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New York Developer Raises Fund for Affordable Housing

Rose Housing Preservation Fund IV L.P. will acquire, improve and preserve properties, and has secured commitments from about 125 investors



Jonathan F.P. Rose has raised a \$233 million real-estate fund dedicated to affordable housing. PHOTO: NATALIE KEYSSAR FOR THE WALL STREET JOURNAL

By *Keiko Morris*

New York developer Jonathan F.P. Rose, founder and president of Jonathan Rose Cos. has raised a \$233 million real-estate fund dedicated to affordable housing, the company's largest such fund in a sector drawing more attention from investors.

The fund, which will acquire, improve and preserve affordable-housing properties, has secured commitments from about 125 investors, including the Ford Foundation, Deutsche Bank AG's Community Development Finance Group and an affiliate of Nuveen, the asset management arm of financial-services giant TIAA, according to Jonathan Rose Cos. They were joined by other high net-worth individuals and family offices, pension funds, banks and nonprofit foundations, the company said.

One of affordable housing's biggest lures: steady income. After a seven-year luxury apartment boom across the U.S., a surge in supply has slowed rental growth and pushed landlords to make deep concessions. Enormous demand for low-rent apartments continues to outstrip supply in cities across the country, making these investments low risk, said Mr. Rose. He estimates about 65,000 affordable units are built each year in the U.S., but 150,000 units are lost every year to buyers raising rents. Government programs to preserve housing offer tax subsidies and credits that also help lower costs.

That holds appeal for investors looking to remain invested in real estate without increasing their exposure to assets that might be richly priced. Developers looking to buy affordable properties without rental restrictions and boost rents also are entering the sector and cranking up competition.

"Real-estate developers are turning from luxury apartments and are eyeing this investment class, buying up a lot of units, repositioning and putting them out as market-rate units," said Rebecca Regan, executive vice president of The Housing Partnership Network, a cooperative of 100 nonprofit, affordable-housing developers, owners and community development financial institutions.

In the affordable rental-housing market, properties are priced within the range of low- to moderate-income tenants, real-estate executives in the sector said. Rents at many of these properties are kept affordable for certain time periods because of government incentive programs providing tax abatements, tax credits and rental subsidies. Some, however, are affordable without restrictions.

In some markets such as New York City, a supply surge has helped keep a lid on luxury rental prices, pushing some investors toward affordable-housing properties. Luxury condominiums bought as investments to be rented have exacerbated the situation, adding to the high-end rental supply and putting downward pressure on rents, said Bob Knakal, chairman of investment sales at real estate services firm Cushman & Wakefield.

Despite growing rent restrictions, some investors are turning toward affordable housing investments out of necessity, Mr. Knakal said.

“They can still make some return, and it is the lowest risk of all property types because it’s so easy to find people who want to live in those apartments,” Mr. Knakal said.

The new fund, called the Rose Housing Preservation Fund IV L.P., is well-positioned to compete with those other potential buyers because of the company’s decades of experience and deep knowledge of the affordable housing financial and regulatory world, Mr. Rose said. The company lowers costs by tapping federal programs and tax abatement agreements with local municipalities to preserve affordable housing.

As of July, the fund, which closed at the end of August, had made more than \$64 million in equity investments, including stakes in over 3,300 affordable apartment units that were part of a larger \$500 million acquisition the company announced at the beginning of this year.

“We know how to put together preservation financing that helps us outcompete for properties we are trying to buy,” Mr. Rose said. “We also have a very strong track record for integrity and for closing at the price that we bid.”

The company’s approach of using stable housing as a platform for social and health services also has given it a leg up in attracting the growing number of investors looking for measurable social and environmental results, Mr. Rose said. Earlier this year, the Ford Foundation announced it was committing up to \$1 billion of its endowment to mission-related investments and cited affordable housing as an area of focus. The fund has also attracted banks looking to fulfill federal obligations to invest in the communities in which they do business.

“We view affordable housing initiatives as attractive financial investments offering steady cash flows while meeting the needs of an underserved market,” said Rekha Unnithan, impact investment portfolio manager at TIAA Investments, an affiliate of TIAA’s asset management arm.

Over the years, Jonathan Rose Cos. has adopted the approach of making energy-efficient investments at its properties that can reduce operating costs by 20% or more within five years, the company said. Many of those improvements such as weather stripping doors, insulation and LED lights are relatively inexpensive, Mr. Rose said.

“Just as investors do significant due diligence on a firm’s financial track record, we have found in the impact space that they also do significant due diligence on a firm’s environmental and social track record,” Mr. Rose said.

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