



SUSTAINABILITY STARTS AT HOME

Report on Environmental, Social and Governance Performance 2019

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EXECUTIVE SUMMARY

The Housing Partnership Equity Trust (HPET) is dedicated to the preservation of naturally occurring affordable housing (NOAH), while working to improve the sustainability of our operations and properties through a dedicated focus on environment, social, and governance (ESG) factors. Great progress has been made; there is more work to do. Some highlights include:

- Conducting energy audits of every property at acquisition. Implementing tracking of energy and water usage for planning of further initiatives to reduce usage.
- 71% reduction in water usage at Woodside Court Apartments.
- \$250,000 in electrical savings annually, reducing CO2 emissions by more than 700 tons.
- Providing quality housing and communities to nearly 3,000 households, affordable at or below 60% area median income (AMI) on average.
- Adopting an Equity, Diversity, and Inclusion policy to guide continued efforts to improve equity and inclusion in our workforce, board, and vendors.
 - Workforce:** Currently 50% female and 38% minorities
 - Board:** 38% of HPET's board is female, more than double the REIT industry average
- Increasing transparency by making HPET's audited financial results available to the public on our website.

LETTER FROM THE PRESIDENT/CEO

I am pleased to share our inaugural ESG sustainability performance report. Our operating partnership with America's leading mission driven housing providers allows for a unique platform to address critical community needs, while providing strong sustainability performance and attractive financial returns. HPET excels at delivering significant social impact through holistic stewardship of its portfolio aimed at providing high quality rental housing with long term affordability and outstanding services to residents aimed at improving lives and livelihoods. As an impact investment vehicle, our financial performance and ESG performance go hand in hand.

Foremost is our commitment to providing quality affordable housing for the residents of our properties. In the face of a worsening national affordable housing crisis, HPET plays a vital role in acquiring naturally occurring affordable rental housing and improving and preserving it for the long-term benefit of current and future residents.

As a real estate investment trust, our most significant contribution to reducing our environmental impact is through the operations of the properties that we own. The real estate industry has rapidly embraced green building practices in recent years. Advances in building construction and management technology together with the growing adoption of environmental building standard programs such as LEED and Enterprise Green Communities have dramatically improved the performance of new construction.

HPET's business model, however, targets acquisition of existing buildings with lower rents and outstanding capital needs. We are substantially reducing energy and water usage in these properties through our capital investments in renovation and retrofits, but not seeking to match the environmental performance of cutting-edge new construction. By extending the useful life of these older properties, HPET is substantially reducing lifecycle carbon impacts of demolition and construction.

In 2019, HPET adopted a new policy on Equity, Diversity, and Inclusion (EDI). EDI is in our DNA. It informs everything we do from acquisitions to resident services to workforce and governance. Compared to our industry, we have a strong record on gender diversity. But we will continue to focus on increasing representation of women and people of color on our board and in our workforce, and to ensuring that those voices and experiences are heard and inform everything we do.

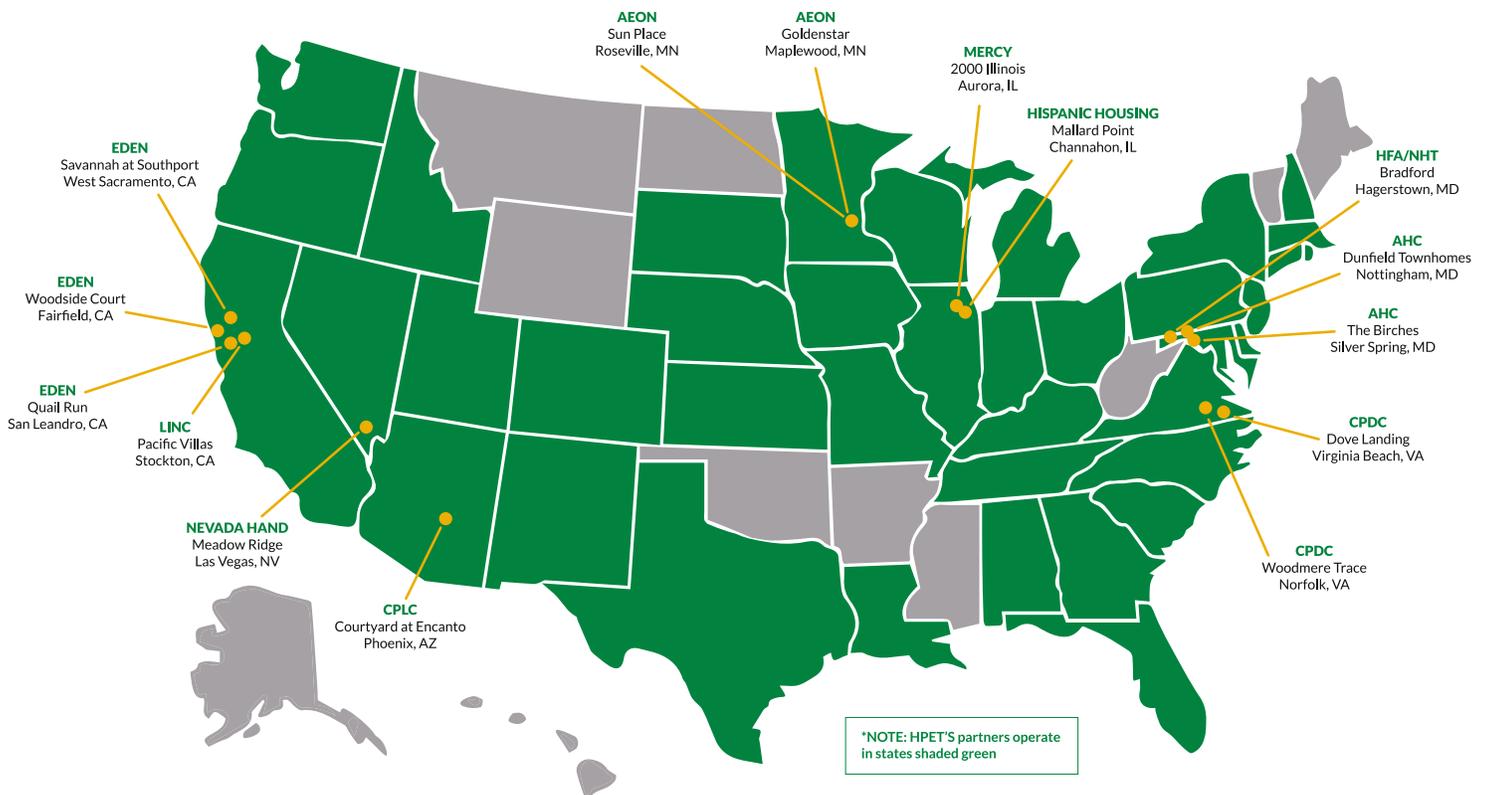
We are proud to share our ESG results with you. Please share your feedback with us. The interests and concerns of our stakeholders are vital to informing our continued efforts to improve our sustainability performance and deliver outstanding results to our investors and residents.



Anne Segrest McCulloch
President & CEO

WHO WE ARE

HPET is a social purpose real estate investment trust (REIT) that acquires and operates rental apartment properties across the United States so that thousands of low- and moderate-income families and individuals can live in quality, affordable housing. HPET was founded in 2013 by the Housing Partnership Network, a collaborative of 100 leading affordable housing and community development nonprofits, and twelve (now fourteen) of the nation's largest and most respected nonprofit developers and operators of affordable multifamily housing. Today, HPET serves nearly 3,000 households in seven states with a portfolio that includes fifteen properties.



WHY WE CARE

HPET is an impact fund whose mission is to work with our nonprofit partners to preserve affordable rental housing to enhance the lives of our residents and our communities. We encourage social equity, diversity, and inclusion by investing in neighborhoods that have key elements for household success. We deliver environmental impact and enhance our economic returns by improving the economic performance of our properties.



Environmental - HPET thinks “green” when acquiring, renovating, and maintaining properties. Adopting environmental policies lowers operating costs, reduces our carbon footprint, and improves the quality of life for our residents and communities.



Social - Social impact is at the core of HPET’s mission. We are committed to the long-term well-being of our tenants. By providing affordable housing to thousands of low- and moderate-income households, HPET is improving our tenants’ lives through financial stability, improved health, and increased access to opportunity.



Governance - HPET and its partners are committed to maintaining high standards of

corporate governance. We believe that open and transparent operations are the best way to instill investor confidence and mitigate operational risks.

HPET recognizes the importance of sustainability performance and the benefits it offers our stakeholders – investors and tenants. Sustainable practices mitigate the risks of an ever-changing world. HPET’s ESG policies strengthen our resiliency and ability to weather increased risk of disaster, and the socio-economic fluctuations of an increasingly complex and volatile environment. As our investors and partners trend toward sustainable policies and practices, HPET is taking steps to ensure our interests remain aligned. Ultimately, we believe that creating a more sustainable organization is correlated with stronger financial performance.



HPET is committed to continuously improving the environmental performance of our portfolio of properties. We believe that our environmental efforts improve the quality of life of our residents and contribute directly to lower operating costs and improved cash flow. HPET's mission is preserving low-cost housing, which means that we are often acquiring older properties built to less stringent performance standards that do not have the benefits of current building technologies and efficiencies.

Energy audits are required as part of the underwriting for each property we acquire. Through active asset management of the portfolio, we assess environmental sustainability at the property level and focus capital expenditures on items that will improve energy efficiency and reduce costs for us and our residents. HPET has invested a total of nearly \$40 million to renovate and improve our properties. Renovations prioritize energy-efficient technology upgrades and retrofits.

HPET has taken extensive measures to reduce energy consumption, including installing ENERGY STAR® appliances and implementing sub-metering. These measures have reduced

electricity costs by roughly \$250,000 annually and reduced CO2 emissions of more than 700 tons. HPET's Quail Run property in San Leandro, California has gone farther, installing rooftop solar panels and moving toward meeting residents' energy needs with zero emissions.

REDUCING GREEN HOUSE GAS EMISSIONS

- HPET is on the way toward converting the estimated 60,000 incandescent lightbulbs across all HPET properties to energy efficient LED lightbulbs.
- The result is an estimated savings of more than 2 million KWh per year, and reduction of more than 850 tons of CO2 emissions.

Water-saving technologies have been implemented in all HPET properties. Water-efficient faucets, showerheads, and toilets are reducing HPET's water usage significantly every month. HPET's Woodside Court property has reduced daily water usage from 41,624 gallons per day to 11,885 gallons per day, a 71% reduction with no change in occupancy rates.



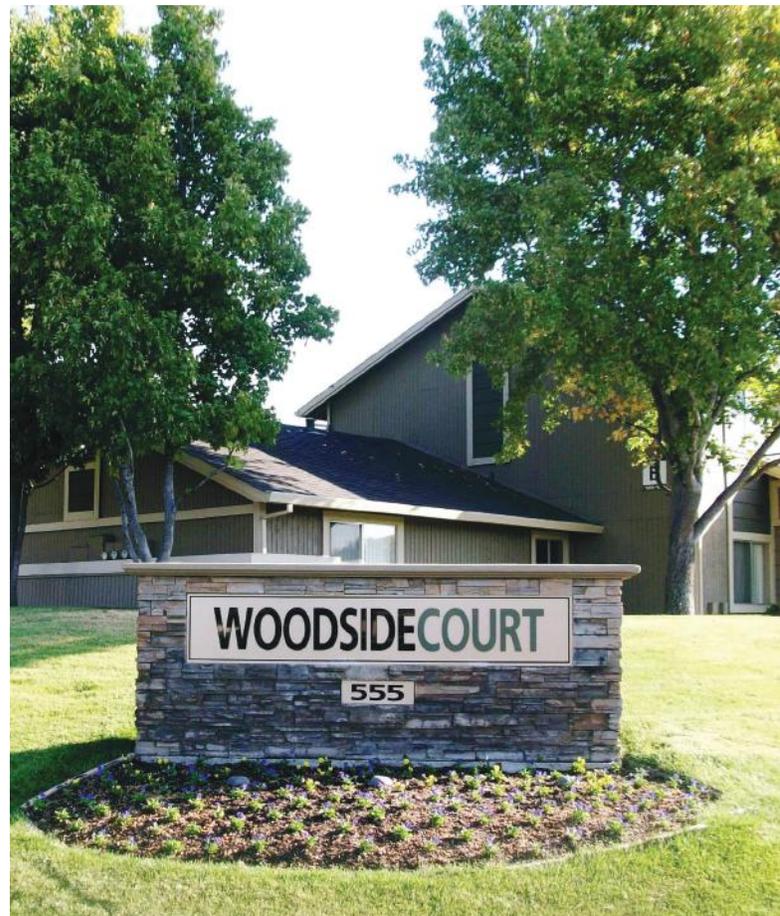
SAVING WATER AT WOODSIDE COURT

- In September 2018, HPET's Woodside Court property began replacing toilets, showerheads, and sink aerators, along with repairs to irrigation systems.
- By March 2019, daily water usage decreased from 41,624 gallons per day to 11,885 gallons per day with no change in occupancy rates.
- **71% Reduction** in water usage in six months.
- Woodside Court will save roughly 10.8 million gallons of water per year, the equivalent to 16 Olympic-sized pools!

HPET has implemented solid-waste recycling programs at nearly all of our properties. We estimate that current efforts are diverting more than 325 tons of solid waste per year, which reduce landfill burdens and contribute further to reducing our carbon footprint.

HPET and our nonprofit partners are working to implement systematic environmental programs to better manage our energy, water, and waste impacts. Our partners, where appropriate, use environmental benchmarking

tools and resources from organizations such as WegoWise and Bright Power to identify energy saving opportunities. They include seeking financing incentives available in the marketplace to improve environmental performance. Through the identification and installation of needed upgrades, education, and training of residents and property managers, and ongoing tracking and monitoring, we are reducing our carbon footprint, conserving water, and reducing solid waste disposal burdens in the communities we serve.





SOCIAL

HPET's core mission is to provide safe, decent affordable housing for low- and moderate income families and seniors. The lack of affordable housing across the United States is a worsening crisis. Nearly half of all renter households are cost burdened, and 10.8 million renters pay more than 50% of their income toward housing. In the face of these challenges, HPET's work is critical to addressing the shortage of quality affordable rental housing, especially in higher cost urban and suburban markets.

A SHRINKING SUPPLY OF AFFORDABLE HOUSING

- Four million units renting for \$800 or less per month were lost between 2011 and 2017.
- Despite more robust production of multifamily rental housing in recent years, only 9% of the new unsubsidized units completed in the first quarter of 2018 rented for less than \$1,050 per month. (State of the Nation's Housing, 2019)

Affordability improves lives by reducing pressure on household budgets, which has become acute in recent decades. From 2001 to 2015, rents across the country increased an average of 3% per year. During the same

period, renter incomes (adjusted for inflation), fell an average of 0.1% per year. In the absence of affordable housing, families are forced to cut back on essential needs like food, healthcare, and transportation. Moreover, these families cannot save money, which reduces opportunities for their children, and jeopardizes retirement for the adults.¹

HPET HOMES BY THE NUMBERS

12 of HPET's 15 properties are affordable to families making 60% of area median income



94% of HPET properties have low-VOC carpeting and paints, which improve indoor air quality

100%

of HPET properties are near Head Start programs, job centers, and community retail.



In the communities where HPET owns properties, between 43% and 57% of all renter households are cost burdened.² HPET properties stand apart, providing quality housing at affordable rents. In 2018, the average rent across HPET's portfolio is affordable to a family earning less than 60% of the area median income (AMI). The HPET portfolio operates with an average vacancy rate that is 1.5% lower than the average in the counties in which our properties are located. This performance maximizes the benefits to low-income households and improves financial results.³

HPET requires that our investments meet certain social-impact requirements including setting rents at levels that are affordable to specified lower-income populations, buying properties in communities that are designated as blighted areas pursuant to various local, state and federal housing programs, serving a specific housing need that has been identified by state and local government for low-to moderate-income families, the elderly or disabled, providing housing for the elderly or disabled, or providing mixed income housing that promotes economic diversity.

NIA'S STORY

I'm 27, single, with two great kids. Maurice seven, Andre five. My heart. But it isn't always easy. Andre was born early at seven months. That's where the asthma came from, doctors said. And he struggles other ways.

Maurice works so hard to help me and his little brother. But he's just a boy himself. Me, I have a good job – I'm a full-time health care aide, working through a company that gives us health insurance and gives me the chance to work over-time. And I'm working on getting certified as a medical records tech.

Having this apartment I can afford makes a big difference. It's a good place, not like the ones we've had to live in before. Whoever owns it, they're doing right by me and a whole lot of other people too. They keep it nice. It's safe, in a good neighborhood. It's right on a bus route that gets me to work with only one transfer. I love that I can take the boys to the park next door. If they get their homework done, that is.⁴

² Tabulation of cost burdened households by metropolitan area, State of the Nation's Housing, 2019.

³ Comparison of HPET occupancy rates to county level vacancy rates 2017 American Community Survey.

⁴ To protect tenant privacy, Nia is a fictionalized character whose story is a synthesis of the real-life experiences of our tenants.



While affordability is paramount, housing affects all aspects of our resident's lives. HPET has implemented initiatives to improve indoor air quality (IAQ). 93% of HPET properties use low volatile organic compound (VOC) paints and CRI Green Label-certified carpeting.⁵ These carpets and the flooring adhesives used emit very low levels of VOCs, which contribute to improved IAQ and resident health. Currently, nine HPET properties have implemented smoke-free initiatives, utilizing leases with smoke-free provisions and prohibiting smoking in common areas.

Home is more than four walls. Home is community. A healthy, affordable home is the foundation, but access to a sustainable community with education, healthcare, job opportunities, quality retail, and community amenities is important to lasting success. HPET properties are strategically selected to maximize the social benefits to our residents. Every HPET property is located near community retail, a job center, and Head Start program; and nearly all properties offer access to public transit and are within two miles of a community health center, groceries, banking institutions, and public parks.



Investors rely on HPET's commitment to strong business operations and governance practices so they know that they will achieve the financial returns they expect and deliver real impact to residents and communities. HPET's unique business structure, as a for-profit REIT overseen by nonprofit partners, means that the majority of our board is comprised of managing members who represent nonprofit organizations with deep commitments to mission and strong operating histories. Our managing members are the nation's premier experts at balancing financial returns with social and environmental impact in residential real estate.

The full board oversees our sustainability and financial performance through committees that include Governance, Finance, Audit, and Investment. The board has retained Ernst & Young, the industry's most experienced REIT auditor, and posts HPET's annual audited financial results publicly on our website. HPET is committed to maintaining the highest ethical standards in all aspects of our business. Formal policies and training address numerous areas including conflict of interest, employee conduct, financial procedures, anti-fraud, and confidentiality.

HPET continues a strong commitment to workforce diversity. HPET is one of the few REITs managed by a woman President and CEO.⁶ **Women comprise 50% of HPET's staff. 38% of HPET staff are members of racial and ethnic minorities. 38% of HPET's board are women, more than double the industry average.**⁷ Finally, we adopted a new policy in 2019 on Equity, Diversity, and Inclusion (EDI), which will guide our efforts going forward.

HPET's management team averages twenty years of affordable multifamily experience and has collectively owned, managed, or financed \$15 billion of real estate. HPET is committed to continuous growth and improvement and supports employees in attending professional development training, conferences, and other personal development opportunities.

HPET's board has adopted comprehensive guidelines defining how HPET resources will be used and in what types of properties HPET will invest. Additionally, a dedicated team researches and analyzes acquisition opportunities to ensure new investments will fit into HPET's existing portfolio. When a potential property is located, specific guidelines define a triple bottom-line underwriting process that ensures the investment is a good value, is executed in good-faith, and will provide strong results for investors and residents.

⁶ "Women are slowly ascending the REIT ranks," housingwire.com, July 3, 2018.

⁷ "REIT Industry Hits Diversity Record with Female Board Appointees," Wall Street Journal, June 26, 2018. Analysis by Wells Fargo Securities found that REITs with greater gender diversity had stronger financial performance ("REITs With Women on Their Boards Outperform Those with Only Men," Wall Street Journal, March 6, 2018).

NEXT STEPS

Enhancing the sustainability performance and impact of our business is a continuous effort. HPET's top priority will continue to be improving the lives of our residents. With the aging of the Baby Boomers, HPET plans to increase our capacity to serve disabled and elderly residents. Reducing our environmental impacts will continue to be a priority for future retrofits and capital improvements, further reducing water usage, reducing energy use, and shrinking our carbon footprint.

Expanding our commitment to transparency and accountability, HPET is assessing the use of voluntary ESG disclosure frameworks including GRESB (originally Global Real Estate Sustainability Benchmark) and the Carbon Disclosure Project (CDP). Our team is reviewing the guidance frameworks of the Global Reporting Initiative (GRI) and SASB (Sustainability Accounting Standards Board) to further engage our partners and investors on our ESG disclosure and management priorities. These efforts will enable us to more rigorously track, benchmark, manage, and evaluate our progress.

The journey to creating a sustainable business never ends. Through HPET's ESG policies and practices, we get closer every day, creating more value for investors, and improving the lives of our residents in a growing portfolio of affordable homes and communities.





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