

The background of the slide features a complex financial visualization. It includes several line graphs with data points, some of which are labeled with values and percentages such as '56 +1.13%', '206 +4.07%', '183 +5.10%', '334 +7.09%', '56 +1.13%', '178 +3.28%', '206 +4.07%', and '178 +3.28%'. There are also candlestick charts and a grid pattern overlaid on the data. The overall color scheme is dark with blue, green, and orange highlights.

Pension Funds & Affordable Housing

Presentation at Federal Reserve Bank of New York

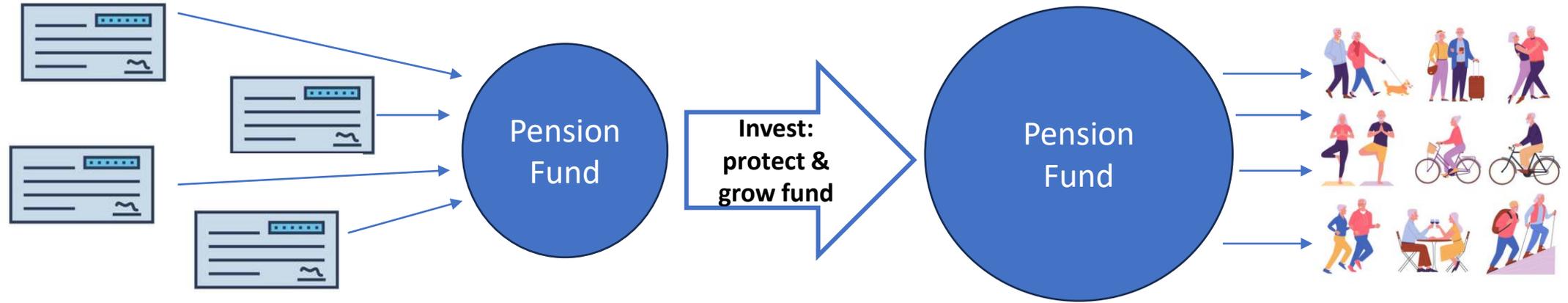
April 3, 2024

Greg MacKinnon

Pension Real Estate Association

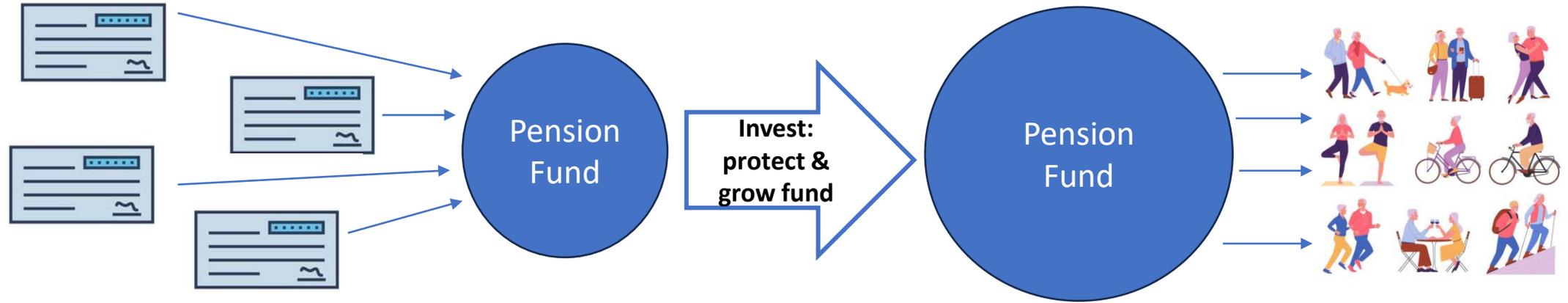
Defined Benefit Pensions

Piece of employees' pay checks



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%

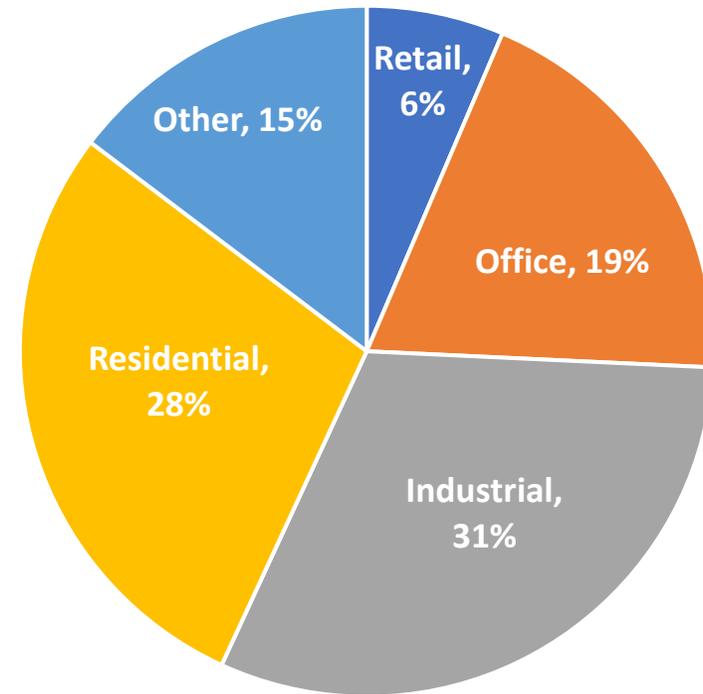
Average is across institutional investors of all types, not only pension funds, and includes the U.S. and Canada.
Source: PREA 2024 Investment Intentions Survey, Pension Real Estate Association, January 2024

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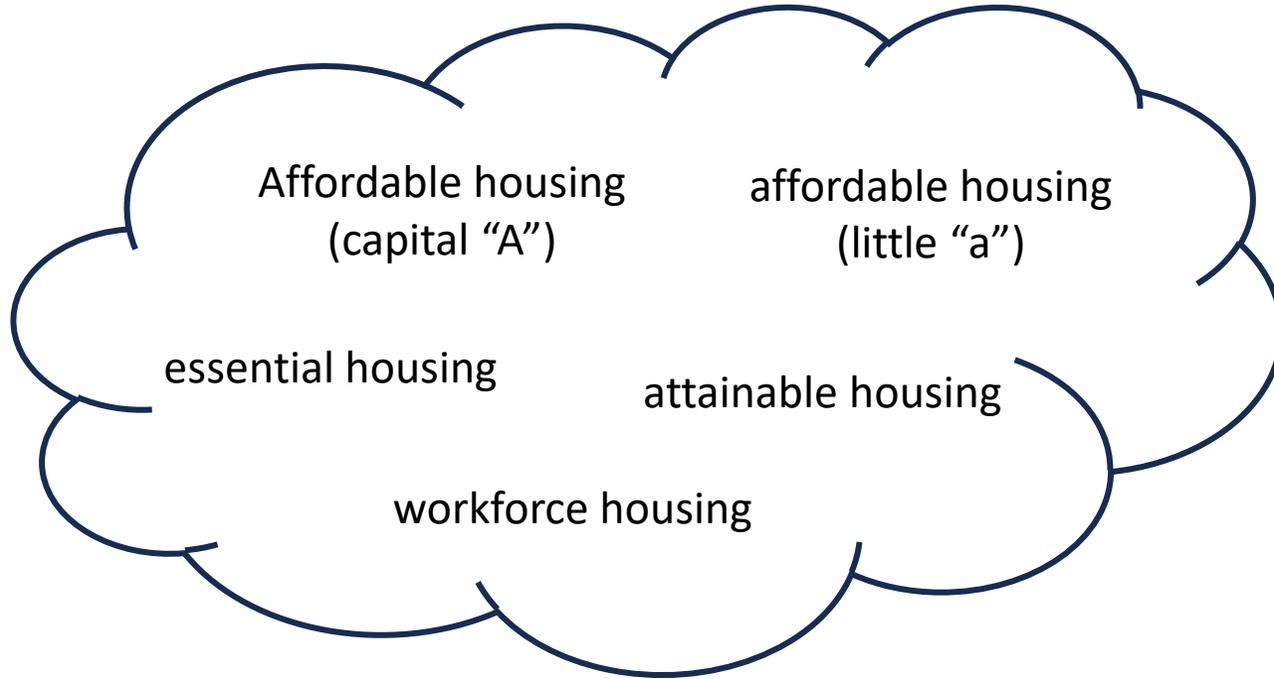
12.4%

What type of real estate?

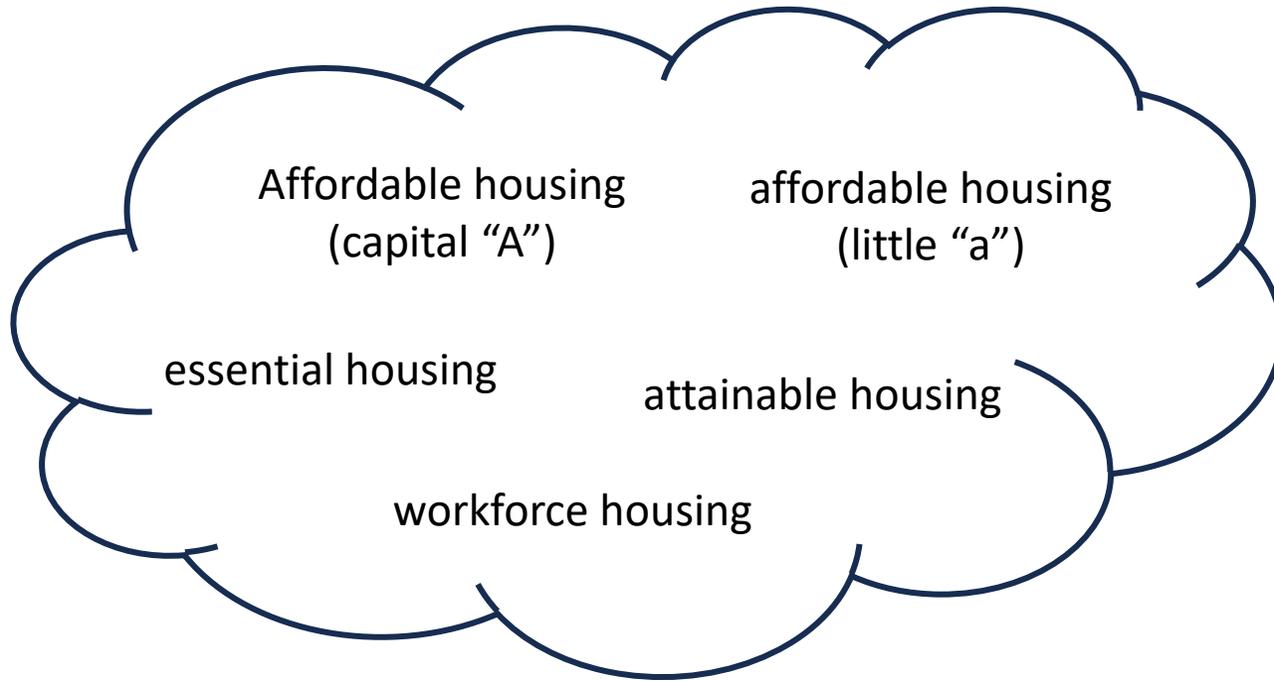


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What is “Affordable”?

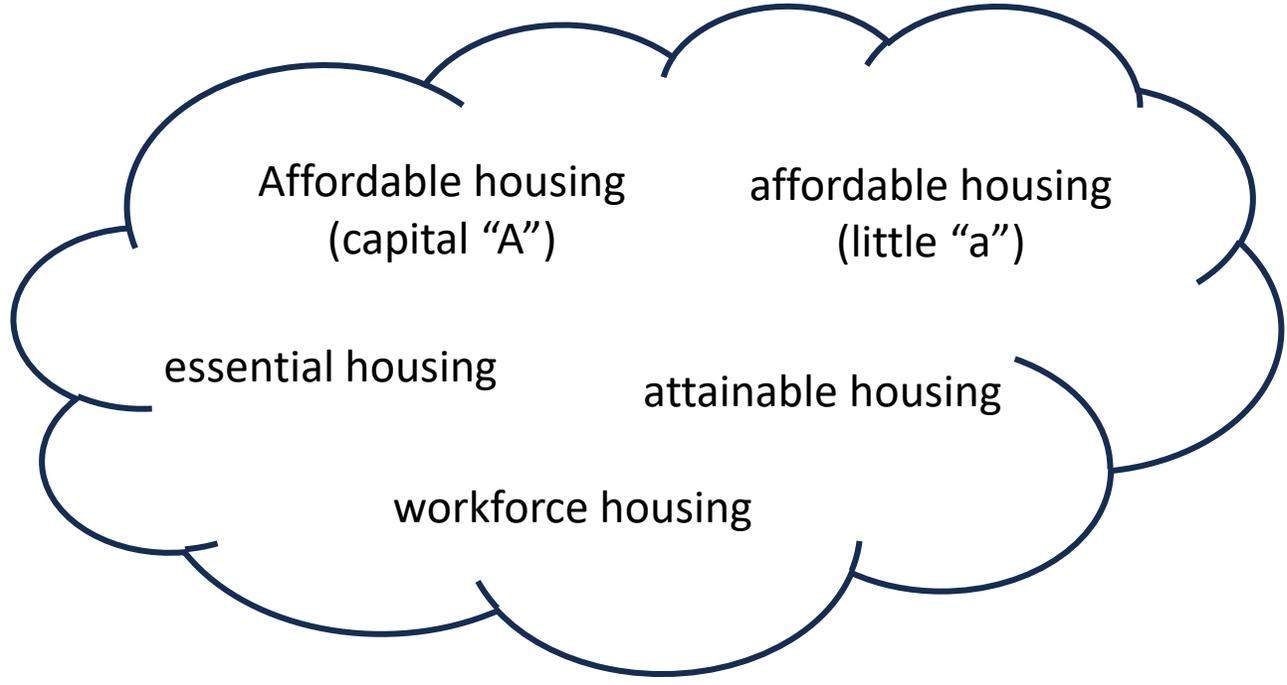


What is “Affordable”?



Affordable to:
<60% AMI?
60%-80% AMI?
80%-120% AMI?

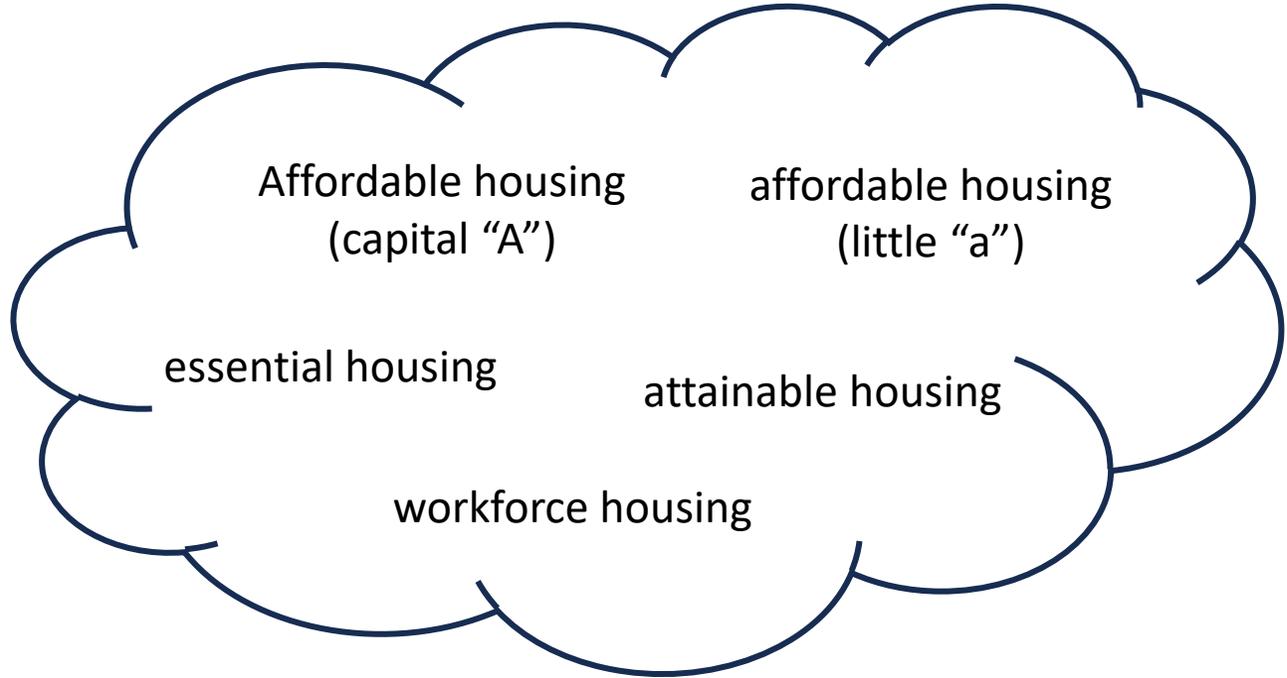
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Is it simply rent affordability?
What about:
Housing stability?
Tenant programs & amenities?
Community impact?

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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 LIHTC¹
 - Rent restrictions scheduled to expire for ~450,000 units by 2030¹



- 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:

	Ave. return to investor	Risk to investor (β against market)
Properties affordable at 80% AMI	9.35% annually	0.93
More expensive properties	7.86% annually	1.18

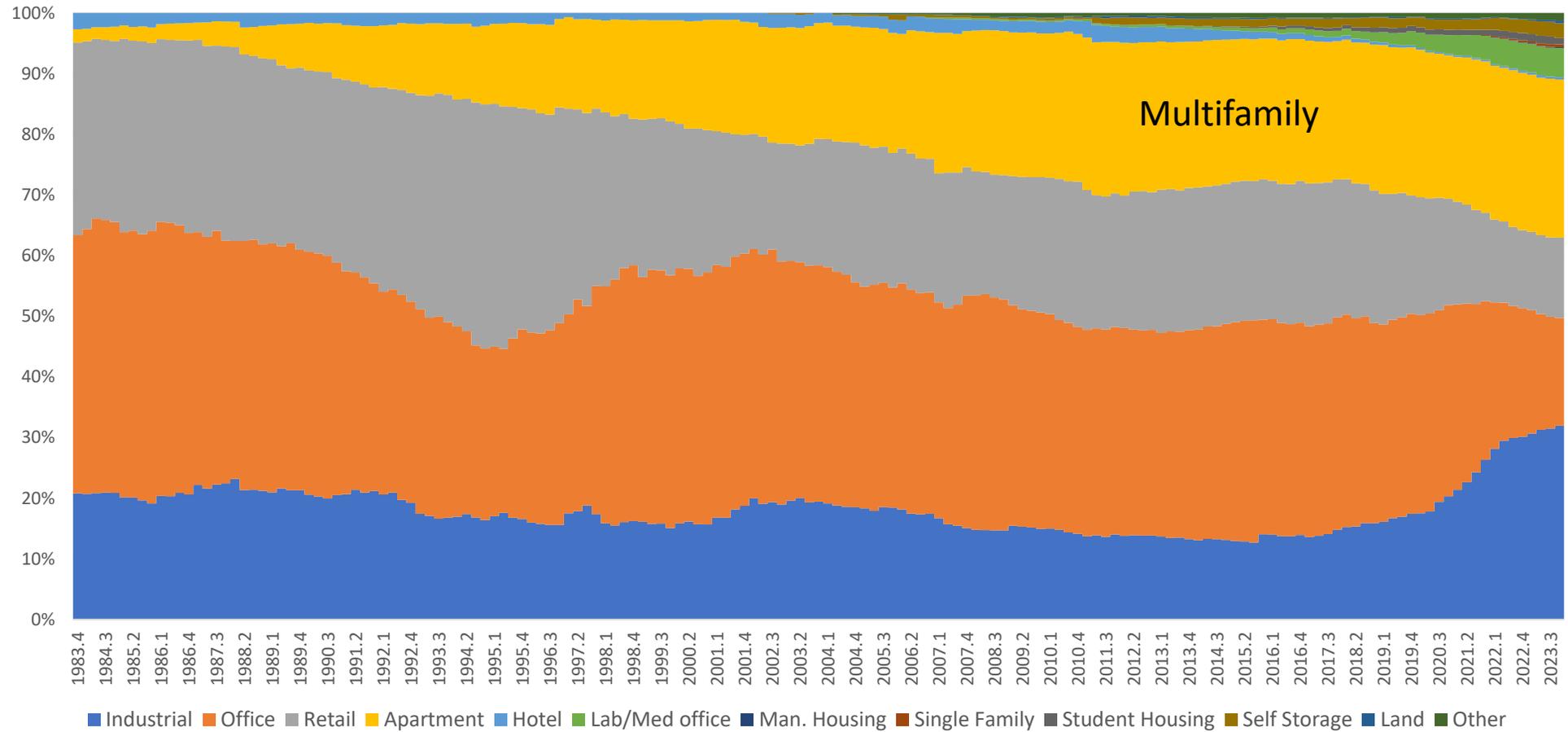
¹ Roberts, Mark, and Jake Wegmann. 2023. "ESG Investing: Moderate-income Rental Housing as a Viable Real Estate Asset Class." *Journal of Portfolio Management*, PREA-sponsored special real estate issue.

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



Contact:

Greg MacKinnon
Director of Research, PREA
greg@prea.org
860-785-3847 (office)
860-726-8480 (mobile)
www.prea.org

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pension real estate association
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