Stoneweg US

Workforce housing is no longer niche – it's essential

Bridging the gap: The role of institutional capital in workforce housing

The workforce housing sector presents one of the most significant opportunities in real estate today. While class A multifamily assets continue to attract capital and low-income housing remains subsidized, the middle segment – often referred to as the "missing middle" – faces a persistent supply-demand imbalance. Rising home prices, stagnant wages and a lack of new development catering to median-income renters have intensified the need for institutional investment in this space.

Stoneweg US has long recognized that workforce housing is not just a socially responsible investment but a strategic one. Demand fundamentals remain strong, with occupancy rates in workforce housing consistently outperforming luxury apartments due to the affordability constraints impacting middle-income renters. This segment's resilience to economic cycles makes it particularly attractive for investors seeking stable, risk-adjusted returns.

Addressing market gaps through institutional investment

Historically, workforce housing has been underserved by institutional capital due to the challenges of scale, operational efficiency and fragmented ownership. Shifting macroeconomic conditions and evolving investor priorities, however, are changing this landscape. Institutional capital is increasingly drawn to this segment for its steady cash flow, lower turnover rates, and potential for value creation through operational efficiencies and sustainability-driven retrofits.

Defensive strategies for multifamily investment in uncertain markets

Economic and political volatility is reshaping institutional investment strategies in multifamily real estate. With interest rate uncertainty, shifting renter preferences and capital constraints redefining market fundamentals, investors are seeking risk-adjusted approaches to protect returns and maintain resilience. Rather than retreating in the face of economic headwinds, institutional players are pivoting – adopting defensive investment strategies that prioritize geographic diversification, light value-add in core-plus markets and strategic capital deployment.

Geographic diversification: Reducing regional risk exposure

Investors who can balance regional exposure across economic cycles will be better positioned to weather volatility. Institutional investors are turning to data-driven geographic diversification, identifying secondary and tertiary markets with strong migration trends, business-friendly policies and housing undersupply. Select Sun Belt states and Midwest markets, for example, continue to see population inflows and economic expansion, making them attractive hedges against downturns in high-cost coastal markets.

Light value-add: Strengthening asset fundamentals

In a high-rate environment, new development faces increased barriers, making light value-add in core-plus markets a preferred alternative. Investors are focusing on:

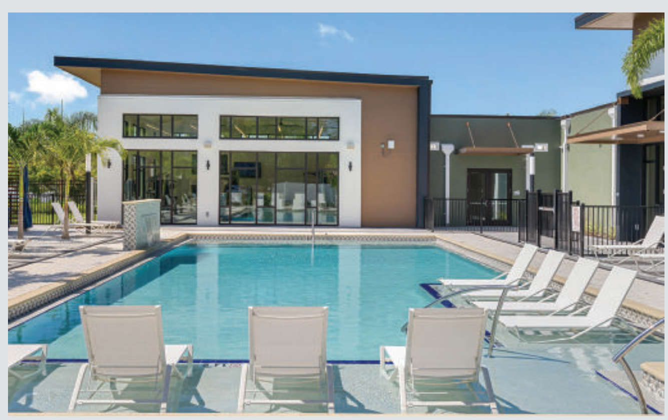
- Improving operational efficiency through sustainability initiatives (e.g., energy retrofits, water conservation and smart metering)
- Enhancing resident experience to drive occupancy and retention, particularly in workforce and attainable housing segments
- Repositioning slightly older assets to meet evolving renter demands, such as technology integration, community-building amenities and flexible lease structures

The result? Higher NOI, stronger asset valuations and reduced downside risk.

Capital deployment and portfolio optimization

With rising capital costs, institutional investors are leveraging creative capital allocation strategies to optimize portfolio performance. This includes:

- Shifting capital toward stabilized, income-generating assets that offer predictable cash flow in a risk-averse climate
- Selective acquisitions in distressed or underperforming assets where valuation resets present high-return opportunities
- Leveraging technology and data analytics to refine underwriting, enhance risk assessment and improve asset management efficiency



Successful strategies in workforce housing typically focus on optimizing existing assets, enhancing operational efficiencies and integrating sustainability measures to drive long-term value. Investors and operators who take a proactive approach – leveraging technology, efficient management practices and strategic upgrades – see tangible improvements in performance. Implementing energy-efficient retrofits, for example, not only reduces expenses but also enhances asset durability, aligning with broader industry trends toward sustainability. Additionally, data-driven decision making allows firms to better identify markets where demand is strongest, ensuring that investments remain resilient in varying economic conditions.

By understanding the unique dynamics of workforce housing and addressing structural inefficiencies, institutional investors can play a critical role in expanding access to attainable housing, while achieving strong, stable returns.


Images feature Lake Maggiore Apartments, in St. Petersburg, Fla., the latest development project of Stoneweg US.

How capital markets can strengthen workforce housing

While the investment case for workforce housing is clear, the sector remains underfunded due to legacy financing structures and misconceptions about risk. To unlock the full potential of the "missing middle," capital markets must evolve in the following ways:

- Broader debt financing options: Expanding lending programs tailored for workforce housing can encourage more institutional participation. Government-sponsored enterprises (GSEs) should continue prioritizing workforce housing initiatives.
- Incentivizing private investment: Policy-driven incentives, such as tax credits, low-interest loans or public-private partnerships (PPPs), can attract private capital into the space.
- Innovative investment structures: The industry must explore creative financing structures, such as workforce housing REITs, social impact bonds and long-term capital commitments, that align with the sector's steady, durable returns.

Conclusion

Institutional investors have a rare opportunity to address one of the most pressing issues in the U.S. housing market while generating strong financial returns. Workforce housing is no longer a niche property sector – it is an essential segment poised for growth, resilience and long-term value creation. By leveraging capital markets to bridge funding gaps and deploying strategic asset management approaches, we can ensure the "missing middle" is no longer missing but thriving.

At Stoneweg US, we remain committed to scaling our impact in workforce housing, working alongside investors and policy-makers to create attainable housing solutions that benefit both residents and stakeholders. The time to act is now.

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As founder and CEO of Stoneweg US, Patrick Richard has led the firm's exponential growth, acquiring and developing more than 21,000 units and 100 properties nationally. Acting with integrity and committing to an ESG-focused investment strategy, Richard places the utmost priority on generating value for stakeholders and establishing Stoneweg US as a premiere investment partner. During the past nine years, Richard has also prioritized and implemented an enhanced reporting structure to supply clear and transparent reporting to all partners and stakeholders. Richard began his commercial real estate career in Switzerland as a founding partner of Procimmo AG, a Swiss-based and regulated asset management company.

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CORPORATE OVERVIEW

Founded in 2016, **Stoneweg US** is an opportunistic real estate investment firm with a nationwide platform focused on the acquisition and development of multifamily assets. With a portfolio of more than 12,000 units valued at more than $2.0 billion, we seek to deliver attractive, risk-adjusted returns to our investors by identifying market opportunities and optimizing asset performance, all while improving the resident experience through a variety of value-added strategies. Through our association with Stoneweg SA, a Swiss-based real estate company with more than $5.0 billion in assets under management, Stoneweg US serves as the exclusive U.S. investment manager of Varia US Properties AG, a Swiss publicly traded multifamily real estate fund (SIX Swiss Exchange ticker: VARN). Stoneweg US also partners with U.S. and international equity investors to acquire and develop multifamily assets in markets with strong population growth and positive trending economic conditions. In 2020, Stoneweg US announced the formation of SW Fund I, an additional U.S.-based investment fund targeting multifamily investments in emerging U.S. markets, and in 2023, Stoneweg US launched a development fund. For more information, please visit: **www.stoneweg.us.**