

# The Affordable Housing Crisis and the Opportunity It Presents to Real Estate Investors

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See what opportunities the affordable housing crisis presents to real estate investors and how they can be a part of the solution.

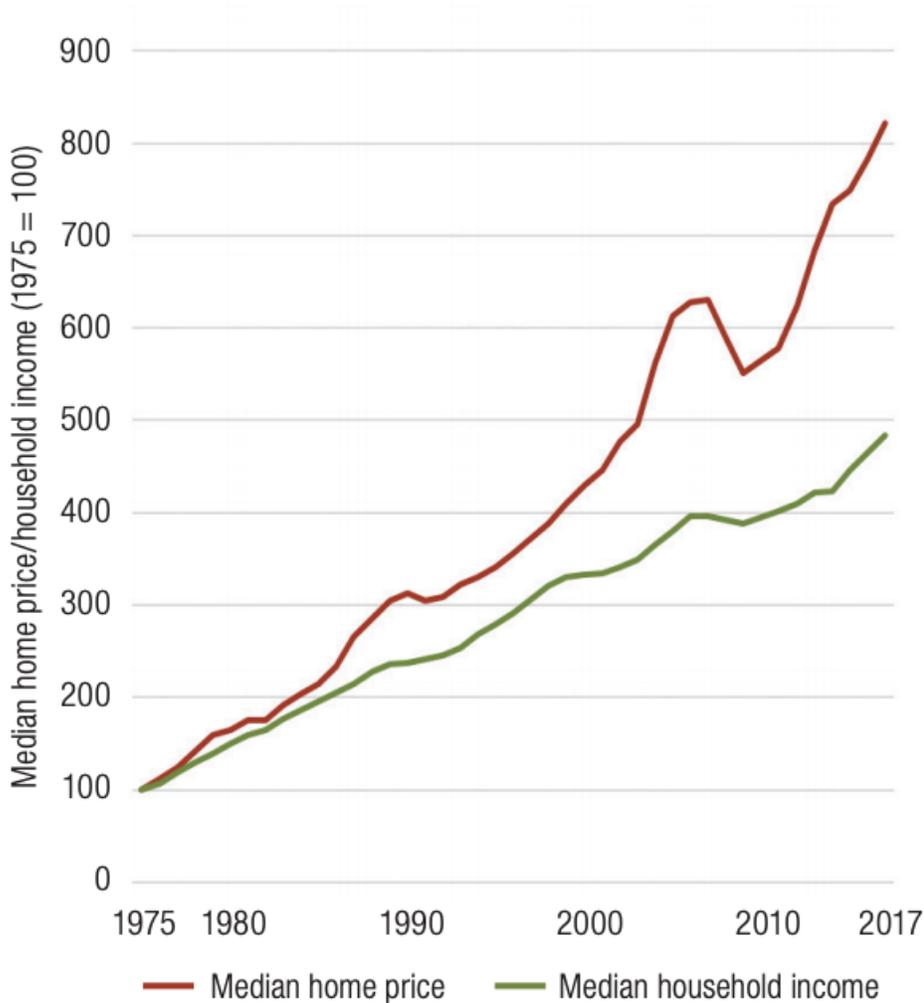
The lack of affordable housing has been a growing issue since the Great Recession. Recently mainstream media has directed attention to this problem, actively publicizing it as a national crisis that only seems to be getting worse. While policymakers attempt to find a long-term solution to this problem, their process for initiating and funding new policies can be long and arduous.

However, there are other options. There is an opportunity for the private sector, including real estate investors, to help increase the supply of affordable housing while potentially receiving positive tax benefits and risk-adjusted returns. Let's explore the current crisis and what opportunities are available to real estate investors.

## The current affordable housing crisis in numbers

Affordable housing is described as the cost of housing being 30% or less of annual income. According to [Attom Data Solutions 2019 rental affordability survey](#), renting a home is more affordable than buying in 59% of the country. This is largely due to a lack of affordable housing inventory, in addition to housing prices outpacing income growth.

## Median Home Price vs. Median Household Income



Sources: U.S. Census Bureau; RCLCO.

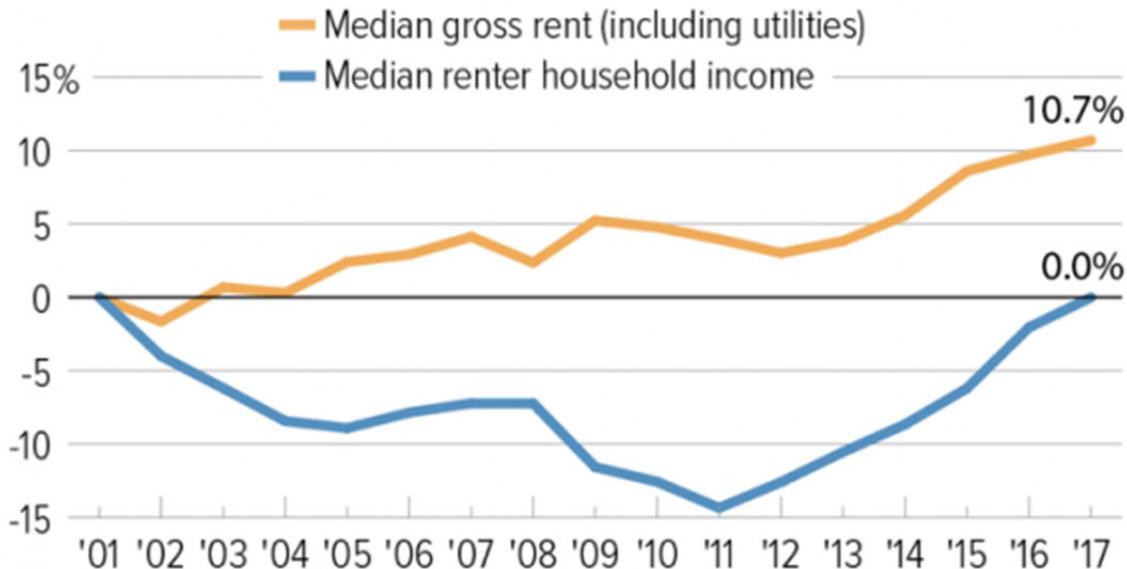
The burden of affordable housing is particularly challenging for low-income families who primarily rent instead of own. Low income is defined when household income does not exceed 80% of the local median income. For a family of three in the United States, that would equate to \$54,350 a year.

According to The Center on Budget and Policy Priorities, four in 10 low-income people are either homeless or spend 50% or more of their income on housing. The National Low Income Housing Coalition (NLIHC) found that the United States needs more than 7 million affordable homes to meet the current housing demand for the nation's more than 11 million extremely low-income families. Even if you are not among the extremely low-income families, rental prices are reaching new highs and driving affordability out of sight in every single state. NLIHC has an [interactive map](#) that identifies the average wage that would be required to afford a two-bedroom rental across all 50 states. Their findings show there is no state or county where a full-time minimum wage job can be enough to afford a two-bedroom apartment.

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## Renters' Incomes Haven't Caught Up With Housing Costs

Percent change since 2001, adjusted for inflation



Source: CBPP tabulations of the Census Bureau's American Community Survey

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Approximately 5.2 million Americans receive rental assistance, 68% of whom are seniors, families with children, or people with disabilities. There is no denying that America is in a crisis, so what can be done to help solve the problem?

## The opportunities affordable housing offers real estate investors

Investment yield doesn't have to be sacrificed by investing in affordable housing. There are social projects that can positively impact the needs of the community while still providing the potential for reaching market returns. Below are several ways real estate investors can make a positive impact on affordable housing.

## Invest in companies that are focused on providing affordable housing

There are several pooled investment funds such as private equity funds, [real estate investment trusts \(REITs\)](#), or [crowdfunding investments](#) that focus on building or redeveloping properties that will create profits with a purpose. These "social impact investment firms" find investment opportunities that meet strict underwriting criteria and that provide positive and impactful solutions to the primary needs of the local community, such as affordable housing, education, and healthcare.

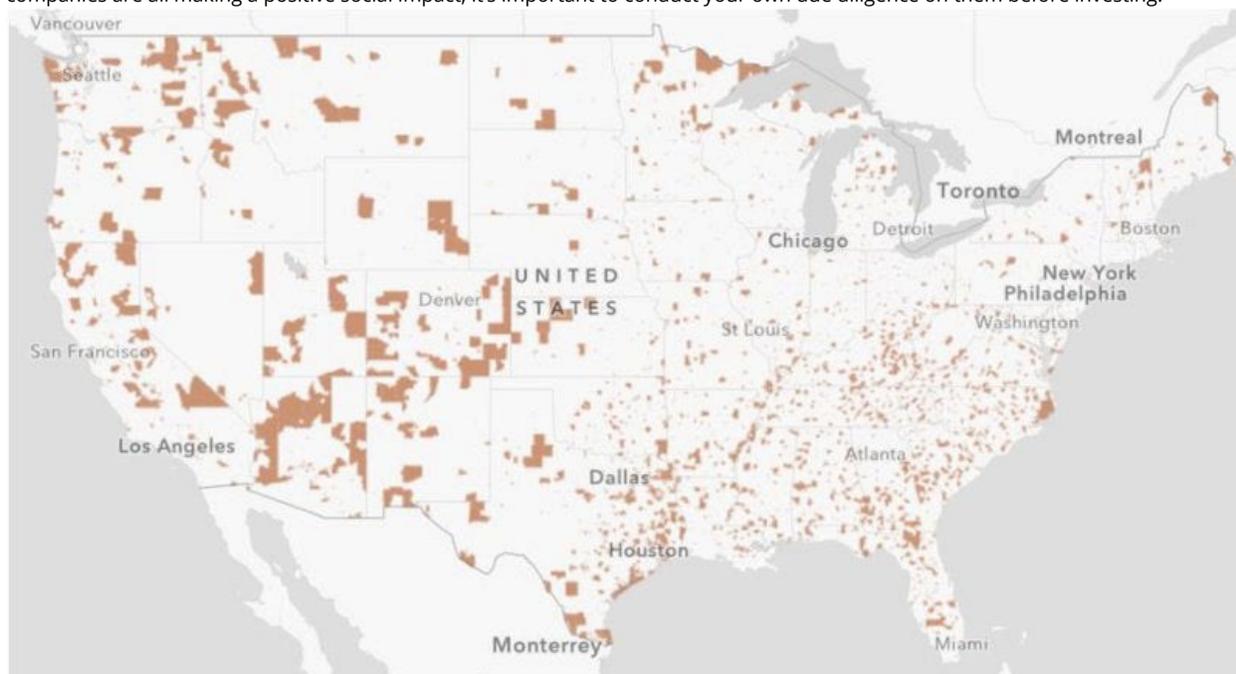
[Turner Impact Capital](#), a private equity firm out of Santa Monica, California has been publicly praised for the impact they've made in communities across the United States and for connecting high risk-adjusted yields with positive social change. Additionally, [Building Opportunity](#), a fund that was created from Seattle-based Bellwether Housing and funded through crowdfunding efforts, is one of the

first crowdfunding investments focused solely on providing affordable housing. Crowdfunding and private equity firms require investors to be accredited, which limits who is able to invest in them. But there are other options. Real estate investment trusts can be [privately or publicly traded](#) and [pool investors' money](#) across multiple commercial real estate investments. REITs typically focus on investing in one asset class within commercial real estate and some are focused on being a part of the solution to our current housing crisis.

**AvalonBay Communities Inc.** (NYSE: AVB), known for the high-end Class-A apartments, is adjusting a large percentage of its portfolio to developing and redeveloping Class-B and C multifamily properties. The company's aim is to focus on areas that are undersupplied in affordable housing and meet that demand through apartment buildings.

There is also **Reven Housing** (NYSE: RVEN), which owns and operates over 1,000 single-family workforce rentals in the south. By investing in areas that have stable jobs and population growth in a price point that is lower than its high-end competitors, Reven Housing is able to provide teachers, police officers, firefighters, and other working families with affordable housing.

Another large contributor in this space is **Sun Communities** (NYSE: SUI), which owns and operates manufactured housing communities offering homeownership and rental opportunities. The cost to build a manufactured home is significantly less than a single-family home, and rentals in these communities are around \$0.30 less per square foot than a typical apartment. While these companies are all making a positive social impact, it's important to conduct your own due diligence on them before investing.



## Invest in Opportunity Zones through an Opportunity Fund

Opportunity Zones are designated geographic areas that have been identified as low-income [census tracts](#). These census tracts were nominated by governors and certified by the U.S. Department of the Treasury, and now offer preferential tax treatment to those that invest in the specified areas through an Opportunity Fund. Investors can roll their eligible capital gains into a qualified fund and gain:

- The ability to defer capital gains taxes until Dec. 31, 2026.
- A reduced tax payment on original capital gains on a step-up basis ranging from 10% to 15%, depending on the length of time the investment is held.
- A 0% tax on profits derived from the Opportunity Fund if held for 10 years or more.

The National Council of State Housing Agencies (NCSHA) [compiled a list](#) of active Opportunity Funds that highlights each fund's investment focus and targeted geographic location. There is currently an estimated \$43 billion of investment capital to be placed across the 8,700 various Opportunity Zones. Some cities, like Erie, Ohio and Los Angeles, California are already stating how the influx of capital commitments coming from Opportunity Funds is resulting in improvements in economic conditions from the development of jobs and affordable housing.

While Opportunity Funds have the chance to make a significant impact on the affordable housing crisis, it is still a relatively new program and the impact it makes cannot be evaluated without further progress. As with any other investment, thoroughly review the Opportunity Fund to assess the quality of its investment strategy before investing, and have a firm understanding of how Opportunity Zones and their tax advantages work.

## Invest in affordable housing

Simply building more homes and apartments will not solve the problem. As building costs continue to increase, the average home sales price or rental rate rises with it. Acquiring the land or property for cheap while keeping capital costs, building costs, expenses, and management fees as low as possible are all crucial factors to being able to create affordable housing.

Building new properties is not the only solution. In the third quarter of 2019, ATTOM Data Solutions found that over 1.5 million U.S. single-family homes and condos are vacant, representing 1.6% of all homes. Investors can buy these vacant properties as a distressed sale, which allows flexibility in returns and the option for the investor to provide affordable rental rates or sales price depending on the market area and demand.

## Offer rental assistance programs in your rental properties

If you own rental properties, consider offering rental assistance through the housing choice voucher program offered by the federal government. This program, commonly referred to as Section-8 Housing, is funded through the [U.S. Department of Housing and Urban Development \(HUD\)](#) and allows qualified tenants to choose housing in any area, paying the balance of rent that exceeds 30% of the renter's monthly income. Each month the government pays a subsidy of rent to the landlord in addition to the tenant.

With this program, landlords do not have to compromise the rental rate they charge because the tenant will receive rental assistance up to a certain amount. Quality homes can be offered at an affordable price to capable tenants. These programs are very difficult to qualify for and typically have a waiting list that can span over several years. If the tenants do not pay their rent or adhere to the lease, they run the risk of being kicked out of the program. For this reason, turnover rates and evictions are typically much lower than traditional rentals when using Section-8. Landlords interested in taking advantage of this option will need to apply and be approved as a Section 8 housing choice and have to keep up with specific rules and regulations, such as regular and routine maintenance on the home.

Unfortunately, the shortage of affordable homes isn't going to get better unless significant changes are made. By utilizing some of the strategies above, real estate investors can partake in positive change and help America in its quest for more affordable housing options, while potentially growing their own investment portfolios.