Pension Funds & Affordable Housing

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Pension Real Estate Association
Defined Benefit Pensions

Piece of employees’ pay checks

Pension Fund

Invest: protect & grow fund

Pension Fund
Defined Benefit Pensions

Piece of employees’ pay checks

In aggregate in the U.S.: $12 trillion¹

¹ As of 4Q2023. Source: Financial Accounts of the United States, Board of Governors of the Federal Reserve System
How Much in Real Estate?

Average allocation to real estate:

12.4%

Average is across institutional investors of all types, not only pension funds, and includes the U.S. and Canada.
Source: PREA 2024 Investment Intentions Survey, Pension Real Estate Association, January 2024
How Much in Real Estate?

Average allocation to real estate: **12.4%**

What type of real estate?

- **Industrial**, 31%
- **Residential**, 28%
- **Office**, 19%
- **Retail**, 6%
- **Other**, 15%

Average is across institutional investors of all types, not only pension funds, and includes the U.S. and Canada.

Source: PREA 2024 Investment Intentions Survey, Pension Real Estate Association, January 2024
What is “Affordable”?

Affordable housing (capital “A”)  affordable housing (little “a”)

essential housing  attainable housing

workforce housing
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Affordable to: 
<60% AMI? 
60%-80% AMI? 
80%-120% AMI?
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Is it simply rent affordability? 
What about: 
Housing stability? 
Tenant programs & amenities? 
Community impact?
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No standard terminology or definition in the investment industry (yet). 
(Efforts underway to change this.)
Ways to Invest in Affordable Housing: New Construction vs “NOAH”

• New construction
• Construction cost of AH vs. luxury not that big
• AH construction often supported by LIHTC
  • Low Income Housing Tax Credit
  • Started in 1986
  • Receive tax credits, required to keep affordable (usually at 60% AMI) for a period of time (usually 30 years, varies by state)
  • As of 2020, almost 2.5 million affordable units supported by LIHTC
  • Rent restrictions scheduled to expire for ~450,000 units by 2030

• Naturally Occurring Affordable Housing (NOAH)
• Older, existing buildings with affordable rent
• Most common form of AH

• Most common form of AH for pension funds to invest in
• Preservation, and improvement, of existing AH
• Strategy to purchase, make improvements to create a quality home and community, but also keep affordable over time

1 “2021 Picture of Preservation”, PAHRC and National Low Income Housing Coalition, October 2021.
Investment Thesis for Affordable Housing

• Demand/supply imbalance for housing that is affordable
  • AH is always in demand
    = less susceptible to the economic cycle
    = occupancy and rents tend to be more stable over time than non-AH
    = less macroeconomic risk

• Rents can rise over time, but at a pace that keeps the property affordable

• Roberts and Wegmann (2023)¹:

<table>
<thead>
<tr>
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<th>Ave. return to investor</th>
<th>Risk to investor (β against market)</th>
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<tbody>
<tr>
<td>Properties affordable at 80% AMI</td>
<td>9.35% annually</td>
<td>0.93</td>
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<tr>
<td>More expensive properties</td>
<td>7.86% annually</td>
<td>1.18</td>
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But…

- Investment in affordable housing (NOAH) carries its own particular risks, especially:
  - Operational risks
  - Capital expenditures to cover deferred maintenance

- Successful investment in affordable housing requires:
  - Knowledge, experience, skill
  - Engagement with stakeholders (tenants, community, gov’t, etc.)
  - Tailoring specifics to the local community

- If done deliberately and carefully, pension fund investments in affordable housing can provide a **positive social impact AND deliver good investment performance** (but it is not without risks).
Allocations to real estate sectors over time…

Sector allocations in "NPI-Plus"

Source: PREA Research based on data from NCREIF
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