

Gatsby Investment is Finding New Opportunities in Affordable Housing Developments

As Los Angeles area development slows, Gatsby Investment is finding creative opportunities with high return potential in the form of affordable housing.

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EINPresswire.com/ -- Successful local real estate investment company, Gatsby Investment, has announced plans to expand into the affordable housing market with a new development project. This project is expected to produce strong returns for investors while creating more housing units for low-income renters.



Gatsby Investments New Development Project in Los Angeles

This move into the affordable housing space may be exactly what investors need to continue generating high yields even as the real estate development industry is cooling.

Changing Market Conditions Spur Shift to Affordable Housing

The housing boom of the pandemic era brought extreme increases in property values, as well as rental rates. However, several factors are now contributing to cooler market conditions, such as slowing growth or even temporary dips in property values.

The recent interest rate hikes have been a significant contributing factor in slowing the growth of the housing market. As the cost of borrowing money has increased, buyer demand from homebuyers and investors alike has dropped off. And in October, when interest rates topped 8% for the first time since 2000, many would-be investor-buyers chose to bow out of the market altogether.

At the same time, labor and material costs have been increasing rapidly, making development more expensive.



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Dan Gatsby

And, locally, [Measure ULA](#) (more commonly known as the "mansion tax," a misnomer as the tax applies to all properties, not just expansive single-family homes) was approved by voters to impose a tax of up to 5.5% on sales of properties in the city for over \$5 million. This well-intentioned measure was created to generate funds to assist with the local homeless crisis, but the unintended result has been to halt the development of multi-family structures that are built to sell.

Investing in affordable housing is a natural response to these changing conditions. With fewer investor-buyers in

the market for built-to-sell developments, it makes sense to develop properties with the intention of renting units long-term. Holding the asset also helps investors avoid the local transfer tax issue. But those aren't the only benefits of expanding into affordable housing...

Investing in Affordable Housing Provides Several Notable Benefits

Affordable housing investments offer multiple advantages to investors. In addition to the well-known benefits of general rental property investing, including passive rental income, long-term appreciation, and tax breaks, there are a few benefits specific to affordable housing.

Firstly, affordable units are in extremely high demand. There are waitlists full of potential renters waiting for new units to become available. This means that new developments can be leased up exceedingly quickly. It also means shorter vacancy periods between tenants, as well as reduced marketing costs when advertising vacant units for rent.

Secondly, the construction costs for affordable developments can be substantially less than the construction costs for market-rate developments. The architectural design of affordable buildings can be less complex than modern market-rate multi-family structures. And the materials don't need to be top-of-the-line to appeal to affordable renters. Fixtures simply need to be functional and durable, rather than being status symbols.

Finally, developing new affordable housing units serves the community in a real, meaningful way. The housing shortage in California has driven home prices and rental rates to inaccessible levels in high-demand areas. And, while some real estate investors rely on low inventory to maintain profitability, Gatsby Investment views the market differently. As Dan Gatsby, founder and CEO, explains, "An over-valued market is unsustainable, and ultimately, serves no one. We're seeking a balanced approach to earn above-average returns for our investors, while simultaneously improving the sustainability of our local housing market for homebuyers and renters."

Gatsby's Strategy for Earning Strong Returns on Affordable Development

Gatsby Investment is rolling out its affordable housing investment opportunity, using a federally-funded program known simply as “Section 8 housing.”

The Section 8 housing program, named for the section of the [Housing Act of 1937](#) that makes this program possible, was designed to assist low-income families, veterans, seniors, and differently-abled renters in accessing safe, sanitary housing. Section 8 allows qualified participants to receive vouchers that will cover up to 70% of their housing and utility costs.

The Section 8 program is funded by the US Department of Housing and Urban Development (HUD), and administered at the local level by a public housing agency (PHA). The local PHA pays the rent subsidy directly to the landlord on behalf of the Section 8 tenant. For investors, this means stable income from a highly reliable source every month.

The Section 8 program is highly regulated with strict qualification criteria and ongoing requirements for participating renters to adhere to the terms of their lease. Because it can take years for renters in desirable areas like Los Angeles to be housed via the program, participating renters are typically ideal tenants, paying their portion of the rent on time and following the rules and regulations set in their lease agreement. They do not want to risk their position in their unit, so they tend to renew year after year, effectively reducing vacancy losses for owners.

And, because there is a shortage of units available to Section 8 renters, HUD often allows property owners to set rental rates at the higher end of the fair market range. This serves as a solid incentive to invest in Section 8 development.

How to Invest in Affordable Housing

Real estate investors who already own a property that meets Section 8 requirements can apply with their local PHA to convert the building from a market-rate property to a Section 8 property. Alternatively, individual investors can purchase a property that meets Section 8 requirements, and apply to place the property in service as a Section 8 building.

The property will be inspected by a Section 8 property inspector prior to approval. Section 8 owners can expect regular property inspections to retain their status in the program. There are also additional documentation requirements for Section 8 leases. So Section 8 owners should coordinate with their local PHA to confirm which forms, disclosures, and lease addenda must be kept on file for each tenant.

Alternatively, investors can join in a crowdfunded Section 8 development, like the opportunity offered by Gatsby. This allows investors to receive the benefits of Section 8 holdings without the responsibility of retaining compliance with the program’s regulations.

To learn more about Gatsby Investment, including its goals, strategies, and investment

opportunities, visit the [Gatsby Investment Website](#).

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