

# INVESTING FOR IMPACT: AFFORDABLE HOUSING

PGIM Real Estate on the opportunity to invest well—and do good—at the same time

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**Privcap: How has Prudential and PGIM Real Estate approached impact investing and, more specifically, investing in affordable housing?**

**Lisa Davis, PGIM Real Estate:** We've had two approaches throughout our history. Since the 1970s, Prudential Financial has invested a portion of its balance sheet in strategies that have both impact and return targets, with a total of over \$2.5 billion invested to date. Currently, about half of all balance sheet impact investments target real estate strategies, with a focus on affordable housing and transformative development.

Since 2010, PGIM Real Estate has made about \$5 billion of investments in real estate with impact characteristics because it fit the strategy in our traditional funds.

When we say that we've invested in real estate with impact characteristics, that can mean a lot of things. We have defined it three ways: investments in affordable housing; investments in low- and moderate-income areas; and investments in real estate that has some environmental benefits such as green certifications or remediation of contaminated sites.

**Privcap: Raimondo, how does that experience and focus translate to the investment strategies in Europe?**

**Raimondo Amabile, PGIM Real Estate:** In Europe, we are different, and the main difference is that Prudential does not have a big presence as an insurance company in Europe. PGIM Real Estate, however, has been in Europe for more than 30 years.

Affordable housing in Europe has a long history, particularly in places like the U.K., Germany and France. And we have seen the market moving from one dominated by state-owned companies, state-owned agencies and local municipalities, to one supported by private capital.

We started investing in affordable housing about five years ago. In the U.K., we have done about £20 million of investment over the last five or six years. We're now expanding our footprint outside the U.K. We're looking at France very actively right now, and we believe that Germany, the Netherlands and Spain are likely next steps for our platform.

**Privcap: Lisa, what's the strategy focus in the U.S.?**

**Davis:** PGIM Real Estate has initiated an impact strategy that is explicitly targeting both social and environmental impact and financial return. Today, we have a very specific and targeted strategy that is only oriented towards impact. We have zeroed in on two strategies in impact real estate: one around multifamily and affordable housing and the other around what we call "transformative development."

**Privcap: You mentioned the notion that these are good investments regardless of the impact component. That being said, are investors driving some of the interest and demand in this type of investing, and what are they asking for?**

**Davis:** Investors are driving a lot of interest in this. The interest is pretty varied. Public pension funds have an interest in

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making investments that obviously fulfill their fiduciary duty, but also benefit the pensioners and communities where their constituents live.

The most active, or most developing segment of investors, are individuals—high-net-worth and family offices where the next generation of investors is very much focused on investing in accordance with their values. That can result in a variety of things from paying attention to ESG— environmental, social and governance issues—to impact investing.

**Privcap: Ray, is that consistent with what you're hearing?**

**Amabile:** What we are experiencing here in Europe is that investors are really looking at where new supply can be developed with good environmental standards. In the past, efforts in energy saving and environmental impact were always a bit of a "checkbox" effort. But now, they really want to see how we are going to address these environmental impacts.

And then the second part of the equation, which I think we should not underestimate, is the fact that they're really focusing on the fundamentals of the market. They're seeing that there's a huge lack of supply. For example, in the UK, in 2018, 47,000 units were added to the market, and the market needed at least 145,000 units.

**Privcap: Lisa, Ray touched on it from the European perspective. I suspect some of that carries over those dynamics that are driving the affordable housing opportunity in the US?**

**Davis:** The fundamentals of affordable housing from a supply-demand perspective are extremely compelling. In the United States, almost 50% of renters are rent burdened; that is, they are paying more than 30% of their income on rent. And then, in terms of housing assistance, only one in four US households that qualifies for affordable housing assistance receives it.

**Privcap: Ray, what are the primary risks to this market, and how are you managing them?**

**Amabile:** In general, residential housing always faces significant political risk, but I think that given the demand characteristics, affordable housing is less at risk than others.

When it comes to the market risk, I think in Europe, we can structure deals in a way that the market risk is sorted out before going into the investment. In a lot of these developments, your counterpart is a local municipality or local agency. So if you structure the contract well, you're backed by the credit of a state or local government entity. That's a good way to take out risk.

**Privcap: It sounds like the opportunity in affordable housing, given the supply and demand dynamics, is going to be around for a while. Lisa, what's your outlook?**

**Davis:** The future for this type of investing is very bright. We have seen the sector really develop in capacity and sophistication in the last 10 to 15 years; there are partners out there who are doing really creative, important, impactful work with the degree of institutional execution and quality that we expect.

Being able to build something and be sure that it's going to be occupied no matter what happens in the real estate market has some real advantages. In most major metropolitan regions in the US, when a new affordable unit comes on market it's oversubscribed by about ten to one. That's very compelling going forward.

**Privcap: And Ray, what's your take? Are you expecting to be investing in this sector for many years to come?**

**Amabile:** In Europe, the dynamic is very simple. We're going to see a huge increase in this space. ■

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