

Social Impacts of Financial and Real Estate Markets

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Area: Future Opportunity and Investment

Executive Summary

The world faces many pressing challenges, such as climate change, racial injustice, income inequality, and the lack of affordable housing. These challenges are affecting most people living today and could also affect future generations to come. While other disciplines have devoted much effort to understanding the causes and consequences of these challenges, finance and real estate researchers have largely overlooked these issues. However, many of these issues have deep financial roots. It is therefore important to understand how financial and real estate markets may have contributed to these challenges, and more importantly, how financial and real estate markets may be able to help to solve these issues.

The faculty at the Department of Finance, Department of Economics, and the Childress-Klein Center for Real Estate are among the earliest academic researchers that are making significant contributions to this area of research. Currently, we are studying how financial and real estate markets affect (1) racial discrimination in mortgage and housing markets, (2) affordable housing, (3) corporate greenhouse gas and toxic chemical emissions, (4) crime, (5) opioid epidemic, and (5) corporate gender diversity. In particular, we try to understand how big financial institutions, such as hedge funds and asset management firms, affect their portfolio companies' social performance. We are also trying to identify the financial roots of social problems like crime and the opioid epidemic. With these different topics, we try to understand whether the pursuit of financial returns necessarily hurt non-financial stakeholders, the environment, and more generally the social welfare, and whether it is possible for firms and financial institutions to do well by doing good.

Evidence of Strength and Excellence

The lead investigator, Yongqiang Chu, has published over 20 papers in top finance and real estate journals. Among these, eight papers are published in the highly regarded list of 50 leading journals for business school faculty compiled by the *Financial Times*, and six papers are published in the even more selective 24 top journals compiled by UT Dallas over the last five years. To put this into perspective, from 2015-2020, the Belk College of Business faculty published a total of 17 papers in journals on the UT Dallas journal list. Furthermore, he currently has five papers under *Revise and Resubmission* at top finance and real estate journals, and over 20 working papers currently under review at various journals. He also serves on editorial boards of leading finance and real estate journals, including *Journal of Corporate Finance* and *International Real Estate Review*. His research has been featured by yahoo finance,¹ the Harvard Law School Forum on Corporate Governance,² and the FinReg Blog of Duke University School of Law.³

Tom Mayock is an associate professor in the economics department at UNC Charlotte. He has published 19 journal articles on a broad swath of topics in real estate and urban economics, including the impact of land use regulations on housing affordability, racial disparities in the mortgage and housing markets, school segregation, the effect of crime on property values, and the impact of mortgage distress on neighborhoods and local governments. In addition to his published articles, Tom also has 2 working papers on risk in the mortgage market that are in the revise and resubmit phase at the *Journal of Banking and Finance* and *Management Science*.

Kip Womack is an associate professor in the Childress-Klein Center for Real Estate, has published more than 10 articles in top real estate journals, including the impact of entitlement risk on real estate development. He is also one of the coauthors of “The State of Charlotte Housing Market” reports issued by the Childress-Klein Center for Real Estate.

Daniel Wright is Program Director for the Masters in Real Estate. He has spent his career since 2004 in the private sector as a real estate developer and asset manager. Daniel was Executive Editor of the Cornell Real Estate Review from 2016-2018 and presented at the 2018 American Real Estate Society conference on the topic of coworking and historic sacred places. These findings were published with the Philadelphia Real Estate Council. Daniel has performed research on the topic of community development for the National Town Builders Association, specifically on the topics of “Valuing a Lifestyle Experience” and “A Comparative Analysis of a New Urban Place and Conventional Developments.”

Since 2019, the Childress-Klein Center for Real Estate has released the annual State of Charlotte Housing Reports that examine the pressing challenges faced by the Charlotte housing market. The report was recognized by AACSB International (the leading business school accreditation organization) as one of the 25 2020 Innovations That Inspire Highlights. This study receives financial support from many organizations in the Charlotte area. The reports have drawn widespread attention from the news media and the general public. The real estate faculty have appeared in interviews with many local and state news media.

¹ <https://finance.yahoo.com/news/swedroe-mispricing-isn-t-going-120700142.html>

² <https://corpgov.law.harvard.edu/2017/12/28/shareholder-creditor-conflict-and-payout-policy/>

³ <https://sites.law.duke.edu/thefinregblog/2020/09/28/agree-to-disagree-within-syndicate-conflict-and-syndicated-loan-contracting/>

In the area of the social impact of financial and real estate markets, we have completed several working papers on these topics,⁴ some of which have already received a lot of attention, both from academics and from the finance industry. For example, the papers “Green Hedge Fund Activists” and “Gender Diversity: From Wall Street to Main Street” by Yongqiang Chu and his coauthors are featured on institutionalinvestors.com.⁵ The first paper is under revise and resubmission at *Review of Finance*, one of the top journals in finance. We believe that these papers will greatly enhance people’s understanding of the financial forces behind the social issues and help pave the way to eventually solve these issues. We expect that these papers will be published in top finance and real estate journals soon.

In “Rental Housing, Household Sorting, and Academic Achievement,” Tom Mayock and his coauthors use a unique database of student microdata linked to administrative property data to investigate how the dramatic increase in single-family rental homes following the Great Recession impacted the residential location decisions of parents of public-school children in North Carolina. The primary goal of this paper is to provide evidence on the extent to which housing policy might be used to provide more opportunities for students in low-income families by providing access to high-quality schools.

While we are making significant progress, we are limited by the resources available to us. With additional resources, we can greatly expand our research and achieve a lot more. In particular, with additional resources, we can improve along the following dimensions. First, we can recruit and retain the best faculty and researchers. In particular, most R1 universities offer summer research support to their active faculty researchers. Unfortunately, most faculty members here at the Belk College of Business and the Childress-Klein Center for Real Estate do not receive any summer support, which significantly limits our ability to recruit and retain the best researchers. Second, we need to hire research assistants to help with faculty research so that the faculty members can focus on developing the research agenda and ideas, instead of collecting and running data. Third, we can get access to more and better data to satisfy our research needs. In particular, due to data limitations, our research on affordable housing is limited to data in the Charlotte area, which significantly restricts the impact of our research. With more support, we can expand our research to the state and national levels, and hence will have a much greater impact.

⁴ <https://sites.google.com/site/yongqiangchu/Home/working-papers>

⁵ <https://www.institutionalinvestor.com/article/b1phrrfjcbv6w/Who-Loses-When-Activist-Hedge-Funds-Shake-Up-Companies> and <https://www.institutionalinvestor.com/article/b1jr4hhh7xrpsl/Are-Hedge-Funds-Good-at-Being-Green>

Alignment with Regional and National Priorities

As it is probably obvious, we are tackling the biggest challenges the nation and the world face from a finance and real estate perspective. Climate changes and environmental issues not only affect people today, but will also profoundly affect future generations. In particular, climate change risk can create systemic risk to the financial system and the economy. Therefore it is critically important to understand the causes and consequences from a finance perspective.

The recent events that happened in the US remind us once again of the racial injustice deep in our society. Organizations at the national, state, local, and university levels also face the great challenge of addressing racial injustice and help to foster a more diverse and inclusive environment. The lack of diversity is especially prominent in the finance and real estate industries, and hence understand the causes and consequences of the lack of diversity should be the critical first step in trying to solve this issue.

The issue of the lack of affordable housing is also a common problem many big metro areas face. The State of the Charlotte Housing Study we are conducting uses a data-driven approach, trying to understand the deep causes of the rapid increases in house prices in the Charlotte region. In particular, we are currently working on identifying the roles regulation play in driving up the house prices and how the segmentation of the area have contributed to the NIMBY (“Not in my back yard”) problem.