A step-by-step guide to measuring social impact in real estate

There's no benchmark for social impact investing, but investment is gaining traction. In this article we - Schroders Capital - explain how we measure place-based impact.

Christopher Santer
Fund Manager, Positive Impact Investment, Real Estate

Lydia Merry
Manager, Real Estate Capital

Schroders capital

Impact investing is not philanthropy. It is defined by both the International Finance Corporation (IFC) and Global Impact Investing Network as targeting "measurable positive social, economic or environmental impact alongside financial returns."

Place based impact investment (PBII) is an approach to real estate that seeks to deliver improved regional prosperity, employment prospects and housing quality, by developing housing, workplaces, and regenerating town centres. We believe PBII can work towards reduced social deprivation and an attractive risk-adjusted return for institutional investors.

The diverse nature of real estate, and the intangible characteristics of social impact outcomes, means that investors can struggle to decipher and measure impact outcomes. Here, we explain how to consistently and reliably measure outcomes or changes delivered as a direct or indirect result of investment.

Commit to a framework to manage and standardise impact

There are various industry initiatives and frameworks that seek to manage impact and standardise an approach to impact investing.

Among those we see as best-in-class include the Operating Principles for Impact Management (Impact Principles) - launched by the IFC in 2019.

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BlueOrchard – our impact specialist with over 20 years of impact investing experience, has supported us to integrate the Impact Principles into our investment processes and governance. We became a signatory to the Impact Principles in 2022 and this milestone demonstrates our commitment to invest with impact at scale and with integrity.

To align with the Impact Principles for PBII, we utilise three core attributes, and implement these both at a fund and an asset level.

1. **Intent** - Establishing what outcomes the fund's investments wants to deliver

2. **Contribution** - Establishing how our real estate investment will deliver the objectives

3. **Measurement** - Committing to independent evaluation of our impact strategy on an annual basis to ensure accountability and transparency for investors

Apply framework to real estate investments

1. Intent

Within real estate we have the unique opportunity to tangibly deliver positive social impact through the buildings and places we create. PBII is subtly different from other impact strategies. Diversity and inclusion, for example, have positive impact on people wherever they are, but makes no change to the physical environment around them.

In 2021, The Good Economy, the Impact Investing Institute and Pensions for Purpose partnered on a white paper that sought to set out why institutional investors should consider adopting PBII. The paper defined PBII as investments "...made with the intention to yield appropriate risk-adjusted financial returns as well as positive local impact, with a focus on addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development".

At the UK real estate division of Schroders Capital, our current focus is on addressing social inequality across the UK. We invest predominantly in deprived areas with a focus on town centres, which we see as offering sustainable locations leading to better social outcomes.

Clearly-defined, place-based impact objectives set the standard against which performance and key results can be measured.

2. Contribution

By its very nature, responsible and impact-led investment in deprived areas should respond to the needs of its communities. For a PBII strategy, we consider housing and regeneration as sectors where institutional capital can deliver the greatest impact.

"Additionality" is key. This means the delivery of positive impact outcomes, beyond what would have been delivered by investors driven solely by financial profit. Engagement with local stakeholders above and beyond the planning officers is critical. This is to hear the local voice and ensure investments can support improved outcomes for the population it serves.

At Schroders Capital, the real estate team uses a clear methodology to consistently and comprehensively evaluate assets using an Impact Scorecard. We have identified specific outcomes that will be supported through delivering the project and the contribution each asset will make to the solution.

3. Measurement

Our team defines clear metrics or key performance indicators for each project in the portfolio. These metrics are aggregated at the fund level. The aggregate metrics are then combined with narrative from the local population, to give greater clarity on progress against the stated objectives.

How it works in the real world

We outline examples of the metrics our team tracks below, by investment type, reflecting the nuances and target outputs for different strategies.

Housing

Impact Objective: to increase the supply of safe, quality, affordable housing.

Metrics used:

- Monetary value (£) invested in target geography/deprived area
- Capital amount invested in construction and ongoing management
- Percentage of rents defined as affordable for the target demographic
- Number of new houses built by tenure and type, including open market, shared ownership, affordable rent, social Rent and specialist housing)
- Indirect – wellbeing surveys for residents

Town Centre regeneration

Impact Objective: to reduce the "empty high streets" phenomenon and encourage vibrant and inclusive town centres.

Metrics used:

- Monetary value (£) invested in target geography/deprived area
- Percentage reduction in under-utilised space (m2)
- Increased public realm & green space (m2)
- Percentage space leased to independent retailers and jobs created
- Local employment and materials created during construction
- Indirect impact – surveys of new residents of town centre and local catchment area residents that use new amenities

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Workplaces & Employment

Impact Objective: To support improved local and regional prosperity through greater levels of employment and high quality workplaces

Metrics used:

- Measure employment growth and contribute to skills development in deprived areas, through provision of high-quality office space for local employers
- Monetary value (£) and quantity of space, provided to local micro-, small- and medium-sized enterprises and voluntary, charities and social enterprises
- Number of new good-quality / well-paid (i.e. real living wage) jobs supported
- Financial spend (£) deployed in the area during construction & operation
- Percentage rise in number of individuals in skills training for individuals previously unemployed or not in education or training
- Number of apprenticeships
- Percentage of space refurbished to best-in-class wellness standards and let to national employers

Who benefits? Monitoring broader effect

In real estate, the main beneficiary of well-executed PBII is usually the tenants. However, the impact reach of properties is much broader than just these groups. An asset's indirect impact should also be taken into account.

This is particularly relevant when regenerating a town centre into a residential-led scheme, for example. Office, leisure and retail space might be developed alongside education and healthcare elements which will positively impact more than just those who live in the new homes. It can have a positive social impact on local retailers benefitting from increased spend or attract new employers benefitting from the nearby labour pool. Parents may drop children at the nursery and go to work in the nearby offices. Local community groups may have access to space for events, classes and faith-related activities.

Additionally, local residents could be made to feel safer as a result of the scheme's anti-crime design, drawing them back to the town centre again. This ecosystem of stakeholders is not only positively impacted by the new properties but contribute to the ongoing positive impact these places can have. But how do you determine this indirect benefit?

Impact measurements will be different for each property sector. They will follow a similar pattern of determining the amount and quality of space delivered, its affordability compared to local rents, and spend in the local area during construction and on-going management. These are all examples of quantitative measures of social impact, but using just quantitative measures alone does not paint the full picture.

Conducting surveys of local stakeholders to understand the local voice provides a critical narrative to the impact success. Are people feeling happier, safer, more included because of the place created from investment in the property and the surrounding area? The success of towns and communities is intrinsically linked to local people and their needs.

Transparent reporting

The standardised metrics or key performance indicators - linked to local needs at both an asset and fund level - should be shared with investors periodically. This reporting should combine quantitative and qualitative data, including stakeholder voice, to provide a holistic view of impact creation not captured by measuring metrics alone. We think annual reporting is an appropriate timeframe to demonstrate progress, recognising regeneration and social impact can take time to deliver.

As we have outlined, it is possible to measure delivery of social impact beyond simply providing social housing. More than a short-term fix, PBII can deliver positive change for a place or region that becomes meaningfully entrenched. With clearly-defined intent and metrics, and delivering real estate that reflects the requirements of residents, with transparent reporting to investors, and it can also generate robust, sustainable returns.