

Social Infrastructure in Europe: from Alignment to Contribution to the Sustainable Development Goals

The United Nations' Sustainable Development Goals (SDGs) are a powerful organizational and communications tool for institutional investors and asset managers as they are universally accepted across multiple facets of society. But the SDGs are vulnerable to misuse, misrepresentation and dilution. Investors need to ensure that when a real estate strategy is labelled as "aligned with the SDGs" that it moves beyond just alignment and makes a real contribution to positive social and environmental outcomes. In this article we explain how we have approached this challenge with an investment in affordable housing, one of the main sectors within social infrastructure.

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For institutional investors and asset managers, the SDGs act as a common language for discussing, managing and reporting on their impact investment strategies. In fact, one of the most common questions from forward-thinking asset owners to impact asset managers is "are you aligned with the Sustainable Development Goals?" While mapping investments to SDGs is a worthwhile effort, "alignment" should be only the first step, and the same – or even more – weight should be given to **how real estate investments and active ownership contribute** to specific targets and indicators behind each Sustainable Development Goal.

Connecting goals, targets and indicators

The SDGs are, by design, very broad and act as a foundation for others to build upon. Fortunately, behind each goal there are anywhere from 5 to 19 "targets" that speak in greater specificity about sought-after outcomes. And behind each target are "indicators", which are the data points used to track progress towards each target, as illustrated in the example in exhibit 1. Backed by these targets, we can define which specific actions – or contributions – we can perform. Because the contributions are often measurable, KPIs can be used to monitor progress and improvement. Finally, using research and logic models, the KPIs can be mapped against the indicators tracked by the UN.

We believe **the focus on defining and measuring real contributions should be a key consideration when assessing an impact strategy in real estate**. This is because it not only results in clearer linkage with the SDGs, but also because of the transparency it brings to the portfolio. Investors will be able to leverage this information as they map their investments against their own goals.

Utilizing the SDGs in practice – social infrastructure

Social infrastructure projects, such as hospitals, schools and community centres, may be attractive assets for real estate investors seeking to make both a market rate of return and an impact return, which is the measurable improvement on environmental and community related aspects.

For our social infrastructure strategy – managed

by Franklin Real Asset Advisors - **the SDGs and their targets and indicators inform our entire investment process** - from due diligence to reporting - and are integrated in the Impact Management Model¹. When assessing an investment in affordable housing, we will explore the multiple ways an investment can be impactful. We can express a full theory of change that is guided by the SDGs, as shown in the below graphic.

Exhibit 1: SDG 11, targets and indicators

11 SUSTAINABLE CITIES AND COMMUNITIES													
MAKE CITIES AND HUMAN SETTLEMENTS INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE													
TARGET	11-1	TARGET	11-2	TARGET	11-3	TARGET	11-4	TARGET	11-5	TARGET	11-6	TARGET	11-7
SAFE AND AFFORDABLE HOUSING	AFFORDABLE AND SUSTAINABLE TRANSPORT SYSTEMS	INCLUSIVE AND SUSTAINABLE URBANIZATION	PROTECT THE WORLD'S CULTURAL AND NATURAL HERITAGE	REDUCE THE ADVERSE EFFECTS OF NATURAL DISASTERS	REDUCE THE ENVIRONMENTAL IMPACT OF CITIES	PROVIDE ACCESS TO SAFE AND INCLUSIVE GREEN AND PUBLIC SPACES							
<ul style="list-style-type: none"> • 11.1.1 – Proportion of urban population living in slums, informal settlements or inadequate housing 	<ul style="list-style-type: none"> • 11.2.1 – Proportion of population that has convenient access to public transportation, by sex, age, and persons with disabilities 	<ul style="list-style-type: none"> • 11.3.1 – Ratio of land consumption rate to population growth rate • 11.3.2 – Proportion of cities with direct participation structure of civil society in urban planning and management that operate regularly and democratically 	<ul style="list-style-type: none"> • 11.4.1 – Total expenditures per capital spent on the preservation, protection, and conservation of all cultural and natural heritage, by type of heritage, level of government, type of expenditure, and type of private funding 	<ul style="list-style-type: none"> • 11.5.1 – Number of deaths, missing persons and persons affected by disaster per 100,000 people • 11.5.2 – Direct disaster economic loss in relation to global GDP, including disaster damage to critical infrastructure and disruption of basic services 	<ul style="list-style-type: none"> • 11.6.1 – Proportion of urban solid waste regularly collected and with adequate final discharge out of total urban solid waste generated, by cities • 11.6.2 – Annual mean levels of fine particulate matter in cities 	<ul style="list-style-type: none"> • 11.7.1 – Average share of the built-up area of cities that is open space for public use for all, by sex, age, and persons with disabilities • 11.7.2 – Proportion of persons victim of physical or sexual harassment, by sex, age, disability status, and place of occurrence in the past 12 months 							

Source: United Nations Sustainable Development Goals

Defining contributions

Our contributions play a critical role in grounding our efforts in the social infrastructure space. By ensuring that investments include one or more of the five actions below, it is possible to track how investments lead to positive community and environmental outcomes linked to the SDGs.



Aligned, long-term capital

Our objective is to maintain strong-performing assets and enhance underperforming ones to improve the social services and the environmental footprint they render. In some arrangements, like a buy-and-lease-back, we can free up much-needed public capital and provide liquidity to municipalities.



Function enhancements

One of the primary ways we can contribute to impact is with the direct and intentional enhancement

of the facilities we purchase through renovation and upgrades. Examples of function enhancement include creating more usable space and finding alternative uses that benefit the broader community.



Environmental upgrades

We can create positive environmental impact through actions that reduce pollution, reduce net water and material use, and support biodiversity and clean transportation. Examples of upgrades could include installing energy efficient systems, creating more green space, improving recycling and waste disposal policies and many others.



Purpose-driven development

Select investments may arise with the opportunity to convert a non-social infrastructure building into social infrastructure. Other opportunities may arise to construct new buildings or to increase the building area used for social infrastructure.



Tenant & community partnerships

Stakeholder engagement is critical to the success of social infrastructure investments, and in some instances, opportunities may arise to work with local partners to create new ways to serve the community. Examples could include partnering with civil servant tenants or healthcare providers to hear ways we can work together to improve their connection with the community.

Towards a deeper understanding of impact in Real Estate

When investors and asset managers think about the movement from alignment to contribution and from goals to more specific targets and indicators, we are, together, moving towards a deeper understanding of real impact, and requiring more work before an assertion of impact is justified.

The leadership of field building organizations and practitioners shows that a more disciplined path to achieving impact, and not just hoping for alignment, is possible. Our own efforts in Impact Measurement and Management have been significant and involved consultation with outside experts, system design, testing and implementation by a dedicated impact team. Our early learnings suggest the added discipline of impact management makes for a more robust investment process and creates transparency and authenticity around how we can and cannot contribute to communities and the environment.

The impact investing space is growing and evolving rapidly, and as we advance our understanding of what it means to contribute to the SDGs we will be better equipped to allocate capital to the most attractive investments with the highest potential for meaningful impact.

FOOTNOTE

1 "Five Building Blocks for Impact Management. Impact in Practice: Social Infrastructure", Franklin Templeton and Tideline, March 2019

Exhibit 2: Contributing to the SDGs through an investment in Affordable Housing

1. IDENTIFY THE PERTINENT SDGs	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	11 SUSTAINABLE CITIES AND COMMUNITIES		
2. IDENTIFY THE SDG TARGETS	TARGET 6-4	TARGET 7-2	TARGET 7-3	TARGET 11-1	TARGET 11-6
3. DEFINE POTENTIAL CONTRIBUTION	<ul style="list-style-type: none"> Install low-flow toilets, aerators & motion-sensing taps 	<ul style="list-style-type: none"> Install Solar panels 	<ul style="list-style-type: none"> Install smart meters, conduct operator and tenant training 	<ul style="list-style-type: none"> Purchase and maintain affordable housing units 	<ul style="list-style-type: none"> Improve waste management
4. ESTABLISH KPIs FOR OUR CONTRIBUTIONS	<ul style="list-style-type: none"> Volume of water used by residents 	<ul style="list-style-type: none"> Amount of purchased energy consumed from non-renewable sources 	<ul style="list-style-type: none"> Total amount of purchased energy consumed by residents 	<ul style="list-style-type: none"> Number of residents in affordable housing units Average Tenant Rent 	<ul style="list-style-type: none"> Waste Disposed: Landfill Waste Disposed: Compost Waste Disposed: Recycling
5. CONTRIBUTIONS MAPPED AGAINST SDG INDICATORS	<ul style="list-style-type: none"> 6.4.1 – Change in water-use efficiency over time 6.4.2 – Level of water stress 	<ul style="list-style-type: none"> 7.2.1 – Renewable energy share in the total final energy consumption 	<ul style="list-style-type: none"> 7.3.1 – Energy intensity measured in terms of primary energy and GDP 	<ul style="list-style-type: none"> 11.1.1 – Proportion of urban population living in slums, informal settlements or inadequate housing 	<ul style="list-style-type: none"> 11.6.1 – Proportion of urban solid waste regularly collected and with adequate final discharge out of total urban solid waste

Source: United Nations Sustainable Development Goals and Franklin Templeton. For illustrative purposes only.

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