An impact investment firm has won the backing of NBA All-Star Chris Paul and activist hedge-fund investor Bill Ackman, whose family foundations are investing in funds targeting America’s affordable housing shortage.

Turner Impact Capital has raised $357 million for its second fund focused on providing affordable housing to people who earn too much to qualify for subsidized housing but not enough to afford homes in the areas where they live and work.

The new vehicle, Turner Multifamily Impact Fund II, aims to invest in ethnically diverse, underserved communities to serve residents making 60% to 100% of the local median income.

“Today there are 43 million renter households, of which one out of two families is rent-burdened and one out of four is severely rent-burdened, spending upwards of 60% of their monthly income on their housing,” said Bobby Turner, the firm’s chief executive who launched Turner Impact Capital in 2014 after years with Canyon Capital Realty Advisors. “That’s at the expense of things like food security and, most importantly, at the expense of hope.”

The economic fallout from the coronavirus pandemic stands to put even more pressure on renters across the country as tenant protections expire in the months ahead, according to the firm, which estimates that outstanding rent in the U.S. will total $7.2 billion by the end of this year.

Through its housing impact funds, the Los Angeles-based firm purchases apartment buildings in densely populated urban areas such as Washington, Dallas and Las Vegas.

By Laura Kreutzer
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then seeks renters from groups such as schoolteachers, police officers and health-care workers, with the goal of providing more affordable rental options than are typically available in those areas.

Occupants of the buildings in Turner’s first housing impact fund earned a median annual household income of $39,600, according to an investor presentation by the firm.

Turner offers reduced rent to those tenants who also contribute a certain amount of “sweat equity,” in this case, in the form of participating in special enrichment programs for renter communities. The programs provide services such as tutoring, health screenings and neighborhood watches.

Properties in Turner’s first impact fund charged an effective monthly rent averaging $924 as of August, the presentation shows. That fund, which closed in 2016 with $264 million and includes leverage, has invested around $700 million in at least 30 multifamily properties with some 7,840 housing units. The firm has backed seven properties totaling more than 3,000 units through its second fund and is about to close on an eighth.

Mr. Paul, who invested in both the first and second housing funds, works with Turner Impact to help promote public awareness of its mission. The point guard, who recently joined the Phoenix Suns from the Oklahoma City Thunder, said he was attracted by the firm’s ability to combine investing with doing social good.

“To make real sustainable change, it costs money and you have to put a plan together,” Mr. Paul said, adding that the enrichment programs offered by Turner-backed properties help foster a stronger sense of community among residents.

“There are certain necessities that every family wants,” Mr. Paul said, citing access to decent health care and education as examples.

The enrichment programs also help reduce turnover rates among occupants, Mr. Turner said.

“We know the biggest expense of operating and owning workforce housing is [tenant] turnover,” he said. “If you can create and instill pride in rentership by providing essential services, you can reduce turnover.”

Among the properties Turner manages through its first fund, the average stay by all
renters rose to 3.2 years by June of this year from 2.4 years when the property was acquired, the investor presentation said. The average occupancy rate among the first fund’s properties is 96.3%, the presentation showed.

As of September, the firm’s first fund was on track to generate a 10.3% net return for its investors, according to Mr. Turner.

Turner Impact Capital has raised at least $1.4 billion across funds focused on providing charter schools and community health care as well as affordable housing.

Mr. Ackman has backed four of the firm’s funds through Pershing Square Foundation, a charitable organization that manages money on behalf of Mr. Ackman and his family.

“Most of the foundation’s investments are in nonprofits,” Mr. Ackman said. “But we vastly prefer a for-profit solution than a nonprofit solution to a problem, because for-profit solutions are scalable, sustainable and it’s easier to incentivize people to get the job done.”

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