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ROUNDTABLE

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Doing well by doing good

Managers attending PERE's Impact Investing roundtable discuss grappling with a host of structuring and regulatory issues to shape the first generation of real estate impact funds. Stuart Watson reports

For many real estate investors, gauging and improving the social and environmental impact of their investments has become a crucial part of their approach, particularly in the wake of the pandemic. Among respondents to PwC and ULI's 2022 *Emerging Trends in Real Estate Europe* report, 54 percent said that the social impact/value contribution made by investments would increase in importance in the coming years.

The 2022 *PERE* Impact Investing roundtable discussion was attended by representatives from four of the industry's major international players: CBRE Investment Management, Schroders Capital, Nuveen Real Estate and Bouwinvest, managers of many billions of dollars of institutional capital on behalf of investors who are keeping a keen eye on developments in the impact sphere.

As the discussion gets underway, the participants consider one of the thorniest and most crucial challenges inherent in the approach: defining and measuring impact.

Charlie Jacques, head of real estate sustainability and impact investment at multinational asset manager Schroders Capital, notes that terms like impact, ESG, sustainability and responsible investing are often used loosely, which can obscure the degree to which associated strategies are actually delivering. "Hence all of the new disclosure and labeling regimes, which can be helpful in some respects, but not in others. Our definition is very clear that an impact strategy needs intentionality to deliver a positive social or environmental change or impact."

An impact strategy must have "a very clear stated impact objective that is on a par with financial return," argues Abigail Dean, global head of strategic insights at Nuveen Real Estate, which manages $156 billion of real estate assets worldwide. "The key difference between the mainstream integration of ESG into investment strategies and impact investing, is that from a mainstream perspective, the environmental or social aspects are being looked at in the context of their ability to protect value or deliver return, so you will be justifying the investment in carbon reduction by saying it is protecting the value of the portfolio as we move toward a net low carbon economy. The same may well be true in an impact strategy. But you could not invest in an asset that would undermine your ability to achieve the stated impact goal."

Marleen Bosma, director of strategic business development at Bouwinvest Real Estate Investors, says that the Dutch manager's definition of impact is twofold: "First, there is the social part, which for us is about offering additional affordable houses for the long term, and also providing appropriate healthcare and societal real estate to meet the ongoing needs of currently underserved groups. Second, there is contributing to a healthy environment,

Marleen Bosma
Director strategic business development
Bouwinvest Real Estate Investors

Bosma is responsible for the strategic positioning of Bouwinvest and new investments, including new and existing partnerships with national and international investors. Bosma joined Bouwinvest in 2016 and previously served as head of research and strategic advisory. Bosma's former roles include portfolio management of the international property investments and strategic client advisory at Blue Sky Group, and her career includes research, portfolio management and client relations roles at FGH Bank, Philips Pension Fund and Syntrus Achmea Real Estate.

Abigail Dean
Global head of strategic insights
Nuveen Real Estate

Dean is the global head of strategic insights for Nuveen Real Estate, responsible for the organization's global research, sustainability and proptech and innovation functions. She oversees Nuveen Real Estate's Tomorrow's World Strategy, aimed at future proofing investment strategy around global mega-trends and integrating ESG across fund and asset management. Since joining in 2016, Dean has overseen the organization setting a target to achieve Net Zero Carbon by 2040. She is a member of Nuveen Real Estate's executive leadership team and has spearheaded the integration of sustainability considerations into the investment process.

Charlie Jacques
Head of real estate sustainability and impact investment
Schroders Capital

Jacques has led sustainability and impact policy, strategy and implementation across Schroders Capital Real Estate since 2014. She led the business's Net Zero Commitment in 2019, and oversees net zero implementation across funds. Jacques is a member of the Schroders Capital Global Real Estate Management Committee. She is a chartered surveyor, joined Schroders in 2000, and has held a variety of roles including product development, investment process and risk and business strategy.

Hannah Marshall
Chief investment officer, UK direct real estate and fund manager for a residential impact strategy
CBRE Investment Management

Marshall leads investment strategy and portfolio management for all UK direct real estate mandates and is responsible for all aspects of investor relations, performance and strategic direction for a European residential impact strategy. Previously, Marshall was head of UK funds at CBRE Investment Management and fund manager for the CBRE UK Property PAIF. Prior to that, she was head of European Portfolio Management within the firm's private real estate strategy, responsible for managing 13 separate accounts as well as a European fund of funds.

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>
> **ABIGAIL DEAN**
> **Nuveen Real Estate**

which includes minimizing the asset's carbon footprint, of course, as well as providing services and facilities to promote improved well-being and a more inclusive society."

Once a manager has identified the challenge that it is seeking to meet, and the solution that it will aim to provide, those need to be set within the context of the market, says Hannah Marshall, chief investment officer, UK direct real estate, and fund manager for a residential impact strategy at CBRE Investment Management. "You need to establish the targets, metrics and the portfolio outcomes you're seeking to achieve, and then measure that on an ongoing basis, recalibrating when you need to."

Benchmarks for measurement

When it comes to setting benchmarks for measurement, much more rapid progress has been made on gauging environmental – as opposed to social – impact, observes Dean. "There's quite a lot of guidance available through INREV [the European association for investors in non-listed real estate] for sustainability reporting. There's also the GRESB benchmark, and the CRREM [carbon risk real estate monitor] decarbonization pathway. While there still isn't a unified vision, there is quite a lot available for investors to able to determine how green strategies are. However, on the social side, there isn't really a yardstick to enable you to say whether performance is good enough."

Consequently, environmental improvement is a part of many mainstream strategies, while impact investors have tended to concentrate on social outcomes. "The investors that we engage with have an expectation that environmental impact will be incorporated across all investments, whereas that probably isn't there for social impact, because it has not so far been measured across mainstream investments in the same way. Therefore, social benefits are more targeted through specific impact strategies, where intentionality helps to provide a framework to measure outcomes."

The EU taxonomy rules and Sustainable Finance Disclosures Regulation (SFDR) also provide some guidance for environmental impact, says Bosma. "But on the social side hardly anything is clear yet. You have to pay close attention to specific needs on a local level and work out in what respect you can contribute to the greatest impact."

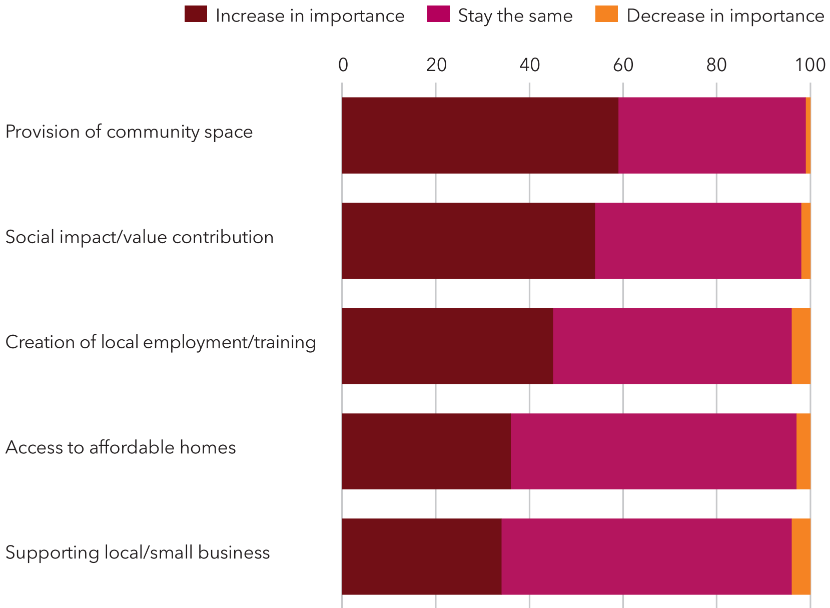
That makes an across-the-board benchmark for social impact difficult to establish, argues Marshall. "Each strategy is quite nuanced, so it is hard to come up with a one-size-fits-all. There are some definitions of social impact produced by GIIN [the global impact investing network] and there are the UN's Sustainable Development Goals. You can align your objectives with them. In the absence of a GRESB-equivalent, we chose to have an independent adviser to help us assess an investment, and then benchmark and independently verify what we're doing on an ongoing basis."

Determining the social return on capital invested is a major challenge, notes Jacques. "How much impact are we achieving for the capital we are investing? We can say we created this many homes, workspaces or jobs. But was that enough? Should we have got more for those millions that we invested? More importantly, we need to assess how the experiences and outcomes of those enjoying the places we have delivered have changed to truly assess social impact success."

As a manager it can therefore be difficult to determine whether you are properly fulfilling your fiduciary duty to investors, adds Bosma. "Investors require transparency on the balance of impact, perceived risk, and a certain level of financial return. It is quite clear that they will have lower return compared to traditional investments, because they want to have that impact, but how do you measure the impact to ensure that it is enough?"

Nonetheless, criteria can be set for a specific strategy, says Marshall. "The main way we have been doing impact investing is mainly in the residential space in the UK and Europe. And we have some quite clear targets around affordability criteria, rents as a percentage of local household incomes, and other metrics. It is difficult to know if we could be doing more. That speaks to the relative infancy of the model. But we have a couple of activist social impact investors, and each year they challenge us as to whether we could achieve more. I think some managers at the moment are holding themselves to account with the investor group, as opposed to getting more external verification and validation."

Provision of community space topped the list of issues the real estate industry sees changing in 2022 and beyond (%)



Source: PwC's Emerging Trends Europe Survey 2022

Responsible exit

The conversation turns to how impact funds should be structured. Does a typical closed-ended fund structure work for impact investing, or do impact funds necessarily have to be longer-term vehicles? On the whole, the latter structure tends to be more suitable, says Marshall. "We have typically associated real estate private equity with closed ended funds and a value-add or opportunistic mindset, very focused on the financial return. At times, responsible investing would maybe conflict with that. Sometimes when we are buying from an owner with a certain set of values, we are selected because we are an impact investor that will not escalate the rents. We are successful because we are seen as the bidder most aligned with their values. Responsible investment is sometimes about who to sell to, and also maybe providing yourself with some more flexibility in the timeline within which you have to sell."

Bosma concurs: "Open-ended, or semi-open, structures seem to me more logical for impact strategies, because typically there is a longer-term hold, and you have to consider what kind of conditions do you pass on to the buyer. But also, typical closed-ended fund fee structures include mechanisms like promotes, which put the financial

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> **MARLEEN BOSMA**
> **Bouwinvest**

return first, so the alignment is not right in that respect."

In a closed-ended structure, impact investors need to put in place criteria for a responsible exit, says Dean. Nuveen has provisions of that kind in place for its impact vehicles. "The longer you own an asset, the more impact you can deliver. If you are limited in the timescale that you can hold it for, then there is a risk that the exit is more dictated by the investment lifespan than by what is best for the community. Having a responsible exit position can help to address this risk by prioritizing buyers who will preserve the impact."

Dean argues that for some purposes, closed-ended funds might be more suitable. "If you are looking at a strategy focused on environmental transformation, that can work very well. You are acquiring buildings that are obsolete, improving them and then selling them on at a higher value, having realized a certain standard of environmental performance."

Marshall notes that if an investor decides to exit an open-ended impact structure, and the position cannot be sold on the secondary market, then the manager may be forced to sell assets to release capital in a way that could be detrimental to social objectives in any event. "Open-ended funds' capital can come and go. You could also argue that in a closed ended structure, the capital is locked in for that period," she muses. "All forms of structure have some kind of an exit challenge."

Needs-based investing

Many impact strategies have hitherto focused mainly on the affordable housing sector. But an investment in any real estate sector could generate social impact, argues Dean, if it meets the needs of the community. "A core element of impact investing is it is needs-based. The first step is to understand what the needs of the place and community are. Then you link that to the delivery of the real estate that is needed, whether that be affordable housing, healthcare, education, or investment in offices, retail, and industrial, which is going to deliver jobs. For very obvious reasons, there is a big focus on residential at the moment because there is a housing crisis in most parts of the world. But as impact develops, we'll see more and more different real estate sectors being brought into it."

"It is about delivering mixed communities," says Jacques. "Comfortable, inspiring places, where we are holistically looking after people. A couple of our funds in Europe and the UK are trying to bring all of these things together. Housing is the primary need, but what else do people need on a day-to-day basis? Shopping, medical, education and nursery facilities, even

Public-private partnerships: From the UK to the US, and Amsterdam to Bracknell

The participants share success stories of working with local authorities to deliver positive change

Hannah Marshall: Housing associations in the UK have established relationships with their tenants and understand their needs. They are clearly best placed to operate those buildings. But we have been able to bring to bear resource and expertise to help them develop their thinking about the environmental aspects of owning and operating those buildings. By working in partnership, we can utilize the skill sets on both sides to the best advantage.

Marleen Bosma: Bouwinvest is the owner of the Olympic Stadium in Amsterdam, which staged the 1928 summer games. We undertook a transformation in terms of placemaking, adding residential and retail. We also worked with the municipal authority to upgrade the whole of the public space between the buildings on the site.

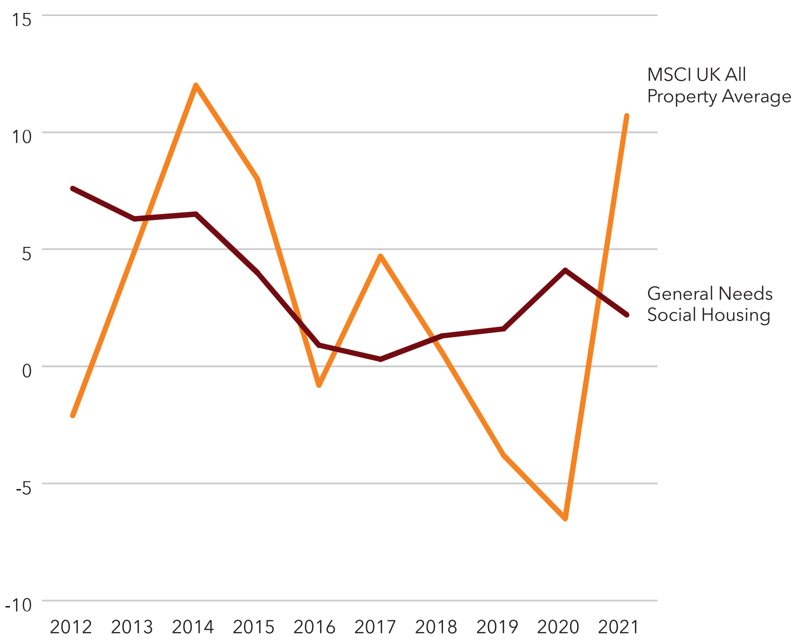
Charlie Jacques: Schroders Capital controls practically the whole of the center of Bracknell, in the southeast of England. We have been investing in what was a pretty unloved town center for over 20 years, working in partnership with the borough council to understand how it should be repositioned, and develop a masterplan for deliverable urban regeneration. Over that time, it has been completely redeveloped and reoriented within its region, changing the whole outlook for businesses and people around it.

Abigail Dean: We have a long track record of collaborating very closely with municipalities across the US to deliver affordable housing there, working hand in hand to ensure that investment is focused in the areas where it's most needed and that the provision of affordable housing is maintained.

digital infrastructure. We have developed a tool that enables us to profile the characteristics of places and find out if the physical components of a particular location allow the delivery of a real estate investment which is connected, vibrant, and cohesive with the people and places and spaces around it. We can then target these areas and contribute to local employment, public amenities and affordable housing to local communities, providing significant social well-being alongside financial return."

Impact investing can provide capital to transform assets into the kind of real estate needed to serve a changing society, adds Jacques. "It is institutional capital that we are all representing. There are a lot of societal challenges right now, which we have the power to help meet. In the UK, for example, there is the leveling up situation, with huge disparities between, and within, regions, cities and even towns. And

While the peaks of the general market can be higher than social housing, in the UK, the asset class consistently provides capital growth (%)



Source: Schroders

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>
> **HANNAH MARSHALL**
> **CBRE Investment Management**

Better global alignment is needed for impact to go mainstream

Participants' predictions and aspirations for the future of impact investing

Abigail Dean: There is clearly a huge amount of interest from the investor community in impact investing, and also real interest from governments around the world to work with investors. I hope impact investing will act as a kind of incubator for elements that will be rolled out across more mainstream strategies in future, because ultimately, every investment has the potential to deliver some positive impact.

Charlie Jacques: We need everybody to be much more transparent on what their positive contributions are and what their negative impacts are, so that we can more clearly evaluate how much good investments are actually doing from a societal and environmental point of view. Then we can move on from pure impact investing, to a situation where there is normalized and extensive transparency about what impact investments are having that we can all act upon.

Marleen Bosma: An overarching concern is whether we as an industry, but also institutions in general, are doing enough to tackle climate change. We see a large difference from country to country, so we know that the global effort can be better aligned. But social impact should not be forgotten. We see a lot of pressing social issues, such as inequality, shortage of affordable housing, and the lack of healthcare personnel.

Hannah Marshall: We are all on a path to develop greater understanding of this area. But to generalize, the investment community is further along the journey in some regions than others. There is a lot of talk about a retreat from globalization. However, on this topic we actually need more globalization, with a better worldwide alignment of interest around values and outcomes.

by mobilizing institutional capital, we have a great source of investment to enable change in small places that can make a big difference."

Regulatory risk

Impact investing, with its strong social component, inevitably brings investors and managers into contact with government at local, national and international levels, and the last part of the discussion focuses on interactions with the state as partner and regulator. Investing in accommodation for vulnerable people inevitably and rightly means impact investors must operate within a tightly-controlled environment, says Marshall. But that does not necessarily present a problem if long-term objectives are coordinated.

"Political cycles tend to be short or shorter than investment ones. And many of the issues or challenges that we are seeking to address are long-term problems that attract long-term capital. There is a place for a partnership between public and private, but their time horizons still need to be in alignment. For investors to commit that capital for the long-term it can be very difficult if they feel exposed to the risk of constantly changing regulation, so the framework needs to be stable for things to come together."

"We face a Rubik's Cube of regulatory challenges"

CHARLIE JACQUES
Schroders Capital

Government incentives can stimulate investment in areas such as onsite renewable energy and affordable housing, says Nuveen's Dean. "A short-term incentive can help justify an investment in something like solar power, or make it accretive. The challenge comes when you have built an investment case around being paid an incentive for the long term, and that changes."

Ongoing partnerships with local government potentially offer a stabler and more productive basis for investing, observes Bosma. "We are a long-term investor, so we are very much engaged with local policymakers. In the first place, discussions are about understanding each other's point of view and what we can achieve by working together. We cannot do anything these days on the affordable housing side without local authorities. Our goals are pretty well aligned anyway, although there does have to be transparency on the long-term expectations from both sides."

The participants note the profusion of regulation, particularly regarding environmental sustainability, covering the various jurisdictions in which they operate. They conclude that some of it is helpful in some respects. But taken as a whole the rapidly-expanding bureaucratic burden can be bewildering. "We face a Rubik's Cube of regulatory challenges," says Jacques. "It is hitting us at the building level on the environmental side, on the social side, regarding the people we are trying to house, and then we have the social impact investment reporting regulations, with SFDR and the new UK equivalent.

"They are still unclear, and we are grappling with how we interpret and apply them. How do we put a framework in place to show we've got a robust approach? And then will the regulator accept that? Then there is the challenge of dealing with lots of different national regulators. This is not just one set of rules. It is a set of rules, which is being interpreted several times over."

At each of their respective firms, the roundtable participants are the individuals charged with poring over the regulatory puzzle. "The challenge is to distill things down to the points that matter," concludes Jacques. "How can we make a difference and then tell that story? How do we provide transparency about what we are doing for stakeholders, whether they are our investors or the people who are enjoying the spaces that we are creating? We all need to be consistent and fluent about what matters. But we have a long way to go." ■