

THE BOND BUYER

Housing leaders seeking finance solutions

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Housing leaders are using a mix of public financing and private capital to preserve and build affordable housing from scratch, leveraging the growing interest in ESG investing to help them solve problems difficult to tackle through traditional means.

A recent panel discussion at the Brookings Institution brought together experts from the public and private sectors to explore how their organizations are attempting to solve a housing shortage in the Washington, D.C. area, one of the most expensive places to live in the U.S.

"We serve the missing middle in the market rate affordable space," said A.J. Jackson, executive vice president of social impact investing at JBG SMITH. "These are the people who earn too much to qualify for traditional housing programs but not enough to be financially stable. In the Washington area that means \$50,000-\$100,000 in income which is your policemen, fire fighters, teachers, payroll clerks, IT specialists, the people that make your everyday run."

Jackson's firm is a publicly traded real estate investment trust that's operating the Washington Housing Initiative, which is partially funded through private activity bonds. "It's a great tool because it's not volume capped," says Jackson. "It allows us to generate a higher after-tax return for our investors which is compelling for them."



From left, Jenny Schuetz, senior fellow, Brookings Metro, A.J. Jackson, EVP, Social Impact Investing, JBG SMITH, Zachary Marks, chief real estate officer, Housing Opportunities Commission of Montgomery County

The initiative includes a financial arm wielding nearly \$115 million in funding that specializes in preserving existing affordable housing stock which is traditionally made up of 30-year-old, class B and C units in high opportunity neighborhoods.

"We invest as a lender to replace what would otherwise be private equity," said Jackson. JBG uses a combination of lower costs and longer terms to attract capital. "That allows a mission-aligned buyer to compete with a private investor to acquire assets and keep them affordable versus converting them to luxury housing."

The approach has earned the firm recognition in the ESG space and helped preserve 1,750 units since 2020.

Montgomery County, Maryland, which borders the District of Columbia, is attempting to tackle an affordable housing shortage by building units from scratch via the Housing Opportunities Commission. The HOC is partially supported by a

\$50 million single family mortgage revenue bond that was part of an approved 2023 budget.

Putting a county government into the real estate development business goes beyond making the numbers work.

"Our challenges are around our perceptions of what government is capable of," said Zachary Marks, chief real estate officer of the Housing Opportunities Commission at Montgomery County. "It's an American tradition to believe the government can't actually walk and chew gum, or produce market rate goods. What HOC has been doing for a long time was producing high quality new housing that is indistinguishable from private sector housing."

The rise of ESG is turning generic munis into social bonds linked to housing that appeals to a certain slice of investors. In October, New York City issued approximately [\\$400 million of taxable general obligation social bonds](#) with proceeds going to support more than 3,000 units of affordable housing. Last year, the city of Philadelphia rolled out a [\\$100 million social bond issuance](#) targeted at beefing up the preservation of affordable housing. San Francisco has been issuing social bonds attached to affordable housing since 2019.

Although putting municipalities into the housing business invites risk, Marks believes private capital needs an assist.

"Our Council of Governments says we need 3,300 new units per year," he said. "In the last two years, we've produced about 60% of that number. It's not going to happen with just the private sector."