PGIM REAL ESTATE

U.S. REAL ESTATE IMPACT INVESTING

A Primer

April 2019 | Investment Research

EXECUTIVE SUMMARY

- Impact investing is a distinct strategy with a dual mandate to generate measurable positive social change and market-rate financial returns. Financial and social objectives must be specified in advance to ensure that the impact achieved is intentional, and one cannot be sacrificed for the other. Performance measurement must give consideration to both objectives.
- Impact investing is a rapidly growing sector to which many institutional investors are increasingly deploying capital. Despite the term impact investing being a decade old, the sector is still in its infancy. Progress toward maturation has been made, but the industry is still refining definitions and benchmarks. This paper provides more detail on that progress.
- Thus far, impact investors report investment performance that has largely met or exceeded expectations. However, one must consider that this performance has coincided with a period of broad-based economic expansion, and some impact investment strategies will be tested for the first time when the economic cycle turns.
- Real estate is an appealing asset class within impact investing because of its attributes, notably the ability to invest in tangible projects that address critical social needs while generating market-rate financial returns. By our estimates, it accounts for approximately 10% to 15% (or $27 to $40 billion) of total reported impact investing assets under management.
- Many real estate investments suitable for impact investing have long been included in traditional real estate portfolios. The key differentiation is that an impact real estate portfolio must be comprised solely of investments that are expected to have measurable social impact.
- Impact investments in real estate can take multiple forms, each of which aims to preserve or improve a community's health by addressing critical social needs, often by incorporating environmental sustainability principles. Impact investments in affordable housing can create or preserve access to existing economic opportunity. In communities with ample affordable housing but a lack of economic opportunity, impact investments in larger-scale "transformative developments" aim to increase upward mobility.

INTRODUCTION

The term impact investing emerged in 2007 as a recognized strategy to achieve measurable social goals alongside market-rate financial returns. It incorporates elements of environmental, social and governance (ESG) and socially responsible investing (SRI) – but goes beyond them both with its explicit goal to produce measurable positive change. Since 2007, several organizations have dedicated themselves to increasing the impact industry's scale, effectiveness, and transparency. As a result, impact investing has grown nearly fivefold since 2013, and surveys suggest that many institutional investors are just beginning to deploy capital into these strategies.

Real estate is a prominent asset class within impact investing in part because the positive social contributions are visible and tangible, in forms such as affordable housing and community facilities. Achieving scale in this space is vital to addressing the challenges faced in many communities across the United States in which residents lack, or are at risk of losing, access to the necessary resources to maintain their physical and mental health.

In this paper, we:

- Introduce impact investing in the United States
- Discuss the importance of measuring social impact
- Explore how real estate fits into impact investing
- Explain why impact investments in real estate are important to creating and preserving access to economic opportunity
- Show how impact investments in real estate can generate measurable social change and financial returns
- Consider risks associated with impact investments in real estate

Throughout the paper, terms in ***bold italics*** are defined in the Glossary of Terms beginning on page 18.

BACKGROUND

Impact investing can be distinguished from other investment strategies by its dual mandate to generate positive social change and financial returns. One cannot be sacrificed for the other, and, in many instances, the two reinforce one another.

Since the term impact investing has only been used for a decade, it is not surprising that there is no single established definition of an impact investment strategy amongst investors and affiliated industry organizations. For the purposes of this paper, an impact investment must have:

1) A ***financial return*** objective
2) A pre-determined ***social impact*** objective that is measurable and produces a positive change to society
3) A performance measurement framework that gives substantial consideration to both objectives

Impact investing incorporates elements of responsible investing, such as SRI and ESG, but goes further still with its explicit goal to produce and measure direct social change.[1] Exhibit 1 compares these investing styles.

Exhibit 1: Social Investment Style Comparison

	Impact	SRI	ESG
Social Approach	**Proactively Identify** investments that achieve direct and measurable social impacts	**Screen Out** investments that have negative impacts on the environment and/or society	**Consider** environmental, social and governance factors in investment selection process
Goal	Financial return & measurable social impact	Financial return	
Example	Investing in energy efficiency improvements in an apartment building to create cost savings and improve residents' health	Avoiding investments in properties with environmental damage, such as water runoff, to protect financial value	Making investments that factor in climate change risks to enhance financial value

Source: PGIM Real Estate.

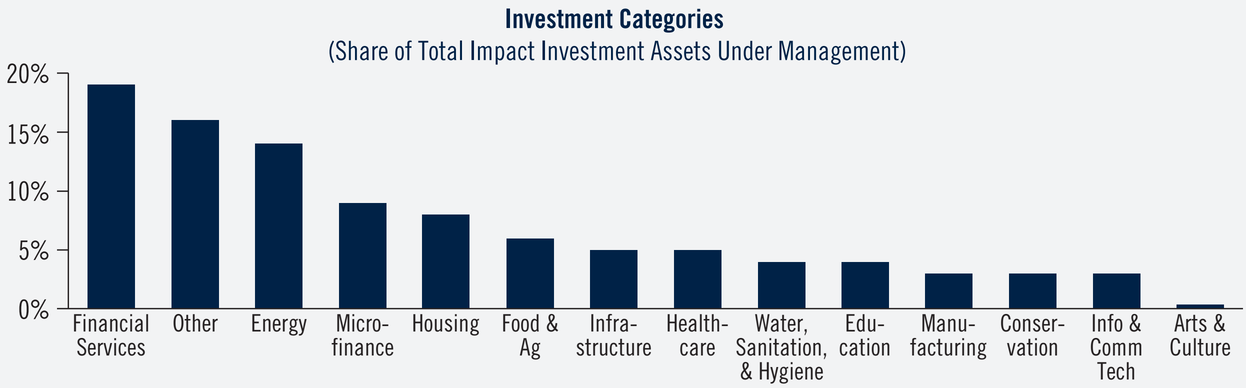
[1] O'Donohoe, Nick, Christina Leijonhufvud, Yasemin Saltuk, Antony Bugg-Levine, and Margot Brandenburg. *Impact investments: An emerging asset class.* JP Morgan, Rockefeller Foundation, GIIN, 2010.

PERFORMANCE MEASUREMENT AND RETURNS

There is a recognized need for, and movement toward, standardized measurement and reporting of impact investment and manager performance. Organizations such as The Global Impact Investing Network (GIIN) are dedicated to increasing the impact industry's scale, effectiveness, and transparency, as shown in Exhibit 2.

Exhibit 2: GIIN: Annual Reports Provide Data and Transparency

Sample Material	Participation Requirements
▪ Organizational information ▪ Historical and planned investment activities ▪ Investment allocations ▪ Portfolio performance ▪ Key industry issues and trends	Must be an organization, not an individual investor, with either: ▪ Committed $10 million or more to impact investments since their inception and/or ▪ Made at least five impact investments



Source: GIIN 2018 Survey.

GIIN and Cambridge Associates (CA), a developer of private investment performance benchmarks, collaborated in 2015 to create the Impact Investing Benchmark, the first comprehensive analysis of the financial performance of market-rate private equity and venture capital impact investing funds.[2] In 2017, GIIN and CA launched the Cambridge Associates Real Assets Impact Investing Benchmark to track the financial performance of impact investing funds targeting market-rate returns. The Real Assets Benchmark currently has three indices that separately track the timber, real estate, and infrastructure sectors. Metrics tracked include fund IRR returns over time periods ranging from one quarter to 15 years, with detailed information available by vintage year.

Tools, including these benchmarks, are supporting growth in the impact investing industry by allowing investors to better measure and evaluate impact investing fund performance. However, at their current stage, they may be limited in value due to small sample sizes, and therefore must be interpreted with caution.

Financial performance of impact investments can be measured using the same metrics and methods as traditional investments. Methods for evaluating the social impact performance, by comparison, are more complex. In its most basic form, the measurement framework for a social impact objective considers

[2] Matthews, Jessica, Kristine Leary, Abhilash Mudaliar, Aliana Pineiro, and Hannah Dithrich. *The financial performance of real assets impact investments: Introducing the timber, real estate, and infrastructure impact benchmarks.* Cambridge Associates/GIIN, 2017.

outputs that can be measured and directly attributed to an impact investment and ***outcomes*** that are expected to occur but may not be readily measurable or attributable.[3] Exhibit 3 provides examples of these concepts.

Exhibit 3: Measuring Social Performance of Impact Investments

	Outputs	Outcomes
Description	Direct products of an impact investment	Changes that an investor expects to see after outputs are realized
Measurable	Yes	Sometimes
Attributable	Yes	Rarely
Examples	Number of new: ▪ Affordable housing units ▪ Permanent jobs ▪ Business establishments	▪ Safer neighborhoods ▪ Improved health outcomes ▪ Greater social and economic mobility for residents

Source: PGIM Real Estate.

As the impact investing industry has developed, so too have the standards for measuring an investment's social impact. While no universal tracking system or metric yet exists, improved agreement about what constitutes impact investing, and the recognized importance of having clearly defined and generally accepted standards, has led to increasing adoption of common tracking and reporting tools. Exhibit 4 summarizes this progress.

Exhibit 4: Impact Investment Common Performance Tracking and Reporting Tools

Common Third-Party Performance Tracking and Reporting Tools	Sustainable Development Goals: Impact Investor Adoption	
▪ Global Impact Investing Rating System (GIIRS) ▪ Impact Reporting and Investment Standards (IRIS) non-financial performance metrics, managed by GIIN ▪ ***Sustainable Development Goals (SDGs)***, adopted by the United Nations in 2015	**55%** Already Tracking All or Some SDGs	**21%** Plan to Track SDGs Going Forward

Source: GIIN 2018 Survey.

One key motivation for standardizing tracking and reporting tools is the ability to clearly communicate impact to key constituents. In addition, standardization lays the groundwork for scalable impact investing growth, as investors can compare impact investment and manager performance and make more informed decisions.

Impact investing is thus far largely satisfying its mandate to produce financial returns while also achieving a social objective. According to GIIN's most recent survey, impact investors targeting market-rate returns[4] overwhelmingly report investment performance in line with or above expectations, as shown in Exhibit 5. In addition, impact investing benchmarks have demonstrated that market-rate returns are attainable in impact investing, while emphasizing the importance

[3] Mudaliar, Abhilash, Aliana Pineiro, Rachel Bass, and Hannah Dithrich. *The state of impact measurement and management practice.* GIIN, 2017.

[4] GIIN also surveys investors targeting below-market returns; these surveys are not covered in this paper.

of manager selection in fund performance. While these results are positive, it is important to consider that the onset of impact investing performance tracking has coincided with a prolonged economic expansion during which investments across a wide array of asset classes have performed well.

Exhibit 5: Impact Investment Performance of Market-Rate Financial Return Seeking Investors

Respondent Set		Performance Versus Target			
		Met		Exceeded	
144 Investors	$216B+ Impact Investment AUM	79% Financial Return	82% Social Impact	15% Financial Return	16% Social Impact

Source: GIIN 2018 Survey.

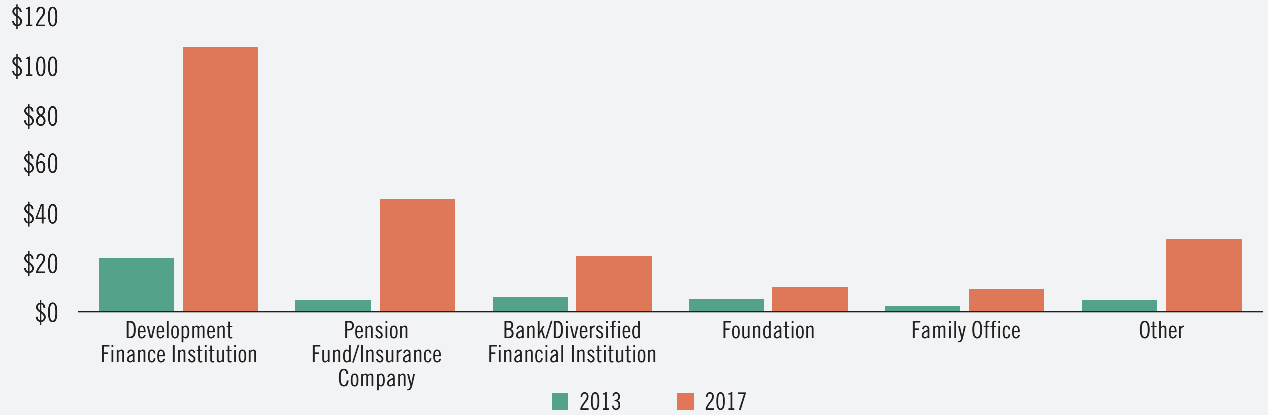
GROWING AND DIVERSE INVESTOR UNIVERSE

Impact investing, as measured by total impact assets under management (AUM), has grown nearly fivefold since 2013, as shown in Exhibit 6. All major investor categories tracked by GIIN have increased their exposure to impact investing over this period. Surveys suggest many institutional investors are just beginning to deploy capital into these strategies.[5]

Exhibit 6: Increasing Impact Investment AUM and Diversity of Investor Base

2013		2017		2018 Forecasted	
125 Investors	$46B Total Impact AUM	225 Investors	$228B Total Impact AUM	$38B AUM Increase	$267B Total Impact AUM

Impact Investing Assets Under Management By Investor Type ($ Billion)



Source: GIIN 2014 Survey and GIIN 2018 Survey.

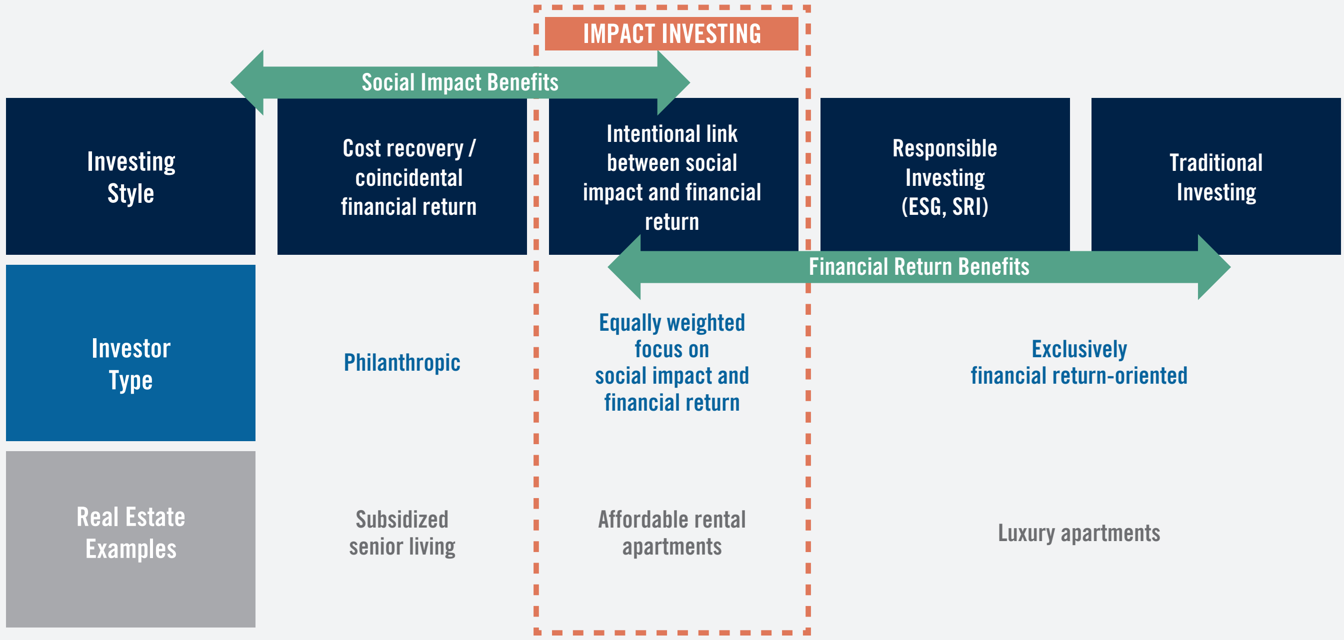
[5] Mudaliar, Abhilash, Aliana Pineiro, and Rachel Bass. *Impact investing trends: Evidence of a growing industry.* GIIN, 2016.

IMPACT INVESTMENTS IN REAL ESTATE

Impact investing principles are being applied to real estate investments. While real estate impact investing may open up new areas that have not traditionally been a focus for investors, many real estate investments suitable for impact portfolios have long been appropriate and included in traditional real estate portfolios. The key differentiation is an impact real estate portfolio must be comprised solely of investments that are expected to have measurable social impact.

Exhibit 7 illustrates where a real estate impact strategy falls on the spectrum of real estate investment options.

Exhibit 7: The Spectrum of Real Estate Investment Options



Source: Adapted from *U. Grabenwarter (2009) The boundaries of the mission-related investment universe,* PGIM Real Estate.

GROWING INVESTING SECTOR

Real estate has many appealing attributes for impact investors, notably the ability to invest in tangible projects that can improve communities, and the physical and mental health of people who live in them.

Real estate, as reflected in GIIN's housing category, accounts for approximately 10% of total impact AUM.[6] Some non-housing real estate impact investments, such as office or retail space, may be included in other asset categories tracked by GIIN, such as infrastructure and healthcare. As shown in Exhibit 8, this makes it reasonable to assume that housing- and non-housing-focused real estate accounts for 10% to 15% — or approximately $27 billion to $40 billion — of the current impact investment universe. These totals likely underestimate the level of real estate impact investing, as the GIIN survey respondents are a subset of the larger impact investor and fund manager universe.

Exhibit 8: Estimated Real Estate Impact AUM Statistics

Real Estate Impact Investment AUM	
10% TO 15% of Total Impact Investment AUM	**$27B TO $40B** Total Housing and Non-Housing AUM

Source: PGIM Real Estate, GIIN. Based on 2018 estimated total impact investment AUM.

Achieving scale in the real estate impact investing space is vital to addressing the challenges of many communities across the United States in which residents do not currently have, or are at risk of losing, access to the necessary resources to maintain their physical and mental health. To successfully overcome these challenges, private sector investment, including capital provided by real estate impact investment vehicles, will be essential.

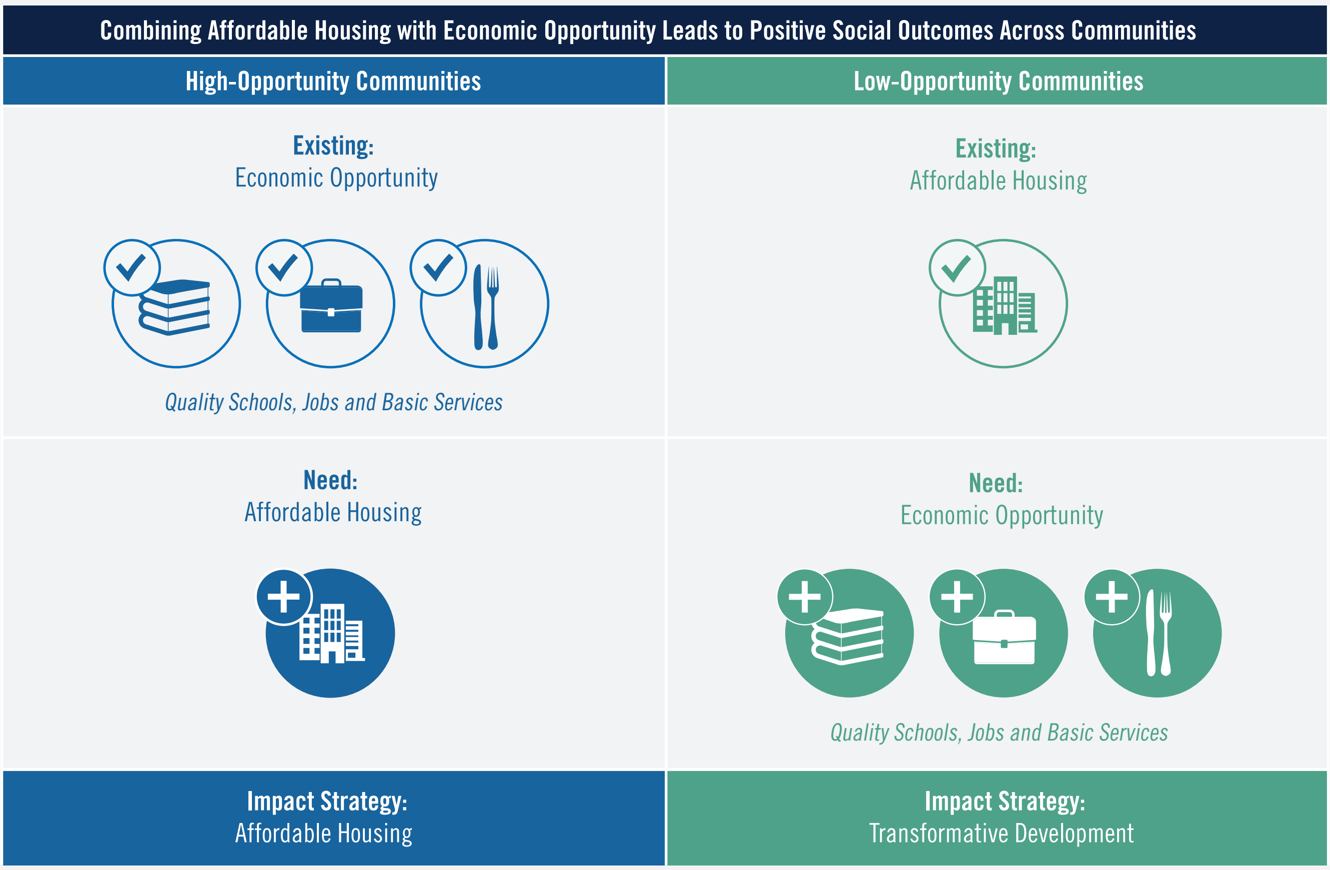
[6] GIIN, 2018.

A TALE OF TWO CITIES: HIGH- AND LOW-OPPORTUNITY COMMUNITIES

The United States faces a challenge regarding the geographic distribution of economic opportunities. Pillars of economic opportunity – such as quality schools, jobs and services – are clustered in ***high-opportunity communities*** and are lacking in ***low-opportunity communities***.[7] Compounding this problem, the housing needed to access these economic opportunities is conversely concentrated: low-opportunity communities have high concentrations of affordable housing, whereas high-opportunity communities have low concentrations of affordable housing.[8] Without access to these pillars, economic opportunity and social mobility is limited for many.

Real estate impact investors are well-positioned to address this inequitable distribution. Determining the appropriate real estate impact strategy depends on whether a community is high- or low-opportunity. Exhibit 9 summarizes these two complementary real estate impact investing strategies.

Exhibit 9: Complementary Real Estate Impact Strategies



Source: PGIM Real Estate.

[7] Spader, Jonathan, Shannon Rieger, Christopher Herbert, and Jennifer Molinsky. *Fostering inclusion in American neighborhoods*. Joint Center for Housing Studies of Harvard University, 2017.

[8] Freddie Mac Multifamily, 2018.

THE IMPORTANCE OF AFFORDABLE HOUSING

As shown in Exhibit 10, efforts to integrate lower-income households into high-opportunity communities have been shown to improve educational and health outcomes, increase earning potential, and reduce the intergenerational persistence of poverty.[9]

Exhibit 10: Positive Social Outcomes Associated with High-Opportunity Communities

Children Who Moved From High-Poverty to Low-Poverty Neighborhoods Compared to Those Who Stayed		
31% Higher Income (On Average)	**32%** More Likely to Attend College	**26%** Less Likely to Become a Single Mother

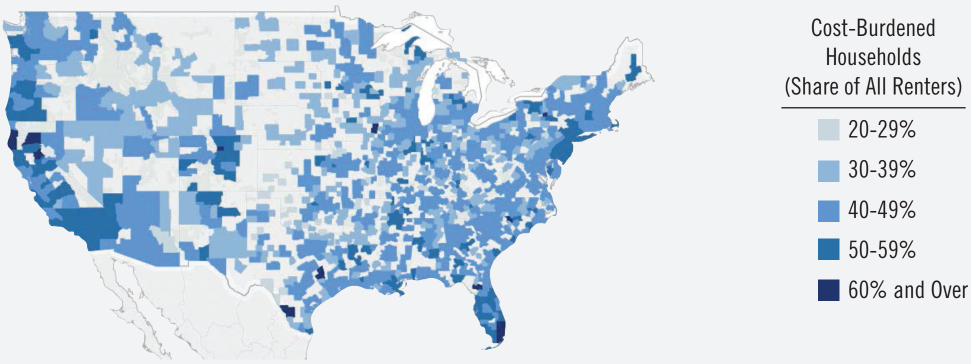
Source: Chetty, Hendren and Katz (2016).

To gain or retain access to high-opportunity communities, these households need available and ***affordable housing***. According to the ***U.S. Department of Housing and Urban Development (HUD)***, to be considered affordable, housing must not cost-burden ***low-income households***. Across the United States, renters in metros of various locations and sizes, with above- and below-average housing costs, are increasingly ***cost-burdened***,[10] as shown in Exhibit 11.

Exhibit 11: A Closer Look at Cost-Burdened Households

Definition	2017 U.S Cost-Burdened Households	
Any Household Allocating **More Than 30%** of Annual Gross Income Toward Housing Costs	**19.9 Million** Cost-Burdened Households	**3.1 Million** Increase Since 2007

Cost-Burdened Renter Households by Metro (as a Share of Total Renter Households)



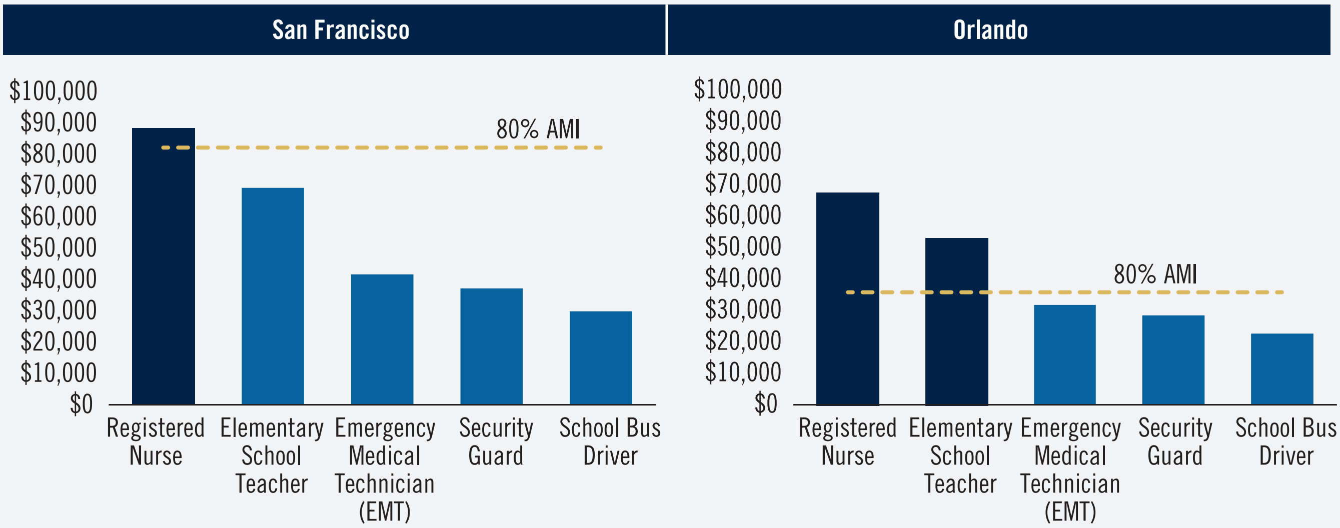
Source: American Community Survey (2016), Joint Center for Housing Studies of Harvard University, PGIM Real Estate.

[9] Chetty, Raj, Nathaniel Hendren, and Lawrence F. Katz. "The Effects of Exposure to Better Neighborhoods on Children: New Evidence From the Moving to Opportunity Experiment." *The American Economic Review*, 106 no. 4 (2016), 855–902.

[10] Aurand, Andrew, Dan Emmanuel, Diane Yentel, Ellen Errico, and Marjorie Pang. *The gap: A shortage of affordable homes.* National Low-Income Housing Coalition, 2018.

Income levels are an important component of housing affordability. According to HUD, any household whose gross income is at or below 80% of an ***Area Median Income (AMI)*** is considered ***low-income***. As shown in Exhibit 12, many occupations, including teachers, bus drivers and emergency medical technicians (EMT), pay salaries that, on their own, would categorize a single-person household as low-income in many metropolitan areas. In the highest cost locations, such as San Francisco, a two-income family including an EMT and school bus driver would, on a combined basis, still make less than the income level that qualifies a single-person household as low-income.

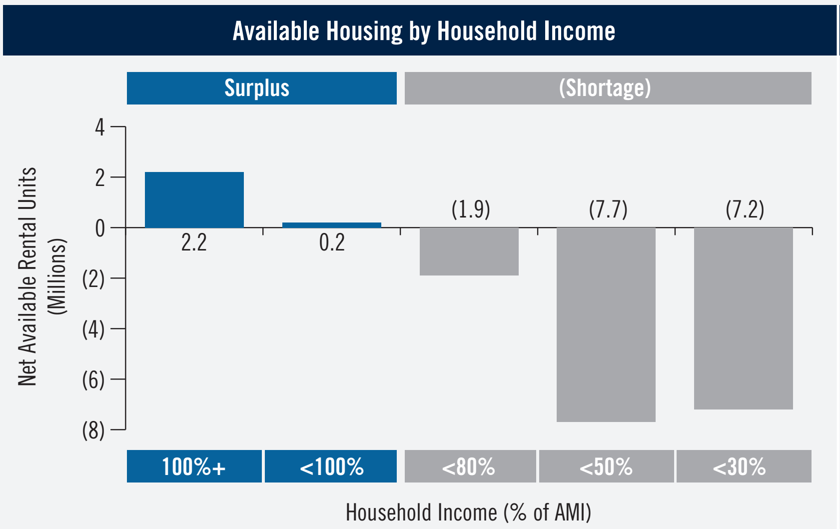
Exhibit 12: Annual Average Incomes for Selected Occupations & Low-Income Limit



Source: National Paycheck to Paycheck Database, HUD full-year 2018 Income Limits and Fair Market Rent Documentation System. Assumes family of one.

Currently, there is a nationwide shortfall of available housing for low-income households. This takes into consideration units that are affordable but are occupied by households in higher AMI categories, thus making them unavailable. A variety of additional factors contribute to this shortage, as shown in Exhibit 13.[11]

Exhibit 13: Shortage of Available and Affordable Rental Stock



Contributing Factors

- Outpaced growth of housing costs relative to incomes
- Gentrification — housing that was previously affordable becoming no longer affordable
- Permanent removal of rental stock
- Uptick in renter households amidst falling homeownership rates
- Insufficient new affordable rental housing supply to offset the above factors

Source: National Low-Income Housing Coalition 2018.

[11] Aurand, Andrew, Dan Emmanuel, Diane Yentel, Ellen Errico, and Marjorie Pang. *The gap: A shortage of affordable homes.* National Low-Income Housing Coalition, 2018.

Real estate impact investors can address this shortfall. Impact investments in affordable housing often focus on preserving ***naturally occurring affordable housing (NOAH)*** properties at risk of deteriorating to the point they are either replaced by another use or are extensively upgraded and repositioned, making them no longer affordable.

Impact investment opportunities also include the creation and preservation of ***regulated affordable housing***. Over the past half century, a shift toward public programs or incentives that entice private investment into affordable housing, as opposed to relying on direct government funding or subsidies, has created an opportunity for impact investors to meet their dual mandate of generating positive social change alongside financial returns.[12] Exhibit 14 summarizes these two affordable housing strategies.

Exhibit 14: Affordable Housing Impact Strategies

	Naturally Occurring Affordable Housing (NOAH)	Regulated Affordable Housing
Typical Objective	Preserve affordable housing at risk of becoming obsolete or unaffordable in high-opportunity communities	Create and preserve affordable housing in high-opportunity communities
Impact Strategy	▪ Institutional capital brings stability and quality ▪ Management focus on building community and addressing tenant needs enhances impact ▪ Capital improvements drive revenue and impact	▪ Business plan focuses on affordability preservation and asset stability ▪ Best-in-class property management improves tenant and investment outcomes
Unit Types	***Market-rate housing***	▪ 100% rent or income restricted ▪ Combination of subsidized and market-rate
Public Programs	None	***Rental Assistance*** ▪ Low Income Housing Tax Credit (LIHTC) ▪ Section 8 ***Land Use and Regulatory Incentives*** ▪ Inclusionary zoning ▪ Tax abatements

Source: PGIM Real Estate.

While the benefits of providing increased and sustained access to affordable housing in high-opportunity communities are considerable, real estate impact investment opportunities extend well beyond just housing.

[12] In the United States, affordable housing policy supporting private sector investment is well established, with origins dating back as far as the National Housing Act of 1934 and the establishment of the Federal Housing Authority (FHA).

THE IMPORTANCE OF TRANSFORMATIVE DEVELOPMENT

Affordable housing alone is not enough to address the inequitable distribution of economic opportunity. While low-opportunity communities have high concentrations of affordable housing, they often lack quality schools, jobs and services that support economic opportunity.

Impact investments in ***transformative development***, often accompanied by publicly funded initiatives, can facilitate economic opportunity in low-opportunity communities. Exhibit 15 further describes transformative development, its purpose and impact opportunities.

Exhibit 15: Transformative Development

Description	Purpose	Impact Opportunity
▪ Larger, community-based projects that target a wider impact radius than affordable housing ▪ Often include a housing component, which may be market-rate or affordable ▪ Non-housing examples include mixed-use projects with office and retail space, which may include community centers or health care providers	▪ Revitalize low-opportunity communities by spurring increased private investment activity ▪ Create economic opportunity by attracting new businesses and services and providing job mobility via quality transit	Financial ▪ Use government-provided financial incentives to earn market-rate returns Social ▪ Create measurable economic opportunity in low-opportunity communities

Source: PGIM Real Estate.

Efforts to improve low-opportunity communities can result in significant gains in higher-wage jobs nearby and can help improve financial health and increase access to credit for existing residents.[13] Staying in a neighborhood that has undergone revitalization is associated with an increase of 2% in a resident's credit score, on average. While that may not seem significant, studies show it can meaningfully increase the chance of success for credit card, apartment and job applications.[14]

A shift in the ways in which public and private institutions interact has created an opportunity for impact investors to generate measurable positive social change in these low-opportunity communities while also earning market-rate financial returns. Government entities provide a variety of financial incentives, such as public financing, subsidies, brownfields redevelopment programs, and/or public-private partnership opportunities, to stimulate private investment and bring economic opportunity to low-opportunity communities.

[13] Meltzer, Rachel, and Pooya Ghorbani. "Does Gentrification Increase Employment Opportunities in Low-Income Neighborhoods?." *Regional Science and Urban Economics*, 66, (2017), 52–73.

[14] Ding, Lei, and Jackelyn Hwang. "The Consequences of Gentrification: A Focus on Residents' Financial Health in Philadelphia." *Cityscape*, 18, no. 3 (2016), 27–56.

Together, impact investors and public entities can address the disparity in economic opportunity by improving neighborhood amenities and increasing the local housing stock desirability in low-opportunity communities while ensuring that existing residents benefit from the revitalization.

For example, ***transit-oriented development (TOD)*** projects integrate a mixture of housing, office, retail, and/or commercial development into areas that are accessible to efficient and reliable public transportation, which can lessen household cost burdens by lowering commuting expenses.[15] Real estate located in proximity to new, often publicly funded transit stations has been shown to have the ability to achieve higher rents, and therefore higher returns, as shown in Exhibit 16. These infrastructure improvements can make the local area attractive to developers and spur increased private investment.

Exhibit 16: Transportation by the Numbers

Value Increase of Property Located Near New Transit Stop[16]		Household Percentage of Gross Income Spent on Transportation		Potential Annual Cost Savings Per Commuter
14%	5%	25%	9%	$10,160
Housing	Office	Auto-Dependent	Transit-Rich Community	By Switching from Driving to Taking Public Transportation

Source: CoStar, Center for Transit-Oriented Development, American Public Transportation Association, PGIM Real Estate.

In both instances, transit-oriented development can reduce commute times and congestion while increasing local employment opportunities and access to jobs and basic services.

The housing included in transformative development does not need to be entirely or even partially affordable if it helps to achieve the social impact objective. For example, market-rate housing can serve as a transformative development tool by directing investment to distressed communities, thereby fostering social integration and economic opportunity in communities that would otherwise stagnate or decline.

[15] "Realizing the Potential: Expanding Housing Opportunities Near Transit." *Center for Transit-Oriented Development.* 2007.

[16] Based on post-construction data of properties located within ¼ mile of five major transit projects: Los Angeles Expo Line, San Francisco Muni T 3rd St., Seattle Central Link, Washington D.C. Silver Line Expansion, NYC 2nd Avenue Subway.

Transformative development can also attract an influx of services and commercial establishments that did not previously exist. For example, the impact of a new office development in a low-opportunity community can be manifold: in addition to creating jobs for local residents, it may draw in workers from nearby communities, thereby increasing the daytime population, fueling new spending at local restaurants and shops, and creating additional demand for local service providers.

Opportunity Zones

Recognizing the positive economic and social impact that real estate investment can have in low-opportunity communities, the Investing in Opportunity Act, part of the 2017 tax reform package, established Opportunity Zones to incentivize private investment in designated low-income communities through the provision of preferential investment tax treatment. This program has the potential to attract even more capital, from impact and non-impact investors, to low-opportunity communities. A key differentiation, however, is that impact investors must ensure that any impact investment in an opportunity zone has a measurable positive social impact on the incumbent population. Non-impact investors do not need to consider whether their investments could negatively impact the existing residents.

RISKS

Real estate impact investing shares many of the same risks as other types of real estate investing, including limited liquidity, a high correlation with the broader economy, and regulatory changes that can erode (or raise) property values such as zoning and tax code changes. There are also some risks specific to impact investing, summarized in Exhibit 17.

Exhibit 17: Summary of Real Estate Impact Investing Risks

<table>
<tr><th>Impact Industry Nascency</th><th>Compared to Traditional Investing</th><th>Specific to Real Estate</th></tr>
<tr>
<td>Comparing impact investment and manager performance can be difficult due to a lack of:
Consensus around what an impact investment is and how it should be measured
An established benchmark
A standardized social impact measurement framework, tracking, and reporting
Industry maturation has coincided with an economic expansion and has not been tested through multiple cycles</td>
<td>Through-cycle liquidity has not been tested
Investments may have limited exit liquidity due to the need to preserve an investment's social impact, or because institutional investors perceive certain locations as undesirable
Only a subset of real estate is appropriate for impact investing, and investment opportunities may be difficult to source</td>
<td>Many public programs, such as Opportunity Zones, are untested in their ability to create measurable social impact and have the potential to crowd out impact investors
Unintended consequences: transformative development can bring in more affluent and educated residents, which can result in gentrification that makes existing housing stock unaffordable to moderate-income households</td>
</tr>
</table>

Source: PGIM Real Estate.

CONCLUDING THOUGHTS

Over the past half-century, a shift toward programs that incentivize private investment into affordable housing and transformative development, as opposed to solely relying on direct government funding or subsidies, has created an opportunity for impact investors to meet their dual mandate of generating positive social change alongside market-rate financial returns. This opportunity is timely, given the need for greater levels of private capital to invest into larger projects.

In less than a decade, green certifications and other sustainability initiatives have transitioned from a “nice to have” to a “must have” across parts of the real estate industry. If it follows a similar trajectory, real estate impact investing will quickly transition from a small niche to a permanent part of many institutional investors’ real estate portfolios.

GLOSSARY OF TERMS

Affordable Housing	Housing for which the occupant(s) is/are paying no more than 30% of his or her income for gross housing costs, including utilities.[17]
Area Median Income (AMI)	The estimated median income, adjusted for family size, by metropolitan area (or county). AMI is updated annually by HUD and used to determine eligibility for most housing assistance programs.
Cost-Burdened	Households that spend more than 30% of gross household income on housing costs.
Financial Return	A market-rate return, in contrast to other impact investment options which accept concessionary returns to put a greater emphasis on social impact.
High-Opportunity Community	Communities in which there are low levels of poverty and in which pillars of economic opportunity – such as access to quality schools, jobs and services – already exist.
Impact Investing	Investing with the intention to generate measurable social impact alongside a market-rate financial return. An impact investment must have: 1) A financial return objective 2) A pre-determined social impact objective that is measurable and produces a positive change to society 3) A performance measurement framework that gives equal consideration to both objectives
Land-Use and Regulatory Incentives	Local ordinances used to promote targeted development to meet an area's economic and housing needs. Examples include inclusionary housing and mixed-use zoning.
Low-Income Household	A household whose gross income does not exceed 80% of the HUD area median income.
Low-Opportunity Community	Communities in which there are high levels of poverty and affordable housing but limited access to quality schools, jobs, services and economic opportunity.
Market-Rate Housing	Housing without rent restrictions for which renters don't use rental assistance.
Naturally Occurring Affordable Housing (NOAH)	Housing that is affordable to families making less than 80% of the area median income and is not subsidized or regulated.
Opportunity Zones	New federal program that provides preferential tax treatment to investors who invest in low-income communities, thereby encouraging and directing private capital to designated areas of need.
Outcomes	Changes that an impact investor expects to see after an impact investment's outputs are realized. Outcomes are not necessarily quantifiable or directly attributable.
Outputs	Direct social products of an impact investment. Outputs are quantifiable and attributable to an investment's pre-determined social impact objective.

[17] U.S. Department of Housing and Urban Development.

Regulated Affordable Housing	Housing associated with a public program or mandate that often comes in the form of vouchers, subsidies, tax credits, or requirements for new market-rate developments.
Rental Assistance	Payment provided by a federal, state, or other program that supplements what a low-income resident pays for rent. Examples include project-based Section 8 and project-based vouchers.
Social Impact	A deliberately broad term that includes social and environmental objectives. In many cases, the social and environmental objectives are complementary.
Sustainable Development Goals (SDGs)	A collection of 17 goals, adopted by the United Nations member states in 2015, with established measurable, universally agreed-upon objectives for combating pressing challenges facing the world today.
Transformative Development	Programs designed to stimulate an improved quality of life for residents in a given area and spur increased investment and economic activity.[18]
Transit-Oriented Development (TOD)	Development of commercial space, housing services, and/or job opportunities close to public transportation, thereby reducing transit costs. TODs are typically located within a quarter-mile walking distance of transit stops.[19]
U.S. Department of Housing and Urban Development (HUD)	HUD's mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination.[20]

[18] Urban Land Institute.

[19] U.S. Department of Housing and Urban Development.

[20] U.S. Department of Housing and Urban Development.

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