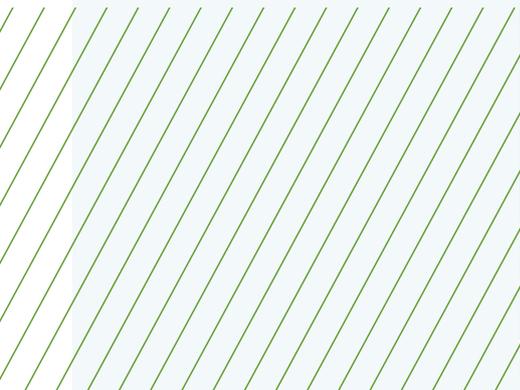




Social impact: investing with purpose to protect and enhance returns



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On the cover: Clockwise from top left: specialist disability housing by Macquarie Asset Management; top centre and top right, Victoria Yards, South Africa; Central Market, Hong Kong; Charter schools by Turner Impact Capital.



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The Urban Land Institute is a global, member-driven organisation comprising more than 46,000 real estate and urban development professionals dedicated to advancing the Institute's mission of shaping the future of the built environment for transformative impact in communities worldwide.

ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics.

Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 81 countries. ULI has been active in Europe since the early 1990s and today we have more than 4,500 members and 15 National Councils.

The extraordinary impact that ULI makes on land use decision making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanisation, demographic

and population changes, new economic drivers, technology advancements, and environmental concerns. Drawing on the work of its members, the Institute recognises and shares best practices in urban design and development for the benefit of communities around the globe.

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About DLA Piper

DLA Piper is a global law firm operating in more than 40 countries throughout the world. We have a substantial multi-disciplinary team dedicated to real estate who work with institutional investors, real estate investment trusts, asset managers, fund sponsors, sovereign wealth funds, developers, lenders and operators on their real estate strategies, and we provide advice on complex acquisitions and disposals, fund structuring, lending, development and regeneration projects and more.

We help our clients to deliver on their ESG strategies through advice on areas including sustainable construction and development, sustainable lending, SFDR, corporate power purchase agreements, renewable energy and asset management.

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Contents

EXECUTIVE SUMMARY	5
1.0 INTRODUCTION	9
1.1 Purpose of the research	10
1.2 Research methodology	11
1.3 Report structure	11
2.0 SOCIAL IMPACT IN THE CONTEXT OF THE WIDER SOCIAL VALUE SPECTRUM	13
2.1 The range of approaches to delivering social value	15
2.2 Social value as a foundation for social impact	17
2.3 The principles of social impact	20
2.3.1 Nature of returns	21
2.3.2 Intentionality	25
2.3.3 Additionality	26
2.3.4 Measurement	27
Case study 1: Franklin Real Estate Asset Advisors and social infrastructure	28
3.0 STRUCTURE AND STRATEGIC APPROACH TO SOCIAL IMPACT	31
3.1 Structure of impact investments	32
Case study 2: Chinachem Group and Central Market	34
Case study 3: Nuveen and impact investing in real assets	36
3.2 Social impact strategy	38
3.2.1 Target audience	38
Case study 4: Victoria Yards, Johannesburg	40
3.2.2 Operating relationships, social enterprises and required skill sets	44
3.3 Social impact investment risk and risk management	46
3.3.1 Asset value	46
3.3.2 Delta	47
3.3.3 Universal	49
Case Study 5: Turner Impact Capital and charter schools	50
4.0 CAPITAL SOURCES: APPETITE, OPPORTUNITY AND CHALLENGES	54
4.1 Investment style and duration	56
4.2 Investor scale and allocation models	59
4.3 Socio-political context	62
5.0 APPROACH TO SOCIAL IMPACT INVESTING	65
5.1 The impact process	65
Case study 6: JBG Smith, FC2 and the Washington House initiative	68
5.2 Impact measurement	70
Case study 7: Macquarie Asset Management: specialist disability accommodation	71
5.2.1 Outputs, outcomes and impact measurement frameworks	75
5.3 Impact validation and forestalling social washing	79
6.0 CONCLUSION AND RECOMMENDATIONS	81
6.1 Conclusion	81
6.2 Recommendations	83

Executive summary

The design and implementation of sustainable and impact strategies commonly involves an holistic approach encompassing environmental, social and governance considerations. In this context, this report narrows its focus on the social impact dimension of such strategies as applied to real estate.

Social impact investing provides institutional investors in real estate with a compelling opportunity to contribute solutions to major societal challenges addressed by the UN Social Development Goals and at the same time, access investment opportunities that deliver long, certain income streams offering beneficial risk-adjusted returns.

This research distinguishes social impact investing in the context of the wider umbrella of social value generation. It finds that a corporate social value culture is a pre-requisite to social impact investing as it builds upon existing social value practices at an organisational, portfolio and asset level.

Institutionally investable social impact is distinguished within the social value spectrum by its defining characteristics which include strategies to deliver a market rate return while at the same time, intentionally delivering social value benefits that would not otherwise have occurred, to underserved people, communities and locations. This impact also needs to be measured and validated.

While all social impact delivers social value, not all social value creates social impact. Within real estate, the emphasis on delivering benefits through the investment process for underserved segments of society is an important differentiator between social impact and wider socially responsible and sustainable strategies.

Based on the findings of 24 in-depth interviews with impact managers across global regions, supported by analysis of a questionnaire survey and three roundtable discussions with the wider industry, this research determines that every asset has the potential to deliver social impact. Seven detailed case studies are presented, demonstrating how social impact is delivered through a range of strategies applied to different sectors, and across different regions.

Within real estate, approaches to delivering social impact can be diverse. However, they share an overriding strategic approach that considers the potential impact of investment activity on local communities and wider society. Integrating such considerations throughout the investment approach ensures that each asset has an intentional, net positive impact. Often then, the role for investor and/or investment managers is simply to make room for, facilitate and monitor the social impact activity, while being rewarded with substantial risk management benefits.

Some strategies are focused on directly addressing the needs of underserved groups of people through both the capital allocation to a segment and the asset strategy, for example access to affordable health, education and housing. Other strategies focused on commercial sectors might seek to provide opportunities for the betterment of individuals and local communities through placemaking and/or focus on gentrification without displacement, by targeting the human potential of a locality, rather than its physical attributes.

Opportunities and challenges

This research explores the opportunities and challenges for the expansion of social impact investing from the perspective of strategic approach, risk management and capital sources. The key findings are:

- It is possible to generate social impact by taking a more holistic approach to strategic analysis and expanding the range of stakeholders considered by it to include the wider community affected by an asset. Often, this can be achieved with relatively small adjustments to existing strategies, that can create a disproportionately positive impact, often at minimal cost, and at the same time offers specific risk management benefits that support returns.

- As an overarching approach, there is nothing new in the impact investing model. Best practice asset management is focused on tailoring products and services to occupier and end user requirements. Indeed, there is a growing emphasis on more operational forms of real estate and risk management as a means of driving returns and managing risk. In this regard, “intentionality” and “additionality” are not new concepts, rather it is often the prospective audience that is new.
- Many stakeholders in the industry are unfamiliar with addressing the needs of the segments of society underlying social impact strategies. Such populations often represent groups of more vulnerable people and this brings an added responsibility as well as potential reputational risk. Just as the industry has partnered with best in class operational and service providers to deliver value to its traditional clients and customers, investors and managers are partnering with best-in-class community, healthcare and other social enterprises which have greater knowledge and expertise of meeting the requirements of, and delivering meaningful benefits to, underserved people and communities.
- This research suggests that investing with such purpose doesn’t merely enable investors to do good while doing well, it enables them to do better. Impact strategies can improve net income, by reducing costs and increasing income certainty. Income streams derived from real estate that satisfies basic needs such as shelter, health and education for underserved people may offer diversification benefits given their tendency to be dislocated from wider economic volatility. In addition, income certainty may also be supported by public policy and social funding.
- Good impact strategies engage and empower local communities and foster community cohesion. In turn, this reduces socio-political risk generally but also specifically for the asset, with the community having a sense of ownership over their environment and valuing the benefits they derive through its asset strategy. This also impacts on the wider location, reducing crime rates and creating the conditions for gentrification without displacement. This best practice, often delivered through the effective alignment and management of relationships with social impact operating partners, mitigates the potential reputational risk involved in delivering real estate products and services to vulnerable segments of society. Indeed, effective well-managed strategies can enhance the reputation of stakeholders, enable trusted relationships to develop with public and third sector agencies, potentially improving access to further opportunities and deal flow.
- As with other aspects of progressive real estate strategies, traditional valuation practice presents a challenge. Following a retrospective, quasi-judicial comparative approach, traditional valuation methodology is anchored to assessing risk solely through the intrinsic utility value that potential occupiers may derive and the corresponding notion of a market rent. There is also a high degree of significance placed on covenant strength, seeming a somewhat historic notion. In short, the process of valuation and embedded methodologies is becoming less aligned with assessments of investment worth, and given regulatory requirements of institutional investors, especially insurance companies, is itself an impediment to investment.
- Equally, conventional silo-based approaches to capital allocations models can be an obstacle. Mirroring operational real estate, impact strategies often cut across sectors and risk profiles. Depending on the strategy, social impact strategies may offer long-term secure income, and require a long duration to deliver and embed social impact benefits, or offer a blended return through an investment horizon involving development, lease up and stabilisation, and certain long term income periods. Such impact strategies provide blended risk return profiles that match institutional investor requirements. However, asset allocation models are often silo- rather than risk-based, particularly medium and smaller scale institutions, and those of investment management consultants. This curtails their ability to adequately consider such attractive investment opportunities and impedes the growth of social impact.
- The public sector is an important, often hidden, enabler of social impact investing manifest in public policy, tax regimes, social policy and funding, and urban planning systems. Understanding these systems has a strong influence on the structure of investments, their underlying risk profile and for some sectors in some countries, levels the playing field for land acquisition.

- Although investment approaches and process vary and are often bespoke to organisations and/or specific funds, there is a commonality to social impact real estate frameworks, processes and measurement. In addition, the risk of social impact washing generates a growing need for external validation, authentication and certification.
- Defining appropriate measurement approaches and metrics is an issue subject to considerable debate in the industry presently. The research finds that metrics should be selected to focus on what it is material to the additionality of the strategy. Those active in social impact investing stress the purpose of measurement is to ensure the strategy is delivering on outcomes and to identify which actions are driving social returns. The research presents a range of views on monetisation and identifies that, although it is beneficial where there is a clear and transparent opportunity to financially quantify impact for a given metric, its use is not always appropriate. It is suggested that monetising all outcomes could lead to the true value of outcomes being assessed by a false metric, that in turn, might misdirect future impact strategies.
- As the scope of the industry continues to expand into many forms of residential, healthcare and other social infrastructure segments, the opportunities to enhance the wellbeing and opportunities for underserved people and communities is magnified.

This research makes a number of recommendations to enable the wider real estate industry to embrace the social impact opportunity to the benefit of all stakeholders in their organisations and across wider society. Achieving them requires the industry to work together across multiple disciplines to:



Affordable housing in Brooklyn, New York, US

- Establish industry standards for social impact investing that align with the wider impact industry and through collaboration, draw upon, support and contribute to appropriate metrics, measurement, validation and certification standards of existing organisations active across the industry.
- Challenge valuation processes and methods through the development of a clear evidence base including data compilations and case studies, enabling analysis between different market segments and across the range of real estate strategies including traditional and impact approaches.
- Create educational resources for a range of stakeholders more unfamiliar with impact investing and/or potential investors which may lack real estate resource and expertise.
- Engage with public policy-makers and urban planners to encourage alignment of policy and other legal considerations to promote a social impact approach to real estate activity.

“ Each asset has the potential to deliver an added benefit, with the scale of that social impact greatly outweighing the cost, and in turn benefitting performance. ”

1

Introduction



1.0 Introduction

Reaching the United Nations' (UN) 2030 Agenda for Sustainable Development requires the alignment of institutional forms of capital to deliver on its Sustainable Development Goals (SDGs), as public and third sector (sometimes termed voluntary sector) capital does not have the capacity to do it aloneⁱ.

Impact investing offers a solution, bridging investors' requirements to deliver a market rate, risk-adjusted return with the potential to contribute to the solutions required to remedy the greatest societal challenges including climate change, wealth polarisation, housing and, both social and economic inclusion.

Real asset investors have the opportunity to be changemakers. As providers of the built environment, where we live, work and play, real estate stakeholders have always had a social impact – both positive and negative. Many of these externalities, such as, for example, stewardship of the urban fabric, have never been either explicitly intended or measured.

The size of the global real estate industry is estimated at \$10.8 trillion and every single asset already makes an impact. All that is required is for investors and their managers to consider the extrinsic effect real estate has on the environment and society, as well as its intrinsic utility value for its occupiers and customers, and ensure that it is net positive and creates benefits for underserved people and the planet. Although some assets will inherently create bigger impacts than others, every asset has the potential to incrementally improve the prospects of achieving the SDGs.

As has already happened for environmental impact strategies, it is anticipated that social impact will become increasingly integrated into all stages of decision-making, and over time simply become best practice. There is enormous potential for real estate to magnify its net positive social value and, in addition, create social impact for underserved people and the planet.

The industry has made significant progress in contributing to environmental and governance components of sustainability. Environmental, social and governance policies are interconnected and sustainability is rooted in the interdependence of their objectives. For example, strong environmental policies represent good governance and by addressing climate change, resource efficiencies and pollution result in economic and social sustainability. Indeed, social and environmental impact strategies are often nested together in a broader impact strategy. In the broader context of this mutuality, this report narrows its focus on efforts to deliver social impact through real estate development and investment.

Creating social value

This report builds on ULI's research paper *Zooming in on the 'S' in ESG* published in March 2021, which provides a useful roadmap for navigating and using the myriad frameworks and tools available to assist in the delivery of social value through investment activityⁱⁱ. The report also explores the potential role of real estate for creating social value.

The previous report also highlighted the absence of a common language regarding social sustainability, social value and social impact. Across the industry there is a lack of consensus as to whether social impact strategies are distinct from social value creation approaches. Differentiating what constitutes institutionally investable social impact in real estate from within the wider spectrum of sustainability and social value activity is central to this research (Figure 1, page 10). In addition to explaining its four components, namely, intentionality, financial return, measurement and additionality, it highlights the importance of "who" is benefitting.

Figure 1: Impact investing in the context of the sustainability landscape



Source: ULI

1.1 Purpose of the research

The overriding aim of this report is to increase the shared understanding of what constitutes social impact investing in real estate, its compatibility with existing investment strategies and how to embed it within investment strategies in developed economies. The research focuses on identifying challenges and opportunities for the potential growth of impact investing, with the aim of identifying and addressing prevailing misconceptions. Specifically, the report has six objectives:

- Differentiate social impact strategies from wider social value activity in real estate investment.
- Consider how social value and social impact objectives are embedded at an asset, portfolio and organisational level.
- Explore how such strategies are being implemented across the lifetime of the asset from concept to exit and across different sectors, regions and types of investor and the influence of socio-political and regulatory frameworks.

- Provide a detailed understanding of the risk profile of social impact and consider how this varies with how investments are structured.
- Investigate the appetite, opportunities and challenges for social impact investment activity across different sources of capital.
- Assess which tools and variables are employed to design, manage and measure social value creation, with consideration of variation across sector, region and investor type.

The report is written for stakeholders across the industry who have an interest in investing, financing or managing capital allocations to real estate development or standing investments, urban planners, public policy makers, architects and other service providers.

It focuses on social impact from the perspective of investors and investment managers. In particular, it explores the potential for growth of investment in real estate impact strategies and indeed demonstrating its potential integration into existing strategies, its compatibility with their financial objectives and assessment of risk.

However, every stakeholder involved in the process needs to develop a shared understanding of the opportunity and especially planning and public policy-makers who have an important role in devising supportive policy frameworks and regulation.

Finally, the report puts forward a number of recommendations to enable the wider real estate industry to engage in the tremendous opportunity that social impact real estate investing presents.

1.2 Research methodology

This study, supported by DLA Piper, was undertaken by Dr Brenna O’Roarty, Executive Director and Founder of RHL Strategic Solutions, in partnership with ULI staff, consultants and its contributing members.

The methodology comprises five inter-related stages. First, a detailed literature review was undertaken to understand real estate social impact in the context of both the wider real estate universe and the wider impact industry, including available frameworks and measurement tools.

Second, 24 structured interviews were undertaken with investors, investment managers, investment management consultants and impact management consultants with deep knowledge of impact investing in real estate. These interviews, undertaken by video conference between 10 December 2021 and 10 March 2022, provided detailed understanding of approaches to impact investing, investment structures employed, risk return profiles and variation in appetite across capital sources.

Interviewees comprise individuals involved in impact investing in Asia, Europe and the US and five individuals representing organisations active in impact investing inter-regionally.

Third, in addition to providing primary research findings that are central to the research findings, the interviews also assisted in sourcing original case studies. Seven case studies were selected to provide detailed examples of how to design, integrate and manage social value creation into real estate investment strategies across developed economies in Asia, Europe, US and Rest of the World, across different types of impact strategies.

Fourth, a survey was fielded during March and April 2022 to elicit the views of the wider real estate investment industry in respect of impact investing. A total of 198 responses were received providing a useful context for the structured interview findings.

Fifth, key issues distilled from the research were presented at three roundtables. The roundtables were designed to mix participants from different regions to facilitate discussion around potentially diverse perspectives on impact investing pertaining to each region. The roundtables provided valuable feedback prior to finalising the report.

1.3 Report structure

The report is structured into a further five chapters that seek to build a knowledge base incrementally, with each addressing specific themes that to some extent require understanding of the previous sections. Section 2 differentiates social impact investing within the wider social value framework and provides a detailed evaluation of the components required, including challenges and opportunities for the industry.

The range of structures and risk profiles pertaining to social impact investing are considered in section 3, which further includes an evaluation of the risk and return profile of such strategies and discusses potential implications for valuation. Section 4 evaluates potential capital sources, highlighting differences in appetite by region, type of investor, scale of investor and variance across sectors.

The methods and frameworks employed to design, implement, manage and measure social returns are explored in section 5, including a discussion of the primary purpose of measurement, the appropriateness of monetisation and the importance of external validation and standards to circumvent the risk of social washing.

Section 6 distils the key findings from the research and presents recommendations to assist the wider adoption and integration of social impact into development, investment and management strategies across the industry.

An aerial photograph of a coastal town, likely Lido di Venezia, Italy. The town features several multi-story buildings with light-colored facades and red-tiled roofs. A large white number '2' is overlaid on a green grid pattern in the upper left quadrant. The town is situated on a peninsula or near a body of water, with a road and some trees in the foreground. The sea is visible in the background.

2

Social impact in the context of the wider social value spectrum

2.0

Social impact in the context of the wider social value spectrum

KEY FINDINGS

- There is a spectrum of approaches to social value creation that includes responsible, sustainable and impact investing styles.
- Strategies may be applied at an organisational, portfolio or asset level.
- A strong corporate social value culture is a prerequisite to impact investing.
- All social impact creates social value, but not all social value delivers social impact.
- Social impact's distinguishable characteristics are intentionality of social impact, setting of social as well as financial return objectives, with returns measured, reported and validated, with the impact generated being additional and benefitting underserved people and places.

Real estate and social infrastructure always create an impact on society given their physical presence in the urban landscape and their purpose as a place for commercial, residential, leisure, social and civic activities. Conventionally, the design and implementation of development and asset strategies are focused on creating beneficial value for potential occupiers and consumers, in an effort to maximise income and manage risk.

This is also the basis of valuation assessments which focus on the intrinsic utility value of assets. Beyond planning, wider legal considerations and other requirements, the impact of real assets on their extrinsic environment – the wider community and locality – is rarely explicitly considered or incorporated into business plans.

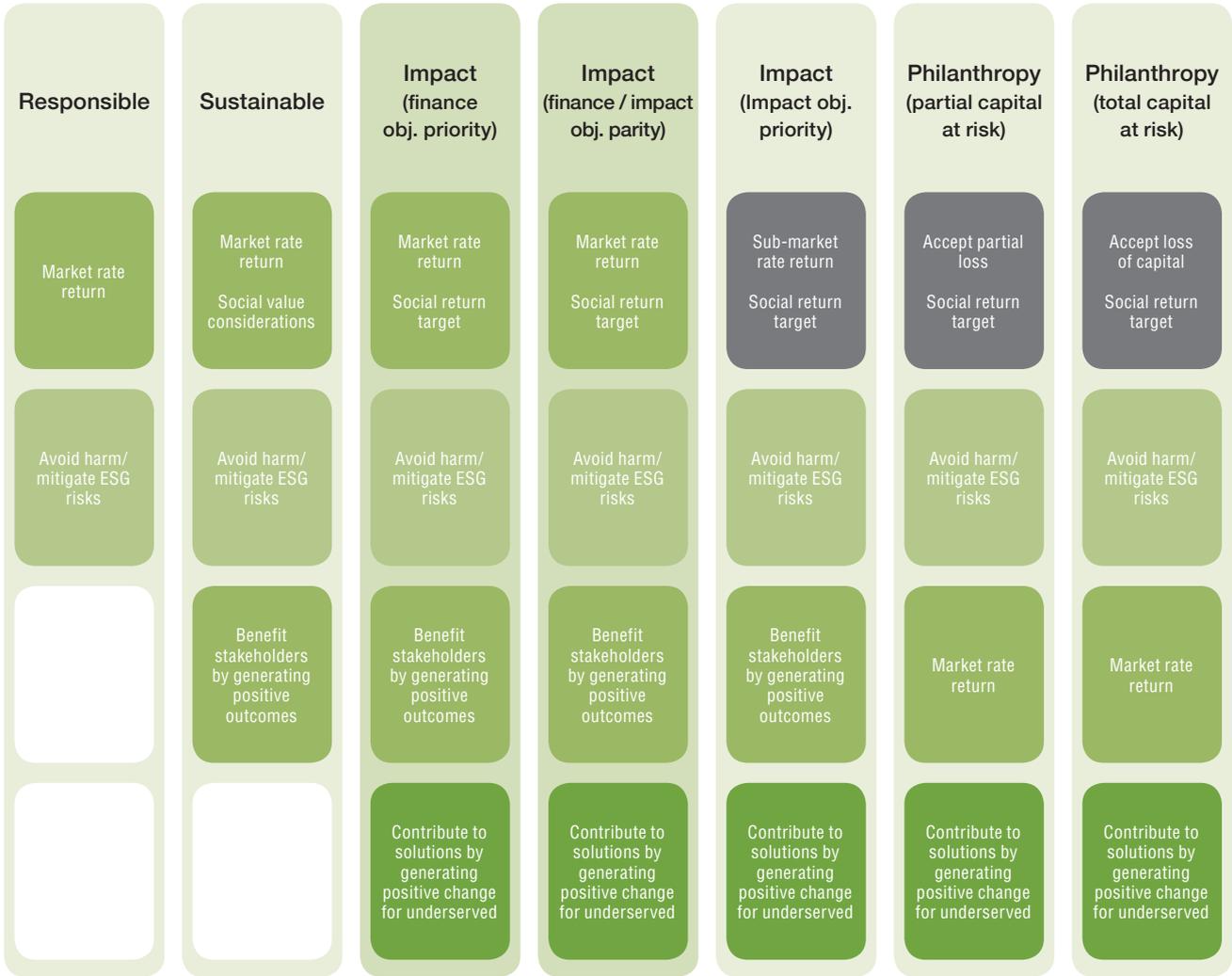
However, real estate development and investment activity generates positive and negative externalities – whether or not intended – for the location in which it is situated. Over recent decades, the industry has evolved through acknowledging, reducing, mitigating and managing

its environmental impact. Increasingly, the industry is turning its attention towards its social imprint at an organisational, portfolio and asset level.

By integrating social value considerations into corporate strategy and business activities across the development, investment and management process, it is possible to maximise the potential for positive social value creation while minimising negative externalities. As a minimum, the wider impact of its real estate activity is acknowledged and shifts from being a set of unintended consequences to considered outcomes.

Adopting a more holistic view of the value created through development and investment presents many opportunities. Indeed, the industry has often missed an opportunity to demonstrate the wider positive social value it generates through its activity in a particular asset for the wider locality. For example, employment opportunities, access to services, and improved standards of living and quality of life.

Figure 2: Social impact within the spectrum of social value



Source: Adapted from Impact Investing Institute, Bridges Fund Management and Impact Management Project

Equally, the industry often fails to register the negative consequences of its activity, such as displacement of local communities through gentrification following a development, or the impact of a development on the net supply of affordable housing. A more universal approach enables the net positive social value to be maximised.

Many interviewees contend that all organisations and every single asset has the capacity to generate a net positive social value, often at little cost, by simply

adjusting strategies to avoid otherwise unintended consequences and/or identify opportunities to add social value. The spectrum of social value ranges from avoiding harm through to social philanthropy (Figure 2).

Such activity is often advantageous to the risk profile of organisations and of its assets. It may also be beneficial for the reputation and relationships of the developer, investor or investment manager with other stakeholders, including public and third sector partners, occupiers and the wider community.

2.1 The range of approaches to delivering social value

A useful means of differentiating between activities across the social value spectrum is the extent to which the strategy ensures the net social value generated both directly and indirectly is positive for both the target audience and the wider community in the location.

Terms used in social value and across sustainability more widely are often used interchangeably with users sometimes unaware of differences in their specific meaning, partly due to the blurred boundaries between categories. Added to this, within social value, the fact that all physical assets have an impact on their surroundings – whether positive or negative, intended or unintended – can lead to initial misinterpretation of the specific industry term of social impact. In short, all social impact delivers social value, but not all social value creates social impact.

Social impact is a specific component of the social value spectrum. It may be defined as social impact when social value creation is fully integrated into the investment process, delivering intentional and additional value to underserved people and communities, with both social and market rate returns targeted and measured. Embedded in the criteria of intentionality, additionality, measurement and returns is a focus on underserved people and places, which is a crucial differentiator for real estate.

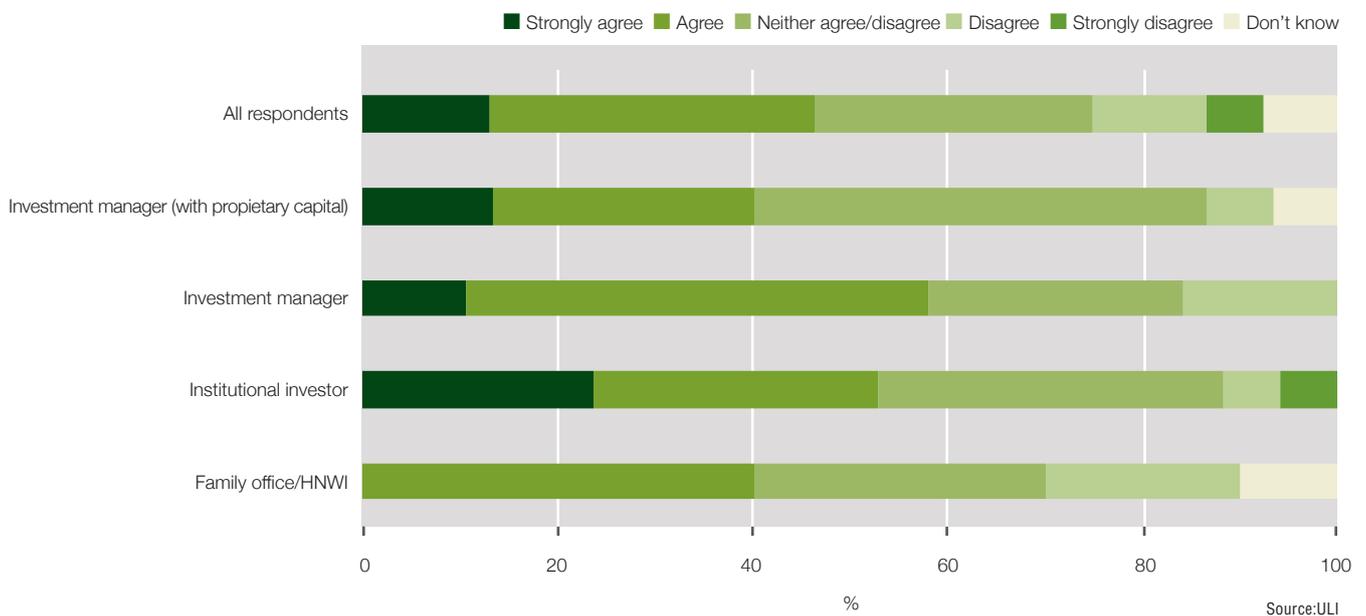
The spectrum of approaches to social value are presented in Figure 2 and those that maybe employed for institutional investment at a portfolio or asset level are defined further in Figure 3.

Figure 3: Institutionally investable approach to social value creation



Source: ULI

Figure 4: Perspective on own organisation’s ability to distinguish between social value and social impact



The socially responsible and sustainable approaches depicted in figures 2 and 3 share a focus on the priority given to a market rate financial return. However, sustainable investing takes a more proactive approach to deliver net positive externalities through its activities. At the asset level, positive outcomes might be through ensuring assets promote social inclusion, providing green and/or recreational spaces or through simple strategies that create stronger linkages between the activities being undertaken within the asset and the local community.

Social impact builds upon existing social value credentials by setting social return alongside financial return targets. Financial and social objectives are closely aligned through capital allocation and asset strategies that are devised to better meet the needs of underserved people and places. In doing so, they contribute to solutions that help to ameliorate global challenges such as those identified in the UN SDGs, often at a local level.

Developing a more precise understanding of terms and how they relate to each other is important. The survey analysis indicates that less than half of all respondents agree or strongly agree that their organisation clearly differentiates social value strategies from social impact investing (Figure 4). Although institutional investors and investment managers demonstrate a greater capacity to differentiate impact investment, this confusion is also shared by some of these stakeholders.

As the industry expands its social value activity into social impact investing, understanding the different concepts within the social value spectrum and how they build upon each other will become essential to developing a shared understanding across the industry.

2.2 Social value as a foundation for social impact

Any focus on ensuring activities result in a positive net social value are beneficial and may occur at the organisational, portfolio or asset level. Although opportunities and approaches to create social value differ across this hierarchy, they all draw on the same, consistent social value mindset. Developing a strong corporate social value culture is key to unlocking its potential.

At the organisational level, there are a number of tiers to developing a social value culture. First, consideration of policies that generate social value for the employees of the company, its direct suppliers, its clients and other stakeholders, and its contribution to wider society.

Such policies establish a code of ethics that underpins the business culture of the organisation. Establishing social value priorities and objectives at board level and embedding them within the corporate strategy acts as a signal to the importance being placed on them and ensures they are cascaded through the company. In turn, this enables individuals to give appropriate weight to social value objectives in their activities.

Examples of social value policies at an organisational level are wide ranging. They may include diversity, health and wellbeing, fair employment terms and conditions such as transparent and/or equal pay for employees, code

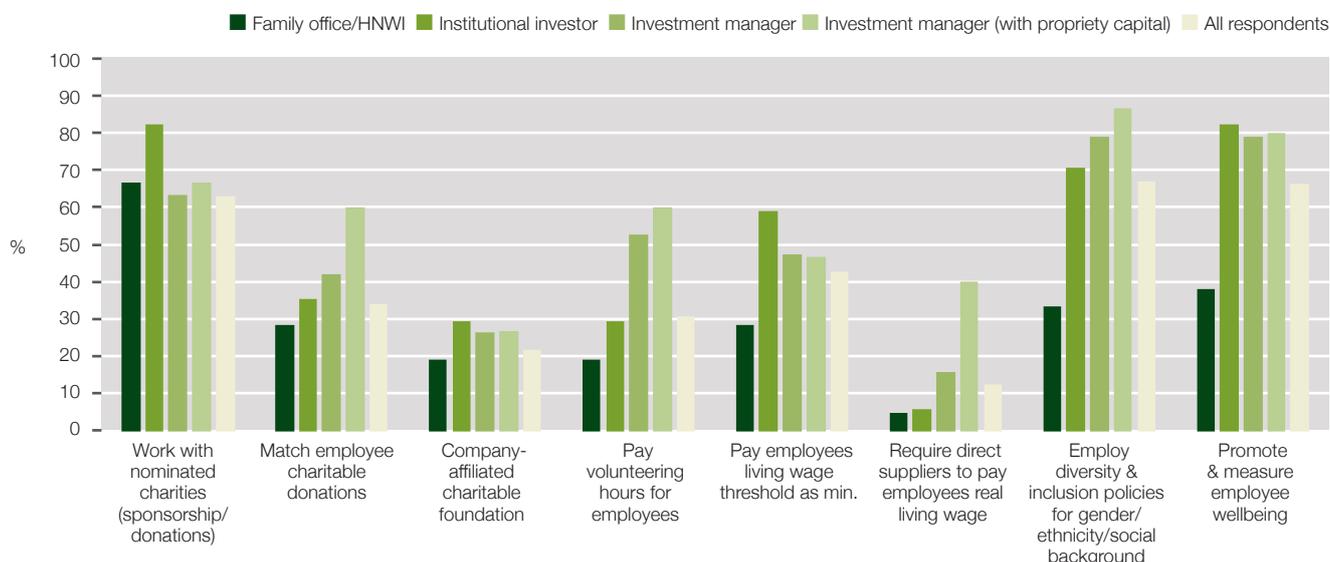
of conduct and reference terms with clients, as well as volunteering and/or charitable foundation activities within the company.

Organisations may also extend the adoption of social value policies to the appointment of contractors and other service providers. For example, ensuring contractors and suppliers are appointed from the local economy, that selection criteria require adherence to sustainable practices in relation to living wage, diversity and inclusion, and the provision of apprenticeship opportunities. This approach may also be applied at the portfolio level.

Second, social value can be created at the portfolio level by considering the allocation of capital or new product development. This may involve a thematic allocation to (or focus of product development on) sectors that assist in serving a wider social need, while still optimising returns.

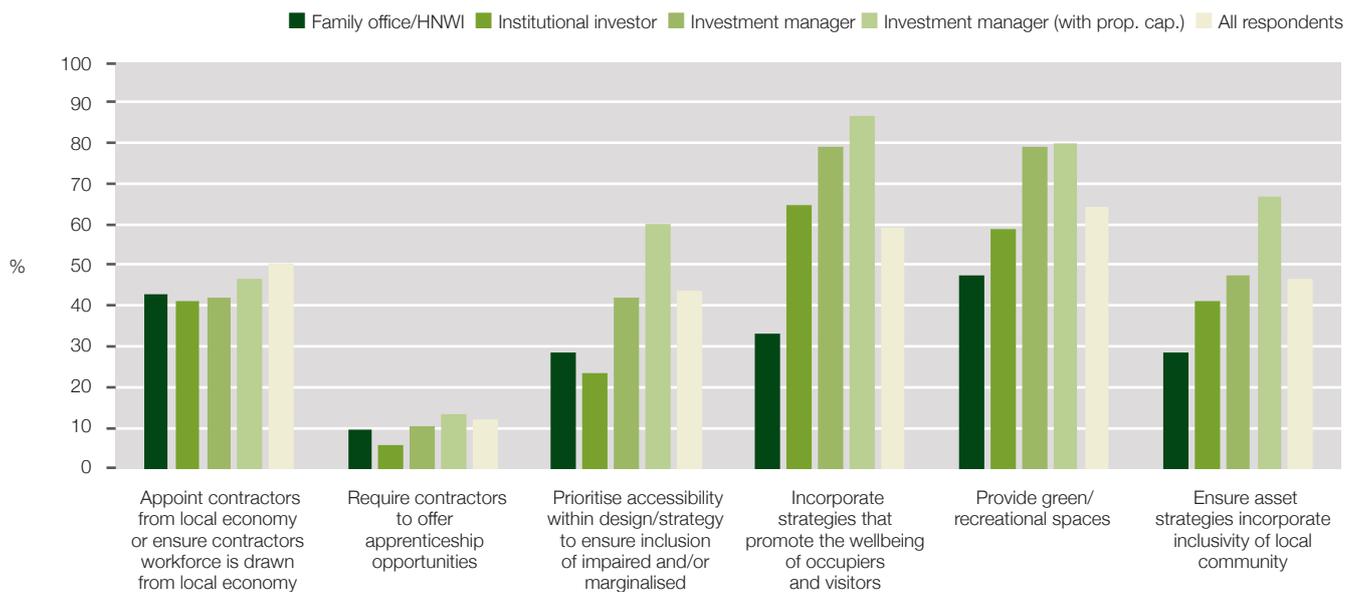
Importantly, this does not involve sacrificing risk-adjusted returns, rather if two different allocation opportunities offer similar return and diversification benefits, social value benefits may be used to discriminate. Equally, policies and strategies may be used to screen out investments that create a negative social impact, such as displacement, or exacerbate existing social issues, such as undersupply of affordable housing.

Figure 5: Social value policies employed at the organisational level



Source: ULI

Figure 6: Social value policies employed at the portfolio/asset level



Source: ULI

Third, individual asset plans may be tailored to deliver wellbeing or other benefits to occupiers or other users. Consideration may also be given as to how to encourage inclusivity and provide access to facilities for the local community. For example, this often takes the form of creating open and/or recreational space that is accessible to the wider community as well as the asset’s occupiers or users.

Fourth, social impact can be created where generating social value for underserved people and communities is central to the purpose of the portfolio/fund or individual investment, and where the social impact strategy is fully aligned with the investment strategy for the asset/fund/portfolio throughout the investment process. This includes targeted social returns and measured outcomes. Although it is hard to directly deliver social impact at the organisational level given impact’s product/asset focus, a strong corporate social value culture is a pre-requisite.

The survey considered the range and depth of social value initiatives being implemented by respondents at an organisational, portfolio and asset level (Figure 5 and 6). Opportunities to deliver social value obviously vary with the business focus of the organisation and from the respondents to this survey, as to whether they hold or manage a real asset portfolio. It is thus not surprising that the analysis indicates that investors and investment managers implement a greater range and depth of social value policies and strategies at the portfolio and asset level than other stakeholders. However, this is also evident at the organisational level.

The survey data is analysed by type of respondent, further segmenting investors and investment managers into sub-categories. Investment managers are categorised into those solely managing third party capital and managers that have access to proprietary capital from a parent company or otherwise incorporated institutional investor.

The survey results demonstrate that social value policies adopted within organisations are at low or moderate levels for “All respondents” across all indicators. Investment managers and particularly those with proprietary capital, display a higher level of adoption overall. However, with the exception of diversity and inclusion, and employee wellbeing policies, the penetration of social value policies remains modest. The survey results contrast with the findings of the structured discussions, with interviewees representing organisations active in real estate impact investing having strong policies throughout the organisational hierarchy from corporate to asset level.

Despite representing a range of different organisations by type, scale and geography, the interviewees expanded on the strong social value policies and culture of their organisations. Generally, these organisations can be categorised into two types. First, companies that have been established to invest with purpose, delivering social value across all their stakeholders including investors, employees, occupiers and the wider community.

To reflect and protect their values, many of these companies have achieved B Corp status, an accreditation that is given after measuring a company’s policies and actions against sustainability benchmark standardsⁱⁱⁱ. As well as demonstrating a high social and environmental performance, B Corp certification requires companies to make a legal commitment within their governance structure to be accountable to all stakeholders not just shareholders or financial beneficiaries.

The second type is large established institutions and investment managers that have signed up to and ensured their mission values and corporate strategy are fully aligned with the United Nations Principles of Responsible Investing (UN PRI) and to the subsequent UN SDGs. As with the evolution of environmental policies, early social value strategies focused on embedding social value in business operations: monitoring and pursuing diversity and inclusion; implementing employee wellbeing strategies; ensuring fair remuneration and establishing community engagement; equitable paid internships and apprenticeships; and promoting charitable and volunteering efforts through company or company aligned foundations or nominated charities.

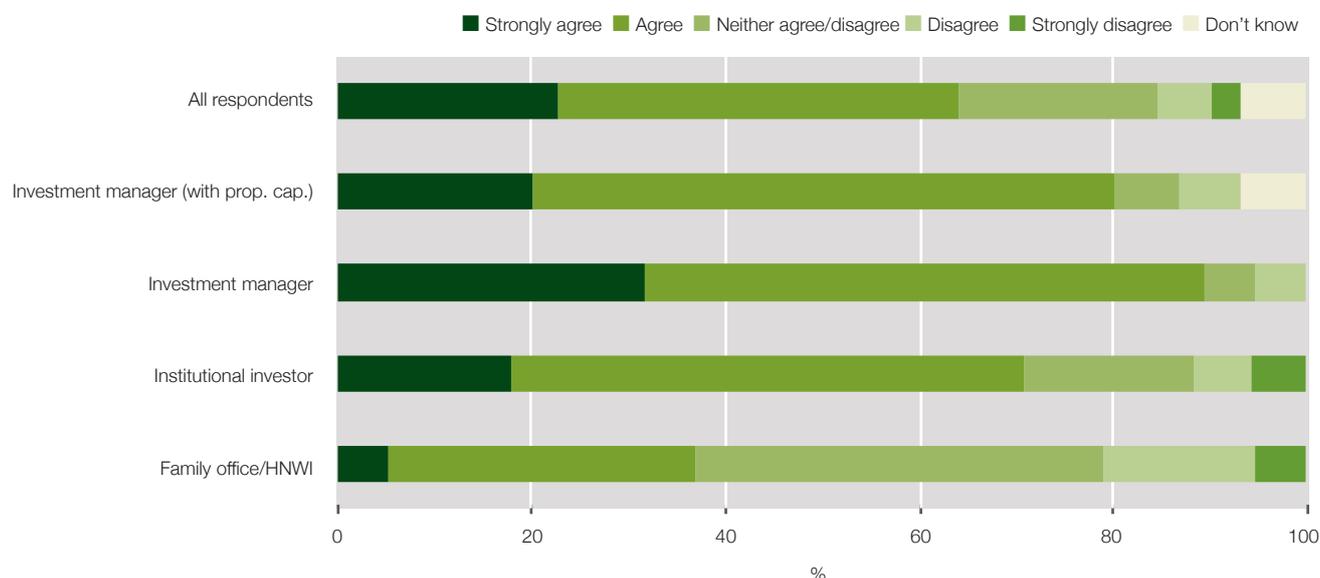
Recognising that meeting the UN SDGs aligns with risk management, many companies have also begun to reposition their companies to the investment opportunities presented and the business future proofing this pursuit represents. This often involves thematic sector allocation

and more holistic asset management plans. Such strategies account for extrinsic as well as intrinsic risks and opportunities. For many thematic sectors, such as housing and healthcare, product and asset strategies have become focused on the underserved, which opens the door to impact investing.

Many interviewees commented that the experience of impact investing, and more widely of adopting a socially sustainable approach, has also changed their approach to more established asset classes. Equally, 44 percent of investment manager survey respondents identifying as being involved in social impact investing, indicated that they had identified added value practices from social impact investing that could be deployed across other assets under management.

Social impact investing can be distinguished within the social value spectrum, and as a spectrum implies, its defining criteria build on social value characteristics rather than being entirely separate. Interviewees, survey respondents and roundtable participants strongly advocate that this requirement “to do the work and build impact investing upon a solid social foundation” should not be understated. Survey analysis indicates that the majority of all respondents agree that having a strong corporate socially responsible investing (SRI) culture is a prerequisite for offering a social impact fund/strategy, and the degree of consensus is intensified for those investing and managing such investments (Figure 7).

Figure 7: Perspective on whether a strong SRI corporate culture is a prerequisite for social impact activity



Source: ULI

2.3 The principles of social impact

Real estate social impact investing is a segment of the universe of institutional investment in public and private real estate markets. It is also counted in estimates of the market size of the evolving impact investing universe which comprises impact investments across all investment asset classes (Figure 8). Definitions of what constitutes impact investing within the real estate universe must align with accepted definitions used across the impact universe.

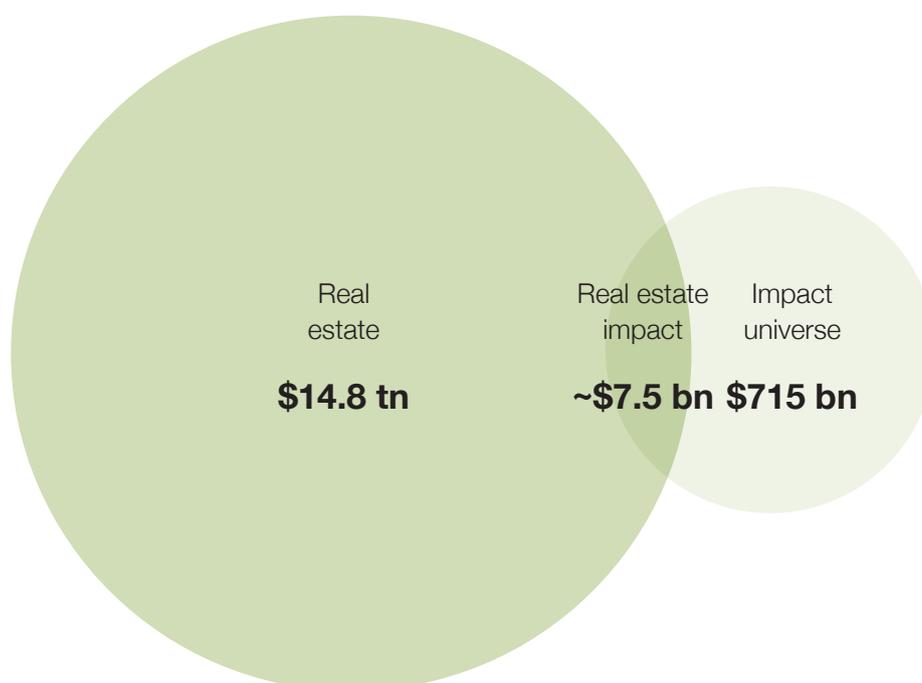
Impact investing has four overriding criteria that together differentiate it from strategies that contribute to social value, namely: nature of returns, intentionality, additionality and measurement.

Each of the four criteria is explained below in greater detail. However, it is important to highlight one aspect that is of particular importance to differentiating social impact from social value strategies within institutionally investable social impact real estate.

Impact investing evolved from its application within philanthropy, specifically strategies that seek an investment return that is secondary to financial returns and hence, not institutionally investable. As a result, arguably the most important criterion for institutionally investable impact - who the impact investing strategy serves – has been somewhat taken for granted within earlier, more philanthropic impact frameworks.

Nested within the definition of “additionality”, is the focus on delivering social impact for underserved groups of people. This emphasis needs to be brought to the fore and made explicit as institutional real estate impact investing expands its growth.

Figure 8: Real estate and impact investing markets



Source: LaSalle (2021); GIIN (2020); ULI (2021)

2.3.1 Nature of returns

A key differentiator is that social impact strategies include a target social return alongside a financial return. Although impact investments and funds can be solely focused on delivering social objectives, it is more usual for real estate impact initiatives to address environmental and social objectives in unison.

Indeed, these goals are often inter-dependent. For example, a number of interviewees explained that cost savings from the installation of renewable energy sources is passed onto occupiers either by lowering their total occupation costs or by being used to fund other community services and facilities. Involving such dual or triple return targets, impact investment strategies often refer to a double or triple bottom line strategy.

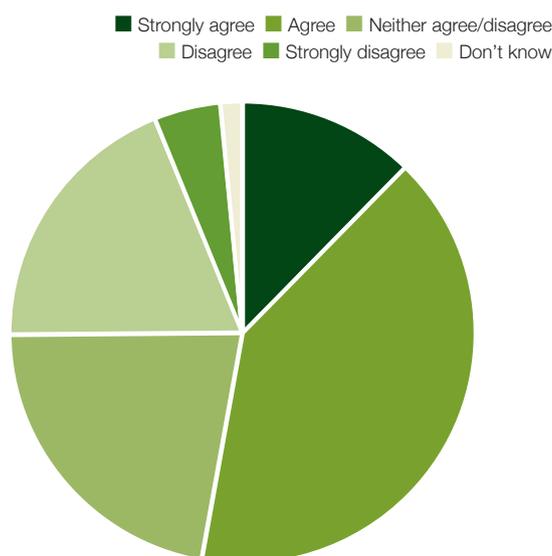
Pursuing the objective of investing with purpose requires organisations and/or portfolio and fund managers to consider the extrinsic as well as the intrinsic risks to ensure activity has a net positive impact across multiple dimensions (see section 4). It often also introduces developers, investors and investment managers to a new consumer segment.

Although the overriding aim of risk management is the same, meeting the objectives through best practice asset management requires strategies to be tailored to this new audience.

Interviewees active in impact investing stressed that the pursuit of impact objectives has a natural alignment with financial objectives as it delivers risk management benefits. This view is supported by 53 percent of all respondents to the survey (Figure 9).

As depicted in Figure 2, impact strategies differ in the balance and priority of financial and social returns. In some strategies, financial returns may have priority over social returns creating a blurred boundary with social value initiatives. For other strategies, the returns may have equal standing. In addition, there are impact strategies that award priority to social returns and accept a sub-market rate financial return. However, these types of investments and funds require an element of philanthropy and as they are not institutionally investable from a fiduciary duty perspective, they are not considered in this report.

Figure 9: Perspective on whether social impact strategies align with achieving financial objectives



Source: ULI

“ Although impact investments and funds can be solely focused on delivering social objectives, it is more usual for real estate impact initiatives to address environmental and social objectives in unison. ”

Despite strong consensus that social impact strategies are aligned with financial objectives, interviewees differed in their consideration of whether financial returns should have priority or equal weighting with social returns. Those favouring primacy suggested that fiduciary duty requires them to prioritise financial returns, but that the alignment of risk management with delivering on social objectives ensured social returns are delivered.

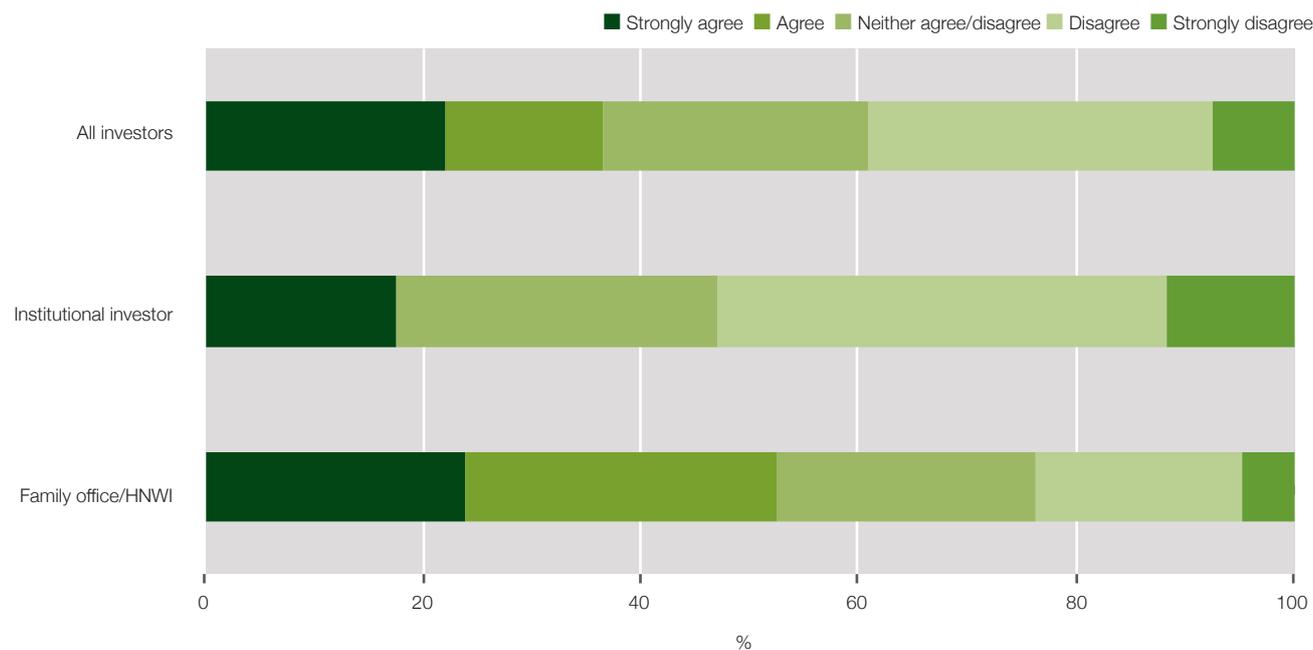
In contrast, other interviewees dismissed any conflict with fiduciary duty. Favouring equal weighting, these interviewees contend that it assists in maintaining the integrity of fund acquisitions, with due diligence involving the potential of acquisitions to deliver social impact returns as well as financial returns. Moreover, one interviewee suggests that equal weighting is important for unforeseen circumstances that result in market downturns. They argued that this protects social returns from being entirely sacrificed in favour

of supporting financial returns above the market trend. Instead, any deterioration in the market could be shared more equally across financial and social returns.

Similar to the findings of the structured interviews, the survey analysis indicates that across all investors there is a similar divergence of opinion as to whether social impact objectives should be secondary to financial returns (Figure 10).

Further analysis suggests that there is some polarisation by type of investor, with a majority of family offices/high net worth individuals (HNWI) indicating they agree that social impact objectives should be secondary, while in contrast a majority of institutional investors disagree with this contention. However, the results demonstrate a lack of consensus is common across investors, in respect of whether financial returns should have parity with, or priority over social returns, regardless of investor type.

Figure 10: Perspectives on whether social value and/or impact objectives should be secondary to financial objectives



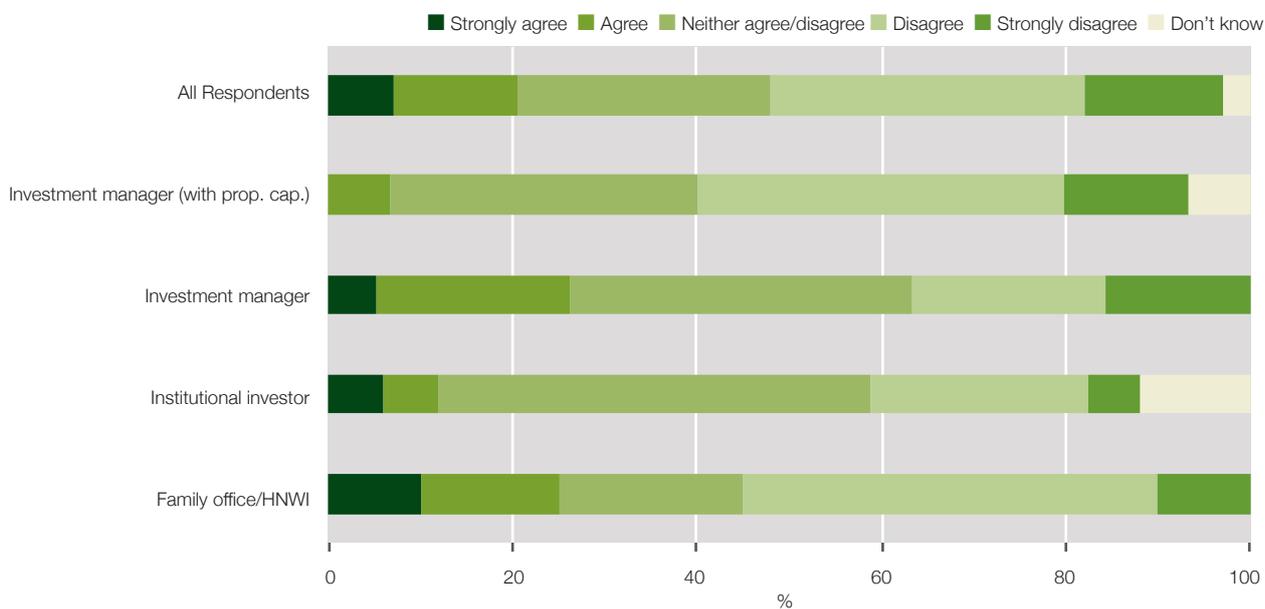
Source: ULI

The survey analysis also reveals some divergence as to whether fiduciary duty is a concern, with all respondents being a little more weighted towards the view that there is no conflict (Figure 11). This view is held by 55 percent of family offices/HNWIs and 53 percent of investment managers with proprietary capital, with investment managers without proprietary capital being less certain. Although the percentage of respondents considering there to be a conflict is low, there is considerable uncertainty

amongst stakeholders. Some 59 percent of institutional investors either stated that they neither agree or disagree, or did not know if there is a conflict between social impact investing and fiduciary duty.

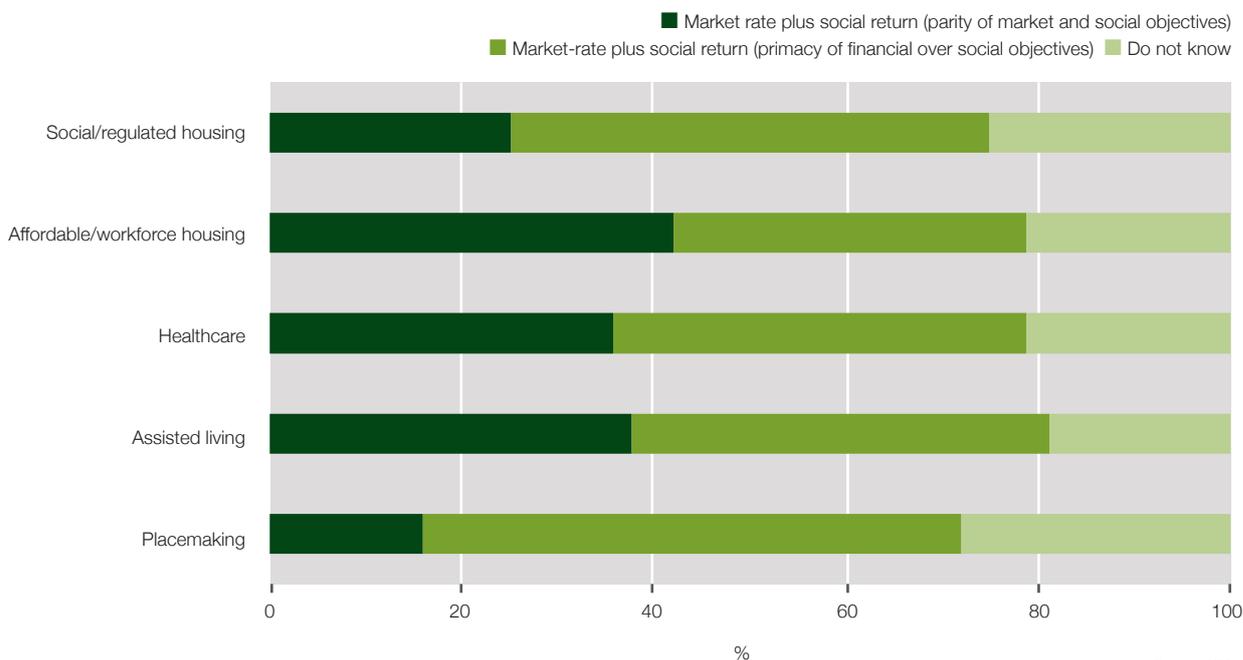
This lack of certainty may explain why, with the exception of affordable housing, investment managers indicate that fund terms are more weighted towards financial returns having priority (Figure 12).

Figure 11: Perspective on whether social value and/or impact conflicts with any fiduciary duty



Source: ULI

Figure 12: Perspective on balance of financial and social objectives employed by sector



Source: ULI

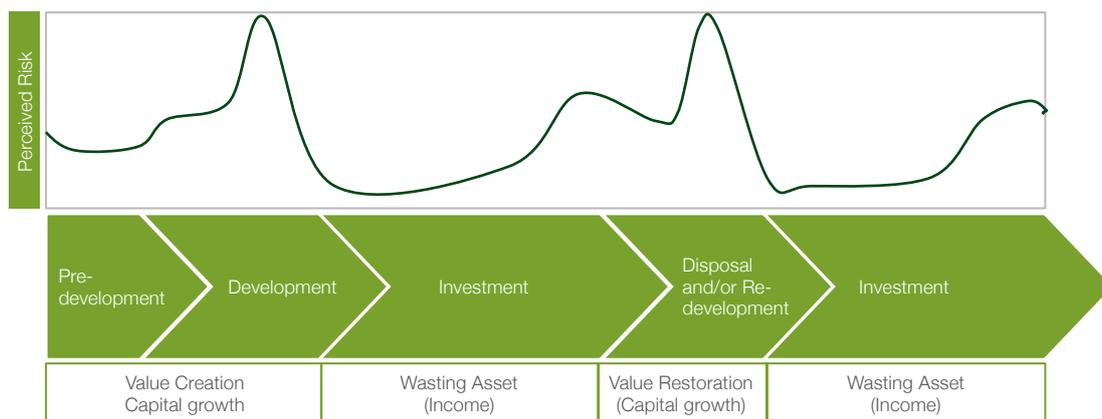
Many interviewees active in social impact investing contend that the interdependence of financial and social returns and their relationship with risk, requires “patient capital” as it relies on a longer-term, rather than a short-term investment duration in order to appropriately define them in investment or fund terms (see section 4). Survey respondents concur, with 83 percent of all respondents agreeing or strongly agreeing that social impact requires a long-term investment horizon.

This is not unique to impact investing and is also a characteristic of many forms of operational real estate investment that are changing the structure of stakeholder relationships in the industry^{iv}. With the exception of large private property companies that develop and hold assets long term, traditionally, the real estate industry has been

characterised by a symbiotic relationship between trader developers and non-listed investors, with the former creating real estate commodities that offer longer-term secure income for acquisition by institutional investors. These are traded or held by investors until expiry of income or obsolescence, where upon they are acquired by developers to refurbish, redevelop, reposition, or repurpose.

However, over recent years there has been a blurring of the boundaries in this segmentation especially in Europe. This is particularly notable in respect of more operational forms of real estate and this includes many sectors dominating social impact activity such as social and affordable housing, healthcare, schools, public and civic amenities (Figure 13).

Figure 13: The changing ecosystem of real estate



Stakeholder Activity	Customary	REITS	←	→	←	→	
		Prop Co/ Developer	←	→	←	→	
		Institutional Investors		←	→	←	→
		Private Equity	←	→	←	→	
	Evolving	REITS	←	→			
		Institutional Investors	←	→			

Source: INREV (2020)

There are many inter-related reasons for this evolution. First, the extension of the real estate investment universe into new sectors is driven by a chronic lack of supply. This often requires development activity. The level and projected endurance of excess demand, together with constraints on speculative funding de-risks development activity in respects of market timing.

At the same time, investors are rewarded with an enhanced return to compensate for development risk for the land acquisition, project management and their specialist real estate expertise. Some sectors, such as healthcare, schools and civic amenities are characterised by long leases and offer secure income upon completion. Other sectors such as affordable housing may require a lease up period and take time to reach income stabilisation. For some investment strategies, delivering a sustainable business plan and growing net revenues can be greatly enhanced by growing scale as this can facilitate a marginal cost reduction in service delivery.

Financial returns are blended from a return on development, a secure income return and a boost from operational leverage delivered through scale, maturity and expertise. Such an approach requires a longer investment duration, with investment horizons spanning from pre-development through income stabilisation and to investment maturity. This can create a mismatch of capital where investors are continuing to allocate capital to separate tranches of secure income or growth and/or shorter-duration investments.

Although these characteristics are common to most forms of operational real estate, they are particularly pertinent to social impact investing. First, delivering on UN SDGs and to underserved groups of people often requires development or repositioning activity given undersupply, balanced by secure income following a stabilisation period. Operational leverage may also be delivered through growing scale of activities across a portfolio or organisation.

Moreover, social impact objectives are often core to the operational activity of these assets, often requiring close alignment with a not-for-profit (NFP) operator to deliver services in the form of community engagement, sign-posting to appropriate public and private agencies and services, and empowering communities to create solutions for their self-identified issues. The operational leverage delivered from such activity is manifest in greater income certainty and stability, and growth from the enhanced desirability of the locality generated by a raising of the whole.

2.3.2 Intentionality

Social impact investing has a central thesis that doesn't merely set financial and social targets, but aligns them. Rather, social impact involves a centrality to the investment intention that runs through the allocation of capital, the design and execution of the asset strategy and that endures post exit.

Roundtable discussions also identified this centrality as being crucial. They suggested that the industry should use it as a threshold to identify and isolate any market participants seeking to masquerade as social impact investors while simply seeking to profiteer from manipulating public income streams, potentially discrediting the industry and causing social harm.

A participant cited an article referencing the incidence of short-term arbitrage capital allocated to UK adolescent care places. The capital was acting to drive up net income by rationing places while waiting lists of extremely vulnerable individuals requiring such accommodation escalated⁹. Establishing the intention of the capital allocation is essential.

“ This can create a mismatch of capital where investors are continuing to allocate capital to separate tranches of secure income or growth and/or shorter-duration investments. ”



Central Market, Hong Kong SAR, China.

Many investment strategies have been devised to align capital allocation with the dimensions of the Organisation for Economic Cooperation and Development (OECD) wellbeing framework and UN SDGs. These respond to the call for private sector – especially institutional, long-term capital – to bridge the funding gap by investing in sectors that assist in reducing inequalities, such as housing, healthcare and education.

Anecdotally, an interviewee recalled an investor commenting that when presented with two investments, one for higher-end senior accommodation and one for affordable housing offering similar risk adjusted returns, that selecting affordable housing and the contribution it would make to six hundred families “just feels better”. However, while thematic allocation of capital can deliver beneficial social value, it is rarely sufficient on its own to constitute social impact as it may not demonstrate additionality.

2.3.3 Additionality

Equally, impact investing strategies should directly effect change through the activity. Such change should be accretive to what would have occurred had the development or investment been undertaken by another party, without an intended focus on creating social impact. This can be targeted and/or measured along two axes involving the actions undertaken by the investor and/or manager and the range and depth of the impact that is being achieved^{vi}. Often, this may be related to a counterfactual analysis that acts as a baseline and considers what would have been achieved without the social impact activity. Approaches employed by real estate impact investors are discussed in section 5 of this report, but essentially additionality concerns:

- **What** issue is being addressed, what is the net outcome and how important is it for the target audience?
- **Who** experiences the outcome and how underserved are the stakeholders in relation to it?
- **How much** impact is being generated in terms of scope and depth, and for how long?
- What is the **contribution** of the activity to the outcome?
- What is the **risk** to people and the planet of the impact not occurring?

For real estate, “who” is a critical dimension. Social impact initiatives are aligned with the aspirations of the UN SDGs which seek to reduce inequalities in access to safe housing, health, education and economic opportunity. Real estate strategies usually focus on meeting or exceeding the expectations of underlying occupiers and/or wider users, often including an emphasis on improving health and wellbeing through design, services and experience.

This can deliver beneficial social value. However, to deliver social impact, the beneficiaries should predominantly be underserved, as this contributes to reducing inequalities through improved access to fundamental resources.

Importantly, it is not the scale of the initiative, but the scale of the impact. Sometimes relatively simple strategies can have a disproportionately large impact for underserved segments. For example, Franklin Real Estate Asset Advisors demonstrates that by explicitly considering the potential to generate social impact through an asset such as a courthouse, major benefits can flow from small initiatives and at minimal cost (see case study 1, Franklin Real Estate Advisors).

There is strong consensus amongst both interviewees and roundtable participants that while some types of investments and locations present major opportunities, every investment has the potential to deliver a net positive social impact often quite simply by considering how the potential for the net positive social impact of an asset can be maximised.

2.3.4 Measurement

Although many stakeholders attempt to track their social value activity, measurement, independent verification and reporting of social impact outputs and outcomes are a requirement of impact investing.

Unlike environmental impact investing which focuses on resource efficiency and reduction of emissions, social impact strategies by their disparate nature focus on a wider range of objectives and relevant metrics. It was commented that the experience of those involved in environmental strategies can lead to a fruitless pursuit of trying to measure everything and convert it into a metric that may be used across all social impact strategies.

This can lead to the process of measurement itself being a barrier to impact investing. Interviewees stressed that measurement is important as the old adage of “what gets measured gets done and is valued” applies. Approaches enable both qualitative and quantitative social returns on financial investment to be assessed. Again, methods being employed by investors and managers are discussed in greater detail in section 6.

“Importantly, it is not the scale of the initiative, but the scale of the impact. Sometimes relatively simple strategies can have a disproportionately large impact for underserved segments.”

CASE STUDY

1

Franklin Real Estate Asset Advisors and social infrastructure



Healthcare facility, Lido di Venezia, Italy.

When global asset manager Franklin Real Estate Asset Advisors (FRAA) identified the strength of the investment opportunity in providing social infrastructure in Europe, it also recognised the compatibility of delivering environmental and social impact through its real estate strategy. As a result, its social infrastructure impact strategy has the mandate to deliver on financial, environmental and social returns.

Across Europe, social infrastructure assets generally benefit from long-term, index-linked lease terms, offering secure income. These bond-like qualities are reinforced by the strength of covenant, which is often a government or public sector body, or indirectly supported by secure public sector funding. Additionally, such assets offer the benefits of anti-fragility to economic cycles and shocks and deliver enhanced risk adjusted market returns.

FRAA's strategy invests across five sectors, including healthcare, education, housing, justice and emergency, and civic. The impact strategy is integral to the investment strategy and its implementation. FRAA focused on seven UN SDGs and identified five ways in which it could contribute to impact within its theory of change and preserve, improve and expand on the impact of social infrastructure assets acquired.

Social impact is managed through the investment process and the ability to deliver on it is an important factor in asset selection. This aligns with the Operating Principles of Impact Management set out by the International Finance Corporation (IFC).

Equally, the capacity for the impact to endure informs the exit strategy. Managing Director Raymond Jacobs highlights that intertwining impact within the investment strategy “aligns investment and impact considerations from end-to-end”.

FRAA has developed a bespoke tool for measuring impact that is adapted from the IMP's five dimensions of impact measurement framework. This allows the scale of impact to be assessed, projected, monitored and reported at an asset, sector and portfolio level.

The nature of the social infrastructure impact strategy and the breadth of its remit in terms of sectors, jurisdictions and specific attributes of individual opportunities means that each asset has its own bespoke impact strategy. This is balanced between environmental and social.

Franklin Real Estate Asset Advisors and social infrastructure

Although the potential for delivering social impact varies by asset, Jacobs believes that “each asset has the potential to deliver an added benefit, with the scale of that social impact greatly outweighing the cost, and in turn benefitting performance”.

For example, the acquisition of a juvenile courthouse in Madrid, Spain, leased to a government entity delivers impact through improved energy and water efficiency. However, FRAA also identified the opportunity to improve its functionality. Undertaking research to identify best practice in juvenile courts, FRAA constructed a Gesell Chamber providing a safe space for victims of violence to testify.

Building upon this, a partnership with an NFP seeking to improve social inclusion for the cognitively challenged resulted in improved cognitive accessibility through better signage, visual information and magnetic loops for the hearing impaired. As well as benefitting end users, the approach has also assisted in developing a more trusted relationship between the court operator and the owner. The demonstration of interest in stakeholders’ needs also potentially improves access to similar investment opportunities.

Other sectors have social impact embedded at the core of the asset. The acquisition of a healthcare asset in Lido di Venezia, Italy, created social impact at the outset by preserving the nursing home and specialist rehabilitation centre, which was at risk of closure and conversion to an alternative use. The appointment of new healthcare operators improved the quality of services delivered.

The asset strategy involved upgrading ageing buildings and research facilities, resulting in improved quality of care and establishment of world class, university-linked research facilities. The asset plan seeks to extend supply

through the development of an end-of-life facility that will also enable existing facilities to deliver more services. Previously, the asset has been dislocated from the local area and following the establishment of a direct water taxi service, strategies to embed the asset within the community are in process.

Although very different, both assets demonstrate that focusing on the role of the asset and seeking ways to improve and expand the reach of its services for end users, contributes rather than detracts from the financial performance of the asset itself.

The impact activities for the juvenile courthouse have greatly enhanced the experience of young victims and the cognitively impaired, but also improved the relationship between the owner and the court operator. Investment in the healthcare facility has been transformational for its patients and residents in terms of quality of their environment, services and care; and for the newly appointed operators with the modernisation and functionality of their facilities, including investment in resource efficiencies and renewable energy, in turn improving operational efficiencies. The wider community is also benefitting from the preservation and expansion of services, with openness to a facility previously inaccessible to the wider community.



A Gesell Chamber in a juvenile courthouse in Madrid, Spain.

3

Structure and strategic approach to social impact

Central Market, Hong Kong SAR, China.

3.0

Structure and strategic approach to social impact

KEY FINDINGS

- Social impact strategies can be applied to all sectors, with all asset plans having the capacity to deliver targeted outcomes for the wider community.
- Sectors directly focused on providing the physical assets required to serve people's basic needs as well as those providing space as place, have significant opportunities to deliver social impact.
- By applying a more holistic approach, social impact can often be achieved by relatively small adjustments to existing strategies that can have a disproportionately positive impact.
- It is the audience that is often new; the overarching approach mirrors best practice asset management.
- Investing with purpose enables investors to enhance risk-adjusted returns as social impact strategies provide a range of important risk management benefits.
- As for other progressive approaches to real estate investment management, valuation practice is lagging and the gap between worth and value models is widening, which given regulatory constraints on some investors is impeding growth in the sector.

Given the physical presence of real assets in society, social impact strategies have the capacity to be relevant to all forms of real estate and social infrastructure. Although built upon the foundations of social value, the intentionality of social impact investing requires business plans to be focused on achieving targeted outcomes that create additionality for individuals, groups and the wider community.

Presently, social impact is more commonly applied to housing, healthcare, education, civic building and placemaking strategies. These sectors provide significant opportunities to intentionally generate additionality for the underserved through social impact strategies and deliver a market rate return. However, there are strong examples of its integration into wider forms of real estate.

For example, Fore Partnership's Cadworks scheme in Glasgow seeks to extend the wellbeing strategy it has integrated into the asset for occupiers to the wider community through its cycling initiatives. These began before the development broke ground and it is also linking its occupier and local communities through events and knowledge sharing.

3.1 Structure of impact investments

As well as being cross cutting from a sector perspective, social impact investments offer the same range of ownership and risk structures appropriate to other assets in the market.

Many social infrastructure assets including hospitals, nursing homes and civic buildings offer long leaseholds, with rents often index linked. Depending on the country and underlying social funding model, these long income investments may represent proxy government bonds with income often underpinned directly or indirectly by secured government funding.

Although multi-family residential real estate has been the largest sector in the US for many years, investment in commercial sectors dominated other regions until relatively recently. However, the share of residential and healthcare has rapidly accelerated. For example, the residential sector accounted for around 5 percent of institutional investment in Europe in 2014, but had accelerated to 25 percent by 2020. There has also been a shift in the segment of the market being targeted.

Different formats of housing have emerged as the leading opportunity for the industry currently. The sector is a good example of how strategies within impact investing can offer the same ownership and risk structures as more traditional sectors in the wider market. However, by considering any asset's impact on the wider community and embedding inclusion in the strategy, including opportunities for growth, all assets have the potential to deliver on these goals (case studies 1, Franklin Real Estate Advisors; 2, Chinachem; and 4, Victoria Yards).

The social housing impact investment opportunity is highly diverse, both within and across regions. To some extent, this reflects the degree to which the provision of social housing remains directly or indirectly with the public sector; how land is provided or acquired; how it is financed; how rental levels are set; and how rental payments are subsidised or assisted (see case study 3, Nuveen).

Depending on the underlying demand and structure of the market, investments in social housing maybe structured as debt or, if equity, as a long leasehold to a housing association or manager, and in some markets the public sector act as a guarantor to both debt and equity repayments/income.

Regulatory influence

While systems vary considerably, social housing is often regulated and supported by public funding through one or a combination of land allocation, planning requirements, access to public finance or other pools of capital offering better than market terms, and housing subsidies/assistance programmes.

Affordable housing investments are also diverse, varying with whether it is regulated and relevant housing law. Again, they may be structured as debt or equity and either let on a long lease to a housing operator or be held directly, usually involving a management contract to an operator. It may also be held as a joint venture between an investor and an operator. As leases are often annualised (although depending on the market, they may be up to three years), the risk and return exposure will vary with the structure employed.

The role of the public sector often underpins the viability of social impact investing, particularly in respect of housing and land acquisition. Although social and affordable housing can deliver enhanced risk-adjusted market rate returns, developments targeted at high income groups or in some circumstances, alternative use, will generally yield a higher absolute return. The role of the public sector varies across countries and their regions but may be categorised into two broad contributions.

First, public policy may seek to encourage investment into economic sectors and/or locations through providing some form of tax incentive, funding assistance and/or access to a lower cost of capital (see section 4 and case studies 3, Nuveen; 6, JBG; and 7, Macquarie Asset Management; and Low Income Housing Credit on page 50).

Sometimes these measures are specifically targeted and in others, investors and managers have created strategies that enable them to take advantage of broader policies. Essentially, these instruments level the playing field for land acquisition between developers and/or investors seeking to build or acquire social/affordable housing and those targeting higher income markets.

Second, urban planning may zone land for specific housing or impose planning requirements for the provision of social or affordable housing within wider developments. Equally, developers may work with planning authorities to create strategies that enable the inclusion of social and/or affordable housing to be viable. For example, the developer Revive worked with local authorities to integrate social housing and education into its strategy for EKLA in Saint-Jans-Molenbeek by securing a higher density to achieve financial feasibility.

The role of the public sector in enabling private sector social impact investment is understated and often poorly understood by public and private stakeholders. Many policies are not specifically targeted at impact investing yet are pivotal to its success.

Social value through planning

In some markets, planning conditions may also require developers to provide other aspects of social value such as inclusive green and/or recreational spaces, inclusive design and in the development phase, apprenticeships and skills development.

An interviewee commented that as their company understands and commits to social value at an organisational level, it has changed viewing such requirements as a constraint, to seeing them as an opportunity. In some planning regimes, developers may either provide apprenticeships or make a payment in lieu of apprenticeship opportunities.

Previously, this organisation often rolled up these payments and costed them into the development process for efficiency. However, committed to investing with purpose and benefitting all stakeholders this organisation now seeks to deliver apprenticeships through their activity and their delivery is tracked and embedded in performance metrics of company divisions. Again, this illustrates the importance of organisational leadership.

“Many (public sector) policies are not specifically targeted at impact investing yet are pivotal to its success.”

CASE STUDY

2

Chinachem Group and Central Market



Central Market, Hong Kong SAR, China.

Chinachem's redevelopment of Hong Kong's landmark Central Market in partnership with the Urban Renewal Authority (URA) demonstrates how taking a holistic approach can be embedded through placemaking strategies.

Chinachem, a leading property company in Hong Kong, is presently held by Court-appointed administrators, and ultimately will sit within a charitable trust containing assets bequeathed to it by its former owner. Part of its mission is to prove that if the real estate sector consciously considers the social and environmental externalities created by real estate activities and adapts strategies to ensure that impact is positive, it will still prosper and, at the same time, future-proof its assets. It achieves this by adopting a triple net balance sheet that places equal importance on achieving financial, social and environmental targets enabling a 'balancing of people, prosperity and planet'.

Central Market is an historic location in Hong Kong's Central district and although the market had become obsolete, its prominent location on the Hong Kong's pedestrian escalator network meant it continued to have a role at the heart of daily life.

Chinachem wanted to create a "playground for all" so having a place with purpose that was relevant and accessible to all citizens became central to the visioning and development strategy. The result is a 12,000 sq m urban oasis of green spaces and flexible venues for relaxation, entertainment, education and community; a blending of traditional Hong Kong street food with new drinking and dining concepts, and a mix of retail that provides a platform for small and emerging local brands.

Donald Choi, Executive Director and CEO of Chinachem explained, that it identified three opportunities to embed social impact objectives through the development: the scope of the target audience, range of employment opportunities, and providing growth opportunities for local start-ups and embryonic businesses.

To achieve impact for its audience, the strategy was built upon the premise of a community space first, for any user to enjoy. This creates a space that is socially inclusive and instils a sense of belonging for all, regardless of whether they intend to eat, shop or enjoy other services. This is embedded in the design, which creates a boundary-less space.

Chinachem Group and Central Market

Rejecting fixed boundaries by way of walls and partitions, the design encourages free movement and spaces are defined by how users circulate. The design intentionally enables the space to evolve organically over time, reflecting the changing aspirations and interests of its users as they transition with daily life and over time.

Social inclusivity is a primary objective and local community groups are encouraged to use the space to meet and organise events. Chinachem also works with NFP partners to identify opportunities to facilitate activities within Central Market and, through this shared knowledge, adapt the products and services offered throughout the space. It measures its success through analysis of social media, duration of stay and solicited feedback.



Central Market, Hong Kong SAR, China.

As for many organisations creating social value through strong SRI policies, Chinachem ensured that the development of the asset generated local employment and provided apprenticeship opportunities. It built on this activity, extending such opportunities into the operational management of the asset in addition to those more commonly arising through day-to-day property management. Having embedded social impact across its activities as an owner, Chinachem turned its attention to generating opportunities through its occupier base. It recognised that creating a diverse tenant mix strategy across retail, food and beverage, and a wider leisure and entertainment offer aligns with social impact objectives, presenting an opportunity to deliver economic opportunity for small and local enterprises, beneficial to the overall appeal of the asset.

However, Chinachem is not merely curating local brands to support the overall vitality of the development, it is using Central Market as a platform to incubate these embryonic businesses. This involves ensuring the companies have the right space, in the right place, at an affordable rent. Being supported by the right resources underlies the start-ups success and future growth, and Chinachem provides a business development service to assist the growth of these start-up ventures.

This includes giving them access to point of sale (POS) technologies, which have been embedded in the digital design. This provides sales and visitors data and equips occupiers with the know-how to interpret and respond to such resources. Chinachem also provides pilot and pop-up opportunities to test products, concepts and services, and educating such occupiers on retail management and marketing. It also empowers them to sustain this business development activity, balancing the social and financial returns for the triple bottom line.



CASE STUDY

3

Nuveen and impact investing in real assets

Affordable housing, Brooklyn, New York, US.

Nuveen is a pioneer in impact investing, with a track record spanning over 50 years. Using the balance sheet of its parent company TIAA, Nuveen has deployed over \$1 billion in private equity and real estate impact investments globally^{vii}. Over this period, its experience has enabled it to evolve its approach, shifting from primarily investing through funds indirectly or providing senior debt, to primarily making direct private equity and real estate investments. Most recently, it developed non-listed real estate impact funds for third party institutional investors. At the same time, it has purposively shared its knowledge and experience to inform, shape and support the wider impact industry.

In 2012, the company undertook a strategic review to understand how it could optimise its approach to deliver measurable impact at scale through market rate financial return investments. Its overriding impact objective is to increase accessibility to the provision of basic needs such as housing, healthcare, education and financial services for low-income households. Although global in reach, Nuveen contend that impact challenges and solutions should be addressed at a local level.

Using its global reach to share knowledge and best practice, Nuveen has developed impact frameworks and measurement tools that are capable of being systematically applied to setting impact goals, implementing them through the investment process, measuring and monitoring the outputs and outcomes in a consistent manner, as well as building in impact endurance into exit strategies. This enables outputs and outcomes to be managed and reported at the asset, country, sector, fund and/or portfolio level.

For example, Nuveen's knowledge and experience of investing in affordable housing in the US for TIAA's proprietary impact portfolio informed the design and process of Nuveen's impact investment in affordable housing in Germany (see table, page 37). Differences in the impact opportunity in terms of target audience, and in the solution given distinct regulatory, legal and taxation regimes required a different strategic approach to delivering impact and appropriate market rate returns. However, the outputs and outcomes can be measured using the same KPIs and metrics. The impact objectives are similar, but they require a locally attuned strategy to realise them.

Nuveen and impact investing in real assets

	Germany	US
Issue	40 percent of households are rent burdened (>30 percent of disposable income) in urban growth centres due to housing shortage; Marginalised groups such as disabled, immigrants, single parents require housing with access to education and employment opportunities and opportunity to assimilate.	Expiration of affordability covenants over the medium term put 40 percent of housing units awarded federal tax credit subsidies at risk. Opportunity to preserve affordable housing, especially for those earning <60 percent of area median income (AMI).
Impact opportunity	Create and preserve affordable housing solutions for different target groups along the affordability spectrum of social, worker and marginalised groups (<60 percent AMI, <80 percent AMI, <100 percent AMI)	To invest, preserve and enhance assets qualifying for federal subsidy programmes such as the Housing and Urban Development Section 8 Housing Assistance Contract Low Income Housing Tax Credit.
Financial return	Government/state housing funding programmes provide social bond/subsidy for <80 percent AMI; Disabled, seniors, immigrants and refugees; Blended and mixed income housing at social, worker and market rate. Stable communities and secure income. Improvement in area, gentrification without displacement.	Benefit from affordable rental income payments for tenants, subsidies to contracted rent by federal top up, essentially a government bond. Below market contracted rent is compensated for by Low Income Housing Tax Credits available to investors. This rebalances financial returns, and often enhances them on a risk adjusted basis due to security of income, low churn, voids and associated costs.
Impact activity	In addition to affordability, strategy includes environmental sustainability and efficiency of housing; strong locations offering access to education and employment opportunities and safe environment; community programmes to provide relevant services, for example afterschool care, language, digital, finance, healthy eating classes and activities to develop community cohesion.	In addition to preserving social/affordable senior housing, assets are upgraded to generate resource efficiency gains, passed through in lower management charges. Engage with community to identify needs and provide services, including training, education and social activities, as well as ensuring good access to transportation.
Outputs & indicators	Number of units preserved/created Differential to market rent Environmental/resource efficiency impact Efficiency impact on service charge reduction (percentage) Number underserved tenants; percent female Number of properties with community/social services on-site	Number of units preserved/created Differential to market rent Environmental/resource efficiency impact Efficiency impact on service charge reduction (percentage) Number underserved tenants; percent female Number of properties with community/social services on-site
Outcomes	Improve quality of housing conditions and environmental gains in resource use. Increase disposable income available for essentials including food, education and health, thereby increasing quality of life, and access to opportunities. Results in stable, cohesive and safer communities.	Improve quality of housing conditions and environmental gains in resource use. Increase disposable income available for essentials including food, education and health, thereby increasing quality of life, and access to opportunities. Results in stable, cohesive and safer communities.

3.2 Social impact strategy

At its most fundamental, the integration of social impact strategies into investment plans is not new. Best practice risk management strategies focus on enhancing the experience of their occupiers and/or end users in order to protect and enhance income.

However, as the scope of institutional investment opportunities has expanded into new sectors including social infrastructure, it is perhaps the underlying occupier and customer base that is the greatest change for the industry. Related to this, implementation of social value strategies may introduce investors and managers to new types of operating partners which often include Non Governmental Organisations (NGO), Not for Profit Organisations (NFP) or other forms of social enterprises.

3.2.1 Target audience

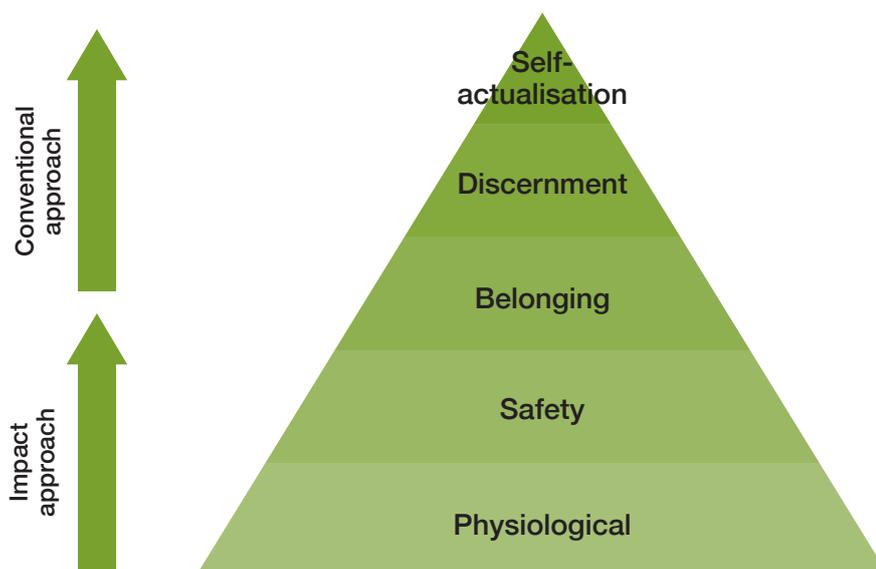
Conventionally, development, investment and asset plans are tailored to attract the target audience that can generate the highest rent, which by nature generally represents affluent population segments across society. These plans are driven by a focus on maximising price point of the intrinsic income rather than certainty of income.

In contrast, impact investments are focused on an underserved target audience. Importantly, with many markets experiencing undersupply of suitable housing, quality educational facilities and healthcare assets, many wider investment opportunities are also addressing a broader audience.

The overriding aim of development, investment and asset strategies is to attract and retain target occupiers and customers by meeting and exceeding their expectations. This is achieved through adding value to their activities and improving the user experience through design, leasing and associated services. This persists regardless of the target audience.

Seeing these activities through the lens of Maslow's hierarchy of needs, it is clear the traditional client and customer base for real estate has been more affluent (Figure 14). As their physiological and safety needs are already satisfied, along with a sense of belonging within wider society, strategies tend to focus on adding value through delivering experiences and services tailored to their aspirations around discernment and self-actualisation. This itself creates a sense of belonging within a specific community.

Figure 14: Real estate's target audience and Maslow's hierarchy of needs



Source: ULI

This activity can increase the utility value of the asset for occupiers, thereby increasing and/or protecting its intrinsic income value. For example, in high-end residential, the provision of services and facilities such as a leisure suite, communal lounges, concierge service and an events programme, increases net income through higher rents and lower churn rates. Similarly, in multi-let offices greater emphasis is placed on common areas including reception area facilities, meeting rooms and event spaces which benefit the occupying business and improve and protect net income.

Social impact strategies adopt the same user centric approach to tailoring products and services to their occupiers, with three distinguishing aspects.

First, by focusing on underserved segments of the population, they are often addressing the fundamental physiological and safety needs of their audience and in doing so, create a sense of belonging to society. Second, intrinsic value is focused on the certainty, not merely the level of income that can be generated through the asset. Moreover, managing the extrinsic risk, that is risks beyond the utility value for end users of the asset, are considered as central to the risk management of the asset. Third, related to extrinsic risk management, impact strategies explicitly consider their effect on the wider community.

All real assets have externalities for the wider location and for economy and society more widely. Social impact strategies aim to optimise the positive and negative effects of their activity. This means a small adjustment to a strategy can have a major impact. For example, by deciding to invest capital into local community enterprise groups to improve the circumstances and life opportunities of people in the local vicinity rather than into improving the surrounding streetscape, it is possible to deliver gentrification without displacement (see case study 4, Victoria Yards).



Victoria Yards, Johannesburg, South Africa.

CASE STUDY

4

Victoria Yards, Johannesburg



Victoria Yards, Johannesburg, South Africa.

Victoria Yards, a cultural retail and leisure destination, offers a high-calibre community of curated artists, designers, craft, and food artisans. Located in a suburb with high unemployment rates and a culturally diverse community that includes a large population of economic migrants, Victoria Yards is a catalyst for community betterment. In turn, this activity sustains the commercial essence and viability of the asset.

The redevelopment and repurposing of this dilapidated early 20th century industrial laundry in an economically impoverished suburb of Johannesburg, South Africa, began in 2016. It is an example of a project that embodies best practice social impact placemaking, yet was not labelled as an impact investment by its stakeholders at the outset.

The owners of the site enlisted the expertise of Brian Green, a director of Group 44 Properties, a company known in South Africa for crafting distinctive developments and occupier profiles to suit specific

locations and circumstances. They were later approached by Simon Sizwe Mayson, an urban regeneration academic and social entrepreneur, who was seeking an opportunity to implement and test changemaking strategies for economic wellbeing.

As this matched the overriding objective to create an economic, social and environmentally sustainable project relevant to the community, Green embraced the opportunity and Mayson joined the core development strategy team. Together, they began to thread the concepts of spatial justice, gentrification without displacement and seeding a wellbeing economy into the visioning strategy for the commercial development of Victoria Yards.

The social impact

At the outset, the strategy incorporated three overriding impact targets: community engagement, food security and vocational training. Central to the strategy is defining social infrastructure as people, enabled by activities and place.

Victoria Yards, Johannesburg

The key to unlocking the human potential is to facilitate the community in identifying and prioritising their own needs and provide the place, skills and tools that enable the community to develop solutions and to thrive.

Green commented: “If I had to pick one thing that investors and developers need to learn from our experience at Victoria Yards, it’s that you don’t have to deliver everything – it’s not our skill base. We simply need to facilitate and integrate it, by partnering with those with the expertise”.

Mayson took responsibility for engaging with the community and by 2020 had registered as a NFP entity called Makers Valley, with Green initially providing a 100 sq m unit as a community enterprise hub.

By investing in the community as social infrastructure, rather than in the physical fabric of the neighbourhood for the community, Victoria Yards has delivered gentrification without displacement. It draws in a diverse customer base from outside the locality including from adjacent wealthy suburbs and, at the same time, through its support for Makers Valley, acts as an accelerator for the wellbeing economy of the Lorentzville neighbourhood. Indeed, its support incubated Makers Valley from a community of volunteers to a registered NFP (or NPC [Non-Profit Company] in South Africa), now occupying a larger unit with additional funding from American Spaces.

The initiatives undertaken by Makers Valley and facilitated at Victoria Yards in pursuit of the identified impact

objectives are wide ranging in both number and reach. Examples of activity streams are summarised for each objective in the table below. Importantly, each is part of a web that connects the community to Victoria Yards. Sometimes these begin within the walls of the development and extend out to the community, and other times they uncover skills that are latent in the community, incubated through opportunities within Victoria Yards and in turn, strengthening the asset.

Thobile Chittenden, CEO of Makers Valley stresses that their role is “not to impose solutions from outside, but to give agency to the community to create a network of possibility through social enterprise and act as an accelerator for young creatives and entrepreneurs”.



Enterprise hub, Victoria Yards, Johannesburg, South Africa.

Victoria Yards, Johannesburg

	Engage community	Food security	Training
<p>Makers Valley Studio (Innovation Hub) Free, accessible digitally equipped co-working space; digital literacy programmes; Enterprise development workshops; incubator; STEAM Club for teenagers; book club.</p>	✓	✗	✓
<p>Urban Farm at Victoria Yards Vegetable gardens form the landscaping of Victoria Yards, providing skills, employment and income through “veg boxes” for occupiers and the community. The horticultural skills are transferred to the community, initially enabling the planting of the external pathways and later, providing seeds, equipment and training to those seeking to grow food in their own space.</p>	✓	✓	✓
<p>Creative apprenticeships and opportunities Artisans, crafts people, designers, artists, craft brewers, and food and beverage outlets are the anchor tenants to Victoria Yards, which nurtures their talent provides a showcase for it. This provides employment opportunities, with young apprentices benefitting from skills acquisition. Likewise, their critical mass enables otherwise undiscovered talent to emerge and be nurtured in adjacencies to more established creatives. In addition, music workshops hone the talents of local street musicians, while the “first Sunday markets” provide opportunities for local entrepreneurs, leading to the incubation of new local businesses such as Sorbae, a specialist sorbet outlet.</p>	✓	✓	✓
<p>The People’s Pantry The hard lockdown during the Covid-19 pandemic created a wellbeing crisis in the community. Makers Valley responded by mobilising community volunteers and businesses to support the delivery of soup kitchens and food parcels, with a restaurant occupier providing its kitchen and skills. It supported 11,150 people over eleven weeks and also provided the impetus for a new social enterprise that provided a safer, more dignified and more sustainable way to provide food relief within the community. Volunteer chefs were identified within the community and provided with the appropriate kitchen equipment, leading to the operation of six community kitchens and providing the volunteers with the skills and equipment to start their own catering business. Surplus perishable items and dry goods also led to the development of a Swop Shop, which in partnership with social entrepreneurs (LOCK) now forms part of a circular economy.</p>	✓	✓	✓
<p>Love Our City Klean (LOCK) Social entrepreneurs sought to clean up the neighbourhood by providing a payment for recycling waste, which they could sort, sell or redistribute. The payment is now a token that may be exchanged at the Swop Shop, with clothing and educational materials retrieved being redistributed to Makers Valley as stock or materials for other initiatives.</p>	✓	✓	✗
<p>Timbuktu in the Valley Pre-pandemic, this social enterprise provided afterschool care for up to primary school children (up to age 12), initially within incubation space in Victoria Yards. With schools closed during the pandemic, it extended its range and capacity to provide a learning space for 75, 8-15 year-old children in the neighbourhood. Recognising deficiencies in literacy and numeracy due to over-capacity and underfunded school provision, they offer a voluntary academic support programme and advocate for undocumented children to access education, in addition to providing art, music and re/up cycling programmes. They also offer bicycle programmes and are integral to the mobility initiative Makers Valley is progressing alongside Engineers Without Borders.</p>	✓	✗	✓

Victoria Yards, Johannesburg

The financial model

Victoria Yards' income is driven by the commercial rents of its occupiers. The affordability of those rents is dependent on attracting consumers and visitors from the adjacent wealthy suburbs and beyond. Victoria Yards' success in achieving this is due to its authenticity, with the complex representing an ecosystem of occupiers that thrive as part of a community. The success of its social and commercial enterprises is interdependent.

Such initiatives require patient capital to enable them to grow organically and the development's initial success was beyond expectations. Being a consumer-/visitor-dependent enterprise, the pandemic and lockdown proved destructive for its occupier base and the activities of Makers Valley were instrumental in sustaining a sense of belonging to it as a shared "place". This also lowers socio-political risk. Indeed, Chittenden remarked that during the Zuma riots in the summer of 2021, which resulted in looting and the widespread destruction of commercial property, Victoria Yards remained intact, reflecting the value placed on it by the community.

Social impact measurement

Measuring the social impact of the initiative is difficult, not because its pursuits are wide ranging, but because the ultimate target is to "lift" the wider community. Detailed data is collected on the number of individuals in apprenticeships and receiving training in the hub; new business development; developing social enterprises; horticultural training and kitchen gardens;

community kitchens and meals served; and the number of children accessing after school or academic programmes. However, these are considered as outputs and a wellbeing approach is being developed to measure outcomes.

To achieve this, they are undertaking a citizen-led study to identify the issues that are important to local residents for their wellbeing and to devise metrics that measure those factors. Key to the study is identifying the depth of penetration of "lift" in the community, with success measured as the distribution of the benefit, not merely its scale. Naturally, Makers Valley is using this opportunity to identify and develop "Citizen Scientists" to assist in undertaking the research coordinated by a Development Impact Manager, in partnership with an internationally renowned social sustainability consultant and academic.



Victoria Yards, Johannesburg, South Africa.

3.2.2 Operating relationships, social enterprises and required skill sets

Similar to all asset business plans, social impact strategies seek to enhance the experience of their occupants and where relevant, that of the wider local community. This also generates benefits for wider economy and society. In addition to providing physical accommodation, whether a home, retail/leisure space or healthcare, the aim of the impact strategy will be to add value to wellbeing by assisting in bridging gaps related to one or more of the UN SDGs focused on wealth, health, education and inclusion.

Interviewees stressed that activities are not about imposing solutions. Rather the aim is to empower individuals and communities to identify and prioritise their opportunities and challenges, and enable them to create their own solutions. Of course, like all members of society they are receptive to strategies that deliver an emotional experience across the tiers of discernment and self-actualisation. However, impact strategies have the potential to create and restore opportunity. As one interviewee explained, while their social and leisure activities aimed at building community cohesion are valued and well attended, the highest demand is recorded for their personal finance management classes.

Although the strategic approach of intentionally adding value to the experience of occupiers and customers is familiar to developers, investors and managers, most are considerably less familiar with understanding the needs and priorities of the underserved. Institutional investors and managers are unlikely to have the skills and expertise required to deliver social and community aspects of an impact strategy in-house. Therefore, most impact investors identify and partner with established partners with the requisite skills, often NFP entities and/or social enterprises to deliver this operational aspect of the strategy.

Again, although the type of partner may be new, the approach is not. For example, it is common to outsource many aspects of asset management, especially those related to understanding occupiers and customers, the strategy devised to engage them, and the operational management of the asset. However, outsourcing does not mean out of mind. The role and relationship of such operating partners varies with the scale and scope of expertise of the investor or manager, which also varies by sector. For example, most healthcare assets investors and managers require an underlying healthcare operator. For affordable housing assets some investors and managers may have operational real estate management skills in-house but require the assistance of a partner organisation to deliver community services and engagement.

The selection of such operating partners is fundamental to delivering both financial and social returns. Although values are firmly anchored to real estate, the performance of the asset is dependent on the proficiency, efficiency and effectiveness of the operational partner.

Scale and maturity

The scale and maturity of the operating partner varies by sector, market and individual asset business plans. For example, NFP social housing managers are a mature segment within many markets, offering investors and managers the opportunity to partner with organisations that have scale and an established track record. In other more specialist and emergent segments, relevant social enterprises may be evolving alongside the segment, for example for specialist disability accommodation within the community.

As for any relationship with a third party, due diligence is required. This includes assessing the strength of financial balance sheets, track record, anti-corruption checks, regulatory compliance, governance policies and procedures, as well as the credentials of key personnel. Contracts also include non-performance dismissal/dissolution processes.

In addition to interrogating financial and legal considerations, investors and managers must ensure there is an alignment in their vision and goals for the investment with their operating partner. This requires investors and managers to understand the objectives of their operating partner and the business model they employ to deliver on them. As for most operational partner relationships, this requires investor and managers to develop in-depth understanding of an often new discipline.

This challenge may be heightened for community enterprise organisations that – while needing to operate to budget – are more outcome than profit focused. The capacity to build a trusted relationship to underpin what is expected to be a multi-decade business alliance is a key component of success^{viii}.

A number of interviewees and roundtable members commented that the quality of operational partners is especially important for social impact investing given a greater emphasis on sectors that involve higher regulatory and reputational risks. This reflects the fact that underlying occupiers and users often represent more vulnerable groups within society.

Relationship management

Although investment structures may shield investors and managers from exposure, activity in these sectors carries a social responsibility. This requires due diligence to extend well beyond the boardroom and into assessing the quality of service delivery to customers/beneficiaries. A number of investment managers active in healthcare, housing and education sectors have employed sector specialists and former professionals to assist in evaluating and managing partners.

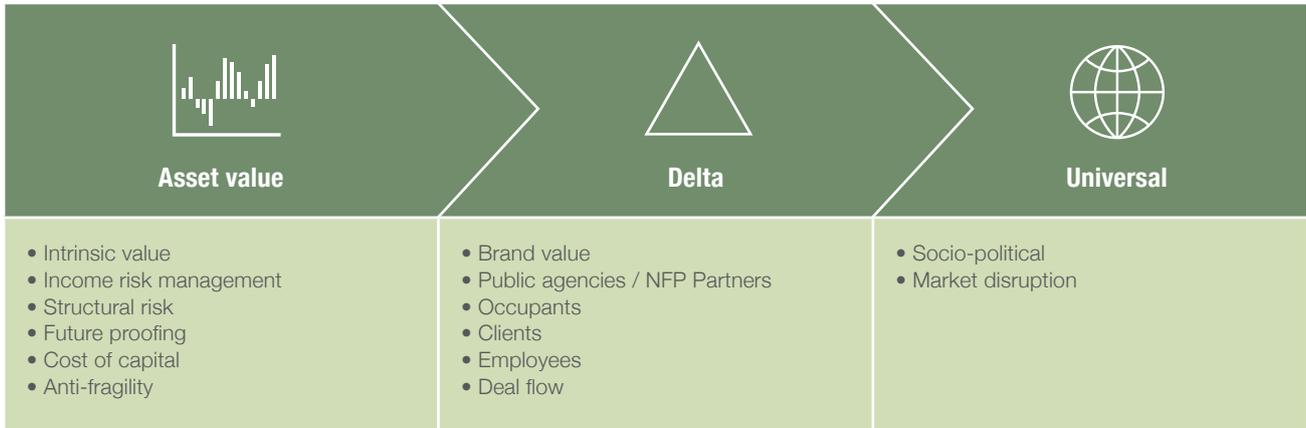
The relationship with partners is not limited to appointing a third party to deliver specific operational services. Investors and managers contribute structuring, finance, risk management and other business expertise to their partners, assisting the durability of their business and potential growth.

Often, investors and managers are able to share concepts and best practice derived from their activities in multiple jurisdictions. Equally, the operating partner may also be able to transfer insights from their wider operations. In particular, operating partners may bring their expertise to the design process, including incorporating potential for alternative use. For example, an interviewee explained that as the sector they were investing in was embryonic, they selected their partner with the intention of assisting the entity to scale their model alongside their investment plan, while their partner's expertise proved invaluable for the design of the specialist accommodation required (see case study 7, Macquarie Asset Management).

As with all operational partners, a strong alignment of objectives is needed to develop trusted relationship with partners and ongoing monitoring and reporting of activities and progress. Being focused on underserved communities, impact strategies often focus on vulnerable groups within society and it is essential that investment structures prioritise the safeguarding of such individuals. As well as enhancing performance, this transforms reputational risk from being potentially deeply negative to being strongly positive.

To this end, social impact strategies are merely best practice development, investment and asset management for assets addressing an underserved audience, whose needs and immediate aspirations remain within the lower tiers of Maslow's hierarchy of needs.

Figure 15: Risk benefits of social impact investment strategies



Source: ULI

3.3 Social impact investment risk and risk management

The alignment of financial and social objectives is key to delivering risk-adjusted returns, with interviewees stressing social impact strategies can enhance rather than act as a cost drag on returns. A range of risk management benefits are provided by those actively engaged in social impact strategies with some variation in attributes by investment sector and investment structure. There are three main categories of risk benefits arising from social impact strategies, namely universal, delta and asset value (Figure 15).

3.3.1 Asset value

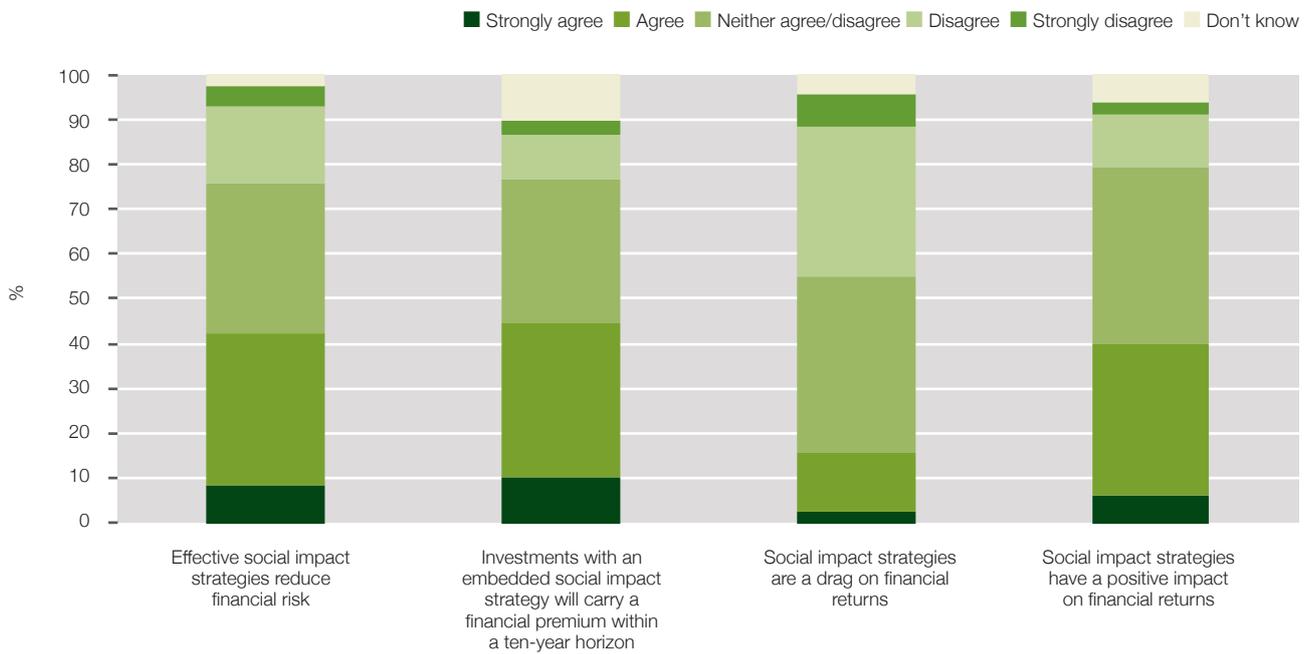
The effect of social impact strategies on the risk associated with the value of the asset vary with investment structure and sector. For example, assets let on long leaseholds to public sector entities have certain income streams, while more directly managed assets often subject to annual lease lengths – for example housing – have a potentially more variable income stream. Assets let on long leases to operators including nursing homes, healthcare, educational providers and social housing provide certain income, but as for many forms of operational real estate, the investors remain indirectly exposed to the underlying operational business. It is therefore essential to understand and monitor operational activity on an ongoing basis, developing trusted business relationships with the operating tenant.

The benefits of social impact strategies improve the intrinsic value of the asset by enhancing net income, reducing exposure to structural risks and ensuring the long-term viability of the asset, including potential capital growth.

For assets with annualised income, good social impact strategies improve residents’ opportunities and in doing so, reduce bad debt, lower churn rates, increase tenant demand, lower voids and in turn, property management costs. This leads to community cohesion, with improved rates of crime and other quality of life indicators. This creates an upward spiral that accelerates demand and leasing, resulting in a wider improvement across the local area, lifting the circumstances of the community (see case study 6, JBG Smith). This also benefits the location and value of the asset.

At the same time, these assets benefit from low volatility, tending to be dislocated from market cycles. This is an aspect often overlooked in respect of social and affordable housing. Residents’ incomes are more resilient to economic shocks simply because they are already low and, therefore, they are not subject to major swings in comparison to top quartile incomes. This provides an anti-fragility quality to income streams as the risk-adjusted return measured as income over income volatility, is robust. This is further enhanced by access to a lower cost of capital that is usually available for such investments through either public or private markets.

Figure 16: Perspective on risk benefits of social impact strategies across wider market



Source: ULI

The survey analysis suggests that these benefits to net income and the certainty of that income, are not fully understood by the market (Figure 16). In contrast to a strong consensus amongst interviewees active in social impact, it is clear that many survey respondents – although weighted towards the risk benefits of social impact – lack knowledge as to the influence of social impact strategies on risk and returns.

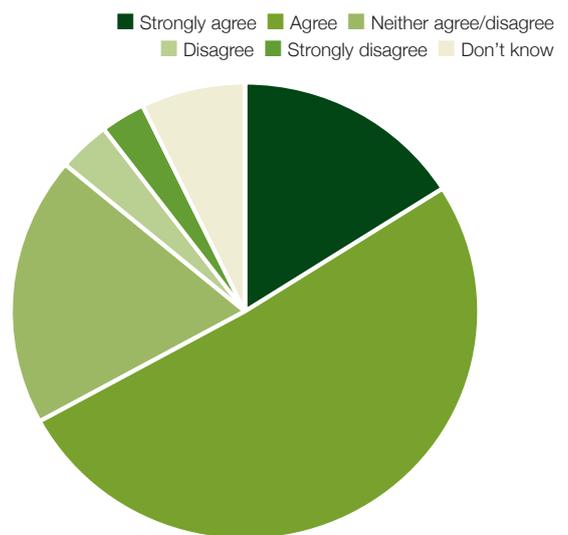
3.3.2 Delta

The term “delta” is used to describe the brand value that is created while undertaking activities. Many of these risk benefits flow to the organisation, rather than to the asset, but are valuable nonetheless. Indeed, in contrast to intrinsic risks, they are recognised by survey respondents (Figure 17).

Public and third sector agencies can be sceptical about the objectives of private sector organisations and potential for alignment. Executing well-designed social impact strategies creates trusted relationships with public and third sector partners, occupiers and

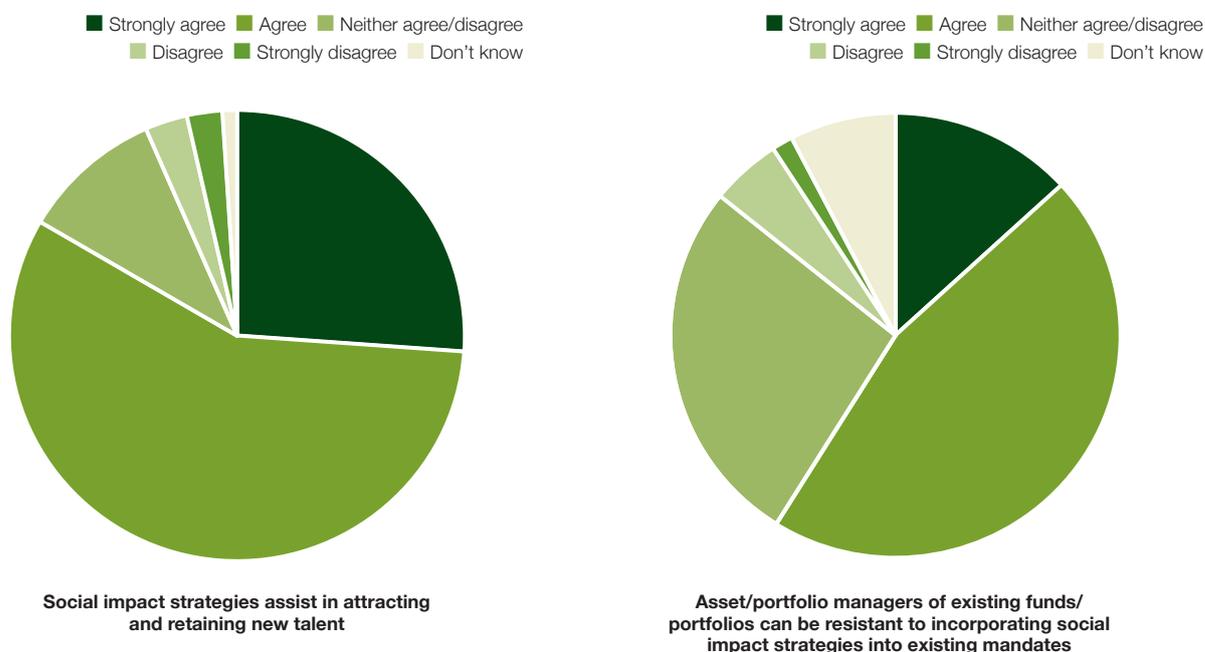
the community. This can improve access to further opportunities benefitting both underlying investors and the organisation. It can also assist in attracting and retaining new clients.

Figure 17: Perspective on whether delta is created through social impact activity



Source: ULI

Figure 18: Respondents' views on the effect of social impact on the talent pool



Source: ULI

Many interviewees working on social impact strategies stated that it has assisted them in attracting and retaining talent, with many millennials eager to pursue opportunities that enable them to contribute to society through their work endeavours. Indeed, across all survey respondents, 83 percent agree or strongly agree that the pursuit of social impact investment activity can assist in attracting new employees (Figure 18).

However, one interviewee said that while it can be beneficial to attracting new talent, it can also be an issue for employee retention, with some existing fund/portfolio managers resistant to incorporating

a new approach. Some 59 percent of survey respondents agree with that. However, a number of managers suggested that leadership from senior management is crucial to embedding a social impact culture throughout the organisation.

This issue was also discussed within the roundtables, with several participants involved in impact investing suggesting that their emphasis is weighted towards environmental issues as their senior management does not understand the value of social impact.

3.3.3 Universal

Allocating capital to social impact strategies also reduces socio-political risks and the potential for market disruption. Indeed, a number of interviewees provided specific examples of how their social impact activity had benefitted their asset and reduced exposure to socio-political risk due to the sense of ownership generated by the community using or living in the asset and the value placed on its contribution to their wellbeing (see case studies 4 and 5). However, reducing socio-political risks and potential for market disruption far surpasses the impact on individual assets or portfolios and has wide-reaching benefits for economy and society.

Several interviewees commented that in some markets the levels of wealth and income polarisation and absence of appropriate housing, education and healthcare for significant sections of society represent significant socio-political risks and potential for market disruption.

Although a survey respondent commented that their organisation trusts “the private sector in a free market economy to make these decisions”, a number of interviewees suggested that their organisations are pursuing social impact strategies because they recognise that if they don’t they are effectively undermining their own business models.

For some, the marketing fundamental of “don’t kill the customer” is being broken as the displacement of local communities through gentrification is creating a skills shortage and depleting both the available workforce for its target occupiers and the customer base. A number of interviewees commented that “the present structure of capital markets is broken, with significant sections of society unable to access opportunities for growth”.

One interviewee contended that this, dislocation of the customer base that feeds the upwards economic growth spiral is culminating in a “disparity of hope” that overrides any disparity of income. Through investing in social impact, such investors and managers aim to restore the opportunity for social mobility. By providing access to affordable housing, health and education, individuals are provided with the capacity to reach their potential. This also stabilises wider economic growth models.

“Reducing socio-political risks and potential for market disruption far surpasses the impact on individual assets or portfolios and has wide-reaching benefits for economy and society.”

CASE STUDY

5

Turner Impact Capital and charter schools



Charter school in the US.

Turner Impact Capital (TIC) together with its joint venture partner, former professional tennis player Andre Agassi, recently launched its third Turner- Agassi Education Facilities Fund (T-A). The overriding aim of increasing upward mobility in underserved communities in the US by delivering the real estate required by charter schools to grow and thrive. TIC is an early pioneer within social impact in real estate. To date, its education strategy has developed/committed to develop facilities for 120 high performing charter schools with over 59,000 annual school seats and at the same time, delivered a market rate return to underlying investors.

Upward mobility

The US is underperforming many developed countries for educational outcomes and this underachievement is most pronounced in low-income communities. TIC CEO Bobby Turner maintains this education gap creates a “disparity of hope”, with upward mobility amongst the lowest income groups in the US effectively being unjustly diminished. He contends that this is not merely a risk to the individual, but instead represents a societal – and ultimately, economic – risk to the US.

Charter schools are independent public schools which are not governed on a day-to-day basis by traditional district school boards. Typically modelled to incorporate both smaller class sizes and smaller overall campus enrolment, they embrace innovation and student-focused education within safe, academically friendly campus settings. The best charter schools significantly outperform their district peers, exhibiting particular strength in urban environments, serving students representing the global majority, especially in foundational subject areas such as English language, arts and mathematics. The longstanding performance and reputation of such schools have led to a waiting list nationwide of over 1.2 million students, with sizeable, as-yet-unmet demand coming from underserved families previously resigned to enrolling their children in chronically underperforming big district schools.

Operating independently from traditional school districts means that charter schools are not provided campuses funded by district bond programmes. As a result, charter schools are responsible for securing their own facilities, leading to many schools being accommodated in suboptimal environments which hinder their performance and ability to grow.

Turner Impact Capital and charter schools

Harnessing the forces of capital markets to first acquire and develop build-to-suit facilities and then lease these cutting-edge campuses to qualified school operators with an embedded forward sale optionality is an opportunity to deliver social impact at scale while generating superior risk-adjusted financial returns.

The social impact model

The social impact approach is built on a clear theory of change: providing access to quality education affords students an opportunity to realise their greatest potential and, in the process, acts to improve the greater community by restoring opportunity, purpose and hope. Additionally, Glenn Pierce, President of TIC's Education Initiatives, commented that T-A's experience has been that "a rising tide floats all boats". A quality education incorporates science, technology, math, and English, and restores access to the arts, music, sports, and nutrition. Providing access to quality education forces all educational providers in a community to effectively "up their game." TIC outcomes are fully optimised when newly created, high-performing charter schools function as a flywheel, creating competition where there was none before and thus raising the standards and expectations of community leaders, parents, and students.

The T-A process involves identifying a best-in-class charter school operator. The fund seeks to minimise risk to both social and financial returns by partnering with educational leaders having a history of success in the sector. The fund management team is comprised of financial professionals, but also includes seasoned educators and charter school managers who assist in scrutinising the quality of potential partners beyond the financials established in the boardroom, delving deeply into the quality-of-service delivery in the classroom.

New campuses are created through both ground-up development and the adaptive reuse of existing structures. In both cases, the campus buildings are designed to facilitate the optimal delivery of curricula per the stated pedagogy of the respective school tenant. T-A brings best practices in design, construction methodology and environmental sustainability, while always adhering to the realities of each school's affordability threshold driven by its funding sources and operating model.



Opening of a charter school in the US.

The financial model

As the lessor, the fund provides 100 percent of the cost of development, which is memorialised in a 30-year, triple net lease. Rent payments commence with occupancy, which mirrors the receipt of the school's initial state and local funding payments. Going forward, rents typically increase in lock step with increases in enrolment as lessee schools grow and add more students and grade years to their respective programmes. By the end of the third year of operations, enrolment and contractual rental income have usually stabilised. As each school achieves non-profit 501(c)(3) determination by the IRS, they have access to the tax-exempt bond market once they achieve this level of stabilisation. This provides long-term facility financing to enable each school's purchase of its campus from T-A. Over the last decade, 97 percent of the fund's client schools have successfully acquired their campuses.

In support of these efforts, and its alignment of mission, the fund is quite active throughout the tenancy in helping school leadership boost enrolment and capital reserves through onsite events and fundraising support. The overriding goal is to "bridge" high-performing charter schools until such time that they can obtain fixed-rate financing in which debt service payments represent a diminishing share of each year's budget as enrolment grows and the per pupil revenues increase over time.

Turner Impact Capital and charter schools

From a financial perspective, Bobby Turner maintains that the approach is a simple value investing opportunity that “capitalises on the unmet demand for quality educational facilities in underserved markets that are more difficult to underwrite and, like all real estate opportunities, require unique skills to identify, quantify and mitigate risk.”

The financials are straightforward, with the 1.2 million pupils seeking a charter school seat carrying funding that ranges between \$10,000 and \$20,000 per seat, representing an average \$18 billion potential income stream per annum. With funding provided by the states, the return provides a significant premium over 10-year Treasury bonds and, given the weight of unmet demand, volatility risk is low.

Additionally, being dislocated from market risks, the investments have anti-fragility characteristics in respect of extrinsic shocks. On a risk-adjusted basis, the model provides a superior market return.

Social impact outcome

The primary social impact measure employed is a benchmark of each school’s performance relative to that of its peers in the relevant district. These criteria include educational outcomes, attendance, and dropout rates. Among schools developed by the T-A funds, 75 percent academically outperform peer schools in their district. This ratio is expected to increase further as the most recently developed schools become more established. In terms of school enrolments, over 80 percent of pupils represent the global majority in terms of ethnicity and race, and 60 percent are entitled to free or subsidised support for school meals.



Charter school in the US.



Classroom in a US charter school.

While it is difficult to isolate the impact of the investment from other factors, the provision of high-quality educational facilities in underserved communities also contributes to improvements in community cohesion and crime prevention. For example, one of the fund’s earliest investments was adjacent to the Woodland Terrace Project in Ward 8 of Washington, DC, which has one of the highest crime rates in the US. Since the opening of the school, violent offences have fallen by 40 percent and, being valued by the community, the school has not been subject to any form of crime. Moreover, the additional lighting and security also improved the safety of the local vicinity.

4

Capital sources: appetite, opportunity and challenges

Central Market, Hong Kong SAR, China.

4.0

Capital sources: appetite, opportunity and challenges

KEY FINDINGS

- Investor and investment manager interest in social impact real estate is accelerating.
- Millennial HNWIs and large European institutional investors have the strongest appetite amongst investors, while among investment managers, those with proprietary capital are most active.
- There is also regional variation, with interest in social impact strategies strongest in Europe, followed by the US and lowest in Asia.
- There are a number of issues embedded in the structure of industry models for capital allocation that are acting as an impediment to growth for smaller and medium-scale investors and some foundations.
- The profile of impact strategies often offers blended returns across development, stabilisation, and income phases, providing long-term certain income streams that require a longer-term investment horizon duration. This can result in these strategies falling between the stools of low-risk income and liquidity versus high-growth illiquid investments.
- Similarly, silo-based approaches to capital allocation, particularly those that include real estate impact in an asset class-wide ESG silo, rather than in a real asset allocation, can result in these often cross cutting strategies being overlooked.
- The public sector is an important, often hidden, enabler of social impact investing. Policies have an important influence on the structure of social impact investment, which varies across different jurisdictions.

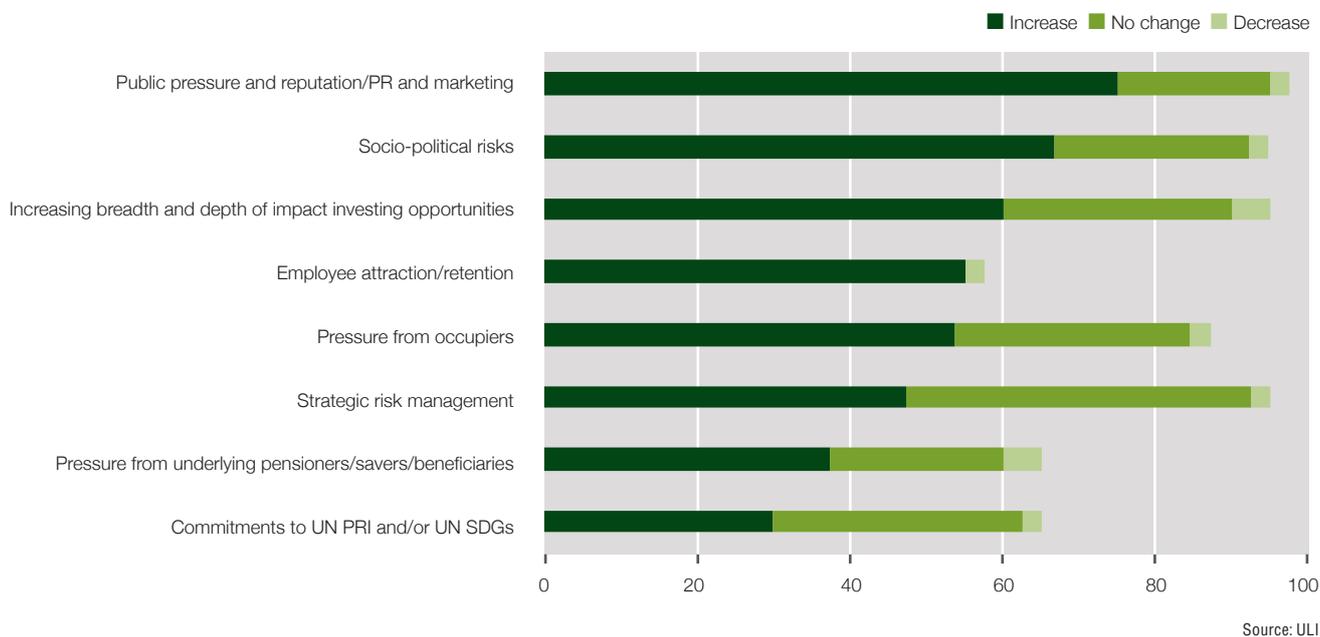
Currently, the real estate social impact universe is small whether measured as one percent of all social impact investment globally^x, or as a miniscule percentage of all institutional real estate investment which is estimated at over \$14.8 trillion^x.

However, activity is accelerating as knowledge, understanding and acceptance of the financial and social benefits delivered is more widely shared. This is supported by the survey findings which indicate that

68 percent of investors and 97 percent of investment managers expect their social value and/or social impact activity to increase over the next three years.

Indeed, 68 percent of investors also reveal that the opportunity to effect social impact is influencing allocations to real estate within the organisation, while 56 percent suggest it is also shaping sector allocation.

Figure 19: Underlying drivers behind increase in social value and/or social impact activity for investors



The reasons for this acceleration are multi-faceted. Investors indicate that public pressure and reputation is the leading factor, closely followed by socio-political risks (Figure 19). This underscores the importance of impact strategies in reducing extrinsic risk and socio-political risks associated with investments, and the potential to create delta for the organisation.

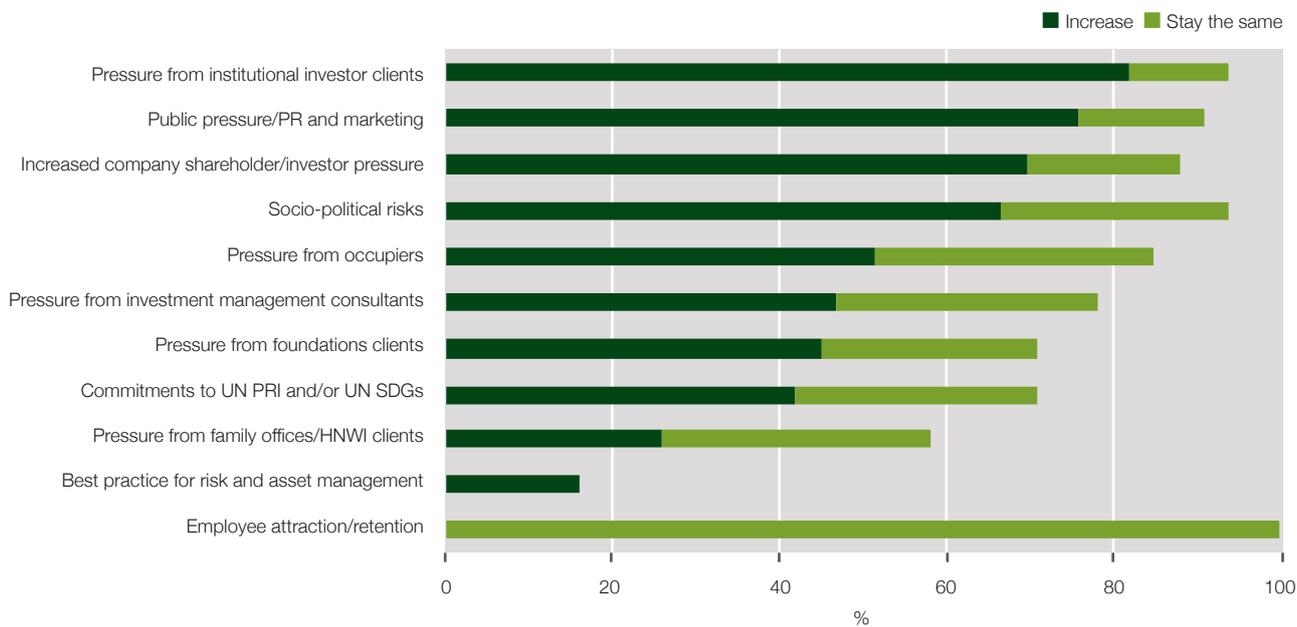
Similarly, in addition to pressure from institutional investor clients, investment managers indicate that increasing impact activity reflects best practice risk management of their portfolios and also highlighted the role of public pressure (Figure 20).

This increase in activity is itself creating an upward spiral with investors indicating that an expanding market of opportunities is also stimulating growth.

Investor appetite and attitudes to social impact investing were considered through both the survey and interviews and indicate differences in investor appetite by source of capital, organisational scale and geography. Analysis of these findings suggests that there are three key issues influencing capital allocations to social impact investment, namely a mismatch of investment style and duration, scale and allocation models and socio-political context.

“ The increase in social value/impact activity is itself creating an upward spiral with investors indicating that an expanding market of opportunities is also stimulating growth. ”

Figure 20: Underlying drivers behind increase in social value and/or social impact activity for investment managers

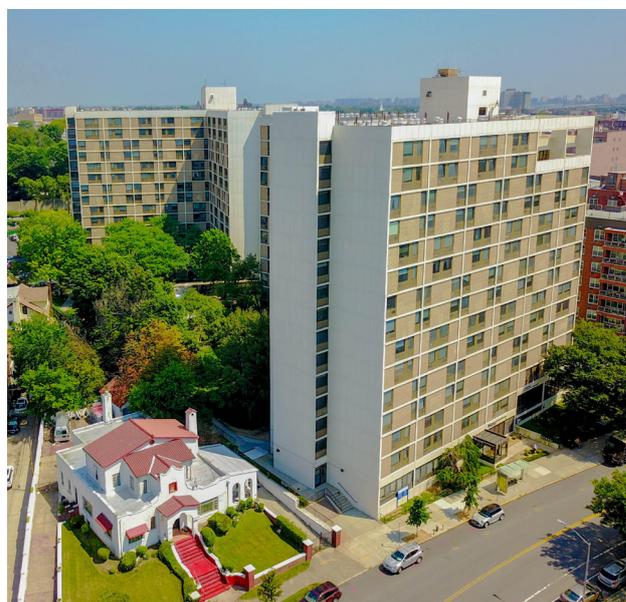


Source: ULI

4.1 Investment style and duration

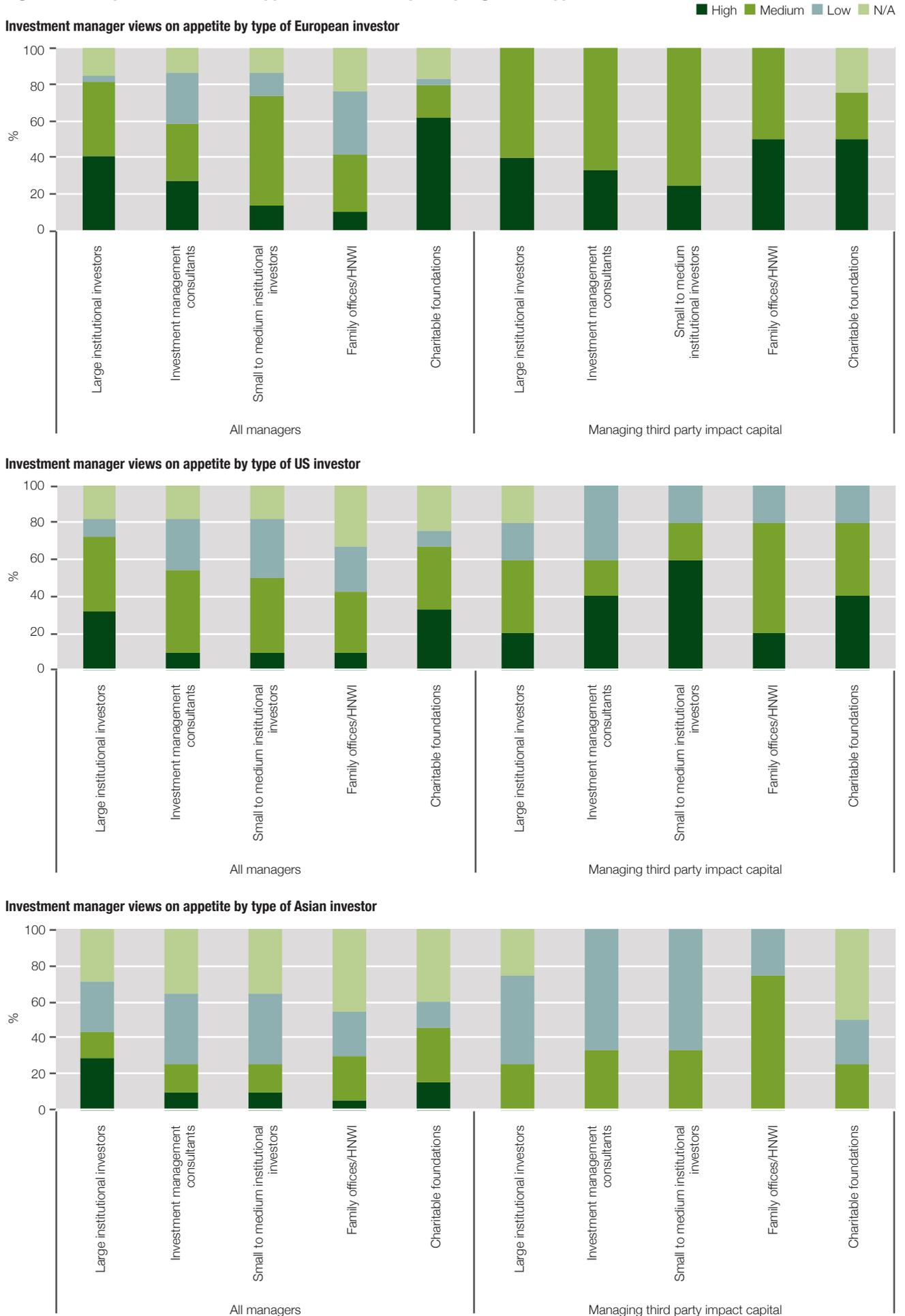
There is strong consensus amongst interviewees that family offices/HNWIs and large European institutional investors – predominantly Dutch – have the strongest appetite for social impact investing strategies.

There is also broad agreement on the lower appetite from foundations and smaller- and medium-sized institutions, especially those using third-party investment management consultants. Ostensibly, this seems counter intuitive given the underlying charitable objectives of foundations. This is supported by the results of the survey analysis, with those active in managing impact capital indicating a higher weighting for family offices/HNWIs, although differences are less pronounced than within structured interview discussions (Figure 21, page 57).



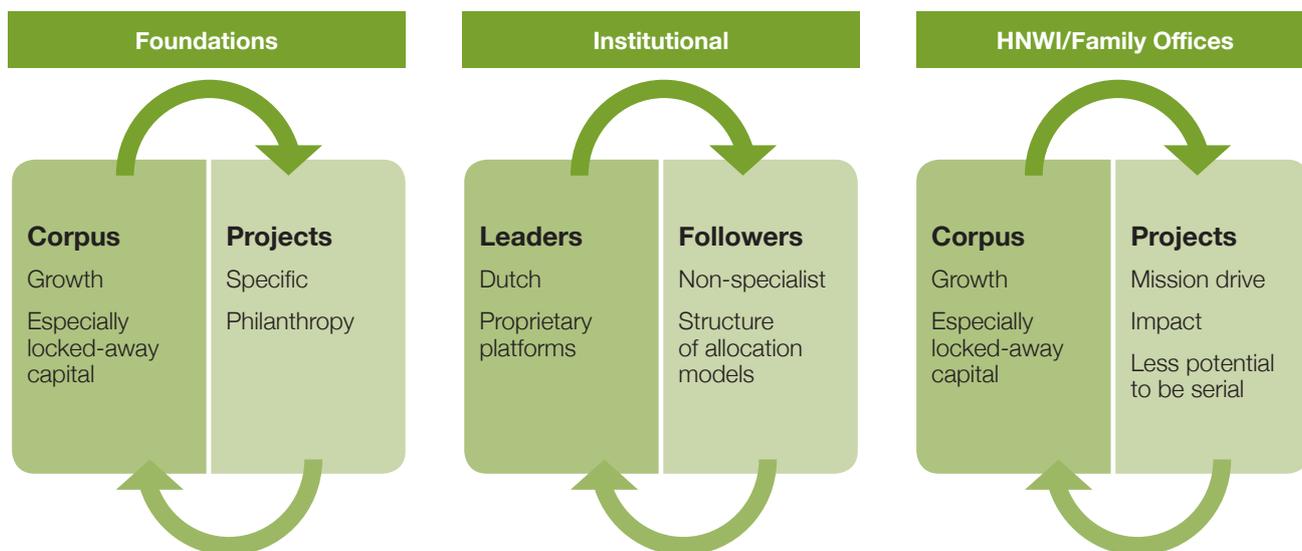
Affordable housing, Brooklyn, New York, US.

Figure 21: Perspective on investor appetite for social impact by region and type of investor



Source: ULI

Figure 22: Investment objectives and structure by investor type



Source: ULI

Interviewees suggested a number of factors underlie these differences in appetite by investor style, which are principally related to investment objectives and organisational structures (Figure 22). Interviewees indicated that amongst family office/HNWIs, especially millennials, there is a desire to invest a substantial proportion of their capital in strategies that enable them to invest with purpose and thereby do well by doing good. Although this type of investor often seeks growth over income strategies, investments may also be mission driven.

Traditionally, most foundations have been effectively divided into an investment and a philanthropic division, with these divisions generally operating in isolation to each other. Foundations usually seek to at least retain the value of their endowment, or donations and legacies in real terms. This principal capital forms the capital base and is commonly referred to as the corpus. Philanthropic activity is funded through the excess returns of investments made with it.

The investment division's overriding objective is to grow their corpus to enable it to continue funding projects into the future. Although such portfolios are diversified in terms of risk, lower-risk income investments tend to

be liquid. More illiquid investments requiring capital to be locked away over a longer-term investment horizon are growth orientated and more opportunistic in terms of risk and return characteristics, with private equity sectors other than real estate currently favoured. The philanthropic division is often focused on funding specific projects. Often, it does not necessarily seek a financial return on its capital and while it is therefore a component of the spectrum of social value, it is not defined as impact investing (Figure 2, see page 14).

Despite the alignment of overarching aims between foundations and social impact strategies, their structure often results in a mismatch of capital and investment requirements. Social impact real estate investment opportunities are generally structured to deliver secure income at a market rate risk adjusted return rather than growth. Often responding to chronic undersupply, they sometimes also require development and as a result may offer income or income and growth (Figure 13). However, they require capital to be locked away to embed the strategy and achieve income stabilisation. As a result, they do not match the investment objectives of the investment division.

Equally, real estate impacting strategies are often wide reaching in their scope by geography and/or sector and are structured to balance the delivery of a market rate financial return alongside a social return. Although the aim of impact investing is to greatly expand the range of capital delivering social benefits, it often fails to match the specific objectives of the philanthropic division.

Institutional investors should have a more natural alignment with social impact investing, with mature pension funds and insurers seeking investments that offer long-term, secure income streams. Most institutional investors are signatories to the UN PRI and, as universal investors, are able to take a more holistic account of risks, including extrinsic risks to their wider holdings such as environmental and social factors.

Large institutional investors are identified in both the survey and among interviewees as making a strong contribution to the investor base, particularly Dutch institutions. However, those managing impact investments indicated low allocations from small- and medium-sized institutions.

Investing approach

Interviewees identified two reasons for low capital allocations from small- and medium-sized institutional investors. First, many large institutions have established proprietary real estate platforms and are investing either directly or through joint venture partnerships (JVs) and/or club deals with other investors and NFPs, integrating impact strategies across their real estate portfolios.

Previously, the presence of large investors in non-listed or listed vehicles acted as a signal to smaller institutions which often lacked the critical mass to justify a specialist real estate team. The reduced presence of large investors in non-listed removes signalling to smaller entities and reduces their confidence.

Second, smaller institutions often rely on third-party investment management consultants to advise on their allocations. Interviewees identified the structure of the allocation models employed by many such advisors as being a major impediment to the acceleration of real estate impact investing.

4.2 Investor scale and allocation models

The structures of allocation models, combined with a limited understanding of the difference between ESG, SRI and impact strategies has unintended consequences for allocations to real estate impact investments.

Conventionally, allocations to real assets have been divided into separate silos for debt, real estate, infrastructure (including social) and private equity. Over the past decade, large investors have reconfigured their structures to allow for the blurred boundaries between these asset classes and developed a matrix approach that enables assets to be compared across sectors by their risk return characteristics^{xi}. For example, the risk-adjusted return from senior debt investments can be directly compared with that of core real estate, and mezzanine finance with private equity real estate. With this model, ESG and SRI strategies are integrated into all steps of investment decision-making.

Such institutions have embedded SRI into their mission values and defined their objectives and targets at an organisational level. These are then cascaded throughout their business divisions and embedded in all activities through the allocations of capital to asset classes and its deployment within them.

In addition, a more matrix-based approach to asset allocation within asset classes driven by risk profile characteristics enables these investors to blend investment objectives over the investment horizon of an asset. This holistic approach at an organisational, portfolio and individual asset level enables them to allocate capital to investments which are not merely long duration, but that are anticipated to have a risk profile that evolves from growth to secure income over the investment horizon. For such investors, investing directly and retaining control, while at the same time aligning impact goals to their organisations strategic targets is beneficial.

The same is – or should be – possible with impact investing opportunities being able to be considered within the real asset allocation rather than as a separate allocation. It is noteworthy that some interviewees and roundtable participants are questioning whether it is really possible to create impact through environmental strategies in isolation as the industry moves further towards developing and managing to net zero as simply best practice.

If embedding a social impact approach into real estate strategy is to evolve into being best practice, it needs to be viewed as a strategy within the real assets allocation, not as a real estate strategy within an ESG allocation. Equally, allocation models need to evolve from viewing investments as income or growth strategies and instead, have the capacity to consider investment opportunities offering an anticipated change in risk profile through an investment horizon.

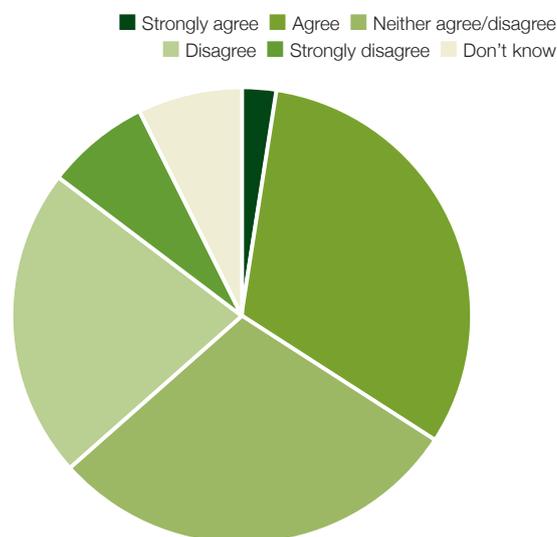
In contrast, the majority of small and medium scale investors and their investment management consultants continue to adopt a more silo-based approach to allocations. Impact opportunities often fall within a broad ESG silo that is a separate allocation to real estate debt, real estate, infrastructure and private equity real estate. Survey respondents reflected these different approaches with roughly a third of respondents in favour of a separate allocation and one third against, with the remaining respondents being less certain (Figure 23).

Approaches differ, but generally social impact investment opportunities are somewhat lost when bundled into a silo that cuts across all investment classes, all risk categories and that covers the spectrum of ESG strategies ranging from do no harm to impact objectives.

A number of interviewees remarked standardised tools are ineffectual for such a diverse base. This is often coupled with a lack of knowledge among allocators and/or their consultants of the spectrum of responsible, sustainable and impact investing approaches, and between market rate and sub-market rate impact strategies across allocators. Social impact is particularly poorly understood.

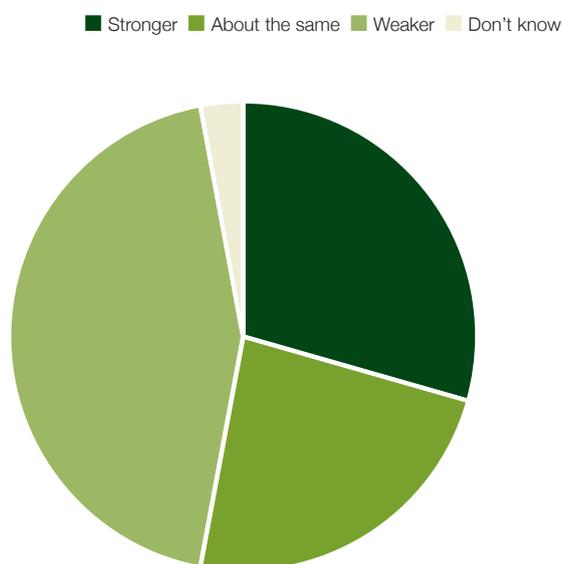
Allocations within ESG silos are often based on simple screening approaches. Within real estate and social infrastructure, the diverse nature of social impact outcomes makes it difficult to use a defined set of metrics for rating purposes (see section 5). This contrasts with environmental impact strategies which while varied, tend to focus on more uniform targets related to resource efficiency and reduced emissions. As a result, social impact investments tend to be somewhat overlooked in the allocation process relative to environmental impact strategies. Indeed, the survey supports this suggestion with 44 percent of investment managers indicating that across all investors the appetite for social impact is weaker than for environmental (Figure 24).

Figure 23: Perspectives on whether social value and/or social impact investments should be a discrete allocation



Source: ULI

Figure 24: Perspective on how appetite for social impact compares to environmental impact



Source: ULI

Such siloed allocation models are a source of frustration to impact managers who contend that as their strategies offer a market risk-adjusted return they should be considered side by side with real estate and/or social infrastructure investments.

Indeed, one interviewee explained that investment management consultants had analysed the risk return profile of an impact fund and had commented that from a real estate perspective it delivered a strong risk-adjusted return. However, as it had an impact fund wrapper it fell outside the investment universe they could consider.

In this context, although it ensures that social and financial returns are considered throughout the investment process, having an impact wrapper on a strategy can itself be an impediment to raising capital where investment opportunities are not shared across asset silos. However, the survey analysis indicates that 67 percent of investors and investment managers consider an impact wrapper to assist the investment marketing process, perhaps reflecting the greater knowledge base and appetite from larger investors.

Added to the unintended consequences of silo allocation models is the knowledge deficit many of the clients represented by investment management consultants have in respect of real assets.

Being smaller in scale, such organisations often lack resource and expertise in real estate and infrastructure that comprise a relatively small proportion of their overall holdings. The smaller scale also means the real asset investment class is often less well understood than equities and debt. Yet, as financial intermediaries these organisations are usually signatories to the UN PRI and active in their implementation, including real estate. For example, a number of smaller institutional investors recently launched the GREEN initiative in the Netherlands as a vehicle to allow such investors to come together and through their critical mass, more effectively exert their cumulative influence to accelerate the progress of listed real estate investment trusts and companies towards net zero.

In recent years, investment strategies have expanded to include a wider range of real estate sectors that require operational expertise, including healthcare, education and many forms of residential from student to social and affordable housing. It was suggested by interviewees that many smaller institutional investors, often represented by management consultants are already struggling to understand the greater complexity of the real asset investment universe. Social impact investing adds yet another layer of intricacy. With alternatives comprising a relatively small share of portfolios, the sectors also tend to be a lower priority in efforts to educate and/or apprise investors of investment market trends.

These differences in investor scale and approaches to asset allocation are resulting in a two-tier market in respect of impact investing generally and of social impact in particular. This has important ramifications for social impact investing as small- and medium-scale institutional investors are important to the acceleration of social impact investing given their aggregate share of institutional capital, the greater alignment of underlying investment requirements with social impact investment risk profiles, and the capacity for such capital to be revolving.



Victoria Yards, Johannesburg, South Africa.

4.3 Socio-political context

Investor appetite for social impact investing also varies across geographic regions. Interviewees from every region broadly agreed with the sentiment expressed by one manager that “social impact strategies are most appreciated by European investors and appetite diminishes as you move west from there, around the globe” (Figure 25). This is also indicated in the survey results which demonstrate the strength of appetite for impact investing by region (Figure 21, see page 57). However, it was also commented that within regions there are also notable variations in investor appetite at the country level. Interviewees explained that to some extent this reflects socio-political and socio-cultural differences, particularly in relation to whether the responsibility for social infrastructure lies with the public or private sector and related taxation systems.

In much of developed Asia and some European countries, the provision of social infrastructure including healthcare, education, social and sometimes affordable housing is the responsibility of the public sector, supported by relatively higher rates of personal and corporate taxation. In such markets, there is less opportunity to create social impact real estate investments in these sectors and the need is generally less acute.

In addition and in contrast to environmental issues, social infrastructure and related social concerns are considered more of a local than a global issue. Presented with real

estate opportunities in other regions, there is a general disinterest in investing in social impact strategies that “solve the social issue of another country that they consider as the responsibility of the government, public sector, and tax systems”.

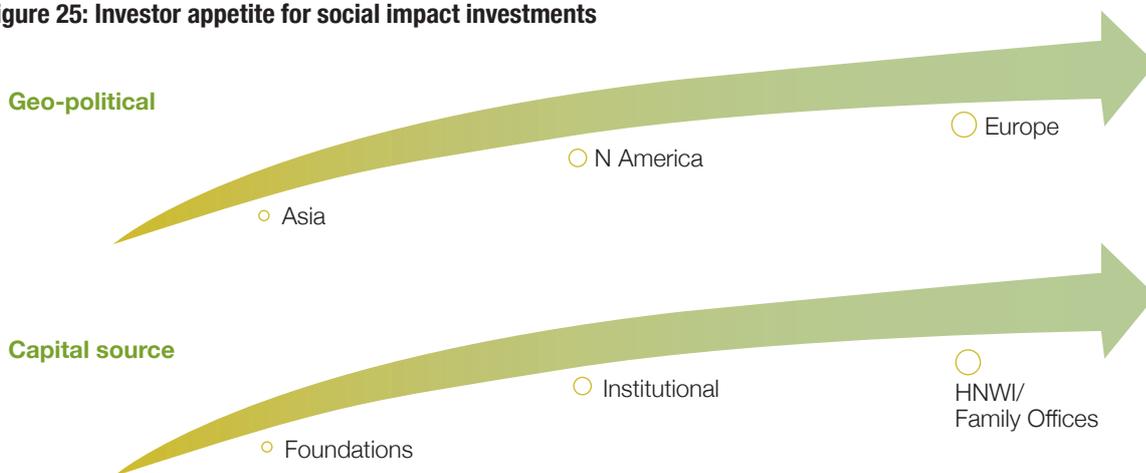
Global challenge

However, a number of interviewees considered that this standpoint fails to identify both the global challenge and the benefit of the investment opportunity. The socio-political and socio-economic risk of wealth polarisation and inadequate access to housing, healthcare and education in any country has global ramifications for political and economic stability.

Equally, the impact investment opportunity offers market rate returns, de-risked by the impact strategy and often supported directly or indirectly by public funding. Therefore, investors should relish the opportunity to invest in another country’s social infrastructure, especially when benefiting from a proxy government bond while at the same time, lowering the extrinsic risk of socio-political economic breakdown from its wider portfolio.

In Europe, social infrastructure has traditionally been provided by the public sector, with the private sector largely responsible for the provision of commercial and private residential real estate. To some extent, the real estate sector may be viewed as providing the infrastructure required for business and other commercial enterprises to thrive.

Figure 25: Investor appetite for social impact investments



Source: Research interviewees

In short, conventionally social infrastructure assets could be viewed as public real estate, and private real estate as commercial infrastructure. Following the global financial crisis (GFC) and the subsequent recessionary conditions, many European countries faced pressure on public finances and sought private sector participation to manage and expand the social infrastructure required to deliver public services.

This requirement has been reinforced by the pace of urbanisation expanding Europe's major cities and more recently, the Covid pandemic which as well as putting further pressure on public finances has highlighted disparities in access to quality, housing, healthcare and education. Investors and investment managers welcomed the opportunity to access investment opportunities that generated secure, often government backed long-term income. This provides the opportunity to overlay impact investing strategies that have the dual benefit of de-risking assets and delivering positive social outcomes for the benefit of both individuals, their community and wider society.

In the US, the socio-political context is that of a relatively low taxation free market economy, characterised by high income and wealth polarisation relative to other developed nations. The provision of social infrastructure and public

services is complex. Assets often held in private ownership or in a trust with access to healthcare and housing for low income and other marginalised groups supported by a system of federal and state tax reliefs, exemptions and personal payments/stamps.

The 1977 Community Relations Act was introduced to encourage regulated financial institutions to deliver services to underserved populations. Institutions investing in qualifying investments in community development activities such as low income, affordable, school buildings and healthcare are awarded tax credits at the federal and/or state level subject to certain criteria being met (for example, see Low Income Housing Credit, below).

The effect of these tax credits is to level the playing field in the market, enabling developers and particularly longer-term investors to compete in the market by trading off tax credit benefits against below market rate rental levels (See case study 3, Nuveen; and 6, JBG Smith, which illustrate their role in impact investing). They are an important enabler of impact activity, particularly in low income and affordable housing. However, depending on the structure of the investment, the system may be less successful in attracting tax exempt and non-US domiciled investors.

Low Income Housing Tax Credit, US

Developers and owners seeking to qualify for Low Income Housing Tax Credit (LIHTC) must adopt tenancy, rent and duration criteria that meet one of the rent to area median income (AMI) tests:

Tenancy threshold

1. A minimum of 20 percent of total units provided to occupiers with an income of up to 50 percent of AMI.
2. A minimum of 40 percent of total units provided to occupiers with an income of up to 60 percent of AMI.
3. A minimum of 40 percent of the units provided to occupiers with an income up to 60 percent AMI, and remaining units provided to occupiers with an income up to 80 percent of AMI.

Rent threshold

The gross rent received must exceed 30 percent of the threshold AMI used.

Duration

LIHTC projects must comply with the tenancy income and rent tests for 15 years.

5

Approach to social impact investing

Affordable housing, Washington DC, US.

5.0

Approach to social impact investing

KEY FINDINGS

- Although investment approaches and processes vary and are often bespoke to organisations and/or specific funds, there is a commonality to social impact real estate frameworks and processes.
- Measurement of social outputs and social outcomes is crucial, as in contrast to environmental impact strategies, social impact strategies do not lend themselves to having a common metric that can be applied across all sectors.
- Monetisation is useful where it is appropriate and there is a direct line of sight between impact activity and financial goals, however, it should not be a tail that wags the dog.
- Third party validation is an important part of the social impact process.

There is a wide range of social impact frameworks and tools available to assist investors and managers in the design, execution, management, measurement and validation of social impact strategies. ULI's previous *Zooming in on the S in ESG* report provides a detailed review of available methods, explaining their relevance to certain aspects of the process and the linkages between them^{xii}. This research builds upon this earlier study by examining how real estate investors and managers are approaching social impact investing and how they are selecting and applying available tools to assist them.

5.1 The impact process

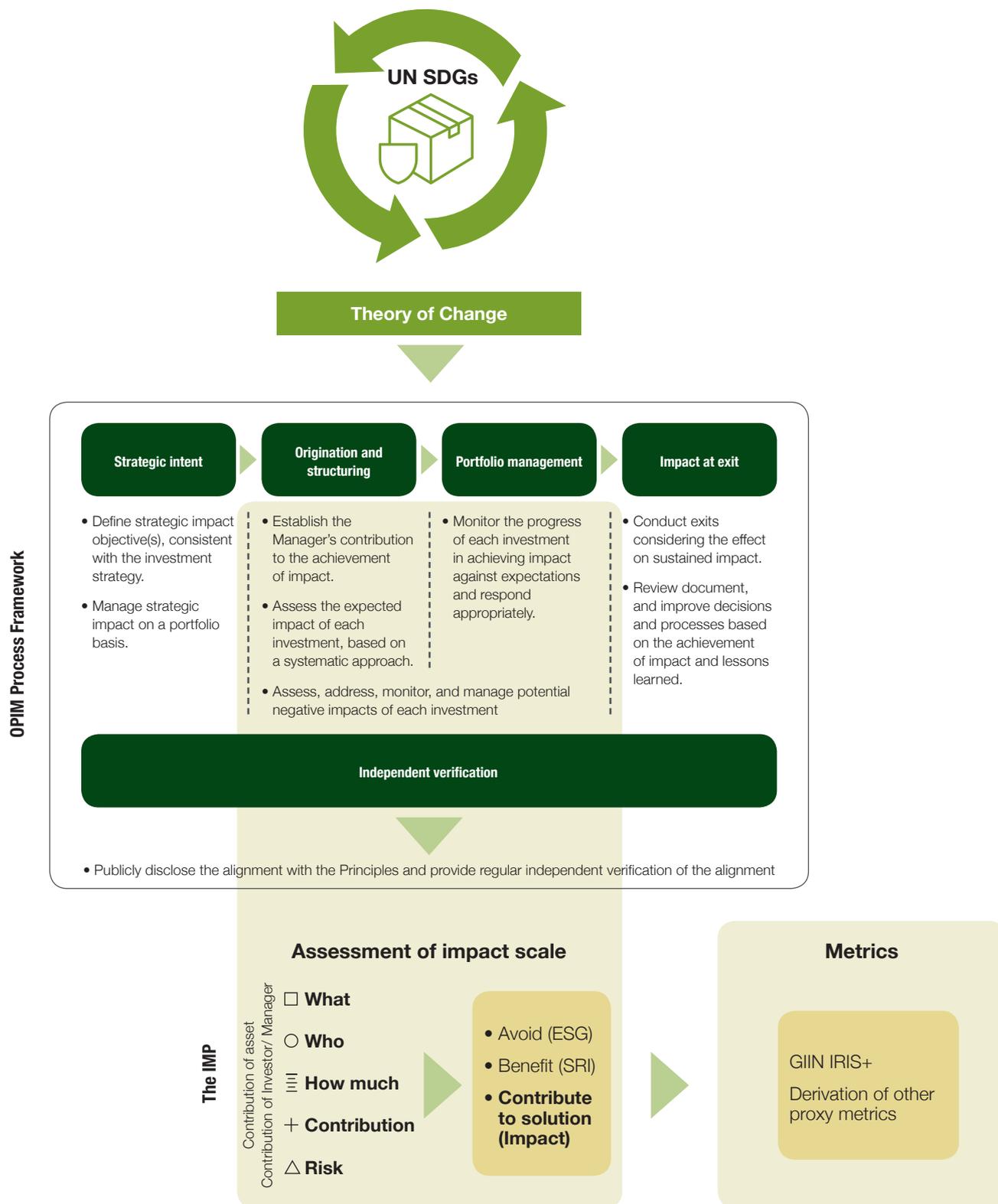
Although interviewees varied in their approach, there is generally strong consensus as to the overarching frameworks and processes applied, with interviewees tailoring them to the specific impact strategy being pursued. Although approximately half of respondents have developed in-house impact models – especially in respect of measurement – there remains a commonality across these more bespoke models.

Figure 26 (page 66) illustrates the broad approach to the design, process and measurement of social impact investing. Most interviewees first align their capital allocation with at least one – and usually multiple – UN SDGs. As many impact investments are environmental as well as social in their objectives, these may be cross-cutting. A theory of change model is then developed, which simply sets out the thesis of the change the investor or manager seeks to effect through their allocation of capital and supporting activity.

For example, that through allocating capital to create educational facilities, a larger number of children will be able to access a quality education, resulting in higher completions rates and educational attainment, enabling improved employment prospects and life opportunities, and raising the quality of the educational services across the local area.

These ambitions can be grounded in existing research and/or case studies of similar impact approaches. The impact investing industry encourages stakeholders to adopt an open source, collaborative approach to their social impact activities. This knowledge sharing and group thinking assists in extending the reach, penetration and success of targeted outcomes, as well as identifying relevant and accurate metrics for measuring them.

Figure 26: Impact investing framework and measurement tools



Source: Adapted from ULI (2021), International Finance Corporation (2019) and The Impact Management Project (2018)

The investment process is designed to integrate, manage, monitor, and adapt the impact strategy into the investment strategy from acquisition through to exit strategy.

For investment managers whose business is focused entirely on impact investing and on strategies that are solely focused on meeting the needs of underserved groups, interviewees suggested there is less of a formal adoption of an impact process.

However, exploring their approach reveals that the absence of differentiation is because it is simply how they approach all investment and it underpins the mission of the entity. Often, interviewees within these organisations centre on developing and adapting a theory of change against measured outcomes, and ensuring social impact endures post exit.

A more formal impact investment process that is distinct from other processes employed is usually adopted by organisations that have either a range of funds/investments that include, but are not limited to, impact. Similarly, organisations that solely adopt impact strategies may use a more specified approach where its activity cuts across a wide audience with an emphasis on ensuring the inclusion of underserved segments.

Although many interviewees follow the Operating Principles for Impact Investment Management (OPIM) framework established by the International Finance Corporation (IFC), others use it as a reference point to ensure they have effectively integrated impact into their existing or bespoke impact investment process.

The OPIM is based on seven principles that span four dimensions: strategic intent, origination and structuring, portfolio management and exit. Each has independent verification and disclosure of alignment to the principles at appropriate intervals.

The IFC developed the framework in consultation with the Investment Management Project (IMP) and the Global Impact Investment Network (GIIN) and as a result, there is a strong alignment between the OPIM and established tools for measuring impact (the IMPs Five Dimensions of Impact and Impact Class System), as well as outputs and outcomes (the GIIN's IRIS+ database of metrics aligning to the UN SDGs).

The measurement of potential impact evaluates the additionality of the strategy. It is not a measure of all the social value created, rather it estimates the net social value that is generated through pursuing an impact strategy. Often this can be isolated by considering the counterfactual, that is, if an impact strategy had not been pursued what elements of social value would not have been delivered. The scale of social impact delivered can be measured by variables selected as metrics. Sometimes these can be derived directly from the activity and sometimes proxy metrics may be necessary, based on an established and evidenced relationship.

Outputs often tend to describe the reach of an activity, and outcomes attempt to measure the impact on the lives of the people the strategy is trying to benefit. For example, without the impact strategy the affordable housing would not have been preserved. The output is the number of additional affordable housing units preserved (see case study 6, JBG Smith).



Specialist disability housing, Australia.

CASE STUDY

6

JBG SMITH, FC2 and the Washington House Initiative



Affordable housing, Washington DC, US.

While its placemaking activities were having a positive impact on the desirability and financial value of the wider neighbourhoods in which it operated, JBG SMITH Properties (JBGS), the largest listed property development company in Washington DC, saw that the gentrification also raised two inter-related social risks.

First, the potential displacement of part of the community, as rising housing values exacerbate the substantial workforce housing shortfall in the district, and second, associated business risk as the loss of workforce housing threatened the success of JBGS' placemaking strategies which depend on a diverse community, a proximate workforce and on discretionary spending net of housing and living costs.

To address these concerns, together with the Federal City Council (FC2), a NFP entity comprising leaders from the private, public and third sectors in the district, JBGS launched the Washington Housing Initiative (WHI) to preserve and/or deliver affordable workforce housing at scale.

WHI comprises two entities. First, a real estate vehicle called the Impact Pool which primarily provides subordinated debt for workforce housing investments, managed by a new subsidiary of JBGS.

Second, an independently established NFP, namely the Washington Housing Conservancy (WHC) which acquires, develops, owns and operates workforce housing in locations experiencing strong demographic/economic growth and where affordability erosion is anticipated in the near and medium term.

The aim is to retain and provide affordable workforce housing for those earning between 60 percent to 120 percent of the area median income (AMI). Termed "the missing middle", this target audience is caught in an affordability trap with accelerating rents accounting for at least a third of their gross income, yet their earnings are too high to qualify for housing assistance. This is exacerbated by the fast-paced gentrification of neighbourhoods across the district resulting in workers moving to cheaper locations with reduced accessibility to employment opportunities, good schools, health and other civic and commercial services. This impacts on social mobility and effectively locks-in disadvantage. The location of the investment is fundamental to the impact model.

JBG SMITH, FC2 and the Washington House Initiative

AJ Jackson, Executive Vice President, leads the initiative for JBGS and explains: “Home address is the most significant determinate of economic, health, and social outcomes for most people. Our pursuit of gentrification without displacement underpins inclusivity in wider economic and social opportunities, safeguards social mobility potential for individuals, and by de-risking labour supply and income risks for public and private entities enables the in-situ lifting of the wider area.”

The initiative is a market rate, triple-impact model incorporating target environmental and social returns alongside financial. Projects funded by the Impact Pool are required to have at least 51 percent of units subject to a 15-year minimum affordability covenant for residents earning 80 percent or less of AMI; support critical neighbourhood and resident services; and re-invest a portion of the profits in affordability and impact, with outcomes measured and reported.

The social impact returns are anchored to UN SDGs 3, 6, 7, 9, 11 and 12 and are incorporated into a theory of change model that clearly identifies what, where, how and to what extent the primary and secondary issues are addressed through the activity. The “where” being particularly important to avoid displacement and safeguard social mobility opportunity.

Activity includes both development and acquisition, with Jackson indicating that the protection of existing multi-family is favoured as it is faster and more cost effective. The Impact Pool provides subordinate or mezzanine finance for the acquisition of large-scale multi-family



Pool at affordable housing complex, Washington DC, US.

workforce housing that is considered at risk of upscaling and redevelopment activity due to limited rental protections. Following acquisition, WHI puts in place affordability covenants that preserve the majority of the workforce housing for those earning 50 to 80 percent of AMI for a minimum of fifteen years, but usually considerably longer. For example, at the 825-unit Crystal House, WHI protected 75 percent of the units with 99-year covenants. Although not protected by a covenant, the remaining 25 percent are attractive units for those earning 80 to 100 percent of AMI and the overall ratio of affordable to market rates protects the whole.

Alongside the provision of housing, WHI also addresses the need for the wider neighbourhood to be liveable for families. It supports services and retail amenities, partnering best-in-class providers to link residents with the services they need. Within the community, WHC undertake a programme of active, onsite resident-centric engagement and community management, shaped by the resident community. This activity requires expert providers as partners but enhances net income and reduces income risk by lowering churn, reducing non-payment and evictions, decreasing management costs and accelerating the leasing process. During the pandemic, the activities of the management teams were crucial in assisting residents to access emergency rent relief, in turn stabilising rental receipts.

The financial model

The model combines the advantages of qualifying NFP enterprises with Impact Pool capital, a portion of which has been invested by regulated financial institutions to meet their obligations under the Community Reinvestment Act (see Low Income Housing Credit, page 63 and section 4). The effect is to lower the relative cost of capital, enabling affordable housing strategies to compete in the open market with for-profit developers. Access to mezzanine finance through the Impact Pool also enables NFP enterprises to have full capital certainty required for acquisition, ensuring equivalence of their risk standing in the acquisition process. As for senior debt, the NFP benefits from better than market terms due to its willingness to place long-term affordable housing covenants on the properties.

JBG SMITH, FC2 and the Washington House Initiative

The Impact Pool has a term of up to 15 years which enables strategies to be embedded in the investments, fortifying the structure of the asset as a low risk, income style investment and cementing community cohesion. It thus requires long-term capital, yet also provides for the recycling of capital to support a perpetual flow of future projects.

Social output and outcomes

WHI uses the GIIN's IRIS+ database to measure five specific impacts, two of which relate to its social impact objectives. These variables measure the number of affordable units provided and the change in the number of units that are subject to affordability covenants compared to an asset acquisition. The ease of comparison between market and affordable rents lends

itself to monetisation and WHI provides data at the portfolio and asset level, broken down by property size and income band (e.g. 60 percent or 80 percent of AMI).

Although this data represents outputs and outcomes, WHI are keen to develop further measures to understand what impact the strategy has on social mobility, opportunity and quality of life indicators. It has appointed academic institutions to undertake sophisticated analysis to understand the role and contribution of its strategy to economic and social development of residents and the wider neighbourhood. This enables it to review and adjust the strategy to deliver the greatest impact and allows for the identification of proxy variables that facilitate ongoing tracking and measurement, based on proven relationships.

Ideally, outcomes, such as corresponding access to employment, education, health and other services, are extended into the impact the activity has on wellbeing and social mobility. This requires the identification of metrics, underpinned by a longitudinal study and can be difficult to achieve at the outset. However, as the industry evolves a robust evidence base will emerge.

As well as being a common approach across many of the interviewees, this integrated approach is the backbone of bespoke systems developed by a number of managers for internal use. Although the framework and process are designed to be employed at a portfolio level, it may also be applied to individual assets and its use is consistent with the ethos of organisations seeking B Corp certification (see section 5.3).

5.2 Impact measurement

Approximately half of the interviewees employed the IMP's five dimensions of impact (What, Who, How much, Contribution and Risk), or used it as a base to develop their own bespoke model, to define the scope and depth of their activities.

This matrix applies to the impact of the portfolio or asset and to the investors'/investment managers' role in achieving it. Passive allocation by an investor to a fund warrants a low score unless the investment would not otherwise have occurred or where such assets or markets experience barriers to accessing or attracting capital. Allocation of capital can have a strong impact score where it creates a strong signal to the investor universe and is pivotal in creating a market (see case study 7, Macquarie Asset Management).

CASE STUDY

7

Macquarie Asset Management: specialist disability accommodation



Specialist disability housing, Australia.

Macquarie Asset Management (MAM), part of Macquarie Group, has a broad sustainability lens which meant it was a natural first responder to the Australian Government's ambition to better serve the needs of people with significant disabilities.

The National Disability Insurance Scheme (NDIS) was established in 2013 to reform the system of care and support for people with significant disabilities in Australia. A lack of suitable accommodation had resulted in a high proportion of such vulnerable individuals living in unsuitable settings. For example, many individuals remained in the family home long into adulthood and over 6,000 individuals under 65 were living in aged care facilities^{xiii}. This inability to live independently in secure homes and engage in the local community also exacerbated social isolation.

Administered by the National Disability Insurance Agency (NDIA), the NDIS is designed to empower these individuals with decision-making regarding their own care and accommodation by linking disability funding directly to the individual. Of course, the provision of a range of suitable accommodation options is required for this empowerment to be meaningful. To achieve this, the NDIA

introduced Specialist Disability Accommodation (SDA), providing an above-market rental income to stimulate private sector capital into funding, building and managing this specialist accommodation.

Across its activities, which span the asset classes and include a large focus on infrastructure, the company has identified eight focus areas as being material to the group and having transformational capacity for ESG objectives. As a custodian of vital energy, transport, digital and social infrastructure, it is this responsibility that underlies the centrality of sustainability to its business plan. For social impact, MAM seeks to identify market opportunities where its expertise and financial capital can serve its clients' objectives and deliver social impact at scale.

MAM's impact model for SDA is anchored to delivering secure home accommodation for marginalised and underserved people with significant, extreme and/or profound disabilities in an environmentally sustainable way. To achieve this, MAM established an ecosystem that enabled it to partner with government and NFP specialists in disability living and accommodation. MAM'S approach is to focus on four critical drivers of change.

Macquarie Asset Management: specialist disability accommodation

- 1 The expansion of high-quality SDA accommodation at scale and in well-integrated community settings that enable people with disabilities to live as independently as possible. These high-quality dwellings are delivered with a focus on energy efficiency, which is also anticipated to be a source of competitive advantage for residents who may be sensitive to high utility bills.
2. SDA providers have deep expertise in the needs of tenants with disability. MAM reviews SDA providers and carefully selects its partners based on their knowledge, experience, safeguarding and potential scalability of the business model. Such providers advise MAM on the design, procurement and marketing of accommodation, and with an assigned tenancy support officer, act as a facilitator to the occupier in securing their required services and/or integrating with the wider community on an ongoing basis. Importantly, the delivery of personal care is separate to the remit of MAM'S SDA model and MAM considers this an optimal structure in order to embed safeguarding features into a business service model that meets the needs of vulnerable people.
3. MAM seeks to also support the SDA provider with its expertise, essentially institutionalising its approach by ensuring that its business model is robust, finance is secure and governance practices are strong. This assists both the developed ecosystem for the investment and the wider market by ensuring the operator has longevity and the capacity to scale.
4. Given its scale and leadership role in the institutional market, MAM's early participation has arguably acted as a signal to the wider institutional market, helping to accelerate its growth and creating a market competitiveness that can ensure quality of supply in terms of design and location. In addition, MAM is able to engage with policy-makers on the potential unforeseen consequences of policy change at an early stage. MAM participates in the SDA Reference Group, which is a small panel of market participants established by the government to act as a sounding board on SDA matters.

The financial model

The financial model is relatively straightforward. The investor is rewarded for carrying the upfront costs associated with delivering heavily modified accommodation to what is in essence, a niche and specialist sector. This results in a yield that offers a significant premium over affordable residential and given that it is government funded, significantly elevated over bond rates. However, unlike bonds, the investment carries the risk of policy change and vacancy (if a tenant does not choose to live in the dwelling). This risk is underwritten by the market value of the residential asset, which is underpinned by the community setting of the dwellings, in strong locations with good adjacencies to transport, civic, community and commercial facilities.

Social impact outcomes

MAM worked with an external, leading global impact investing consultant to develop its impact management and measurement framework which is based upon industry best-practice frameworks including the IFC's OPIM framework and integrates the IMPs impact categories. This framework was used to define a clear social strategy and set impact metrics and targets that can be measured, evidenced with supporting case studies, and validated.



Pool at specialist disability housing complex, Australia.

Macquarie Asset Management: specialist disability accommodation

MAM's SDA investment model is expected to create outcomes that align to a number of the UN SDGs and underlying SDG targets including SDG10 (Reduced Inequalities), SDG11 (Sustainable cities and communities) and UN SDG 3 (ensure healthy lives and promote wellbeing for all, at all ages). MAM uses the GIIN's IRIS metrics to the extent appropriate. In addition, given the unique SDA impact strategy, it was necessary to also develop measurable, tailored metrics. At the same time, there is an emphasis on designing metrics with a clear line of sight between the investment and the outcome.

MAM's impact metrics currently employed focus on three aspects. First, how the investment has impacted on the scaling of the sector through the addition of quality, integrated new supply to the SDA market. Second, tenant metrics including occupation and retention as a proxy for satisfaction, noting that occupiers can choose whether to stay within the MAM portfolio on an annual basis, together with audits of design suitability. Thirdly, the sustainability of the dwellings which can benefit both the environment and tenants.

In addition, MAM is also cognisant of the need for measurable evidence to support longer-term outcome expectations. In particular, with regard to SDG3, the wellbeing of occupiers is shared with the quality provided by both MAM's SDA tenancy support partners and

third-party personal care provider organisations, and MAM is cautious of claiming outcomes it cannot isolate.

Therefore, MAM works with SDA partners and other industry specialists to support the development of a clear evidence base to support claims of tenant wellbeing outcomes. MAM stresses that while these outcomes can be effectively told through case studies, development of a robust and transparent evidence base would provide a more powerful tool for understanding the potential longer-term impacts of SDA on tenants' wellbeing. For example, the change for individuals from non-verbal to verbal communicators or the transition from social isolation to socially integrated lives and meaningful relationships, facilitated by the provision of suitable accommodation in appropriate locations.



Kitchen in specialist disability housing, Australia.

The five dimensions consider the net social impact outcome being achieved and how important it is to society, who is affected by that change and are they currently underserved and/or marginalised in respect of the outcomes being generated. It also considers how much impact is being generated both in volume and penetration, and for what duration, what is the contribution of the investment activity to securing this impact and what is the risk to society of the impact not being delivered^{xiv}.

As well as being a useful approach to ascertaining the impact delivered through activities, IMP is also a useful tool enabling social impact to be distinguished from within the wider umbrella of social value.

Figure 26 (page 66) illustrates the spectrum of social value activity and when overlaying the IMP’s asset classes, “Responsible investing” represents the “Acting to avoid harm” category, “Sustainable” represents “Benefitting Stakeholders” and “Impact” represents “Contributing to Solutions”.

Presently, most institutional real estate strategies either avoid harm or benefit stakeholders. For example, they may seek to mitigate negative impacts, particularly for underserved segments or they may produce strong, sustainable positive benefits for stakeholders, but for those who are not underserved or marginalised.

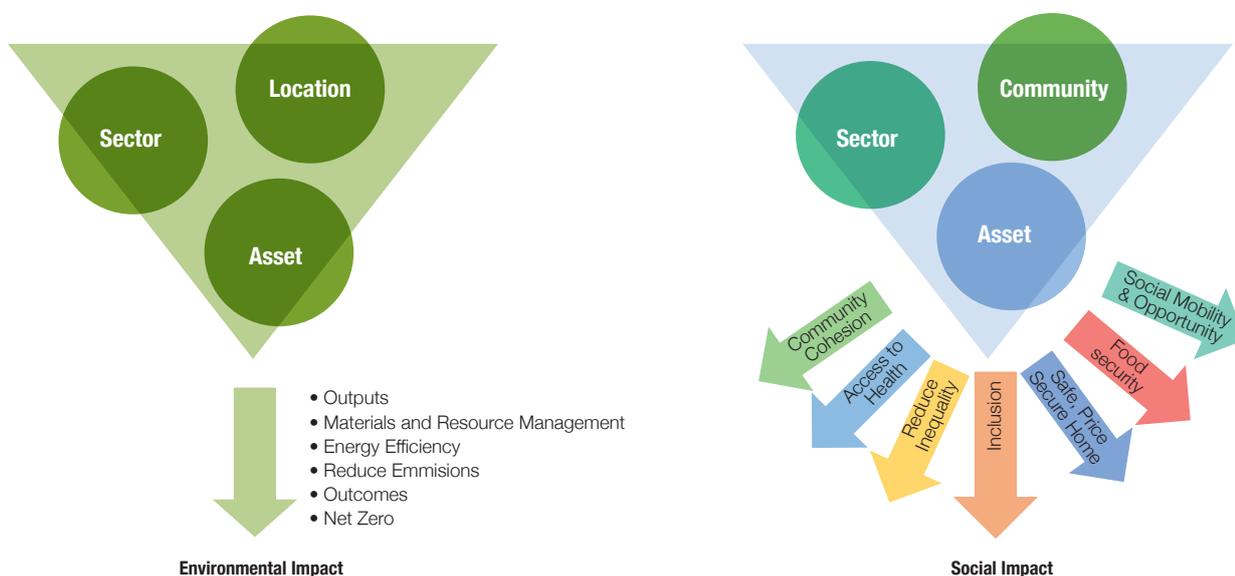
Investments that create sustainable benefits for underserved segments of society and wider communities are deemed as impact investments because they directly contribute to the solutions required to meet the UN SDGs of reducing inequalities through restoring opportunity.

The old adage of “what gets measured gets done” is relevant to social impact, but the more prescient factor is the primary purpose of measurement. Dual and triple bottom line strategies require decision-making to consider financial and social objectives. Measuring both financial and social outcomes enable investors and managers to monitor if their strategy is meeting its targets and enables it to be adjusted tactically to optimise benefits in line with expectations. Measurement enables managers to set baselines, identify which actions are driving financial and social returns, as well as factors that are not having the expected impact and also allows the strategy to adapt to new opportunities and challenges.

Defining appropriate approaches and metrics to assess the five dimensions of social impact is central to measurement. It is also an issue subject to considerable debate in the industry presently.

Part of the issue is that many are addressing both social value and in turn, social impact from the perspective of their experience of measuring environmental outcomes. However, a fundamental difference between environmental and social impact strategies is often disregarded.

Figure 27: Homogeneity of environmental and heterogeneity of social impact strategies



Source: ULI

Within real estate, although environmental issues may vary widely across markets, sectors, building age and scale, the strategies share the same overriding objectives to reduce emissions, energy, water and other waste. As well as being shared objectives, they are also tangible and quantifiable (Figure 27). In consequence, the debate has shifted too quickly towards building a universal social impact benchmark performance index without enough attention being placed on the wide variety of possible outcomes, the importance of what is being measured, or the primary purpose of measurement.

These outputs and outcomes should be communicated – and externally validated – to stakeholders and the wider market. However, current discussions around developing a metric that enables the social outcomes of widely different social impact strategies are both secondary and premature. The industry is still evolving. As it increases its knowledge, experience and confidence, it is adapting both the approach to and selection of, appropriate metrics and measurement frameworks.

Efforts to establish and evolve appropriate industry best practice methodologies to set baselines and measure across a range of approaches are progressive. However, attempts to benchmark for market comparative performance using fixed metrics, at this point in the evolution of social impact through real assets at least, risks becoming a tail that wags the dog and inhibits progress. Indeed, in an effort to maximise the quantification of social impact, it could potentially lead to a race to the burdensome bottom for the real estate impact industry.

Focus on material effects

The foremost purpose of measurement is to ensure the strategy is delivering on outcomes and it is likely that in doing so, it will deliver secondary positive effects. The IFC suggests focusing on accounting for the multiple dimensions of impact, as set out by the IMP, and on what is material to understanding the impact being made and therefore, for decision-making^{xv}.

Where possible, align metrics with existing market intelligence either from public or third party sources, or that being collected already by the organisation or its partners. Metrics should be selected to focus on what is material to the additionality of the strategy and not attempt to capture every aspect of social value generated.

For example, a school, hospital or other public service will be able to provide aggregate data on individuals served, their socio-demographic make-up and outcomes. This helps to keep the measurement process manageable rather than burdensome. This enables efforts to focus on execution.

Although social impact strategies share a mission to improve the circumstances and opportunities of underserved people and communities, this audience's needs and how to address them varies by region, country and local market, and across many life aspects including housing, health, ageing, education, leisure, accessibility and inclusivity. Equally, the capacity for real estate investment to address these issues within business plans varies geographically with prevailing socio-political systems and across the potential of individual sectors. These differences also tend to dictate the metrics that are employed and in turn, the impact model used to qualify and quantify the impact achieved.

5.2.1 Outputs, outcomes and impact measurement frameworks

Social impact investing aims to deliver on targeted life outcomes such as improved health, wellbeing, income disparity, educational attainment and related opportunities and inclusion. This is achieved through the delivery of outputs such as housing units, healthcare facilities, schools, transport, employment opportunities, civic buildings and public spaces by engaging with underserved stakeholders, often through a NFP partner, and embedding solutions to their priorities through real estate factors such as location, design, facilities, services and inclusive community spaces.

The IRIS+ database compiled and made widely accessible by the GIIN, is a useful starting point for investors, aligning targeted aspects of the UN SDGs with useful proxy metrics to assist in monitoring and measuring outputs and outcomes across all investment classes.

Many impact investors and managers are employing IRIS+ metrics, but it was often commented that for real estate the suggested metrics tend to measure outputs rather than outcomes. Moreover, while the suggested metrics can be useful for broad categories such as affordable housing, they are not yet provided for more specialist or targeted impact strategies.

Most managers have developed their own specific metrics and these also include measuring and benchmarking the impact on their target community where appropriate. The nature and cohesion of the impact strategy in terms of asset base, together with the form of the most appropriate metrics will dictate the measurement framework employed.

There are three broad categories of frameworks employed: impact targets, impact ratings and monetisation. Each can be employed to deliver across the three components of the impact investment process: developing the impact thesis; assessing and monitoring execution and progress against target outcomes; and providing a robust evidence base crucial to both validating the subject impact strategy, and substantiating the impact investment approach to the wider market. Their characteristics across these dimensions as summarised by the IFC, together with their application by the range of interviewees active in real estate impact investing are summarised in Figure 28, page 78.

Impact targets

This framework involves identifying a set of material targets for the strategy and measuring progress and achievement. The targets should span multiple aspects of the desired impact that enable the scale, depth and duration to be measured and enable the characteristics of beneficiaries to be assessed. A key strength is the simplicity of the approach, which provides clarity and transparency. However, to have credibility, it is beneficial for the headline data to be placed in context. For example, benchmarking attainment figures for a school against peer schools in the location and monitoring progress over the time horizon (see case study 5, Turner Impact Capital).

Impact ratings

Rating frameworks can measure both the quantitative and qualitative aspects of an investment across multiple impact dimensions and stakeholders. It also allows a time dimension to be incorporated. This is important, because as delivering impact often requires patient capital, snapshots of impact can overstate the immediate outcomes at the cost of expected outcomes. It also allows impact investors and managers to tailor their rating system to their own impact priorities, such as reaching a particular target group, or improving the wellbeing of their target group through a specific objective, for example access to affordable health, skills development or inclusion.

A scoring framework is required to enable comparability of diverse assets/sectors using different metrics as proxies for identified impact dimensions. Its composition should be transparent and systematic, underpinned by a rigorous methodology. External involvement and/or validation of the approach assists in providing confidence and credibility for potential investors, the community, public and third sector, and other stakeholders. Initial development may be resource – and data – intensive, requiring the establishment of baselines as benchmarks, appropriately defined scales and their translation into apposite thresholds between qualitative categories of impact (i.e. high, medium, low). However, once developed the system is relatively efficient (see case studies 1, Franklin Real Asset Advisors and 6, Nuveen). Being tailored, impact scores may not be readily compared externally.

Monetisation

The concept of monetisation has an obvious appeal to investors, keen to mirror the social return on investment as a financial value, providing a return on capital employed as for financial objectives.

In real estate, monetisation is often related to the employment of social value calculators, traditionally employed to estimate the multiplier effect of development in local economies. Indeed, their use is often required by public and planning authorities. As their name suggests, such calculators generally measure aspects of social value, rather than impact. For example, employment and apprenticeship opportunities generated through the activity and the impact on supply chains and induced spending.

Although they can be useful in assessing the extrinsic social value of a development or other investment strategy, a number of interviewees considered their use to be flawed for both social value and social impact.

First, social value calculators tend to be based on gross, rather than net effects and tend to encourage gentrification and displacement of local communities, with impact on land values and house prices considered as an economic gain. Second, in respect of impact, there is no additionality to the development activity over a conventional approach and although planning requirements may include public services or infrastructure, intentionality is not embedded in the approach. However, there are other approaches to monetisation that are relevant to impact investing.

There is a range of views across the industry on the cogency of monetising social impact in real estate. Interviewees and roundtable members provide a range of perspectives on monetisation, with a broad consensus that where there is a clear and transparent opportunity to financially quantify impact, this affords the clearest measure of a specific impact. For example, within its affordable housing portfolio, Catella's energy savings from renewables are not retained by the company, but passed through directly to their occupiers. This provides a quantifiable benefit, that can also be expressed as a percentage uplift to mean/median disposable incomes.

Black box-style model

It may also be possible to monetise outcomes where there is third party established and accepted data quantifying the impact. For example, the impact of appropriate senior housing/nursing homes on healthcare budgets. However, interviewees suggested that where monetisation of outcomes is based on an acknowledged impact on wellbeing, but requires a black box style model to quantify it, such data should be presented as supporting information rather than as the primary outcome.

Such approaches often require many subjective assumptions to be made and econometric models are developed based upon them, producing results that have a wide margin of error. Many interviewees and roundtable members argued that it has the potential to have a detrimental effect on credibility and enables impacts to be overstated or worse, empowers social washing.

To an extent, this relates to the primary purpose of measurement being to maximise the social impact being achieved, rather than as a marketing exercise. Roundtable and interview discussions also suggested that the over focus on expressing outcomes that are not easily monetised in financial terms often reflected organisational culture in respect of impact.

In organisations where the impact culture is embraced as a strategic direction at board level, monetisation of outcomes is encouraged where it is appropriate, but not necessarily considered more valuable than other outcomes.

For example, an interviewee explained that for one of their major placemaking schemes, many aspects lent themselves to monetisation as they provided social and affordable housing. However, in the company's view the greatest outcome they had delivered was through driving inclusion through facilities and the sharp reduction in loneliness they had measured as an outcome. Although it is possible to develop a model monetising the benefits for social services, it was argued that to do so rather missed the strength of the gain in personal wellbeing and is a waste of time and resource. Measuring the positive outcome and achieving the goal is what is important.

It was also argued that any financial figure may be dwarfed in comparison to other monetised data and potentially hide the scale of the achievement. It was suggested that monetising all outcomes could lead to the true value of outcomes being assessed by a false metric, that in turn, might drive future impact strategies.

Appeal of monetisation

In contrast, a number of roundtable participants in organisations where the impact culture is attempting to work its way up through seniority, explained that without being able to monetise, it is impossible to achieve the buy-in of senior and board management.

Interviewees agreed that where there was a clear financial benefit to an outcome it should be monetised and that even where this is the case, it is usually supported by a range of other outcomes (For example, see case study 1, Franklin Real Asset Advisors; 2, Chinachem; and 6, Nuveen).

It is also suggested across both interviewees and roundtables that the attraction of such monetisation is that it provides a clear, inarguable outcome that can assist in proving the value of impact investing to potential investors. This is partly because the industry is relatively nascent and underscores the need for external validation of outcomes against appropriate standards.

Figure 28: Comparison of impact characteristics of measurement frameworks

	 Target	 Rating	 Monetisation
Impact thesis	Often for investments seeking impact within a specific or limited number of sectors	Often for investments seeking to deliver on multiple aspects of impact (such as direct project impact and systemic impact, and/ or impact across multiple dimensions).	Often for investments seeking impact within certain industries and geographies, with rich data available.
Impact assessment and monitoring	<p>Relatively straightforward and cost-effective approach.</p> <p>Specific impact assessment and monitoring skills may be needed, but to a high degree, possible to embed.</p>	<p>Builds extra dimension onto the target framework.</p> <p>The complexity of approach may be scalable, but will include an additional level of sector economic competencies and some additional monitoring resources.</p>	<p>Builds extra dimension onto the target framework.</p> <p>Complexity will be high and require significant ex-ante economic competence and analysis, as well as some increased monitoring resources.</p>
Impact evidence	<p>The stronger the evidence of causality, the stronger the impact's credibility.</p> <p>Evidence use can be relatively simple and built on a sector's overall Theory of Change.</p>	<p>The stronger the evidence of causality, the stronger the impact's credibility.</p> <p>The multi-dimensional approach and benchmarking requires use of investment and context-specific evidence.</p>	<p>The stronger the evidence of causality, the stronger the impact's credibility.</p> <p>Placing a monetised value on externality requires a very high level of evidence, preferably with a clear, proven theory of change.</p>
Application in real estate	<p>Often employed for single sector and also single location investments.</p> <p>Data on factors such as number of individuals served, number of units delivered, number of employed or change in employment status, change in attainment criteria etc.</p>	<p>Often employed for portfolio/ funds investing across a range of sectors. Create baselines and score across the five dimensions of impact to achieve a composite score for each asset which can be used to articulate impact for the portfolio and for the individual assets. Third parties used to develop and validate framework.</p>	<p>Most commonly employed for social and/or affordable housing, where there is an established (and often regulated) determination of rental saving.</p> <p>Usually employed in combination with target and rating framework.</p>

Source: Adapted from International Finance Corporation (2019)

5.3 Impact validation and forestalling social washing

A number of interviewees stressed the value of their organisation's certified B Corp status as a signal of their impact investing authenticity, in agreeing priorities for investment strategies with underlying investors, as well as being valuable in attracting talent. The status indicates that the organisation meets the high standards set by B Lab in respect of verified performance, accountability, and transparency in its activities with all stakeholders including employees, clients, suppliers and the community. B Corp certification is awarded at the organisational level, rather than at the portfolio or asset level^{xvi}. As such, it measures structure, processes and activities through the hierarchy from organisational, to fund/portfolio through to asset management.

The status is awarded by B Lab, a NFP organisation committed to transforming the global economy to benefit all people, communities and the planet. B Lab has created a set of standards which companies are scored against, with recertification required every three years. The certification process is rigorous and requires companies to demonstrate a high social and environmental performance, and to make its corporate governance structure accountable to all stakeholders, not just economic/ financial beneficiaries.

Transparency through public disclosure of performance measured against B Lab's standards is also a requirement as is making it publically available on their B Corp profile on B Lab's website.

External validation

Although it is not necessary to achieve B Corp status to deliver authentic social impact investment, the risk of social impact washing generates a growing need for external validation, authentication and certification. Similarly, adapting and integrating a B Lab style approach in the certification of impact portfolios, funds and assets will be important to creating and evolving industry standards, laying bare miscreants seeking to exploit the underserved in the process.

A number of organisations are evolving that are addressing this issue for real assets. For example, Tideline, a leading impact investment consultancy, has established BlueMark as an independent impact verification company to meet the need for reliable, third-party assurance of impact claims and practices^{xvii}. In the UK, The Good Economy provides an external validation services as part of its activities^{xviii}.

“ Although it is not necessary to achieve B Corp status to deliver authentic social impact investment, the risk of social impact washing generates a growing need for external validation, authentication and certification. ”

6

Conclusion and recommendations

6.0 Conclusion and recommendations

6.1 Conclusion

Social impact real estate represents a major opportunity for the real estate industry. Every asset has the potential to deliver at least extrinsic benefits for its local community and wider society. The process of considering the potential to create impact may require relatively small adjustments to existing strategies, that can create a disproportionately positive impact, often at minimal cost and this activity may also protect and enhance returns.

As the scope of the industry continues to expand into many forms of residential, healthcare and other social infrastructure segments – formally the preserve of the public sector – the opportunities to enhance the wellbeing and opportunities for underserved people and communities is immense.

Institutionally investable social impact real estate is a discrete component of the wider social value spectrum that spans from activity that disregards social value as an objective (traditional) to being the sole objective (philanthropic). Being institutionally investable requires social impact strategies to deliver a market rate return while at the same time, intentionally delivering social value benefits that would not otherwise have occurred to underserved people and communities, with such impact being measured and validated.

The language of social impact real estate investing is important and is nested in a wider impact investment industry. As the physical presence of real assets means they always have either a positive or negative impact, the term is commonly used by stakeholders in both the private and public sector to describe all forms of social value, often expressed in gross terms rather than net, and rarely distinguishing who is in receipt of that benefit. This creates a breeding ground for social washing and to remedy this potential, the industry should set and adopt definitions and develop a widely disseminated code of use within real estate that is compatible with those established by the wider impact industry.

For real assets, there is nothing new in the impact investing approach at a high level. It is recognised that best practice asset management enhances and protects returns. Such strategies are increasingly focused on strategies that optimise the operational management of assets, either directly or indirectly, acknowledging that delivering products and services tailored to user requirements drives net income returns and at the same time, reduces income risk. The concepts of “intentionality” and “additionality” are not, in themselves, new. However, many stakeholders in the industry are unfamiliar with addressing the needs of the underlying population being served through social impact strategies.

Best-in-class providers

Such populations often represent groups of more vulnerable members of society and this brings an added responsibility as well as potential reputational risk. Just as the industry has partnered with best in class operational and service providers to deliver value to its traditional clients and customers, investors and managers are partnering with best-in-class community, healthcare and other social enterprises.

Often, social impact real estate strategies simply require the developer, investor or manager to include the potential for delivering social impact in their strategies and facilitate those with the expertise to deliver it. However, outsourcing the execution should not mean it is out of mind. As for other investment structures, a close alignment between real estate and such operational partners is essential to forge trusted relationships, align objectives and mitigate risks.

As for other forms of operational real estate, investors and investment managers will need to develop a deep understanding of the skills required to effectively execute social enterprise business models and develop skills to assess their capabilities not merely in the board room, but in their effectiveness at service delivery on the ground be that in a classroom, a nursing home, hospital or other community setting.

In addition to delivering social impact, this activity also has considerable risk management benefits in three ways. First, best practice asset management improves the certainty of income with lower churn, voids and non-payment rates, with knock-on effects for lower property management costs. The income stream also offers the benefits of being dislocated with market cycles as the utility of such assets is usually serving basic needs such as shelter, health and education that persist through economic cycles. Moreover, being focused on the needs of the underserved are often supported by public funds or a public safety net should circumstances deteriorate.

Second, social impact activity also reduces exposure to socio-economic risks, with the community having a sense of ownership over their environment and valuing the benefits that it delivers. In addition, greater community cohesion, empowerment, well-being and opportunities of individuals also impacts on the wider location, reducing crime rates and creating the conditions for gentrification without displacement.

Third, best practice social impact strategies including effective alignment and management of relationships with social impact operating partners, mitigates the potential reputational risk involved in delivering real estate products and services to vulnerable segments of society. Indeed, effective well-managed strategies can enhance the reputation of stakeholders, enable trusted relationships to develop with public and third sector agencies, potentially improving access to further opportunities and deal flow.

Challenges

The valuation process creates a difficulty. There are limitations to valuation methodology given its retrospective, quasi-judicial comparative approach construct. This is anchored to assessing risk solely through the intrinsic utility and notion of a market rent, with the high degree of significance placed on covenant strength seeming a somewhat historic notion given the pace of economic and business change that can undermine entire industries, never mind individual companies.

This is an issue that extends well beyond social impact real estate investing. In short, the process of valuation and embedded methodologies is becoming less aligned with assessment of investment worth, and given regulatory requirements of institutional investors, especially insurance companies, is itself an impediment to investment.

However, valuation is not the only impediment. There are a number of obstacles inhibiting activity across a range of capital sources. First, interviewees and roundtable participants highlighted the importance of SRI and impact initiatives being integrated into corporate strategy at board level, with mission values supported by specific objectives, targets and directives that are cascaded meaningfully through the business plans of every division, portfolio and product.

Second, allocation models that are structured into silos, especially those viewing social impact real estate as part of an ESG asset class rather than as an investment strategy within real assets, fail to adequately identify and evaluate the opportunity. This model is frequently adopted by investment management consultants and can act as a barrier to allocations to impact strategies that otherwise match risk and return objectives.

Third, over the past decade many large investors invest directly or through partnership structures and their absence from funds creates a signalling issue for smaller investors that lack real estate expertise and resource. Of course, the remedy is not for large investors to change their strategic approach, rather the onus is on the industry to educate and communicate. As part of this, in the spirit of impact investing which follows an open source model in an effort to expand activity, large investors could communicate their activity and explain how they consider the risk and return profiles of a range of impact opportunities to build confidence among their smaller peer entities. This would also assist investment management consultants.

Fourth, the opportunity in social impact investing is often misinterpreted by investors, especially those domiciled in countries where the public sector remains responsible for social infrastructure, wealth polarisation is less acute and access to affordable housing, health and a quality education are widely available.

In contrast to environmental strategies that are perceived as a global issue, sometimes such investors dismiss social impact strategies as being a philanthropic activity that addresses the internal socio-economic issues of a third country that is not their responsibility.

However, this is a misconception. Just like environmental, socio-political risks cross borders in many ways including availability of resources, supply chains, trade and movement of people, as well as their secondary effects on economic growth, inflation and interest rates and global productivity. Moreover, social impact investing often offers investors an attractive opportunity to invest in a proxy government bond at a significant premium over long-term bond rates, with public funding or guarantees supporting the investment either directly or indirectly.

Fifth, the role of the public sector, especially in respect of public policy, social funding and planning is an important enabler of social impact real estate investment. This takes many forms and varies across countries and sectors.

Understanding these systems has a strong influence on the structure of investments, their underlying risk profile and for some sectors in some countries, provides a level playing field that enables social impact investors to compete with those targeting a higher price point in the market. In part, this is necessary as valuation does not take account of the anti-fragility qualities of such investments, disregarding the lower volatility and risk of such investment in this segment against a wider sector.

6.2 Recommendations

This research makes a number of recommendations to enable the wider real estate industry to embrace the social impact opportunity to the benefit of all stakeholders in their organisations and across wider society. Achieving them requires the industry to work together across multiple disciplines to:

- Establish industry standards for social impact investing that align with the wider impact industry and through collaboration, draw upon, support and contribute to the social impact real estate validation and certification standards of existing organisations active across the industry.
- Challenge valuation processes and methods through the development of a clear evidence base including data compilations and case studies, enabling analysis between different market segments and across the range of real estate strategies including traditional and impact approaches.
- Create educational resources for a range of stakeholders more unfamiliar with impact investing and/or potential investors which may lack real estate resource and expertise.
- Engage with public policy-makers and urban planners to encourage alignment of policy and other legal considerations to promote a social impact approach to real estate activity.

Abbreviations

AMI	Area median income
ESG	Environmental, social and governance
EU	European Union
GFC	Global financial crisis
GIIN	Global Impact Investing Network
HNWI	High net worth individual
IFC	International Finance Corporation
IMP	Impact Management Project
IRIS	Impact Reporting and Investment Standards
KPI	Key performance indicators
NFP	Not for profit
OECD	Organisation for Economic Co-operation and Development
OPIM	Operating Principles of Impact Management
PRI	Principles of Responsible Investing
SDGs	Sustainable Development Goals
SRI	Socially responsible investing
UN	United Nations

UN Sustainable Development Goals



End notes

ⁱ The third sector may also be referred to as the voluntary sector and includes Non Governmental Organisations (NGOs), Not for Profit Organisations (NFP) and other social enterprises

ⁱⁱ ULI (2021) Zooming in on the S in ESG: A Roadmap for Social Value in Real Estate

ⁱⁱⁱ <https://www.bcorporation.net/en-us/certification>

^{iv} INREV (2020) Operational Real Estate: Real Asset or Real Economy and INREV (2021) Real Estate as a Commodity, Product and Service: the user centric opportunity

^v Gladwell, Pete (2022) Want to make a positive impact in 2022? Sell children's care homes and buy coal mines* Social Housing 16 Feb 2022BY <https://www.socialhousing.co.uk/comment/74262>

^{vi} Imp Management Project (2018) A guide to classifying the impact of an investment

^{vii} Nuveen (2020) Raising the bar — impact investing in a changing world: A retrospective on Nuveen's private markets impact investing portfolio from 2009 – 2018

^{viii} INREV (2020) Operational Real Estate: Real Asset or Real Economy

^{ix} ULI (2021) Zooming in on the 'S' in ESG, A roadmap for social value in real estate

^x LaSalle (2021) Accessing the Real Estate Investment Universe in 2021

^{xi} INREV (2019) Coming of Age: the rebirth and renewal of the non listed real estate industry

^{xii} ULI (2021) Zooming in on the 'S' in ESG: A Roadmap for Social Value in Real Estate

^{xiii} Younger People in Residential Aged Care: Strategy 2020-25, Source: https://www.dss.gov.au/sites/default/files/documents/09_2020/dac_younger-people-residential-aged-care_20092020.pdf#page6

^{xiv} Imp Management Project (2018) A guide to classifying the impact of an investment

^{xv} IFC (2020) The Promise of Impact Investing

^{xvi} <https://www.bcorporation.net/en-us/movement/about-b-lab>

^{xvii} <https://tideline.com/services/impact-verification/>; <https://bluemarktideline.com>

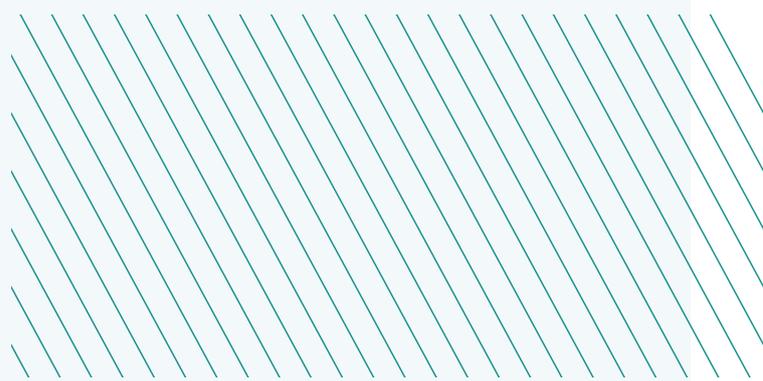
^{xviii} <https://thegoodeconomy.co.uk/>

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Dentons UK and Middle East UP
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Ferguson Partners
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Franklin Real Asset Advisors
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