Impact investing in real estate: the emergence of social infrastructure

Covid-19 acted as a game changer for the real estate industry. Partly because of the pandemic, structural trends – which were already bubbling under the surface – are now accelerating rapidly. Even at a time of cyclical uncertainty, investors have new opportunities to consider. One of the real estate sectors growing in importance is Social Infrastructure.

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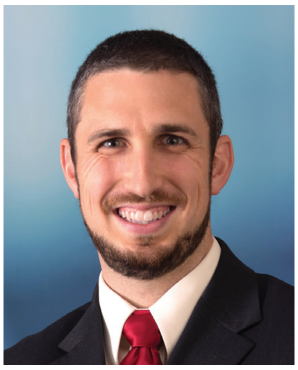

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This area of the real estate market has emerged as an important, institutional-scale opportunity for private investors to align their real estate portfolios with societal and environmental benefits and achieve competitive financial performance.

Social infrastructure – the buildings that house social services in a community – form the bedrock of healthy and resilient communities. They include **healthcare and education facilities, social and affordable housing, and buildings related to justice, emergency and civic services.** They contribute to economic growth, employment and social cohesion, while also providing essential services that we all rely on at points in our lives.

In our experience, social infrastructure investments typically offer predictable, steady returns, and tend to be less exposed to market and systemic risks. The investments may also be less correlated to broader market indexes and other commercial real estate investments. The lower correlation is driven by security on the income. In addition, the services provided by social infrastructure tenants' businesses are often essential, making them less exposed to market volatility. Therefore, they are less dependent on day-to-day economic activities in their immediate vicinity. This provides more certainty on the rental income in times of distress.

A funding shortfall

The pandemic highlighted that many communities around the world lack the necessary facilities – like accessible health care facilities and affordable housing – to combat threats like Covid-19 effectively. While the lack of necessary real estate infrastructure certainly existed prior to Covid-19, the pandemic emphasised the need for increased investment.

Over the last decade, beginning with the global financial crisis, public investments in social infrastructure have fallen short. With governments being the traditional financing source in the space, austerity policies post-2008 naturally stifled capital flows. This, coupled with other regional constraints, led to a pronounced **absence of social investments, notably in Europe**, but in other regions as well. According to a 2018 report from the High-Level Task Force on Investing in Social Infrastructure in Europe, the annual investment gap in the space is estimated to be a minimum of €142 billion (US$167.7 billion). This is a significant shortfall that public spending alone will not be able to cover.

With this context in mind, social infrastructure assets are a natural area of the real estate market for investors considering the environmental and social impact of their portfolios as well as **diversification of traditional real estate allocations.**

Case Study: Healthcare

Ensure healthy lives and promote well-being for all at all ages

3 GOOD HEALTH AND WELL-BEING

- **Challenge.** Despite significant advances in medicine and medical technology, at least half the global population lacks access to essential health services.[1] And where health services do exist, the challenge is to provide services of high quality.[2] While most of Europe enjoys universal health coverage, quality healthcare is not always available. As Europe's population ages, demand for more and better healthcare-related infrastructure and services is expected to increase.[3]
- **The role of social infrastructure.** Healthcare is a key sector of social infrastructure. We aim to contribute to this SDG by improving and expanding healthcare facilities. SDG 3 can also be supported with sale-and-leaseback arrangements for healthcare operators that provide quality services.
- **In practice.** Through our real estate investments, we focus on expanding the availability and accessibility of services, in addition to supporting healthcare tenants through the difficulties created by Covid-19. For instance, we added 563m² of new space at an hospital in Denmark and we are working with a hospital in Italy to expand the nursing home and create a specialised end-of-life care facility. We were also able to provide rent relief to an operator that was hit hard by Covid-19 lockdowns, allowing the operator to refurbish a physiotherapy pool and fund research scholarships.

Case study: Affordable Housing

Make cities and human settlements inclusive, safe, resilient and sustainable

11 SUSTAINABLE CITIES AND COMMUNITIES

- **Challenge.** Urbanisation and associated community and environmental issues are central to SDG 11. Europe's increasingly dense cities suffer a lack of amenities, inadequate waste disposal, high prices of basic goods, and insufficient affordable housing.[4] As urban populations rise, the need for mobility, energy efficiency, and community resiliency is increasingly critical. One in four Europeans are considered "rent burdened" – spending more than 40% of disposable incomes on rent – while ballooning housing costs put more people at risk of poverty.[5]
- **The role of social infrastructure.** We believe social infrastructure is uniquely positioned to contribute to both aspects of this SDG. From a community perspective, the preservation of safe and affordable housing directly aligns with SDG 11.1. From an environmental standpoint, we aim to work with tenants to minimise waste and optimise recycling practices to support SDG target 11.6.
- **In practice.** Through our real estate investments, we activated 244 affordable beds at our housing asset in Cambridge, UK, with an average rent 17.3% lower than market-rate accommodations in the area. We currently provide 446 student-housing beds at a below-market level and 617 accredited beds in our healthcare assets.

Real estate sectors in focus: healthcare and affordable housing

Our work on social infrastructure reveals that it is possible to manage and measure impact resulting from private investments in these assets on different levels: on an asset level, on a portfolio level and by looking at specific contributions to the Sustainable Development Goals (SDGs).

Healthcare and affordable housing are two of the key sectors within social infrastructure and they can help addressing two important SDGs as shown above.

From our point of view **a true impact investing strategy should be grounded on intentionality and transparency.** For each asset, we look to identify clear challenges, to define specific contributions and to report on the impact achieved.

Not all the world's problems can be directly addressed through impact investing, and even fewer can be addressed in a market-rate, core real estate strategy. However, institutional investors have an opportunity to contribute to the solution focusing on assets that could achieve both, an attractive financial return, and a meaningful positive environmental and social impact.

Find out more

Download our Annual Impact Report

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FOOTNOTE

1 Source: UN SDG3, United Nations, Sustainable Development Goals, as of March, 2020
2 Source: Improving healthcare quality in Europe. European Observatory on Health Systems and Policies, 2019
3 Source: Population structure and ageing, Eurostat, as of March, 2020
4 UN SDG11, United Nations, Sustainable Development Goals
5 Source: Housing statistics, income and living conditions, Housing cost burden, Eurostat, as of June, 2020