

Impact investing in real estate

How real estate investors can generate positive social, environmental and financial returns.

More than any other sector, the built environment shapes people's lives. The social, environmental and economic characteristics of real estate make it a rich source of opportunity for impact investors. Impact investing identifies social or environmental needs and acts on them to improve quality of life and generate positive social and environmental outcomes alongside financial return.

The direct benefits of a real estate impact strategy can include an improved local physical landscape, the provision of residential, health care and educational facilities, and a built environment that responds to the needs of people and the planet. This in turn can create additional benefits in terms of creating jobs for local people and demand for local businesses.

What problem are we solving for?

When developing a real estate impact portfolio, investors need to consider the challenges they want to address. Areas of focus for real estate impact investment include:

Affordability: Almost 10% of renters in Europe (over 14% in Germany and 15% in the UK) spend at least 40% of their incomes on housing, according to Eurostat, which limits household discretionary spending. Any savings allow families to spend more on essential services, which can improve their quality of life.

Health and wellbeing: The pandemic has increased focus on these areas. 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 (UN).

Education: Increasing access to education can improve the overall health and longevity of a society, grow economies, and even combat climate change. The EU believes adequate digital skills and access is an issue, with 90% of all jobs in the future requiring strong digital skills.

Climate: More than half the world's population live in cities and this is expected to rise to 70% by 2050, according to the UN. But urbanisation has a heavy carbon footprint. The built environment is estimated to be responsible for over a third of global carbon emissions. Ensuring that cities of the future are

sustainable is one of the most urgent challenges we face.

How can real estate address the challenges?

Investing responsibly in the urban fabric of our communities has the potential to reduce carbon emissions, address social inequality, and meet underlying community needs.

No matter which challenge investors select, integrating a comprehensive impact management system into the real estate investment process is needed to achieve impact objectives and financial returns.

Intentionality and additionality must be at the heart of any impact strategy. Real estate strategies must therefore clearly define what they want to achieve, how they create additional positive impact beyond that which would have occurred otherwise, how the strategy delivers the impact, how success is measured and how it is preserved over a meaningful time period.

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

At Nuveen, we have a six-step process for successful real estate impact investing, which is based on Nuveen's impact management system and aligned with the Operating Principles for Impact Management, to which Nuveen is a founding signatory.

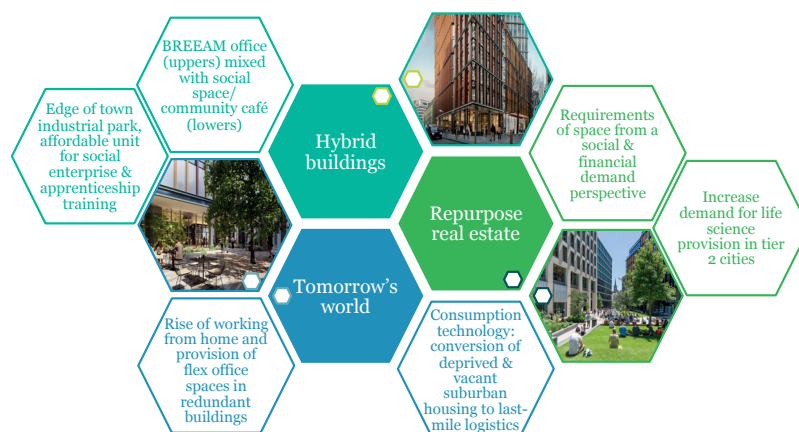
How can a portfolio make an impact?

With our investment impact management process and our experience as a real estate investor and as an impact investor, we believe real estate impact strategies can be climate positive, economically and socially inclusive, and deliver financial returns.

Environmental objectives

We believe we can make net zero carbon mainstream by converting existing buildings to low carbon outside of traditional markets and demonstrating a viable low-carbon pathway for real estate across the UK and Europe. Our target is for assets in our real estate impact strategy to be operationally net carbon

Tomorrow's world: The social, environmental and financial factors of real estate impact investing



Source: Nuveen Real Estate

negative for landlords and occupiers by 2030.

This involves building improvements for energy efficiency and minimising emissions in all development and refurbishment work. These activities will be measured, monitored and assessed in line with relevant recommended standards from appropriate bodies such as the UK Green Building Council and the RIBA 2030 Climate Challenge Targets. Carbon offsetting may also feature but the other elements of the energy hierarchy will be prioritised.

Social and economic objectives

Investing in properties located in deprived areas, sourcing products and services from local businesses, and setting targets for affordability, health and wellbeing, training, job creation, and inclusion and diversity are just some of the ways a real estate impact strategy can bring investment and services to underserved communities.

It can also optimise local outcomes by engaging with communities and stakeholders to focus on buildings that meet genuine community needs and have a sustainable future.

Financial returns

It is possible to invest to meet impact objectives and deliver attractive financial returns, by creating a portfolio diversified across locations and sectors and with assets that offer income and the opportunity for repositioning and redevelopment.

A real estate strategy that considers the environmental impact, socio-economic factors and financial prospects

in combination for every investment can provide buildings that truly meet community needs while also delivering returns for investors. The type of buildings that will most likely to fit with this strategy are described in the chart. We believe these buildings will be fit for tomorrow's world.

Conclusion

Impact investing offers an opportunity for the investment community to address some of society's fundamental challenges and for investors to act with confidence that their investment is delivering long-term sustainable return for the widest set of stakeholders.

The economic opportunity that comes with addressing societal need offers differentiation opportunities to institutional investors. We believe that it is possible to achieve financial returns while also meeting long-term community needs and being a responsible steward for the planet when investing in buildings.

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REAL ESTATE

DISCLAIMER: Real estate investments are subject to various risks associated with ownership of real estate-related assets, including fluctuations in property values, higher expenses or lower income than expected, potential environmental problems and liability, and risks related to leasing of properties. Investing involves risk; loss of principal is possible.