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# Building a better world one asset at a time

*Investing to produce social and environmental improvements does not need to come at the expense of financial returns, according to the participants at PERE's impact investing roundtable.*

By *Stuart Watson*

It has become a dictum of the post-pandemic real estate industry that the upheaval of the past year has raised consciousness of social issues in the investing community. Certainly, impact investing has become a focal point for investors, not just in Europe as had long been the case, but increasingly in North America and other parts of the world too. Many investors and managers are backing and launching impact strategies, or at least claiming to do so.

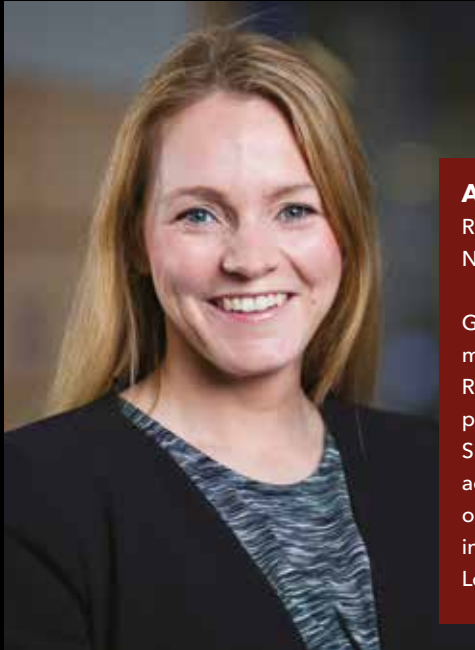
PERE gathered three real estate professionals for its first impact investing roundtable discussion with the aim of discovering how firms are differentiating themselves from the growing crowd.

The participants begin by agreeing a definition of impact investing. Some point to the Global Impact Investing Network definition as helpful: “Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.” Three principles are noted as crucial in such investments: intentionality (setting out with the deliberate intent to solve a problem); additionality (doing more than the market would have provided anyway); and measurability.

Marleen Bikker-Bekkers, head of investments, Europe, and impact investing specialist at PATRIZIA Global Partners, argues that impact investing falls into a category distinct from other

types of investment that may have a positive effect. “Across the industry, in all our portfolios, we are trying to be more conscious that we want to achieve certain goals beside our financial returns. But those investments were set up to focus on financial returns. Impact investing is a distinct tool where you use real estate investing to solve specific problems in society.”

As a consequence, retrofitting existing assets as impact investments is highly problematic, says Angela Goodings, research director, strategic insights, at manager Nuveen Real Estate. “You have to be careful that it is not just greenwashing. Holding a few community events in a shopping center will not deliver impact. We have to be



**Angela Goodings**

Research director, strategic insights  
Nuveen Real Estate

Goodings is responsible for global retail market research and strategy at Nuveen Real Estate, which manages a worldwide portfolio of assets valued at \$134 billion. She advises fund managers on major retail acquisitions, disposals and development opportunities. Before joining the firm in 2003, she worked for Urban Futures London, a non-profit regeneration agency.

**DJ Dhananjai**

Fund manager, UK Affordable Housing Fund  
CBRE Global Investors

Dhananjai heads the UK Affordable Housing Fund for CBRE GI, which manages \$122.7 billion of assets globally. The firm conducted an initial capital raise of £250 million (\$346 million; €290.85 million) in 2019 for the fund, the majority of which has been deployed across 12 investments. Before joining CBRE GI, he worked for UK regeneration agencies English Partnerships, where he was senior investment manager, and the Thames Gateway London Partnership. He is also a trained architect.



**Marleen Bikker-Bekkers**

Director and head of investments, Europe  
PATRIZIA Global Partners

Bikker-Bekkers joined PATRIZIA Global Partners in 2018, where she is responsible for sourcing European investments. She also spearheads a number of impact investment initiatives within PATRIZIA, which manages around €47 billion (\$55.8 billion; £40.3 billion) of real estate assets. Bikker-Bekkers has more than 20 years' experience in the real estate industry, and is a member of the ESG committee of European private real estate umbrella body, INREV.

transparent about how the social goal has fed through into the whole business plan to ensure the impact did not happen by accident, and about how much have we, as institutional investors, contributed to that impact.”

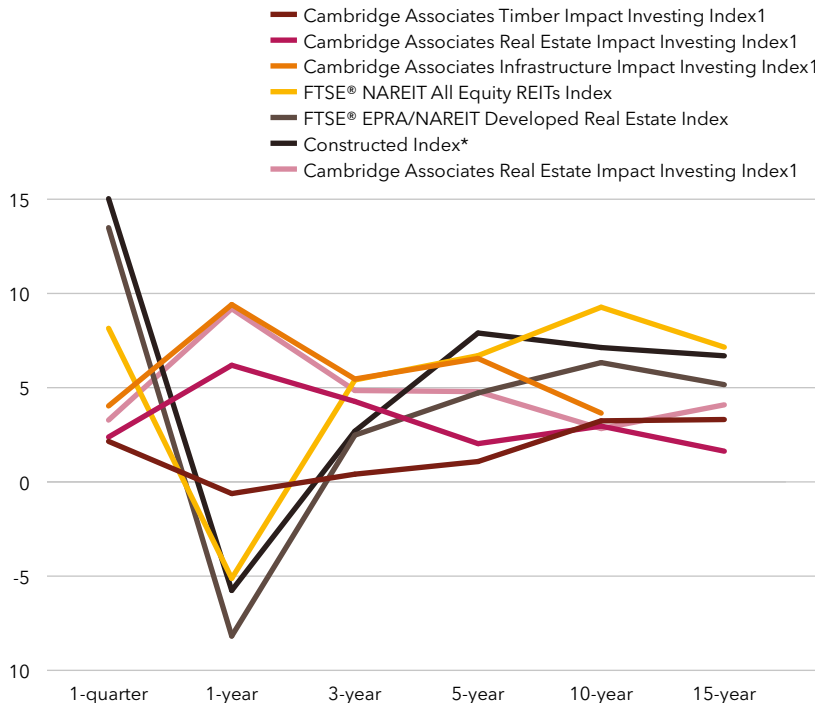
Participants agree that the third of the three pillars of impact investing, measurability, remains the most challenging, despite the progress made in developing benchmarks for energy efficiency and emissions. “From an environmental perspective, I think the industry has done a tremendous job over the last seven to 10 years and the feeling is that the measurement of social outcomes will follow the same path,” says DJ Dhananjai, fund manager for CBRE Global Investors’ UK Affordable Housing Fund.

“But we are all looking for a pot of gold at the end of the rainbow. I

*“Demand will favor impact, and as a result of that, should drive financial return”*

ANGELA GOODINGS  
Nuveen Real Estate

Real assets impact investing returns compared: analysis of impact fund index based on data compiled from 78 real estate, infrastructure and timber funds (%)



Source: MSCI

struggle with the current-day desire to capture social impact in a formulaic way.” He suggests that it is more productive to establishing a framework of goals specific to an impact strategy’s aims and then demonstrate how much progress has been made toward them.

Many investors have adopted the 17 UN sustainable development goals to provide them with a high-level framework for their impact investments, says Bikker-Bekkers. But they need support to evaluate the impact of individual strategies. “Investors find this to be challenging, so they are looking for us to come up with solutions to how we can prove and measure,” she says.

While measuring social impact can be difficult for existing investments, which were initiated largely for their financial reward, Bikker-Bekkers argues it is more achievable with impact strategies, because their social goals are more clearly defined. “The important thing is to be very clear and transparent

*“I would like to stamp out the concept of trading off financial returns for social and environmental outcomes”*

DJ DHANANJAI  
CBRE Global Investors

to investors at the outset about what you aim to achieve and how you are going to measure that. And those performance indicators may not be achieved within the same time frame as your financial returns, so you also need to make it clear where you may need more time to deliver against them.”

“It is challenging to measure something from a social perspective that can be more qualitative, rather than quantitative,” says Goodings. “We need to understand how real estate fits into the wider community and gauge the positive societal impact of investing. Within the UK, the index of multiple deprivation provides a regional analysis of social needs and helps identify the most impactful strategies. Measurement of such strategies will encompass a broader and more diverse range of metrics compared with traditional financial key performance indicators.”

### Impact where needed

Among the asset classes most suitable for providing social impact value, it is argued residential offers the clearest opportunities. Profound supply and affordability problems are commonplace across virtually all developed housing markets. “Investing in affordable housing is a clear example of impact where it is needed,” says Bikker-Bekkers.

“In Europe, around 80 million people are overburdened with housing costs, spending on average more than 40 percent of their income on accommodation. But the need for, and provision of, housing can differ between countries, and even locations. Where sufficient social housing is provided by housing associations or local authorities provide social housing, investors’ ability to make a positive social impact is less. You have to look at locations where your investment makes the most, and will be most felt by people in need.”

Dhananjai explains how the CBRE UK Affordable Housing Fund identifies its target assets. “We invest predominantly in the most deprived local authority wards where the level of deprivation in housing is highest. We try to make delivery of housing possible, or bring forward delivery for those most in need, who we identify on the basis of being in the lowest income quartile, and who may be on housing authority waiting lists. In continental Europe we have slightly modified that approach because the greatest need is for mid-market rented housing. For deep-rooted social impact in European markets the most likely impact product would be nation-centric, sector-centric and delivering to address a certain problem.”

Most investors favor impact funds that will improve conditions in their own backyards, says Goodings. “The majority of institutional capital likes to consider projects first that are within their own market. In the UK, for example, the local government pension schemes are heavily focused on impact investing.” The design of strategies needs to be driven by a bottom-up understanding of societal needs, she adds. “You can have a deprived area in London that is in need of affordable housing. Or areas of deprivation on the south coast of England with a very elderly population in need of healthcare.”

The participants agree that housing is not the only asset class in which impact-focused capital can make a contribution. “On average, people spend 90 percent of their time inside buildings, so there are lots of ways in which we can positively influence their lives,” says Bikker-Bekkers. She quotes EU statistics indicating that 18 percent of Europe’s population, some 75 million people, were already socially isolated before the pandemic, meeting

with family and friends at most once a month. “We could also play a role in addressing that by providing social infrastructure when creating a housing community, or requiring social programs to be run in and around our real estate assets,” she suggests.

Goodings says Nuveen has been researching how property investment can be used to meet social needs beyond housing. “That work has been about considering not just the fabric of the building, but its purpose and connection with the people who use it. Structural issues, like the rise in consumption technology and working

from home, are changing the way we live and the purpose of real estate. Vacant units on high streets in the UK and elsewhere are creating social problems – disconnected places with increased crime – and undermining pride in communities. Fixing that through repurposing could play a huge role in social impact,” she argues.

Dhananjai observes how the real estate industry is moving away from the siloed, sector-specific approach common in recent years. “There is renewed interest in mixed use development, in intergenerational housing, in community infrastructure. Those were

all principles of intelligent urbanism. Every time you break ground it needs to be for the benefit of the environment and the urban context. Too often we have been building real estate for what we can sell it for, not for the people and place for which it is delivered.”

### Trade-off between impacts

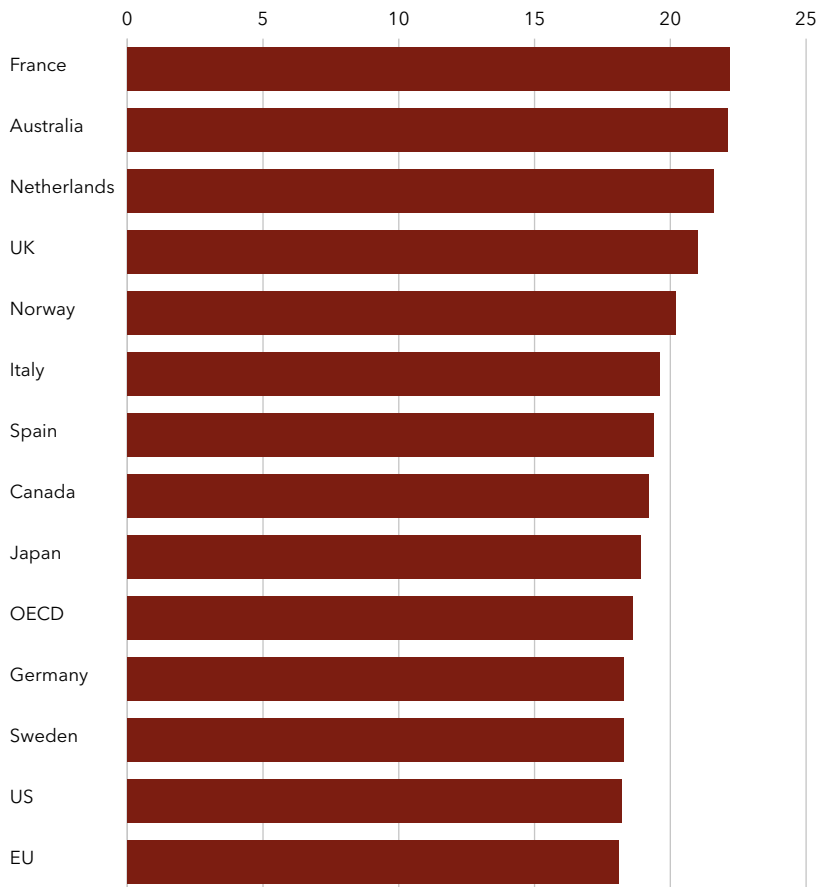
While measuring social impact is still challenging, the participants applaud the major strides that the built environment sector has made in the environmental field, a journey that has only accelerated as a result of the pandemic. An argument is beginning to be mooted that the widespread adoption of greener practices will soon remove improving environmental performance from the impact arena, and establish it in the realm of everyday responsible investing.

That turning point could soon be reached, suggests Goodings. “Of the funds that are associated with impact, quite a lot of them fall under the environmental heading. Because of green regulation investors are increasingly targeting improvements across all their assets, while the better transparency provided by benchmarks and ratings like GRESB and BREEAM means they have a wealth of data to guide their decisions. If assets are not hitting their ratings targets, that will reduce liquidity. Therefore, investing in environmental real estate will likely become increasingly mainstream.”

Swifter adoption of cutting-edge building technologies will be needed for investors to meet zero carbon goals suggests Dhananjai. “It will be more challenging for those investors who own lots of buildings already and have to retrofit them. It is a lot easier if you are investing in development.”

Goodings responds that new building has drawbacks when compared with re-use. “It takes a lot of embodied

**Affordability crisis: households’ average housing cost burden (mortgage and rent cost) as a share of disposable income (%)**



Source: OECD Affordable Housing Database

*“People spend 90 percent of their time inside buildings, so there are lots of ways in which we can positively influence their lives”*

MARLEEN BIKKER-BEKKERS  
PATRIZIA Global Partners

carbon to create new net zero carbon buildings. Repurposing buildings has a much greater impact in terms of environmental benefit, although in some ways it is more of a challenge.”

There is an inevitable trade-off between some social and environmental impacts, says Bikker-Bekkers. “We cannot solve the social issues surrounding housing availability and affordability for some groups in society without delivering new homes. Unfortunately, that leads to more carbon emissions, so we need to weigh that up continuously. Can homes be created in a locality by repositioning? If not, we need to build new ones,” she says.

“When we do so, creating homes that operate with net zero carbon is almost a must, and that is something we can achieve. The embodied carbon arising during construction of those homes is more difficult to address.” Bikker-Bekkers says her firm considers what can be done during the development process to limit such embodied carbon by evolving methods like substituting materials, using wood instead of steel, for example.

The clear social need for housing tips the scales in favor of residential development more than it does for commercial asset classes, argues Dhananjai.

Meanwhile, much post-war housing is reaching the end of its useful life and needs replacing. “It was not always built to the highest standards, and those buildings need to be regenerated. Nearly 15 percent of emissions come from houses. There will be a thrust

toward the creation of new good-quality housing where possible.”

The next scheme within his own fund’s portfolio will be built to passive house or core house standards, he claims. “We are developing assets that are offsite modular build to reduce the

## Polymaths needed

### The roundtable participants consider the skills required to build a successful real estate impact investment team

**Dhananjai:** Successful businesses need to be multi-disciplinary and have diverse knowledge of much wider dimensions of society and knowledge about urban areas than would be required going down a single professional path. We need to bounce off other disciplines more to develop a combined understanding of finance, the built environment, infrastructure and design. We are looking for the polymaths – the new Aristotles and Leonardos.

**Bikker-Bekkers:** The skills and knowledge you need in your team depend on the impact strategy that you choose. For example, if you invest in healthcare assets, you need expertise in healthcare. You cannot rely on mainstream real estate generalists only.

**Goodings:** To create truly ground-up impact strategies you need local knowledge. And verifiable success is not just about the knowledge within your own team, because you need to bring in independent expert consultants who can judge how you have designed your key performance indicators and whether they have been achieved.

amount of carbon generated by construction activity. We are investing in homes that will feed back energy to the grid, and we are slowly reducing the use of natural gas.”

### Dual return

Can impact investments produce market-level returns? As the roundtable agenda considers whether impact investors need to sacrifice an element of their financial return to achieve wider goals, Dhananjai bristles at the idea there is a compromise involved. “I would like to stamp out the concept of trading off financial returns for social and environmental outcomes. When you invest in a better-quality building it will have a higher financial return tomorrow anyway because it will depreciate less and require less cap-ex to fix. The problem has been that, of late, we have forgotten how to price in depreciation cap-ex, and apply the right risk premium to the right type of asset. If that is balanced, the concept of a trade-off should not exist,” he insists.

Impact investments should be understood as producing a dual return, with both financial and social elements, says Bikker-Bekkers. “You need to be clear on what you want to achieve in both. Impact investing may have a longer time horizon, and you may need to fund community research, so those elements could be viewed as increased costs that reduce your return. But I believe that we are creating future-proofed investments, so in the long-term there is a financial benefit from investing with an impact approach.”

Investor expectations of returns from impact investment are quite mixed, notes Goodings, with some happy to pursue greater impact even at the cost of financial return. Meanwhile, impact investing is still a young concept, so there is no hard data on

## Driving impact home

### CBRE Global Investors’ affordable housing fund targets stable income and social impact

In December, the CBRE UK Affordable Housing Fund signed a deal to forward fund Abbey Place, a development of 245 homes in Abbey Wood, southeast London. Some 72 percent of the flats in the adjacent 13 and 21-story towers will be affordable. The scheme represents the 12th asset in the open-ended core fund, which has so far deployed £191 million (\$264 million; €222 million) out of an initial equity capital commitment of £361 million. The fund is focused on three sub-sectors – rented social and affordable housing, shared ownership and other tenures such as keyworker housing and hostels for the homeless – and aims to generate stable long-term income with an element of index-tracking, targeting a 6 percent net total return alongside high social impact.

“We have already produced two annual impact reports for the fund over the past two years,” says fund manager Dhananjai. “For the last year we have also undertaken occupier and tenant surveys. By the end of this year, we will have 700 to 1,000 units of housing occupied or on the way to being occupied. And you will be able to see a demonstrable social outcome from those investments that can be measured against key performance indicators.”

long-term performance. However, she too denies that a trade-off between returns and impact is necessary. “Identifying the needs of a place tends to reduce the risk profile of the assets because they are attuned to demand. And, by meeting the demand for carbon net zero, that helps defend against the depreciation of values,” she says.

“Also, consumers want to use businesses that are doing good, and with increased transparency they are better able to educate themselves. The pandemic has been a catalyst for community engagement and involvement. Demand will favor impact, and, as a result of that, should drive financial return.”

Nuveen has adopted a responsible exit strategy, she says, to ensure that when the manager sells an asset, the ability of the buyer to continue pursuing an impact strategy is taken into

account. “We do not believe that a responsible exit should make these products less liquid because the market for these investments is becoming more transparent, with rising demand from investors, occupiers, and the end consumer.”

Investors in the private real estate universe are catching on to the benefits of impact investing. But even greater urgency is required, concludes Bikker-Bekkers. “Countries around the world have signed up for certain aims: for example, the Paris Accord on climate change and the UN sustainable development goals,” she says. “A lot of people are trying to figure out how to achieve them. We need to take action. We need to be very transparent about what we are trying to achieve and take our clients along with us on that journey.” ■

