Financing Affordable and Sustainable Housing in Spain

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Master's Degree in Sustainability Management

Academic Year 2024 – 2025

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Abbreviations

AH	Affordable Housing
AHP	Affordable Housing Provider
KPI	Key Performance Index
SE	Social Enterprise
SFE	Social Finance Enterprise
SII	Social Impact Investor
TI	Traditional Investor

Project performed within the framework of the MsC In Sustainability Management program taught by Barcelona School of Management and ESCI-UPF, center associated with Pompeu Fabra University

Resumen

Los proveedores de vivienda asequible en España necesitan actualmente una inmensa cantidad de capital. España, uno de los países de la UE con menor número de viviendas sociales, se enfrenta a una crisis de vivienda asequible que afecta a los derechos humanos de sus ciudadanos. Para afrontar esta situación, miles de viviendas nuevas y renovadas deberán ser financiadas con fondos públicos y privados. Sin embargo, hay evidencia que sugiere que ciertos inversores privados están disuadidos de hacerlo. En este documento se investiga la situación actual de la financiación destinada a la vivienda asequible desde la perspectiva de los proveedores de vivienda asequible implicadas, y desde la perspectiva de los dos grupos de partes interesadas financieras que incluyen a los inversores tradicionales y a los inversores de impacto social. Una revisión de literatura y un proceso de entrevistas, que incluyó a 6 expertos de la industria, demostraron que la regulación gubernamental es la mayor barrera para una mayor colaboración. La investigación también reveló una laguna en la literatura académica en relación con la inversión de impacto social y la vivienda asequible. Los datos primarios obtenidos a través de las entrevistas constituyen la información académica novedosa que este trabajo aporta al mundo académico. La financiación de la vivienda asequible en España es un reto complejo y de múltiples esfuerzos que requiere una mayor colaboración.

Palabras clave: Vivienda social, Vivienda asequible, Inversores, Financiación, Inmobiliario, Construcción

Abstract

Affordable Housing Providers within Spain are presently in need of an immense amount of capital. Spain, which is ranked as having one of the lowest amounts of social housing within the EU, is grappling with an affordable housing crisis that is impeding on its citizens' human rights. In order to address the issue, thousands of new and renovated housing units will need to be financed through public and private funding. However, there is evidence that suggests certain private investors are dissuaded from doing so. This paper researched the current status of funding provided for affordable housing from the perspective of the Affordable Housing Providers involved, and from the perspective of the two financial stakeholder groups that include Traditional and Social Impact Investors.

A literature review and interview process, which included 6 industry experts, demonstrated that government regulation is the largest barrier to increased collaboration. The research also illuminated a gap in academic literature surrounding social impact investing and affordable housing. The primary data collected from the interviews is the novel academic information that this paper contributes to academia. Funding affordable housing in Spain is a multi-effort and complex challenge that requires increased collaboration.

Keywords: Social Housing, Affordable Housing, Investors, Funding, Real Estate, Construction

Resum

Els proveïdors que promouen habitatges assequibles a Espanya necessiten actualment una gran quantitat de capital. Espanya, un dels països de la UE amb menor nombre d'habitatges socials, s'enfronta a una crisi d'habitatge assequible que afecta els drets humans dels seus ciutadans. Per afrontar aquesta situació, milers d'habitatges nous i renovats hauran de ser finançats amb fons públics i privats. No obstant això, hi ha evidències que suggereixen que certs inversors privats no estan disposats a invertir en aquest tipus de projectes. En aquest treball s'investiga la situació actual del finançament destinat a l'habitatge assequible des de la perspectiva dels proveïdors d'habitatge assequible implicades, i des de la perspectiva dels dos grups de parts interessades que inclouen els inversors tradicionals i els inversors d'impacte social. Una revisió de literatura i un procés d'entrevistes, que va incloure 6 experts de la indústria, van demostrar que la regulació governamental és la major barrera per a una major col·laboració. La investigació també va revelar una llacuna a la literatura acadèmica en relació amb la inversió d'impacte social i l'habitatge assequible. Les dades primàries obtingudes a través de les entrevistes constitueixen la informació acadèmica nova que aquest treball aporta al món acadèmic. El finançament de l'habitatge assequible a Espanya és un repte complex que requereix més col·laboració.

Paraules clau: Habitatge social, Habitatge assequible, Inversors, Finançament, Immobiliari, Construcció

1. Introduction

1.1 Affordable Housing Crisis in Spain

One of the greatest social issues that Spain faces in 2025 is its affordable housing crisis. According to the United Nations, affordable housing is deemed as a right, defined as housing where the cost of rent accounts for a maximum of 30% of household income (Bayas, 2021). Although it is a right, there are many cities in Spain where the average rent prices have exceeded the UN's threshold of 30%. According to a recent Bank of Spain report, it was estimated that almost half of Spain's tenants spend approximately 40% of their income on rent and utility bills, compared with an EU average of 27% (Jones & Burgen, 2025). Take Barcelona for instance, where it is the second largest city in the country and has an approximate population of 1.7 million people (Espinosa, 2024). According to the Ajuntament de Barcelona, in January of 2022 Barcelona and its metropolitan area exceeded the UN's recommended 30% threshold, with the average rent in Barcelona coming in at an incredible 43.5% of income (Bayas, 2021).

There are many factors that have contributed to the present state of housing in Spain. Some of which include increases in mass tourism, gentrification, foreign buyers, slow increases in salary, and more. However, the main culprit of the increase in housing costs is primarily due to the lack of supply of low-rent housing, where there is presently a deficit of at least 600,000 units (Montes, 2025). Stated in economic principles, the present demand for housing has far outpaced the supply, this imbalance is what has resulted in increased cost. Currently, the housing supply is low because there is a lack of construction taking place. For context, Spain's housing boom began in the 1960's, with the most significant growth occurring in the 2000s (Carles Vergara-Alert, 2025). Today, around 95% of the country's housing stock was built before 2009, and about 22% of these homes were constructed between 2000 and 2009 (Carles Vergara-Alert, 2025). It is around this time that the 2008 Financial Crisis also occurred, afterwards, construction within Spain significantly slowed due to a lack of investment, bureaucratic processes, and more.

As of June 2025, the European Parliament has singled out Spain's very low social housing stock, which is 1.5%, and has pressured the Spanish government to address this by boosting construction as soon as possible (Montes, 2025). Prior to the recent pressure, the Spanish Government had already been well aware of this affordable housing challenge, taking certain actions to try and remedy the issue from several angles. They have enacted legislation that targets short-term rentals, a recent challenge stemming from overtourism, they have placed high taxes on foreign property owners, and they have even made efforts to collaborate with construction companies to build more housing units. As of July 2024, Spanish cities possess land that can be used to develop new housing, however, recent significant changes in housing legislation have contributed to destabilizing the development plans of developers, builders, and rental companies (Cardoso & Lores, 2024). This uncertainty has discouraged investors, led to legal uncertainty, it has reduced profitability, and it has also discouraged economies of scale (Cardoso & Lores, 2024).

1.2 Financing The Future of Affordable Housing

In February of 2025, the secretary of Spain's Ministry of Housing and Urban Planning, David Lucas, expressed that in order to build the 1.8 million housing units outlined in the 2026 'State Housing Plan', public-private collaboration will be essential for financing the estimated 250 billion euros that are needed (Ministerio de Vivienda y Agenda Urbana). The State Housing Plan for 2026 is a 10-year plan that aims to boost the construction and rehabilitation of affordable housing units within Spain (Ministerio de Vivienda y Agenda Urbana). In order to build the immense amount of affordable housing that is presently being asked of Spain, obtaining further financial capital and increased financing will be paramount (Montes, 2025).

This paper will further investigate the barriers, in addition to those mentioned by Cardoso & Lores (2024), that prevent investors from further funding affordable housing initiatives. This research paper will focus on the 'discouraged investors', which includes Traditional and Social Impact Investors. These two investor models were selected because together they play a key role in financial inclusion and economic stability, they boost the social economy, and because they promote a more responsible financial system that is geared towards the common good (Secretaría de Estado de Economía Social).

2. Objective and Research Model

2.1 Research Question and Objectives

As mentioned in the previous section, there are presently discouraged investors that are hesitant to fund the construction of affordable housing projects within Spain. The hesitance that is expressed is due to barriers that they perceive and experience. If 250 billion euros are indeed necessary to build the 1.8 million housing units that will help resolve the housing crisis, then a greater understanding of the aforementioned barriers must be obtained (Ministerio de Vivienda y Agenda Urbana). This need for a greater understanding has lead to the following research question:

What are the most relevant barriers that Traditional and Social Impact Investors take into account when deciding whether or not to fund affordable and sustainable housing projects in Spain?

By better understanding investor experiences, decision-making factors, and challenges, this information can be used to facilitate funding and collaboration, or at the very least understand what changes need to be made in order to do so. This research question attempts to understand how it may be possible to better enable investor engagement, so that the large amount of private funding needed to build affordable housing in Spain is acquired. The following two research objectives will assist in answering the previously mentioned research question.

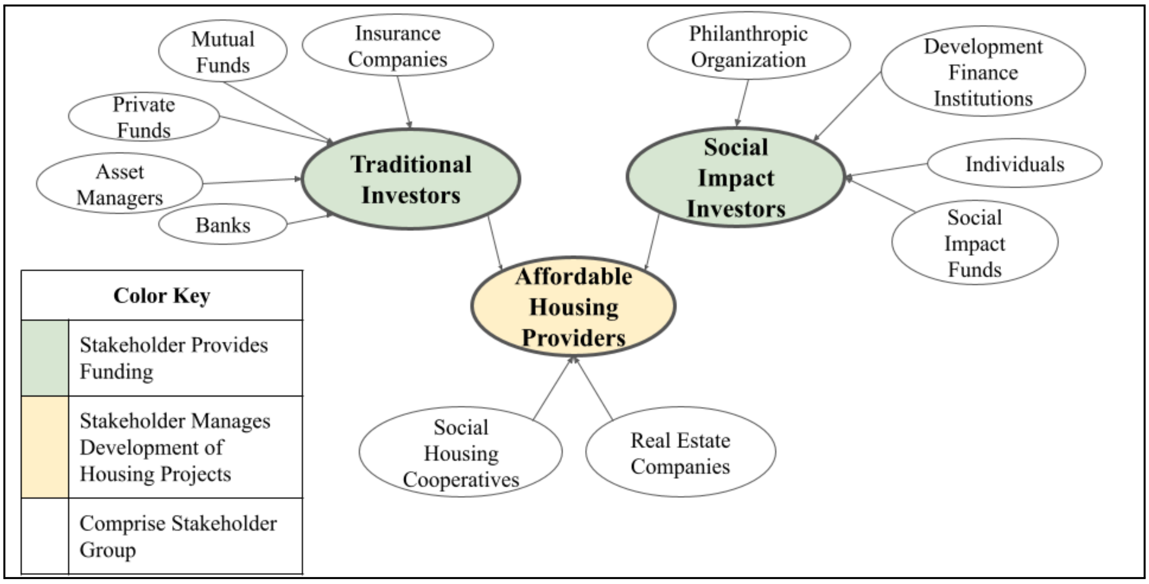
1. Determine the perceived barriers that prevent Traditional and Social Impact Investors from funding AH projects, according to Affordable Housing Providers.
2. Determine the perceived barriers that Traditional and Social Impact Investors experience when they assess the possibility of funding affordable housing projects.

2.2 Research Model

The figure below visually demonstrates the key stakeholder map for this research paper. The three main stakeholders that are of concern are the Affordable Housing Providers and the two previously identified investor groups, which are Traditional Investors and Social

Impact Investors. Qualitative research will be conducted on all three stakeholders so as to gain a collective understanding of how each stakeholder experiences and perceives their own barriers to collaborating with one another.

Figure 1: Key Stakeholder Map



Source: Own Work

Traditional Investors include financial institutions such as conventional banks, insurance companies, asset managers and more. Social Impact Investors include cooperative and ethical banks, social impact funds, and others. It should be noted that SIIs and TIs differ significantly. SIIs promote ethical finance, which prioritizes solving key societal challenges while generating both social and financial returns, and Traditional Investors, in contrast, primarily pursue profit for shareholders (Mackevičiūtė, 2020; Secretaría de Estado de Economía Social).

Including Affordable Housing Providers within the scope of this research, in addition to the investors, provides further insight into the necessary funding and barriers. This also allows for a greater understanding of the dynamic between the key stakeholders. The AHPs that will be researched include only Real Estate Companies and Social Housing Cooperatives that promote positive social impact through the construction of social and affordable housing.

3. Methods

Research for this paper was conducted via a literature review and semi-structured interviews. The main motive of the literature review process was to understand the current science and academic standing surrounding low-rent housing projects and the financing that accompanies them. Although each of the selected articles talk about this topic from a slightly different perspective, the important trends, similarities, and contradictions seen across them were noted. The conducted literature review provides the academic context from which the semi-structured interviews will be conducted.

3.1 Scoping Literature Review

The literature review that was conducted followed the PRISMA approach (Page et al., 2021). Regarding the sourcing of academic literature, many keywords and search string combinations were tested across several academic databases, such as Google Scholar, SCOPUS, Web of Science, JSTOR, and more. The final search string, presented below, followed boolean syntax and proved most successful in the JSTOR database:

("invest*" OR "financ*"OR "fund*") AND ("affordable") AND ("social") AND ("housing" OR "homes" OR "living") AND ("project" OR "partnership") AND ("barrier*" OR "challeng*") AND ("impact") AND ("institut*")

The JSTOR database provided the most relevant search results because the results were focused on the humanities and social sciences, whereas other tested databases, such as Web of Science and SCOPUS, appeared to place greater focus on articles in the disciplines of technology and medicine which were not relevant for the topic of this paper. In order to narrow down the original results provided by JSTOR, multiple iterations of screenings were conducted so that only a select few that were relevant and appropriate for the scope of this paper remained. The first course of action entailed enabling the following language and subject filters within the JSTOR database:

- Language: English

- Subject: Business, Development Studies, Economics, Education, Finance, Geography, History, Political Science, Public Policy & Administration, Sociology, Urban Studies

After the database filters were set, a title and abstract screening was conducted. It is within this second step that extra attention and care was taken to identify articles that discussed affordable housing and challenges surrounding funding.

The grey literature that was obtained outside of JSTOR was done so by using Google. Google was the search engine used to access articles, news, and written statements posted by Spanish government agencies. Only official government, company, and stakeholder websites were visited in order to maintain legitimacy and obtain only primary information, coming directly from the sources that were of interest.

3.2 Semi-structured Interviews

The semi-structured interviews will build on the present academic knowledge identified within the literature review. This paper's research objectives and literature review inspired the question structure and groupings that can be found in section 7.1 of Appendix 1. By first understanding the trends and knowledge gaps within the literature, useful questions were generated that could be directly presented to the corresponding stakeholders, resulting in the acquisition of primary material. This primary source information is the main academic contribution that this thesis intends to put forth. It should be noted the questions in Appendix 1 were all translated into Castellano and presented to the interviewees as well, so as to grant flexibility and increase engagement by allowing interviewees to respond in the language that they deemed most convenient.

For the meetings that were conducted in Spanish, the free language translation tool 'DeepL' was used to translate the transcript from Spanish to English. Meeting transcripts were translated into English to ensure that all of the content discussed within the meeting was completely understood for the results and discussion portion of this paper. It should be noted that although the text was translated to English, the author of this paper still used their own judgement, language knowledge, and discretion to appropriately and honorably generate text for this paper.

4. Results and Discussion

4.1 Literature Review

The timeframe of the literature included in the following review spans from the year 2005 to 2025. A total of 13 articles were included, where 10 were academic articles obtained from databases such as JSTOR and Springer Nature, and the remaining 3 were grey literature. The grey literature was composed of 3 articles that were each posted by Spanish Government entities, such as the Generalitat de Catalunya, on their respective webpages. A synthesized visualization of the literature review process can be found in Figure 2 of Appendix 2.

4.1.1 Current State of Affordable Housing Construction in Spain

In recent years, the Spanish Government has made large-scale commitments that work to increase the stock of affordable housing. During the 2023 fiscal year, the maximum amount of planned expenditure it dedicated to increasing the stock of affordable housing reached an incredible 375 million euros (Council of Ministers, 2023). Although this was indeed an immense amount of money put forth by the government, the total stock of Spanish, government-owned units paled in comparison to that of neighboring EU countries. Taking France, Austria, and the Netherlands for example, each country had on average 16.8%, 24%, and 30% of their housing dedicated as public housing units, whereas Spain only had a meager 1.6% in 2023 (Council of Ministers, 2023). The 'Affordable Rental Housing Plan', which was put forth by The Council of Ministers and will receive the previously mentioned 375 million euros, is a multi-organizational agreement held between the 'Ministry of Transport', 'Mobility and Urban Agenda', and the 'State Public Entity for Land' that is expected to build 20,000 homes by 2026 (Council of Ministers, 2023). According to the head of the Spanish Ministry, Raquel Sánchez, the main goal of this large plan is to increase the affordable housing stock and "bring these public policies where the market does not reach" (Council of Ministers, 2023).

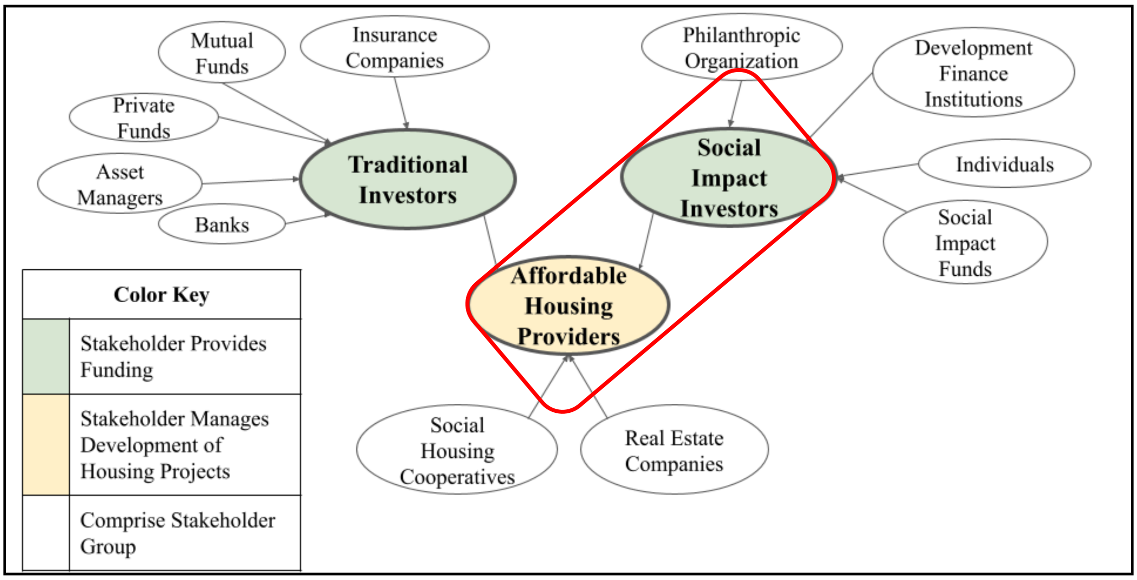
Raquel Sanchez addresses an important topic in her previously mentioned quote. Due to the Spanish housing market not having naturally moved in a direction that favors affordable rent prices, the government has been pressured to take initiative in funding the construction of additional affordable housing units. Examples of national efforts have already been discussed, focusing on a more regional level, the Habitatge Metròpolis Barcelona (HMB) can be studied. The HMB, which operates in the Catalonia region of Spain, has proposed and started an affordable housing project that constitutes the construction of a 4,500 unit housing park that is to be constructed over a 10 year period (Àrea Metropolitana de Barcelona, 2025). In order to bring the HMB´s project into fruition, it has partnered with local real estate companies, CEVASA and NEINOR HOMES, who will manage the construction of the units (Generalitat de Catalunya, 2025). This type of collaboration between public and private institutions is what is needed if the housing crisis is to be addressed.

In the HMB case, it is important to note that the local government is both the supplier of land and the financier, where it is providing the funds necessary to hire the Affordable Housing Providers that will be managing the construction and development of the housing units. This type of Government-AHP collaboration, as defined by Raquel, is the government getting involved and aiming to correct the flaws presently found within the housing market. Throughout the remainder of this paper, focus will be placed on investigating why the Spanish housing market presently lacks affordable housing units and how this may be corrected with increased involvement from Traditional and Social Impact Investors.

4.1.2 Barriers Between Social Impact Investors and Affordable Housing Providers

This section will analyze the relationship between Social Impact Investors and Affordable Housing Providers, discussing the trends and barriers that were identified. However, before doing so, subsection 4.1.2.1 will first share important information that influences the results that will ultimately be shared and discussed in 4.1.2.2. In addition, the following subsection will also introduce an important argument, an argument this paper makes in order to have a context from which interview questions may be drawn and tested.

Figure 3: SII-AHP Relationship is the focus of Section 4.1.2



Source: Own Work

4.1.2.1 <u>Affordable Housing Providers Defined as a Type of Social Enterprise</u>

This paper argues that Affordable Housing Providers, which put forth effort to solve social issues through the development of affordable housing, may be considered as a type of Social Enterprise. In addition, it should also be noted that while the links between the fields of Social Enterprise and Social Finance appear to be apparent, academic research on the relationship lags behind practice (Lall, 2019). After discovering that there was a lack of academic literature surrounding the relationship between AHPs and SIIs, the only viable route for learning about trends and challenges between AHPs and SIIs was through analyzing the broader SE-SII relationship.

Presently, there are many Affordable Housing Providers within Spain, and around the world, whose main mission is to promote social sustainability. These companies do so by tackling local housing challenges that plague their communities and its members. Examples of such companies include CEVASA, The Metropolitan House, and NEINOR HOMES, all of which are Real Estate Companies that operate within Catalonia. The previously mentioned companies all work towards increasing the stock of affordable housing so that community members may pay a rent that is below the UN's publicized threshold, where 30% of income is spent on housing (Bayas, 2021).

Per Defouny & Nyssens, “most social enterprises combine commercial and philanthropic elements in a productive balance: mixed motives, involving appeals to self-interest and to goodwill; mission-driven as well as market driven methods; and social and economic value creation as main goals” (Defourny & Nyssens, 2017). Using this definition of a social enterprise, Affordable Housing Providers, such as the ones mentioned in the previous paragraph which balance commercial and social return, can be categorized as a type of Social Enterprise. Unless explicitly stated otherwise, this category of dual-motive Affordable Housing Providers is the one that will be discussed in all sections that follow. In section 4.3, the accuracy and representativeness of how well the SE-SII relationship, seen in the literature, reflects that of the AHP-SII relationship, seen in the interviews, will be discussed.

4.1.2.2 Barriers Surrounding The Funding of Social Enterprises

Out of all of the various avenues through which SEs can obtain funding, Social Impact Investors are often one of the most commonly accessed. The reason this occurs is because SEs are able to leverage the fact that their values and principles often align with certain SIIs, where SIIs are also committed to social impact and social change (Davies et al., 2018). It’s worth noting that several articles have also stated that Social Impact Investing is both relatively new and growing quickly, with most growth having occurred over the past 20 years (Davies et al., 2018). What makes social impact investing unique, when compared to other forms of social finance, is the fact that it leverages venture capital mechanisms for social purposes (Glänzel & Scheuerle, 2015).

Now examining this in the context of affordable housing, one can understand why SIIs might naturally be assumed to be one of the main supporters and financiers of AHPs. SIIs and AHPs both aim to generate social and financial returns. Although these two stakeholders have similar motivations, academic literature has proven that collaboration between SIIs and SEs has been riddled with challenges, making it far from smooth.

There exists an array of academic articles that discuss the barriers between SEs and SIIs. All of the ones read, claim that the Social Impact Investor-Social Enterprise dynamic is quite flawed. Each article categorized these challenges into slightly different groupings.

This paper will borrow the three types of barriers mentioned in 'Unmasking the Barriers to Financing Social Enterprises' written by Nina Magomedova and Ramon Bastida-Vialcanet (2022). The three categories are: 'Individual-Level', 'Organizational-Level', and 'Industry-Level'.

Identified Barrier 1: Most SIIs prioritize financial return over social return

At the individual-level, SIIs do not behave and operate as altruistically as they make themselves out to be. Instead, SII' decision making is still predominantly shaped by economic reasoning. From the research of Magomedova and Bastida-Vialcanet, where managers from 34 Spanish SEs were interviewed, the SE managers expressed that SFEs applied the same risk assessment techniques and financial metrics for both commercial agency-driven enterprises and their own SEs (Magomedova & Bastida-Vialcanet, 2022). Furthering this sentiment, Gunnar Glänzel and Thomas Scheuerle received the following feedback from a German SE that they interviewed, "Honestly speaking, the contracts are not at all 'social'. So they are plain, straightforward venture capital contracts with all the nastiness you can possibly imagine in the VC business" (Glänzel & Scheuerle, 2015). Seeing as how there have been many SEs recorded stating similar experiences, one can see why SEs experiencing such behavior and contracts might be hesitant to work with SIIs again, leading them to search for alternative funding methods.

Identified Barrier 2: Financial expectations that are challenging for SEs to satisfy

Regarding organizational-level barriers, it is often difficult for SEs to meet the financial expectations of SIIs. Per Magomedova and Bastida-Vialcanet's study, the analysed SEs often felt pressured by SFEs to obtain results that, in their industries, were difficult to obtain and jeopardized their social mission (Magomedova & Bastida-Vialcanet, 2022). The main reason that SIIs place pressure on SEs to perform well financially is because there is a constant need to update the shareholders and investors of the SFE. If a given SE is not performing well economically, then shareholders and investors from the SFE will lose out on their investments, making them hesitant to provide additional funds. This financial reporting scheme is a self-sustaining mechanism that SIIs need to implement if they are to manage their capital properly and remain in business over time. During the conducted interviews, this barrier will be revisited and AHPs will be asked whether they find themselves facing a similar barrier.

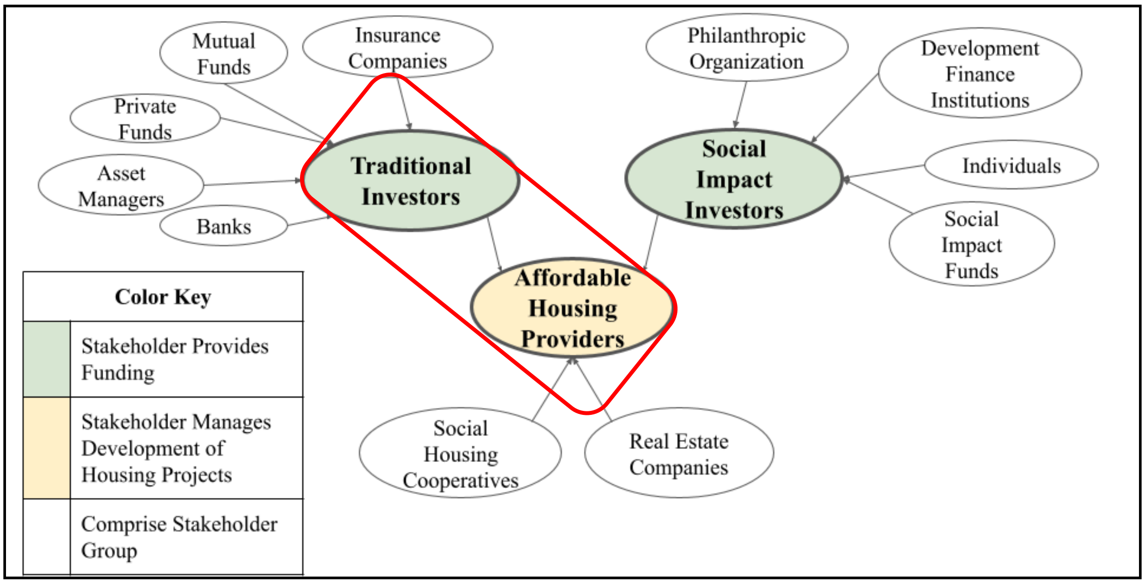
Identified Barrier 3: There are no established ways of measuring social impact

At the industry-level, there is no common or established way of measuring just how socially impactful a project or investment is. Regarding financial performance, there are well established KPIs and metrics that allow for its quantification. Measuring social impact, on the other hand, is considerably more complex and challenging to implement, only recently has this topic started to receive more scholarly interest (Lall, 2019). The lack of social impact measurement makes it difficult for SIIs to holistically understand how well their investments are doing. If SFEs are unable to effectively communicate the social impact of a project with stakeholders and investors, then this may leave them feeling unsatisfied and cautious about providing further capital.

4.1.3 Barriers Between Traditional Investors and Affordable Housing Providers

When searching for academic articles discussing the trends and barriers between Traditional Investors and Affordable Housing Providers, the exact same challenges as with section 4.1.2 were not encountered. Although articles were found surrounding the topic of affordable housing, it should be noted that there was not an abundance of literature. From the articles found, it was deemed that there was enough information to understand several of the patterns seen around the world. Later in this paper, comparisons and conclusions will be drawn with respect to how accurately the following literature represents the affordable housing dynamic that is seen within the corresponding interviewees.

Figure 4: TI-AHP Relationship is the focus of Section 4.1.3



Source: Own Work

Throughout all of the analyzed literature, it was noticed that a great focus was placed on governments and the significant role that they play, particularly in influencing Traditional Investor willingness to fund affordable housing projects. This paper has identified two different models that governments follow when addressing affordable housing disparity. The first model, which is exhibited by countries such as the United States and some Western European countries like Germany, have placed the brunt of the responsibility for developing affordable rental housing on the private market (Fields & Uffer, 2016). In this first model, these same countries have also marketized rental housing by implementing policies that sharply reduce the amount of available public social housing, in some cases even demolishing old social housing complexes, and they have implemented an array of policies, such as the 'Low Income Housing Tax Credit programme' for instance, which subsidize various expenses (Fields & Uffer, 2016).

This first model significantly incentivizes and enables Traditional Investor engagement. However, it should be noted that although some of these countries have managed to convince TIs to fund affordable housing projects, this has not always resulted in housing stability nor affordability for renters. One article claims that due to the high yield targets associated with private equity funds, negative externalities such as higher rents, the use of surcharges, tenant evictions, and more have all manifested, all of which negatively impact tenants (Fields & Uffer, 2016). Such negative behavior from TIs primarily occurs due to the fact that the government intentionally decides to be lax with affordable housing legislation, refraining from enforcing rent price regulations or ceilings, and by providing financial incentives that enable TIs to readily own property. The first government model does not pose many, if any, significant barriers for TIs to fund AH projects. In contrast, the second government model is one that contains several barriers to entry, barriers that will now be discussed.

Identified Barrier 1: Government Policies

The second model followed by governments is one where they have decided to still bear the majority of responsibility for resolving AH issues, shifting responsibility around to lower levels of government such as municipalities (Tsenkova & Witwer, 2011). In this model they also refrain from fully marketizing AH, instead electing to enact policies that ultimately prove unattractive to private investors (Tsenkova & Witwer, 2011). Countries such as the UK and Australia are prime examples of this second model, where due to the perceived instability of government policies, traditional investors have refrained from participating in increasing the stock of available rental housing (Berry & Hall, 2005).

Identified Barrier 2: Perceived Financial Risk

In an article discussing the 'Institutional Investment in Rental Housing in Australia', written by Mike Berry and Jon Hall, it is mentioned that professional and institutional investors have not helped build the rental housing stock primarily due to perceived financial risk (Berry & Hall, 2005). The financial risks mentioned are: capital risk on the value of the dwellings, interest rate and inflation risks, rental yield risk, and operating cost risk (Berry & Hall, 2005).

Identified Barrier 3: Alternative Real Estate Investments

The last identified barrier, potentially affecting AH investment, regards the opinion of some TIs deeming alternative real estate opportunities as more lucrative and worthy of their capital than AH projects. Take the 22@ Activity District project in Barcelona's Poblenou as an example, where it was one of the city's largest urban regeneration projects in the past few decades (Križnik, 2018). The 22@ project was a large public-private partnership that, through the financial backing of traditional investors, was aimed at transforming 1,982,700 m^2 of historically industrial land into a compact and mixed use district that improved the quality of life in Poblenou (Križnik, 2018). The project was also intended to make Barcelona competitive by strategically creating a space for sectors such as medical technology, biotech, energy management, and media design (Križnik, 2018). It should be noted that because the 22@ project was primarily constructed with financial motives at its core, which is different from affordable housing, what resulted was a transformation of the community in which rent prices increased and additional negative consequences, such as a decline in traditional industrial jobs, resulted for members of the community (Križnik, 2018).

Section 4.1.3 of the paper, which discussed the relationship between AHPs and TIs, established just how strongly financial and national political contexts can influence TI engagement and their support of local AH projects (Galès & Pierson, 2019). When summarizing section 4.1 of this paper as a whole, it can be stated that the reviewed literature provided great insight into the decision making criteria that the three main stakeholders seen in Figure 1 consider. The literature also provided much information regarding the barriers that are being experienced by Investors and Affordable Housing Providers alike.

4.2 Interview Results

All of the interviews conducted were completed during the month of May of 2025. In total, 8 inquiries were originally sent out, ultimately, 6 industry experts responded and provided data. All 6 respondents were based out of the Catalonia region of Spain. Out of the 6 respondents, only 2 of them elected to provide detailed, written responses to my interview questions, outlined in Appendix 1, in place of conducting an online meeting. So as to try and obtain an equal amount of data from each stakeholder group, 2 candidates were from Affordable Housing Providers, 2 were Traditional Investors, and 2 were Social Impact Investors. In the following subsections, specific codes will be used to protect the anonymity of the field experts that participated in the interviews for this paper. The created codes build off of the abbreviations that have been used throughout the paper, where AHP means ‘Affordable Housing Provider’ and AHP1 would refer to the first interviewee from the affordable housing provider group. Continuing with this logic, AHP2 would refer to the second interviewee from the affordable housing provider group. Below are the synthesized results from said interviews.

Table 1 Sample Description

Code	Stakeholder Group	Organization Type	Interviewee’s Position
Interviewee-1 AHP1	Affordable Housing Providers	Real Estate Company	CEO
Interviewee-2 AHP2	Affordable Housing Providers	Real Estate Company	CEO
Interviewee-1 TI1	Traditional Investor	Investment Company	Investor
Interviewee-2 TI2	Traditional Investor	Bank	Director
Interviewee-1 SII1	Social Impact Investors	Impact Investment Firm	Investor
Interviewee-2 SII2	Social Impact Investors	Bank	Director

Source: Own Work

4.2.1 Feedback from Affordable Housing Providers

Current State of Funding

When AHP1 and AHP2 were asked to describe the financing difficulties, if any, that were associated with their AH projects, both respondents gave very different answers. AHP1 confirmed that they indeed experienced financial challenges in obtaining adequate financing for the business plans that their AH projects entail. AHP1 cited unappealing contract terms, interest rates, and terms of guarantees as reasons why they were in a lack of funding. AHP2, on the other hand, claimed that they don't experience a lack of funding primarily due to the fact that they have diverse funding sources, which include both TIs and SIIs, and because they generate housing in multiple ways. AHP2 builds housing in housing cooperatives, communities of property, and a 'Multipartners-to-Rent' model. It should be noted that both AHP1 and AHP2 have a lengthy history of developing AH yet they are both presently having different experiences.

Regarding investor preference, both respondents again had drastically contrasting answers. AHP1 stated that they had no preference between TIs and SIIs, claiming that the terms and conditions of both were virtually the same. AHP1 also commented that SIIs evaluate AH projects using the same metrics that TIs use, leading them to express the following sentiment regarding their opinion of social impact investing, "it's simply a business case used to attract customers that have, that sensitivity, but in practice they don't have an impact on providing better financing conditions for social projects." AHP1 went so far as to say that "social impact investing does not exist", expressing further disillusionment. AHP2 contrasted this strong sentiment, citing that they prefer working with SIIs over TIs because SIIs value "bettering the quality of life in vulnerable communities, protecting the environment, promoting equality and inclusion, and because they support sustainable business models". AHP2 furthered this preference by expressing that TIs are not as appealing to work with due to their short-term vision of maximizing financial return and minimizing risk.

Perceived Barriers

The areas where both respondents were able to find common ground regarded industry-wide challenges and Spanish regulatory barriers that they claim impede the progress of their projects and dissuade investors. As AHPs, the industry-wide issues that have had the most impact included a lack of skilled labor, increased construction material costs, and a lack of available land. Both AHPs mentioned that the bureaucratic process, such as obtaining necessary permits, surrounding a project's development significantly increases the timeline of their projects leading to delayed milestones and increased project cost. When asked what future changes they'd like to see, AHP1 commented, "I would say that instead of there being more changes, I would say that there should be fewer changes, more regulatory stability allows there to be a certain level of security, security that in the long term affects the investments that we make in housing." There seemed to be a strong notion from both respondents that the government is the entity that most hinders the success of AH projects.

4.2.2 <u>Feedback from Traditional Investors</u>

Decision-making Criteria

For context, TI1 is a private investor that engages with affordable housing and other forms of real estate, and TI2 is a publicly listed bank. Regarding criteria used to evaluate the viability of potential AH investment opportunities, TI1 stated "...we don't put a single pebble to make the building, unless we have all of it presold". What is meant by this is that TI1 does not invest in AH projects until they are guaranteed that all of the units that will be built already have clients committed to renting them. The previously mentioned preference works as a method of mitigating their risk. What is important to note as well is that TI1 elects only to invest in AH projects that are built on new land, excluding the AH projects that retrofit prebuilt property. TI2, in contrast, indeed invests in projects that include prebuilt properties. In addition to standard financial criteria, such as credit and repayment capacity, TI2 also examines sustainability certifications, such as the optional certifications BREEAM and LEED, and Spain's legally required 'Certificado de Eficiencia Energética' when considering whether or not to invest.

Perceived Barriers

As mentioned by TI1 and TI2, the barriers that prevent TIs from further investing in AH projects include: a scarcity of available land for sale, due to ayuntamientos, or municipalities, preventing their sale; high taxes which can comprise almost 10 percent of their total investment; slow bureaucratic processes which can push project start dates out 6 to 16 months; high material costs; and lastly, the high frequency at which legislation changes. Legal uncertainty is the greatest deterrent of TIs, where TI1 stated, "...every 2 or 3 years they come out with a new regulation, and when the project has not yet been completed and you are in construction, they have changed the rules of the game on you." The current rate at which regulation changes results in unforeseen costs being incurred and lead times being forcibly extended.

Although the government has enacted certain incentives to try and attract investment, the application processes to receive them often require much time and effort, making it complicated and oftentimes not worth the effort put in. In spite of the previously mentioned barriers, it's important to mention that neither organization doubted the viability and return of AH projects. Both respondents clearly understood that the demand for such housing is large and remains relatively constant, making it a generally profitable and safe sector to invest in, provided that conditions are appropriate.

4.2.3 Feedback from Social Impact Investors

Motivations for investing in AH

SII1, who provided written feedback, was an investor that did not directly invest in affordable housing, instead, they indirectly invested in AH by managing a listed impact investment fund that specializes in development finance organizations. Social and affordable housing projects are part of the financing that some development finance organizations offer. SII1's method of indirectly funding AH demonstrates one example of how SIIs finance AH. SII2, which is a public bank, directly invests into AH. Seeing as how it is a public bank, it has obligations to its community members that transcend any financial interests. SII2's existence functions on the premise that its investments must have significant positive social impact. Although both respondents operate as SIIs and their financial capital supports AH projects, their initial intentions and capital flows vary significantly.

Decision-making Criteria

Due to the fact that the interviewed SIIs operate under different business models, it resulted that the investment criteria used for AH proposals also differs between them. SII1 doesn't directly invest in AH projects so they do not evaluate these types of project proposals directly. Instead, SII1's investment criteria focus on evaluating the issues that development finance organizations have. Regarding SII2, this respondent evaluates the financial viability of proposed AH projects by primarily focusing on a given AHP's ability to repay the debt that would be assumed. In addition to this financial metric, they also ensure that proposed AH projects meet the regulatory requirements necessary to be deemed as social housing. It is important to note that although regulatory compliance criteria are considered for making investment decisions, SII2 admits that they don't have the internal knowledge and expertise to accurately assess this, forcing them to collaborate with other government organizations that do.

Perceived Barriers

SII1's main barriers concerned their existing business model, which as they worded, "...[is] linked to the behavior of the public administration and legislative development". Although SII1 indirectly funds AH efforts and is a bit removed from the affordable housing projects themselves, it is still negatively impacted by the direction in which legislation surrounding the topic continues to develop. Due to SII2 being a public institution, it can sometimes leverage its network to its advantage, working through certain governmental and regulatory challenges that other SIIs might typically face alone. In spite of their network, the main barrier that they cannot bypass is time, specifically the large amount of time that it takes for administrative processes to be completed. In general, SII2 did not perceive there to be many barriers to it entering the AH market that it could not overcome, in one instance stating "there aren't any logistical issues", and at a later time also stating "we don't detect any problems with financial regulation."

4.3 Discussion

In this section, this paper will discuss whether the identified barriers in sections 4.1.2 and 4.1.3 of the literature review were either confirmed or disproved in the conducted interviews.

4.3.1 Barriers Between Social Impact Investors and Affordable Housing Providers

The following paragraphs will discuss how accurately the literature for Social Enterprises represented the actual relationship between Affordable Housing Providers and Social Impact Investors within Spain.

Identified Barrier 1: Most SIIs prioritize financial return over social return

Using the data obtained from the real estate respondents, AHP1 and AHP2, it is seen that some AHPs have experiences and opinions that validate the first identified barrier of section 4.1.2.2, where SIIs were identified as prioritizing financial return over social return. The strong claims and general attitude of AHP1 greatly supported this claim, but the positive and preferential attitude of AHP2 rejected it. Due to the opposing views in the collected interview data, they effectively nullify each other.

Identified Barrier 2: Financial expectations that are challenging for SEs to satisfy

Regarding the second barrier, where financial expectations are deemed challenging for SEs to satisfy, neither AHP respondent expressed concern regarding this exact matter. It is likely that Affordable Housing Providers are an exceptional type of SE, one that generates greater profit and tends to more frequently meet the financial expectations of the SIIs that provide funding.

Identified Barrier 3: There are no established ways of measuring social impact

Regarding the last identified barrier of 4.1.2.2, both social impact interviewees acknowledged that there is currently no established method in which social impact can be consistently measured, however, they did not express any concern over this issue. Although there is no established method for AHPs to report the social impact of their AH projects, SIIs appear to be understanding of this and are relatively satisfied with the mostly qualitative information that is provided to them.

Taking all of the above information into account, it can be stated that reviewing literature surrounding the SE-SII dynamic in lieu of literature surrounding the AHP-SII relationship was indeed an appropriate decision. Treating Affordable Housing Providers as a type of Social Enterprise was appropriate. The literature that was reviewed gave valuable insight into the decision-making criteria, barriers, and trends that resulted within the interviews. During the interviews, much of the information seen in section 4.1.2.2 was also seen in the feedback, however, due to particular reasons some of the barriers and trends did not perfectly align. This misalignment of certain information may be attributed to some of this paper's limitations which will be discussed further within the limitations section of the paper.

4.3.2 Barriers Between Traditional Investors and Affordable Housing Providers

This section will address how accurately the literature surrounding AHPs and TIs reflected the experiences mentioned by the interviewees.

Identified Barrier 1: Government Policies

From the data collected in the interviews, it can be said that Spanish Affordable Housing Providers and Traditional Investors both wholeheartedly agree that government policies are one of, if not, the biggest roadblocks. As mentioned in the literature review, political context plays a significant role, varying greatly in countries throughout the world. Revisiting the two model government approach outlined in section 4.1.3, the collected data shows that Spanish governance exhibits a mixture of both. Although it shows traits of both, it leans closer to model number one which places the majority of responsibility for developing affordable housing onto the private market. Even though it places most responsibility on the market, its constant changing of legislation, bureaucratic processes, and lack of effective incentives contrast this 'relinquishing of responsibility', painting it as a government that is cautious and controlling. The interviewee data confirmed the first identified barrier of section 4.1.3.

Identified Barrier 2: Perceived Financial Risk

Regarding perceived financial risk, the interviewed Traditional Investors did not express any anxiety or concern over rental yield risk specifically, but they did express other types of financial risks. There was no concern over rental yield due to the fact that there is presently high demand for affordable housing, a demand that will most likely continue through the immediate future. The financial risks that were mentioned included taxes owed to the federal government and rising operating costs due to a lack of skilled labor and increased material cost.

Identified Barrier 3: Alternative Real Estate Investments

Regarding the third and last barrier from the literature, the TI respondents both emphasized that they perceive affordable housing opportunities as being comparatively on par with alternative real estate investments. Although certain TIs might elect an alternative real estate investment over an AH one, this is no reflection of overall market preferences, it may simply be due to an organization’s preferences or differing criteria used to evaluate the viability of new investment opportunities.

5. Conclusion

5.1 Final Summary

Affordable housing in Spain is a human rights issue, a right that is presently not being satisfied. In an effort to correct this, many entities ranging from Investors, the Government, and Affordable Housing Providers are actively working towards increasing the development of more low-rent housing. Due to the fact that thousands of additional units are needed throughout the nation, it is crucial that adequate funding be obtained to finance the many projects that will be conducted. Through two methods of data collection, a literature review and interviews, this paper obtained information that can be used to facilitate a better understanding between Affordable Housing Providers and Traditional and Social Impact Investors. By sharing the findings of this paper with the previously mentioned stakeholders, an increased understanding of one another's goals, motivations, reservations, and overall thought processes will foster a setting for increased collaboration and potential capital flow. This would ultimately grant more financial and social goals being achieved.

The information found within sections 4.1.2 and 4.1.3 of the literature review addressed research objective 2 specifically, where the decision-making factors and barriers surrounding investors and affordable housing projects were learned. Although the literature review also provided some insight into research objective 1, objective 1 was directly completed with the information from section 4.2.1 of the semi-structured interviews. The questions for the semi-structured interviews were established in a manner such that each item within this paper's research objectives was addressed. Together, the compiled information from both the literature review and interviews successfully addresses the main research question of this paper. This paper brings forth information that provides a greater understanding of the present barriers that prevent increased investor funding for AH within Spain.

5.2 Limitations and Recommendations for Future Research

The limitations of this research paper can be divided into two groups, those associated with the literature review, and those associated with the interviews. Regarding the literature review's limitations, there was very limited academic research available that discussed the dynamic between Affordable Housing Providers and Social Impact Investors. Narrowing the scope of articles down to include only those surrounding affordable housing further decreased the ability of finding literature to the point where none was found. Although there were plenty of articles discussing the relationship between Affordable Housing Providers and Traditional Investors, there were not many centered around affordable housing. For future research, it is recommended that the scope of this project broaden to include Spanish literature. In accordance with this, a new search string should also be created, one that includes Spanish terminology. If the new search string does not provide additional useful results within JSTOR, then additional academic databases should be tested as well.

Regarding interview limitations, the first concerns the sample size used for each stakeholder group. Due to the timeframe of the project, only 2 people from each of the 3 key stakeholder groups were interviewed. As a result, the final sample size may not be the most representative of the corresponding populations. Secondly, all participants were geographically concentrated within the Catalonia region of Spain, resulting in a sample that does not span much of the nation. Lastly, convenience sampling was used to select the participants. The author of this paper used a combination of online research and his thesis director's contacts to compile a list of suitable candidates that might be willing to participate. In order to gather more representative data, a larger pool of applicants should be considered, they should be selected at random, and they should be located geographically across the country.

In future research, it is highly recommended that future interviews include members of the Spanish Government. Seeing as how the Government was mentioned numerous times by all of the respondents that participated, it may be a good idea to obtain the perspective of this stakeholder.

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7. Supplementary Information

7.1 Appendix 1: Interview Questions

The below questions were asked to the relevant stakeholders. All of the questions stemmed from trends seen in the literature review and all questions were grouped into similar subtopics:

7.1.1 Interview Questions for Traditional Investors

Understanding the Institution's Definition of Affordable Housing

1. How does your institution define "affordable housing" in the context of investment opportunities?

Considerations Taken Prior to Decision Making (Risk Assessment, Financial/ROI, Other)

2. What are some criteria that you use to evaluate affordable housing projects before committing to funding? Please provide as much detail as you would like, i.e. are scoring matrices involved, how qualitative/quantitative is the analysis, are there specific categories for different criteria, etc.
3. What are the primary financial risks/concerns associated with funding affordable housing projects from your institution's perspective?
4. How do affordable housing projects compare to other real estate investments in terms of expected returns and risk profiles?

Identified Potential Barriers (Expectations, Communication & Knowledge Gaps, Regulation/Policy Challenges, Operational/Logistical Challenges, Perception, Market Dynamics, etc)

The following have been identified as potential barriers that prevent traditional investors from investing in affordable housing projects:

5. Do you feel that your institution has sufficient expertise or knowledge to evaluate affordable housing projects effectively? If specific personnel have been hired to bring such knowledge, in social sustainability, please elaborate.
6. Oftentimes, it is perceived as challenging to measure the amount of positive social impact that affordable housing projects have on communities. How do such gaps

in data affect your investments, if at all, and are there any other gaps in information or data that make it difficult to assess the viability of affordable housing investments?

7. Are there specific regulatory or policy constraints that presently discourage your institution from investing in affordable housing?
    a. Are there any specific government policies, such as incentives or subsidies, for affordable housing that influence your institution's decision-making process?
8. Are there any concerns about reputational risks or public perception when investing in affordable housing?
9. What operational challenges (e.g., project management, partnerships) does your institution face when working with developers or public-private partnerships on affordable housing projects?
    a. If your organization does not presently invest in any affordable housing projects, how do potential operational challenges, such as working with developers or public-private partnerships, influence your investment decision?

Strategic Alignment and CSR

10. How does affordable housing align with your institution's broader investment strategy or corporate social responsibility (CSR) goals?

Current and Future Outlook Surrounding Affordable Housing Investments

11. To the best of your ability, how would you summarize your institution's current stance on investing in affordable housing projects? Please provide any examples of projects that the company has invested in and elaborate on the experience.
12. Are there any changes (e.g., regulatory, market, or policy) that you believe would make affordable housing projects more attractive to your institution?

7.1.2 Interview Questions for Real Estate Companies

Understanding Current Funding Challenges

1. What are the primary funding challenges your company faces, if any, when developing affordable housing projects?
2. When looking to obtain funding, does your company have a preference to work with either a Social Impact Investor or a Traditional Investor? Please explain your answer (i.e yes there is a preference for a type of investor; no there is no preference for the type of investor).

Identified Potential Barriers with Traditional Investors (Risk/Return, Communication & Expectations, Policy, etc.)

In this section, questions about Traditional Investors, which includes but is not limited to Banks, Insurance Companies, Asset Managers, Private Funds, Pension Funds, Mutual Funds, and Family Offices, will be asked:

3. Have you engaged with Traditional Investors to understand their concerns or requirements for funding affordable housing projects?
    a. If so, what feedback have you received?
    b. If not, what do you *perceive* as the main reasons Traditional Investors are hesitant to fund affordable housing projects?
4. How do the funding terms and conditions from Social Impact Investors differ from those offered by Traditional Investors?
5. How do you think Traditional Investors evaluate the risk and return of affordable housing projects compared to other real estate investments? In this question, I would like to learn more about certain metrics or data that are taken into account when evaluating the success of affordable housing projects, which are social projects.
6. It is presently believed that there is an existing communication and expectation gap between Real Estate Companies and Traditional Investors. First, do you agree with this statement, and secondly, what role do you think improved communication with Traditional Investors could play in addressing the funding gap?

7. Are there specific regulatory or policy barriers that make it harder to secure funding from Traditional Investors?

Future Outlook

8. What changes (e.g., in market conditions, policies, or institutional practices) do you think are necessary to encourage more funding from Traditional Investors?
9. What steps is your company taking to make affordable housing projects more appealing to Traditional Investors?
10. How do you see the role of Social Impact Investors evolving in the future, and how might they collaborate with Traditional Investors to fund affordable housing projects?

7.1.3 <u>Questions for Social Impact Investors</u>

Understanding Investment Goals and Decision Making Criteria

1. What motivates your organization to invest in affordable housing projects, and how do these projects align with your broader social impact goals?
2. What criteria do you use to evaluate affordable housing projects before committing to funding?

Challenges in Collaborating with Real Estate Companies (Performance Expectations, Communication & Knowledge Gaps, Operational/Logistical Challenges, etc)

3. What are the main logistical challenges you face when working with real estate companies on affordable housing projects?
4. How does your organization define success in affordable housing investments (e.g., financial returns, social outcomes, or both)?
5. Are there specific communication issues that have arisen during your collaborations with real estate companies? If so, how have they impacted the projects?
6. How do differences in expectations between your organization and real estate companies affect the success of affordable housing projects?
7. How do you balance the need for financial returns with the social impact goals of affordable housing investments?

8. Are there specific financial or operational risks that real estate companies could address to make projects more appealing to your organization?
9. Are there specific regulatory barriers that make it harder for your organization to fund affordable housing projects effectively?

Collaboration and Partnership Dynamics

10. How do you think real estate companies could improve their collaboration with Social Impact Investors to ensure smoother project execution?
11. Have you experienced challenges in aligning your organization's goals with those of real estate companies? If so, how have you addressed them?

Future Outlook

12. What changes (e.g., in market conditions, policies, or practices) do you think are necessary to make affordable housing projects more viable for Social Impact Investors?

7.2 <u>Appendix 2: Figures</u>

Figure 2 PRISMA Flow Diagram for Systematic Review