



THE AFFORDABLE HOUSING ASSET CLASS

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CONTENTS

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EXECUTIVE SUMMARY

- ▶ Affordable housing, both naturally occurring and subsidized, is a **large asset class that has experienced significant growth in transaction volume and investor interest in the last several years.**
 - Approximately 30% of the nation's 23.1M units of multifamily housing can be classified as "affordable," of which half are naturally-occurring affordable housing (of low quality but unsubsidized), and approximately 38% are subsidized through a government program.
 - Whether subsidized or not, these properties are generally affordable to households at or below 60 percent of area median income, with the true implications of such affordability varying depending on localized income inequality, costs of living, etc.
 - Affordable housing ownership is dominated by for-profit entities, with over half of owners, managers, and developers being for-profit.
 - Transactions representing institutional capital have grown dramatically in the past decade, aided by increased involvement of commercial brokerage firms and better market data to facilitate underwriting potential acquisitions.

EXECUTIVE SUMMARY

- ▶ This asset class has benefited from consistent **strong performance, especially in downturns, characterized by the stable predictability of income generation.**
 - While there is new construction of affordable housing, and the market has shown strong absorption of new units including throughout the most recent economic cycle, the supply of affordable housing in America is shrinking.
 - Existing product demonstrates consistently high occupancies and low tenant turnover.
 - Cap rates for affordable housing assets have compressed at a consistent pace with conventional multifamily and the spread between cap rates has been relatively consistent over the past decade.

EXECUTIVE SUMMARY

- ▶ **Demand for affordable rental housing continues to grow in an increasingly supply-constrained market environment.** These fundamentals support the continued attractiveness of investment in the affordable asset class.
 - Market data shows that affordable housing is a market with significant pent-up demand, as affordable housing supply lags demand by large margins.¹
 - Regularly expiring subsidy contracts will naturally constrain the supply of subsidized affordable housing.
 - Historical and projected trends in housing costs and wage stagnation indicate a persistent and pervasive need for affordable housing.
 - Additionally, investment in affordable housing has other intrinsic social benefits including helping meet investors' Environment, Social, and Governance (ESG) goals.

EXECUTIVE SUMMARY

- ▶ **The affordable housing sector is not without risks**, and investors and developers should weight them against the outlined benefits of entering the space.
 - Zoning restrictions, high land and construction costs, and competition with value-add investors can make development difficult
 - Federal subsidies can assist with overcoming development hurdles, but the subsidies are currently limited, the ratio of LIHTC applications to credits available is frequently 3:1¹
 - Lower rents, and less ability to provide rent increases, can impact potential NOI
 - Operating costs for affordable assets have been under pressure in comparable or even more challenging levels compared to conventional multifamily housing

OVERVIEW & PURPOSE

The goal of this report is to support the efforts of affordable housing developers, preservers, operators, and investors—and in turn provide for the growing populations of people who require affordable housing—by making a case for increased deployment of capital into the affordable housing asset class.¹

- The first section provides a basic *characterization of the current stock* of affordable housing, by sizing and scoping what has been built, who have been involved, where supply has gone, and how much has been transacted.
- The second section begins to quantify the *performance* of the asset class, both operationally and in the capital markets. This section highlights the nature of the asset class's advantages, with an emphasis on stability of income and diversification benefits.
- Finally, the third section takes a forward look at the robustness of *future demand*, reflecting both the fundamental need for increased supply and the long-term attractiveness of investment towards this asset.

This report combines takeaways from the existing literature with novel analysis of multiple public and proprietary data sets. The nature and limitation of these sources are outlined on page 8. Collectively, the data sources used present a key challenge, as they rely upon incongruent definitions, sample sizes, and methodologies. However, their distinctive uses also complement each other in telling a fuller story about the characteristics, performance, and prospects of a growing and institutionalizing asset class. The precise source and use of each figure is qualified in footnotes where relevant.

METHODOLOGY & SOURCES

| Source | Data/Publication(s) used | Sample Size | Used in this report for... | Limitations |
|--|---|--|--|--|
| Used for RCLCO Analysis | | | | |
| National Housing Preservation Database | Main database | ~128,000 subsidized properties | Detailed sizing, mapping, and breakdown of subsidized units by subsidy type | Though this data was the most precise, it does not include property performance data |
| CoStar | Historical Trends data output | Database of ~55,000 fully or partially subsidized properties | Performance data | Occasionally imprecise labeling of property subsidy status |
| Real Capital Analytics | Transaction Listings; Database of Major Players | Database of 3,263 transactions of subsidized apartments | Transactions data (e.g. volume, cap rates), key players/investors | Smaller universe of properties; very broad label categorizing “subsidized” as any property self-reporting rental subsidies |
| National Apartment Association | Income and Expense Reports, 2013-2021 | Variable sample size surveying ~3,500 market-rate and ~300 subsidized properties | Graphic representation of operating metrics (operating and capital expenses, NOI, revenues, turnover) | Limited sample set |
| Key Secondary Sources | | | | |
| CohnReznick | Housing Tax Credit Investments Report, 2021 | 22,000 surveyed properties | Foreclosure data for LIHTC and other multifamily properties | Limited sample set |
| Joint Center for Housing Studies | State of the Nation’s Housing, 2021 | N/A | Cumulative number of units with expiring subsidies | N/A |
| CoStar | 2016 report on Naturally-Occurring Affordable Housing | Database of 300,000+ total communities | Approximating the number of “naturally occurring affordable housing” units, defined to be lower-quality, 1-2 stars | CoStar’s star classifications risk being inconsistent or inaccurate. Moreover, poor building quality might not be tightly correlated with affordability, and vice versa. |



I. SIZE AND SCOPE

Housing Product
Key Players
Transactions

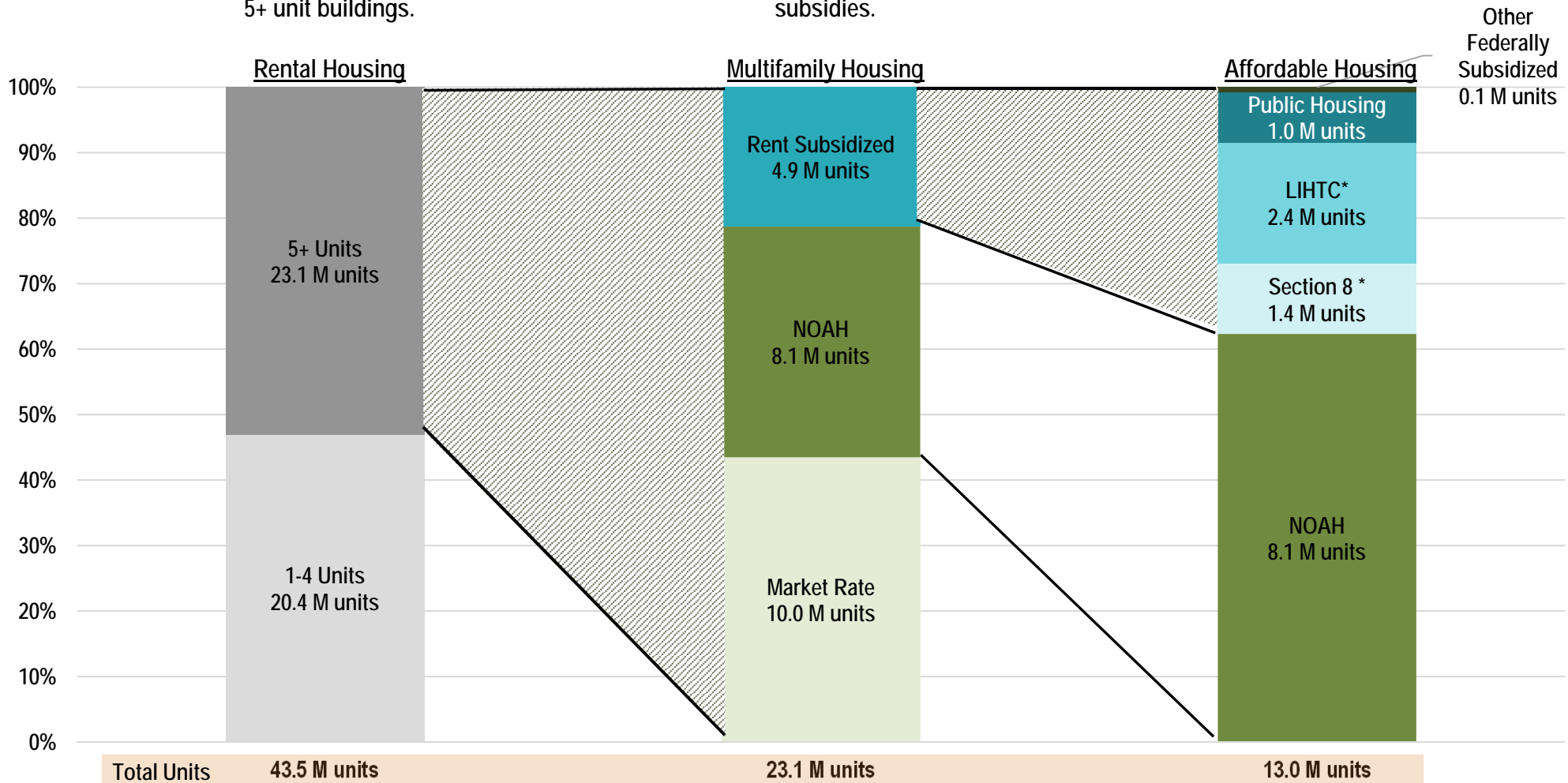
SIZE AND SEGMENTATION OF RENTAL HOUSING

About 30% of rental housing is affordable multifamily

More than half of the rental housing stock is multifamily 5+ unit buildings.

57% of multifamily units are "affordable" with or without subsidies.

38% of "affordable" housing receives government subsidies.



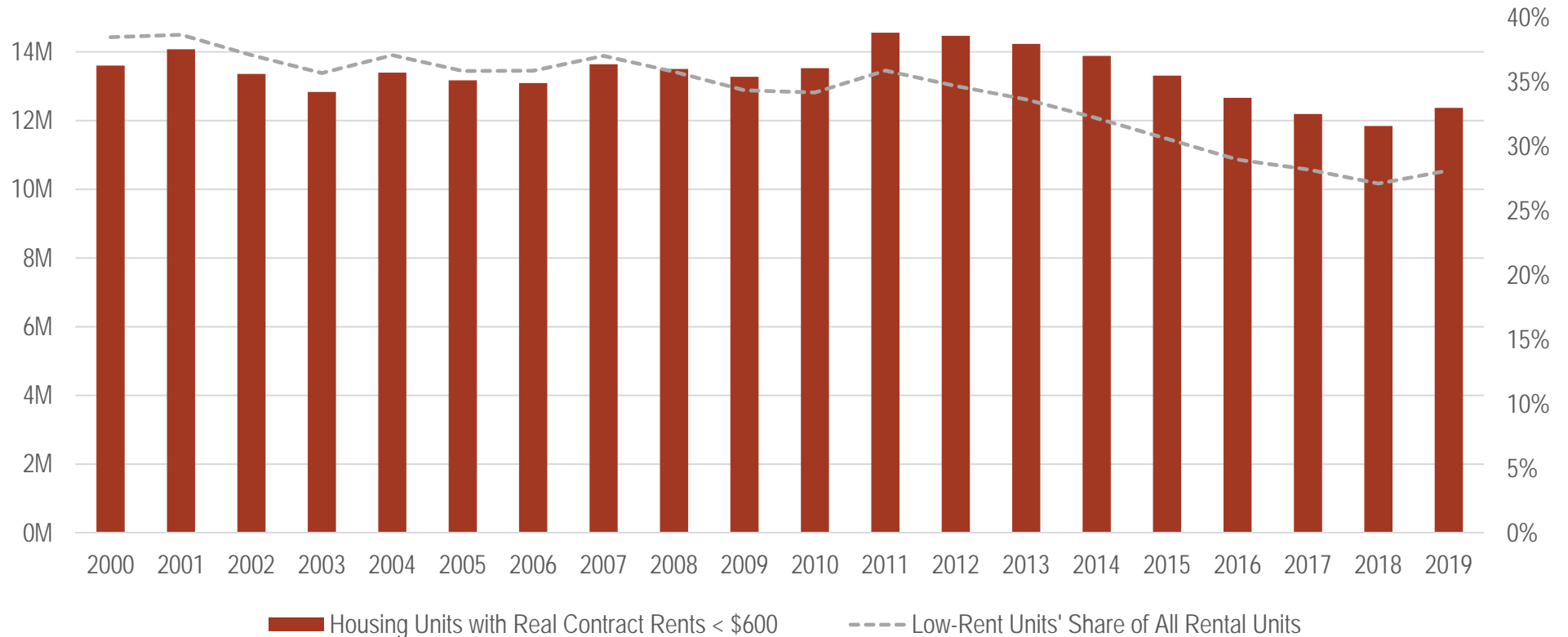
DECREASING SUPPLY OF LOW RENT UNITS

Supply Decreases Driven by Obsolescence and Conversions to Market Rate

Only 60 affordable housing units per 100 households at or below 50% AMI

Only 37 affordable housing units per 100 households at or below 30% AMI

Supply of Low-Rent (< \$600) Housing Units

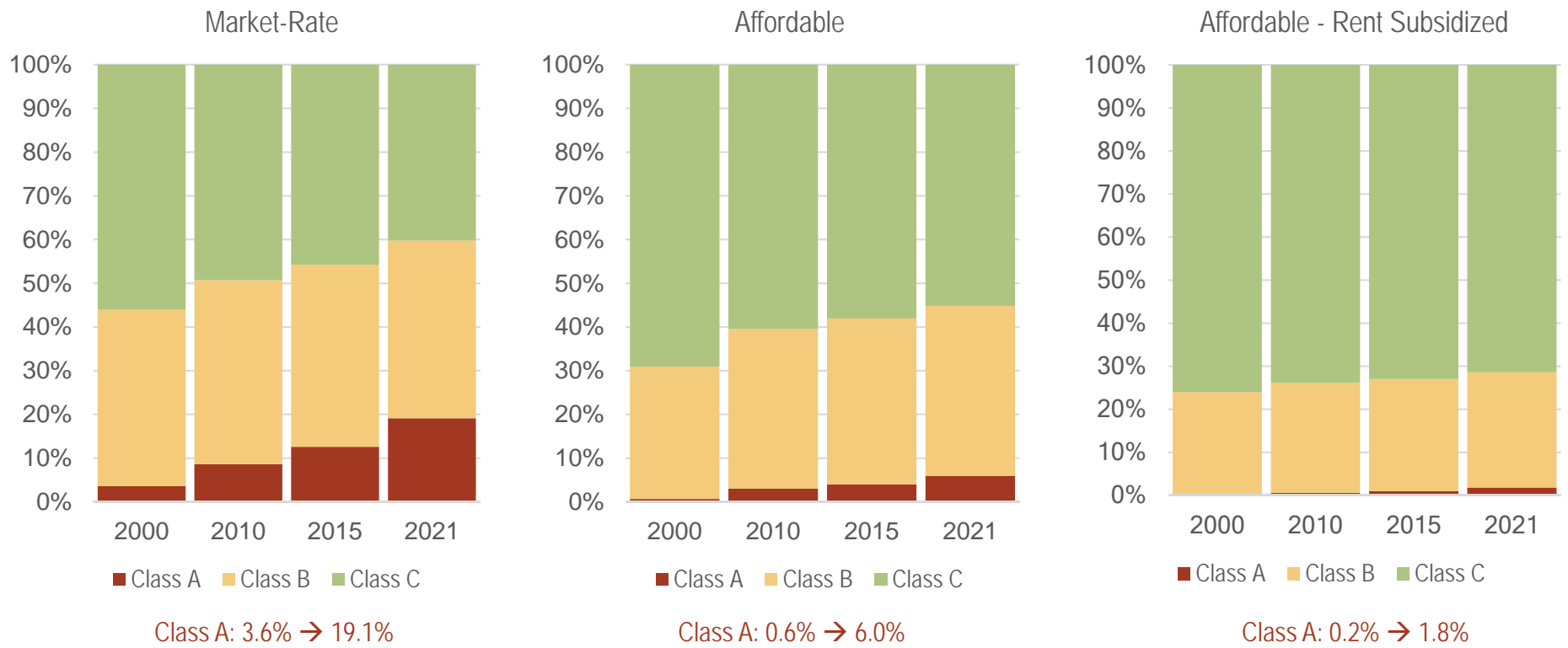


CLASS A/B A HIGHER SHARE OF SUBSIDIZED UNITS

LIHTC and IZ Incentivize New and/or Mixed-Income Construction

Class A product has grown as a share of all units within both subsidized and market-rate property types. For the subsidized asset class, this growth in “Class A” product is largely driven by mixed-income properties, such as those incentivized by inclusionary housing policies.

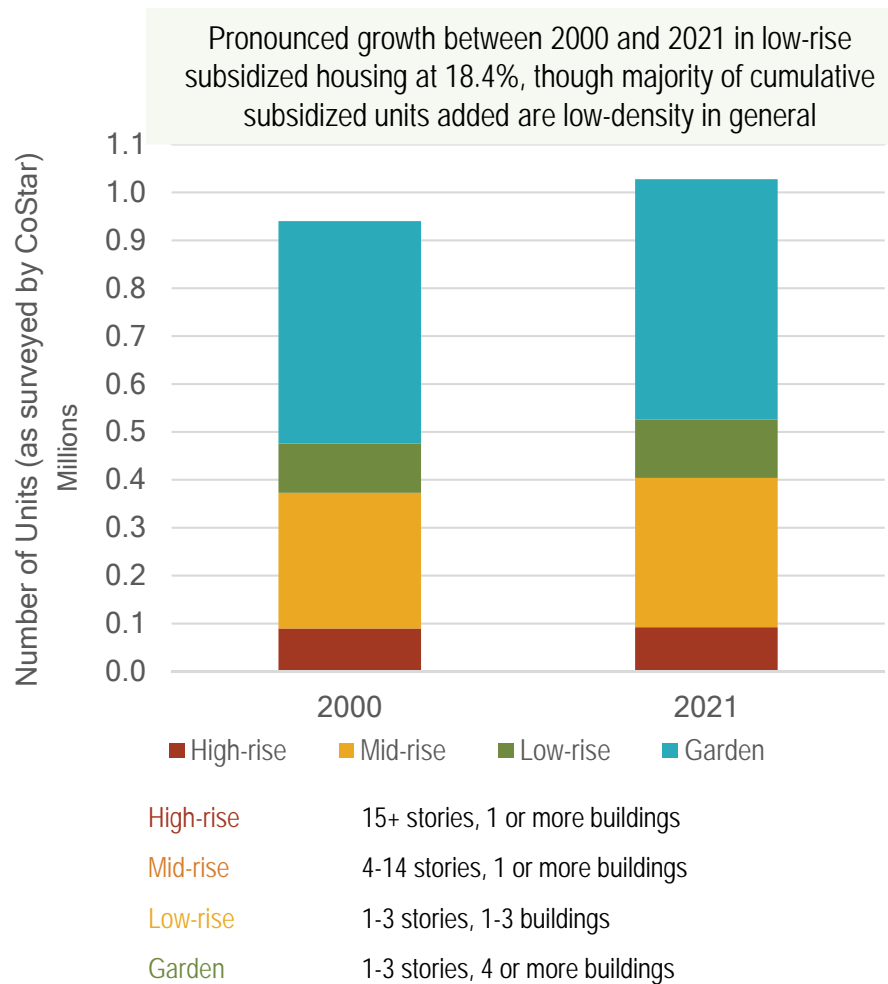
Share of Units by Class, Market-Rate Vs. Affordable 2000-2021



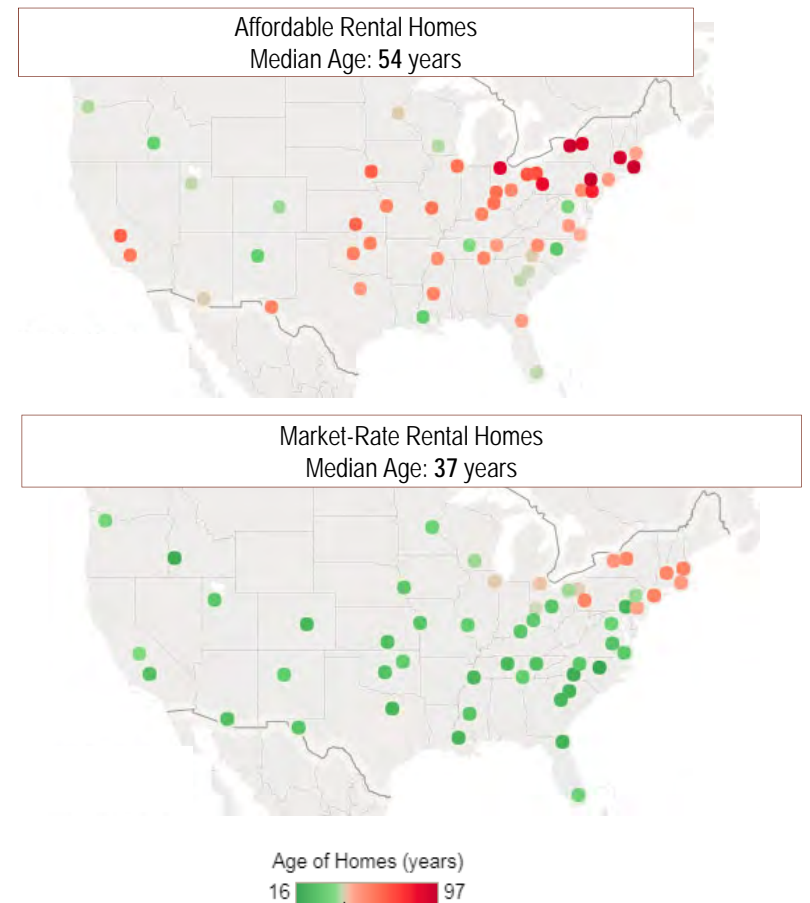
AFFORDABLE BUILDINGS: LOW-DENSITY, OLDER

Reflects lower construction costs and depreciation

Distribution of Units in Subsidized Affordable Buildings, by Building Type 2000 and 2021



Median Age of Affordable and Market-Rate Rental Homes 2017

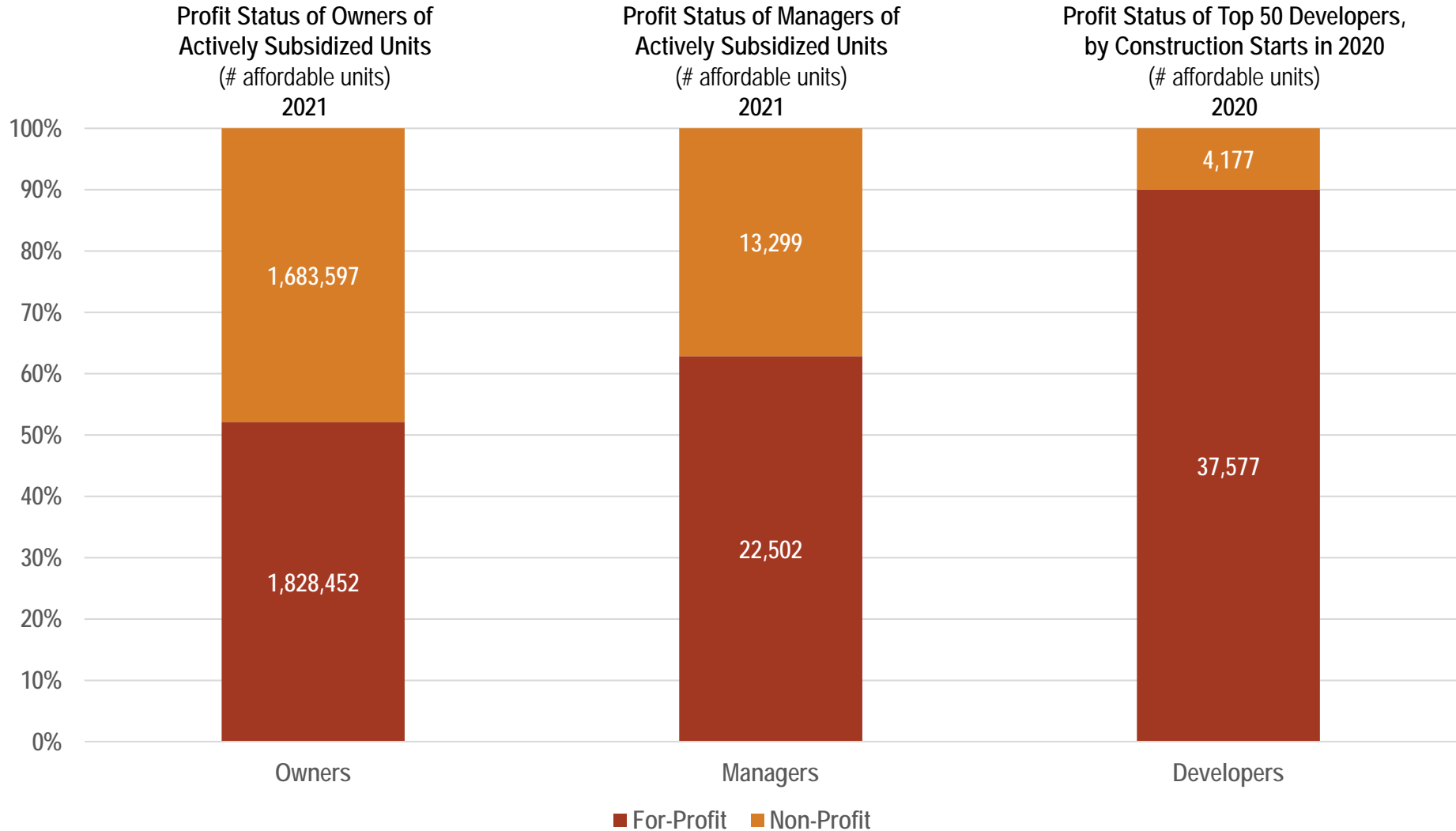


Based on Zillow research. Units surveyed include both multifamily and single-family. "Median Age" stated is the weighted mean of the median age across 100 largest metros.

Sources: CoStar; RCLCO

MOST AFFORDABLE HOUSING PLAYERS ARE FOR NON-PROFIT

Across ownership, management, and development roles



KEY PLAYERS MOSTLY DEVELOPER / OWNERS

Otherwise, institutional – whose holdings have a higher PPU

Top 50 U.S. Investors in Subsidized Housing (by number of units held)
Data Through 2019

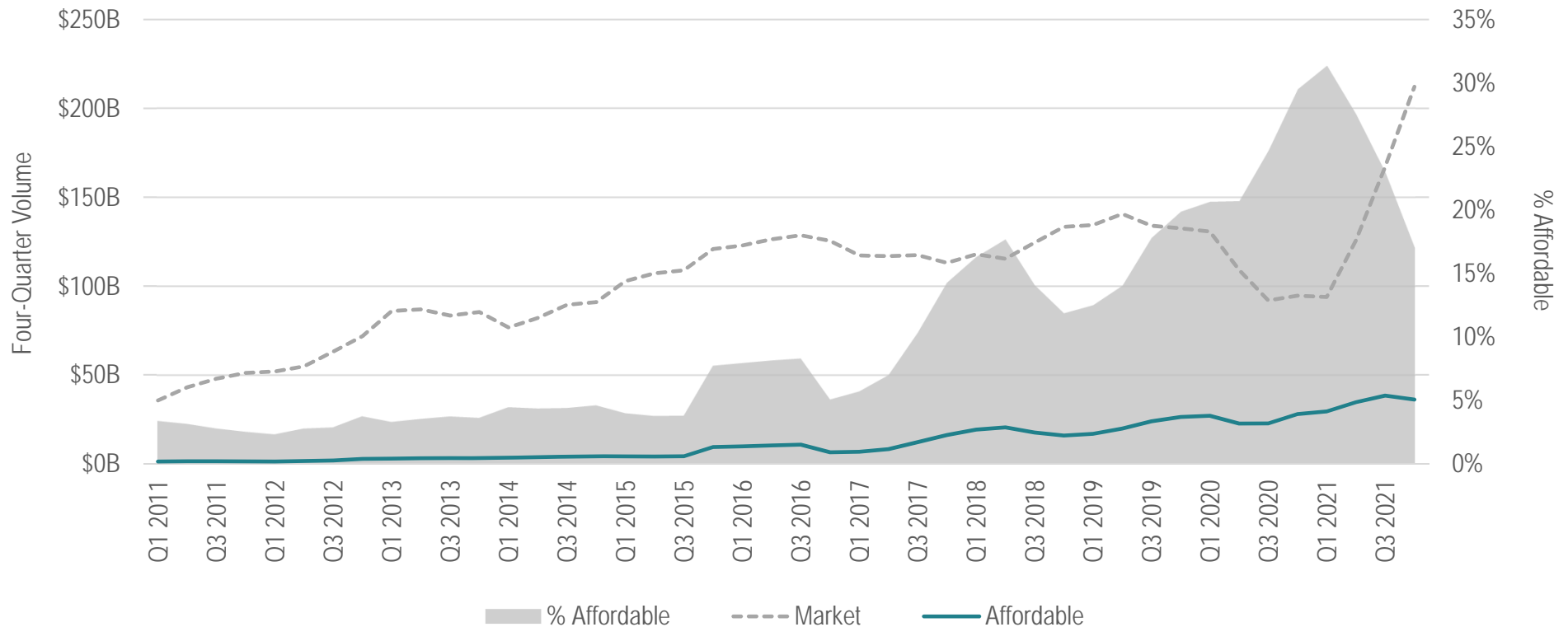
| Rank | Company | Units | Projects | Rank | Company | Units | Projects |
|------|-------------------------------|--------|----------|------|------------------------------------|--------|----------|
| 1 | The Michaels Organization | 45,682 | 378 | 26 | Enterprise Community Development | 11,810 | 108 |
| 2 | Dominium | 32,066 | 216 | 27 | BRIDGE Housing Corp. | 11,787 | 110 |
| 3 | The Millennia Cos. | 27,183 | 246 | 28 | Pennrose | 11,700 | 182 |
| 4 | Mercy Housing | 22,608 | 331 | 29 | Vitus | 11,516 | 68 |
| 5 | Volunteers Of America | 20,660 | 506 | 30 | The Hallmark Cos. | 11,442 | 250 |
| 6 | Starwood Capital | 20,655 | 84 | 31 | Preservation of Affordable Housing | 11,325 | 113 |
| 7 | Southport Financial Services | 20,361 | 213 | 32 | Related California | 11,276 | 98 |
| 8 | National Church Residences | 18,361 | 269 | 33 | USA Properties Fund | 11,031 | 84 |
| 9 | The NRP Group | 16,364 | 134 | 34 | Highridge Costa Cos. | 10,992 | 112 |
| 10 | Beacon Communities | 15,840 | 130 | 35 | The Community Builders | 10,802 | 141 |
| 11 | Herman & Kittle Properties | 15,751 | 156 | 36 | The NuRock Cos. | 10,670 | 38 |
| 12 | LIHC Investment Group | 15,494 | 65 | 37 | Fairfield Residential | 10,638 | 47 |
| 13 | Conifer Realty | 15,341 | 228 | 38 | Omni New York | 9,956 | 43 |
| 14 | Woda Cooper Cos. | 14,494 | 351 | 39 | Involve Communities | 9,828 | 76 |
| 15 | L+M Development Partners | 14,157 | 99 | 40 | Fitch Irick Partners | 9,753 | 195 |
| 16 | Retirement Housing Foundation | 14,119 | 174 | 41 | Eden Housing | 9,743 | 147 |
| 17 | Jonathan Rose Cos. | 14,081 | 89 | 42 | The NHP Foundation | 9,664 | 56 |
| 18 | Capital Realty Group | 14,029 | 99 | 43 | Avanath Capital Management | 9,597 | 57 |
| 19 | McCormack Baron Salazar | 13,817 | 131 | 44 | Lincoln Avenue Capital | 9,290 | 48 |
| 20 | The Pacific Cos. | 13,389 | 185 | 45 | TM Associates | 8,945 | 237 |
| 21 | Gene B. Glick Co. | 13,256 | 87 | 46 | Standard Communities | 8,796 | 47 |
| 22 | American Community Developers | 12,811 | 99 | 47 | Wallick Communities | 8,768 | 124 |
| 23 | WinnCompanies | 12,496 | 109 | 48 | Fairstead | 8,504 | 46 |
| 24 | LDG Development | 12,466 | 74 | 49 | Security Properties | 8,462 | 60 |
| 25 | GHC Housing Partners | 12,045 | 119 | 50 | Jamboree | 8,104 | 88 |

SUBSIDIZED TRANSACTIONS OUTGROWING CONVENT

Annual transaction volume for affordable multifamily has increased from \$1.3B in 2011 to \$36.1B in 2021.

This represents an average CAGR of 39%, over 2.5 times the 15% CAGR in market-rate transaction volumes over the same decade.

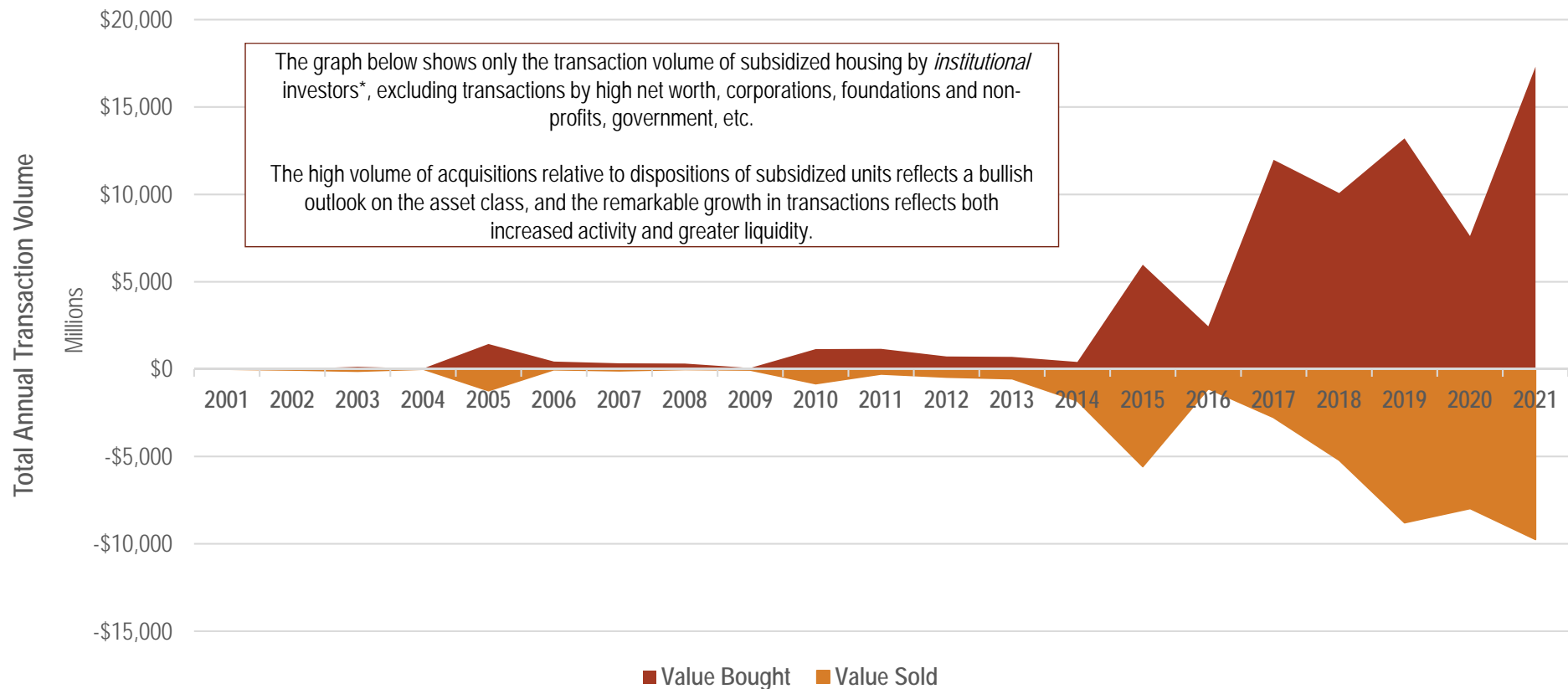
Rolling Four-Quarter Multifamily Transaction Volumes



TRANSACTIONS IN INSTITUTIONAL CAPITAL

Growth in volume reflects both acceptance and appetite, 2021 strongest year on record

Institutional Investor* Subsidized Housing Transaction Volume
by Total Value of Acquisitions and Sales 2001 – 2021



*Note: RCA defines "Institutional Investors" to include equity funds, pension funds, insurance companies, banks, investment managers, sovereign wealth funds, open-ended funds, and other financial services firms.

COMMERCIAL BROKERS INCREASINGLY INVOLVED IN THE PAST DECADE

Brokerage world pushes transactional efficiency

In the past, transactions of subsidized properties took many months, as parties had to cobble together financing from multiple government programs

- Today, deals often close in 30 – 60 days, due to:
- More capital from large institutional sources (often paying in cash)
 - More involvement of commercial brokers (who assemble deals with greater sophistication and efficiency)

Total Brokerage Transaction Volume of Subsidized Properties 2000 - 2021



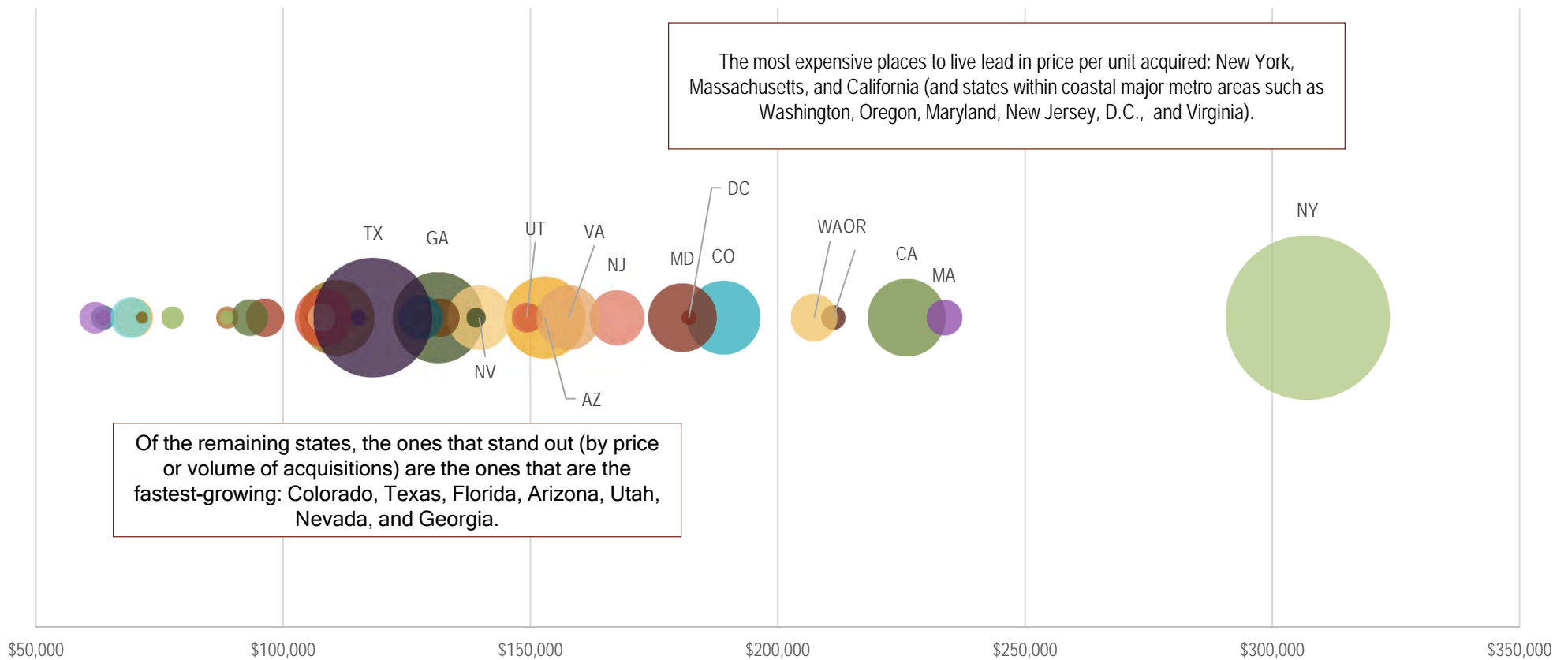
Transactions of Subsidized Properties as a Share of Total Broker Business 2000 - 2021

| Year | 2000 | 2010 | 2021 | |
|---|-----------------------------|------|------|------|
| Brokered Transactions of Subsidized Properties as a Share of... | Total Transaction Volume | 0.2% | 0.6% | 5.6% |
| | Total Transacted Properties | 0.2% | 1.2% | 4.2% |
| | Total Brokerage Firms | 1.1% | 2.3% | 8.9% |

ACQUISITIONS BY INSTITUTIONAL CAPITAL

Have favored large, high-cost, and/or fast-growing states

Subsidized Apartment Units Acquired and Price Per Unit Paid, By State 2000 – 2021



Note: Size of bubble represents *number* of units within any fully or partially subsidized properties that were acquired.



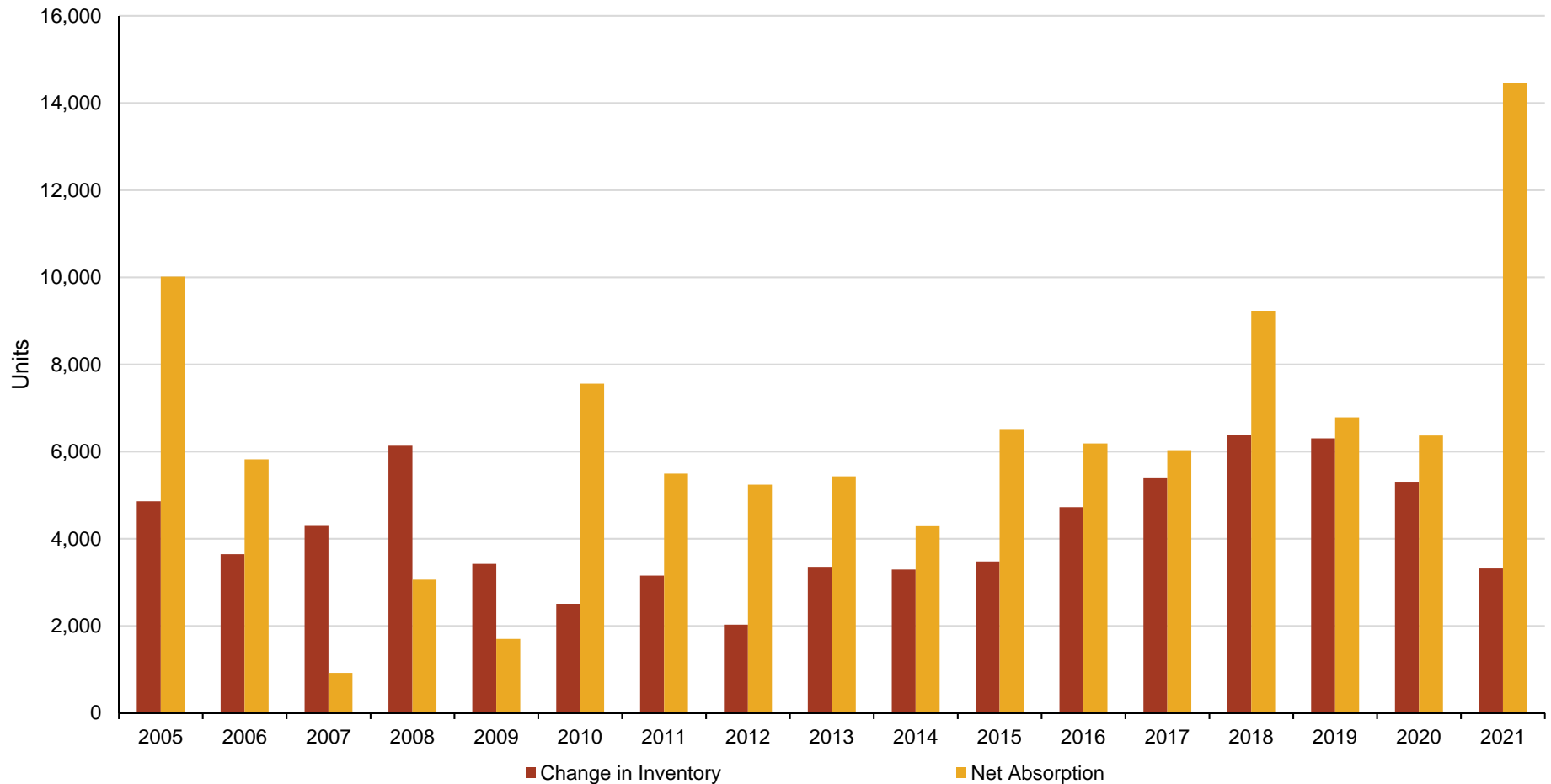
II. PERFORMANCE REAL MARKETS: OPERATIONS

Real Markets: Operations
Capital Markets: Pricing

ABSORPTION HAS OUTPACED NEW DELIVERIES

In seven of the eight years since the great recession

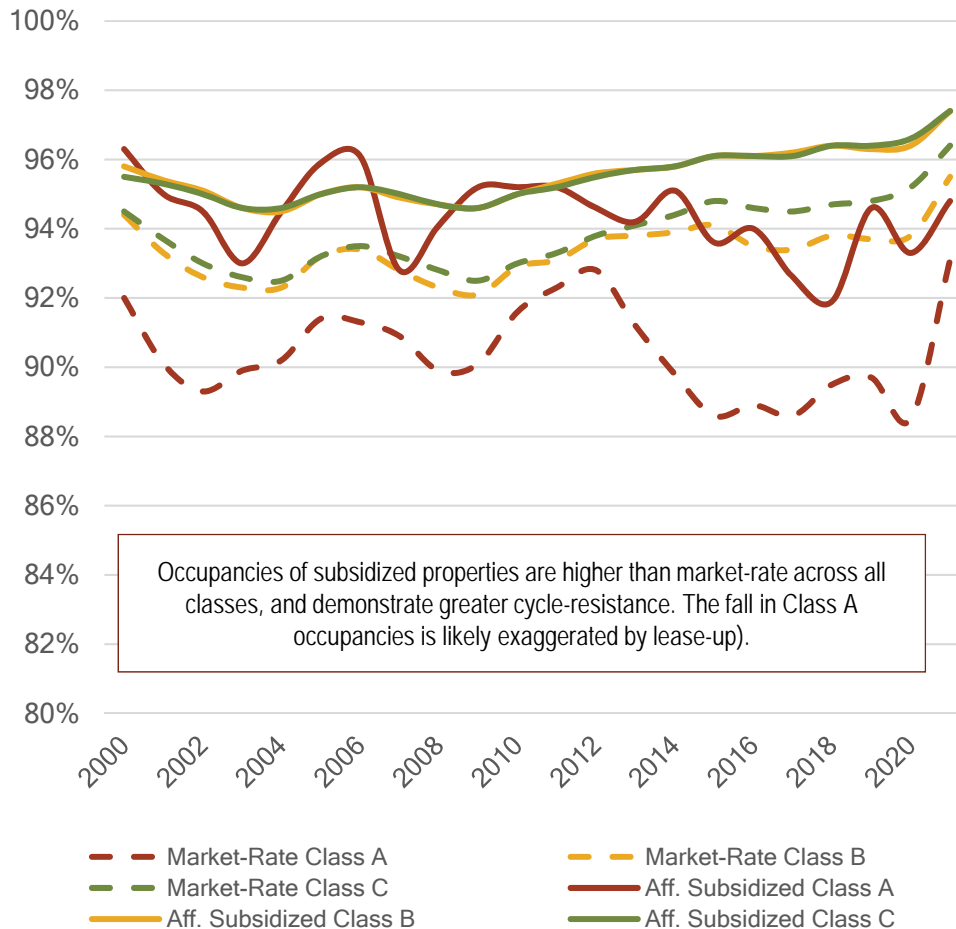
Deliveries and Absorption of All Subsidized Affordable Housing, U.S. 2005 – 2021



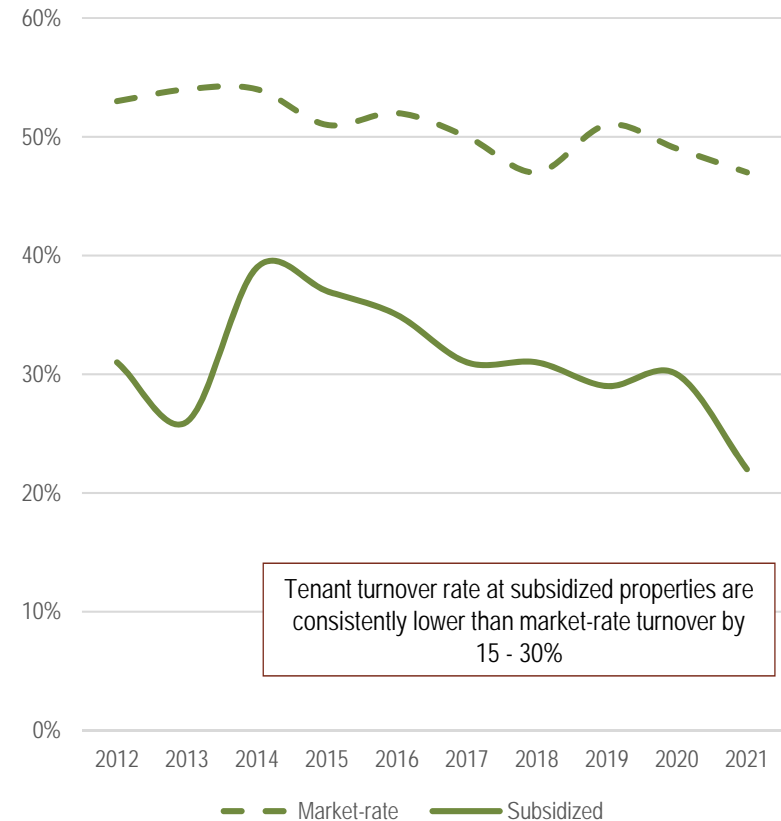
OCCUPANCY ADVANTAGE OVER MARKET-RATE

Subsidized: persistently higher occupancies & lower turnover

Average Occupancy Rate of Market-Rate vs. Subsidized Properties, by Class 2000 – 2021



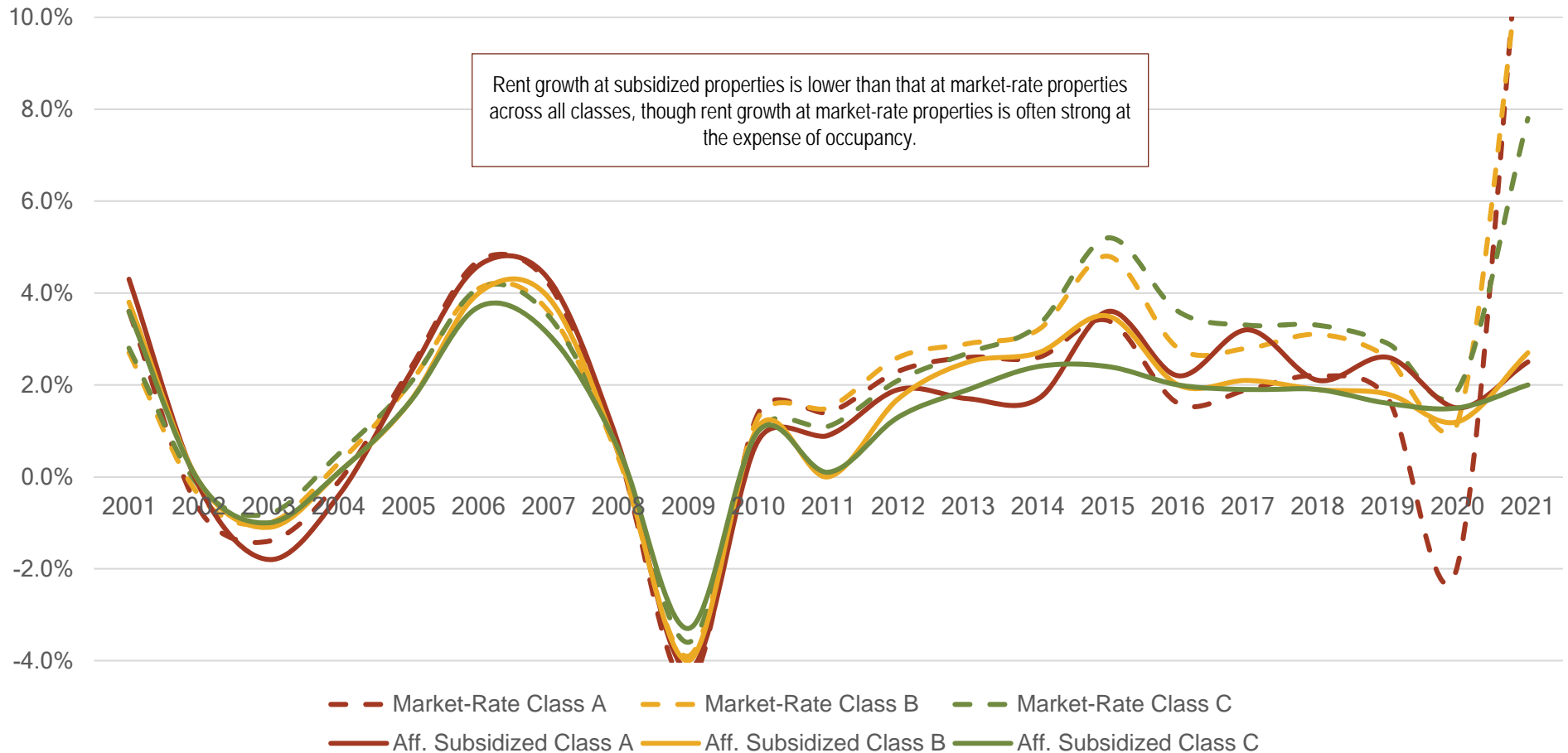
Tenant Turnover Rate at Individually-Metered Market-rate and Subsidized Properties 2012 - 2021



RENT GROWTH LOWER, BUT STILL POSITIVE

As is expected of low-income, rent-restricted units

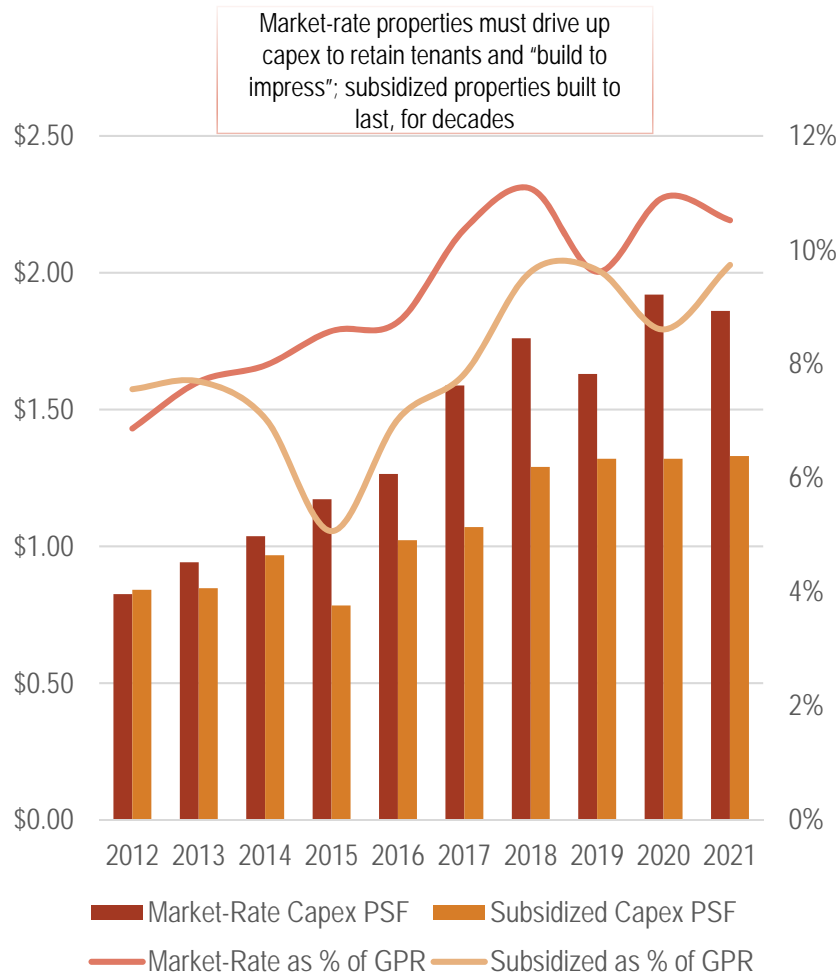
Rental Growth Rate of Market-rate and Subsidized Affordable Housing, by Class 2001 – 2021



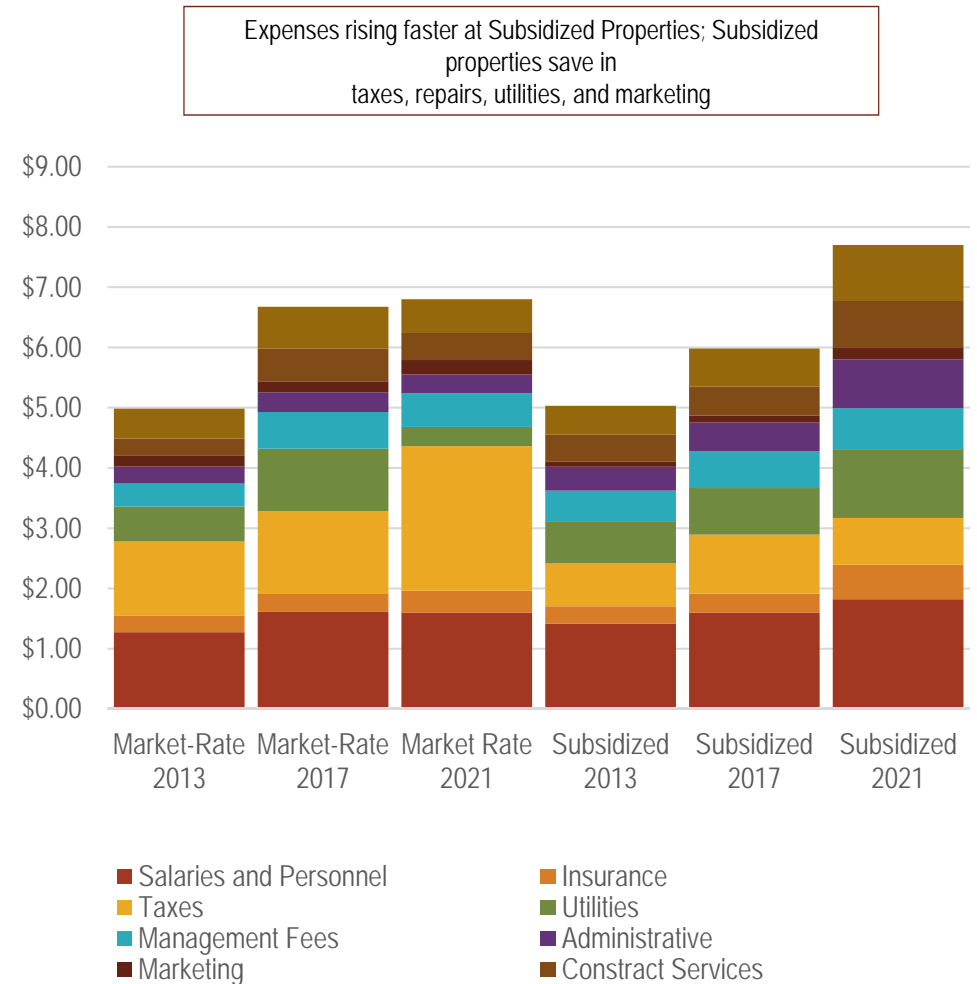
CAPITAL AND OPERATING EXPENSES HIGHER

And escalated faster at subsidized properties

PSF Capital Expenses and Capex as % of Gross Potential Revenue at Market-rate and Subsidized Properties 2012 – 2017



Breakdown of Annual PSF Operating Expenses At Market-rate and Subsidized Properties 2013, 2017, 2021

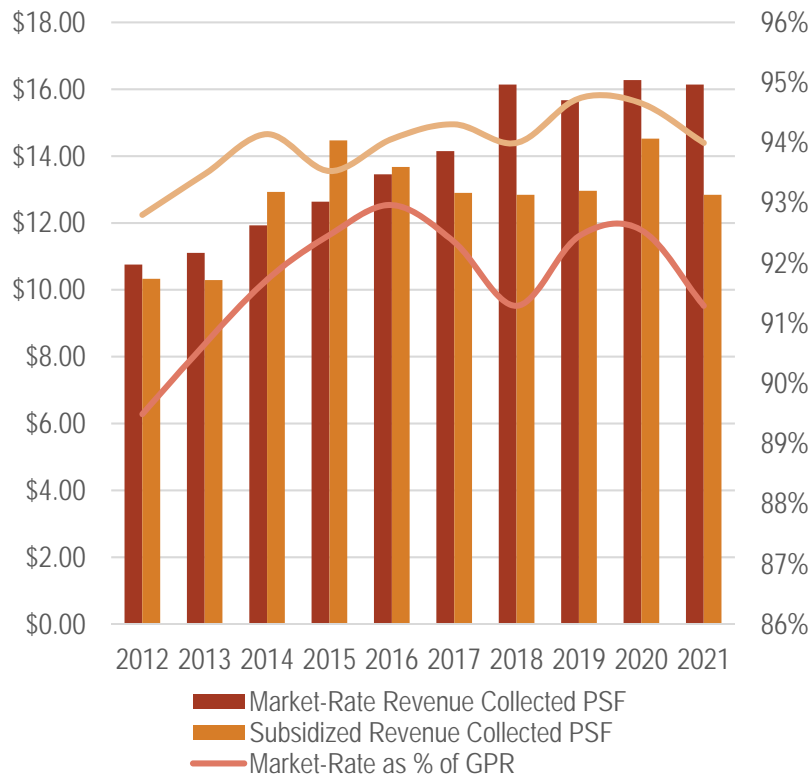


PER-SQUARE-FOOT REVENUES AND NOI SIMILAR

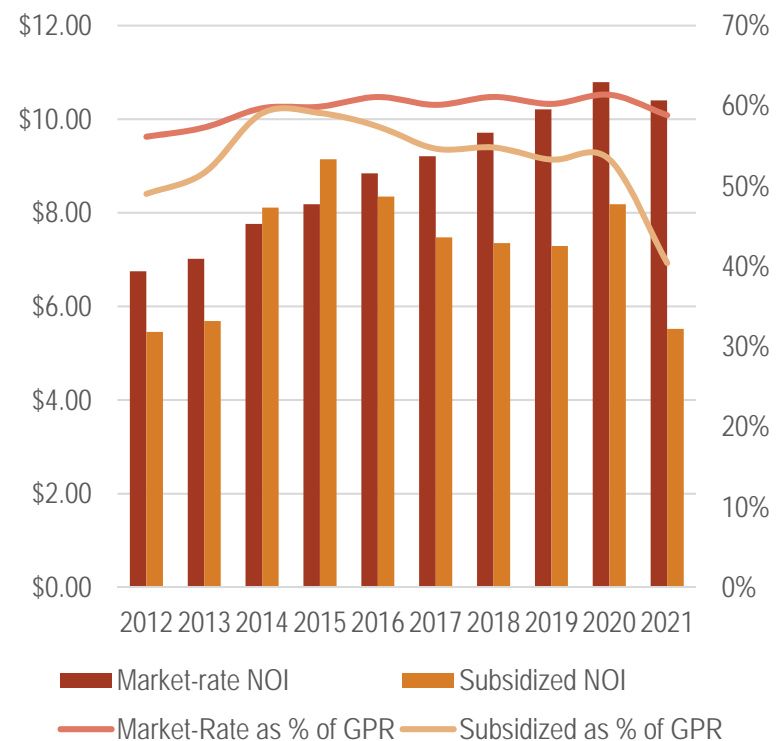
And revenue as a *share* of the gross potential is much higher

Favorable revenues and NOIs at subsidized properties are primarily driven by occupancy. As seen here, absolute per-square-foot revenues and NOI exceeded those of market-rate units in 2014 – 2015, when market-rate rent growth pushed to new highs and occupancies fell steeply.

PSF Revenues and Revenues as a % of Gross Potential Revenue at Market-Rate and Subsidized Properties 2012 – 2021



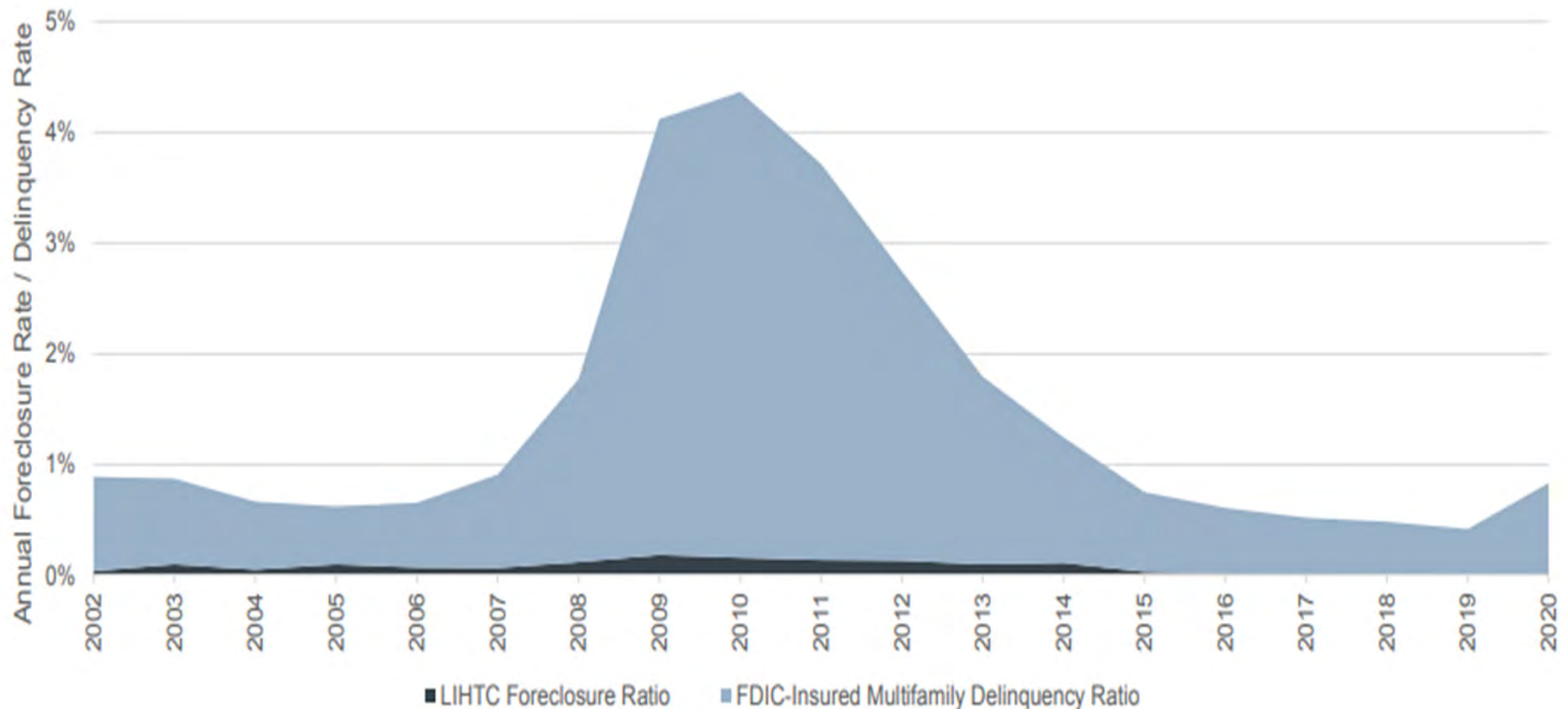
PSF NOI as % of Gross Potential Revenue of Market-rate and Subsidized Housing 2012 – 2021



FORECLOSURE RATES DRAMATICALLY LOWER

For LIHTC properties compared to conventional

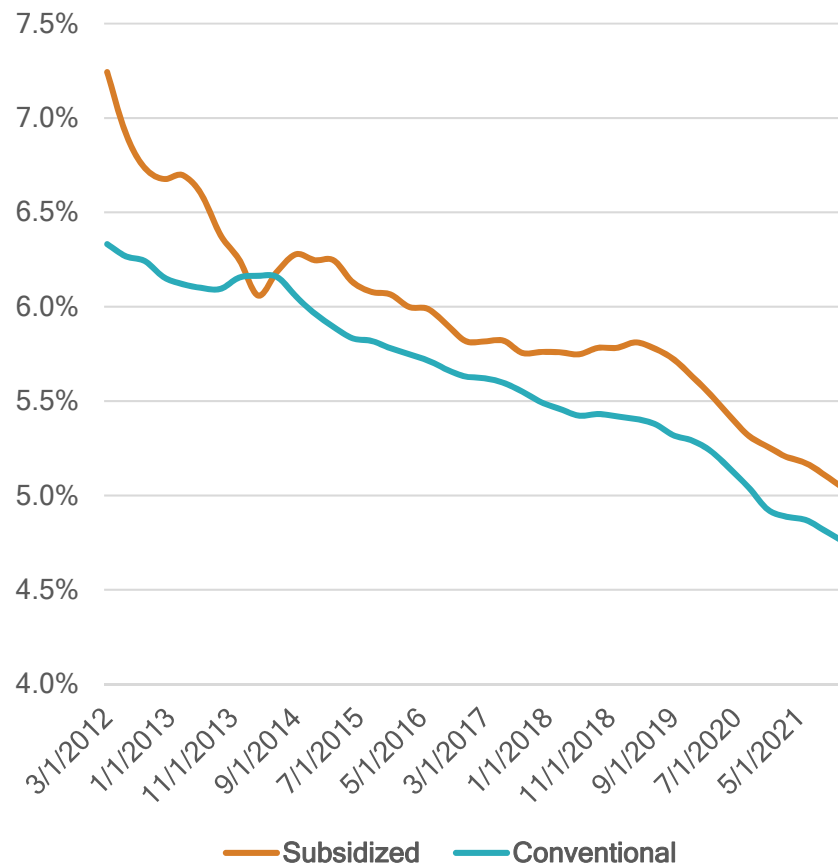
Annual LIHTC Foreclosure Rate vs. Conventional Multifamily Delinquency Rate 2002 – 2020



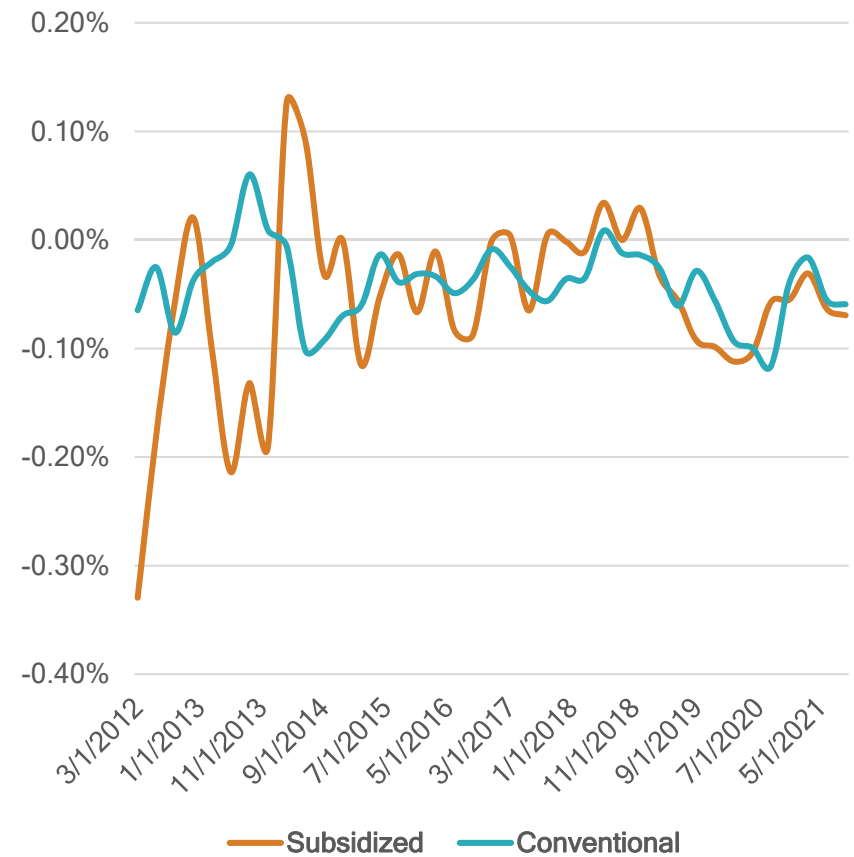
CAP RATE SPREAD STABLE

Cap rate volatility was higher, but is now more in-line with conventional, cap rate spread has been relatively consistent over the past decade

Cap Rates by Product Type
1Q 2012 - 4Q 2021



Quarterly Change in Cap Rates by Product
1Q 2012 - 4Q 2021





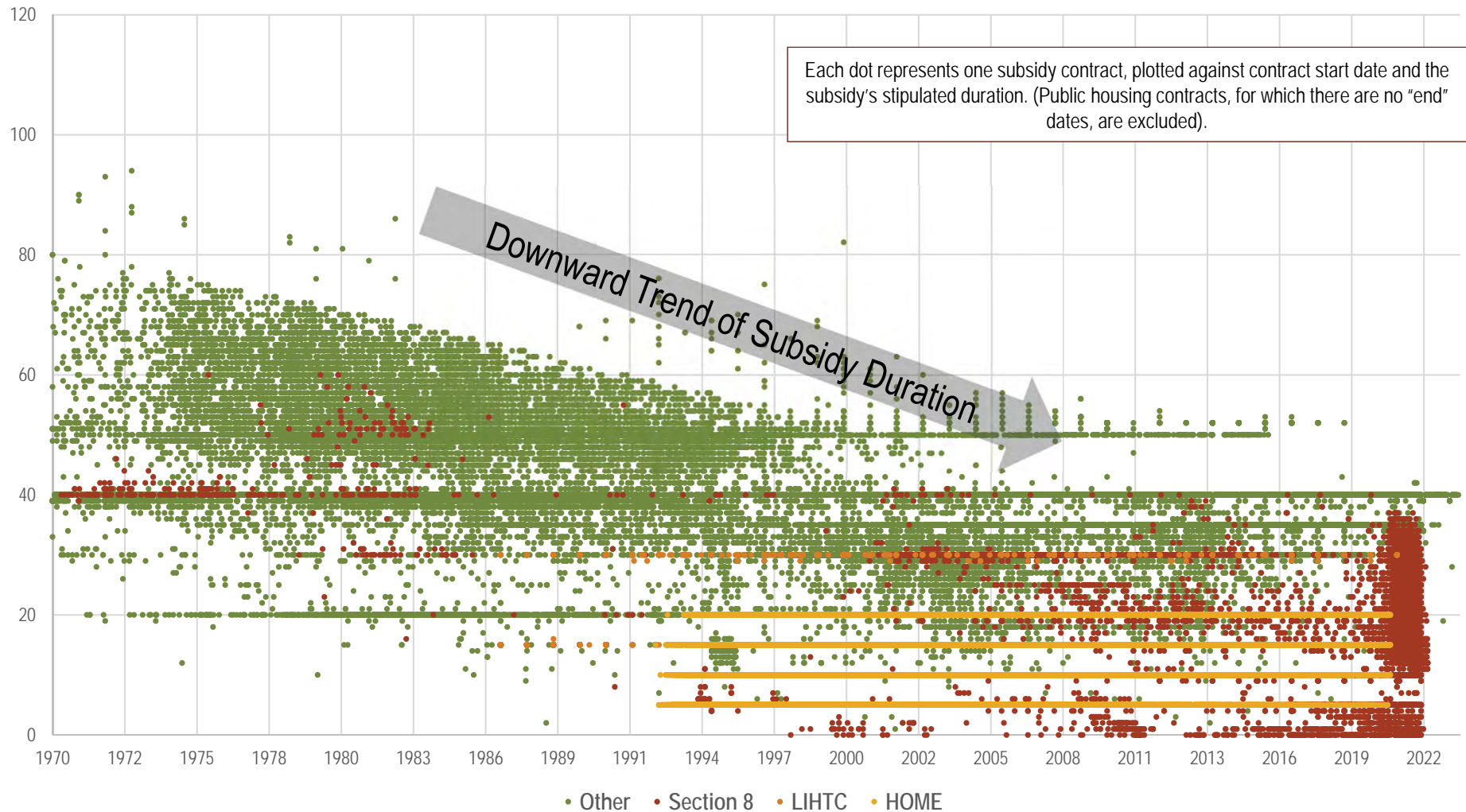
III. FUNDAMENTAL DRIVERS

Eroding Supply
Growing Demand

LIFESPAN OF SUBSIDIES HAS BECOME SHORTER

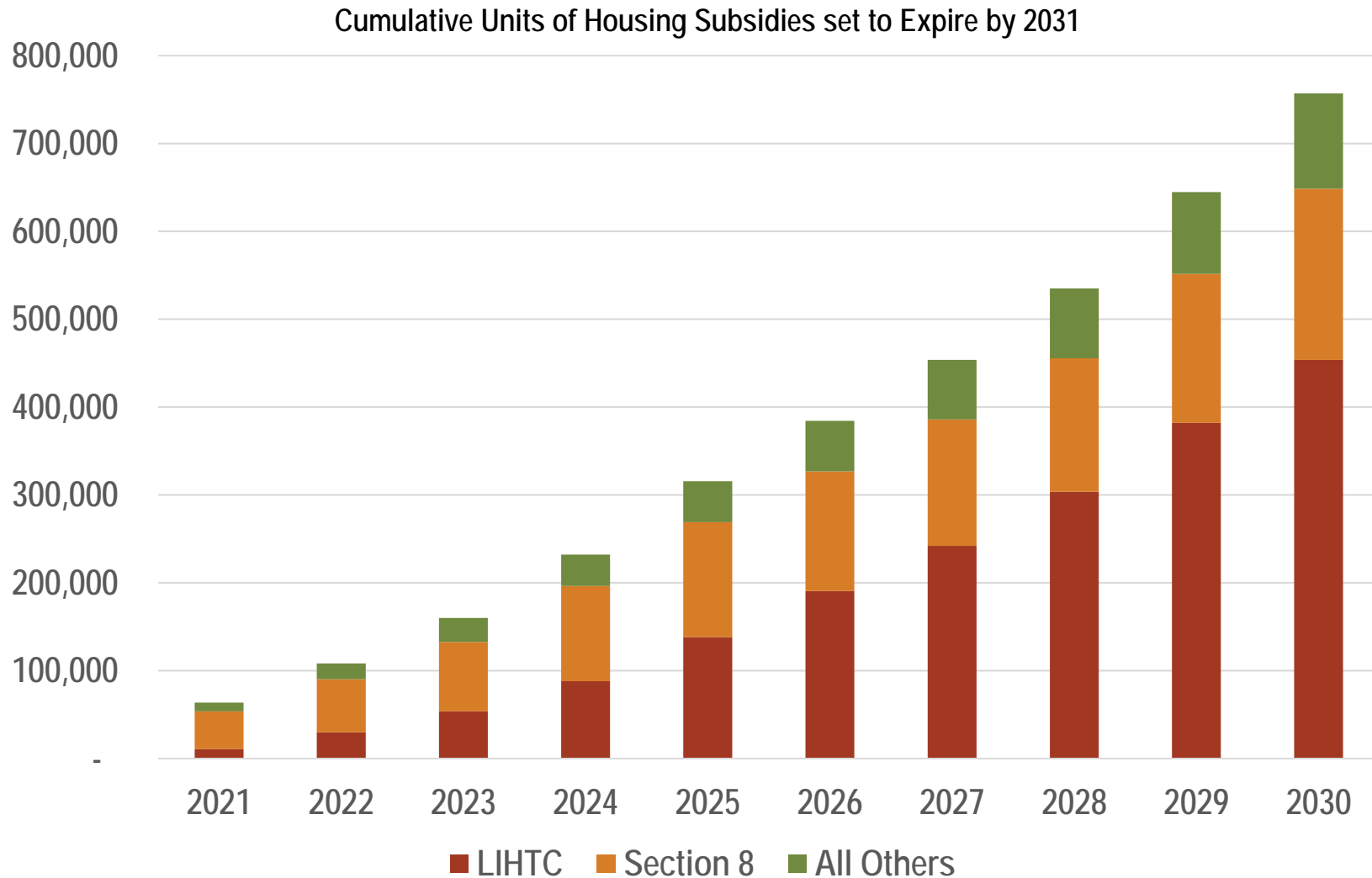
Impending rate of subsidy expiration will be unprecedented

Duration of Housing Subsidy Contracts Over Time 1970 – 2022



EXISTING SUPPLY IS ERODING

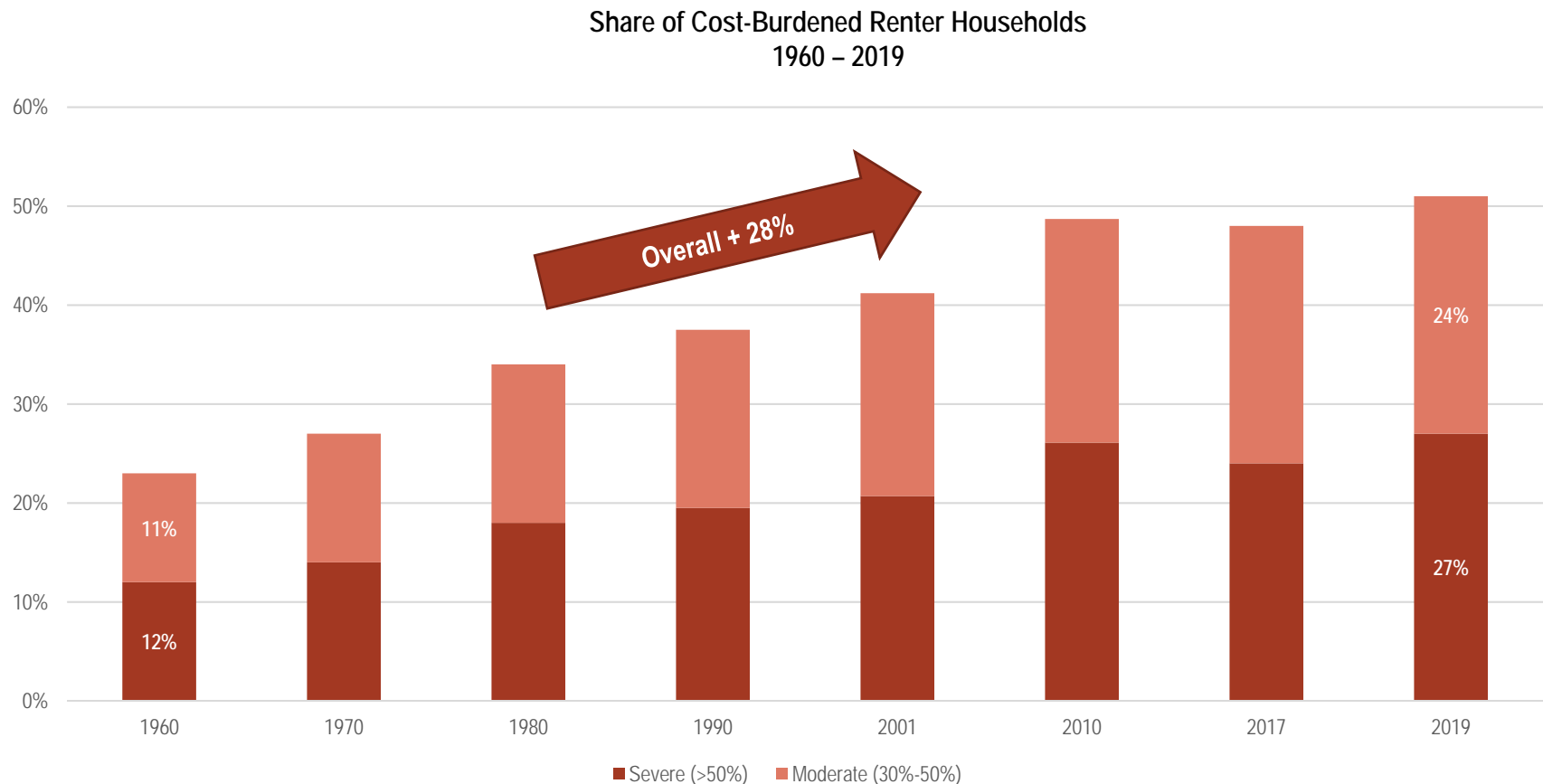
Units funded by tax credits set to expire rapidly, 750,000 units by 2031



HOMEOWNERSHIP NOT AN OPTION FOR MANY

Low-income renters are increasingly cost-burdened

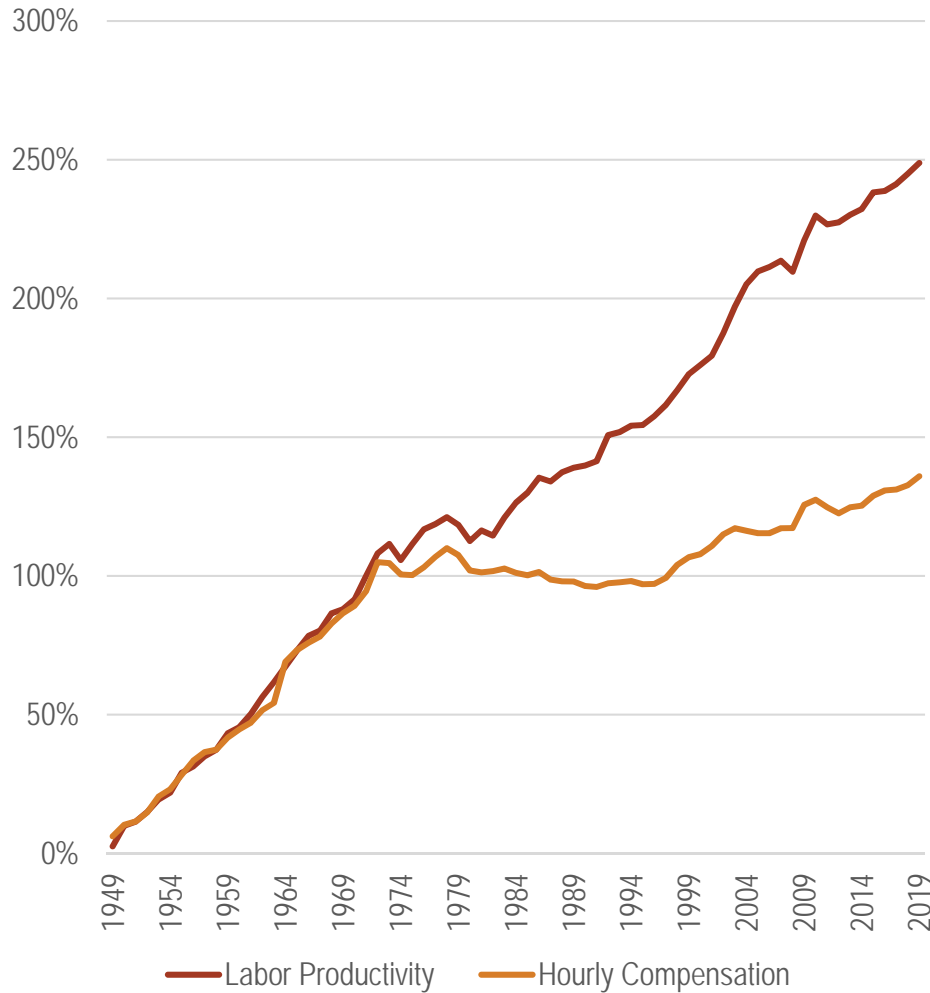
Homeownership remains more expensive than renting in most markets. Of renters, an increasing share are severely cost-burdened (>50% of pre-tax income spent on housing).



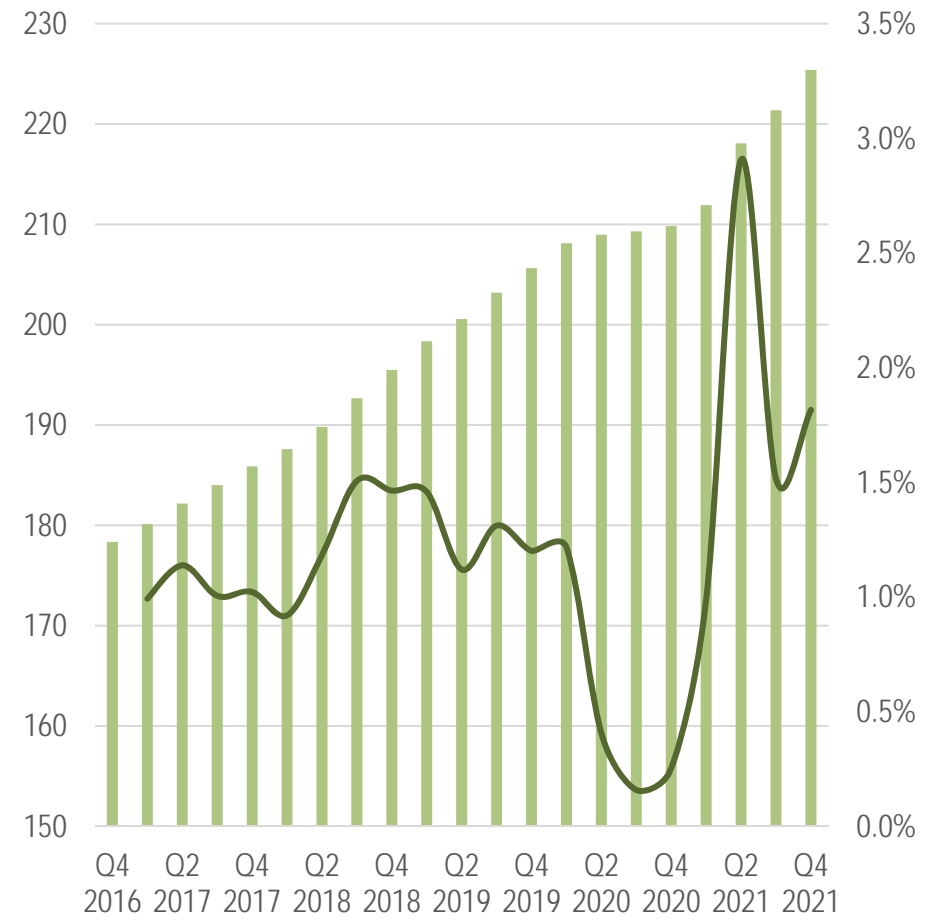
HOURLY WAGES HAVE STAGNATED

Meanwhile, development costs rising – pushing rents

Percentage Increase in Labor Productivity and Hourly Wages 1948 – 2019



North America Construction Cost Index and Quarterly Growth 4Q 2016 – 4Q 2021

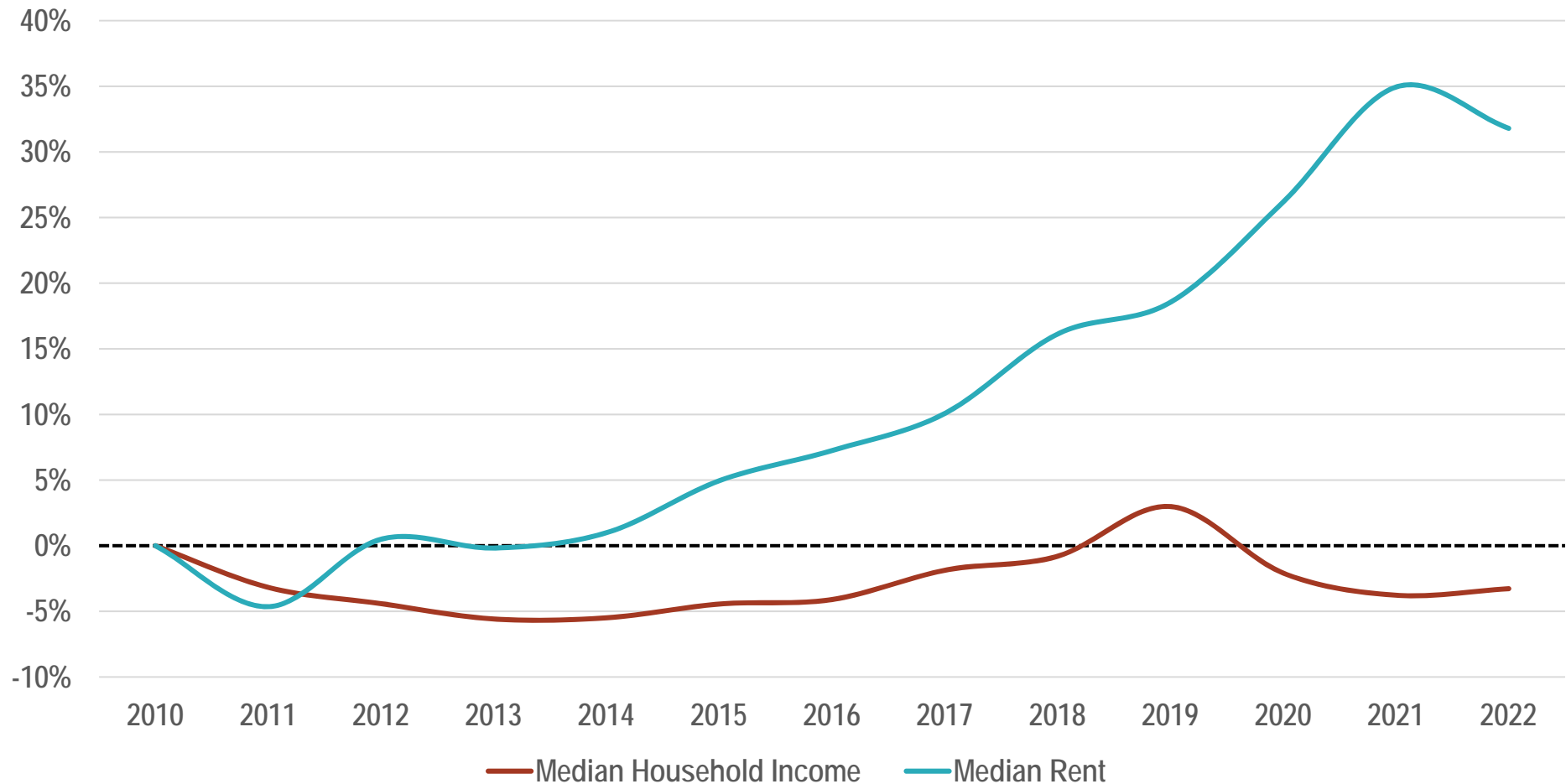


R=100 in April 2001

RENT OUTPACES HOUSEHOLD INCOMES

Reflecting costs of development and wage stagnation

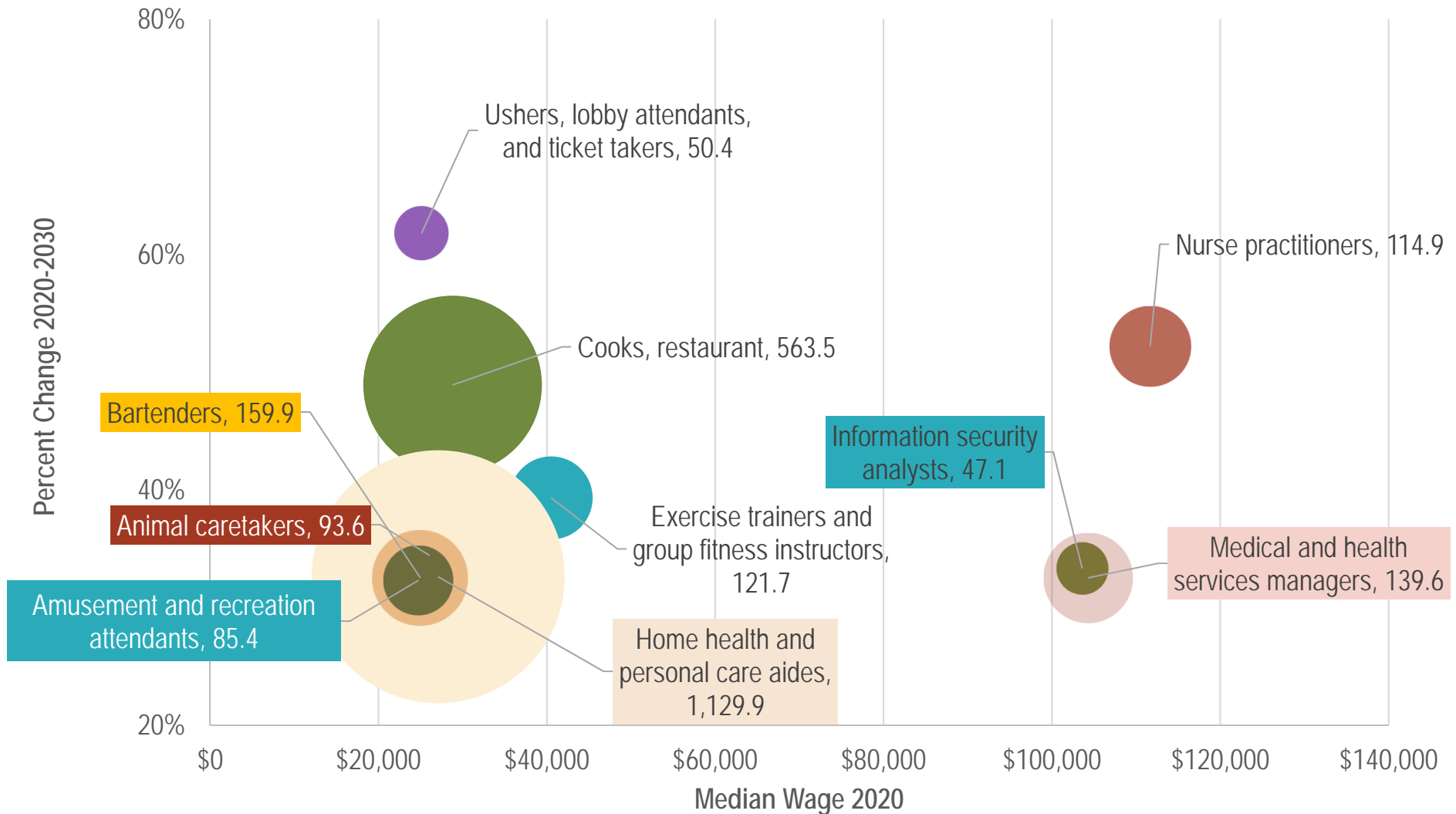
Percent Change in Median Household Income and Median Rent 2010 - 2022



MOST NEW DEMAND FROM LOW-INCOME RENTERS

Fastest-growing jobs over next decade earn ~\$25,000

Ten Fastest-Growing Occupations (Occupation, Number of New Employees in Thousands) 2020 - 2030



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Actual Performance

Any performance shown is for the stated time period only; due to market volatility, each account's performance may be different. Unless otherwise stated, returns are shown net of management fees, trading costs, and other direct expenses, but before custody charges, withholding taxes, and other indirect expenses. The returns shown may assume, as appropriate, the reinvestment of dividends and other income. Performance is expressed in U.S. dollars unless noted otherwise. Performance results for one year and less are not annualized. The performance shown is for the stated time period only; due to market volatility, each account's performance may be different.

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Any back-tested results based on simulated or hypothetical performance have certain inherent limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading or investment activity. Also, because these trades or investments have not actually been executed, these results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading and/or investment programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown.

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The charts depicted within this presentation are for illustrative purposes only and are not indicative of future performance. The data does not reflect the material differences between stocks, bonds, bills and inflation, such as fees (including sales and management fees), expenses or tax consequences where relevant.



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