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Homelessness Crisis: The Impact REIT to Alleviate Housing Shortages

New York City is currently experiencing a massive development boom. With projects like Hudson Yards, 432 Park Ave, and the buildings going up in Long Island City, New York’s skyline is transforming. While New York gains profit, recognition, and taxes from these developments, these projects are also changing the economic fabric of the city. As high rise commercial and residential projects are being developed throughout the city, the price of housing is consequently rising. These changes have impacted many different people living in New York. As shown in the figure to the right, historically low-income areas have experienced the greatest percent increase in rents.

The South Bronx, Harlem, as well as multiple other neighborhoods located throughout Brooklyn have been known to house underprivileged black and Latinx communities. As rents continue to rise, this problem becomes a greater burden on families. In 2016, rent as a proportion of income rose 5.5% from 59.7% to 62.5% (Lightfeldt, 2016). When individuals can no longer pay rent and are evicted from their homes, living on the street is often their only option. The correlation between rent, income, and homeless is quantified in a 2017 Forbes article that states “nearly 3,000 more people would fall into homelessness with a 5 percent average rent increase” (Gudell, 2017).

The growing rent burden is not confined to New York City; the United States as a whole also faces this problem and lacks sufficient affordable housing infrastructure to meet demand. There is currently a shortage of approximately 7.4 million affordable and available rental homes for low-income households; this is occurring as income for the poorest 10% of households has dropped 6% since 2006 and more than 43 million Americans remain in poverty (Emmanuel & Aurand, 2017). This is caused by the rise in
the rent-to-income ratio in many cities, additional burden of inflation, and continued scarcity of affordable housing. The current amount of social resources provided by certain cities are also insufficient to provide enough support for people struggling to break the cycle of poverty.

Considering the severity of the homelessness crisis, we believe that investing in affordable housing is of the utmost importance. Housing is considered affordable when it costs 30% or less of the residents’ total income. Affordable housing decreases the amount of people who are evicted from their homes for not being able to pay rent. This problem has become a top priority for many of the New York City council members. In fact, Mayor Bill De Blasio stated, “In total, we pledge to preserve or construct nearly 200,000 units of affordable housing - enough to house between 400,000 and 500,000 New Yorkers -- to help working people by literally putting a roof over their heads” (De Blasio, 2014).

However, financing affordable housing is not a simple endeavor and comes with numerous hurdles. For example, governments often stand in the way of developing these properties as it takes time to negotiate and secure permits. There are also tax codes that people have to adhere to in order to make a profit. Additionally, there are large initial capital costs that come with building affordable housing projects. These costs include acquisition costs, design and construction costs, and developer fees. Even once affordable housing units have been built, landlords sometimes work around the law and charge higher rents. Therefore, planning and sustaining affordable housing properties is a difficult task in many cities. However, we believe our Impact REIT will combat and overcome many of these barriers.

We propose the Impact REIT, a company that closely follows a typical real estate investment trust structure but also incorporates a social impact bond contract with the government. This structure maximizes social impact as well as generates stable returns for investors. A primary goal of the Impact REIT is to help homeless populations obtain suitable housing with amenities and services to help get them on their feet. The Impact REIT’s success will be measured both in terms of homeless people helped and by typical investment metrics such as earnings growth and return on invested capital.
Overview of Current Landscape

For-Profit Investors’ Involvement

Currently, firms are increasingly prioritizing community investment as a part of their investment structures. Some key players include Deutsche, JPMorgan, and Goldman Sachs. Together, these companies have committed hundreds of millions of dollars to affordable housing in New York City alone. A key benefit of private sector involvement is that these players utilize their own capital and the capital of their clients to expand the affordable housing industry. This provides a necessary counter to the federal government’s defunding in the space.

In addition to monetary returns, banks are often interested in impact investing in the affordable housing sector because they can receive tax credits and CRA consideration. Additionally, banks receive positive PR from these community development investments.

Major Players

1. Deutsche
   Deutsche Bank Americas Foundation has committed 1 million USD to four different NYC organizations that support distinct homeless populations. They have also invested $400 million in a portfolio of community development loans and investments. This portfolio has also been utilized to help finance quality affordable housing, homeownership opportunities, job creation, and support services such as child care and employment training (“U.S Community Development”, 2010).

2. JP Morgan Chase & Co.
   JP Morgan Chase & Co. has provided a total of $2.6 billion to low- to moderate-income communities through community development lending and equity investments. In addition, the company has a community development banking location in NY in order to increase its community influence (“Community Development Banking”, n.d.).

3. Goldman Sachs
   Goldman Sachs has created specific community development initiatives targeted in New York City. In New York City, the company has invested $1.9 billion in nearly 100 projects. In total, it has committed over $5 billion to underserved American communities. Additionally, Goldman Sachs has partnered with local leaders and nonprofits, where they have focused on community development and financing for small businesses (“New York”, n.d.).
4. Community Capital Management

Community Capital Management has invested $7.9 billion in impact investing initiatives nationwide. These initiatives have included financing $6.2 billion in affordable rental housing and affordable mortgages. They have financed over $50 million in New York, with their biggest focus being on affordable housing ("Impact Reporting", 2017).

Non-Profit Involvement

Foundations are interested in the affordable housing sector because investing in affordable housing helps resolve a number of issues in communities such as homelessness and housing stability for low-income families.

Major Players

1. New York City Affordable Housing Acquisition Fund

Michael Bloomberg collaborated with five foundations in order to create the New York City Affordable Housing Acquisition Fund. The fund aims to create housing units on a level similar to the last few years of the vacant lot development program. The financing will also be used to buy a large number of rental apartments that are set to lose affordable housing protections. Developers said they use the fund to make rapid short-term loans until more permanent financing is obtained (Lee, 2005).

2. Sherman Foundation

The Sherman foundation provides grants for community projects in order to create and sustain “affordable and safe housing, employment opportunity and workers’ rights, sustainable community development, and access to public benefits and income support”. Part of its core goal is to encourage “Cross-sector approaches, especially those jointly addressing environmental and social justice goals”. In the Sherman Foundation’s work, particular emphasis has been placed on housing policy and the availability and preservation of affordable housing (“Strengthening NY”, n.d.).

3. Community Action for Safe Apartments

Community Action for Safe Apartments (CASA) is a membership driven tenant organizing project of New Settlement Apartments operates primarily in the Southwest Bronx. Its mission is to “protect and maintain affordable and safe housing through collective action” (“About Us”, 2016).

4. Enterprise Community Partners
Enterprise Community Partners focuses on using impact investing to increase neighborhood impact and protect vulnerable populations. In order to increase neighborhood impact, Enterprise seeks to “strengthen neighborhoods through preserving existing affordable housing, building the capacity of housing providers and bringing energy efficiency, resiliency and health resources to low-income communities”. To help protect vulnerable populations, they “develop solutions to address the shortage of housing and services for the most vulnerable households, including homeless and extremely low-income families and senior citizens” (“New York”, n.d.).

6. New York Foundation for Senior Citizens

New York Foundation for Senior Citizens provides an apartment-based lifestyle for well, frail and handicapped seniors – complete with the specialized services that many require (“Affordable Housing”, 2017).

Government Involvement

The government has been a major player in affordable housing for decades. Although it has improved the lives of many citizens, the government is often inefficient and is far from solving the homelessness crisis that exists in many cities. More, there has been a trend of decreasing government funding for affordable housing in the face of increasing demand.

Key Player:

1. New York City Housing Authority
   Created in 1935 to provide decent, affordable housing for low- and moderate-income New Yorkers and is the largest government player in the New York City area.

Summary of Investors:

One of the largest obstacles facing the affordable housing industry is the lack of collaboration and inability to solve the crisis at the scale it is occurring. As this report shows, there are a multitude of private companies and nonprofits who have invested large amounts of time and resources, yet the problem persists. Our Impact REIT will work in addition to the current programs in order to assist a larger number of people and lessen the homelessness crisis. We also hope that the Impact REIT becomes a central player in the affordable housing space, and thus will streamline the time, resources, and capital directed to supporting affordable housing. This will increase efficiency, number of people helped, and consequently investor returns.
How Can Impact Investing Help?

Though there is support for homeless populations being provided by a variety of organizations such as nonprofits and religious groups, a large gap between what is needed and what is currently being done remains. Due to the inefficiencies that exist when relying on government funding (especially lost time), the greatest opportunities lie in private investment in the affordable housing industry. Impact investing firms that aim to generate both financial and social returns act as a suitable vehicle to enter the space and mitigate the growing homelessness problem.

Investing in affordable housing for low-income individuals can make a big difference in the lives of many. The demand for affordable rental housing units in cities such as New York City is at an all-time high as approximately 11 million renters pay more than 50 percent of their incomes for housing (Vasel, 2016).

To help alleviate the housing crisis and to offer clean, safe, and affordable housing in the United States, large financial institutions and small social impact investment groups have entered the arena to *do good* while investing in *good*. This approach leverages private capital thereby creating a much more efficient process without large public subsidies. Some current players include Deutsche Bank, JP Morgan, and Goldman Sachs. For example, JP Morgan maintains a diversified portfolio of 2.6 billion USD dedicated to moderating low-income communities through community development lending and equity investments. Community Capital Management, an impact investment firm, has also financed 6.2 billion affordable rental housing and affordable mortgages with over 50 million alone in New York City (“CCM Impact Outcomes”, 2017). Small and large investors alike are focusing on delivering *triple bottom-line* returns that benefit profits, people, and our communities.

Although affordable housing investments are a burgeoning area of impact investment, much more is needed to solve the nation’s—specifically New York’s—housing crisis. The National Apartment Association claims that the United States will need 4.6 million new apartments at all price points by 2030 to keep up with the demand (“U.S. Needs 4.6M New Apartments by 2030”, 2017). In aggregate, some firms and small private investors are meeting the niche of mitigating the New York City apartment
crisis. Nonetheless, more can be done such that the impact alleviates those most in need of reliable and safe communities.

What Are REITs and How Can They Help?

Investing in a Real Estate Investment Trust, or a REIT, is one vehicle to assist the affordable housing crisis in New York City. A REIT is an entity that is treated as a corporation for tax purposes and satisfies the regulations under section 856 of the Internal Revenue Code. REITs operate in a manner comparable to mutual funds as they allow for individual investors to acquire ownership in commercial real estate portfolios that receive income from properties such as apartment complexes, office buildings, or shopping centers.

With regard to homelessness and affordable housing, REITs help meet demand by purchasing and revitalizing old, neglected, and mismanaged properties. Not only is this process sustainable in reusing resources, but also significantly lowers building costs to investors while enacting a positive change within a community. Many REITs’ objectives are to receive returns for investors as well as to provide improved quality of life for renters. In some REITs, investors receive all distributions from ordinary operating profits until they have received a 7% annual return on their investment. Additionally, the barrier to acquiring capital in order to invest can be as low as 1,000 USD as REITs are pooled funds. In sum, impact investing with REITs allows for the revitalization of neglected apartment complexes and benefits both investors and renters.

REITs can be invested in by people of all ages across the world. Individuals, family offices, pension funds, endowments, foundations, insurance companies, and bank trust departments often include REITs in their investment portfolios. Investors can purchase REITs through a broker or they may purchase REIT common stock, debt securities, or preferred stock. Many of these securities trade on the New York Stock Exchange as well as the NASDAQ. Studies have found that the ideal portfolio allocation for REITs is between 5 and 15 percent (“Guide to Equity REITS”, n.d.).

Impact investing is a burgeoning industry that ranges across numerous sectors. Current firms are increasingly prioritizing community investment as a part of their core investment structures. This is especially important as the issue of affordable housing grows the government is not meeting less and less of demand. The decrease in funding and reduction in regulation from the government has created opportunities for foundations, banks, REITs and other private developers to step into the space.
REITs are especially attractive to investors because of their stable returns, portfolio diversification benefits, and low capital requirements, making them easily marketable and highly recommended to investors. Approximately 70% of registered investment advisors recommend REITs to their clients. Because REITs are required to distribute 90 percent or more of their income as dividends, investors are able to maintain a steady stream of income even through uncertain and changing market conditions. Additionally, REITs have historically outperformed the S&P 500 over the past 25 years, as well as generated higher returns than corporate bonds.

The Impact REIT

While REITs themselves can partially help meet affordable housing demand, we propose a company that closely follows a traditional REIT structure, but also includes a social impact bond contract with the government. The Impact REIT would be focused within New York, Vermont, and Massachusetts. We chose these states as they are located in the Northeast with the highest homelessness percentages. We believe that our Impact REIT will reduce the homelessness populations and provide support for these people at a cost lower than what the government is currently offering.

New York has the highest homelessness percentage in the Northeast, with 35.9 homeless families for every 10,000 families in the general population (“Family Homelessness in the United States: A State-by-State Snapshot”, 2018). In its 2018 budget deal, the New York state government has allocated $2.5 billion dollars in funds to combat homelessness in the state (Warerkar, 2017). This is intended to support the 88,000 people currently homeless and the nearly 1 million low-to-moderate income households who pay more than half their income in rent. However, this deal is still unlikely to make any staggering changes in the face of the unprecedented homelessness rates.

The new budget decreases some funding for NYC housing vouchers and does not provide any additional funding to local districts who have planned new homelessness outreach programs (Simone, n.d.). There has been concern that the federal and state governments have been spending far too much money on programs that merely provide a ‘Band-Aid’ solution to homelessness rather than initiate long term solutions.

As of early 2017, there were 17,565 homeless people living in Massachusetts - the second highest rate in the northeast. Since 1990, the number of homeless individuals has more than doubled (“Basic Facts on Homelessness in Massachusetts and Across the Country”, n.d.). A large majority of these individuals have families with young children.
- the number of homeless families has increased 245 percent since 2006. In Massachusetts Governor Charlie Baker’s fiscal year 2017 budget request, he allocated $191 million to emergency assistance family shelters and services - an amount greater than the funds allocated to public health hospitals and approaching those allocated to the department of state police (“What does it Cost to Help the Massachusetts Homeless?”, 2016). However, this is will not completely support nor provide housing assistance for the entire homelessness population in the state.

According to the State of Working Vermont Report, the poverty rate in Vermont is on the rise, with 11.6 homeless families for every 10,000 families in the general population. The budget cuts which have occurred under President Trump's administration put 750 families at risk of homelessness as they remove many affordable housing protections (“Vermont’s Annual Count of Homelessness Shows 11 Percent Increase”, 2017). The federal government and Vermont state government allocated over $88.8 million dollars in funds to aid the homeless and provide housing assistance and subsidies in 2017 (“2017 Vermont Housing Budget and Investment Report”, 2017).

The large homeless populations in these states require a large amount of expensive public services, including hospitals, other emergency services, Medicaid, homeless student transportation, temporary housing, and shelters. Each of these states have faced criticism that their efforts, particularly homeless shelters, have provided short-term, extremely expensive solutions.

The Impact REIT’s Affordable Housing Properties

The Impact REIT would fill the niche of a more socially minded investment compared to others that are solely profit focused; however, with the system we are implementing we believe our REIT can also generate steady financial returns in the long run. This REIT will be extremely marketable to investors due to its aim of putting social impact alongside financial returns.

Investors would receive progress reports that show them the good their investment is doing, which could include the stories of those their investment has helped, alongside their financial returns.

Since the Impact REIT is bringing in homeless individuals and families, it will likely have lower returns in first few months. This is where grants from foundations could help in setting up the foundation that the Impact REIT could pay back to
institutions at a lower interest rate. In order to ensure the fund is helping those most in need, it will set up payment plans that require little initial investment on part of tenants.

A core component of the Impact REIT is to provide tenants with amenities and services to foster their economic, social, and mental well-being. With services such as job training programs, means of transportation, gardens, and day care, the tenants of our housing complexes will quickly begin to find jobs and develop a stable income. Transportation services will be especially important as they increase tenants’ abilities to secure jobs, reliably attend work, go to doctor, or go grocery shopping. Our housing complex will thus create reliable tenants who are well-integrated in society, ensuring a steady revenue for our company and its investors.

Social Impact Bond Component of the Impact REIT

In addition to the REIT structure, the Impact REIT will work with the government to have them subsidize part of the cost of building these affordable housing properties through contacts similar to social impact bonds. Goldman Sachs was one of the first firms to use social impact bonds. Goldman Sachs has described a social impact bond as “an innovative and emerging financial instrument that leverages private investment to support high-impact social programs” (“Our Thinking - Social Impact Bonds”, 2014). Their first social impact bond initiative has been used specifically for early childhood education in Chicago (“Fact Sheet: Chicago Pay for Success/Social Impact Bond Program”, 2016). Their social bond was financially feasible due to the fact that “Investment in high-quality early childhood education returns more than $7 in benefits for every $1 invested by reducing the future costs of remedial and special education spending, crime and imprisonment, and improving health outcomes” (“Our Thinking - Social Impact Bonds”, 2014).

We propose incorporating a social impact bond contract in our Impact REIT through a private-public partnership that helps meet the need of those struggling to find affordable housing. The cost of homelessness to taxpayers is incredibly large: estimates range from $40,000 to $40,000 depending on whether these people end up in jail or need visits to the emergency room (“Ending Chronic Homelessness in 2017”, n.d.). Because each person living on the street costs the government such a large sum of money, we believe our Impact REIT can alleviate the problem more efficiently and for less money than the government. The logistics of the contract between the Impact REIT and the governments would include the following: for every homeless person that is
taken off the street, given housing, and has a job within six months, the government will give a certain amount of money to investors. By using this metric, there is an additional financial incentive for the Impact REIT to create solutions to the homelessness crisis efficiently and in a cost-minimizing way.

Benefits of Our Approach

A principle reason for including both a REIT structure and a social impact bond into our investment strategy is it protects the Impact REIT from risks associated with each prong while also maintaining many of the benefits. An investor in the Impact REIT will still get 90% of the company’s profits as dividends, thus maintaining a steady stream of income. Additionally, REITs have historically performed well - even better than the S&P 500 Index. Investors in our Impact REIT are also eligible for tax credits; however, the SIB component decreases the Impact REIT’s dependence on tax credits and guards it from changing government policy. As the Trump tax plan will likely continue decreasing corporate tax rates, the benefit traditional REITs attain from avoiding corporate taxes may become less advantageous. However, the Impact REIT will be less affected as it also generates income through its social impact bond component. Moreover, interest rate and market risk do not affect social impact bonds, thus protecting the Impact REIT from risks that may negative impact the REIT component.

Conclusion

By combining the aspects of a REIT and a social impact bond, the return on investment and social impact of the Impact REIT are amplified. Thus, the Impact REIT enables safe and sustainable living for the nation’s most depressed economic class, while rewarding investors for investing in social causes. We propose that the Impact Investing Group--with the Kresge Foundation--structure a REIT and social impact bond hybrid to receive the highest return on investment and make the greatest impact on our communities by helping homeless individuals get off the streets.
# SWOT Analysis Addendum

## REITs

REITs have become very attractive to investors for a number of reasons. With stable returns and a low amount of initial capital needed to invest, many investors have begun to take interest in REITs. Furthermore, investors receive tax credits for investing in affordable housing. However, governmental policy changes that could lower the attractiveness of REITs and may scare away some investors.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>• Tax credits for investors</td>
<td>• For investors capital can be tied up for multiple years</td>
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<tr>
<td>• Open to public</td>
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<tr>
<td>• Do not need large amount of initial capital to invest</td>
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<td>• Consistent returns</td>
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<table>
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<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tbody>
<tr>
<td>• Market to investors as an alternative to philanthropy</td>
<td>• Governmental policy change may scare away potential investors</td>
</tr>
<tr>
<td>• Ability to increase number of investors as concepts prove worth over time</td>
<td>• Rising interest rates make REIT’s less desirable investments (treasury securities become more desirable)</td>
</tr>
<tr>
<td>• Potential to slightly increase financial margins as concept becomes more developed</td>
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Foundations

Foundations are interested in the affordable housing sector because investing in affordable housing helps to resolve a number of issues in communities. Problems such as homelessness and housing stability for low income families can be solved with investments in affordable housing.

Strengths

- No pressure to deliver immediate returns to an investor base
- Helps a variety of different people including the homeless, the extremely poor, senior citizens and the disabled

Weaknesses

- Have limited financial resources to invest

Opportunities

- Investing in affordable housing can potentially sustain foundations financially
- Increase donations to drive affordable housing investing

Threats

- Large capital cost involved with investing in affordable housing poses a financial risk to small organizations

Banks

While affordable housing investments may not receive the highest monetary returns possible, the banks still have good reason to consider investing in them. Banks are interested in the affordable housing sector due to the fact they can receive tax credits and CRA consideration from affordable housing investing. Additionally banks can receive good PR and stable returns from these investments.

Strengths

- Large amount of capital to invest
- Receive tax credits
- Relatively stable and consistent returns
- Good PR for the company

Weaknesses

- Other places to put capital that can result in higher returns

Opportunities

- Can market affordable housing as an alternative to philanthropy to investors
- Can receive CRA consideration for making these investments

Threats

- Governmental policy change can make these investments less desirable.
Government

The government has been a major player in affordable housing for decades. While improving the life of citizens, the government has had a hard time making affordable housing projects profitable due to continued decrease in funding to affordable housing programs.

<table>
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<tr>
<th>Strengths</th>
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<tr>
<td>• Already well established in space</td>
<td>• NYCHA is facing a projected operating deficit of over $2.5 billion over the next 10 years, and its portfolio has almost $17 billion in unmet capital needs.</td>
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<tr>
<td>• New York City Housing Authority Created in 1935 to provide decent, affordable housing for low and moderate-income New Yorkers</td>
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<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Putting people in good homes can improve economy in long run</td>
<td>• Further decreases in funding</td>
</tr>
<tr>
<td>• Large pool of potential funding</td>
<td></td>
</tr>
<tr>
<td>• With more funding, it is predicted affordable housing programs can break even / earn revenue</td>
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References


