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Investing in Impact: Opportunities and Risks in Regulated Affordable Housing

Overview

Affordable housing is a broadly defined term, which can include modular homes, manufactured homes, workforce housing, naturally occurring affordable housing (NOAH), and regulated affordable housing. This briefing focuses on regulated affordable housing. Contemporary regulated affordable housing refers to housing provided by government programs to individuals with a median household income or below for a specific area. Historically, prior to the 1960s, the U.S. government tackled housing affordability through public housing. However, public housing was chronically underfunded, rent generation failed to cover operating costs, and suffered from several challenges including exclusionary zoning, intentional segregation, neglected maintenance and declining living conditions.[1]

These controversies prompted the government to shift to a new strategy: public-private partnerships (PPPs). In PPPs, government entities collaborate with private sector businesses and non-profit organizations to develop affordable housing. Governments provide tax incentives and subsidies, while the private sector oversees the development, financing, and management of housing units. Initially, community development financial institutions (CDFIs) and other entities were pivotal investors in affordable housing development. Today, individual investors can also play a role in the development and preservation of affordable housing through various investment vehicles, as detailed below.

Low-Income Housing Tax Credit (LIHTC)	Established by the Tax Reform Act of 1986, the LIHTC program incentivizes the production and preservation of affordable housing in the U.S. by issuing tax credits to equity investors during a **10-year period**. Equity raised is used to construct new properties, acquire and renovate existing buildings to become affordable or rehabilitate existing affordable housing units. Government regulations require units to remain affordable for individuals for at least 30 years. **Note:** Recent legislative changes have expanded LIHTC by implementing permanency, increasing allocations, and lowering the tax-exempt bond threshold, potentially creating new opportunities for investors.
Project-Based Section 8:	Under this program, the U.S. Department of Housing & Urban Development (HUD) provides low-income individuals and families rental assistance to afford safe, decent housing in the private market. HUD contracts with private landlords or property owners, who receive rental subsidies for eligible tenants. Tenants pay 30% of their gross income towards rent, and HUD covers the remaining amount and any subsequent increases due to adjustments to market rate rent. **Note:** For the fiscal year 2026, budget cuts to HUD are being proposed. These changes are subject to congressional review and have not yet been implemented.

[1] National Low Income Housing Coalition, A Brief Historical Overview of Affordable Rental Housing (2015), p. 1.

Housing Choice Voucher:	Federal rental assistance program that assists very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the **private market**. Unlike project-based Section 8, participants are free to and responsible for finding their own housing, including single-family homes, townhouses, and apartments. Housing must meet specific health and safety requirements. Voucher holders pay 30% of their adjusted monthly income towards rent and local public housing agencies (PHAs) pay landlords a **rental subsidy** directly to cover the rest. **Note:** As of November 2025, new federal proposals suggest implementing work requirements and 2-year time limits on housing assistance vouchers. However, these changes have not yet been enacted.
Permanent Opportunity Zones:	The Opportunity Zone program originated under the Tax Cuts and Jobs Act of 2017 is designed to encourage private investments in projects within underrepresented communities. Projects may include new housing developments, rehabilitations, or adaptive reusage of buildings within target low-income areas. Now declared as a **permanent incentive**, Opportunity Zones offer a long-term tax benefit to investors that reinvest **capital gains** into **Qualified Opportunity Funds (QOFs)**. At the five-year mark, standard QOFs earn a 5% step-up basis, while Qualified **Rural** Opportunity Funds offer a greater step-up of 30%. A rolling deferral allows investors to defer taxes for five years from each new investment, and after ten years, capital appreciation is exempt from taxation upon exit. **Note:** After 2027, anticipated rezoning and more stringent reporting requirements may impact the viability of Opportunity Zones as an investment option.
New Market Tax Credits	Shaped by the Community Renewal Tax Relief Act of 2000, New Market Tax Credits (NMTCs) serve as an indirect investment tool designed to stimulate financial support for low-income communities, often channelled through **Community Development Entities (CDEs)**. The NMTC allocation has increased to $5 billion, and eligibility now extends to mixed-use housing projects, broadening project opportunities in high priority areas (i.e. low-income, rural). For investors, NMTCs offer a significant tax credit of 39% over 7 years. Additionally, reporting requirements have been simplified, making it easier to stack the NMTC with other investments such as LIHTC and Opportunity Zones, amplifying returns and opportunities to create impact.

Investment Opportunity

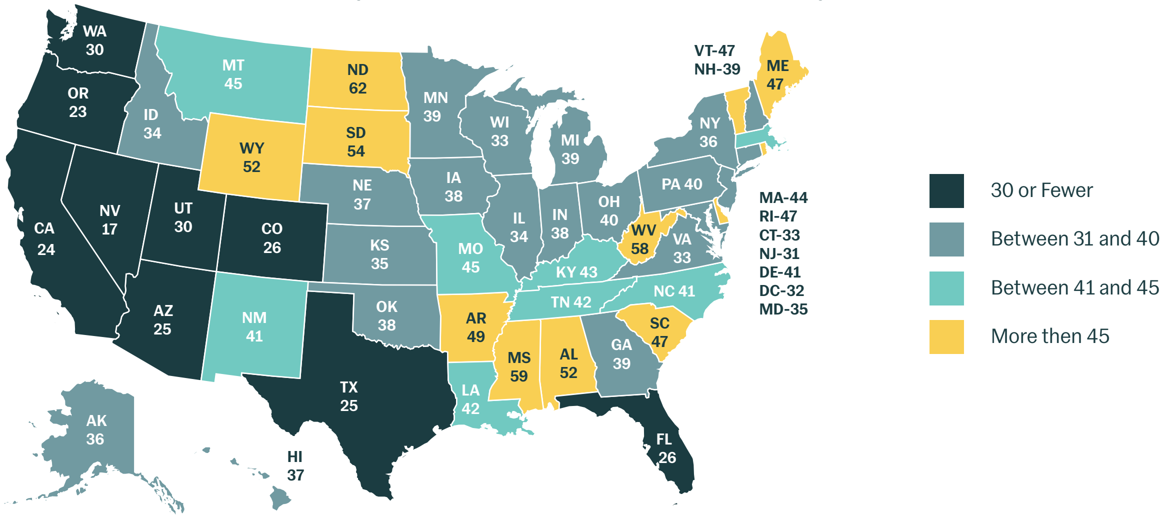
Market Growth: The global affordable housing market has grown significantly over recent years. With an annual growth rate (CAGR) of 5.7%, the market is expected **to grow to $75 billion in 2029.**[2] The growth period is fueled by the increase in supportive government policy, impact investing, and technology and innovation within the sector.

2 The Business Research Company, Affordable Housing Global Market Report (2025), Report Description

Challenges such as limited availability of land, cost of construction, and limited government funding continue to impede the market's growth.

Affordable Housing Shortage: Extremely low-income groups have incomes at or below the federal poverty guideline or 30% of area median income (AMI), whichever is greater. In 2025, 10.9 million households were considered extremely low-income. It is estimated that 7.1 million rental units were affordable for this group. However, 3.3 million units were occupied by higher income households, leaving extremely low-income renter households with a shortage of **7.1 million affordable rental units nationwide.**[3] As depicted in Figure 1 below, no U.S. state has an adequate supply of affordable housing for its extremely low-income households. This unmet demand presents an opportunity for investors to support the development of affordable housing projects.

FIGURE 1: Rental Homes Affordable and Available Per 100 Extremely Low-Income Renter Households by State[4]



Attractive Investment Characteristics: Affordable housing investments possess differentiated aspects relative to traditional multi-family real estate investments. For example, affordable housing properties tend to have high occupancy rates and long waiting lists, which provide stable and predictable cash flows. Stable and predictable cash flows reduce the volatility that these properties may experience during periods of market stress compared to traditional multi-family real estate. Additionally, HUD and quasi-government lenders, such as Fannie Mae and Freddie Mac, are stable providers of loans for these properties, often offering better terms on loans compared to traditional lenders in the market.

Investment Access

- **Direct Investment:** Investors can directly invest in affordable housing developments or properties. However, this approach may require substantial amounts of capital and direct relationships and partnerships with housing developers. Additionally, it provides limited portfolio diversification.
- **Closed-end Funds:** These are private investment vehicles managed by experienced fund managers, that oversee the management of the fund, selection of properties, allocation of capital for the development and/or renovation of affordable housing, and distribution of capital.

[3] National Low Income Housing Coalition, The Gap: A Shortage of Affordable Homes (2025), p.4
[4] National Low Income Housing Coalition, The Gap: A Shortage of Affordable Homes (2025), p.20

- **Community Development Notes:** These notes are issued by Community Development Financial Institutions (CDFI's). CDFIs provide a range of financial services to underserved communities, including affordable housing. CDFIs issue on-balance sheet notes and use the proceeds to support affordable housing projects. **These notes typically pay below-market interest rates.**
- **Municipal Bonds:** Government agencies can issue municipal bonds to help finance the construction, acquisition, or rehabilitation of affordable rental housing. Investors receive tax-exempt interest income. Investors can access these bonds directly, through mutual funds, or through separately managed accounts (SMAs).
- **Open-end Funds:** Open-end funds can issue and redeem shares at any time, allowing investors to buy and sell units without restrictions. Real Estate Investment Trusts (REITs) are the most common of these funds. REITs pool capital from investors and invest in the affordable housing sector, primarily in the construction of modular/mobile homes and workforce housing. However, these do not meet the definition of regulated affordable housing. Investors can access REITs via both public and private markets options.

Key Considerations

Investors interested in investing in regulated affordable housing should be aware of risks associated with the opportunity.

- **Supply chain considerations:** The housing market faces very pressing challenges such as rising input costs and labor shortages due to recent changes in federal policy, especially tariffs and immigration. As a result, many projects experience higher operational cost, delayed development, and lower output.
- **Reliance on government subsidies:** Low-income housing investments often rely on the receipt of rental subsidies and debt guarantees from the U.S. federal government. Any potential termination of HUD or significant regulatory change to Section 8 could significantly impact the value of multi-family properties.
- **Market volatility:** The multi-family real estate market has experienced significant volatility in the past, and it could face it again in the future. Real estate assets could thus be acquired at unfavorable prices or sold at inopportune times.
- **Long-term investment:** Investment within the affordable housing space often require a long-term holding period, making it most suitable for patient impact investors. Aligning the investment vehicle with the intended timeline is key to maximizing both profit and purpose.
- **Inherent Risk of Real Estate Investing - closed-end funds**
    - These funds may engage in real estate investment strategies with a high degree of risk, and may often face unexpected challenges with zoning, planning approval, environmental issues, construction and contractor issues, entitlements, improvements, development, leasing, tenant issues, marketing, financing, and selling. Therefore, investors may face liquidity issues and lose the entire investment.
    - Funds may or may not engage in the day-to-day management of properties. Thus, the success or failure of such investments will depend to a significant extent on the management of the underlying assets.
    - Funds may use leverage (debt) to make investments. Payments of interest and fees incurred by properties held within the fund will reduce the income the fund would otherwise have available. Additionally, if the fund's properties do not generate sufficient cash flows from operations, they may not be able to repay borrowings, or the fund may be forced to sell investments at disadvantageous times to repay borrowings.

General Resources

- Overview of the Low-Income Housing Tax Credit (LIHTC) Novogradac - About LIHTC
- Comprehensive Guide to Section 8 Investment Multifamily.Loans - Section 8 Investment
- Introduction to Community Development Financial Institutions (CDFIs) JPMorgan - What is a CDFI?
- Policy History on preserving Affordable Housing Harvard JCHS - Preserving Affordable Housing in the U.S.
- Federal Advocacy on Housing Bonds https://www.ncsha.org/advocacy-issues/housing-bonds/
- California's Affordable Multifamily Housing Bond Program CALPFA - Private Activity Housing Bonds
- Tax-Exempt Housing Bonds: FAQs and Market Overview NCSHA - Tax-Exempt Housing Bonds FAQ
- Overview of the Housing Choice Voucher Program (Section 8) HUD - Section 8 Program
- Private Sector Response to the Housing Affordability Crisis Yahoo Finance - REIT Tackling Affordability

ABOUT THE AUTHOR

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