FEDERAL RESERVE BANK *of* NEW YORK

COMMUNITY DEVELOPMENT

ALTERNATIVE INVESTMENTS IN COMMUNITY DEVELOPMENT: A CASE STUDY OF PENSION FUND INVESTMENTS IN MULTIFAMILY AFFORDABLE HOUSING

Talor Crawford
Jonathan Kivell
Maria Carmelita Recto

February 2024

Overview

This case study is based on survey responses from a nonrepresentative sample of seven pension funds that provided 25 commitments from January 2018 to June 2023 totaling over $2.7 billion in equity capital for multifamily affordable housing. The case study's goal is two-fold: 1) to see how pension funds evaluate and report the impact of investments in multifamily affordable housing, and 2) to study how multifamily affordable housing fits into the real estate allocation of a pension fund's portfolio. This paper is part of the New York Fed Community Development team's focus on household financial well-being.

Key Takeaways

- Pension funds that responded to the survey have committed capital more frequently to the preservation of existing affordable housing, as opposed to new development.
- Ninety-one percent of committed capital allocated by respondents was to closed-end affordable housing investment vehicles.
- Twenty-seven percent of housing units in respondents' affordable housing portfolios are affordable to households earning less than 60% AMI.
- Within their real estate portfolios, survey respondents reported that multifamily affordable housing represents 0.5 - 10%, with an average of 4.4%. Respondents anticipate that the percentage will be roughly the same for the next two years.

Acknowledgments

We thank the survey respondents for taking the time to participate in the survey. We also thank other New York Fed colleagues for their substantive insights throughout the development of this report: Richard Deitz, David Erickson, Jennifer Spain, Rosanne Notaro, and Jacob Scott.

Introduction

Affordable housing is a market where lack of supply meets overwhelming demand. An estimated 27 million[1] low-income renter households qualify for some of the nation's largest housing assistance programs. Federal programs provide subsidies to 5 million rental units and housing choice vouchers to 2.3 million households. As a result of the limited availability of subsidies, data show that 98% of severely cost-burdened renters are low income, with a heavy concentration among the lowest-income households.[2] While there is a rich literature on public incentives for affordable housing, such as tax credit programs, there is an information gap on the parts of the sector not subject to standard reporting requirements. We are interested in what income levels this housing serves and what sources of debt and equity financing exist to fund it. This series, *Alternative Investments in Community Development*, helps address that gap by examining private investments in multifamily affordable housing.

The first report in this series, *A Case Study of Managers of Multifamily Affordable Housing Private Investment Vehicles*, focused on the work of investment managers and how they source and deploy capital.[3] One finding from that paper is that multifamily affordable housing in the US is an asset class in which investments by banks, motivated at least in part by the Community Reinvestment Act, and various types of nonbank institutions are converging. That case study also found that more than two-thirds of the equity capital raised by investment manager respondents was from nonbank institutional investors.[4] While there are many types of institutional investors, the surveyed investment managers cited pension funds as one source of capital.

Overview of Pension Funds and Real Estate

The US Department of Labor defines a pension plan as "…an employee benefit plan established or maintained by an employer or by an employee organization (such as a union), or both, that provides retirement income or defers income until termination of covered employment or beyond."[5] This can include various retirement plans, such as a 401K plan and a traditional

[1] Combined estimates of extremely-low-income, very-low-income, and low-income renter households are from the National Low Income Housing Coalition. See National Low Income Housing Coalition, "The Gap 2023: A Shortage of Affordable Homes," March 16, 2023.
[2] National Low Income Housing Coalition, "The Gap 2023: A Shortage of Affordable Homes," March 16, 2023
[3] Federal Reserve Bank of New York, "Alternative Investments in Community Development: A Case Study of Managers of Multifamily Affordable Housing Private Investment Vehicles," March 2023
[4] Ibid.
[5] US Department of Labor, Retirement Plans Benefits and Savings | U.S. Department of Labor (dol.gov)

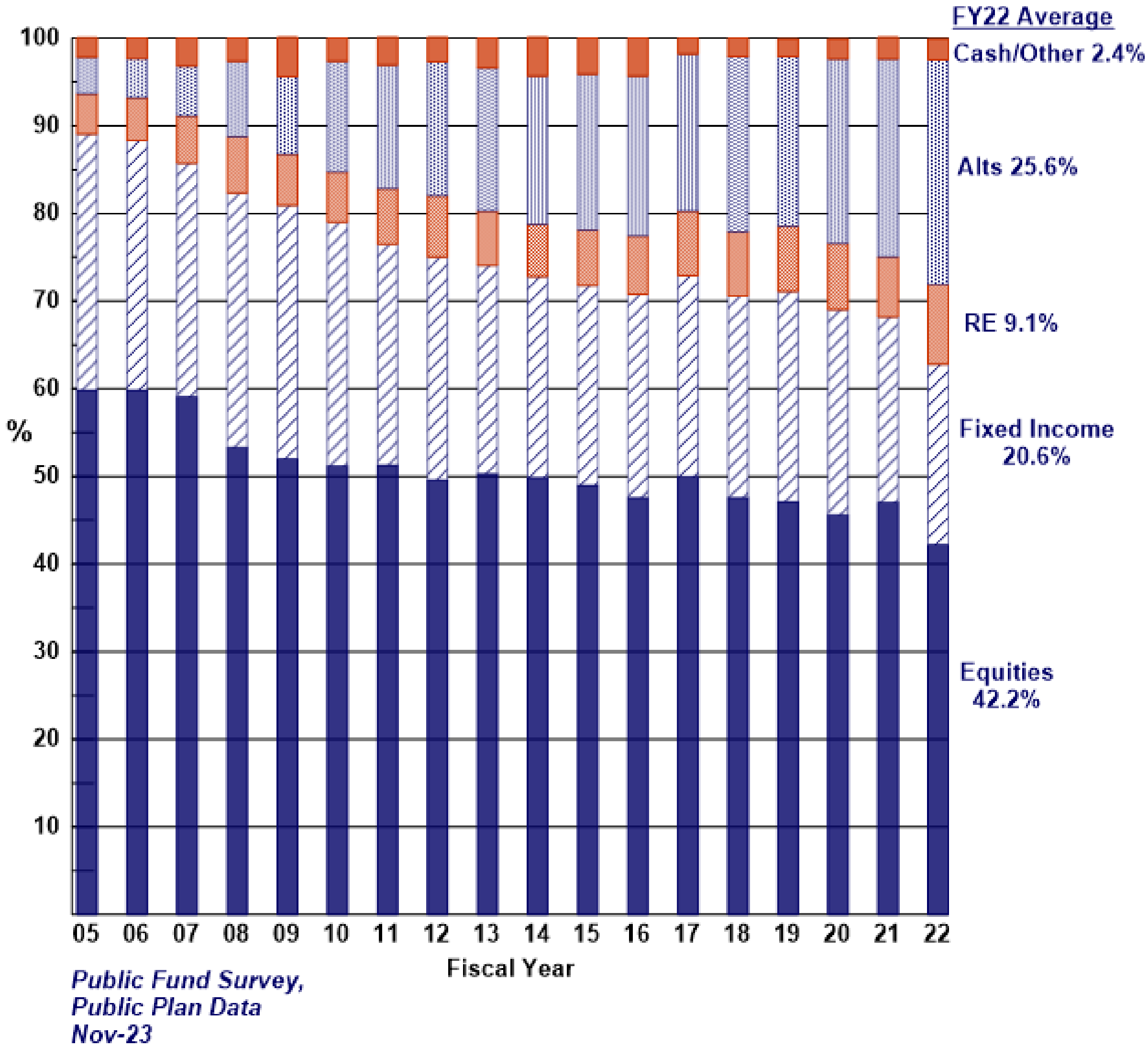
pension plan.[6] According to a report from the Organisation for Economic Co-operation and Development, pension assets for 32 of the OECD's member countries total $48.1 trillion as of December 2022.[7] Financial assets of pension funds in the United States totaled over $20.6 trillion[8] as of Q3 2023, including those of state and local government agencies, the US government, and private companies. Of that total, assets of defined benefit plans, which promise a specific monthly benefit at retirement[9], total $11 trillion.[10] Total assets of defined contribution plans, which do not promise specific benefits at retirement, total $9.7 trillion.[11]

In recent years, institutional investors including pension funds have ramped up their allocations to private markets as opposed to public fixed income and equities markets. This is in contrast to how public pension funds have invested historically in stocks, bonds, and government securities.[12] A recent global survey of institutional investors found that mean target allocations to real estate of roughly 100 public and private pension fund respondents were 12.1% and 11.3%, respectively.[13] Exposure by pension funds, for example, to private real estate (as opposed to REIT or public market investment options) was noted as having increased "…eightfold in the 20 years until 2018…."[14] In contrast, a 2022 survey of 90 US-based public pension funds found that average allocations to both public equities and fixed income reached an all-time low since the survey started in 2005.[15] As seen in Figure 1, this decrease is offset by an increase in allocations to other asset classes such as alternative investments and real estate, which reached all-time-high reported allocations of 27.4% and 9.1%, respectively, in 2022.[16]

---

[6] Ibid.
[7] Dollar figure includes both public and private-sector pension assets. See Organisation for Economic Co-operation and Development, "Pension Markets in Focus – Preliminary 2022 Data," June 2023 for more information.
[8] The value of financial assets was computed by combining total financial assets of defined contribution plans across the private sector, local and state government, and federal government (L.118.c.1+ L.119.c.1+L.120.c.1) with total financial assets of defined benefit plans across those sectors (L.118.b.1+ L.119.b.1+L.120.b.1) minus claims of pension funds on their sponsor (L.118.b.16+ L.119.b.16+ L.120.b.16), defined as unfunded defined benefit pension entitlements. See Board of Governors of the Federal Reserve System (US), "Financial Accounts of the United States - Z.1" Sections L. 118-120 for more information.
[9] US Department of Labor, Types of Retirement Plans | U.S. Department of Labor (dol.gov)
[10] The value of total financial assets of defined benefit plans across the private sector, state and local government, and federal government, minus claims of pension funds on their sponsor has been rounded. See Board of Governors of the Federal Reserve System (US), "Financial Accounts of the United States - Z.1" Sections L. 118-120 for more information.
[11] The value of total financial assets of defined contribution plans across the private sector, state and local government, and federal government has been rounded. See Board of Governors of the Federal Reserve System (US), "Financial Accounts of the United States - Z.1" Sections L. 118-120 for more information.
[12] National Association of State Retirement Administrators, "Public Fund Survey"
[13] Cornell University's Baker Program in Real Estate and Hodes Weill & Associates, "2023 Real Estate Allocations Monitor," November 2023s
[14] Maastricht University, "Three Decades of Global Institutional Investment in Commercial Real Estate," January 10, 2021
[15] National Association of State Retirement Administrators, "Public Fund Survey – Summary of Findings for FY 2022," November 2023
[16] Ibid.

Figure 1: Public pension fund investments between 2005 and 2022



Source: National Association of State Retirement Administrators Public Fund Survey

Investment in Multifamily Affordable Housing

When real estate investment portfolios are examined broadly, multifamily assets show increased investments in recent years. An investor survey by real estate firm CBRE found that since 2011, investment volume has increased almost five-fold, from about $75 billion to $365 billion in 2022. While multifamily assets have historically been among the top three favored property types for investment, this sector became the top acquisition target for investors and the only type in the commercial real estate sector that saw an increase in investor interest.[17]

A survey published in 2024 of 32 North America-based and 41 European institutional investors, including pension funds, funds of funds, and other investors, found that residential assets represented 28% of the real estate portion of the portfolios of North American respondents' and 24% of European respondents' portfolios.[18] When the same survey was conducted in 2019, 40 institutional investors based in North America responded, as did 76 based in Europe. The North America-based respondents reported residential allocations of 20% and European respondents reported 21%.[19] In the 2014 iteration of this survey, all survey respondents noted that their allocations to multifamily assets were 22%.[20]

A more recent trend in evaluating prospective investments within the multifamily sector is heightened interest in affordable housing. Affordable housing investments are increasingly recognized as an asset class with strong performance and as a defensive strategy in managing real estate portfolios.[21] One recent study found that physical vacancy of units in naturally occurring multifamily affordable housing is half that of luxury apartment rentals,[22] a trend that started in late 2013, when there was an influx of luxury construction. Some types of investors, particularly impact investors that can include pension funds, have also become interested in US multifamily affordable housing because it meets social impact requirements while also achieving stable financial returns.[23]

Methodology

This case study focuses on equity commitments and investments by pension fund investors in both private capital investment vehicles and asset-level investments. The data gathered for this case study exclude properties financed with Low-Income Housing Tax Credits, Opportunity Zones, or other tax credit subsidy programs. Affordable housing is defined as serving households earning up to 120% of area median income (AMI). This may include some investors' definitions of workforce housing, as well as naturally occurring affordable housing (NOAH), income-restricted housing, and units with other subsidies.

[17] CBRE Research, "2023 Global Multifamily Investor Intentions Survey," July 2023
[18] PREA 2024 Investment Intentions Survey, Pension Real Estate Association
[19] PREA 2019 Investment Intentions Survey, Pension Real Estate Association
[20] PREA 2014 Investor Report, Pension Real Estate Association
[21] Real Estate Consulting, "Affordable Housing – Stable Returns with Positive Social Impact," March 1, 2022
[22] Journal of Portfolio Management, "Gimme Shelter: Defining Market-Rate Affordable Housing and Its Investment Performance," 2017
[23] Global Impact Investing Network, "2023 Impact Investor Demographics," June 2023

Pension fund investors were surveyed between July and December 2023. Participation in the survey was voluntary, and we received responses from seven pension funds that committed equity capital to US multifamily affordable housing between January 2018 and June 2023. We identified potential respondents based on our accessible network and literature review.

The survey instrument was developed based on the survey used for *Alternative Investments in Community Development: A Case Study of Managers of Multifamily Affordable Housing Private Investment Vehicles*.[24] Surveys were distributed by email, and respondents also provided answers to survey questions via a video conference call or an in-person meeting. While our small sample of pension fund investors is not necessarily representative of the overall market, the data gathered by our survey represent a unique data set that describes how these funds have invested in affordable housing.

Pension Funds Are a Significant Source of Capital for Affordable Housing Investments

The survey respondents represent pension funds from a variety of geographic markets. Six of the seven respondents are based in the US and one is based in Europe. As shown in Table 1, respondents also represent differing sizes, with a majority having more than $50 billion in assets.

Table 1: Most respondents have more than $50B in assets.

Count of pension funds by asset size

ASSET SIZE ($ in billions)	COUNT OF RESPONDENTS
10 - 25	**2**
25 - 50	**1**
50+	**4**

Source: Federal Reserve Bank of New York; N=7

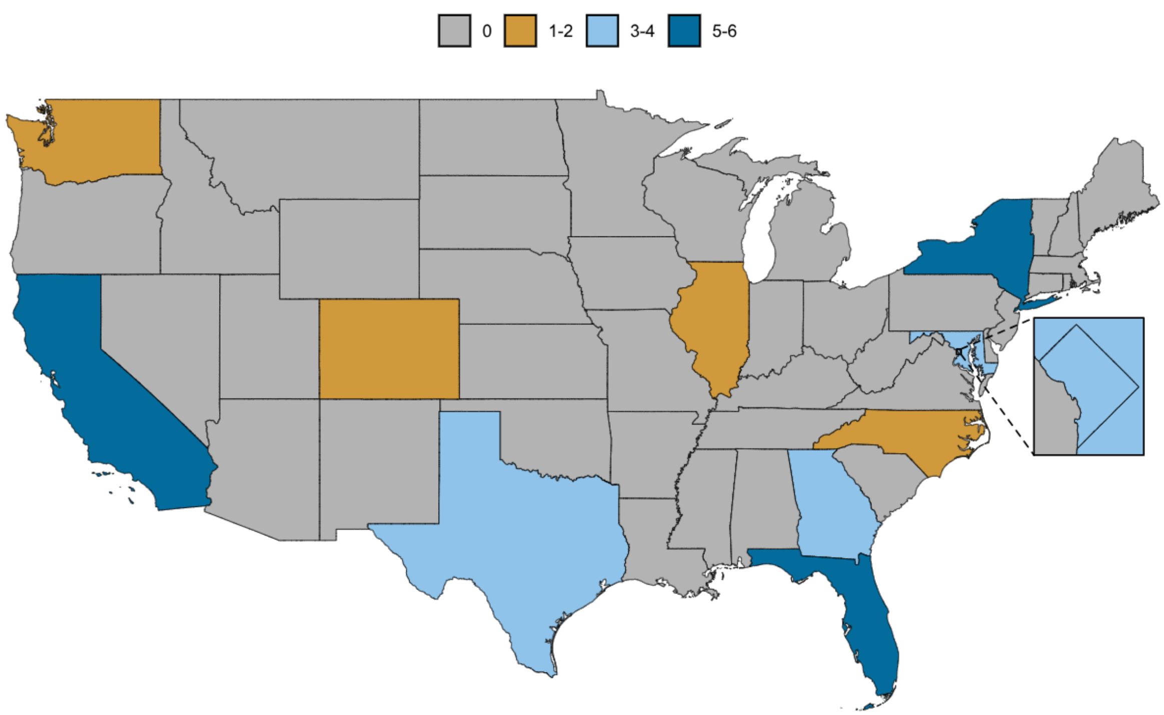
Within their respective multifamily affordable housing investment portfolios, respondents have the most capital deployed in California, Florida, and New York (Map 1). These states include

[24] https://www.newyorkfed.org/medialibrary/media/newsevents/news/regional_outreach/2023/a-case-study-of-managers-of-multifamily-affordable-housing-private-investment-vehicles

geographies considered to be prime real estate markets by several different measures[25] and where rental costs are the highest.[26]

Map 1: California, Florida, and New York are most frequently mentioned as active areas of investment.

Total number of times a state was mentioned as a top five investment area for underlying portfolio



Source: Federal Reserve Bank of New York; N=7

Over the period from January 2018 to June 2023, respondents committed about $388 million on average for affordable housing investments, with a median of $300 million. Of those commitments, around $298 million on average has been funded, with a median of $300 million. Respondents reported that multifamily affordable housing represents 0.5 - 10% of their respective real estate portfolios, with an average of 4.4%.

For the period between July 2023 and June 2025, respondents anticipate committing $178 million on average, with a median of $62.5 million. Respondents anticipate that multifamily

[25] Knight Frank, "Which global city leads our 2023 prime residential forecast?" November 29, 2022
[26] CNBC, "These are the 10 most expensive metro areas in the U.S. for renters—4 of them are in California," June 19, 2023

affordable housing will, on average, represent 5% of their respective real estate portfolios by June 2025.

Table 2: Respondents report an average total commitment of $388 million.

Average and median amount of committed capital between Jan 2018 to June 2023 and anticipated commitment from July 2023 to June 2025; average and median shares of affordable housing as a percent of real estate portfolio between Jan 2018 and June 2023, and anticipated share from July 2023 to June 2025

	CURRENT COMMITMENT ($)	AMOUNT FUNDED ($)	COUNT OF COMMITMENTS (#)	FUTURE COMMITMENT ($)	CURRENT SHARE OF AFFORDABLE HOUSING IN REAL ESTATE PORTFOLIO (%)	FUTURE SHARE OF AFFORDABLE HOUSING IN REAL ESTATE PORTFOLIO* (%)
Average	**387,857,143**	**297,928,571**	**4**	**178,333,333**	**4.4**	**5.0**
Median	**300,000,000**	**300,000,000**	**3**	**62,500,000**	**5.0**	**4.5**

Source: Federal Reserve Bank of New York; N= 7; *N=6

Pension Fund Respondents Report Greater Capital Allocations to Closed-End Affordable Housing Investment Vehicles

Respondents allocated the vast majority of their capital to closed-end funds, as opposed to open-end funds, for commitments made during the surveyed time period. As shown in Figure 2, respondents indicated that they have allocated an average of 91% of their commitments to closed-end funds, and they expect to allocate 97% over the next two years. Investing in closed-end funds may have different implications for whether a property will remain affordable when it is sold at the end of the fund's life; a new buyer of a property may be able to maintain or extend existing affordability restrictions, change the area median income targets served by the units, or convert the property to market rate.[27] Open-end funds may not be faced with a similar time consideration for selling underlying assets or may be more opportunistic in determining when assets are sold,[28] which can also impact how long underlying properties remain affordable.

[27] This topic was discussed at a New York Fed conference titled "Private Capital Investment in Multifamily Affordable Housing."
[28] For a more detailed description of open-end funds, see EisnerAmper: "Open-Ended Funds in a Close-Ended Funds World," June 12, 2023.

Figure 2: Closed-end funds continue to represent the bulk of committed capital.

Unweighted average % share of pension fund commitments by fund structure

Source: Federal Reserve Bank of New York; N= 6

Respondents reported that, on average, 71% of the total housing units (including market-rate units) financed by vehicles that invest in US multifamily affordable and workforce housing have a nonvoluntary income or rent restriction.

Respondents also provided data on the apartment units in their underlying portfolios based on income level and affordability targeting. Table 3 shows the average shares of units in four AMI buckets. On average, 27% of respondents' portfolios are available to households earning 0-60% of area median income (AMI); responses about the portfolio percentages in that AMI quartile varied widely, ranging from 0 to 89%. For income range quartiles of 61-80% of AMI and 81-100% of AMI, the average shares of units in respondents' portfolios were 15% and 27%, respectively, and the range of responses was less varied. The 101-120% AMI quartile of affordability represents the largest share of respondents' portfolios at 30% on average, though there was a lot of variation among respondents, with shares ranging between 0% and 60%.

Table 3: Most units in respondents' affordable housing portfolios are affordable to households earning 81-120% of AMI.

Average % share of units allocated to AMI levels

	<= 60% AMI (%)	61-80% AMI (%)	81-100% AMI (%)	101-120% AMI (%)
Average share of funds	**27**	**15**	**27**	**30**
Standard deviation	**30**	**14**	**12**	**21**

Source: Federal Reserve Bank of New York; N =7
Note: % affordable units per income level are simple averages

Respondents reported that they made 25 new commitments in aggregate between January 2018 and June 2023. Of those, 15 commitments were made to funds focused solely on preserving existing affordable housing, as reflected in Table 4. Ten commitments were made to funds that invested in both preservation and new development as investment strategies. None reported committing capital to funds focused solely on new development.

Table 4: Pension funds more frequently invest in funds that focus on preservation.

Count of commitments by investment strategy

Preservation	New Development	Both
15	**0**	**10**

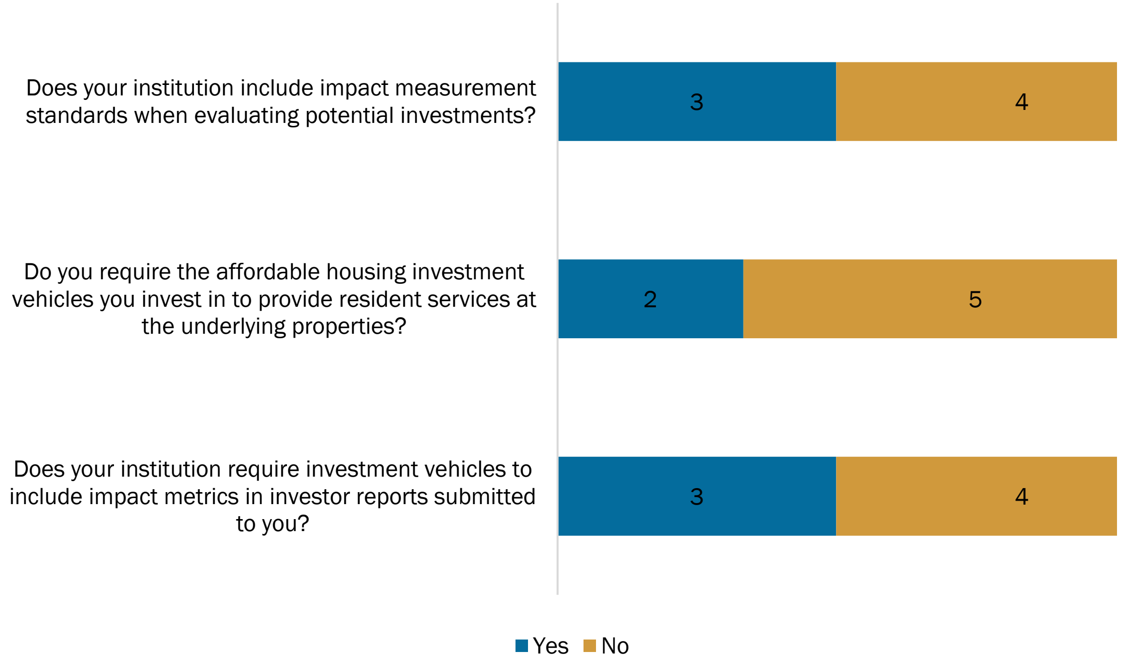
Source: Federal Reserve Bank of New York; N= 7
Note: These figures add up all investment vehicles indicated by each respondent. It does not check for the unique number of investment vehicles; that is, respondents could be investing in the same vehicles.

According to respondents, the median commitment amount for their investments ranged from $25 million to $275 million, and the median size of investment vehicles to which they commit capital ranged from $450 million to $750 million.

When respondents were asked whether they included an evaluation of impact in their analysis as part of their diligence and ongoing reporting from investment managers, most indicated that impact standards and measurement are not part of their formal process (Figure 3).

Figure 3: Most respondents do not require formal impact standards as part of their diligence and investor reports.

Total number of respondents that require impact standards and measurements



Source: Federal Reserve Bank of New York; N= 7

Conclusions and Next Steps

This case study examines pension fund investor activities in multifamily affordable housing. The seven respondents provided 25 commitments from January 2018 to June 2023 totaling over $2.7 billion in equity capital. Based on conversations with respondents, some of the motivating factors in allocating capital to this asset class include diversifying their real estate holdings, the insatiable demand for affordable housing units, its performance through various economic cycles, and the alignment with social goals for investors with impact standards.

Absent regulatory requirements similar to those in the Community Reinvestment Act, it will be interesting to observe how pension funds continue to approach affordable housing investment opportunities. The survey findings on existing and planned commitments may signal that the industry is in the early stages of a new set of investors becoming an important source of capital for the preservation of existing affordable units and the development of new ones. Similarly, there is a question as to how stringent pension funds and other nonbank institutional investors will be in mandating affordability during and after they have exited their investments.

Among the areas for further research and exploration are:

- How does the scale of pension fund activity compare to the need for equity capital to preserve and build multifamily affordable housing?
- What factors do pension funds and other nonbank institutional investors consider before beginning to commit capital to multifamily affordable housing as an asset class?
- What is the profile of an affordable housing investment vehicle or its manager that has attracted commitments from pension funds and other nonbank institutional investors?
- What policy changes and innovations at the local, state, and federal level may augment or hinder further activity from this class of investors?
- How do pension fund investors weigh economic returns and impact considerations when evaluating investment opportunities in this asset class?

If interest in multifamily affordable housing from pension funds and other nonbank institutional investors grows, discussions around these questions will increase in relevance, especially as they relate to the impact on communities experiencing a lack of affordable housing. The New York Fed Community Development team aims to continue exploring this topic and engaging relevant stakeholders through various channels.

Appendix

Survey Instrument

1. What is your institution type? Please mark with an x.

   _____ Foundation

   _____ Pension fund

   _____ Endowment fund

   _____ Corporation

   _____ Insurance company

   _____ Other institutional investor

2. In what region is your organization based?

   _____ US

   _____ North America (excluding the US)

   _____ Africa

   _____ Asia

   _____ Europe

   _____ Oceania

   _____ South America

   _____ Other (Please specify): _____________

3. As of June 30, 2023, what was your institution's total assets?

   ______ Less than $5B

   ______ $5B – 10B

   ______ $10B – 25B

   ______ $25B - 50B

   ______ Greater than $50B

4. A. How much total equity capital for US multifamily affordable and workforce housing* (excluding Opportunity Zone funds) has your institution committed from January 1, 2018 to June 30, 2023? $ ______

   *Affordable and workforce housing includes income-restricted and naturally occurring affordable units (up to 120% of AMI)

   B. How much total equity capital for US multifamily affordable and workforce housing* (excluding Opportunity Zone funds) has your institution funded from January 1, 2018 to June 30, 2023? $ _______

   *Affordable and workforce housing includes income-restricted and naturally occurring affordable units (up to 120% of AMI)

   C. How many new commitments has your institution made to US multifamily affordable and workforce housing investment vehicles from January 1, 2018 to June 30, 2023? ____

5. How much total equity capital (excluding Opportunity Zone funds) does your institution plan to commit for US multifamily affordable and workforce housing from July 1, 2023 to June 30, 2025? $______

6. A. What percentage of your institution's real estate portfolio (excluding Opportunity Zones and tax credit investments) is allocated toward US multifamily affordable and workforce housing? _____%

   B. What do you expect that percentage will be on June 30, 2025? _______%

7. A. What percentage of your institution's commitments to US multifamily affordable and workforce housing between Jan 1, 2018 to June 30, 2023 are allocated to:

   Closed-end funds _______%

   Open-end funds _______%

   (Please be sure shares add up to 100%)

B. What do you expect those percentages will be on June 30, 2025?

Closed-end funds _______%

Open-end funds _______%

(Please be sure shares add up to 100%)

8. Of the vehicles that invest in US multifamily affordable and workforce housing you have invested in from January 1, 2018 to June 30, 2023, how many invest in:

   _______ New development only

   _______ Preservation only

   _______ Both new development and preservation

9. A. How many total housing units (including market-rate units) have been financed by investment vehicles that invest in US multifamily affordable and workforce housing from January 1, 2018 to June 30, 2023? ______

   B. Of the total housing units (including market-rate units) financed by investment vehicles that invest in US multifamily affordable and workforce housing from January 1, 2018 to June 30, 2023, what percentage of the units are affordable and workforce housing? ____%

   C. What percentage of the units financed by your portfolio investments have a nonvoluntary income- or rent-restriction? _____%

   D. Roughly what are the target percent levels of area median income (AMI) of the populations served by the affordable and workforce housing units in your institution's portfolio indicated in question #9b?

   ______ % for <= 60% AMI

   ______ % for 61 - 80% AMI

   ______ % for 81 - 100% AMI

   ______ % for 101 - 120% AMI

   (Please be sure shares add up to 100%)

INVESTMENTS

10. For your institution's commitments to affordable housing investment vehicles, roughly what is the median fund size and commitment level?

a. Median fund size $_______

b. Median commitment level $_____

11. A. Please rank the top 5 states by investment allocation from January 1, 2018 to June 30, 2023:

1. ________________________
2. ________________________
3. ________________________
4. ________________________
5. ________________________

B. Looking ahead, please rank the top 5 states to which you anticipate you will allocate investments as of June 30, 2025:

1. ________________________
2. ________________________
3. ________________________
4. ________________________
5. ________________________

IMPACT

12. Does your institution include impact measurement standards when evaluating potential investments?

- o No
- o Yes

13. Do you require the affordable housing investment vehicles you invest in to provide resident services at the underlying properties?

- o No
- o Yes

14. Does your institution require investment vehicles to include impact metrics in investor reports submitted to you?

- o No
- o Yes

15. Is there anything you would like to share that was not covered in previous questions (including emerging market trends or your institution's priorities or strategy)? Any insights you can provide may be helpful as we complete our case study.