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Social Impact Investing roundtable 2024

July/August 2024 • perenews.com



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Social impact moving in the same direction as the 'E' in ESG

Measuring the social value of a real estate asset is riddled with complexities, but targeting positive social impact is increasingly paying dividends. By Judi Seebus

The recent turmoil in capital markets and the drop-off in fundraising have affected all corners of the private equity real estate sector, including impact strategies. While there has been much supportive rhetoric around delivering on ESG goals, investment managers have struggled in the past year to attract commitments from investors to new impact vehicles.

After peaking at \$1.97 billion in 2021, capital raised for real estate impact funds shrunk to \$558 million in 2023, per data from affiliate title *New Private Markets*. Fundraising remains slow, with only \$328 million raised in Q1 2024 via the closure of one fund: Germany-based Patrizia's Sustainable Communities I, which fell short of its target size by around \$200 million.

The five managers taking part in this year's edition of *PERE's* social impact roundtable say ESG remains a priority for investors, however. "When we talk to our existing or potential new investors, ESG is absolutely very important to them, and we are going deep on sustainability in due diligence for new deals," says Steve O'Connell, chief executive of Grosvenor's North American property business. "We, as real estate operators, have our hands full in these challenging times, but our stakeholders – our tenants and municipalities – are not deprioritizing sustainability at all. In fact, the priority is increasing."

Sonny Masero, managing director for global ESG at Hines, sees a similar trend, but notes a distinction between investor appetite for impact-focused strategies and the importance ascribed to ESG in investment decisions more

generally. "There has been less interest in pure impact investing in the downturn from a real estate perspective, but the integration of sustainability into investment strategies continues to be critical as investors like ourselves look to enhance yields. In fact, investors with a more active or strategic focus on sustainability requirements have stayed the course."

A gap exists, nevertheless, between progress on the 'E' and the 'S' in ESG. Environmental considerations are increasingly integrated into virtually every aspect of a property in an investment portfolio, from development through to sale. But the focus on social value is still a nascent development and common definitions and benchmarks are not yet available. Investment managers therefore have their work cut out for them in making a clear



Maya Savelkoul

Fund manager Dutch impact and Dutch healthcare investments, Bouwinvest Real Estate Investors

In her current role, Savelkoul established Bouwinvest's Social Impact Partnership with ABP and bpfBOUW and managed the company's Paris Proof program. She was previously real estate director at the Dutch central agency for asylum seekers and an adviser on area development and energy transition at consultancy firm Twynstra Gudde.

Steve O'Connell

Chief executive, Grosvenor Property Americas

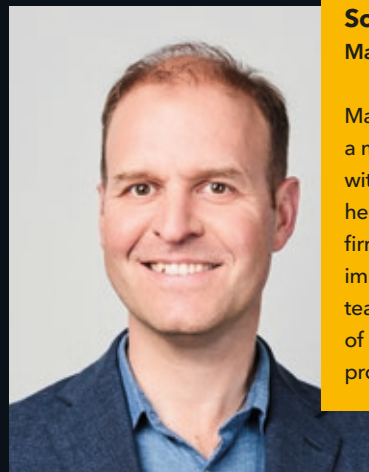
O'Connell provides the strategic direction for Grosvenor's investment, development and financing activities in North America. He was appointed to the Americas Board in 2018 after joining in 2011 and became chief executive in 2019.



Sunita Mahant

Managing director sustainability, Caisse de dépôt et placement du Québec

Mahant is responsible for supporting the sustainable investment credit and equity activities in the real estate sector and oversees sustainable development projects. Previously, she was head of social impact and inclusion, sustainable investment at Ivanhoé Cambridge. She has also held various management roles in the organization's legal affairs department.



Sonny Masero

Managing director global ESG, Hines

Masero leads the global ESG team as a managing director based in London with a team in New York. In this role, he is responsible for driving the firmwide sustainability strategy and its implementation across the business. The team is also responsible for the integration of sustainability into Hines' investment processes.



Pamela West

Managing director and portfolio manager, impact investing, Nuveen Real Estate

West leads the real estate impact investment strategy within Nuveen Real Estate. She is a seasoned real estate professional with 25-plus years of experience and has executed over \$15 billion of transactions in acquisitions, dispositions financing and asset management within the US.



link between social impact and value creation and protection, according to Pamela West, managing director and portfolio manager, impact investing at Nuveen Real Estate.

“Everybody can get on board with the ‘E’ and the return on investment that we are getting out of implementing sustainability. The ‘S’ is really tough because there is no easy way to roll this out nationally across the portfolio. You have to focus on the residents, and at each property they may have very different needs,” she says.

Regional differences

While the need for decarbonization is largely science-based given the limits of the planet in supporting life on Earth, the social value of an asset is place-based, and priorities often differ from one location to another, Masero argues. “Social value is also subjective

in terms of where the thresholds are and what is considered good enough. Having one set of quantified metrics may not work for different locations.”

He adds, however, that it could be possible to improve standardization across geographies. “Social value is not activated by the property alone but in combination with processes that consider the needs of tenants, local residents and other stakeholders that are part of the community where the asset is located. You can still encourage social value activities without prescribing the expected outcomes, which may not be relevant to that community.”

Regional differences are further complicating the search for a common language. In North America, managers tend to use the term ‘sustainable’ to describe an investment targeting social impact or ESG credentials more

broadly in conversations with their investors. This is due to a widely held perception that impact or ESG strategies do not generate high enough returns, says O’Connell.

“In North America, impact investing can be associated with non-profit or mission-based investors like the Gates Foundation, so we typically would not use that terminology to describe what we are doing. We just try to make it clear that our net zero commitment and social efforts are a core part of our standard investment and development activities,” he explains.

That said, the US is highly bifurcated and different markets are moving at different speeds. O’Connell observes a hierarchy in the progress of social impact investing with Europe at the top, Canada in the middle and the US trailing, which he ascribes to societal values in each of these regions

“There has been less interest in pure impact investing in the downturn from a real estate perspective, but the integration of sustainability into investment strategies continues to be critical”

SONNY MASERO
Hines

and a correlation with their positioning on the political spectrum.

Whatever the label, doing good does not mean compromising on returns, the participants concurred. For Sunita Mahant, managing director for sustainability at Canadian pension fund Caisse de dépôt et placement du Québec, that is simply not an option. “Generating the returns is fundamental: we look at sustainability in terms of risk and return levers for performance. It is about finding the right solution and the right tools for value creation and protection. We have strong ambitions for our capital to be constructive by intentionally investing to generate positive impacts on the environment and the communities, in addition to generating a financial return.”

The same is true for Nuveen’s West, who puts expected returns from impact strategies in a range from a high single-digit figure to a low double-digit for preservation. “We see it as a 50/50 proposition: there is a return on investment on the ‘E’ and the ‘S.’ We do not think the two should be mutually exclusive. One of the biggest challenges of the space is the education around how impact drives return.”

The discussion around social impact in Europe is far less polarized than in North America, claims Maya Savelkoul, fund manager for Dutch impact investments and Dutch health-care investments at Bouwinvest, adding that a market for dedicated investment strategies in real estate is also evolving.

In late 2023, the Amsterdam-based investment manager formed a social impact real estate partnership with Dutch pension funds ABP and bpf-BOUW to invest €400 million in affordable housing, assisted living and other social real estate such as schools and community centers throughout the Netherlands.

This dedicated impact strategy is expected to generate a stable single-digit return, Savelkoul says. “This strategy has a specific focus on social

Creating alpha in places where people want to be

Thriving communities can be built in every real estate asset class, say participants

Affordable housing is typically regarded as the sector with the greatest potential for social impact investing. “What I see in this particular cycle is more stickiness of investors who want to understand and learn about this space and invest in it. And interest in the sector is not restricted to the US. We have a significant imbalance [between] supply and demand across the globe,” says Pamela West from Nuveen Real Estate.

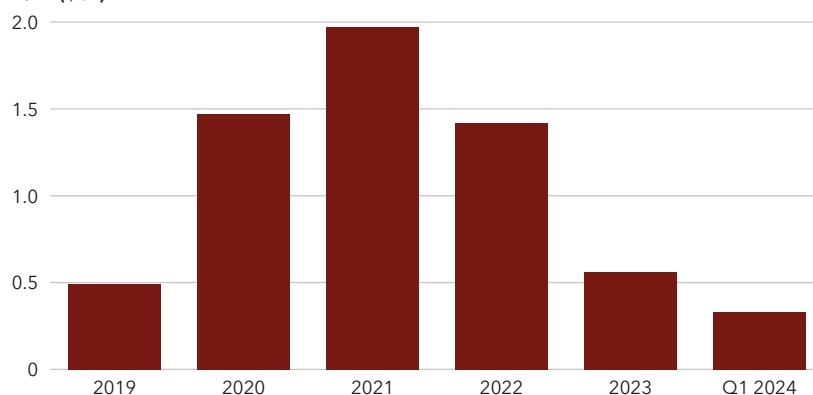
Investing in care properties for disabled or elderly people is another route to social impact. But impact can be defined and measured more broadly, says Bouwinvest’s Maya Savelkoul, pointing to the need for healthy assets across the spectrum: “I see possibilities for all asset classes.”

Creating social impact is about placemaking, says Sunita Mahant of CDPQ. “You are creating and developing places where people want to be. An asset with strong social impact performance will warrant a premium, like how people value green buildings. If we think about return to work and the flight to quality, social components form part of the design and operation of an asset. The experience of each end user matters to our tenants. Health, wellness, safety, accessibility, transit, community all have a value.”

Buildings focused on health and wellness also warrant a higher rent, she argues, citing a recent study by the Massachusetts Institute of Technology. The research found effective rents for healthy office buildings in the US that comply with Fitwel and WELL standards are between 4.4 percent and 7.7 percent higher per square foot than their nearby non-certified and non-registered peers.

Mahant says: “If you think about where your assets are located, whatever asset class it is, the community around it has an impact on the value of that property. Contributing to that community by creating a space for people to come in and use, whether it is supporting local community programs, or creating space for an artist to showcase their art, matters because it impacts the value of your asset.”

Capital raised for closed-end private real estate impact-focused funds has declined sharply since 2021 (\$bn)



Source: New Private Markets

impact, which is different from incorporating ESG more broadly into an existing vehicle or products.”

Measuring social value

Quantifying the social value of a property and establishing standards to measure it remains a challenge, Savelkoul concedes. “But I am convinced we will succeed. Not so long ago it was impossible to measure greenhouse gases or progress on decarbonization, but those problems have now been solved. A single benchmark may not yet exist for social value, but standards are being developed. The challenge we face is to narrow the field down to a handful of benchmarks in the future.”

Several initiatives have emerged in recent years to measure progress on that front, including WELL, Fitwell, GRESB and the Social Value Portal in the UK, notes Mahant. “These initiatives and standards offer diverse perspectives, and they all have something to offer. But I do not think there is a single formal benchmark or that everybody is at the same place. Bringing all these bodies together is the challenge.”

Creating social value is also closely linked to diversity, equity and inclusion considerations, Mahant adds. She cites the design of a restroom in an office building as an example: a female designer is more likely to address issues that affect how comfortable and secure a woman would feel in such a location, such as ensuring the availability of feminine hygiene products or that doors go all the way to the ground. These design and operational elements go directly to the impact of the human that is using these buildings, Mahant notes. “You need to have diverse perspectives around the table to highlight some of the things that people value like safety, security, wellness, inclusion and a sense of belonging.”

On a human level, addressing social goals is a more inspiring exercise than ticking the boxes on environmental criteria, says Masero. “When I go and talk

to the Hines teams about what are we doing with people in their building and the surrounding communities, whether it is Asia-Pacific, North America or Europe, people get excited and want to tell you their stories about what they are doing. That means they are engaged with the asset and delivering good things. Intentionality is front of mind for people. It is a real motivational force within Hines.”

With any real estate asset, a key question that must be addressed is whether it is creating positive or

negative impact, West says. “I think the benchmark should be part of the investment. We use the United Nations’ sustainable development goals as a basis and focus on four specific categories like health and wellness; financial empowerment; education, which includes job skills and training; and closing transportation gaps.”

Stakeholder demand

There is also a push from stakeholders across the board for social impact strategies in real estate, from tenants

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SUNITA MAHANT
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PAMELA WEST
Nuveen Real Estate

European vehicles dominate among the 10 largest closed-end private real estate impact-focused funds closed since 2019

Fund	Manager	Headquarters	Amount raised (\$m)	Year closed	Region focus
FPS Finaprom 2022	123 Investment Managers	Paris	2,208	2022	Europe
Actis Asia Real Estate 2	Actis	London	700	2022	Asia-Pacific
Rose Affordable Housing Preservation Fund V	Jonathan Rose Companies	New York	525	2020	North America
Bridges Property Alternatives Fund V	Bridges Fund Management	London	431	2022	Europe
Patrizia Social Care Fund III	Patrizia	Augsburg, Germany	414	2021	Europe
Turner Multifamily Impact Fund II	Turner Impact Capital	Santa Monica	360	2020	North America
Patrizia Sustainable Communities I	Patrizia	Augsburg, Germany	328	2024	Europe
Comunidad Social Impact Multifamily Assets Fund I	Comunidad Partners	Austin	300	2021	North America
Enterprise Housing Partners XXXIII	Enterprise Community Partners	Columbia, MD	296	2020	North America
Meridia IV	Meridia Capital	Barcelona	287	2020	Europe

Source: New Private Markets

to investors, municipalities, legislators and even financiers, West points out. Indeed, until recently, the focus on social impact has largely been an equity-driven initiative, but now debt players are also asking questions about how to track, measure and incorporate social incentives into the debt piece of the capital stack, she adds. “We have to address the ‘S’ in the same way we address the ‘E’ across our real estate portfolios, because this generation will ask for it and we have no choice but to do it.”

In the Netherlands and many other countries across Europe, it is standard practice for pension funds to grill an investment manager on its ESG credentials, including social strategies, adds Savelkoul. “The pension funds do that on behalf of their participants – they are asking for it as well.”

Overall, however, regulation has been the leading driver behind the increasing focus on the environmental performance of a building, and similar developments in the social space would produce a comparable outcome, the participants agreed.

Europe leads in this area, thanks to the EU’s ‘transformational’ Sustainable Finance Disclosure Regulation, says Masero. This suite of regulations has raised the baseline as a starter and fundamentally changed the conversations taking place in Europe, he argues: “I have worked in this industry for 26 years before ESG was a popular term. The last three years have been fundamentally the fastest-growing period where the discussion has changed, and that was regulation-driven.”

Similar regulation is emerging in the US, in particular the gateway cities, and parts of Asia-Pacific such as Singapore, Hong Kong and Australia. But regulation is not the only reason this conversation is happening, Masero adds. “There is voluntary behavior change as well, but regulations have provided the framework to have fundamentally different conversations.”

Regulation can be a hindrance

While the EU’s corporate sustainability reporting and sustainable finance regulations are helping to create a common language and workable framework, there is also a risk of overregulation, says Savelkoul. Local governments and municipalities in the Netherlands have their own legislation, particularly in affordable housing, she points out. “We already have a regulated social housing sector and now we have new laws in place for the mid-range rental sector as well. Our message to governments is therefore: prevent the accumulation of costs and policies by various governmental bodies. Ultimately, stability in policy is essential to attract capital to the housing market.”

Financial markets must also be

“In the near term, we need to operate off the belief that social impact will provide higher returns and better tenant stickiness. But over time, it will become institutionalized, just like sustainability and carbon impact has”

STEVE O’CONNELL
Grosvenor

“A single benchmark may not yet exist for social value, but standards are being developed”

MAYA SAVELKOUL
Bouwinvest Real Estate Investors

Affordable housing is a common denominator

Participants select projects that demonstrate how they aim to create social impact in practice

- **Tampa Bay Rays stadium:** In 2023 Hines teamed up with the City of St Petersburg and Pinellas Count to redevelop the MLB team’s stadium in St Petersburg, Florida, and transform the site into a new ballpark for the baseball team, commercial and retail space as well as affordable and senior living housing units. Hines is also contributing to intentional equity initiatives for employment and business support including for minority/women-owned enterprises.
- **Brentwood Block:** A pedestrian-focused development in Vancouver, the project includes the tallest rental housing tower in Western Canada. Brentwood is being developed by Grosvenor using the Canadian federal government’s Canada Mortgage and Housing Corporation finance program which offers long-term, low-rate loans to schemes that meet ambitious sustainability, affordability and accessibility requirements. Well over 20 percent of apartments will offer below-market rents.
- **Specialist Disability Accommodation (SDA) platform:** Both Bouwinvest and Ivanhoé Cambridge, the former real estate investment management arm of CDPQ, have invested in the platform, which is managed by Macquarie Asset Management and aimed at increasing the number of properties for people with disability within and near Australian mainland capital cities such as Sydney and Melbourne. Bouwinvest’s investment dates from 2021 while Ivanhoé Cambridge stepped in a year later.

redesigned to price in sustainability, adds Masero. “If this does not happen, the risk for those of us leading on sustainability is that we are not going to get rewarded.” Investment managers themselves have a responsibility to be proactive and drive the process of maturity, counters Mahant. “I do not think it is a matter of sitting around waiting for the laws to change. With the right partners and being at the right place at the right time, you can play that role of influence.”

Meanwhile, evidence is mounting that a greater focus on social factors is paying dividends in the form of tenant stickiness and a ‘social premium’ like the green premium attached to sustainable buildings. Bouwinvest’s healthcare portfolio, which focuses on housing for the elderly, is already generating a clear financial premium, Savelkoul says. “Every year, the valuation rises more than in our residential portfolio.”

However, Savelkoul believes real estate investors need to place greater emphasis on social criteria in the long run if they want to maintain their license to operate in themes and sectors that are important to society. “Integrating the social piece will be the standard in five years’ time, just as the ‘E’ is now. We are on a growth curve; the industry is maturing, and we are already a lot further ahead than we were last year.”

Doing the right thing and creating positive social impact will become part of a manager’s license to operate, O’Connell agrees. “Drilling down specifically into social impact, it feels very much to me like sustainability did 25 years ago. It is very early days, but it is clear to some of us that by doing this, we will improve our returns. In the near term, we need to operate off the belief that it will provide higher returns and better tenant stickiness. But over time, it will become institutionalized, just like sustainability and carbon impact has. We are on the same path of travel that we have been through for environmental sustainability.” ■