

Building a virtuous circle

More and more real estate companies are tuning into the social and environmental benefits their schemes can bring to society. **Paul Strohm** reports

Real estate has, it seems, readily taken to environmental, social and governance criteria in the way businesses are run and buildings are built. The industry has recognised that ESG is the right thing to do and that most of its client base, whether investors or occupiers, expects no less.

The Covid-19 health crisis has helped to emphasise the validity of environmental criteria in particular as the industry contemplates the post-lockdown phase of tempting workers back to the office and the greater emphasis on wellbeing this will require.

Increasingly, however, there is a desire to go further, for real estate to wield its not inconsiderable financial clout to help sort out some of society's other ills, while still providing a commercial return on the investments in its charge – the essence of impact investing.

Patron Capital MD and founder Keith Breslauer says of ESG: "We always did the 'E'. Controlling carbon emissions through the proper specification of property was part of our priorities anyway. The 'S' part was always relevant but we did not do it directly – now we are doing it directly. The 'G' part, governance, typically determined as transparency – let's call it the ethics of the business – has been a clear requirement since we set the company up 21 years ago."

While 'E' and 'G' are part of Patron's DNA, the 'S' part of the acronym has now taken on more importance with the company's involvement with the Women In Safe Homes fund.

The fund provides a solution to the lack of affordable, safe and secure homes across the UK for women and their children that are homeless or at risk of homelessness, typically because they have suffered



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Keith Breslauer, Patron Capital



domestic abuse, have been involved with the criminal justice system, or perhaps have mental health problems.

The fund acquires properties and leases them to women's sector and homelessness charities, which in turn rent them to women on secure tenancies. The fund's target size is £100 million and it aims to provide around 650 affordable homes across the UK. The fund's first close was in December 2020 at £15.5m.

HOUSING DEMAND

Big Society Capital, an independent financial institution funded by dormant English bank accounts, and UK high street banks Barclays, HSBC, Lloyds and Natwest, highlighted the need for the fund, having carried out a survey of 60 women's sector organisations and discovered significant demand for housing from women in challenging circumstances. Big Society Capital drafted a property fund proposal, the fund was established and Patron Capital and Resonance manage it.

Breslauer says the principal challenge for impact investing of this nature is whether an appropriate risk-adjusted return can be generated that makes it attractive to an investor. An important goal is not to reduce returns. The Women In Safe Homes fund is targeting a 6-9% return, which Breslauer says is slightly better than regular residential. "The difference is that the customer is the charity which is renting from us, helping women suffering domestic abuse and therefore the impact benefit is massive because there is a direct relationship between the building and the recipient."

Social and affordable housing has so far been the main medium through which the real estate sector can deliver 'impact'.

Italian property company COIMA launched the COIMA ESG City Impact Fund last year, billed as the first urban regeneration ESG fund to be launched in Italy. By July it had received €400 million equity commitments from cornerstone investors that included Italian institutional investors Cassa Forense, Inarcassa, and Cassa Commercialisti. With co-investments, partnerships and financial leverage that gives the fund investment capacity of more than €1.5 billion. Further equity is



CBRE UK Affordable Housing Fund is forward funding HUB Group and Bridges Fund Management's Abbey Place, Greenwich in south-east London. The scheme's two towers will provide 245 homes, 72% of them 'affordable'

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Manfredi Catella, COIMA

being targeted with the aim of generating a total investment capacity of more than €4 billion.

The fund's aim is to accelerate Italy's recovery from the economic impact of Covid-19, both through the allocation of private and public capital and through the delivery of long-term 'green' real estate, as well as supporting Europe's overall ESG initiatives to build a more sustainable economy in line with the EU's framework for the European Green Deal.

The fund will achieve that by targeting regeneration opportunities throughout Italy and across a range of sectors, including residential and hospitality, with a particular focus on neighbourhood developments to support economic development in the main Italian cities.

COIMA's CEO Manfredi Catella explains that the fund has financial return objectives, but also has to maximise its return in terms of impact. "The point is that it is the first time investors have been ready to invest in a product of this kind – the capital market is changing quickly," he says.

The initial pipeline includes a number of potential sites, among them Porta Romana, a 19 ha disused railway yard in Milan, which has been chosen to host the Olympic Village of Milano-Cortina 2026.

"In the case of Porto Romana, it is one of the last, if not the last neighbourhood-

Milan's Porta Romana will transform a former railway marshalling yard into a new neighbourhood and, temporarily, an Olympic village

scale site in Milan," says Catella. "The scale is important. Being close to the city centre but at the same time in the area between inner and outer Milan, it is a fringe area and neighbourhoods around are different in terms of social composition and activities. Being at that scale allows more comprehensive holistic design thinking to impact in a broader way."

MASTERPLAN COMPETITION

Six architects are preparing submissions for a masterplan competition with an end-of-March deadline so the precise content is not yet defined. However, the development will include a 10 ha park around which there will be offices, social housing, student housing and other services linked to the adjacent metropolitan area.

COIMA will develop the Olympic Village itself and after the games this will be



transformed into housing for 1,000 students, in addition to the social and affordable housing. COIMA has partners Covivio, which will develop office space and services, and Prada Holding, which will build laboratory and office space, extending existing facilities it has in the area.

Catella says Porta Romana is challenging in terms of its use: "There will be a significant proportion of affordable housing and social housing so the residential component is quite high."

As well as linking parts of the city that had previously been divided by the railway, the development will blend social groups in a way that is not typical in Milan. "It is going to be mixed community – student housing affordable housing, free market housing. That is a mix that is not usual in Milan, unlike London. In Milan we tend to have polarised rich neighbourhoods and poor neighbourhoods.

"Impact investment is relatively recent in the consciousness of investors, but the acceleration of responsiveness of investors is very, very fast," Catella adds. "Until five years ago the discussion in capital markets was that it was better to have [environmentally] certified building because it has better performance and tenants will be attracted.

"Now, because of the emergence

'It is tending towards charity or philanthropy if you start accepting reduced returns and loss of capital. We have a fiduciary duty that stops it at a very clear point.'



Sasha Njagulj, CBRE Global Investors

of enormous problems in the world, predominantly social problems such as the gap between the rich and poor becoming so profound, it becomes an obligation.

"It is the same thing with climate impact. Those general themes becoming so evident obliges the most responsible investors to take the lead."

RETURN OBJECTIVES

He also points out that, coupled with these trends the EU's new Sustainability Related Financial Disclosure Regulation (SFDR) obliges financial institutions to declare if they will comply with ESG/impact rules and regulations or not. "It is a tough decision because if your company does not want to comply you have to declare it."

But he emphasises that it is not good enough to be coerced into impact investing. "I think that sometimes 'greenwashing' can occur when your actions originate with rules.

"We have always been sensitive to these times, not just for subjective sensitivity, but because if you succeed in making a project sustainable in the broader sense, ultimately it will be more resilient in terms of value. The point is not just to plant 10 trees, the point is to create a place where you have shade and people are happy. You can tick the box, but you can have a high-quality approach or a compliance approach."

Sasha Njagulj, global head of ESG at CBRE Global Investors, says there is an ESG investment spectrum. The bottom line is that it is necessary to know the ESG impact and performance of assets the company manages or wants to acquire. "It is all about risk management and compliance – making sure that we make

the right choices and so on – at a basic level," she says.

At the other end of the spectrum is impact investing. "It is part of ESG, of course, but it is really specific because we want to be very strict with the definition – there is a lot of 'impact washing' out there."

Njagulj says that a portfolio needs to have stated objectives, environmental, social, impact – a reason to exist other than financial return. The second requirement is additionality. "You need to prove that what you are doing through impact investing is more than you would do if it was part of a normal fund. So you can't take a normal fund and 'impact wash' it and say it is doing a really great job so it is impact investing."

The process of putting a fund together puts the financial returns on the same level as the ESG returns, she says. "We have to have a firm upper limit as well because we are a fiduciary investment manager.

INVESTMENT BRACKETS

"Broadly speaking, we have two investment brackets. First, there are those where the manager is committing to deliver competitive risk-adjusted financial returns and needs to bring in returns for pensioners around the world, and have an impact.

"Then we have the funds that don't have that and will accept diminished returns or an impact on capital. This is beyond our scope. It is tending towards charity or philanthropy if you start accepting reduced returns and loss of capital. We have a fiduciary duty that stops it at a very clear point."

She explains that it is also essential to be able to measure outcomes. "How has it

contributed to your overall impact goal?" For instance, if the outcome is affordable housing, has it managed to address the challenges that the tenants faced?

"This is important because there is a lot of confusion, there is a lot of rebranding of standard products into impact investment and we want to be really sure that when we say something it is actually what we are doing, it is genuine and it is verifiable."

She adds that it is also "absolutely mandatory" for an impact fund to go through a third-party verifier throughout the process. "It is an overlay for impact screening to make sure that at the due diligence stage the asset we are looking to acquire is actually suitable for the portfolio and to track it through.

"We have done our homework before launching new products, we have looked at investor appetite in the market and identified topics that we feel we can do well in, as an estate investor, and which are real concerns for potential clients. That plays a big role in how we frame our products – they are both comingled funds and not for specific investors so there is more market appetite for those."

There was a danger that matters like ESG and impact investing would be damaged by the pandemic and consequent recession. Njagulj says this was the case in the global financial crisis, but not now.

"It was value engineered then, so ESG was the first thing that went out of the door. It is completely different this time around. I think this is because, for the first time, it is finally being seen as actually adding value and as a form of risk management so in terms of the crisis people want to feel safe." ●

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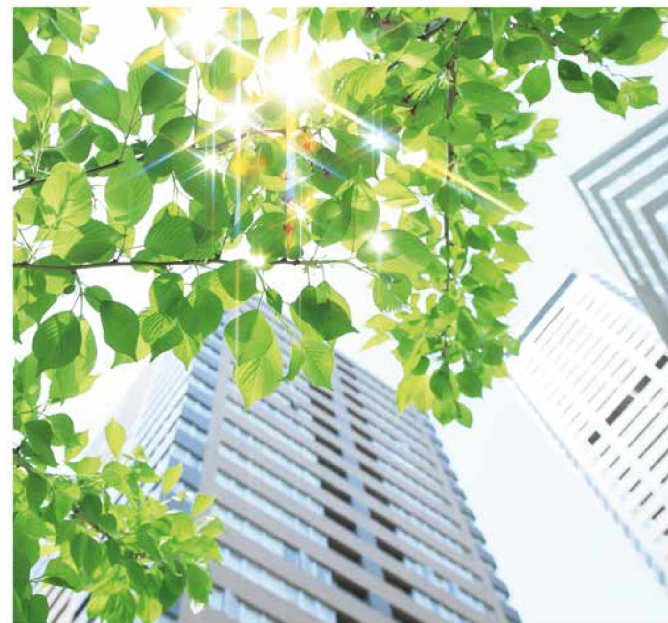
IMPACT

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