in affordable housing. One area of focus was the signposts that investors new to the asset class should monitor before committing.

Over the past few years, institutional investors have rapidly ascended the impact investing learning curve. Conversations are slowly becoming easier across a wider universe of asset owners who are entertaining impact strategies as part of their core investment framework. However, one impact sector that can be daunting to a new impact investor is affordable housing.

In our recent webinar, IMPACT featured panelists that have expertise investing across both equity and debt in affordable housing. Their discussion uncovered how they each approach the unique nuances to investing in this space.

Taking part in the discussion were Sylvia Poniecki, Director, Positive Social Purpose Lending Program, Wespath Benefits and Investments; Luke Harms, Senior Investment Professional, Real Estate / Tax Credits, Nationwide Investments; and IMPACT Community Capital's Chief Investment Officer Mike Lohmeier.

The webinar touched on several topics ranging from the historical performance of affordable housing as an asset class to core ESG considerations, including the role of environmental and governance factors on top of the more obvious social benefits. It was the discussion around risk management, however, that may help to answer where affordable housing fits within an asset allocation and which key risk factors to monitor in this asset class.

1. Location Still Matters, Although the Lens Changes

A key indicator of demand elasticity in a given geography is the gap between market-rate rents and affordable housing rents. The bigger the gap, the lower the sensitivity of demand for affordable housing. A smaller gap may necessitate additional due diligence to assess demand elasticity, particularly in smaller metropolitan areas. In areas where the rent difference is more pronounced, impact is amplified as tenants have more income to pay for other essentials such as food, medical care, childcare or transportation.



Michael Lohmeier
Chief Investment Officer
IMPACT Community Capital



*Our impact story
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story.*



2. "Service-rich" Properties Support Occupancy Rates

One of the "impact" lessons that emerged came from the efforts of investors to support special needs among different tenant groups. The same way certain amenities might appeal to Class-A multifamily tenants, value-added services are often just as critical to retain tenants in affordable housing. The properties themselves can provide housing stability, but dedicated services can lead to living stability and keeping residents in place. In properties designed for seniors, there may be an onsite health care provider. And in properties for families, there may be educational programs or after-school programs. These services help to ease outside stresses that might otherwise stand in the way of tenants making rent payments.

3. Comfort Through Compliance

There are certain challenges that come with the added bureaucracy of investments that utilize federal or government-run programs. These challenges are generally the root of the inefficiencies that can provide specialists in affordable housing a material edge. Another silver lining is that compliance can provide an additional layer of oversight, as tenant-income certifications support due diligence for both financial and impact considerations. Investors should scrutinize the building operators to ensure they are capable of periodically assessing tenant compliance. As Mike Lohmeier noted, "[This] gives us comfort that our impact story isn't just day one, it's an ongoing story."

4. Diligent Expense Management

A related consideration, given the learning curve to affordable housing, is in finding quality developers and property managers with the requisite experience in affordable housing, particularly in managing expenses. When underwriting a developer's process for expense management, Luke Harms noted that his team asks, "Does the operator have compliance controls in place? Does the manager have the controls in place to understand the risks of compliance?" Given that rents are tied to fixed levels set by the government, if expenses and maintenance costs escalate, certain assets could become cash flow constrained as rents cannot be raised quickly.

5. A Tenured Advantage

With 15- to 20-year loans, investors in affordable housing aren't merely focused on the front-end opportunity but also have to be focused on the long-term risks. Sylvia Poniecki highlighted that her investment team makes sure that the management and oversight of these properties isn't



Luke Harms
Senior Investment
Professional
Nationwide Investments



Does the operator have compliance controls in place?



only focused on the front end. “We also need to have groups in place that are able to manage the back-end risk,” she described, adding, “The older properties get, the more issues that may come up and there needs to be a way to work those issues out.”

Experience is important in executing any investment strategy, but experience provides perspective that can be critical to underwriting investments with such a long shelf life.

Each of these factors are part of the diligence equity and fixed income investors employ to assess and mitigate risk when investing in affordable housing. We need only look to the past year to judge the performance and relative safety of the sector. During a period in which the effects of COVID had a disproportionate impact on low-income communities, occupancy trends remained consistent with 20-year averages and the number of forbearance requests has been very low. Across IMPACT’s investments in nearly 500 properties, there have been fewer than 10 forbearance requests. These results are an indication that tenants view affordable rent as a priority and highly value these safe, affordable homes.

The webinar goes into each of these topics in more depth. The full webinar can be found [here](#).



Sylvia Poniecki
Director
Wespath Benefits and
Investments



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