An Analysis of the Risk Return of Affordable Housing in Different Countries and institutional investors' behavior towards affordable housing in Australia

Real estate is among the most widely used alternative investments and still difficult to analyze and understand properly due to the market dynamics. During last decade real estate was considered as higher risky asset class with less attractive returns after the housing bubble in United State of America (USA). However, affordable housing, a residential real estate investment category is generating considerable interest among high wealthy individuals and institutional investors as a better catalyst for their portfolios. However, the inefficiency in this market let the investors away or resists attracting the respective investors to affordable housing investments. Mixed housing, affordable rental housing and affordable home ownership of the housing investments taxonomy are untapped markets for impact investors. Affordable rental housing has constituted a remarkably stable share of the total stock even during the last few decades. The proportion was maintained between 16.4 and 14.5 percent during the period of 1985 and 2013 according to the findings of Weicher, Eggers, and Fouad (2018, p. 240). Therefore, aim of this study is to expose the financial and non financial characteristics of these markets to make objective investment decisions and maintain an efficient portfolio of investments. The housing market is not perfect and affordable housing investment has a mix of associated risk and opportunity (Susilawati & Armitage, 2010, p. 276). At present, there are insufficient incentives for private developers to participate in affordable housing projects as it generates less attractive rates of return than other forms of investments (Berry, Hall, & Allen, 2001, p. 4). Shilling (2003) suggests that ex anti expected returns are higher than average realized equity returns due to the large unexpected capital losses. Since the real estate risk returns are geographically sensitive there are more significant gains from diversifying geographically which we have not adequately exploited yet (Melser & Hill, 2018, p. 29).

Therefore, the objective of this study is to analyze the risk return of affordable housing in different countries in order to address the above gaps. Further this study extends to investigate the potential factors that determine the differences in risks and returns of affordable housing across different countries. Then the study extends to match the institutional investor risk return profile with the affordable housing risk return profile. Eventually it will help to bridge the gap between affordable housing demand and the supply through private sector participation.