Impact Investing in the Residential Real Estate Sector

Hugo Tedroff & Gustav Östgren
Faculty of Engineering, Lund University

June 2020

Real estate make up essential infrastructure for everyday life. The built environment significantly affects people's lives, whether it is at home or work. The industry contributes to several environmental effects, both from property development and operational activities. Therefore, the real estate sector provides an exciting opportunity for impact investors to significantly contribute to a sustainable future.

Introduction and Background

The investing industry has historically been built around the sole purpose to bring superior financial returns to investors. Due to the rising concern towards global social and environmental issues, investments promoting sustainable development have grown popular. Centring sustainable investments debate is the strategy impact investing. The strategy originates from more traditional ethical investment philosophies and is today the most prominent and promising approach for creating long term value. Impact investing intends to create positive social and/or environmental effects that benefit people and planet alongside generating a financial return.

"Impact investment optimizes risk, return and impact to benefit people and the planet. It does so by setting specific social and environmental objectives alongside financial ones and measuring their achievement." (Global Steering Group for Impact Investing, 2020).

The thesis

As impact investing is a relatively young investment strategy, extensive research has not yet been made on the subject - especially not its application within the residential real estate sector. Hence, the purpose of the thesis was to explain impact investing and identify relevant measures to apply when investing in real estate - focusing on the Swedish residential sector. To best address the purpose qualitative research with a triangulation methodology was used. Data was collected through a thorough literature review coupled with expert interviews concerning both impact investing and sustainability within residential real estate.

The research was multifaceted, consisting of exploratory, descriptive and explanatory components. The exploratory part included understanding impact investing, while the descriptive part explained the strategy. Lastly, the explanatory part determined causal relationships between real estate operations and impact creation.

Impact investing

As mention before, impact investing is about creating positive social and/or environmental effects alongside generating a financial return. The strategy is characterised by mainly four practices that distinguish it from other investment strategies. Firstly, the strategy is intentional, meaning that investors should set transparent financial and impact goals together with measures planned to reach them. Second, is the use of evidence and impact data, qualitative or quantitative, to increase the contribution of positive impact. This includes identifying needs from empirical evidence, well-proven science or from the population or environmental communities. It also includes the use of best and most relevant evidence accessible to set targets, form investment strategies, and identify indicators to track performance. Third, is the management of impact performance. This includes establishing feedback loops, identifying risks, minimising negative consequences, and transparently disclose actual impact performance to stakeholders. Lastly, is the contribution to the growth of impact investing – making impact investing more effortless for investors. This includes transparent disclosure of impact investing practices, committing to contribute to shared knowledge to facilitate impact, and sharing of non-proprietary and non-private positive and negative learnings. (Global Impact Investing Network, 2020)

Thus, the strategy requires a structured approach and rigours analysis. The approach emphasises transparency to encourage and justify the purpose.

Supporting theory

The central parts of the thesis originate around impact analysis from IMP and the Five Dimensions of Impact. The Five Dimensions of Impact (Figure 1) offer investors a prominent framework for working with and analysing impact in a structured and efficient manner. The framework is thorough and used by investors across the world. It helps investors and enterprises understand what materialised effects businesses has on people and the planet - thereby providing support for investors into making the right investment decisions according to their impact goals. Finally, IMP is supported by organisations such as GIIN, UNDP, and GRI, thus providing significant credibility and reliability to the framework. (Impact Management Project [IMP], 2020)

Impact dimension	Impact questions each dimension seeks to answer
What	•What outcome occurs in the period? •How important is the outcomes to the people (or planet) experiencing them?
Who	•Who experiences the outcome? •How underserved are the affected stakeholders in relation to the outcome?
How Much	•How much of the outcome occurs - across scale, depth and duration?
Contribution	•Would this change likely have happened anyway?
Risk	•What is the risk to people and planet that impact does not occur as expected?

Figure 1. The Five Dimensions of Impact (IMP, 2020)

To support the impact analysis in identifying relevant and standardised measures to apply when impact investing in the residential real estate sector two different accounting systems where investigated. The two accounting systems where IRIS+ (released by GIIN in 2019) and SASB (founded in 2011). IRIS+ is a pure impact accounting system that provides impact metrics and KPIs for different kinds of industries and operational activities with an economic effect. In contrast, SASB is a not-for- profit, independent standard-setting organisation that develops and maintains a complete set of globally applicable sustainability accounting standards. The SASB standards focus in capturing industry-specific sustainability topics that are financially material - likely to have a material impact on financial performance.

Conclusion

The thesis concludes that impact investing relies heavily on dedication and intention to contribute to positive social/and or environmental effects in the setting of investing. The strategy requires a comprehensive analysis to identify and target specific problems where positive impact should be inflicted. Additionally, investors must manage impact performance and report transparently on objectives, efforts and the related outcomes.

Applying the impact investment strategy to residential real estate resulted in pinpointing target outcomes, methods of measuring impact and appropriate reporting approaches. Investors in the sector should focus on generating impact regarding safeness, personal growth and reducing their carbon footprint. The impact-related work should be disclosed through a report combining SDG-alignment, KPIs/metrics and qualitative information – presenting the firm's objectives, efforts and results.

References

Global Impact Investing Network (2020). *What you need to know about impact investing*. [online] Thegiin.org. Available at: https://thegiin.org/impact-investing/need-to-know/#where-can-i-go-for- more-information
[Accessed 10-02-2020]

Global Steering Group for Impact Investing (2020). *About us*. [online]
Available at: https://gsgii.org/about-us/
[Accessed 06-02-2020]

Impact Management Project (IMP) (2020). *A forum for building global consensus on how to measure and manage impact.*
Available at:
https://impactmanagementproject.com/
[Accessed 05-03-2020]