

Should you invest in affordable housing?



Alt text: Affordable housing makes for a lucrative business.

Investing in affordable housing is challenging in the current situation, but it pays out in the long term. Rewards coming from this endeavor are not only financial. When more and more families can't afford the cost of rents, it becomes imperative to provide these families security and comfort. Improving other people's quality of life can go hand in hand with successful real estate investing. Affordable housing offers that opportunity. But read on to get a clearer picture of the whole situation.

Understanding affordable housing today

With the right approach and set goals, **investing in affordable homes can be a lucrative business.** Also, it makes financial sense, considering the larger picture and current trends. The demand and [property search](#) for affordable housing is growing, but the supply of new homes is limited. It inevitably leads to an increase in rent costs, which defeats the purpose. Investors are deploying their capital focusing on luxury housing, and builders don't find affordable homes financially feasible. Building affordable homes is not as widespread as demand expects it to be, but it doesn't mean such homes can't be created anyway.



The development of new but affordable apartments doesn't pay off to builders unless they have government support.

Alt text: A house under construction.

Four important reasons to invest in affordable homes

If you're looking for a larger cluster of affordable homes to invest in, a [relocation out of your home state](#) may be ahead. But, most importantly, what should inspire anyone to invest in affordable housing? There are a few main reasons:

- **The ROI (Return on Investment) is attractive.** Great demand is leading to full capacities. Landlords and investors won't wait long to fill their properties and even then, they can expect the trend to remain constant for years. Low risk complements a solid ROI.
- **Investors can expect little competition.** The development of affordable apartments doesn't pay off to builders unless they are supported by government funds. These funds are limited. Low supply of affordable houses and apartments makes renters look for existing properties.



Tax deductions and other incentives make investing in affordable housing a lucrative business.

Alt text: Papers showing available tax incentives.

- **Tax credits and incentives are available for both property owners and renters.** There is a vast range of tax deductions provided by the US government. They expect property owners who offer a percentage or several rental units as affordable homes. Rent for limited-income renters who qualify for affordable housing is also subsidized.
- **Building a healthy community by creating affordable homes is rewarding on a personal level.** Creating housing options for tenants with limited income benefits to the community. People who receive a chance to live a dignified, structured, comfortable life, in turn, give back to the community that provided the chance.

Knowing your future tenants is a basis for good property management

If you plan to invest in real estate, know you'll become more than a landlord. **Your role as the property investor will involve maximizing profits and growing local communities at the same time.** So, who are your most likely tenants? Low-income families, seniors, and students number among those who are constantly [on the lookout for affordable homes](#). But they are not alone.

People with disabilities, members of military service, and members of rehabilitation and re-entry programs are a sensitive group that can greatly benefit from secure, accessible, and affordable housing.



Seniors, students, low-income families, and people with disabilities are a part of a larger group of people requiring affordable housing.

Alt text: An elderly man is holding a cane.

When these potential tenants qualify for governmental subsidies, they may become the best possible renters. The fact that your rental prices can't increase should be perceived as a challenge, not a limitation. Empowering your tenants to take good care of the home they rent will create a mutually beneficial relationship and a pleasant atmosphere. Conducting regular inspections will reduce the need for expensive repairs and create a sense of security and comfort. **Good property management goes beyond profit and centers on social investment as well.**

To be able to do your job with the focus it requires, you might need to move closer to your investment properties. You don't have to worry, though, because [finding movers that will meet your needs](#) is not at all complicated as it seems.

Things you should consider if you plan to invest in affordable housing

Before you invest in affordable housing, it is vital to do some math and calculate your ROI. The basis is finding the right property. You may need to work with a local real estate agent to achieve that. **Your focus should be on the homes you can acquire at a relatively low cost that would need little to no repairs.** Such homes can be found in the FSBO (For Sale By Owner) market. Otherwise, you can look among the foreclosed homes.

Another very important step is to define an affordable rent rate. It depends on the market and median income in the area. Affordable rent equals 30 percent of the local median income and presents your gross income. Your gross profit is a difference between the gross income and all expenses you must cover as an owner. Which expenses should you expect?

You'd be required to pay insurance and taxes, although, you can expect deductions on the latter. Aside from the local municipality fees, anticipate ground and building maintenance costs as well

as inspection fees. Utilities are another expense; however, you can apply to the subsidizing authorities which cover a part of renters' utilities. Finally, don't underestimate investing in marketing. It ensures that the constant inflow of new tenants.

Conclusion

So, should you invest in affordable housing or not? All things considered - yes, you should, after careful budgeting. Even with the incentives offered and tax deductions available, your return on investment greatly depends on the rent rate. And you are not allowed to increase it as an owner of affordable housing. To make all those necessary calculations, rely on all available government resources. The U.S. Census Bureau can provide you valuable information on the median income on all levels. Don't shy away from teaming up with a real estate agent to lead you through the local real estate market. And lastly, don't lose focus on the human side of investing in affordable housing.