



# **Impact Investing**

## **An Assessment of Austin, TX**

Texas SIG

May 12<sup>th</sup>, 2020

Analysts: Prachi Shah, Miko Ospovat, Grace Nguyen, Dan Meishar,  
Clarisa Bracamontes

Sustainability Manager: Inara Haque

# An Overview on Impact Investing

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact, alongside a financial return. The growing impact investment market provides capital to address the world's most pressing challenges in all kinds of sectors. According to the Global Impact Investing Network (GIIN), the size of the global impact investing market is estimated to currently be valued at \$502B. However, this probably is an underestimate due to the lack of information accessibility in the market.

Impact investing seeks to offer aid through microenterprise development and financing. Benefits of microbusinesses on the individual level is that it typically offers job stability for owners and wages above the minimum wage. In fact, microbusinesses provide about 38% of their owners' household incomes, otherwise in the form of additional incomes that can pull the family out of poverty. In the community, microbusinesses foster a community via providing products and services that are tailored to local and enable community-shared spaces. Passion can turn scalable and lead to an inflow of resources for the community and this passion provides the community with role models, garnering support for the entrepreneurship ecosystem.

On the aggregate economic-level, small businesses are responsible for between 65 and 90 percent of all job creation (U.S. Small Business Administration, 2010). Since 2008, this has been reflected by rising rates of self-employment when compared to the previous 15 years. Target beneficiaries for impact investments in microbusinesses are typically defined as those who "need less than \$50,000 in financing" in which the average loan size results in approximately \$7500. Normally, this applies to aspiring entrepreneurs with fewer than 5 people employed at the business. Furthermore, data has shown a preference for women and minority-owned businesses (59% women, 53% POC or disadvantaged ethnic groups), low to moderate-income individuals (56% have a household income below the 80% level of median income for their location), and in general, communities with limited banking resources.

These statistics have been reported by the US Microenterprise Census on the breakdown of individuals who had received financial aid. However, it should be noted that there is a massive gap in funding for these microbusinesses. Zip code analysis has proven that there is a non-uniform distribution of wealth associated with presence of microbusinesses. Wealthy zip codes correlated with an increase in microbusinesses. Their poverty rates were less than 8%, an average of 19.1 microbusinesses per 1000 people. For those communities with poverty rates greater than 20%, there is an average of 13.1 microbusinesses per 1000 people. This comes to 31.5% fewer microbusinesses on average in poverty-stricken zip codes in the United States.

Given all this, the Sustainable Investments Group is positioned with a unique opportunity to enter the impact investing marketplace in Austin and generate tangible impacts on the local Austin community. Our solution to address gap in the impact investing space will be looked at through the lens of affordable housing initiatives throughout Austin, TX.

# Current Impact Investing Space in Austin

There are currently three main networks focused on driving impact in Austin. While there are other firms and funds as well, we believe these three key players provide the highest potential for integration with SIG.

## 1). Southwest Angel Network – SWAN

The Southwest Angel Network, or SWAN, is a leader in Impact Investing in Austin. The network consists of 30 angel investors and over \$2.5 million dollars in investments. Their portfolio currently invests in 20 different companies, each falling into one of five categories: Environmental Protection, Physical and Mental Health improvement, Empowerment/ Social Justice, Improving Educational Outcomes, Social Causes. Their investment philosophy focuses their investments on companies that serve a specific need within their current categories.

## 2). Austin Community Foundation

Austin Community Foundation is a grantmaking public charity that brings together the financial resources of the community to support local causes and address the needs in Austin. Their impact investment portfolio is split into three programs, FundATX, The Hispanic Impact Fund, and the Women's Fund. Each program focuses on different needs and communities. We are specifically looking at FundATX, which addresses social issues and improves economic security in Central Texas. The fund's impact areas include Entrepreneurship, Affordable Housing, Local small business growth, and Fair financial products.

FundATX reported assets of \$2.7 million in 2019, and more than half of those funds were allocated to affordable housing. ACF's investment strategy focuses on serving the needs of the Austin area and dividing investments based on who they serve. The FundATF program is focused on addressing social issues within Austin, and a majority of the program's funds go towards affordable housing.

## 3). True Wealth Ventures

True Wealth Ventures is a venture capital fund that invests in women-led companies that will design, develop, go to market and scale consumer health and sustainable products and technologies. The fund focuses on many different areas within the market. Their first area is Sustainable Consumer companies. This category looks for a variety of environmental friendly products, including: sustainably-produced building materials, eco-friendly appliances and Smart windows, Home IoT for resource efficiency, sustainably-produced home goods (e.g., beauty, care & fashion), and sustainably-produced food and the food systems/ag tech behind it.

Their second area of focus is Consumer Health, which focuses on health tech projects and supplements. The final and most unique category for True Wealth is their commitment to women. They look for companies that have at least one woman with significant decision-making authority, is on the founding or senior executive team, or with significant equity ownership. The fund currently invests in 8 companies. The driving force of true Wealth Ventures investing strategy is investment in companies that provide high growth, sustainable, and healthier projects for women. They describe their strategy as looking to invest in more women leaders who have proven to financially

outperform, are in markets where women are making the vast majority of purchase decisions, or with a focus on high-growth greener and healthier products and businesses.

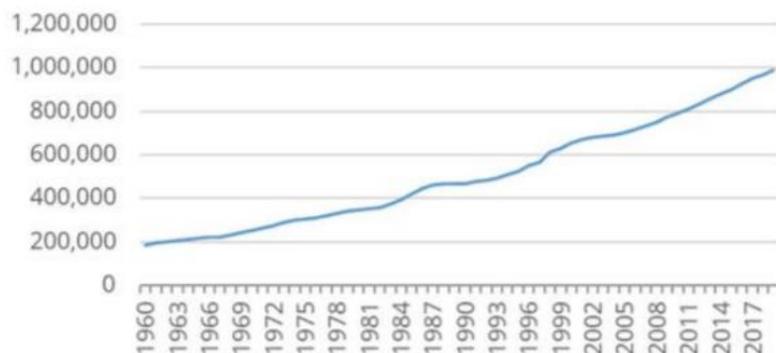
## Affordable Housing: A Growing Concern

Over the years, affordable housing has become a problem that has affected many families and individuals across the United States. As our nation has rapidly developed in areas like technology and science, we have seen greater migrations of people to urbanized areas, which offer more job opportunities. In some of the biggest cities in the nation such as New York City and Los Angeles, this influx of people has led to greater demand for housing, consequently leading to less affordable housing options. In this section, we will take a deeper dive into how the city of Austin's homeownership and rental affordability have been affected by a growing population leading to greater housing market gaps.

To give an illustration of Austin's growth, we have included the graph below. As seen, the primary cause of this affordable housing crisis is our rapid population growth that has doubled to over one million since the mid 1990's.

**Figure I-1.  
Population  
Growth Trends,  
City of Austin,  
1960-2018**

Source:  
City of Austin population  
estimates.



\*2020 Austin Housing Market Analysis

One of the issues with a growing population is if our population grows too quickly, this causes a shortage in housing supply, thus leading to higher housing prices. Therefore, we take a look at Austin's housing market profile for 2020. According to Austin's 2020 Housing Market Analysis, around 47% of housing units in Austin are single family detached with apartments of greater than five units at close to 40%. Being that homes are the majority representative in the city, we decided to take a look at how home values have been affected by the growing population. Below is a chart from the US Census to demonstrate how home values changed from 2000-2017. Additionally, we have included a chart to show Austin's growth over this seven year period compared to peer cities.

**Figure II-10.**  
Shifts in Home Values, Austin, 2000 to 2012

Source:

U.S. Census, 2000, and 2010, 2012, 2017 ACS.



As seen above, Austin’s home values have shifted higher, with cheaper options (less than \$200,000) at less than 30% and more expensive options (over \$200,000) at over 70%. Since 2018, over one-third of zip codes have median house prices exceeding \$400,000, with areas surrounding downtown seeing the largest spikes in median prices. According to Austin’s 2020 Housing Market Analysis, the number of affordable for-sale units has decreased from 49% in 2008 to 22% in 2017. Lastly, middle-income households (earning \$35,000 to \$100,000) have seen an 8% drop in ownership rate from 44% in 2012 to 36% in 2017. Affordable housing is an important factor in a family or individual’s decision to move to Austin. If housing cannot be purchased at an affordable level, it may deter people from moving to Austin and therefore lead to a negative impact on our growth potential.

Next, we will take a look at how rental units have been affected by a growing population. Rental prices are an important factor for people pursuing a career in Austin and for students who attend universities in the city such as Austin Community College, St. Edward’s University, and the University of Texas at Austin. Similar to the charts above, we have used the U.S. Census from 2000, 2010, 2012, and 2017 to examine shifts in rent prices below.

**Figure II-22.**  
Shifts in Gross Rents, 2000 to 2017



Source: 2000 Census and 2010, 2012, and 2017 ACS.

In the case of rental prices, we see a trend in a decrease in availability of cheaper options (less than \$1,000/month) and a greater frequency of more expensive options (greater than \$1,000/month) since 2017. The majority of renters in the city are single individuals or students

typically at a younger age, in the early stages of their careers. One of the main proponents in this change has been due to rising incomes in addition to the growing population levels discussed earlier. The city of Austin has identified this issue and made several investments in more affordable rental units to assist lower-income renters, thus shortening the affordability gap.

In conclusion, a growing population and greater career opportunities in the city of Austin poses a challenge to low-to-median income individuals and families. Austin has seen a rapid increase in demand for affordable housing and has struggled to meet these needs in areas surrounding downtown and the University of Texas at Austin. As incomes continue to rise, Austin must make more consistent efforts in bridging the gap between the low/median income population and the higher income population.

## Impact Investing and Affordable Housing

Affordable housing is socially conscientious which is in line with the goals of impact investing. As cities gentrify, affordable housing becomes very scarce so impact investing can make significant inroads into bridging the needs of the disenfranchised with goals of the impact investor. Essentially, affordable housing gives investors the opportunity to make profit and yield while improving the quality of life of people in the affordable housing system, which is the ultimate opportunity for impact investors. Many impact investors have the impression that their capital is not needed for affordable housing. Indeed, a 2014 paper by Strength Matters states: “[impact] investors interviewed commented that the affordable housing market is seen as something taken care of by larger banks and institutions.” However, where impact investing can come into

play is through filling the gaps by providing capital for predevelopment stage activities and offering flexible financing products that traditional sources of capital can't or won't provide. **This can be done by investing in public entities such as REIT's through investment funds, by the acquisition of low-income housing tax credits (LIHTC syndicators) or through direct investment with public and private developers and owners.**

The Housing Partnership Equity Trust (HPET) is a social-purpose real estate investment trust that acquires and preserves affordable housing in partnership with leading nonprofit apartment owners, additionally HPET openly advertises their practices as impact investing which shows an overlap of these two practices (impact investing and affordable housing). They also locate their affordable housing projects close to job centers, retail, grocery stores, parks, schools, community health centers, and transit to urban cores which shows that they actually do care about the wellbeing of their renters; they are not 'greenwashing'. While this method provides a solid opportunity to indirectly get involved with the intersection of impact investing and affordable housing, the strategy is a largely passive one.

Low-Income Housing Tax Credits is a dollar-for-dollar tax credit system for investments in affordable housing. The process works as such: the LIHTC's subsidize the acquisition, construction, and rehabilitation of affordable rental housing for low- to moderate- income tenants. State housing agencies then award the credits to private developers of affordable rental housing projects through a competitive process. In the 1970's the U.S. Department of Housing and Urban Development subsidies provided incentives for private owners to own and

manage affordable housing. With tax reform in the mid-1980s, Congress created the Low-Income Housing Tax Credit Program, which has been the primary affordable housing production tool in the past three decades. It has helped attract private (mostly) institutional capital to invest in the creation of more than three million units of housing for working families, veterans, seniors, and the disabled across the country. RBC Community Investments is one of these institutional investors and is one of our country's leading LIHTC syndicators with their self-proclaimed areas of expertise including low income housing tax credit equity, historic tax credit equity, state tax credit equity, renewable energy tax credit equity, and finally renewable energy tax credit equity. As of March 2020, they have closed over \$11 billion in equity through 124 active funds with 89 institutional investors and 999 affordable housing tax credit assets. They provide investors with "full asset management" and "reporting services" throughout the duration of the investment which makes it easier for the investor to hold RBC Community Investment accountable. Again, this strategy is largely passive, but still is blended finance at work.

Calvert Impact Capital is a large player in the space of affordable housing and impact investing. We can look to their strategies as a model to follow. Calvert Impact Capital invests through organizations that on-lend to people and businesses in the US and over 120 countries. In 2017 the organizations in their portfolio provided more than \$5 billion and had a large focus on small businesses in Texas, especially.

Calvert's theory for the social benefit of their affordable housing is described by their "Theory of Change" which is that access to safe, stable housing is a critical determinant of a person's and family's health, happiness, and economic future. Providing what they call flexible capital in support of affordable housing development and preservation can help organizations meet the housing needs of their communities for low- and moderate-income individuals and families. Their affordable housing investing approach is described on their website as, "Our portfolio strategy is focused on providing flexible financing to enable developers and lenders to serve their target population's needs most effectively. We do this largely by extending unsecured, general recourse financing to affordable housing developers and lenders who are building and preserving affordable homes across the country. We invest in intermediaries with track records of successful and responsible lending and development activities in underserved communities." To date, over \$50 million of their portfolio is invested in affordable housing. They use their affordable housing investing as a vehicle to impact the community through the Community Asset Preservation Corporation (CAPC). A borrower of Calvert Impact Capital, CAPC is a non-profit, mission-driven real-estate development organization that partners with local community builders and contractors to rehabilitate and return properties to productive use as quality, affordable housing.

### Impact stats

*(Data pulled from our borrowers' 2018 fiscal year impact reporting)*



# ESG Impacts on the Austin Community

There is huge potential for ESG impact in the Austin. The influx of wealthy residents and the gentrification of low-income areas is driving up land and housing prices while driving residents out of traditionally low-income neighborhoods. The following sections – Risks, Benefits, and Impacts – describe the impact of SIG’s potential involvement in the affordable housing space.

## RISKS

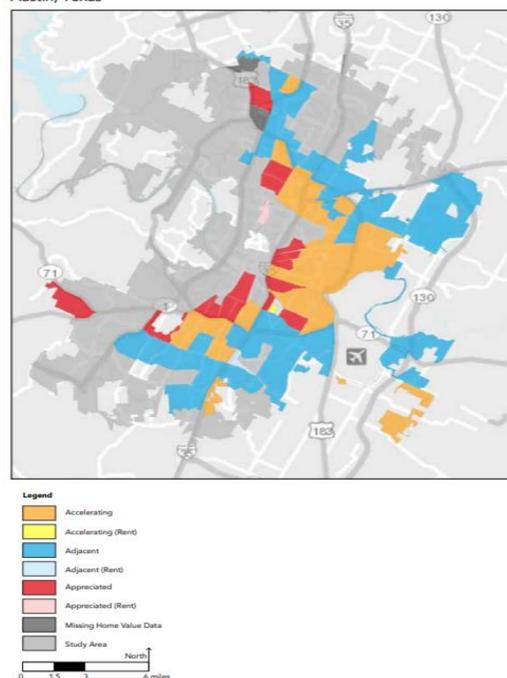
### Expense

There is a high cost for constructing and maintaining affordable housing units, and it is hard to cover these costs with the lower rent rates required by affordable housing. In Austin, land prices are high and the average development costs Without adequate government subsidy, it is exceedingly difficult to build new affordable housing complexes. Developers often struggle to get the necessary loans and equity sources needed for development because the revenue prospects are much lower.

### Austin Housing Trends

Median housing prices are continually rising in Austin due to the influx of middle to upper-income households. More middle-income households are struggling to afford rent or homeownership, so the need for rent assistance and affordable housing is climbing up the income ladder. Additionally, in 2018, nearly 30,000 housing units were under construction, but these rents average around \$1300+ per month. If development costs continue to rise, developers might be forced to raise rent in affordable housing complexes. At a certain point, these rental rates will no longer be affordable.

Housing Market Appreciation (2000-2016)  
Austin, Texas



\*The University of Texas Center for Sustainable Development - Uprooted: Residential Displacement in Austin’s Gentrifying Neighborhoods and What Can Be Done About It

## Gentrification

As East Side, Riverside, etc. are gentrified, local businesses and residents are already being displaced, in favor of shopping districts and trendy restaurants. There is an incentive for developers to use land for luxury apartment developments because people are now willing to pay higher rental costs in traditionally low-income neighborhoods.

## Preservation of Existing Housing Stock

Gentrification leads to the loss of existing housing stock – this housing is essential for providing affordable housing options. Since it is expensive to build new developments, retrofitting or restoring existing housing in low-income areas is necessary for the provision of affordable housing.

# BENEFITS

## Stability

Affordable housing is a stable asset class. Investors benefit because affordable housing units have a stable stream of occupants, and many have waitlists for residents. Rent in affordable housing units is reliable because subsidized rent - like section 8 housing or other voucher systems - ensures timely payment.

FIGURE 6:

### METHODOLOGY

STEP 1: Multiply the 2015 City of Austin Total Housing stock by the 2025 MSA Population Percent Change. This shows the number of new housing units that need to be added to keep pace with population growth.

STEP 2: Proportionally distribute the number of new units needed to keep pace with population growth by the percent of Austin households at various income levels.

$$\begin{array}{ccc}
 \mathbf{397,637} & \times & \mathbf{34\%} & = & \mathbf{135,197} \\
 \text{2015 \# Housing Units} & & \text{2025 MSA Population \%} & & \text{2025 \# New Housing Units Needed} \\
 \text{(City of Austin)} & & \text{Change (est.)} & & \text{to Keep Pace with Population} \\
 & & & & \text{Growth}
 \end{array}$$

MFI Range	Income Ranges for a Four-Person Household	Percent of Households by MFI Range*	2025 # New Housing Units Needed by MFI Range
0-30% MFI	< \$22,600	16.6%	22,417
31-60% MFI	\$22,601-\$45,240	18.4%	24,963
61-80% MFI	\$45,241-\$60,300	11.7%	15,822
<b>0-80% MFI Unit Goal</b>			<b>63,201</b>
			<b>ROUNDED 60,000</b>
81-120% MFI	\$63,301-\$90,480	19%	25,959
121%+ MFI	\$90,481+	34%	46,037
<b>81% + MFI Unit Goal</b>			<b>71,995</b>

\*Neighborhood Housing and Community Development - Austin Strategic Housing Blueprint

## Community Health

Affordable housing enables families to spend on other essential goods and services like food and healthcare. Additionally, The provision of affordable housing reduces exposure to health hazards, and increases families' ability to pay for healthcare and nutritious food. Additionally, well-managed housing complexes prevent unsafe living conditions due to mold/mildew, broken fixtures, faulty wiring, etc.

## Local Commerce

The construction, restoration, or renovation of existing housing creates jobs, often filled by members of these communities. Affordable housing helps local businesses stay afloat or attracts other businesses to the area. Investors, residents, governments, etc. benefit from the strength of the local economy. Furthermore, affordable housing enables tradespeople - other essential, but lower income workers - to live near jobs and utilize inner city public transportation.

## Local Government

Local governments see increases in tax revenue when affordable housing is funded. The rise in tax revenue stems from the increases in sales (due to increased expendable income), business taxes, etc. These taxes can be used to improve infrastructure, public transportation, and other public goods that benefit both low-income communities and middle to upper income families.

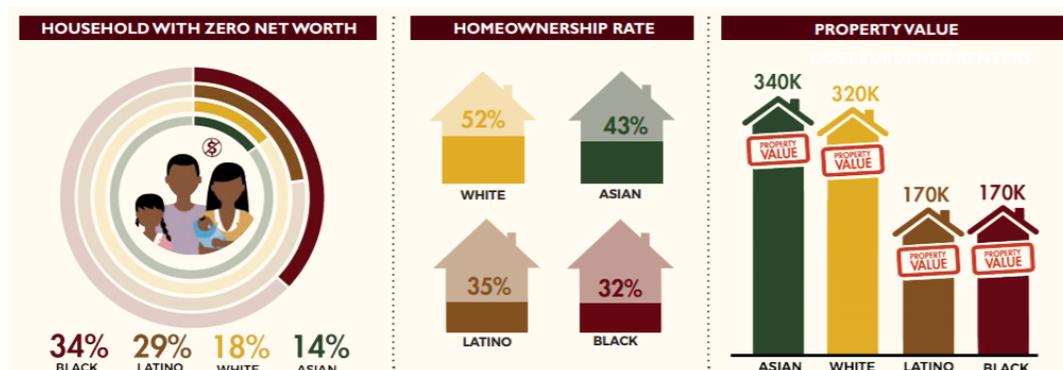
# IMPACTS

## Reduces Gentrification and Displacement

The provision of affordable housing reduces gentrification and the displacement of low-income families, particularly Hispanic and African American families. Preserving existing housing stock and developing affordable housing complexes enables these communities to stay in their neighborhoods.

## Reducing the Racial Homeownership Gap

Austin's I-35 is a physical, socioeconomic, and racial divide. The gentrification of neighborhoods in East Austin, Riverside, Montopolis, etc. is enabled by the low rates of home ownership. Providing more pathways to homeownership or affordable housing will make it easier for Latino and African American families to build wealth.



\*Prosperity Now – The Racial Wealth Divide in Austin, TX

## Education and Student Retention

Children from low-income families are more likely to perform well in school and reach graduation if affordable housing is available. The decrease in displacement (due to gentrification) enables students to stay at one school (in one district) and to have decreased stress due to housing instability.

## Sources

<https://www.austincf.org/community-impact/fundatx/>  
<https://truewealthvc.com/about/>  
<https://swanimpact.org/the-story-of-our-network/>  
[https://austintexas.gov/sites/default/files/files/Housing/Austin%20HMA\\_final.pdf](https://austintexas.gov/sites/default/files/files/Housing/Austin%20HMA_final.pdf)  
[http://www.austintexas.gov/sites/default/files/files/Housing/FY\\_2019-2024\\_Consolidated\\_Plan\\_Draft\\_Site.pdf](http://www.austintexas.gov/sites/default/files/files/Housing/FY_2019-2024_Consolidated_Plan_Draft_Site.pdf)  
<http://mrsc.org/Home/Stay-Informed/MRSC-Insight/September-2018/Planning-with-Logic-Models.aspx>  
[https://www.urban.org/sites/default/files/affordable\\_housing.pdf](https://www.urban.org/sites/default/files/affordable_housing.pdf)  
[https://austintexas.gov/sites/default/files/files/Housing/Austin%20HMA\\_final.pdf](https://austintexas.gov/sites/default/files/files/Housing/Austin%20HMA_final.pdf)  
[https://next50.urban.org/sites/default/files/2019-02/2019.02.20\\_Next50%20Housing%20brief\\_finalized.pdf](https://next50.urban.org/sites/default/files/2019-02/2019.02.20_Next50%20Housing%20brief_finalized.pdf)  
[http://www.austintexas.gov/sites/default/files/files/Housing/FY\\_2019-2024\\_Consolidated\\_Plan\\_Final\\_Final.pdf](http://www.austintexas.gov/sites/default/files/files/Housing/FY_2019-2024_Consolidated_Plan_Final_Final.pdf)  
[https://www.urban.org/sites/default/files/publication/93781/austin\\_lmi\\_housing\\_0.pdf](https://www.urban.org/sites/default/files/publication/93781/austin_lmi_housing_0.pdf)  
<https://www.urban.org/urban-wire/these-four-trends-rental-housing-have-big-implications-growing-affordable-housing-crisis>  
<https://www.habitat.org/costofhome/2019-state-nations-housing-report-lack-affordable-housing>  
<https://irei.com/publications/article/reits-take-affordable-housing-problem/>  
<https://www.forbes.com/sites/forbesrealestatecouncil/2020/01/06/how-whole-communities-benefit-from-affordable-housing/#7996437224e8>  
<https://www.statesman.com/business/20200228/apartment-surge-amid-austinrsquos-apartment-building-boom-will-renters-see-some-relief>  
<https://apps.urban.org/features/cost-of-affordable-housing/>