

# Impact investing: why social action in real estate is as important as climate action



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It is a movement that is hard to argue against. Impact investing, which the Global Impact Investing Network (GIIN) says can be defined as investment strategies that aim to ‘generate specific beneficial social or environmental effects in addition to financial gains’, has grown enormously in recent years.

According to the latest GIIN market sizing study, the impact investment market recently passed the \$1 trillion mark for the first time in terms of assets under management (AUM), something that GIIN’s Co-Founder and CEO, Amit Bouri, describes as ‘a significant psychological milestone for an industry still maturing and growing in sophistication’.

Such growth is to be welcomed given the huge environmental and societal problems the world faces, not least climate change, widening economic inequality and poverty. “Urgent action and vast allocations of capital are required in the present moment in order to achieve the United Nations Sustainable Development Goals (UN SDGs) by 2030 and to reach net zero emissions by 2050,” says Bouri.

“Despite clear progress, this is no time for complacency. The work to scale the market with integrity is crucial if the world hopes to reverse the tide of climate change and address social inequity head

on. All industry players have a role to play in ensuring that impact investing fulfils its promise.”

However, while tackling environmental issues is vitally important, it has to be said that real estate - and the wider investment community - tends to focus on energy efficiency and climate change, rather than real estate investments that can contribute significantly to providing solutions to social issues, as may become more pronounced under the planned EU social taxonomy regime.

PATRIZIA has recognised the importance of the social side to impact investing. Most tangibly, last year PATRIZIA launched its ‘PATRIZIA Sustainable Communities’ strategy - the company’s first strategy purely dedicated to impact investing, in a strategic commitment to significantly boost the company’s activity in the area. This dedicated impact investment strategy focuses on environmental and social aspects equally. So, how does that manifest itself?

## Affordable homes

The strategy aims to create sustainable communities by providing thousands of affordable homes, including social housing, and additional social infrastructure or public facilities, such as a library, day care centre or healthcare facility, to underserved communities in around 25 locations in and around major European cities.

“It is our belief that real estate investors can make an important contribution to achieving the UN SDGs,” says Marleen Bikker-Bekkers, Fund Manager at PATRIZIA Sustainable Communities. “Governments and public capital is not enough. Fortunately, there is enough private capital in the world. If we deploy that now in a different, more sustainable way, we can make a difference.”

Specifically, the PATRIZIA Sustainable Communities strategy was set up to include three pillars or themes that focus on seven SDGs in total. These comprise: affordable housing (SDGs 1 and 11: ‘no poverty’, ‘sustainable cities and communities’); green real estate (SDGs

6, 7 and 13, respectively ‘clean water and sanitation’, ‘affordable and clean energy’ and ‘climate action’); and inclusion and connectivity (SDGs 3 and 4, so ‘good health and well-being’ and ‘quality education’).

The strategy is classified as an impact investment strategy in that it provides homes for key workers who cannot afford to live close to their workplaces and for people on the social housing waiting list. In addition, it promotes social inclusion, boosts connectivity and reduces the carbon footprint in the communities it invests in, while targeting attractive returns.

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“The strategy is aligned with the UN SDGs and provides a dual return to investors,” Mathieu Elshout, the strategy’s chairman and PATRIZIA’s Head of Sustainability and Impact Investing said at the launch. “This dual return consists of a financial risk adjusted return on the one hand and measurable positive social and environmental outcomes on the other.”

He added: “With support from our clients and because of our 39-year proven track record of building social infrastructure and sustainable communities, PATRIZIA’s ambition is to become a leading global impact investor in the real assets sector with a meaningful part of its AUM in impact investments by 2035.”

## Well-defined problems

The strategy has been developed to address some well-defined problems. For instance, academic research has shown that more than 80 million European citizens are overburdened by housing

costs, while 75 million are said to be socially isolated. “The need for affordable housing is by now well known,” says Bikker-Bekkers.

“More than 80 million Europeans spend too much of their income on the home, meaning that they pay more than 40% of their income in fixed costs, and that number is rising rather than falling due to increased energy costs. And more than 75 million people speak to no more than one person per month socially. We therefore invest in the community by creating social spaces such as parks, a community centre and a library in or close to our properties and running social programmes there.”

In order to address such issues in a structured way, the strategy has been set up to target multiple sectors and maximise impact. “To be clear, besides housing, we also invest at least 10% in public facilities, such as a library or schools. There may also be some smaller commercial space to fulfil the community’s need for a shop, cafe or other space,” says Bikker-Bekkers.

All being well, the strategy has moved from from the theoretical to the tangible. Recently, its first acquisitions were made - two sites in south-west Dublin. “We will be working with very experienced and well-connected local teams because of their local knowledge and relationships are crucial. We are building in partnership. We have a very positive dialogue in Ireland currently with two different housing associations that will potentially be looking after the projects and doing everything on the leasing side of things without any leasing risk for us. It’s really a win-win situation,” says Mads Rude, Head of Global Partners at PATRIZIA.

### Dublin delivery

According to Bikker-Bekkers, the projects are an excellent example of the strategy in action. “We have a real community view,” she says. “In Dublin, we’re not only building affordable housing but also building a library, not only because the opportunity presented itself but also because libraries demonstrably have a social function. People come there not only to borrow books but also to read the newspaper and have a cup of coffee together, for instance.”

Ofri Earon, founder of the new urban planning practice, Neighborhood Lab, and Advisory Board Member of PATRIZIA Sustainable Communities, agrees: “According to research, community identification can have a range of positive effects on the residents, including enhanced well-being, decreased loneliness, a stronger sense of belonging, deeper social bonds and increased collective action for social change. These benefits are significant not only from a social standpoint, but also from an economic one.”

“Residents in flourishing communities are more likely to invest in a long-term home. They are proud of their community, contribute to place identity, maintain their properties, and participate in

local activities. This positive cycle fosters a sense of respect, empathy, and mutual support among neighbours. It enhances quality of life, and makes the neighbourhood a pleasant place to live.”

Further developments are in the pipeline, such as care homes for the elderly in Spain and Germany, a redevelopment project converting old, unused properties into affordable housing in London and several urban regeneration sites in the Benelux. “We choose bottom-up projects that meet our financial, as well as impact objectives. The focus is on locations where our investors’ capital can help the government solve some of their major challenges where there is a need,” says Bikker-Bekkers.

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Impact, of course, needs to be measured if it is to mean much to investors. When it comes to energy efficiency or reducing waste, for instance, that isn’t necessarily easy, but there are starting to be tried and tested ways of doing so and internationally recognised reporting methodologies. The same cannot be said - not yet at least - for social outcomes. As a result, PATRIZIA has to come up with its own system.

“Together with consultants, we have built a framework to define a number of measurable KPIs for each impact theme,” says Bikker-Bekkers. “Regarding affordability, the criterion is that housing costs should not exceed 35% of income. With housing, we only target the lower- and middle-income population groups. With inclusion, we measure, for example, how often residents participate in social engagement programmes.”

However, Bikker-Bekkers adds that getting the framework right is an iterative process. “Not everything is yet perfectly measurable,” she says. “The framework is still partly under development. But we have made great strides and are measuring much more than before. It is hard work, but fortunately there is also something in return - a fairer and cleaner world.”

She adds: “Of course, we also use GRESB [the global ESG benchmark for financial markets] as a tool to measure general ESG [environmental, social and governance] criteria, but PATRIZIA Sustainable Communities required its own developed framework to properly measure the impact against KPIs we have defined.”

### Investment in data analytics

Measuring the strategy’s impact is easier than it might be for other companies due to PATRIZIA’s investment in data systems. PATRIZIA is a real assets investment manager with 39 years’ experience. Over this period, PATRIZIA has increasingly invested in data tools to better forecast

financial returns, as well as support its social and environmental KPIs.

Of course, it is still early days for the strategy, although it has clearly made a good start, not least in terms of attracting investor interest and getting those early projects underway. However, it should also be remembered that PATRIZIA has been involved in impactful investments for many years, even if it only set up a dedicated strategy last year.

In short, this isn’t new ground for the company. “ESG is embedded in all our investment propositions,” says Bikker-Bekkers. “I would almost say ESG is in our DNA. For instance, we set up the PATRIZIA Foundation 22 years ago, to which we donate 1% of our operating profit every year. The idea is that success should be shared with the world.”

### Social Taxonomy in the EU

What? Social Taxonomy is the planned classification of economic activities that would encourage compliance with the social objectives of the European Union and contribute to the development of a green and more inclusive society. It provides guidelines for investors, businesses and regulators concerning what is and is not sustainable from a social perspective.

Why? The main factors which make a social taxonomy necessary include the need for social investments in sectors such as affordable housing, medical care, education and respect for the human rights of workers, consumers and communities, as well as connection with the environment and the need for socially inclusive measures to accompany a green, just transition.

Affordable housing and Inclusive communities: The objectives of the initiative involve promoting decent work, with specific regard to preventing precarious employment and promoting diversity and inclusion; providing adequate living standards and wellbeing for end-users, which includes access to affordable, good quality housing; and developing inclusive and sustainable communities and societies.

Status: The EU Social Taxonomy is still in the early stages of development, and it is unclear when or if it will be adopted as an official EU regulatory framework considering the project has been put on hold, at least until the European Commission’s current term of office ends in 2024.

