Is there a Role for Institutional Investors in Addressing the Affordable Housing Crisis?
July 21, 2021 | Roundtable Key Takeways

Context

- The Predistribution Initiative (PDI) is focused on ESG implications of investment structures and practices. There is growing concern that as institutional investors migrate up the risk-return spectrum for yield and allocate more to residential real estate (RE), they are driving up valuations and competing with potential individual homeowners, thereby exacerbating the affordable housing crisis. Institutional investors are typically not intentionally causing harm and likely want to avoid these negative impacts, so are there more regenerative investment structures that they can allocate to with exposure to residential RE and risk adjusted returns?

- Recognizing that this is a topic with huge impact, and there are many approaches to solutions, PDI curated a 1.5 hour roundtable for diverse stakeholders to discuss the issues, potential solutions, and learn from one another’s perspectives. Attendees included asset owners and allocators, asset managers, lenders, project developers, companies, activists, and community members.

- Because this roundtable was held under Chatham House Rule, participant comments captured in this key takeaway document are anonymized.

- Given interest by participants in continuing the discussion, PDI is planning additional programming on this topic in the future. Participants noted the importance of including additional people who were not already focused on this topic, but who play a critical role or have important relevant perspectives. For more information, please contact: info@predistributioninitiative.org and sign up for updates via the PDI newsletter at www.predistributioninitiative.org.

- The remainder of this document includes key takeaways discussed during the July 21 discussion. Sections include:
  
  - Housing is a human right which may be threatened by current investment structures
  - Potential solutions and the opportunity for institutional investors to play a role
  - Examples of investment structures aiming to more equitably distribute risk and return
  - Accountability & Transparency
  - Additional Resources
Housing is a human right which may be threatened by current investment structures

- Affordability and security of tenure are cornerstones of housing as a UN-recognized human right. Affordability is defined in international law as commensurate with income versus what the market can bear. The opportunity for homeownership (as opposed to just available affordable rental housing) is becoming a concern, as well.

- In addition to housing being a human right to critical shelter, it is also an opportunity for individuals to build wealth. This is particularly important to consider given decades of redlining that have prevented Black, Indigenous, and People of Color (BIPOC) families and individuals from owning homes.

- Affordable and secure tenure is becoming less and less obtainable globally. There is a growing affordable housing crisis, meaning that young generations cannot afford to buy homes and only can rent them, and there are more people falling into homelessness.

- This is a systemic problem with a number of causes identified by various parties, some of which align, and some of which conflict. Examples include: massive population growth, tiny proportion of investors and supply compared to the need (demand), too much investor interest in existing housing stock and owning housing stock versus interest in funding affordable rentals and properties for individual homeowners, lack of government investment and incentives, low wage growth, transportation costs, increasing practice of the wealthy owning multiple homes, dysfunctional mortgage industry, lack of land, NIMBYism preventing new development, etc.

- Many participants expressed their belief that capitalism can deliver affordable housing for the people who really need it. However, a number of participants expressed concern that globally, particularly since the Global Financial Crisis (GFC), private equity (PE) investors have become more active in the space and negatively impacting affordability and security of tenure. PE investors purchase properties, make improvements (or claim to do so), and then drive up rents, which many tenants cannot afford. Additionally, PE’s growing presence in the single-family home market is resulting in competition for available housing stock with potential independent homeowners. Tenants often believe that these extractive characteristics are inherent to the residential RE business model.

- RE Investment Trusts (REITs) were highlighted as particularly problematic due to tax structuring and - in some jurisdictions - delivering 90% of the profits to shareholders, which in turn undermines the proper upkeep of properties by not reinvesting that money.
• One participant expressed belief that RE and affordable housing should not be approached in the same way as PE for operating companies. “Growth at all costs” and a short-term mindset have undermined the way to address the affordable housing issue because it has created a misalignment of interests between the owners and the people that live or work in those places. There is concern that this model inevitably will price small businesses out of commercial RE, as well.

• One participant shared the understanding that less than 500 institutional investors own more than 80% of the RE assets in the global market. Often asset owners and allocators like pension funds are investing their capital in PE residential RE strategies, which ironically can make it difficult for pension fund beneficiaries to find an affordable place to live. This is exacerbated by the fact that many PE firms will only hold an asset for a few years before selling it again, presumably at a higher valuation. This institutionalization of RE assets has pushed out many local communities in order to transform localities into commercial and industrial hubs.

• Twenty years ago, RE investing was more localized. Now technology is making it more globalized, and that is causing an inflow of institutional capital. This trend seems to be progressing. When mass amounts of outside capital are introduced to a locality, there is a risk of those outside investors leapfrogging local people and businesses in terms of the ability / affordability to invest in local markets.

**Potential solutions and the opportunity for institutional investors to play a role**

• In theory, investor interests should be aligned with delivering affordable housing to the market for several reasons. For instance, significant sums of capital are needed to solve the problem, institutional investors are long-term investors who can respond to this long-term investment need, there is good yield on these investments, and beneficiaries’ pensions should go to goods and services that support their needs.

• A former investor and developer in RE suggested that there shouldn’t be a problem with outside investors coming into a market, but that the structure of the investments need to change to be less extractive. For instance, RE could be viewed as infrastructure because the returns are long-term and often lower risk that support basic needs of society. One participant suggested that InvITs (Investment in Infrastructure Trusts) are worth considering, as they try to hybridise/homologate an infrastructure approach into RE. Non-extractive rent-to-own models were also suggested. Put simply, investment structures need to be adopted that enable risk and return to be fairly shared among stakeholders, with long time horizons.
Examples of investment structures aiming to more equitably distribute risk and return

- One participant highlighted the importance of commercial corridors; they are one of the most visible elements of a community, so the health of the commercial corridor often influences the socioeconomic health of the surrounding residential neighborhoods.
  - There are ways to revitalize commercial corridors inclusively, without gentrification. The participant shared how they are revitalizing local shopping centers with local businesses as tenants. They focus on businesses which are needed by the community and likely to stay local (as opposed to large corporate chains), for instance co-working spaces, coffee shops, restaurants, urgent care centers, daycare centers. Some of the funding to purchase the shopping centers is crowdsourced from the local community, resulting in multiple benefits, including widely distributed wealth creation, as well as security and care of the RE assets by people in the community because they are owners.
  - The model is being adopted in Black neighborhoods, which supports racial justice and equity. Inclusive ownership as part of a community-building and engagement strategy should be addressed, as well, for other historically marginalized populations.
  - The local funding can be crowdsourced in small amounts, with the capital stack complemented by institutional capital to scale.

- In the UK, local government pension funds are beginning to look at investment models for housing to enable ownership by the community, as well.

- Another participant shared how they are buying low-and-moderate income defaulted mortgage loans at discount and then sharing the discount with the homeowner via affordable modifications. The goal is to keep the homeowners in their homes.
  - The participant observed that if people don’t want to say in their home and instead prefer to sell, the buyers are often investors versus other individuals or families. Part of this is due to mortgage originators perceiving low-income homes (e.g. ~$50,000) as unattractive to service (particularly after the Dodd-Frank Act), so it becomes difficult for low-income people to get mortgages in these neighborhoods and homes. The homes are therefore sold to investors. Predatory lending has also resulted in bad credit for a number of people making it difficult for them to obtain mortgages. The participant observed that these practices form a de facto redlining which exacerbates historical marginalization of communities of color.
  - A proposed solution could be the creation of micro mortgage structures.
  - Overall, banks and their financing support play a huge role in the equation for affordable housing.
• Another participant is focused on developing solutions for affordable housing in developing countries in places like Sub-Saharan Africa and Latin America. Public participation (Governments, SWF or development finance institutions) can de-risk affordable housing investments for the private sector (via blended finance). The private sector may then be able to achieve sustainable risk adjusted returns whilst fulfilling a basic human need with high demand. The participant noted that particularly in developing countries, there is also a need for much more information and a robust evidence base regarding the investment opportunity and track record to attract more capital. Additionally, infrastructure and affordable housing investment must consider the Paris Agreement goals on climate change.

• To address the intergenerational wealth challenge, a US-based participant has structured a model through which investors can support homeowners with their down payments and share in the equity in their homes. The investors’ equity can then be bought back by a homeowner or sold in exit.

• Additional models participants are engaged in include:
  o Efforts to structure sustainable REITs with inclusive return and ownership models
  o Community ownership models such as land trusts; PE or other investors and lenders could play a role in transitioning land into the ownership of communities (e.g. by offering forms of debt financing for communities to purchase the land)
  o Community credit facilities for communities to acquire under-utilised urban land

• In terms of blended finance and catalytic capital being combined with commercial capital, the group expressed interest in seeing how capital structures could offer appropriate investing and lending opportunities which could meet the mandates of investors across the risk-return spectrum.

• There need not be a trade-off between financial return and affordability outcomes but that requires creativity in de-risking investment and having bottom lines in measurable pro-poor outcomes.

• A participant suggested that direct investments by asset owners such as pension funds, as opposed to investing through an asset manager like a PE fund, could have more beneficial outcomes. The intermediation of asset managers disassociates asset owners from the communities where they are investing (principal agent problem). If a direct investment approach were pursued, asset owners could spend time with communities where they are invested and better understand their needs, as well as feel a stronger sense of ownership and responsibility. Tenants often have no idea who actually owns their home. Several pension funds could unite to have a direct investment program. On
the other hand, another participant proposed that pension funds likely wouldn’t act any different than PE fund managers, even if their own pension holders are renting there.

**Accountability & Transparency**

- There was consensus that regulation of the sector is important, particularly given how housing prices can move swiftly by just small movements in supply and demand.

- There appeared to be wide consensus that the affordable housing sector should be considered as an impact investment. In this sense, intentionality matters, and metrics to capture the wellbeing of people are critical in addition to financial metrics. Examples of key metrics might include affordability (e.g. affordability in relation to income and locality), some measure of security, the additionality of investments, residents’ wellbeing, the quality of maintenance, and other concepts that could be captured through outcome surveys.

- Zoning and building codes were noted as barriers to increasing housing supply. For instance, more could be done with manufactured and modular housing to increase supply, but zoning restrictions are an issue.

- Some countries and cities around the world, such as Tokyo, Vienna, and Singapore, may offer useful models to consider. For instance, in Singapore, individuals and their employers are forced to save some income, which is subsidized with public debt for housing.

- Participants pondered questions including: What are the most effective tools the public sector should be using to support affordable housing (e.g. subsidies/tax, regulation, co-investment)? Should the public sector focus more on channeling capital to neighborhood and housing development, or more to ensuring equitable outcomes?

- Not everything about housing can be solved by policies explicitly about "housing." For extremely low-income demographics, for example, up-skilling and raising wage floors may need to be part of the package. The cost of transport was also mentioned, especially where owning a personal vehicle is effectively a requirement to participate society.

- It was suggested that the public sector must provide land control locally on publicly owned property so more alternative investment/development structures can be implemented. The public sector owns significant property across the US and has the ability to create development agreements for alternative ownership structures to develop and invest in local RE. However, the private sector moves quickly, so it makes it
challenging to get land control and acquire properties when collaborating with smaller investors.

- Tax incentives to incentivize long-term ownership as well as to have more local residents participate are also potential solutions.

- Another suggestion was to enable designating new First Nations treaty land (akin to what Senakw in Vancouver sits on). In exchange, all development on that land could be exempt from exclusionary zoning, which could be both reparative and profitable.

- It was considered that PE might just be playing by the rules. Exclusionary (including single-family-only) zoning provides them the ability to drive up prices. If housing were abundant, speculators will lose interest. “We cannot be blaming PE if we are unwilling to overhaul regulations that enable predatory conduct.”

- Another suggestion was that policy makers could zone some areas only for first time homeowners.

- Implementing vacancy taxes was suggested during the webinar, as well.

Additional Resources

- More information on projects of interest mentioned by participants:
  - American Homeowner Preservation - purchases past due loans at a discount and restructures payments to keep individuals and families in their homes
  - The Chicago TREND Corporation - catalyzes, accelerates, and finances strategic retail development to drive neighborhood transformation, with a focus on local and Black ownership (additional articles on TREND’s work here and here)
  - Landed - approach to help essential professionals achieve home ownership via equity for down payments
  - Reall - develops, refines, and shares housing models in Africa and Asia to unlock the political will, capital investment, and end-user finance needed to create the conditions for families to secure their own homes
  - Rentplus – Rent-to-buy model in the UK with a goal to help solve local housing crisis
  - Stories Partners – UK property development company focused on residential-led, mixed use developments
- Streetwell - real estate development firm putting ownership back in the hands of the community it serves, including exploration of more regenerative REIT models
- The Town Partners - utilizes private capital as a way to catalyze and coordinate additional public and philanthropic resources by employing multi-layered development financing structures where traditional financing does not exist

- Background and context on the issues
  - UN Human Rights – Office of the High Commissioner [work](#) on the Financialization of housing
  - The Shift – non-profit led by the former UN Special Rapporteur on the right to housing; using a human rights framework, The Shift provokes action to end homelessness, unaffordability, and evictions globally
  - PUSHBACK Talks - podcast on housing, cities, finance and human rights
  - PUSH - film on the affordable housing crisis
  - A former real estate developer, Jordan Wolfe, reflects in a series of [essays](#) about issues in the current commercial RE system and what needs to be done to improve
  - Marketplace: [Institutional investors are stiff competition for homebuyers](#)
  - Wall Street Journal: [That Suburban Home Buyer Could Be A Foreign Government](#)
  - Wall Street Journal: [If You Sell a House These Days, the Buyer Might Be a Pension Fund](#)
  - Bloomberg: [What the World’s Most Successful Real Estate Investor Is Buying](#)
  - The Globe & Mail: [Condo developer plans to buy $1-billion worth of single-family houses in Canada](#)
  - ImpactAlpha: [Some of pension funds’ spectacular returns are coming at the expense of their own beneficiaries](#)
  - Financial Times: [The US needs to make homes more affordable — and available](#)
  - Strong Towns: [Housing Scarcity is a Force Multiplier for Other Problems](#)

- Guidance on best practices and research on solutions
  - The Good Economy papers on:
    - Affordable housing equity investment models
    - ESG and impact reporting for investors in affordable housing
    - UK Social Housing approach to ESG reporting
  - “Building Community Wealth: Shifting Power and Capital in Real Estate Finance” Black Paper
  - Rutgers Center for Urban Entrepreneurship & Economic Development
  - Collection of [concept notes](#) compilation on community reinvestment (InvIT-REIT-CLT hybrids/homologues)
  - LinkedIn post about Gentrification fighting in Los Angeles
  - SENÁKW vision on property co-ownership models in Canada
- Center for Neighborhood Technology work on factoring in the cost of housing
- “The Corner Side Yard” Blog on displacement prevention
- Baltic Creative approach to stop the displacement of creative and digital businesses by developers and market forces by property ownership
- California Planning and Development Report - The Phony Debate Over Wall Street and the Housing Crisis (article expressing differing goals of developers and landlords)

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