JBG SMITH

WASHINGTON HOUSING INITIATIVE

Impact Pool

2020

THE Problem

With Metro D.C. rents rising faster than wages, there's a growing shortage of decent, well-located housing for essential workers. Many long-time residents whose roots in their communities go back generations suddenly find it too expensive to stay in the very neighborhoods they helped create, but earn too much to qualify for support to secure housing within their means. This causes what's known as "the affordability gap."

The Affordability Gap

Avg. monthly rent for a 2-bedroom apartment in D.C.

~$2,837*

Renters spending more than 30% of their income on housing:

368,000**

*Sources: *rentjungle.com as of July 2020, Washington, D.C.; ** Joint Center for Housing Studies of Harvard University*

THE Solution

The Impact Pool: managed by JBG SMITH Impact Manager, the Impact Pool provides subordinate financing to fund up to 30% of the cost for the acquisition and development of affordable workforce housing.

The Impact Pool targets after-tax returns equivalent to many traditional investment funds while simultaneously delivering strong social impact. It aims to provide private investors with a 7% internal rate of return over the life of the investment after all expenses.

Projects funded with Impact Pool capital commit to:

- Accept 15-year affordability covenants
- Support critical neighborhood & resident services
- Re-invest a portion of the profits in affordability and impact
- Measure and track social and environmental outcomes

METRICS
at a Glance

Properties financed by the Impact Pool report on a series of social and environmental measures selected from the IRIS System[1] and aligned with UN SDGs[2]:

- Rent savings vs. market (PI1748)
- No. of households served below 60%/80% AMI (PD5833)
- Energy purchased/produced = total (O18825) renewable (O13324)
- Waste recycled annually (O12535)
- Greenhouse gas emissions (PD9427) by building (Scope 1 & 2 only)

Good Health and Well-being
- SDG Target 3.9

Affordable and Clean Energy
- SDG Target 7.1
- SDG Target 7.2
- SDG Target 7.3

Decent Work and Economic Growth
- SDG Target 8.4

Industry, Innovation and Infrastructure
- SDG Target 9.4

Clean Water and Sanitation
- SDG Target 6.3

Sustainable Cities and Communities
- SDG Target 11.1
- SDG Target 11.2
- SDG Target 11.3
- SDG Target 11.5
- SDG Target 11.6

Responsible Consumption and Production
- SDG Target 12.3
- SDG Target 12.4
- SDG Target 12.5
- SDG Target 12.6

WASHINGTON HOUSING
Accomplishments in 2020

The Impact Pool closed on approximately $115 million in investor commitments from major U.S. banking institutions, local businesses, and foundations.

Crystal House

The Impact Pool made a $6.7 million subordinate loan to the Washington Housing Conservancy (WHC), a non-profit housing provider, for the acquisition of Crystal House, which includes 825 existing units across two high-rise apartment buildings in the National Landing submarket in Arlington, Virginia. The acquisition of Crystal House closed in December 2020.

The property is located within one block of Amazon's HQ2 and Amazon provided $339.9 million in loans to assist in the acquisition. Crystal House will offer 20% of all existing units for households earning 50% of area median income (AMI) per year, and 55% of units for households earning up to 80% of AMI per year. The affordability covenant last for 99 years.

Parkstone

The Impact Pool made a $15.1 million mezzanine loan to the non-profit Alexandria Housing Development Corporation (AHDC) for the acquisition of Parkstone, a renovated 326-unit, high-rise apartment building in Alexandria, Virginia. The acquisition of Parkstone closed in January of 2020.

The property had previously been marketed as an opportunity to raise rents due to its location and a lack of affordability protections in place. Parkstone will now offer 245 units, or 75%, of committed affordable housing for households earning 80% of AMI or less per year.

CASE STUDY:
Impact Investing

We must align with established verification structures to make sure our strategies move in the right direction. The Impact Pool evaluates investments within the framework of the Global Impact Investing Network (GIIN).

The GIIN defines impact investments as those made with the intention to generate positive, measurable social and environmental impact, alongside a financial return.

It has established four core characteristics that define impact investment:

Intentionality
Impact investments intentionally contribute to social and environmental solutions, unlike ESG investing, responsible investing, and screening.

Range of Asset Classes
Impact investments can be made across asset classes.

Financial Returns
Unlike philanthropy, impact investments seek a financial return that can range from below market rate to risk-adjusted market rate.

Impact Measurement
Impact investors are committed to measuring and reporting the social and environmental performance of underlying investments.

Our acquisition of Parkstone in January 2020 analyzed the following impact elements and recorded the information in a due diligence record:

- New and preserved housing
- Rent savings vs. market
- Support for services and amenities
- Climate risks
- Greenhouse gas emissions
- Energy use
- Water use
- Energy and water efficiency potential
- Renewable energy potential
- Sustainable practices and programs

By financing the acquisition of Parkstone, the WHI Impact Pool helped low- and moderate-income households save about **22.2%** in rent when compared to market rental rates[3] — that's about **$733 in savings** on three-bedroom units, **$541** on two-bedroom units, and **$320** on one-bedroom units. The average in total **rent savings** per unit for the entire property came out to about **$449**.

Rent Savings versus Market				
Rent Savings versus Market by Unit	**2020 1-Bed**	**2020 2-Bed**	**2020 3-Bed**	**Total Property**
2020 Market Rental Rates	$1,727	$2,234	$2,700	$2,023
2020 Affordable Rental Rates[4]	$1,406	$1,692	$1,967	$1,574
2020 60% AMI Rental Rate	$1,327	$1,603	$1,967	$1,490
2020 80% AMI Rental Rate	$1,497	$1,794	N/A	$1,658
Total Rent Savings/Unit	**$320**	**$541**	**$733**	**$449**
				22.2%

CASE STUDY:
Impact Investing

Over the last year there has been a **1,500% improvement** in affordable housing leases within Parkstone, helping to close the local affordability gap with 113 total units rented to households making less than 80% of area median income (AMI). Prior to the investment from the Impact Pool there were no affordable protections at the property, therefore low- and moderate-income tenants paid higher rent and were not protected from rent increases.

Affordable Housing Perservation			
Units Rented to Affordable Households	**At Acquisition (2/1/2020)**	**Year End**	**Improvement**
Units Rented to Households Making < 60% AMI	2	97	95
Units Rented to Households Making < 80% AMI	5	16	11
Total Affordable Units	**7**	**113**	**106**
% of Total Building Leased to Affordable HHs	**2.1%**	**34.7%**	**1,514.3%**

Environmental Performance Results

Energy

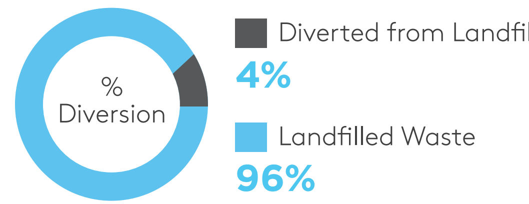
2020 Absolute		
	Total 2020 MWH	Data Coverage (SF)
Parkstone	5,082	328,604

Water

2020 Absolute		
	Total 2020 kGal	Data Coverage (SF)
Parkstone	13,403	328,604

Waste

Total Waste Weight:
389 Metric Tons



Carbon Accounting

2020 Absolute

2020 CO_2e (MT)	
Scope 1	276
Scope 2	1,208
Scope 3	N/A
Total	**1,484**

4.5 kgCO2e
Carbon Emissions Per Square Foot (Scope 1, 2, and 3)

Defining Emissions

Scope 1 - Emissions from fuel burned on-site (e.g. natural gas, diesel fuel oil)

Scope 2 - Emissions from energy generated off-site and used by base building and master metered systems

Scope 3 - Emissions generated by producing energy controlled by others (e.g. multi-family tenants that pay their own utility bills)

Residents in our properties are not individually metered and therefore, we do not track Scope 3[5]. Scope 1 and Scope 2 emissions reported reflect both master metered tenant usage, as well as the company's own usage.

ENDNOTES

[1] IRIS System is the generally accepted system for measuring, managing, and optimizing impact. IRIS metrics are designed to measure the social, environmental and financial performance of an investment.

[2] The United Nations Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace, and justice.

[3] Market rental rates are determined by an identified competitive set of market rate properties in a given neighborhood (within a five-mile radius) with no affordability component. For this analysis, market competitors were identified by the property site team and include eleven properties. Rental rates reflect the weighted average rental rates marketed at these properties over the past twelve months.

[4] 2020 Affordable Rental Rates reflect the weighted average of rental rates charged for the affordable units. The rents are calculated per jurisdiction guidelines based on an occupancy factor, a rent-to-income ratio, and the current Area Median Income and corresponding property affordability level (60% or 80% AMI). Affordable rates are then adjusted based on market-specific factors at a given property.

[5] Scope 3 emissions are identified in limited cases, primarily where multifamily tenants have direct utility meters, and are not controlled by JBG SMITH. Scope 1 and Scope 2 emissions reported reflect both master metered tenant usage, as well as the company's own usage.

JBG SMITH

4747 Bethesda Avenue, Suite 200
Bethesda, MD 20814
JBGSMITH.com | 240.333.3600 | NYSE: JBGS