

A new era for impact investing

The global health crisis is prompting investors to consider social and environmental outcomes along with financial objectives.

Abigail Dean,
Global Head of Strategic Insights
Angela Goodings,
Research Director, Strategic Insights

2020 was a year of significant change as collectively the world fought a common enemy in the pandemic. With this health crisis came restrictions in social movements and a deep economic recession.

Usually, in times of economic pain, issues of people and planet often take a back seat and the focus is on balance sheets. But this has not been the case so far during the pandemic. Interest has grown in the importance of the environment and community. People have realised that climate change does not pause and crises like COVID-19 have a disproportionate impact across communities.

A role for real estate

The social upheaval brought about by COVID-19 has the potential to accelerate the growth and prominence of impact investing in the built environment, with social and environmental impact increasingly being considered as part of an overall strategy. This makes real estate a natural home for impact investing.

The pandemic has widened the gap between the haves and have-nots. It has increased social and economic imbalances between demographic cohorts of income, race and age, and also by geography. This is the case in the U.K. which is one of the most geographically uneven countries with income inequality ranked one of the highest in Europe. The country saw a sharp increase in unemployment during 2020, which is likely to widen the prosperity gap among U.K. regions, with the spread in unemployment rates between the best and worst regions forecast at 150 basis points higher than before the pandemic, according to data from Oxford Economics.

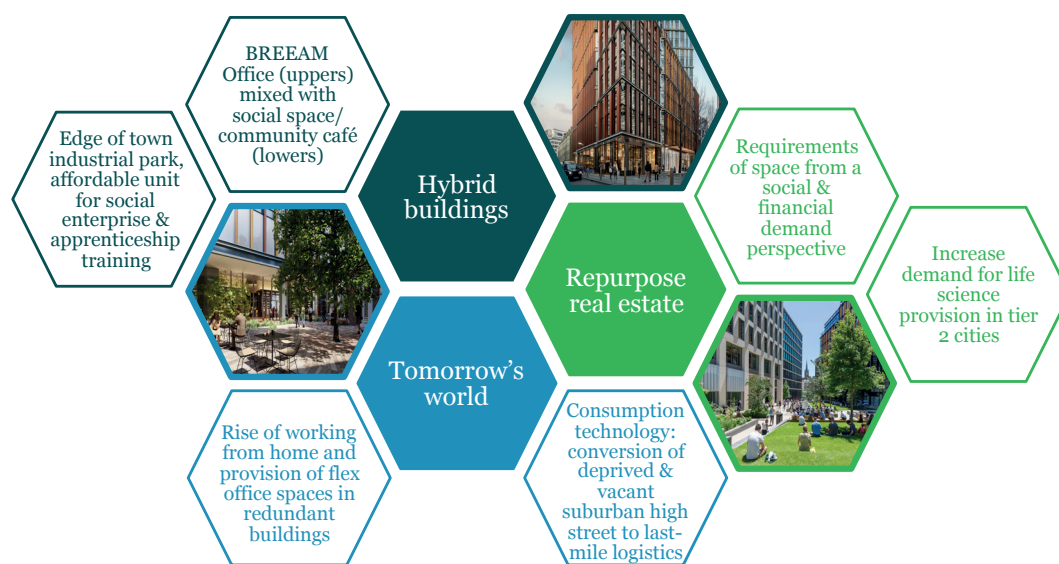
Levelling up in the U.K.

A shift to focus on people and planet has also been directed from the U.K.'s national government, with new national-level policies to safeguard residents and prioritise vaccinations by age and health. 2020 and the spread of the virus saw U.K.-wide solutions to house the homeless and grassroots organisations campaigned against racial and gender injustice.

This momentum for change continues and the U.K.'s March 2021 budget placed more emphasis on the 'levelling up' agenda by introducing funds to target direct investment into underserved regions. A series of initiatives combining over £5 billion of investment across the U.K. aims to regenerate town centres and high streets.

From top-down policies to bottom-up local initiatives, there appears to be much greater recognition of inequality as we move out of the

Delivering social, environmental and financial objectives for tomorrow's world



Source: Nuveen Real Estate, March 2021

pandemic and towards economic recovery. There is a push to ensure recovery means inclusion and progression for all.

Combining social, environmental and financial rewards

Now is the right time for investors to ensure this catalyst of change continues. The pandemic has highlighted the need for greater investment in social infrastructure — a broad term that includes assets such as modern healthcare facilities, care homes, senior living, affordable housing for key workers and specialist housing for vulnerable groups.

There is also an urgent need for investment to make building stock net zero carbon, as we transition to the low-carbon economy in an effort to meet the Paris Accord and avoid climate catastrophe.

Environmental impact is ahead of societal impact in terms of regulations and well-defined frameworks to work within, allowing a clearer direction and communication for delivering positive impacts. While there are numerous frameworks around the approach and measurement of social impact, the concept is not as well developed as environmental impact. However, we firmly believe that social impact investing is essential to address the societal inequalities felt around the country, and real estate investment is by its nature an investment in a place and in the fabric of a local community.

Changing the destiny of buildings

These social and environmental themes address some of the wider changes occurring within society and form part of Nuveen's approach to

tomorrow's world which incorporates community, technology and environmental factors when analysing investment markets through changing structural themes. Such themes also include the rise of working from home and consumption technology shown in the figure above, which illustrates the importance of repurposed real estate as well as hybrid buildings within our tomorrow's world framework.

We believe the right buildings to deliver impactful investments across commercial real estate will include mixed use. Multifunctional assets can provide diversified income streams and create synergies between occupiers.

Take an industrial park as an example. We can change the fabric of the building to become net zero carbon. The standing tenants provide an income return, helping to meet financial targets. If located in an area of high unemployment, there is the potential for underused units to be selected for an apprenticeship training scheme, helping to provide skilled employees for the industrial occupiers.

Real estate investment is by its nature an investment in a place and in the local community. It is therefore common sense that we should place social and community needs at its heart. This approach to impact investing in real estate reflects the changes we are seeing today in society and, in our view, should deliver the better outcomes for all stakeholders in tomorrow's world.

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