PERE

Featured

Affordable housing or returns: The development equation

The need for affordable accommodation is acute, and an increasing volume of private capital is available to the sector, but making development projects 'pencil' remains challenging.

Stuart Watson - 4 June 2026

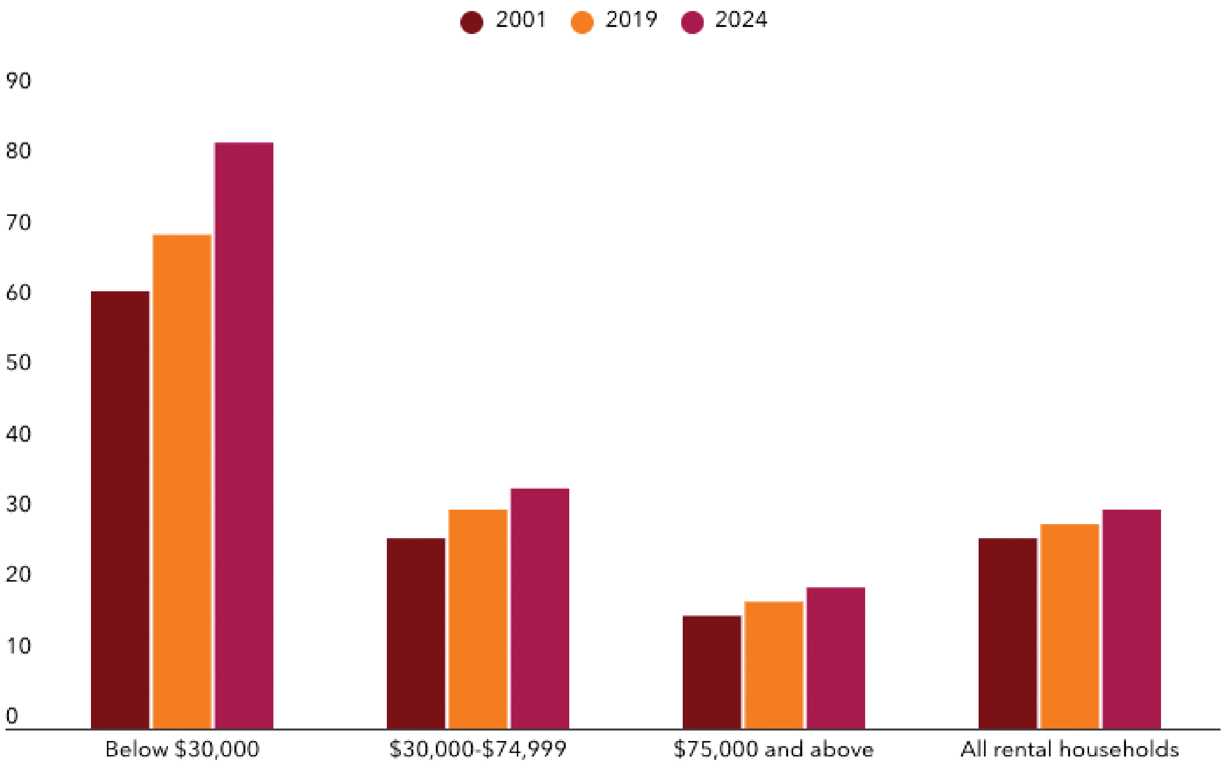
Pressure on housing affordability is intensifying across almost all major real estate markets, driven by a toxic cocktail of soaring construction costs, limited supply and stagnating real incomes.

The issue is a global one. Census data shows that in the US, 51.8 percent of renter households are considered cost-burdened, spending over 30 percent of their monthly income on rent. Meanwhile, housing costs in the EU exceed 40 percent of disposable income for almost 10 percent of households.

As well as becoming more acute among the most cost-burdened in society, the problem is impacting a growing number of middle-income households. What has long been viewed primarily as a social issue is increasingly becoming a central investment theme for real estate capital. Investors are attracted to the space by both the opportunities generated by the profound imbalance between demand and supply and by the positive social impact they can make trying to address it.

"Our investors like us to focus on the affordable housing sector because it is so defensive. Modern, sustainable, affordable housing in major metropolitan areas is one of the lowest-risk investment strategies in real estate," says Marius Schöner, head of EMEA residential at CBRE Investment Management.

Median share of income spent on rent and utilities has risen steadily since 2001, and today is above 30% for many US renters (%)



Source: JCHS, US Census Bureau, American Community Survey, Novogradac, Harvard's 2026 Rental Housing Report

Development dilemma

But there would be no shortage if the delivery of new affordable units was not extremely challenging. Creating rental accommodations for the lowest-earning households invariably requires public subsidy in some form, whether through direct payments, government-backed loans, tax credits, contributions of public land or other forms of public-private partnership.

Private capital is playing a growing role in the social rental space, says Jack Burnham, head of affordable housing at London-based manager Octopus Investments, adding that the £39 billion ($52.2 billion; €44.9 billion) pledged over 10 years by the UK government for social and affordable housing programs will go a long way to closing the subsidy gap that has hitherto stalled development.

Meanwhile, a commitment to allow social housing providers to increase rents by CPI plus 1 percent for 10 years is a “fair solution” that provides certainty to both landlords and tenants while enabling strategies to deliver a core-plus return of 6-8 percent.

Octopus launched its £500 million UK affordable housing fund in 2023, says Burnham. “We’re up to about £6 billion-£7 billion worth of private equity investment overall in the UK affordable-housing sector, owning around about 60,000-70,000 homes. That’s forecast to double over the next five years or so.”

While both affordable and attainable housing typically describe rentals that cost no more than 30 percent of a household’s income, affordable housing targets low-income families using government subsidies, while attainable housing targets middle-income earners relying mainly on market-rate properties without subsidies. Private capital is likely to have the greatest impact in the less subsidy-dependent mid-market segment of the rental housing spectrum.

APG Asset Management has been charged with investing around €5 billion on behalf of ABP, the Netherlands' largest pension fund, to deliver mid-market rental housing in its home market.

Robert-Jan Foortse, head of European real estate at APG, says: "That equates to 17,000-18,000 units over five years, and that doesn't sound like it should be difficult. But it turns out to be fairly difficult indeed, to make those business cases work."

The challenge, he adds, is that once a manager accepted that the return on investment will be a moderate one, then the risk that they take must be commensurate.

Making projects pencil is no easier in the US. In November, Los Angeles-based manager CIM Group, together with co-sponsor Bryant Group Ventures, held a first close on a little under $100 million of equity for its debut affordable housing fund, providing it with $250 million in overall investment capacity. The vehicle has a mandate to both preserve existing affordable housing assets, which it defines as serving residents earning less than 80 percent of the area median income, and develop new ones.

Jonathan Tao, portfolio manager for CIM's fund, says: "There's a space for private capital to come into the arena and not be solely reliant on tax credits as the only way for creation of new product. But in a high interest rate, inflationary environment, rising costs, both on labor and materials, have made it challenging to develop new, affordable product, absent of large amounts of subsidies or tax credits."

The stock of existing affordable units is diminishing, with the affordable use agreements on around one-third of all Low-Income Housing Tax Credit properties due to expire over the next decade. "When you layer that with the difficulty and risk of building that is why we are focusing more of our efforts today, within this fund, on preservation," says Tao.

Social infrastructure

The level of return that investors expect for taking development risk is an obstacle to creating new affordable product, says Alicia Glen, former New York City deputy mayor for housing and economic development and founder and managing principal of mixed-income multifamily specialist MSquared: "Investors have an almost irrational fear of development, and so they want extraordinarily high returns for that risk that are not attainable or appropriate."

Glen argues that affordable housing is a much lower-risk product than standard market multifamily and should be considered as more akin to an infrastructure investment, with a proportionately lower return. MSquared focuses on mixed-income, mixed-use development projects with a return profile in the mid-teens – lower than the opportunistic returns expected for market-rate housing but higher than those associated with preservation strategies.

"You can both have a strong and demonstrable social impact by building desperately needed affordable housing and also have potential upside from rent growth in strong multifamily residential markets, all while protecting your downside, because there are government incentives that allow you to lower either your operating expenses or your cost of capital," says Glen.

Read more from PERE's 2026 Residential report

Looking beyond multifamily, inside the living sector's fragmented future:

- Residential apartments see sticky demand
- Senior housing draws global capital
- Single-family rental as a core sector
- Co-living moving into the mainstream

Read the magazine
Full coverage...

CBRE IM's Schöner argues that the key to unlocking increased delivery is for governments to create a framework in which tenants are protected, but which also enables the developer and investor to earn a fair return.

He says there are markets in Europe, such as Finland and Austria, where there is no housing scarcity, adding: "In those countries where there is a good understanding among the parties that the provision of housing is essential for society, there seems to be an acceptance that it needs to be supported."

Consistency of regulations and taxation are crucial, says Foortse. He believes some regulation of rental increases makes for a healthy housing market in the long term. "Even if governments were to say you can only increase your rents by inflation, it's fine. But when they start changing the regulations frequently, then it becomes unpredictable, and unpredictability leads to higher risk."

Foortse adds that the streamlining of permitting and construction regulations would also help to speed up delivery.

Glen agrees: "If you have the right kind of capital that wants to earn 10-12 percent gross returns, then you don't have to raise the rent by 10 percent every year. You raise the rent by 3 or 4 percent, so it stays affordable."

She adds that sophisticated capitalists are beginning to realize that a healthy and growing economy requires a healthy housing market.