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BEYOND MOTIVATION



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For institutional investors, it has been a longstanding perception that an investment in affordable housing could not generate alpha. However, over the past several years, economic and demographic forces are upending that perception and turning a social challenge into a compelling financial opportunity.

THE PERFORMANCE AND RESILIENCE OF AFFORDABLE HOUSING IS DRIVEN BY A HISTORIC SHORTAGE OF UNITS

In the US, there is an estimated shortage of seven million affordable housing units; and it is a gap that continues to grow.¹ The consequences have been severe, with drastic increases in housing instability, rising homelessness, and families burdened by high rents.

Regrettably, this shortage is worsening as housing production slows. Higher interest rates and inflation have made new development far more expensive. Based on statistics from the Secured Overnight Financing Rate Index, construction lending rates have jumped over the past few years from around 4.5–5.5% (2018) to as high as 7.5–9%,² while the cost of materials such as concrete and steel is up over 40%.³

These financial pressures have pushed developers to migrate towards higher-income multi-family projects (or build-to-rent, as they are often known in other countries) where elevated rents can more effectively offset higher construction costs.

Between 2022 and Q4 2025, over two million units (2,122,291) of multifamily housing have been or will be built nationwide,^{4, 5} with 13% of those units (272,872) being rent-restricted affordable housing for families earning less than 80 of Area Median Income (AMI).⁶ For reference, 80% of the nationwide median income is just over \$67,000⁷—in line with earnings for professions such as teachers, therapists, flight attendants, construction and building inspectors, property managers, and industrial mechanics.⁸

These years stand in great contrast to what is expected to occur over the coming four years due to increasing costs. From 2026 to 2029, just 1.6 million (1,623,111) new units are projected to come online (a quarter less than the prior four-year period).⁹ In 2029, it is projected that 425,000 units of housing will come online, of which only 38,000 will be made affordable to households earning less than 80% AMI.¹⁰ This scenario sets the stage for a dramatic reduction in the production of affordable housing.

EXHIBIT 1: HOUSING UNITS BUILT IN THE US

	TOTAL HOUSING UNITS BUILT	AFFORDABLE HOUSING UNITS BUILT
2022-2025	2,122,291	272,872 (13%)
2026-2029 (projected)	1,623,111	162,718 (10%)
Decline in affordable units built		110,154 (40%)
Total Shortage of Housing Units		7,000,000

Sources: Yardi Matrix, National Affordable Housing Report, October 2025 National Low Income Housing Coalition Gap Report, 2025

These shortages, coupled with the steep slow-down in affordable housing production, are major contributors to more than half of all US renter households being cost burdened, or spending more than 30% of their income on housing known as “Cost Burden”.¹¹ In most communities, the low inventory of lower-cost housing alternatives, coupled with the limited number of new units being built, adds to this crisis.

This precipitous drop in housing affordability has resulted in a market dislocation that, conversely, creates a significant market opportunity for institutional investors to benefit their portfolios—as well as communities.

THE EVOLUTION OF US AFFORDABLE HOUSING STRATEGIES

Traditional Affordable Housing: Tax Credits for Low-Income Housing

Since 1986, low-income housing has been largely driven by the federal Low-Income Housing Tax Credit (LIHTC) program. The federal tax credits are awarded to real estate developers in a competitive, scored process. The primary subsidy (the 9% credit), has typically covered 70% of the project cost.¹² Of late, with inflation and high interest rates, these subsidies have covered a shrinking percentage of the project cost, necessitating more developers to secure additional government, nonprofit, and foundation financing.¹³ In Los Angeles, for instance, a LIHTC project typically has 6-11 sources of government subsidy¹⁴, ballooning the timeframe for such projects to cobble together these funding sources to stretch to an average of 3-5 years for a single project.¹⁵

Scaling Affordable Housing Using Private Capital

About a decade ago, a range of real estate developers and fund managers, seeing the increasing unmet demand for affordable housing, the increasing need for more subsidy, and growing cost of projects relying on such complex capital stacks, began expanding the use of financing models grounded in tapping private sector debt and equity.

These funds also incorporate a mix of incomes—including workforce housing (typically affordable to incomes of 80% to 120% of the area median income) and market-rate rents, to enable the economics of the project to support the affordable units. Over the same period, as the shortage of affordable housing impacted communities across the country, many cities, counties, and states began innovating with their own incentives to attract more affordable housing development to their communities (see Austin, TX., tax exemption example).

For instance, in Texas, projects can qualify for a 100% property tax exemption. A 200-unit project can claim an annual property tax abatement, worth approximately \$900,000 to \$1 million a year, if the owners commit through a covenant to a reserving at least 10% of the units for households making less than 60% of AMI, and an additional 40% of the units are affordable to families earning less than 80% of AMI. These incentives typically boost net operating income by a full 20% to 25%. These types of incentives—particularly across the South where states and localities are very competitive for new business—have been very effective at incenting developers to their communities.

Atlanta, GA Apartments



ASCP fund equity supported the development of this 325-unit workforce housing complex. Located in Atlanta’s Adair Park neighborhood, this transit-oriented development will have direct access to the Atlanta Beltline Southside Trail. This project is also remediating Brownfield site in compliance with the State of Georgia’s Hazardous Site Response Act.

PROJECT DETAILS	
UNITS	325 (300 APARTMENT UNITS, 25 TOWNHOMES)
DEVELOPMENT TYPE	CLASS A MIXED-USE DEVELOPMENT, MULTIFAMILY + TOWNHOMES + COMMERCIAL
TOTAL CAPITAL COST	\$98.88M (~304,257 PER UNIT)
EXIT	ACTIVE DEAL
AFFORDABILITY LEVEL	20% OF UNITS AFFORDABLE AT <80% AMI
COST-BURDEN OF COMMUNITY	47%

THE OPPORTUNITY - AND THE PERFORMANCE DATA BEHIND IT

Over the past four decades, the financing for affordable housing has predominantly fallen within the purview of government agencies, nonprofits, and foundations. This reality helped cement the misconception that financing affordable housing was misaligned with the needs of institutional portfolios.

More recently, for the reasons noted in this article, affordable housing has begun to attract serious attention from institutional investors as they consider fund managers that focus on this niche investment strategy. The data on the performance and resilience of this asset class, as well as the growing number of managers executing in this space, have been key catalysts behind this growing interest. By way of example, these projects are often very institutional in nature. The sponsors have often undertaken dozens of similar projects over their careers and understand the space deeply. The returns to the equity investor is often in the mid-teens to low-20's, and the project is of very high quality. The Atlanta, GA and the Austin, TX apartment project profiles in this article both exemplify the types of investments that fall within these parameters.

A range of recent studies from the National Bureau of Economic research¹⁶, RCLCO¹⁷, Nuveen¹⁸, and the National Council of Real Estate Fiduciaries (NCREIF)¹⁹ have aligned findings, often centering on how affordable housing assets exhibit lower vacancy and tenant turnover rates and have a lower correlation to macroeconomic swings compared to multifamily housing targeting higher income tenants.

A 2024 study by the Pension Real Estate Association (PREA) found that over a 16-year period (Q1 2008–Q1 2024), the unlevered average annual return of the most affordable properties serving households at or below 80% AMI outperformed those serving households above AMI by 239 basis points (see table).²⁰ The primary reason cited for this is lower vacancy rates due to more limited tenant turnover.

EXHIBIT 2: PERFORMANCE OF MOST AFFORDABLE HOUSING VS. LEAST AFFORDABLE

	MOST AFFORDABLE* <80% AMI	MID-MARKET (WORKFORCE) ≤120% AMI	LEAST AFFORDABLE > 120% AMI
Compound Average Annual Return, 1Q 2008 to 1Q 2024	6.54%	5.62%	4.15%

Sources: Yardi Matrix, National Affordable Housing Report, October 2025 National Low Income Housing Coalition Gap Report, 2025

Our firm's recent investment experience through the American South Real Estate Funds mirrors these findings. In cost-burdened communities, where over 30% of households spend more than 30% of their income on housing, the demand-supply gap is glaringly obvious. Newly constructed units lease up rapidly, often with waitlists forming before construction is complete. Once leased, tenants are much less likely to leave, given the scarcity of alternatives at similar price points.

Unlike many real estate asset classes, our team regularly witnesses how market demand for affordable housing increases with macroeconomic uncertainty. Families tighten budgets, seeking stability and lower rents, which contributes to the resilience of affordable housing as a niche investment opportunity.

Austin, TX Apartments



ASCP fund equity supported an innovative, woman-owned developer for the acquisition and rehabilitation of 148 now stabilized, long-term, low-income housing units. The opportunity focused on repositioning this historically under-managed property, improving its performance, and securing a 100% property tax exemption in exchange for hiring a social worker onsite (\$75k/year). The abatement saves roughly \$400k annually.

PROJECT DETAILS

UNITS	148
DEVELOPMENT TYPE	VALUE-ADD AFFORDABLE HOUSING PRESERVATION
TOTAL CAPITAL COST	\$21M
EXIT	REFINANCED EQUITY FROM DEAL
AFFORDABILITY LEVEL	100% OF UNITS AFFORDABLE AT <60% AMI
COST-BURDEN OF COMMUNITY	48%

A NICHE MARKET WITH A GROWING TRACK RECORD

Twenty years ago, there were few investment vehicles within this space for institutional investors to consider. Early pioneers—such as the Genesis Workforce Housing Fund—were testing unproven theses.²¹ Since then, the landscape has dramatically changed. A growing cohort of specialized managers who have launched affordable housing platforms now have a track record of more than a decade within this space, providing investors with the performance data they need to evaluate these options.

Peter Braffman, Head of Real Estate at GCM Grosvenor and one of our most recent investors and strategic partners, has pointed out how his own perception of affordable housing has changed over time: “Before the Global Financial Crisis, we didn’t view this strategy as compatible with traditional institutional investing, whether from a return standpoint or in terms of providing sufficient liquidity for shorter-duration vehicles. Today, we see it very differently - and far more positively.”

Over the past decade, sponsors acquiring and rehabilitating affordable housing—as well as those constructing new projects (i.e., developers)—have increasingly utilized private-sector debt and equity. More developers perceive the pace of public-sector investment at the federal level as slowing substantially over the years—or being eliminated—and have opted to tap into private capital. For instance, the Austin project profiled in this article, tapped the American South Real Estate Fund II for its equity, rather than undertaking a longer and more time intensive process to secure additional public-sector sources.

Properly structured, private capital is faster and more flexible than government or nonprofit funding sources. Securing public-sector, foundation, and nonprofit financing can often take 4-7 years while private capital can move into projects within a matter of weeks or a few months. Affordable housing developers value the speed, flexibility, and scalability that private equity real estate investment platforms can provide. They also appreciate having equity partners that deeply understand the ecosystem of affordable housing, given the many nuances and complexities involved to make a capital stack work.

While many developers have recently been shying away from federal subsidies, there is a growing number of local and state incentive programs being created to mitigate housing affordability challenges. Developers interested in taking advantage of these programs are finding that these incentives can be quite accretive to their project bottom line. Utilizing private-equity real estate funds enables these developers to move quickly once they leverage into these more straightforward local and state programs (compared to complex federal programs).

The most successful developers in this space are those who are adept at pivoting as the market shifts. Many have refined replicable construction models for greater cost and time frame efficiency, built specialized contractor and subcontractor relationships, or deployed new technology that reduces both development and operating costs. Such innovative development strategies are most successful because they seek out opportunities even in uncertain markets.

WHY NOW?

Investing in affordable housing, due to the range of factors noted above, is increasingly viewed as a solid and strategic option for sponsors seeking more conservative, resilient, and niche strategies that are less correlated to the macro economy. And, for investors who might be overexposed to high-income housing, affordable housing offers a diversifying opportunity.

Affordable housing is not just a moral imperative for society. It’s an investment opportunity hiding in plain sight.

ABOUT THE AUTHOR

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NOTES

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²⁰ Pension Real Estate Association, Report

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