Preserving Our Existing Affordable Housing Stock Is Crucial

With renter demand greatly exceeding supply, renovating or recapitalizing properties becomes an urgent matter that benefits tenants and investors alike.

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Many U.S. households are struggling to find housing they can afford. The demand for affordable housing is overwhelming. At the same time, our nation's supply of affordable units is shrinking.

Half of the 43 million renters in the United States earn less than 60 percent of their area median income (AMI), but only 10 million units are available to meet that need. Despite these growing concerns, many affordable units are taken out of circulation each year due to obsolescence, disrepair and gentrification, adding to the nation's forever-growing deficit.

One of the ways that this massive economic challenge is being addressed is through preservation investment strategies focused on acquiring, improving and protecting existing affordable properties. Investing in existing affordable rental communities offers investors the opportunity to positively impact housing stability and quality of life for those who live and work in high-demand areas.

Especially in high-cost markets, affordable housing plays an important role in allowing community members access to quality housing so they can work, pursue an education and support their families without long, costly commutes. Furthermore, it protects seniors from being priced out of their neighborhoods.

At Preservation Equity Fund Advisors (PEF Advisors), we feel strongly about the importance of investing in existing affordable rental communities. Ensuring those who need safe and affordable housing have access to it provides a significant public benefit and creates investment opportunities.

High-cost markets, such as Seattle, the San Francisco Bay Area, Denver, Washington D.C. and several communities within Southern California to name a few, are particularly vulnerable to the loss of affordable housing stock, and investment in these markets is crucial to preserving these assets. Our affordable housing investment strategy offers investors the chance to make a positive impact while acquiring an asset class with stable income, the potential for appreciation and a possible hedge against recession.

Providing affordable housing options in high-cost markets is critical to the overall economic vitality and safety of a community. A recent study conducted by the Livable Cities Lab at the University of California, Irvine, found that affordable housing does not contribute to crime and increases home values in Orange County, California.

By examining residential home sales between 2001 and 2020 near affordable housing communities, the researchers discovered that home values rose, especially in affluent communities, which often claim affordable projects will drive down resale values. Regarding crime data, the researchers found that the development of affordable housing communities did not increase crime, and, in fact, decreased property crime in most instances.

LIHTC Program Is Invaluable

The Low-Income Housing Tax Credit (LIHTC) program has served as a critical policy tool in preserving and expanding the supply of affordable housing. The program provides private investors with an incentive to make equity investments.

LIHTC investors benefit from federal tax credits. The tax credits associated with affordable housing expire after 15 years, and it's this expiration that creates an investment opportunity. PEF Advisors acquires assets with recently expired tax credits that may not be eligible for another round of tax credits or re-syndication yet needs focused capital to extend the community's useful life and prevent it from going into disrepair. Herein lies the opportunity: The original investors want out, the asset needs recapitalization, and fresh ownership can improve operations and help keep these properties looking like their market-rate neighbors.

Impacting True Affordable Housing

Not only is PEF Advisors looking to help fill the gap in the affordable housing life cycle, but it's also looking to truly impact those with low incomes. This is what we like to call "putting the capital A in Affordable housing."

Nearly 22 million renters in the United States earn 60 percent or less of AMI, which is considered low-income, and only 10 million housing units exist to house those people at a rent they can afford. While many strategies include "naturally occurring" or "workforce" housing as part of their affordable strategies, these investments cannot means-test their tenants to ensure they are truly low-income. Just because the rent is affordable, doesn't mean someone living there is low-income.

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For that reason, we restrict our investments to those that qualify as public-welfare investments. Specifically, 51 percent of the units in each investment are rented to those making 80 percent or less of AMI. An income test is performed annually to ensure that the investment continues to impact those in greatest need.

It is interesting to note that the portfolio we have assembled over the past five years reflects a resident base at 55 percent of AMI on average — well below the upper threshold, while simultaneously seeing gains in property performance and valuations due to improved operations and focused capital plans.

Safe, clean and affordable rental housing is not only a stable asset class, but also contributes to the well-being of our communities and the U.S. economy. At PEF Advisors, we are focused on removing fundamental barriers and solving the root problems of the affordable housing crisis, not tending to the symptoms.

Our funds seek to acquire properties that are not being efficiently managed, address deferred maintenance and capital needs, and improve operating and management efficiencies in ways that benefit both our residents and our partners alike. ●

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