



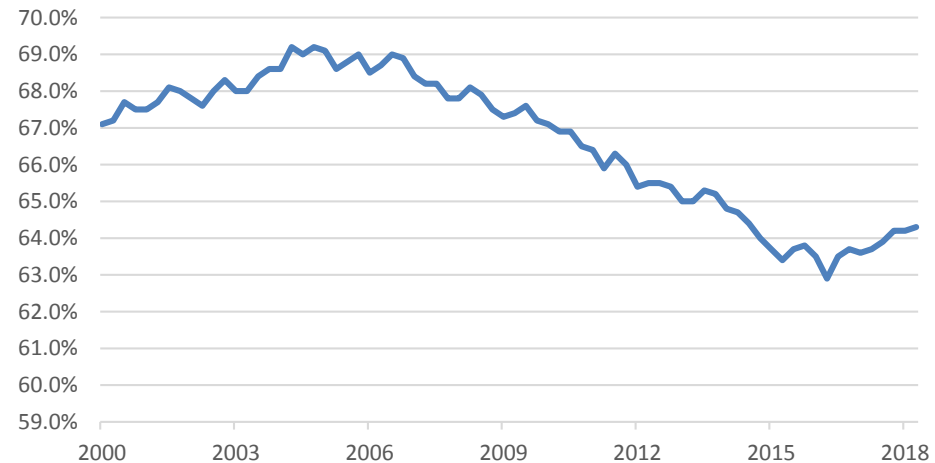
**BEEKMAN ADVISORS**

Rental Housing Imperatives and  
the Rise of Impact Capital

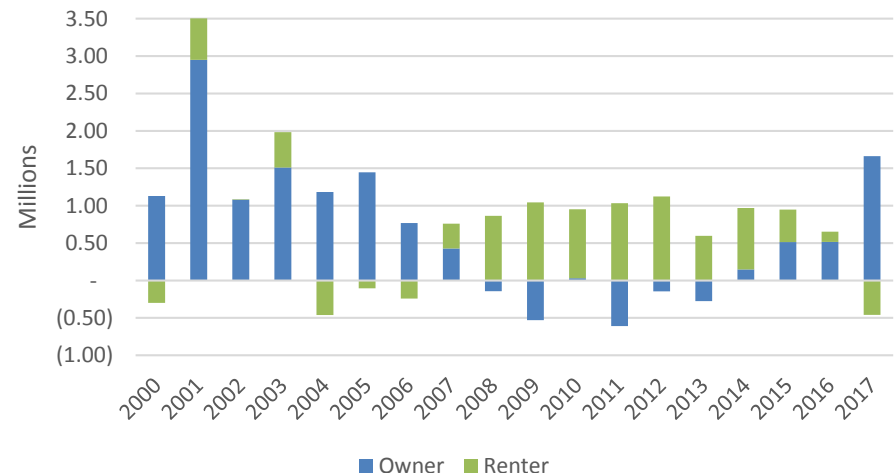
# Current State – Rental Housing

- The U.S. housing market is comprised of 120 million households with approximately 43 million rental households. Of that total, 19 million households occupy buildings with 5 or more units, the remainder live in single family rentals or smaller multifamily structures.
- After hitting a record low in Q2 2016 at 62.9%, the homeownership rate has eased up to 64.3%.
- The shift toward rental has been driven by economic circumstances, including affordability, demographic changes and behavioral/preference issues.
- Advanced schooling and delayed family formation have worked to delay housing independence of younger adults and provide demand for rental housing.
- Mortgage finance for multifamily rental housing is a \$1.4 trillion market, which is dominated by several major capital sources including commercial banks, Fannie Mae, Freddie Mac and FHA.

## U.S. Home Ownership Rate



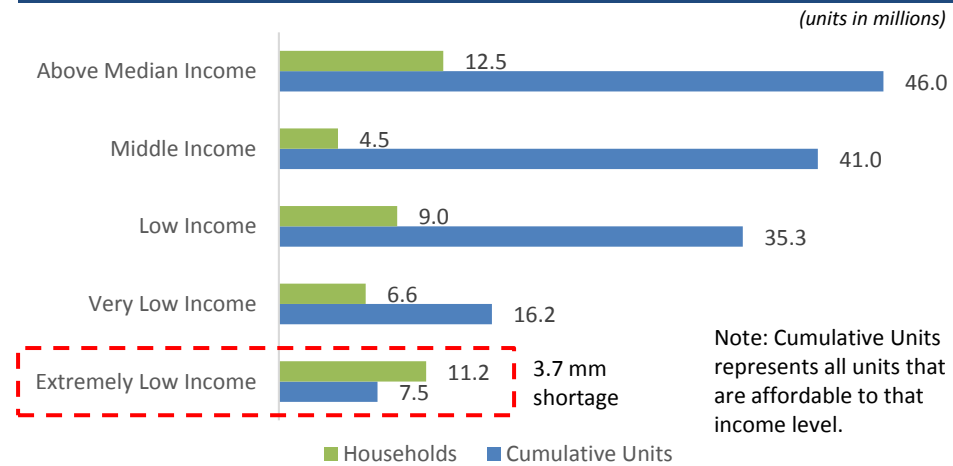
## Net New Households



# Cost Burden & Affordability

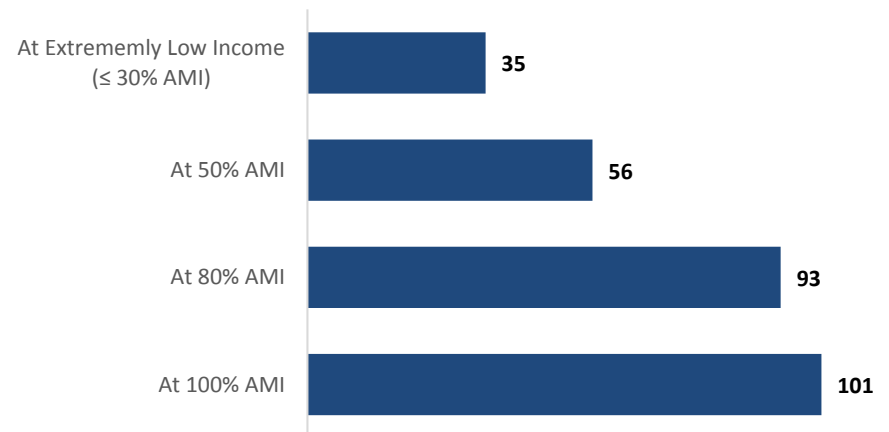
- Demand for affordable housing remains significant even as wage and job growth incrementally eased the number of people who spend more than 30% of their income on rent (“cost burdened”).
- The nation’s 20.9 million cost burdened renters account for 48.3% of all renter households with 25.2% being severely cost burdened (greater than 50% of income on rent).
- Much of the new developments in recent years has targeted higher-income households in downtown areas. Given high costs of development, median asking rents increased 27% between 2011 and 2016 to \$1,480.
- Applying the 30% affordability threshold, renter household income would need to be at least \$59,000 (52% higher than current renter household income).
- Median Renter Household Income is at an all time high of \$38,944, but is still only 51.3% of Median Owner Household Income (\$75,876).
- Given the lack of naturally occurring affordable housing units, federal assistance is critical; Urban Institute estimates 53% of units affordable to extremely low income renters have HUD/USDA assistance.
- Industry groups lobbying to address development regulation (research estimates +30% of development costs due to regulation).

## Rental Units & Renters Matched by Affordability & Income



Source: NLIHC tabulations of 2016 ACS PUMS data

## Available Affordable Rental Homes per 100 Renter Households

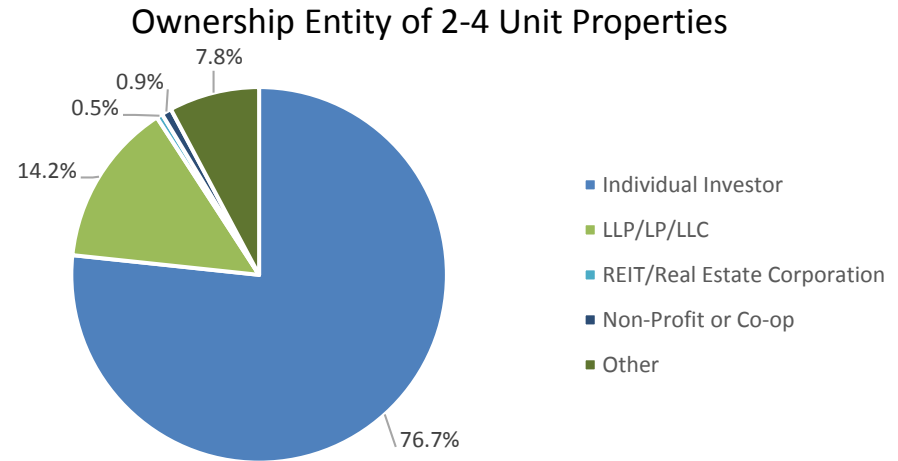


Source: NLIHC tabulations of 2016 ACS PUMS data; AMI = Area Median Income

# Small Multifamily

## 2-4 Unit Rental Properties

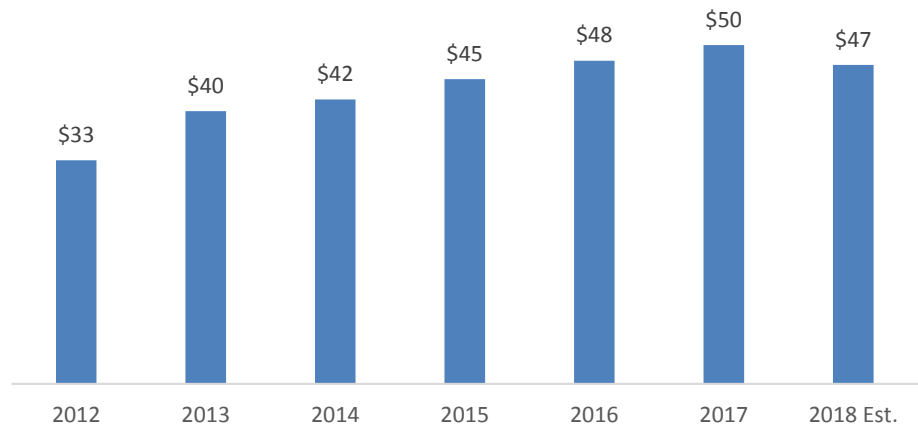
- 2-4 unit rental properties total roughly 6% of the U.S. housing stock or 7.6 million units.
- Given high development costs, most demand for low priced rentals is met by aging units with small multifamily properties accounting for roughly 25% of the low-cost units.
- Individual investors own over 75% of the 2-4 unit rental properties while entities own 85% of 5+ unit rental properties.



## Small Balance Lending (Typically \$1 to \$5 million)

- Originations grew in recent years with 2017 up 4.8% over 2016, but expectations for 2018 indicate a 5.8% decline.
- The vacancy rate for small, affordable multifamily housing for Q2 2018 declined 0.30% year-over-year to 4.4% - the lowest level since 2008.
- Executing small multifamily loans has been cost prohibitive for some lenders; increasing view that technology advancements are critical for profitability and to drive scale.

## Small Balance Multifamily Origination Volume (\$bn)



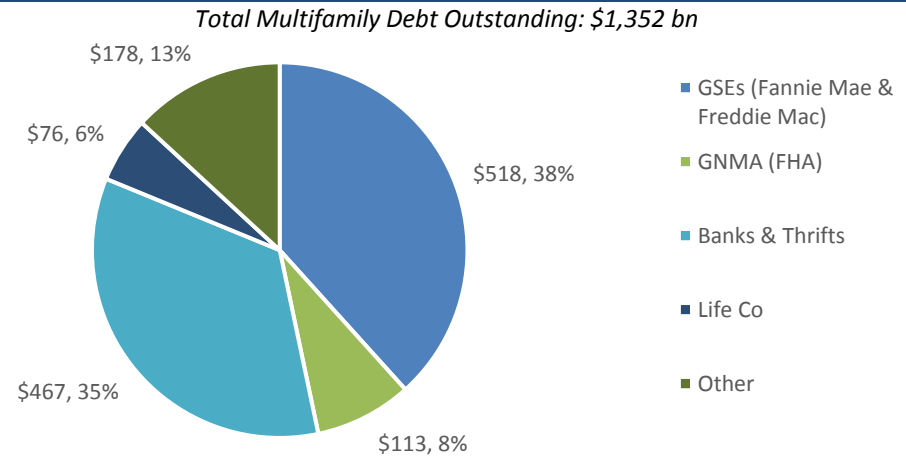
# Workforce Housing Market *(non-luxury or MAH?)*

- Commonly viewed as renters that earn between 60% and 120% of AMI (approximately 13.3 million Workforce Renters).
- JCHS expects an additional 4.7 million renters will be added between 2015 and 2025.
- A significant portion of would be renters do not qualify for subsidized housing, but are unable to afford market-rate rents causing them to seek housing in submarkets outside the urban core.
- Significant demand and finite subsidies are leading to an opportunity for investors: the growth of workforce housing funds as impact investing. Examples include:
  - Turner Multifamily Impact Fund is targeting \$1 billion invested in workforce housing and currently owns 6,000 workforce housing units.
  - Avanath is an investment firm with over \$1.4 billion AUM focusing on affordable housing, naturally occurring affordable housing (NOAH) and workforce housing.
  - Minneapolis NOAH fund provides 10-year equity financing at a 6.5% hurdle.
  - The California State Teachers' Retirement System (CalSTRS) committed \$300 million to Belay Investment Group for value add investments including a Hispanic-focused workforce housing specialist.
  - LEM Capital closed a \$300 million fund focused on Class B value-added multifamily properties (incl. workforce housing) targeting net returns of 12-16% with local institutional investors.
  - Enterprise Community Investment has a \$110 million fund targeting the acquisition and preservation of existing affordable multifamily properties in danger of conversion to market rate housing.
  - Freddie Mac launched a social impact initiative to preserve workforce housing by providing low-cost loans in exchange for voluntary rent restrictions for households earning up to 80% of AMI.

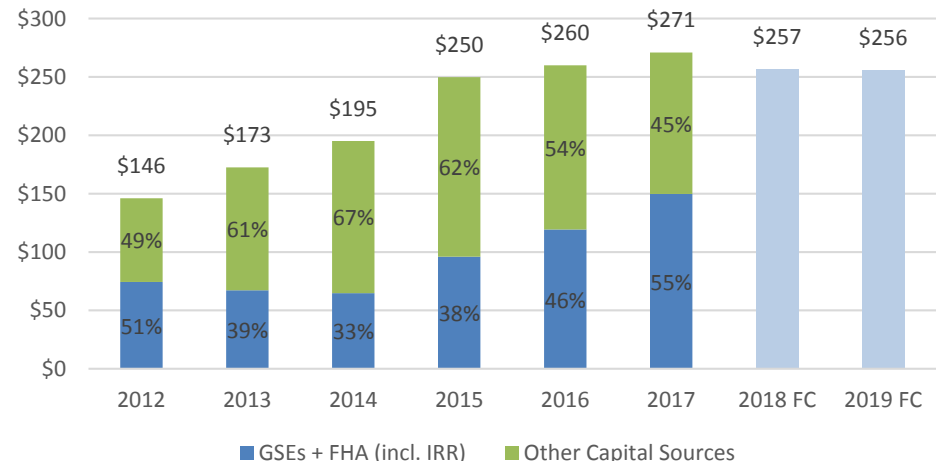
# Multifamily Lending

- Commercial and multifamily mortgage debt outstanding (MDO) stands at \$3.27 trillion. Multifamily MDO grew 8.8% in 2017 to \$1.3 trillion.
- The GSEs and FHA are the largest capital providers to multifamily, holding 46.7% or \$631 billion, with banks holding \$467 billion.
- Multifamily origination volumes likely peaked in 2017 as rising interest rates sap refinance demand and transaction volume has plateaued.
- Increased market share will be at the expense of other lenders – forcing lenders to differentiate to stay competitive.
- Role of technology continues to expand; more lenders investing in portals and processing engines.

## Multifamily Mortgage Debt Outstanding (\$ in bn)

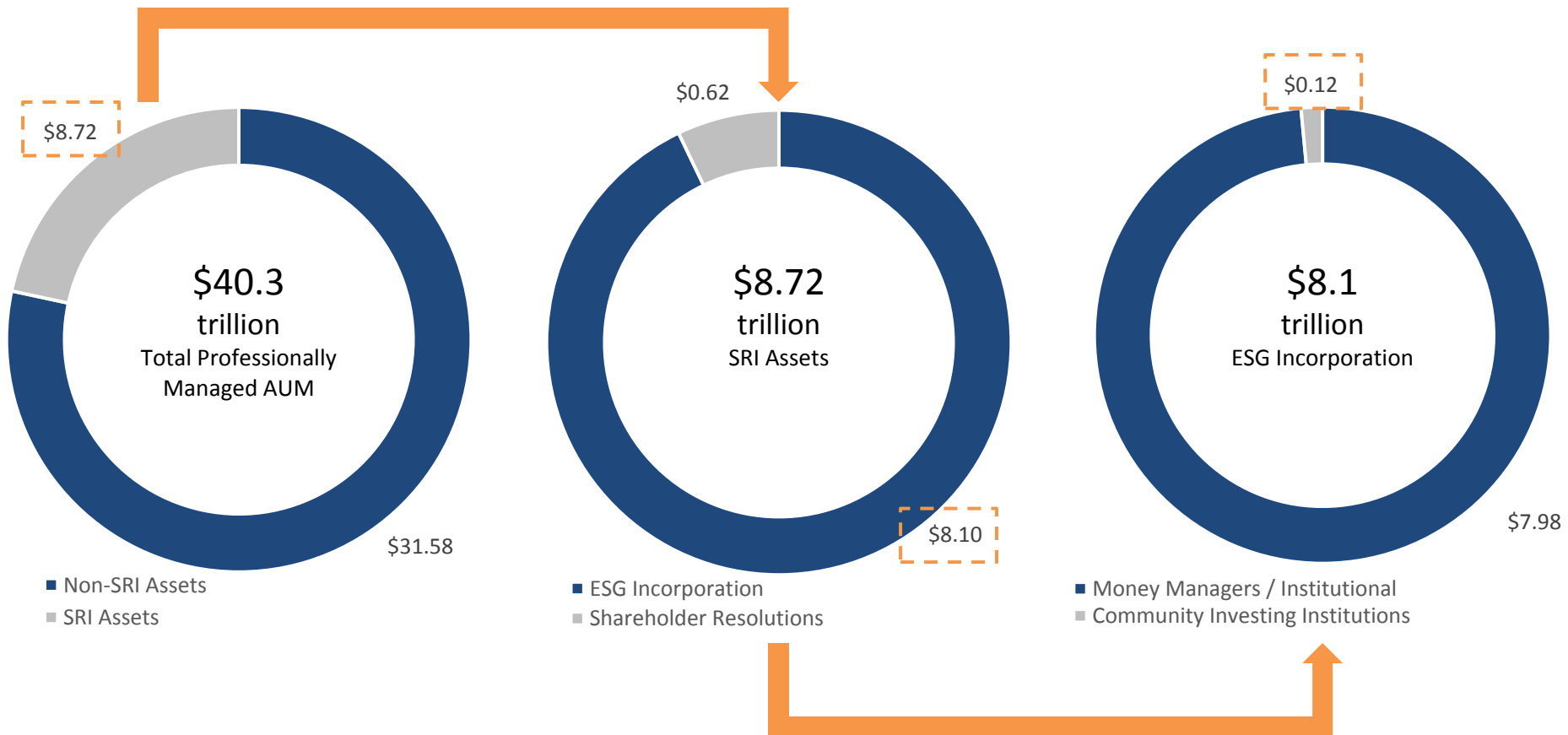


## Multifamily Origination Volume (\$ in bn)



# SRI and Impact Investing

- Sustainable, Responsible and Impact (SRI) Investing includes both ESG and Impact Investing
- \$8.1 tn ESG assets are a subset of SRI capital
- \$122 bn through over 1,000 Community Investing Institutions
- Money Managers/Institutional average \$10 bn per firm; Community Investing Institutions average \$117 mm.



# SRI Selection Criteria

*SRI selection encompasses more than negative screening for unacceptable sectors/investments (i.e., no war zone investments, no poor governance).*

## Positive/Best-in-Class

Investments in sectors, companies or projects selected for positive ESG performance relative to industry peers

## Negative/Exclusionary Screening

Screening of certain sectors or companies involved in activities deemed unacceptable or controversial

## ESG Integration

The systematic and explicit inclusion by investment managers of ESG factors into traditional financial analysis

## Impact Investing

Impact investing aimed at solving social or environmental problems

## Sustainability Themed Investing

The selection of assets specifically related to suitability in single- or multi-themed funds

## Community Investing

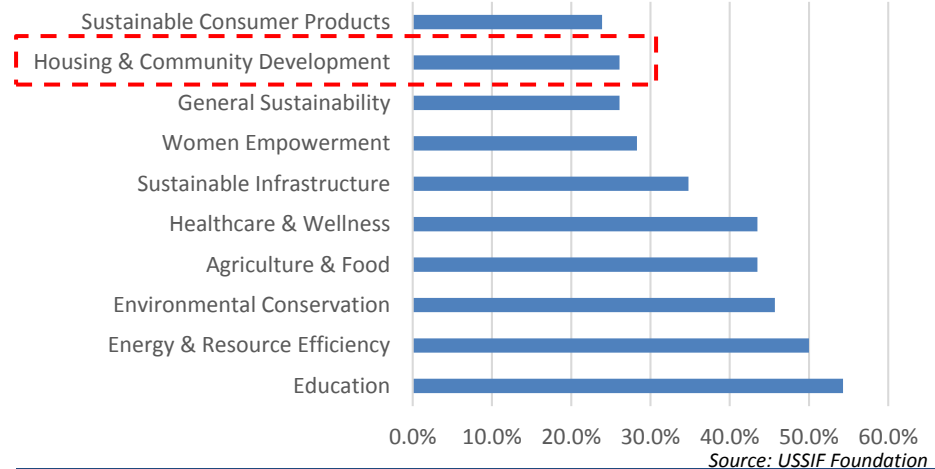
Investment that directs capital to communities that are underserved by affordable financial services



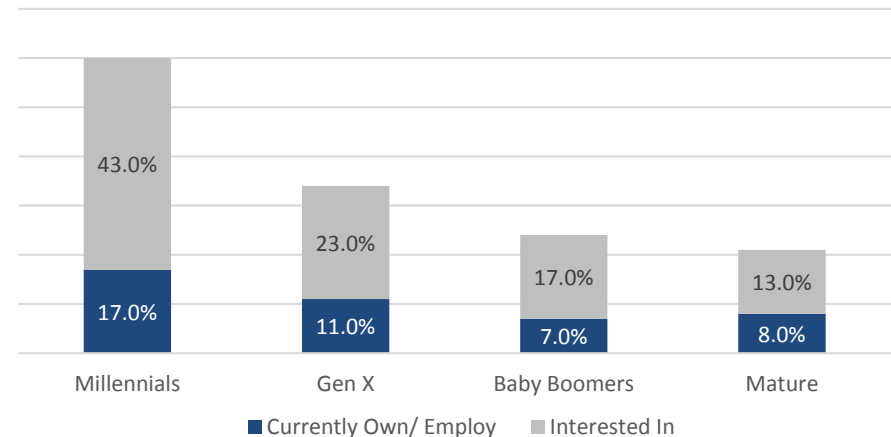
# Impact Investing

- There are different impact strategies that can overlap based on the ESG guidelines or other metrics being used (i.e., Women’s Rights could overlap with a Human Rights strategy).
- According to USSIF, 26% of Family Offices have exposure to Housing & Community Development as an area of impact investing focus.
- Approximately 30% of Family Offices are active with multiple impact investments across asset classes or causes.
- Impact investment opportunities are sourced from a variety of sources, but are most commonly sourced from clubs/networks, co-investment opportunities, direct approaches from investees and dedicated internal staff.

## Top Sectors for Impact Investing by Family Offices



## SRI Investment Interest by Age Cohort



Source: USSIF Foundation & US Trust Bank Survey of HNW & UHNW Individuals

# Opportunity Zones

- The Opportunity Zone legislation is intended to incentivize private capital to invest in distressed communities by providing tax benefits on re-invested capital gains.
- U.S. Treasury certified 8,700+ eligible low-income census tracts.
- Secretary Mnuchin estimates \$100 billion in private capital will be invested in Opportunity Zones as a result of the new legislation and incentives.
- Challenges exist to combine Opportunity Zones with LIHTC, but historic tax credits may prove to be more compatible when paired.
- The legislation has no metrics for impact accountability or reporting, which could be critical for attracting investors and evaluating program effectiveness.
- Kresge Foundation is seeking to influence market norms and establish best practices in terms of impact accountability, transparency and reporting.
- The nascent Opportunity Zone industry is eagerly waiting guidance from Treasury that will address critical issues and allow fund formation.

# BEEKMAN ADVISORS

8000 Westpark Drive  
Suite 250  
McLean, Virginia 22102

Telephone: (703) 752-8320

Fax: (703) 940-8003

[www.beekmanadvisors.com](http://www.beekmanadvisors.com)