

# The continued resilience of U.S. affordable housing



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As the real estate investment environment continues to navigate challenges, investors are seeking ways to diversify allocations to affordable housing. Impact investment strategies such as affordable housing have long been known for delivering positive social and environmental changes, however, the economic benefits of U.S. affordable housing remain misunderstood by many investors.

## What does U.S. affordable housing offer investors?

The U.S. affordable housing sector remains an attractive investment strategy within commercial real estate, and an effective diversifier among housing investments given the sector's economic resilience compared with other property types. The essential need for housing remains steady throughout economic cycles given the limited supply of affordable units and lack of housing starts, and this resiliency extends to recessionary environments.

An investment in affordable housing can provide investors the opportunity to achieve attractive risk-adjusted returns while demonstrating direct and positive social and environmental impact. Additionally, the durability of rental income in the sector is supported by strong market demand and government subsidies, offering greater stability than traditional real estate.

Affordable housing can offer investors attractive portfolio diversification through three key areas.

### 1. Strong income stream

Affordable housing investments offer durable income streams for investors and resiliency throughout volatile economic environments. Since 2011, affordable housing investments have yielded an average 4.8% income return. This income profile compares favourably to other common asset classes including bonds, equities and T-Bills (Figure 1).

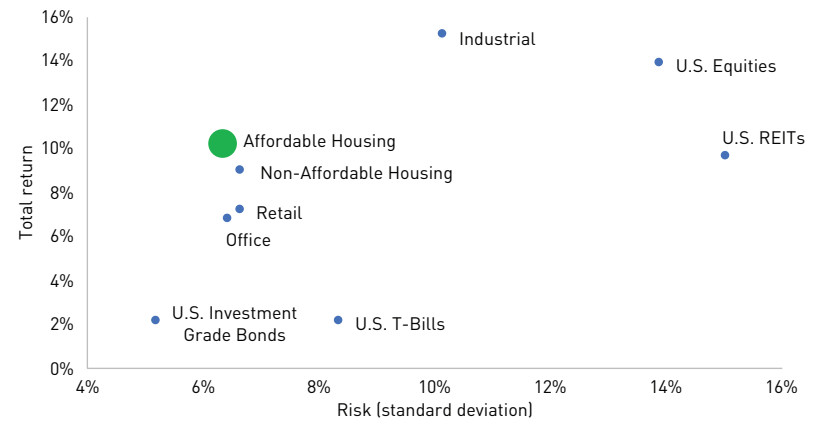
Given that a substantial portion of the affordable housing market targets a lower area median income profile backed by government subsidies, risks are largely mitigated as the government makes direct payments to the property owner. This support provides stability in rent collections, a key advantage differentiating this segment of the rental market from conventional market-rate apartments. For example, when qualified residents living in rent subsidized housing experienced a decrease in income or job loss during the early innings of the COVID-19 pandemic, the government provided additional assistance with rent payments.

### 2. Favourable risk-return profile

Affordable housing is a beneficial component of any real estate or diversified portfolio, as the sector boasts favourable risk-adjusted returns compared with other property types. Historically, affordable housing investments have offered investors both strong total returns and lower volatility in contrast to other commercial real estate property types and asset classes (Figure 2).

Operationally efficient owners and

Figure 2: Total return vs. risk, 2011-2023



Source: NCREIF; Bloomberg; Board of Governors of the Federal Reserve System, June 2024

operators who can adeptly navigate through an array of local and national regulations make use of various tax incentives and may achieve risk-adjusted returns along with some upside potential. In addition to providing favourable risk-adjusted returns, responsible investors have the opportunity to achieve a “double bottom line” as these investments can make a positive impact in communities. For example, to improve economic equality, responsible rental housing owners can initiate programs within communities that support residents’ financial well-being.

### 3. Resiliency across economic cycles

Affordable housing has proven its resiliency during recessionary environments even when compared with other housing investments.

Unlike conventional market-rate apartments, subsidized rents have less parity with the negative economic fluctuations between periods of expansion and contraction. Given the limited supply of housing in the U.S. for income earners below 80% of the area median income, demand for affordable housing increases during recessionary environments as incomes stagnate or drop, resulting in a flight to safety and placing further pressure on the need for affordable units.

Accordingly, throughout the last three economic downturns, affordable housing rent growth and occupancy growth (RevPAF growth) outperformed conventional market-rate apartments, demonstrating the sector’s strong demand.

Not only are there not enough units available today to meet the existing demand for earners at, or below, 80% of

area median income, but there are nearly 650,000 units at risk of losing their income and rent restrictions by 2030, ultimately exposing those communities to unrestricted rental increases and displacement.

## Unlocking the benefits of affordable housing

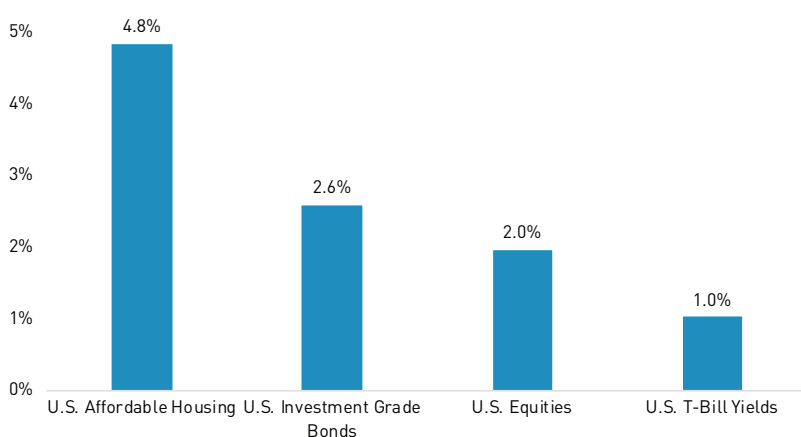
Affordable housing investments can offer strong cash flows across different economic cycles, buoyed by consistent market demand and, particularly in the U.S., the government’s role in guaranteeing rent payments for a significant portion of subsidized renters.

While conventional market-rate apartment demand is partially driven by economic and employment growth, these factors are less impactful to affordable housing due to the consistent demand and deficit-of-supply throughout the U.S.

Given the sector’s favourable risk-return profile and ability to provide a positive impact on communities, Nuveen Real Estate believes an investment in affordable housing can generate income and returns for real estate portfolio allocations.

Visit the Nuveen website to learn more about our strategies for U.S. affordable housing, along with our latest insights into the sector.

Figure 1: Average annual income, 2011-2023



Source: NCREIF; Bloomberg; Board of Governors of the Federal Reserve System, June 2024

Real estate investments are subject to various risks associated with ownership of real estate-related assets, including fluctuations in property values, higher expenses or lower income than expected, potential environmental problems and liability, and risks related to leasing of properties.



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