

Real estate: A home for impact investing

From climate change and geopolitical tensions to rising inequality and a global pandemic, society faces many challenges and investors are seeking to be part of the solution.



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Increasingly, investors are looking for strategies that go beyond traditional environmental, social and governance (ESG) principles and responsible investing (RI) strategies. They want investments that intentionally produce measurable benefits for people and the planet and are finding them with impact investing.

Why real estate makes sense for impact investing

The move to impact investing is a culmination of many of the megatrends that have been shaping society and real estate investments in recent years. These structural trends – technological, demographic and sustainable change – are likely to take even greater hold in the years ahead.

Themes such as rising inequality and isolation, automation of work, urbanisation and the acceleration to the low-carbon economy present challenges as well as opportunities. The need for investment criteria that specifically address these issues is driving demand for impact investing.

More than any other sector, the built environment shapes people's lives. The impact real estate can have on people, their home and their working lives is far greater than most other areas of commercial activity. It is a rich source for solutions for many of society's challenges.

Affordability challenge: Rising inequality leaves low-income workers struggling. Almost 10% of renters in Europe, and over 14% in Germany and 15% in the U.K., spend at least 40% of their incomes on housing, according to Eurostat.

Health and wellbeing challenge: Making health care more affordable and accessible leads to equitable health outcomes and improves quality of life, particularly for older populations. In Europe, the number of people aged 65 and over is expected to increase by 48% by 2050, according to UN data.

Education challenge: Increasing access to education can improve the overall health and longevity of a society, grow economies and even combat climate change. Adequate digital skills and access is an issue according to the EU, where more than 63% of nine-year-old pupils lack adequate equipment and fast internet connection while 90% of all jobs will require strong digital skills.

Climate challenge: Urban areas are a major source of greenhouse gases and currently responsible for around 70% of global energy consumption¹. Cities need to be sustainable given more than half the world now lives in cities, and this is expected to rise to 70% by 2050, according to the UN.

Opportunities in Europe

Focusing on housing affordability, there is broad agreement that sharply rising housing costs is an economic issue as well as a social issue. However, a top-down, one-size-fits-all strategy for affordable housing, community buildings or education will not work.

Each country has its own unique set of challenges and is experimenting with a wide range of possible solutions. To add to the complexity, the larger cities, even within one country, have distinctive local requirements and housing policies. For each project to be effective for the com-

Why real estate is a natural home for impact investing

Urban spaces allow people to thrive



Liveable

Health and well-being, ageing population



Inclusive

Community and social infrastructure, safe and affordable housing



Enterprising

City repair, support of local productivity, skills development and economic growth



Sustainable

Green buildings and green retrofits supporting our path to zero carbon

Source: Nuveen Real Estate

munity and economically successful for investors, it has to fit into national and regional policies and engage with local stakeholders.

The same is true for carbon reduction and other environmental issues: the broad goals are the same across Europe and beyond, but the path to those goals is varied and local in nature.

Affordable, sustainable, inclusive housing in Germany

Our research has identified specific impact investment strategies for real estate investors. In Germany, demand for rental space is at an all-time high and households are burdened with rents. Four in 10 households in the big conurbations have to pay more than 30% of their disposable income for rent². Land prices and construction costs have risen exponentially, while salaries have risen only marginally. New developments cannot catch up with the demand for living space.

As the effects of economic and demographic developments vary greatly from region to region, we have identified cities and regions with high levels of inequality and hence a greater demand for affordable housing.

Having identified locations, our approach is to invest in solutions that create and preserve affordable and sustainable housing. Providing regulated or restricted affordable housing creates a number of positive impacts while generating returns for investors. Access to affordable and sustainable housing reduces the cost burden on households by improving availability of units priced within range for low-income or underserved individuals. This can lead to shorter transfer

time between work and home, improved community health and wellbeing and improved environmental sustainability.

Successful impact investing with real estate

Along with financial returns, impact investing requires additional objectives and results. Given the many challenges, real estate impact strategies need to clearly define what they want to achieve, how they plan to do that and how to measure success.

Traditional investment management methods need to be broadened into a more comprehensive impact measurement and management system. This means adding key performance indicators specific to the impact objectives, and distilling the metrics and targets to improve efficiency and refine analysis.

Nuveen's 30 years' experience of impact investing in U.S. real estate and other asset classes feeds into our real estate impact investment and management process in Europe. We have a six-step process for real estate impact investing, which integrates impact theory with the investment analysis.

Integration is the key to success. Integrating investment management with a robust impact monitoring and management system, and blending global research with local implementation will help investors looking to combine profits with positive social and environmental outcomes.

FOOTNOTES:

¹ German Federal Office for Building and Regional Planning.

² Source: Holm, Junker, Hans-Böckler-Stiftung, 2019.