Real estate is ideal for impact investing

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BpfBOUW and ABP demonstrated a significant commitment to sustainable development by jointly allocating €400 million to the Dutch Social Impact Real Estate Partnership, managed by Bouwinvest. This substantial investment underscores the potential of real estate as an ideal vehicle for impact investing. Every society has an interest in a sustainable built environment, a place where everyone can find affordable and appropriate housing. Impact investing in real estate can reduce housing shortages and generate major social gains.

Elderly people who are forced to leave their communities because of a lack of suitable care housing, neighbourhoods that continue to deteriorate thanks to the closure of the only available supermarket or library, and workers on median incomes or refuges who simply cannot find any kind of housing; these are just a few examples of the problems society is facing right now.

Impact investing in real estate can fill the gaps currently being left by investors and housing corporations. This form of investing goes beyond exclusion or inclusion, sustainable investment or engagement, but goes less far than philanthropy. In impact investing, the main priority is to add something positive to society and while target returns are important, they are not leading. Or as The Global Impact Investing Network (GIIN) puts it: Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a certain financial return.

Fortunately, institutional investors are becoming increasingly aware of the major social contribution they can make through their investments. According to GIIN, the size of impact investments worldwide now exceeds USD 1.1 trillion. Ten years ago, this amount was negligible. Pension funds and other institutional investors are now expected to eventually allocate over 1 percent of their assets to impact investing. However, Research by VBDO sadly shows that there are still not enough opportunities to make impact investments in all asset classes.

In real estate in particular, impact investing can yield rewarding results. For instance, the Dutch real estate market is very much out of balance, both in the sense that large groups of people cannot find suitable housing and that certain neighbourhoods or regions remain under the radar. Real estate investors may already be making great strides at the moment, but they are understandably focusing on the 'E' of ESG, as this factor has become clearly demonstrable in recent years. Demonstrating and thus giving measurable substance to the 'S' is sometimes more difficult. But real estate is precisely the asset class that makes this very much possible.

In the Netherlands, for instance, there is a huge shortage mid-rental housing in the lower segment for people on an average income. If nurses, teachers and the elderly are able to find housing at all, the question is whether it meets their needs, such as being at a reasonable distance from their work or from certain amenities. While traditional investors in mid-rental housing struggle to find enough properties with monthly rents of between € 950 and € 1,100, impact investors can target the lower mid-rental segment, with rents of between € 800 and € 950.

And while traditional investors tend to focus on the type of tenant that entails the lowest risk, impact investors ask a very different question: which tenant needs this home the most and is the property appropriate for their household size and income? In addition to adding affordable, healthy and sustainable housing, impact investors can also focus on social activities, amenities and services that are suitable for the tenants or the local neighbourhood. Examples include a space for homework tutoring or activities for the elderly.

The risk of vacancy of mid-rental segment homes is low. This may involve lower return targets in the short to medium term, especially in the lower end of this segment, with additional social and sustainability objectives. On the other hand, the knife cuts both ways for investors such as pension funds and insurers. After all, their participants and policy-holders are increasingly demanding that the funds they have deposited be used in a socially responsible manner. In addition, a fair number of those participants and policyholders are among the people who benefit from affordable housing and senior housing.

Social impact real estate investment enables impact real estate investors to enter areas where initiatives are currently lacking. This enables impact investors to actively look at investing in neighbourhoods that would otherwise remain out of the picture, such as Amsterdam-West, Utrecht Overvecht or Rotterdam-Zuid. While liveability is currently deteriorating in certain neighbourhoods, adding certain kinds of real estate could actually act as a catalyst for improvement. And should these investments indeed act as a catalyst, in the long run this could result in higher-than-expected indirect returns.

Impact investing requires collaboration with like-minded parties, something that is already happening in other countries. For instance, an investor in Dublin has realised homes that are rented out to the local council at 95 percent of the market price. The local council then rents these homes at a discount to vulnerable groups or low-income people. The local council takes care of the discount they offer tenants, while the investor settles for a slightly lower but stable return with little risk. For the Dutch market, obvious equivalent transactions would be those in which local authorities sell land to developers at a discount, and the developers then build homes for people who are currently falling between the cracks.

All in all, impact investing offers great opportunities. At the same time, measurability is essential for impact investing is to gain traction. How do you prove that you actually have an impact? As a recent review by the Dutch Financial Markets Authority (AFM) shows, under the Sustainable Finance Disclosure Regulation (SFDR), only funds that pursue sustainable goals are in principle eligible for the 'Article 9' qualification. Funds that limit themselves to 'promoting' sustainability fall into the lower Article 8 category. While the SFDR helps on the 'green' impact front, there is still a lot of work to be done on the standardisation of social impact. This is why some investors are developing their own social impact frameworks. Simply put, this involves quantifying initiatives in new ways, such as: how many rental and care homes in the low and mid-rental segments have been added over a certain period of time and how many households have been allocated appropriate (care) housing?

Impact investing is evolving and the first steps are now being taken. While traditional investors are still searching for a healthy balance between return and sustainability, investing in the 'S' should eventually become as common as investing in the 'E'.

Bouwinvest Real Estate Investors