



Institute for Corporate Governance
in the German Real Estate Industry

Social Impact Investing

The Best Practice Guide for the Real Estate Industry



Standards. Values. Sustainability.

Publisher



Institute for Corporate Governance
in the German Real Estate Industry

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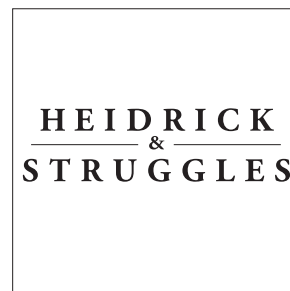
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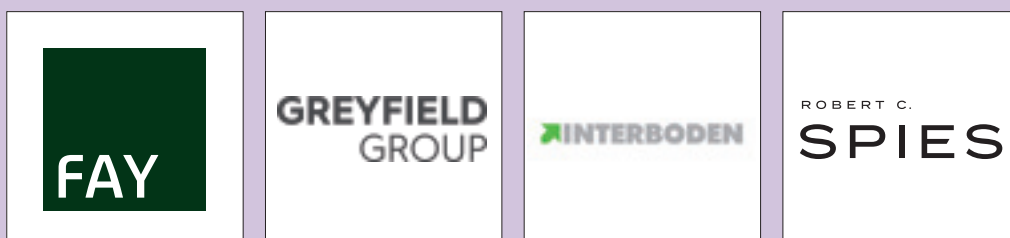
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Contents

Prefaces

7

Executive Summary

11

1. Introduction

13

2. ICG Key Points

19

3. General Conditions

23

a. Real Estate Sector

23

b. Capital Market

24

c. Financing

27

4. Impact Investing

31

a. Impact Plan

31

b. Impact Measurement Tools

36

c. Sustainable Development Goals

37

d. IMP Framework

39

e. IRIS Database

40

5. Real Estate Impact Areas

43

a. Affordable Housing

43

b. IRIS Database

48

c. Sustainable Neighbourhood Development

49

d. Key Features of Impact Investments

53

d. Principles of Impact Investment

54

e. Case Studies

56

13



13



19

23



31



43



43

6. Products and Investment Strategies 59

- a. Capital Flows 59
- b. Impact Returns 60
- c. Impact Measurement 60
- d. Reporting 61
- e. Indicators and Standards 63
- f. Stakeholder Capitalism 64



59

7. Recommendations and Outlook 69

- a. Stakeholders and Alliances 69
- b. Creativity and Capital 69
- c. Innovative Approaches 70
- d. New Alliances 72
- e. New Challenges and Innovative Concepts 72
- f. Outlook 75

8. Sponsors 77

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PRE- FACES



A world in upheaval, a real estate industry with impact!

Our world is changing and every day we feel the need to adapt to the new framework conditions. The social, ecological and economic challenges are enormous and as stakeholders in the real estate industry we play a key role in solving these major tasks. But are we aware of that?

The Institute for Corporate Governance in the German Real Estate Industry (ICG) has set itself the task of focusing on standards, values and sustainability, addressing challenges with attitudes and supporting market participants from our industry sector in fulfilling their responsibility towards people, the environment and structures and thus further developing the credibility of the industry. The real estate industry has great formative power and is therefore able to have a direct impact on many areas of life. An impact that is so important to make our built environment safe, resilient, sustainable and worth living in. Large investment volumes, available capital and return expectations often distract from this impact or even hide it completely. But there is growing awareness that it is not only returns that count, but also impact. In particular when it comes to giving due consideration to stakeholders, involving cities and municipalities as partners and supporting the climate targets and the sustainability agenda of the European Union and the United Nations Global Compact Network.

This best practice guide focuses on social impact investing, an ICG initiative with which we want to encourage and enable the industry to implement impact-oriented approaches in their business models. Impact investing is already

established internationally and reflects the aspiration of sustainable investors to also plan, measure and purposefully pursue the non-financial impacts of their investments.

This best practice guide is nothing less than the first scientifically-based impetus in the German-speaking world to describe the definitions, guidelines, functions and effects of social and social impact-oriented investments and translate them to the real estate economic context in the sense of a holistic ESG (environment, social, governance) approach. Social impact investments are also a capital market innovation and the demand for such products is increasing. In order for them to be able to consistently gain a foothold in all relevant industries and realities of life, they must also be included in our industry. Impact investing and the real estate industry belong together. And together we can forge a better path.

Susanne Eickermann-Riepe
Chairman of the Executive Board ICG
Chairman of the Executive Board RICS Germany



It depends on the impact!

The time is ripe for positive changes in all areas of life – this is currently clearly noticeable in civil society. While the Covid-19 pandemic certainly dramatically illustrates this circumstance, there is a deeper insight behind it, according to which the 21st century represents an era of serious crises - both in relation to the Earth's climate, democracy, sustainable development, social cohesion, and the financial and economic system as we know it.

These urgent social challenges demand adequate answers. A critical success factor is that these answers must be formulated and implemented in an impact-oriented manner. Civil society takes on both the function of the "ignition spark" and that of a catalyst for an accelerated social transformation towards a crisis-competent, value-based and sustainable form of society.

PHINEO's mission is to inspire and support people and institutions in their social commitment to ensure the greatest possible impact. With the founding of PHINEO 10 years ago, not only did we set our sights on philanthropy and civil society, but also the positive change potential of impact-oriented investments. After all, we cannot solve the major challenges of our time with philanthropy and state funding alone; we have to mobilise the capital market. And so we are actively committed to the scaling and further development of the impact investing market in German-speaking countries. During this time, we have been able to observe a rapid rise in sustainable financing based on ESG criteria in capital markets. At the same time, the practice of impact investing has now also outgrown its niche position and has begun to

spread into the mainstream. Since both trends increasingly point in the same direction in the future and will continue to grow together, we see it as our task to build an impact-oriented bridge between ESG/sustainable finance and impact investing.

In this sense, this best practice guide can be understood as a fundamental building block. With it, the ICG has taken an important and positive step, not only to initiate changes in an industry that, like many other industries, is currently facing a historic phase of upheaval, but also to steer it in an impact-oriented direction. I am convinced that this act marks the beginning of an extraordinary success story and I am already looking forward to the further developments that are in prospect for a desirable future.

Dr. Andreas M. Rickert
Chairman of the Executive Board PHINEO gAG
Chairman of the Federal Initiative Impact Investing
Former Member of the Council for Sustainable Development



An initiative with a social and societal mission!

As the ICG, at the beginning of 2019 we asked ourselves how we could use market-based instruments to meet social and societal needs through real estate investments and products in the future. At that time, Covid-19 was not yet in sight, but it was already clear that, in addition to ecological challenges, societal challenges would also increase massively and that this could result in new demands as well as opportunities for the real estate industry.

In discussions with investors, financiers, property developers, project developers, asset managers and many other representatives of the value chain, it quickly became clear that these companies want to assume responsibility and that they have a great interest in social impact investments that also meet high ecological standards. On this basis, we founded the initiative at the end of 2019. It represents the logical further development of the sustainability strategy developed jointly with the Central Real Estate Committee (ZIA, or Zentralen Immobilien Ausschuss), which led to the publications “Sustainable Corporate Management in the Real Estate Industry” and the social responsibility guideline “Taking Responsibility”. An update on the subject of “Social Impact Investing” is now available as a way of enabling real estate companies who are willing to implement their transformation from shareholder to stakeholder value in a credible manner.

More than 30 leading real estate companies and their top representatives as well as top-class consultants have created the financial and personal requirements for this. On behalf of the ICG and also of my company Heidrick & Struggles, I would like to thank all sponsors, contributors and our ICG Managing Director Karin Barthelmes-Wehr as well as her team for their outstanding commitment.

Special thanks go to the consulting company Phineo gAG, which also operates internationally as a social rating agency and which, with its expertise and networks, has aligned this guide to correspond with international best practice standards. Without the personal commitment of our Chairman of the Executive Board, Susanne Eickermann-Riepe, with her decades of experience as a partner and head of the real estate business at PwC, the direct reference to and relevance for the real estate industry would not have been possible with the same degree of rigour. Miriam Beul, an experienced communications specialist, helped us in the final phase to make important content-related additions and to raise the readability and linguistic precision to the present level.

However, the real success of our initiative and this guide will only materialise if the first pilot projects are created in a timely manner. They must make the breakthrough for a new form of management, participation and “win-win” for all stakeholders. The ICG already supports the initiation of such projects. In future, we will continue to support stakeholders in the initiative and interested companies through appropriate measures in the direction of politics, regulators, rating agencies, municipalities and cities, churches and other stakeholders.

Werner Knips
Senior Partner Heidrick & Struggles GmbH & Co. KG
Deputy Chairman ICG, presidium member of the ZIA
Initiator and Deputy Head of Social Impact
ICG investment initiative

EXECUTIVE SUMMARY

In the global economy, the focus in the past decades has been on economic returns, on shareholder value alone. Climate change with all its consequences, the pandemic with unforeseen impact, social tension, and economic inequality are leading to a changed mindset in terms of politics, the economy, and society. The framework conditions for companies are being redefined in favour of more sustainability and climate protection. The real estate industry is also affected by this. It is not only stricter laws, new regulations, and the “Fridays for Future” movement that are increasing the pressure on the industry to contribute to climate protection and more social justice; the capital market also demands innovation.

With social impact investing, a new, innovative movement has emerged that positions itself on the basis of mindset, participation, and a clear commitment to stakeholder value and, when making investment decisions, evaluates not only the return, but also the impact initiated by the investment.

This innovation has already gained a foothold in the global capital and financing markets and is growing in popularity. Especially in the USA and Great Britain, impact investments already form an important and booming part of real estate investments. In those countries, various financial players along the value creation chain have specialised in impactful real estate. Their market share is expected to grow exponentially in the years to come. The German real estate industry is hardly prepared for this comprehensive mind shift even though it has an extremely large lever to actively help shape a more climate-neutral and socially just world.

In this best practice guide, the principles and mechanisms of impact-oriented investments are explained and applied to the real estate industry for the first time. The globally valid United Nations Sustainable Development Goals form the basis for doing so. Good governance and ecologically valuable conduct are assumed. Using impact models and concrete examples, it will be explained how the social and societal impact of real estate investments can be considered, planned, effectively recorded, and proactively managed from the very beginning. Impact investing does

not necessarily mean foregoing returns, but it provides the invested capital with one thing more than anything else: purpose.

The publications from research institutions, fund companies, and capital market experts reviewed for the purpose of this guide not only give an idea of the potential volume for the German market, but also clearly outline that social impact investing is a new investment category for the real estate industry with its own mechanisms, benchmarks, and KPIs. Impact orientation as an investment classification is characterised as a superordinate type that includes already established categories such as “green”, “sustainable”, “social” or “ESG-compliant”. “Impact factors” and “impact measurement” are described as fields of activity that sustainable real estate investors will have to deal with intensively in the future.

In other industries, internationally recognised guidelines and standards accepted by investors have already emerged and become established. They ensure orientation and comparability of impact investing and are an ideal blueprint for real estate investments as well. Institutional investors, whose commitment should be strengthened in a targeted manner, play a key role in the development of the impact investment market in Germany. However, the framework conditions for impact investing in Germany also need to be improved on a political and regulatory level in order to mobilise more capital. The ICG has formulated key points for this purpose.

This guide focuses on “affordable housing” and “sustainable neighbourhood development” as possible areas of impact for the German real estate market. Linked to this is the hope that the first pilot projects can be launched from these action areas of the real estate industry, the initiation and multiplication of which the ICG will provide substantial support for.

1



1. Introduction

The birth of homo sustinens in the real estate industry

Added value, profit, return, growth: in the world of homo economicus, everything is focussed around the self-interest and the interest of those who are profiteers of economic activities. Massive global changes – the destructive forces of climate change and growing social inequality – are altering our views on the purely commercial effects of investments that do not contribute to solving these tasks. Not only on the part of civil society, but also on the part of the decision-makers from politics and business itself. It has long been recognized that our planet and its resources cannot be replicated and that we have to protect this singular habitat and its biodiversity. Climate change and social tensions are no longer limited to distant regions and thus in abstract “daily news mode”. Instead, they now affect us and our living spaces directly: heavy rain, floods, storm damage, overheated cities burdened by fine dust pollution, and shoreline erosion have made the trip from Bangladesh to our front gardens. And in so doing they have changed the risk profiles of our real estate investments. In addition, there is growing inequality, which is particularly evident in discussions regarding affordable housing and the rise of political parties far from the centre.

Covid-19 is exacerbating these effects and is having a lasting effect on both demand for real estate and its long-term performance.

Impact and profit are not opposites

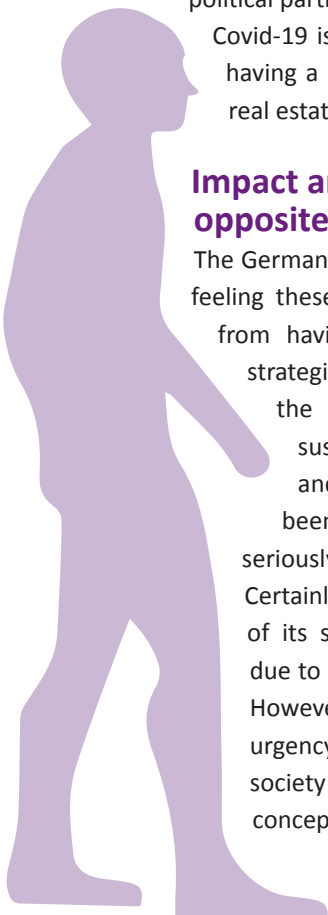
The German real estate industry is increasingly feeling these effects, but is currently still far from having developed its own answers, strategies or method concepts. On the contrary: the demand for more sustainable real estate, solutions and management practices has not been and still is not always taken very seriously and its scope underestimated. Certainly, “sustainability” has lost some of its selectivity and semantic precision due to media overuse in public discourse. However, this does not change the acute urgency of sustainable solutions. Our society needs long-term sustainable concepts that conserve natural resources



and meet the requirements of a socially just coexistence without simply ignoring return and market mechanisms as financial framework conditions.

Participation with impact

To do this, it is necessary to involve all stakeholders and to create forums for active participation. “Participation” is an important design principle in the collaboration of various players. Participation means that people contribute their experiences and values to collaborative work. This form of participation was not always desired by our industry and this principle is not always successful in the development and implementation of real estate projects. However, we now see that the exchange with all stakeholders is extremely helpful when it comes to finding the best, most viable and most sustainable solution for a project or service. The real estate industry - regardless of whether as property developer, project developer, operator or investor - should see itself as a partner of the cities and municipalities and should proactively offer cooperation and communication. It is not just about creating space for living, working and experiences. Many characteristics of a networked, forward-looking, resilient, sustainable and worthwhile future must be in harmony with each other. This works best if involvement and participation are ensured.





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Green, Social, Sustainable, ESG – Impact includes everything

The tightening of climate targets, the new regulations of the Green Deal and increasing social tensions are increasing the pressure on the real estate industry to also align entrepreneurial activity with new premises. Key measures here include so-called “impact investing” or “impact-oriented investment”. This is an innovative form of capital investment that is carried out by both private and institutional investors¹. In contrast to conventional investments, impact investments have an expanded objective: in addition to yield and security, they also pursue other purposes. The focus is on the concept of sustainability. The idea is that all types of economic activities should be designed in such a way that they significantly improve the situation of people living today while at the same time not endangering the livelihoods of future generations. The particular concept of “postulating the verifiability of all investment consequences” also applies to impact-oriented investments. This means that, in addition to the interest on the invested capital, checks must also be run at regular intervals to establish whether the invested capital has actually fulfilled this intended objective.

Impact-oriented investments have been playing a role in the international investment and capital markets for a number of years. Overall, the market for investments that should achieve more than a positive return on investment is still quite young, small and confusing. Green, social, sustainable,

ESG-compliant, impact - it is not always easy to distinguish between the trends. Other industries have already taken this path – and we can learn from them.

Impact-oriented investing is an independent approach that may still be seen as a philanthropic and niche movement today. However, there are many reasons to believe that this will become a new global standard and will thus also give the real estate industry a new direction.

New mindset of a young asset manager generation

A look at the global investment market clearly shows the direction that a new generation of investors – led by the SDGs² of the United Nations and the Green Deal of the European Commission, among other things – is ready to take. Rather than having to develop a sustainability-oriented mindset, this generation is actively demanding it. Its representatives are eager to exert a positive influence on the social and ecological development of our living spaces through the targeted diversion of capital flows.

Social impact investors specifically enter into new alliances with politics, science, business, the church and civil society and take on tasks that the public sector cannot (any longer) master alone. In doing so, they are promoting a financial innovation that clearly aims to overcome homo economicus in favour of homo sustinens. Investments in companies, organisations, investment vehicles and funds are aimed at

¹ All terms in this guide that refer to a group such as investors, residents, tenants, buyers, competitors, seniors, etc. are expressly meant to be gender-neutral (male/female/diverse)!

² Sustainable Development Goals



achieving financial returns and also at creating a measurable, positive social and ecological impact. The commercial return from the old shareholder value paradigm is changing to a “social return” that not only benefits a few individuals, but as many people as possible.³

assistance. This is no way to achieve the goals we have set ourselves. Some of our European neighbours do not simply appeal to owners, but instead set strict rules. Properties that do not meet a certain energy standard cannot be bought or sold in France and Great Britain; in the Netherlands tenants

A key industry for solving global problems

We face major global challenges that need to be resolved. Above all, this requires one thing: new forms of alliances⁴ between all stakeholders. Neither the public sector nor the energy or real estate industry are able to solve the major tasks on their own. The example of energy efficiency refurbishment shows how little is achieved when instead of working together, the discourse is dominated by opposing views. Germany has laid out a climate path and defined benchmarks for the reduction of CO₂ emissions. The emission of harmful greenhouse gases from the construction and operation of buildings should be reduced by 40 percent between 2020 and 2030. However, the current annual rate of refurbishment is only one to two percent. It would take 50 years for the entire building stocks to be completely refurbished. If we considered the Earth as a patient, we would be accused of failing to provide



³ Nuveen, Think Europe, p. 3

⁴ One example is the “Alliance for Development and Climate” (<https://allianz-entwicklung-klima.de>)



have the right to oblige owners to carry out refurbishments. The German real estate industry has hardly been confronted with similar interventions so far, but fears the restrictions that will result from the paradigm shift. “We cannot save the whole world,” is a common argument. Perhaps that’s exactly what it’s about.

The new role of stakeholders in the real estate industry

This defensive reflex, which is still noticeable in large parts of our industry, is based on a misunderstanding that the Institute for Corporate Governance in the German Real Estate Industry (ICG) would like to help clear up with this best practice guide. The transition from homo economicus to homo sustinens, from shareholder value to stakeholder value does not automatically mean the restriction or loss of entrepreneurial freedom or the freedom to make profits. On the contrary, it refers to making gains in terms of meaning and sustainability and thus also in positive impact. In this respect, our industry is taking on a new role: to see itself as a key industry for solving global problems and to act accordingly. Now is the ideal time for establishing new real estate investment products with social impact, for four reasons:

- **The social need is growing and the need to take action is increasing**
- **Capital of real estate investors with the focus “Profit with Purpose” is available and continues to increase**
- **The global financial industry has already entered the market on a broad front**
- **The number of property developers and developers who act sustainably out of conviction is increasing**

International real estate financial products with impact also already exist and provide crucial information about the possibilities of these new investment strategies⁵, including for generating sustainable income.

In this respect, the first best practice guide for social impact investing in the German real estate industry presented by the ICG is not only intended to point out the historical significance of impact-oriented real estate investments,

⁵ <https://www.nuveen.com/global/strategies/private-capital/global-impact-strategy>
<https://www.pgim.com/real-estate/impact-investing>

but also to highlight the opportunities for our industry and, above all, to invite participation. The structural changes in relation to the climate, demographics, digitisation, the emission-free economy and social cohesion are enormous, but so is the scope for shaping our industry. Only a few industries have such a comparably strong lever to positively influence the global climate and thus the living conditions of millions of people. This alone should make us confident, courageous and inventive. We should understand this new spirit and implement it in our goals and business models. The scope for designing cross-sector alliances, future-oriented technologies and new business models is huge - and thus also the opportunities for accelerated market growth.

Above all, impact-oriented investing does not necessarily mean foregoing returns, but is instead the new driver and yardstick - also and especially for our industry. With nearly 833,000 companies and around 3.3 million employees subject to social security contributions, we are not only one of the largest branches of industry in Germany, but also one of the most dynamic growth areas with an increase in employment and value creation. Our industry unites over 25 percent of all companies and almost ten percent of all employees. With over 600 billion euros, the real estate industry contributed 19 percent to the total gross value added in Germany in 2019.⁶ If anyone can have a positive influence on the way we live, it is us.

And of course, that also requires new alliances. In the past few years, a constructive dialogue has developed that needs to be intensified, especially in cooperation with the public sector. With various control instruments, cities and municipalities are increasingly demanding positive effects from real estate developments – far from purely returns on numbers – as well as co-determination. Whether it is “Socially Equitable Land Use (SoBoN, introduced in Munich in 1994), “Concept Awards”, “Urban Planning Workshop Procedures” or the “Action Concepts Housing” since the 2010s - these attempts at intervention and regulation are all aimed at positioning the interests of people and the environment more strongly against market forces.

That is why we should understand “social impact investing” as an opportunity and a call to action. Impact-oriented investing is not a socially romantic misjudgement of the financial industry, but the new standard against which all real estate activities and their initiators - also in terms of

good governance - must be measured. In the longer term, this also means that investment strategies without impact will be penalised in the future. The demand surplus on the investment markets that is already evident today is an important indicator of this. That is why we want to call on the entire real estate sector to support and accelerate the movement towards social impact investing. The path for impact-oriented real estate investments is mapped out, irreversible and promises a lot of new opportunities.

JOIN US!



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⁶ <https://www.zia-deutschland.de/marktdaten/bedeutung-der-immobilienbranche/>



2. ICG Key Points

Social impact investing as an impetus for the transformation of the business areas of the real estate industry

The ICG has ventured an initial adaptation of the “Social Impact Investing Spirit” for our industry and backed it up with specific requirements. We are convinced that social impact investing can deliver a tailor-made and innovative solution strategy for the new requirements, including and especially for the real estate sector. Hardly any other economic sector has a more direct impact on people’s living conditions and thus touches two core areas of human existence that shape everyday life: how they live and where they work. Social impact investing provides a basis on which the real estate industry can develop a sustainable future. The decisive course for this new investment practice in the real estate sector must be made now. As a conclusion and outlook, an implementation programme for impact investing as a future strategy for the real estate industry is summarised in seven key points.

- 1. It is not only return that counts, but impact too**
- 2. Real estate and market players have an impact mandate**
- 3. The capital market demands sustainability and impact**
- 4. Investment strategies with impact give meaning to capital**
- 5. Impact standards help with control and measurement**
- 6. Social impact investing needs alliances**
- 7. Products, transparency, replenishment - the time to act is now!**

It is not only return that counts, but impact too

The “European Green Deal” initiated by the EU Commission and the increasing demand from investors for ESG-compliant investments will permanently change the real estate industry. Return and risk have long been the only indicators

for analysing real estate portfolios and transactions. However, with the aspect of impact, they are increasingly being expanded by a third component.

But capital is not neutral - every investment also has a social and/or ecological impact. ESG (Environment, Social, Governance) investment criteria aim to avoid social and ecological damage (“do no harm”). Impact investments go one step further: They want to be part of the solution of urgent social challenges (“contribute to solutions”).

This guide for the real estate industry shows how the social and ecological impact of real estate investments can be considered, planned, effectively recorded and proactively managed right from the start. Impact investing does not mean foregoing returns, but rather gives meaning to the invested capital. Investors have defined different expectations of impact investments in the investment strategies. Some are intentionally investing with lower market returns in favour of a higher social impact, others are dependent on achieving market returns. The fact is, impact investments as a portfolio component are often economically sensible, as they are less cyclical and more stable. They also achieve social and ecological added value in favour of “people and planet”.

Real estate and market players have an impact mandate

Real estate has a mission. It forms the environment for our work, our lives and our social networks. Cities bring us together and neighbourhoods shape our communities. The market players in the real estate industry in Germany have great potential to contribute sustainable solutions to pressing social and ecological problems. With social impact investing, innovative real estate concepts can address the demands for needs-based and affordable housing, especially in metropolitan areas, the participation of disadvantaged people, contemporary neighbourhood development and ecological change, and offer possible solutions. The real estate industry should live up to its social responsibility and at the same time act according to economic premises.

It requires a lot of money, high levels of involvement and complex processes. Market players have the task of supporting trust in the market and the products with good corporate governance and appropriate conduct. The credibility of the participants and the effectiveness of the impact investments are measured by the actions.

The capital market demands sustainability and impact

The EU Sustainable Finance Action Plan aims for a sustainable reallocation of capital flows and therefore needs sustainable and impact-oriented products. According to the Federal Impact Investing Initiative (Bundesinitiative Impact Investing, or BII), the volume of the impact investment market in Germany is around €6.5 billion - and that does not include the amount that can be added by impact real estate. The DAX 50 ESG is a standard for sustainable investments in Germany. Scope records the ESG activities for the rating classification. Large investors have announced that they will completely convert their investment portfolios to sustainability. Corporates have anchored ESG criteria in their goals. The real estate industry in particular can make an important contribution to the development of additional impact-oriented investment products and thereby attract new groups of investors to the market. However, it can only do this if corresponding standards and effects are also transparent and comprehensible. Doing good and profiting too - this approach should be included in sustainable business models and products.

Investment strategies with impact give meaning to capital

The institutional investment conditions aim to achieve a high degree of security and sustainability in order to protect security, plan and trust assets in the best sense of the investment strategies. Sustainability goals and criteria are specified in the context of the EU's "Sustainable Finance Action Plan" and integrated into the overall management of the capital investment. Many institutional investors have already formulated in their corporate agenda that they assume responsibility towards society and their clients and that they are pursuing a holistic approach to sustainability. In doing so, they combine long-term economic value creation with concepts for ecological voluntary commitments, social responsibility and responsible corporate management.

This is a good basis for impact-oriented real estate projects, but more is necessary and possible! By expanding the investment spectrum of institutional investors with impact investing, enormous resources can be mobilised for social and ecological impact.

Impact standards help with control and measurement

The positive social and ecological impact of an investment does not arise on its own, but is the result of proactive impact-oriented management. This requires reliable and meaningful key figures that enable companies and investors to assess, evaluate and control the impact of real estate.

Impact investors can now access a range of internationally recognised guidelines and standards for measuring and controlling impact. Approaches such as the IFC Operating Principles for Impact Management, the Impact Management Project (IMP) or the IRIS+ Indicators of the Global Impact Investing Network (GIIN) are applied internationally. In Germany, these standards are not yet as well established in the financial sector and are still relatively unknown, particularly in the real estate sector. The aim of the guide is to close this information gap in the German market and to offer better orientation for real estate investments. The further dissemination and application of internationally recognised standards in the German real estate industry can drive the impact investing market, ensure connectivity to the international market and improve the industry's credibility.

Impact investing requires alliances

The UN Sustainable Development Goals (SDGs) call for joint action in order to decisively advance activities to solve social, ecological and economic development issues by 2030. For a heterogeneous industry such as the real estate industry, cooperation is a key success factor. Investments need the positive incentive of many participants in planning, implementation and creation, as well as in the operation of real estate and neighbourhoods. The well-being of our cities is driven by political will and good prospects. The buildings of the future need creative planners in order to be able to raise the necessary efficiencies with new technologies and digitisation. People need perspective and space for working, living and experiences. In impact investing, the stakeholders come together to work together on good solutions to achieve returns and keep their promises in terms of impact. Impact investing offers the possibility of solidarity along the value chain between investors and other participants such as project developers, architects, cities and municipalities, city planners and asset managers with a common social and ecological vision.

Products, transparency, replenishment - the time to act is now!

In order for more real estate, products and funds with impact to be created in the future, the real estate players must become active themselves and proactively plan, manage and measure the impact in the investment process. But changes and collective action are also required beyond individual players in order to propel impact-oriented investments in the real estate industry from the niche into the mainstream.

Therefore, the entire real estate sector and all stakeholders are called upon to support and accelerate the movement towards impact investment. The focus here should be on the further development of international standards of Impact Measurements and Management (IMM) and their

distribution in Germany. The ICG advocates the development of independent impact ratings in the real estate industry in order to accelerate market development. Institutional investors play a key role in the development of the impact investment market in Germany, and their engagement should be strengthened in a targeted manner. It is also important to improve the framework conditions for impact investing in Germany at the political and regulatory level. A look at other European countries shows that impact investing grows significantly faster with targeted government funding and tax incentives. In times of upheaval, there is a good opportunity to intensify the dialogue between business, politics and administration - especially with regard to new public funding programmes and initiatives for the creation of additional affordable housing.



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3. General Conditions



a. Real Estate Sector

Between boom and regulation

The market cycle since the beginning of the Lehman crisis has represented a special situation for the German real estate industry. The permanently low interest rates, the refugee crisis as well as migration flows to the metropolitan areas have boosted the demand for residential space and catapulted prices for land and real estate into previously unknown spheres. Although politicians have expressed their views on the creation of affordable housing, markets have remained tense for many years – at least in the metropolitan areas.

Well-known institutes (Institut der deutschen Wirtschaft, BulwienGesa) do not and did not see the price bubble in the housing market. Meanwhile, other sources – Deutsche Bundesbank and Empirica – warned against an overvaluation of residential real estate in major German cities.⁷ At the beginning of 2020, Empirica gave the all-clear signal and diagnosed a break in the trend. For the first time in years, there appeared to be a balance between supply and demand.⁸

However, despite signs of relaxation, the scarcity of land, high taxes and increased construction costs are leading to the same dilemma: developers complain of lean margins, tenants and buyers about the high prices. It is a frontline that makes providers and “customers” irreconcilable not only in the large cities, but increasingly also in the regions. Policymakers have changed the guidelines in a number of places (rent control, action plans, broker law, rent-controlled housing construction), but their effects are still being debated. From the perspective of the real estate industry, the regulations inhibit the willingness to invest instead of promoting it. In addition, the government is increasing prices itself through duties and taxes (real estate transfer tax).

The real estate sector is not doing well in public opinion

“Real estate prices are decoupled from the everyday life of Germans”, was the WELT headline at the beginning of 2020.⁹ There are discussions about possible excess household debt. The volume of private real estate loans has increased by 25 percent in ten years. In addition, there are displacement

⁷ <https://www.bundesbank.de/de/aufgaben/themen/wohnmobilien-in-staedten-nach-wie-vor-ueberbewertet-665650>

⁸ <https://www.empirica-institut.de/thema/wohnungsmärkte-und-wohnungspolitik/0220-studie-fruehjahrgutachten-der-immobilienweisen>

⁹ <https://www.welt.de/finanzen/article205926247/Wohnungsmarkt-Immobilienpreise-entkoppeln-sich-vom-Alltag-der-Deutschen.html>.

effects in the cities, where social tensions are increasing. In short, the billions in profits of our industry sector in the post-Lehmann decade are offset by indebted owner-occupied households, gentrified neighbourhoods, displaced tenants and a housing stock with outdated energy efficiency. The Covid-19 pandemic is acting as a trend accelerator due to its negative effects on the retail, hotel and catering asset classes. How do we want to live and work? How should we design our cities? How can we develop innovative mobility and energy concepts?

New responsibility and new values are required

In this situation, impact investing can be an excellent approach to a fairer and more climate-friendly real estate industry. The room for innovation is great, and so are the opportunities. With its concept paper on socially responsible climate protection in the building sector, Deutsche Wohnen made an initial proposal in October 2020 on how the government, companies and citizens can work together to achieve a better CO2 balance.¹⁰

Another example comes from the developer scene. The Greyfield Group from Essen focuses its project developments on construction work in existing structures. Unused areas are revitalised and returned to society in the form of a new purpose. This brings together economic and social returns. The not-for-profit Greyfield Foundation also promotes projects that pass on this idea and foster the components of resource conservation, sustainability, urbanity and social responsibility. The company is currently converting a former swimming pool that has been vacant for years in Duisburg-Marxloh into a sustainable office property. The building will house the Duisburg job centre, which is located in the district but has been looking for space for a long time.

b. Capital market

From “Green” and “Sustainable” to “Impact”

Since the publication of its action plan “Financing Sustainable Growth” in March 2018, the EU Commission has been pushing ahead apace with regulation of the private financial sector in the area of ESG - Environment, Social Governance. These regulatory measures are intended to redirect capital into the sustainability sector and, above all, into the area of ecological sustainability. The focus here is on the EU Taxonomy Regulation, which defines the framework of a uniform classification system for sustainable economic activities. While investors – institutions, funds, family offices and corporates – are gradually integrating these principles into their statutes, there is hardly any rethinking at the portfolio and property level.

Cradle-to-cradle or climate-neutral real estate, redevelopments, integrative residential projects: what the investment market demands on a broad frontier does not (yet) have a counterpart on the property side. The development towards an impact-oriented financial industry, which represents an impact alongside or even above the return, started years ago on an international stage.

Impact investing is becoming increasingly important in the international financial markets – Global Impact Investing Network GIIN

And the global market for impact investing continues to grow. The Global Impact Investing Network (GIIN) estimated globally managed assets in impact investments at the end of 2018 at 502 billion US dollars (roughly 425 billion euros).¹¹

For Germany, a survey carried out by the University of Heidelberg on behalf of the Federal Impact Investing Initiative in 2020 comes to a market volume of around 2.9 billion euros impact investing in the so-called “narrow understanding”.¹² These include both impact-first investments that are primarily focused on social and ecological contributions and only secondarily on financial return, and finance-first investments where the financial return expectation is expressly linked to social and

¹⁰ <https://www.deutsche-wohnen.com/klimakonzept/>

¹¹ GIIN Sizing the Impact Investing Market 2019

¹² BII, Impact Investing in Germany 2020

ecological impact goals. In addition, the study also applies a broader understanding of the OECD capital spectrum, which includes both ESG and Socially Responsible Investments (SRI). According to this calculation, the volume of impact-oriented investments in Germany is as high as 6.5 billion euros. However, it is important to clarify that the core characteristics of actual impact investing – namely the clear pursuit of impact goals and the measurement of impact – are omitted when calculating the market size according to an expanded understanding.

Real estate is a target of impact investing

Real estate investments are well suited as a component of impact-oriented portfolios: they enable long-term stable yields, the impact is measurable and the impact potential is high. Internationally, some impact investment funds have been successfully investing in affordable property for years and achieve market-like returns with their portfolios. A survey by the GIIN found that in the US, 92 percent of all investments in the sample were for risk-adjusted, fair market returns.¹³

According to the GIIN investor survey 2020, the area of “Housing” (residential real estate, especially affordable housing) is the fifth largest sector within the assets considered for the survey with eight percent and is therefore on a par with “Microfinance”.¹⁴

For investors with a focus on industrial and OECD countries, this share is even significantly higher at eleven percent (compared to only two percent for investors in developing and emerging markets). Investors with lower return expectations are also more heavily invested in the housing sector than investors with market-standard return expectations (18 percent versus seven percent). Overall, the real estate sector is estimated to be more like 10 to 15 percent, as impact investments in non-residential real estate are also included in other categories such as infrastructure, education or healthcare.¹⁵ Thus, the share corresponds approximately to that of real estate values in the entire (i.e. non-impact) investment market (2019: 10.5 percent).¹⁶

Lots of potential – little action

A look at the ESG market for real estate investments shows that there is still a lot of potential in impact investing. According to GIIN survey results, approx. 8% of the Assets Under Management (AUM) can be assigned to the “Housing” category¹⁷, which corresponds to a volume of approx. 57 billion US dollars with an estimated market size of 715 billion US dollars. ESG real estate investments, on the other hand, reached a value of 920 billion US dollars (approx. 776 billion euros) worldwide in 2018.

Especially in the USA and Great Britain, impact investments already form an important and booming part of real estate investments. There, various financial players along the value chain have specialised in real estate with impact.¹⁸

In Great Britain, for example, affordable housing is a focus area for the state-funded social investment bank “Big Society Capital”, which accounts for around 720 million pounds sterling, over a third of the total portfolio.

The trend in Germany is still lagging behind the international markets

Figures on impact investments in real estate in Germany have not yet been systematically collected. Since the topic of impact investment in the German real estate sector is still new and is just starting to pick up pace, it can be assumed that impact-oriented real estate investments are still viewed as pioneering in this country and only occupy a small market share. Sustainable (ESG-compliant) real estate funds, on the other hand, play a greater role in Germany, which the Forum for Sustainable Investments (FNG) estimates to have been worth 87.8 billion euros in 2019, managed by nine fund providers in 54 funds.¹⁹ The fund providers primarily apply ecological criteria, followed by social and governance criteria. In contrast to real estate impact investments, however, they do not pursue any social and ecological objectives that are equivalent to the expected return.

¹³ GIIN, Evaluating Impact Performance Housing,

¹⁴ GIIN Annual Investor Survey 2020, p. 33

¹⁵ PGIM Real Estate, U.S. Real Estate Impact Investing April 2019

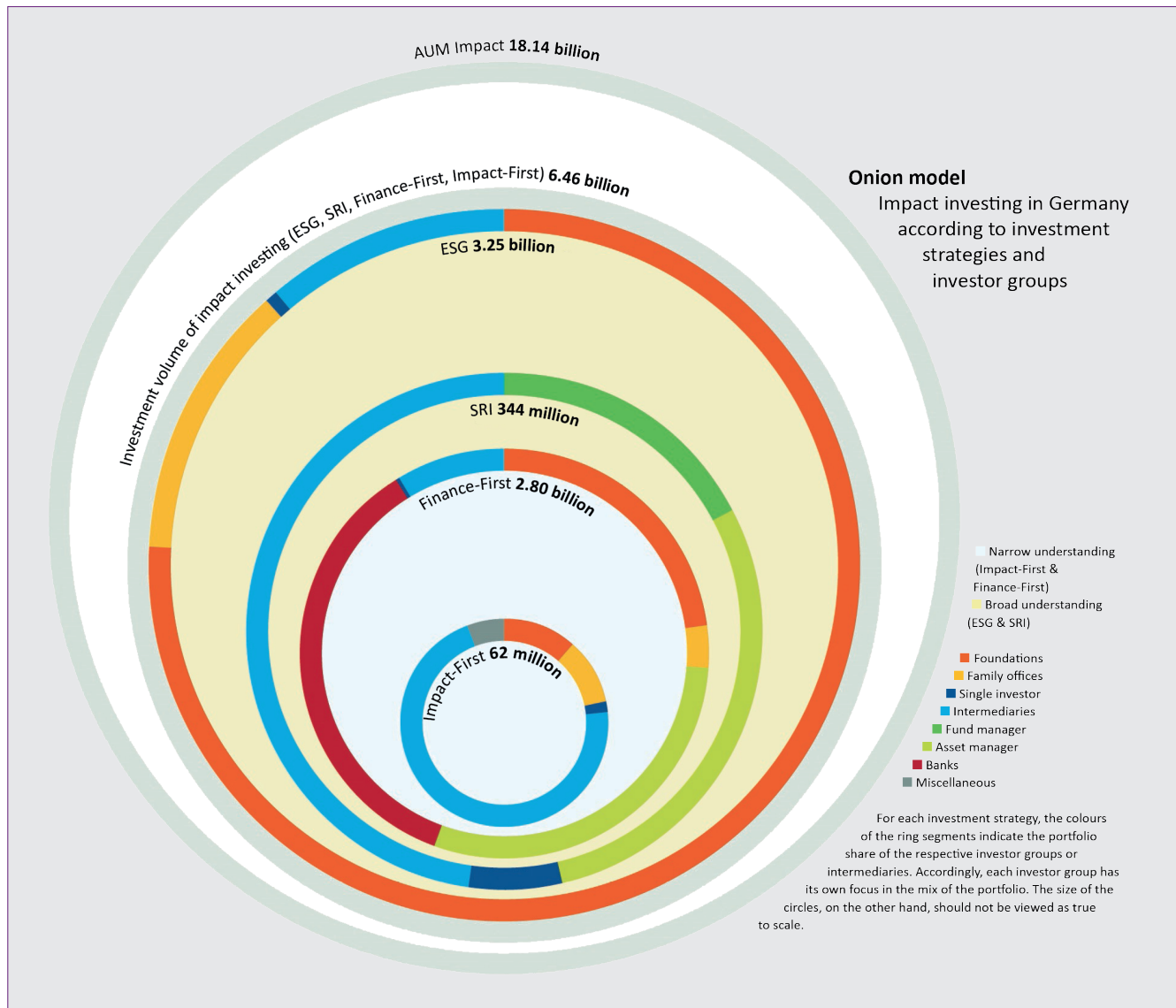
¹⁶ <https://www.hodesweill.com/research>

¹⁷ <https://thegiin.org/research/publication/impinv-survey-2020>

¹⁸ GIIN April 2019 <https://thegiin.org/research/publication/impinv-market-size>
GIIN June 2020 <https://thegiin.org/research/publication/impinv-survey-2020>

¹⁹ Forum Nachhaltige Geldanlagen Marktbericht 2020: 14

Impact investment – a growth market



Federal Impact Investing Initiative

Additional capital for overcoming social and ecological challenges

The Federal Impact Investing Initiative aims to create the conditions for using additional capital to meet social and ecological challenges by building up the impact investment ecosystem in Germany.

The origin of the Federal Impact Investing Initiative is traced back to the National Advisory Board (NAB), a cross-sector group of experts coordinated by the Bertelsmann Foundation and the Federal Ministry of Economic Cooperation, which

had set itself the goal of analysing and strengthening the market for social impact investing in Germany. The German National Advisory Board consisted of representatives of the social economy, financial economy, foundations, science and the public sector. In 2017, it was decided to form a successor organisation to the NAB as a Federal Impact Investment Initiative.

The objective: To promote the establishment of a German ecosystem for impact investing by founding a non-profit association supported by members. Since then, several working groups have established themselves under the umbrella of the Federal Impact Investing Initiative, and they deal with topics and issues that are of central

importance for the development of an impact investing market. The Federal Impact Investing Initiative, like the National Advisory Board, forms part of the Global Steering Group for Impact Investment (GSG; successor organisation to the SIITF).

Part of the global impact investment movement

It is therefore an integral part of the global impact investing movement and serves as a transmission belt between Germany and the corresponding activities on an international level. This includes the “translation” of concepts, approaches and ideas from other countries and regions into the German context as well as the representation and strengthening of German and continental European positions and approaches in the development of the impact investing approach in an international context.

C. Financing

Green bonds: refinancing also seeks impact

Green and sustainable products are also gaining increasing acceptance in the bond market. As early as 2007, EIB issued the world’s first “Green Bond”, then in 2015, BerlinHyp issued its first Green Mortgage Bond, which is in the class of so-called “covered bonds”. “Sustainability more important than interest” was the headline of the *Börsenzeitung*.²⁰

Berlin Hyp issues green bonds either in the form of green covered bonds or in the form of green senior unsecured bonds and undertakes to use the proceeds from the issue of these bonds for the refinancing of green assets. It has now issued its eighth bond. Suitable assets are green building financing. These remain on the balance sheet of the bank. The investors do not bear any credit risk for the assets and are treated equally with the other holders of covered bonds (in the case of green covered bonds) or unsecured bonds (in the case of green senior unsecured bonds). The introduction of the green bonds principle was also an important milestone for progress.

Public issuers are leading the way

One of the biggest players in this market is the European Union, which itself issued a 17 billion euro social bond in October 2020 - with overwhelming demand. The securities were more than 13 times oversubscribed. The EU wants to use the new bonds to finance a programme that is known under the acronym SURE and is intended to help EU citizens to maintain their jobs in the Covid-19 crisis. By issuing green covered bonds, banks have access to low-cost and long-term funds that can be passed on to climate-friendly projects. At the same time, thanks to the high level of security, highly-regulated institutional investors are able to increase their commitment to climate-friendly values. The first German “eco bond” proves that returns are no longer in the foreground in this segment. In September 2020, the Federal Government placed its first government bond for the refinancing of green projects. Investors pounced on the security, which, with a ten-year term, generated a whopping 6.5 billion euros instead of the targeted four billion euros. As a result, the demand was five times higher than the supply, despite the rather moderate earnings prospects.

It depends on the KPIs

Now the German Covered Bond Act does not regulate whether these must be climate protection or social projects. Therefore, covered bond banks are taking different approaches when choosing their assets. In principle, however, each issuer must describe to its investors exactly how it selects and evaluates the projects. The choice of KPIs is crucial here. Investors prefer fewer KPIs if they are clearly measurable and can be reported transparently over the term of the investment. In the case of real estate, for example, the energy consumption or demand is generally set. Most banks have thus set maximum values for the energy consumption/demand of a building depending on the building type. The energy certificate is often used as proof. However, since this is not always available, some issuers allow the top categories of certain sustainability certificates to be used as a benchmark. A formal guideline for social impact investing with regard to real estate will emerge in the coming years based on and supplementing the existing frames for green and social bonds – also with the support of the ICG. Internationally, the bond market is growing dynamically in any case and is becoming more differentiated. In terms of volume, there is also a noticeable shift from purely “green” to sustainable and social bonds.

²⁰ <https://www.boersen-zeitung.de/index.php?li=1&artid=2015070021&titel=Erster-gruener-Pfandbrief>.

It is expected that the market volume will increase in the coming years and decades in favour of impact bonds. The measurability of impacts as well as the selectivity between

the various bond products Green, Social, Sustainability and Impact will have a significant influence on the development of the market volume.

Green, social and sustainability bonds Annual issuance volumes





The three main types of sustainable bonds

Definitions according to the International Capital Market Association:

Green bonds

Green bonds are bonds whose issuance proceeds are used exclusively for the partial or full (re)financing of suitable green projects and which are aligned with the four core components of the Green Bond Principles²¹. These can be new and/or existing projects. It is acknowledged that certain green projects can also have positive social side effects. In such cases, it is at the issuer's discretion to classify its issuing project as a green bond according to its primary objective.²¹

Social bonds

Social bonds are all types of bonds, the proceeds of which are used exclusively for the partial or full financing or refinancing of suitable social projects, which are aligned with all four core components of the Social Bond Principles. These can be new and/or existing projects. It is acknowledged that certain social projects can also have positive ecological side effects. In such cases, it is at the issuer's discretion to classify its issuing project as a social bond according to its primary objective.²²

Sustainability bonds

Sustainability bonds are bonds, the proceeds of which are used exclusively to (re)finance a combination of environmental and social projects. Sustainability bonds are based on the four core components of the Green Bond Principles and Social Bond Principles. Of course, social projects may have positive ecological side effects, and environmental projects may also have positive social side effects. The issuer should make the classification of a "Use of Proceeds" bond as a green, social or sustainability bond depending on the primary objective of the underlying projects.²³

²¹ <https://www.icmagroup.org/events/PastEvents/GBPAGM2020/>

²² <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

²³ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>



4. Impact Investing

a. Impact Plan

From impact measurement to impact management

In impact investing, the term “impact” refers to the changes that are triggered in a target group, in their living environment and/or in society. This takes into account everything that happens due to the investment and would not have happened anyway – positive and negative changes, intentional or unintentional. For impact-oriented investments, the goal is to achieve the greatest possible positive impact with minimal negative effects.

The logical connection between the planned impact goals and the resources and services used by an organisation is called an impact plan. The basic concept of the impact plan can be depicted as an impact staircase with different levels.

Outputs The offers and products or their use by the relevant target group can be described as outputs.

Outcomes Outcomes are only achieved when the outputs of the target group open up new capacities and possibilities and lead to changed perspectives and forms of behaviour. An investment is only effective through outcomes.

Impact Ideally, outcomes ensure lasting, positive change on a societal level - the ultimate purpose of impact investing.

Extremely important and therefore worth re-emphasising: social impact only occurs from the outcome level onwards and refers to the change in the life situation that has occurred

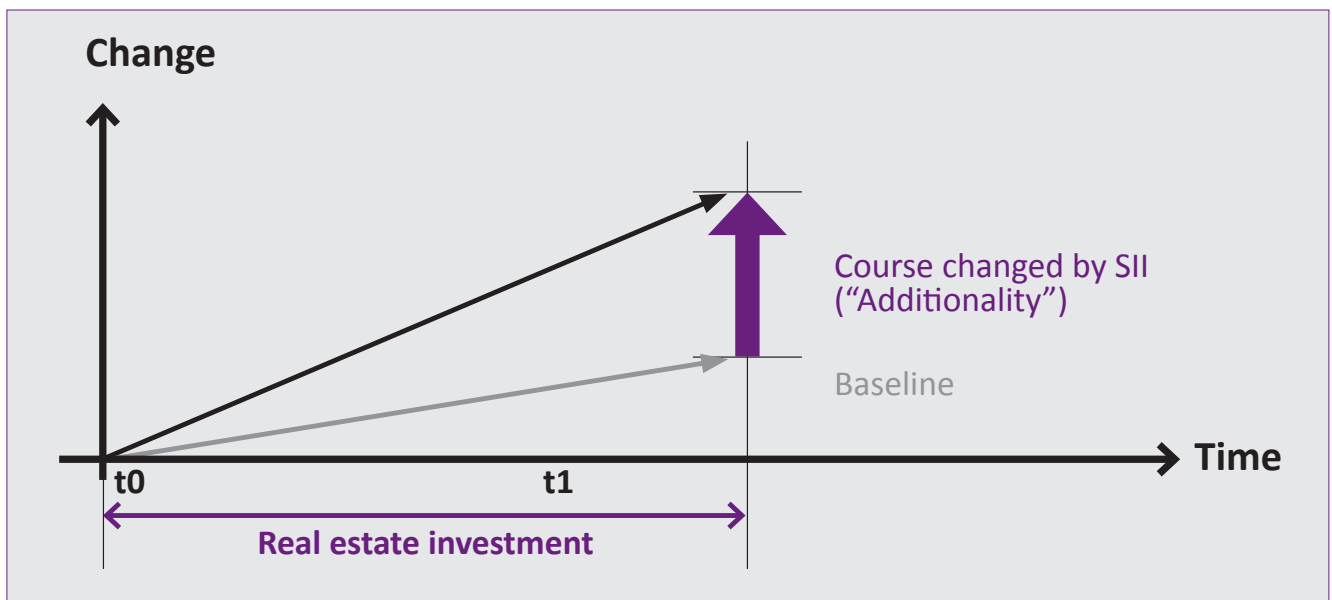


Figure 1: Impact as a positive societal change beyond the baseline

in the target group. For this reason, when developing impact goals it is important to define the target group precisely and to know its needs well. Otherwise, there is a risk that the offers provided (e.g. flats) will not be accepted by the target group (e.g. families) for reasons that have not been recognised (e.g. lack of green spaces) and that the actual impact goals will not be achieved.

Impact is created by change at different levels



Figure 2: The PHINEO impact staircase

The impact staircase: Example

Outputs A real estate fund is developing a social real estate project. It is intended to offer families affordable housing in a centrally located but aging district, as well as an inter-generational meeting place.

Outcomes For the families who have moved here, jobs and local infrastructure are more easily accessible. The socially acceptable rent level gives them more disposable income. Elderly people socialise and receive support in everyday life.

Impact The residents identify with their neighbourhood and develop greater trust in their neighbours. This makes them ready to be more committed to others. Cultural and social initiatives stimulate and strengthen the local social capital, and the quality of life of the residents increases.

Impact investments can only be effective through management



Figure 3: Impact-oriented control cycle

Only with proactive management can investors ensure that the investment achieves the desired results and that it contributes to solving social or ecological problems. There are three phases to the impact-oriented control circuit: the planning of the impact, the surveying and analysis of the impact and the continuous improvement of the impact.

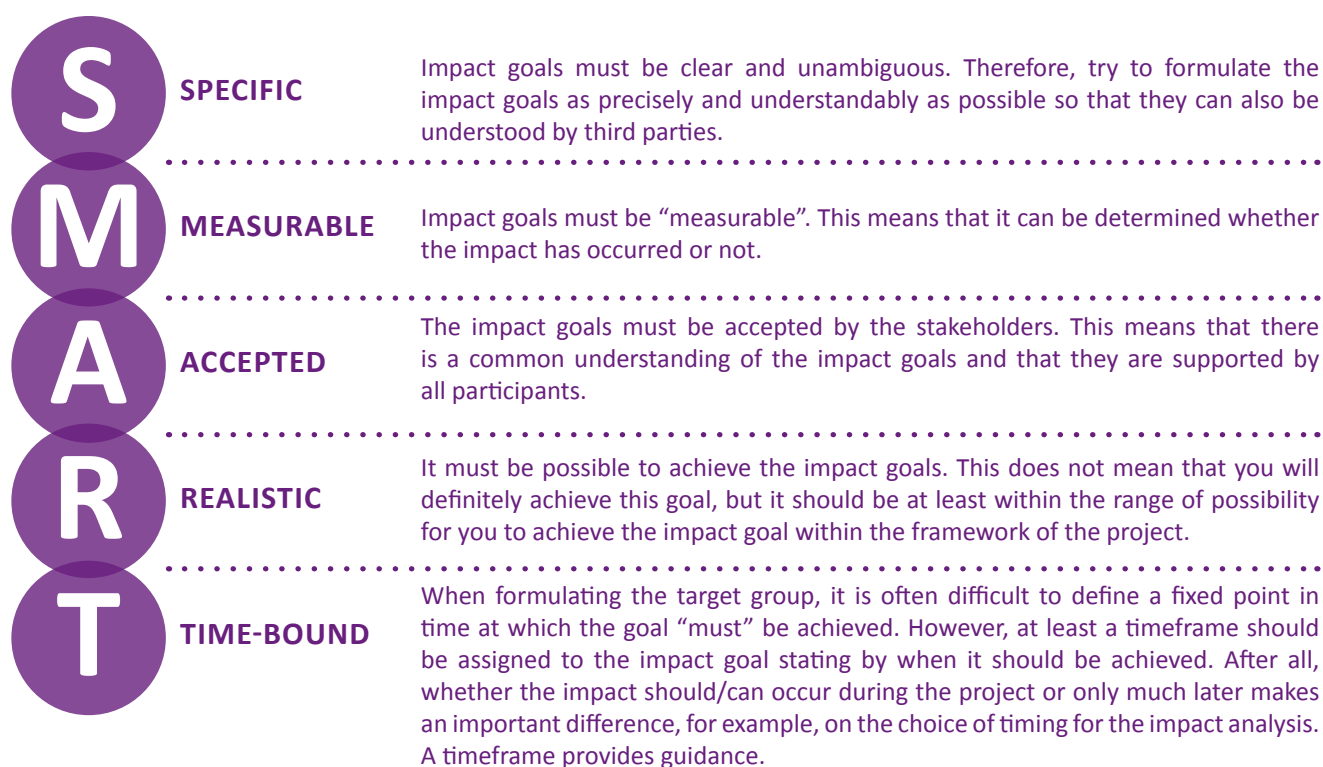


Figure 4: SMART impact goals

Impact investment relies on measurable impact goals at the outcome level

The core part of the impact planning is to define the social and/or ecological impact goals of the investment and to develop an impact plan for entrepreneurial action. The “Sustainable Development Goals of the United Nations” (SDGs) form a good overarching framework for the selection of strategic impact goals. These must be supplemented by concrete sub-goals which are easy to put into operation. Good impact goals are characterised by the SMART characteristics (Figure 4).

Usually, the focus of Impact Investing is on measurable impact goals at the outcome level. There are pragmatic reasons for this. Changes at the impact level are often difficult to understand in practice: factors overlap, effects are delayed and may be difficult to attribute to a particular investment. Outcomes are clearer and often easier to measure.

The question of how the impact goals can best be achieved with the available and applied resources can be answered by means of a sound impact plan. The impact logic can best be developed step by step. Thinking backwards from the “end” - i.e. the desired impact – the impact plan answers the following questions:

- 1. Impact** What is the ideal social state of affairs?
What social problem should be solved?
- 2. Outcomes** What changes (skills, lifestyle) are necessary for the target group to bring them closer to the desired ideal social situation?
- 3. Outputs** What activities can be used to bring about the desired changes in the target group?
- 4. Inputs** What resources are needed to perform these activities?

The impact analysis is an instrument for monitoring progress

The ongoing impact analysis in the investment process requires the regular evaluation of indicators (key performance indicators, KPIs) at the output and outcome levels. Indicators are first and foremost indications of whether the intended impact goals are being achieved or not. In addition, they can be used in the planning phase to describe the initial situation and to quantify the requirements. During the project implementation, they are an important instrument for progress monitoring, learning and control. As part of reporting, they make progress clear and under certain circumstances (when using comparable indicators) enable aggregation at portfolio level or the comparison of different investments. The GIIN's IRIS+ database, which is used by many investors, provides an overview of standardised KPIs for numerous impact issues.²³

Impact data can be collected both qualitatively and quantitatively, through user surveys as well as, for example, as figures on residential units. If relevant benchmarks exist, they can be very useful in the analysis.

Developing meaningful impact indicators is a challenge

The impact indicators must show the resulting impact as accurately as possible, while at the same time the data collection should be proportionate to the size of the investment. The transition from the impact measurement to the impact analysis is fluid. Social changes are multi-causal and take time; not all of them can be measured. And even then: how do you prove that the hoped-for impact would not have occurred without the investment? How can unintended side effects be recorded? Even with impact investments, the impact measurement can only record parts of the actual impact. However, this changes little in the significance of indicators, their evaluation and transmission.

The continuous improvement of the impact requires impact management

Feedback loops play an important role in this, for example, through regular reporting of impact data to all stakeholders and decision-makers. The organisation must create incentives not only to check its impacts, but also to scrutinise and, if necessary, adjust the impact goals and impact plan. The goal is a continuous learning process over the entire life cycle of a project/investment, in which information about risks, income and impact is used for continuous improvement through specific measures.

Cooperation in the real estate value chain

Good cooperation between various players along the value chain has always been a success factor for the real estate industry. The described impact cycle opens up new possibilities for this. Systematic feedback loops and targeted improvements in impact involve the stakeholders who take part in the planning, implementation, creation and operation of real estate investments in new forms of cooperation - investors and project developers, architects and city planners as well as the target group itself. This enables creative and tailor-made solutions and effective approaches along the entire value chain.

Impact management can be seamlessly integrated into the investment process

The intended effect can only be guaranteed if those responsible consider the impact dimension throughout the entire investment cycle and act in an impact-oriented manner at every level.

The impact strategy needs a impact-oriented investment process

The starting point of the impact-oriented investment process is the impact-oriented **investment strategy** (impact strategy), which includes the definition of impact goals and the definition of the impact plan. Once this has been determined, investors can start **deal sourcing**, i.e., searching for suitable investment opportunities with a convincing business model that simultaneously meets the pre-defined criteria for impact orientation.

²³ On the Internet at iris.thegiin.org

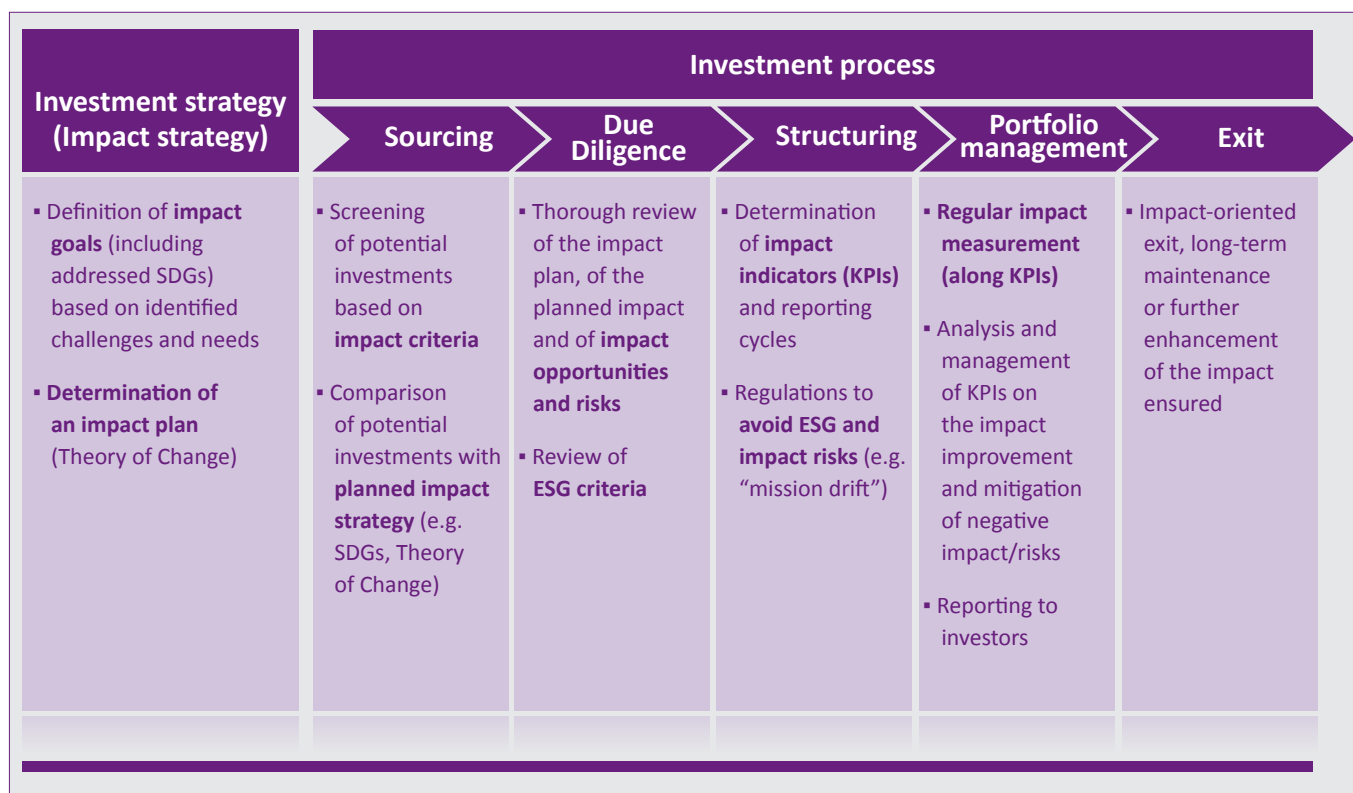


Figure 5: Impact-oriented investment process

Possible investment projects are examined through a **due diligence test** in terms of the impact plan. The following questions may arise in this context: is there a causal relationship between the business model and the impact goals, and are these plausible and realistic? How closely is the impact woven into the business model of the investment? Is the business model sustainable in the long term, can it - and thus the impact - be scaled? What are the risks with regard to the impact? At the same time, it must be ensured that the investment complies with the ESG criteria.

If the investment is convincing, **structuring can begin**. In the first step, it is necessary to contractually agree the impact goals of the investment and to determine the corresponding indicators. The process of impact measurement - and reporting cycles in particular - is also clearly defined. The drafting of the contract also includes regulations for the avoidance of ESG risks and the prevention of “mission drift”, the insidious deviation from the original impact goals of the organisation.

During the **investment and portfolio management phase**, the results must be regularly reconciled with the defined impact goals. On this basis, offers and products can be improved as needed. If a survey of the target group reveals that a service offer meets the needs but is largely unknown, for example, increasing investments can be made in marketing. Impact measurement using good indicators combined with regular reporting thus becomes an effective control instrument. Good, impact-driven investment management ensures that the investment continues to go through the cycle of planning, analysis and improvement of impact.

In the **exit** phase at the end of the investment period, there is a search for suitable buyers. This ensures a realistic increase in the value of the investment and at the same time its sustainable impact. Impact-oriented investors ultimately want to ensure that the social impact of their engagement - as the ultimate goal of ongoing impact improvement - develops lasting social effects.



Impact Measurement Tools

Established standards for effectiveness measurement and management

A lack of common standards for measuring impact, instead fragmented approaches and instruments: this accusation against the impact investing sector was justified for a long time and slowed market development. Now, internationally recognised guidelines and standards that are accepted by investors have long since emerged and been implemented. They ensure orientation and comparability of impact investments and are also suitable for real estate investments.

Impact investing requires internationally accepted standards at different levels

The standards can be applied to different levels:

The “Operating Principles for Impact Management” of the International Finance Corporation (IFC) provide overarching standards for impact-oriented management in the investment process.

The United Nations Sustainable Development Goals (SDGs) form a common compass for strategic impact goals.

The five impact dimensions described by the Impact Management Project (IMP) create an overarching methodological framework for a common and widely accepted understanding of impact, its recording and control.

Well-founded and widely recognised indicators can be found in the KPI database (IRIS) of the Global Impact Investing Network (GIIN).

IFC Operating Principles as process-oriented standards for effect-oriented investments

In April 2019, the IFC submitted a reference framework for working principles for impact-oriented investment processes in the form of the “Operating Principles for Impact Management”.²⁵ They are based on nine principles of effective impact management, can be mapped throughout the entire investment process and are openly designed.

The IFC Operating Principles are suitable for a wide variety of institutions and funds and can be implemented through various impact measurement and management systems.

The nine IFC Operating Principles are integrated into the various phases of the investment process that build on one another. They largely reflect the characteristics of an impact-oriented investment process described in the previous chapter and range from strategy development, systematic impact analysis and measurement and management of impact risks to monitoring and the impact-oriented exit. Users are asked to publish their compliance with the principles and have it verified independently.

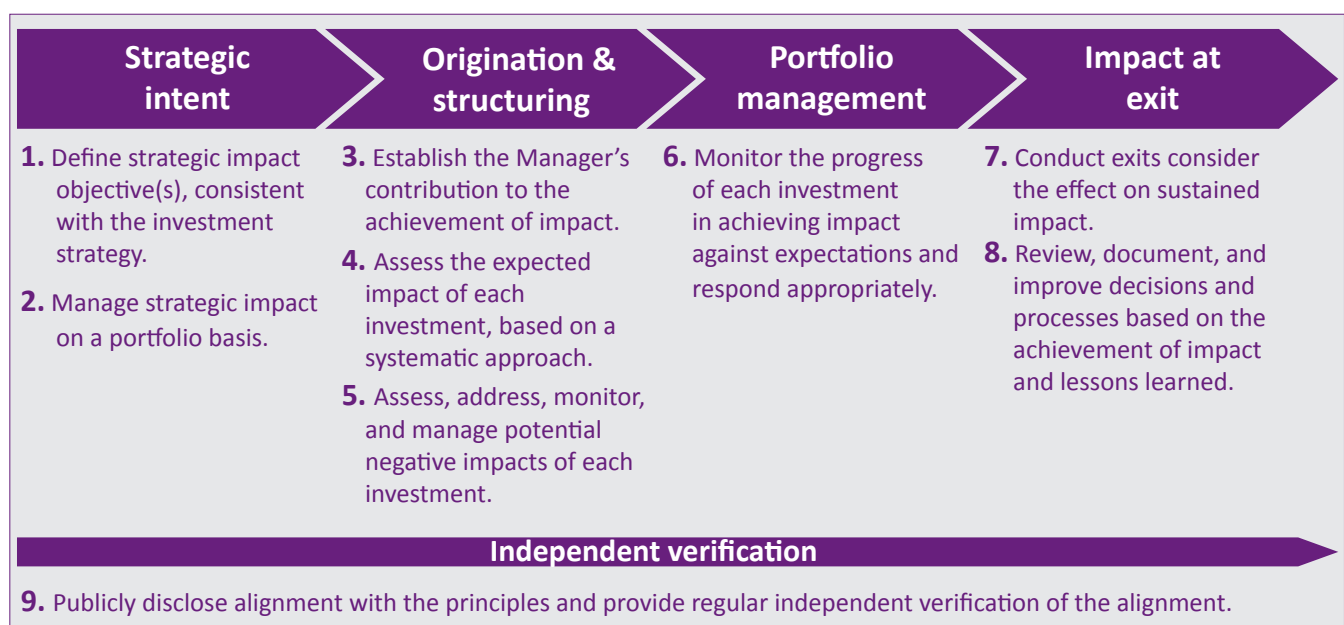


Figure 6: The operating principles of the IFC form a reference framework for impact-oriented investment processes.

²⁵ <https://www.impactprinciples.org/>

C.

Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) provide a normative framework for setting strategic goals

In 2015, the United Nations adopted 17 Sustainable Development Goals (SDGs). The SDGs include, among other things, the fight against poverty and hunger, education for all, climate and environmental protection, social justice and healthcare. The community of states aims to achieve the sustainability goals by 2030. The 17 sustainability goals are concretised using 169 sub-goals. These show which measures are necessary in order to be able to achieve the overarching goals.

For example, a sub-goal of SDG 3 (Good Health and Well-being) is: “By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination”. The sub-goals of SDG 4 (Quality Education) include sub-goal 4a: “Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, nonviolent, inclusive and effective learning environments for all.”

Impact-oriented private investment capital can play a crucial role in financing sustainable development. Against this background, the SDGs have established themselves in the impact investing market in recent years as a common language, a normative framework for determining and classifying overarching impact goals. 72 percent of impact investors stated in the annual investor survey of the Global Impact Investing Network (GIIN) in 2019 that they use the SDGs as a guideline for their impact measurement practise.²⁶ The SDGs are used both to set impact goals and to prioritise investment capital as well as to launch new, proactive investment products geared towards the SDGs.

What distinguishes the real estate industry is, among other things, the large number of SDGs, which can be influenced directly or indirectly, generally or specifically. As a rule, impact-oriented real estate investments (especially in OECD countries) can make a series of direct contributions to the achievement of important sustainable development goals:

- **Sustainable Development Goal 1: No Poverty**
(Affordable living, access to a good location, etc.)
- **Sustainable Development Goal 7: Affordable and Clean Energy**
(Sustainable buildings, heating, power supply, etc.)
- **Sustainable Development Goal 10: Reduced Inequality**
(Affordable living, equal opportunities, etc.)
- **Sustainable Development Goal 11: Sustainable Cities and Communities**
(Affordable living, sustainable neighbourhoods, sustainable buildings, etc.)
- **Sustainable Development Goal 12: Sustainable Consumption and Production**
(Sustainable buildings, sustainable building materials, recycling, disposal, etc.)
- **Sustainable Development Goal 13: Climate Action**
(Sustainable buildings, energy efficiency, electrification, etc.)

In addition, impact-oriented real estate investments can also enable indirect contributions to achieving the SDGs. Some of the following sustainable development goals play a particularly important role in emerging and developing countries, depending on needs.

Specific associations, i.e., those related to the purpose of individual real estate properties or neighbourhood developments can also be derived for SDGs 3, 4, 8 or 9, for example.

²⁶ https://thegiin.org/assets/GIIN_2019%20Annual%20Impact%2



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- **Sustainable Development Goal 3:
Good Health and Well-being**
(Real estate for healthcare facilities and care;
quality of air, water, etc.)
- **Sustainable Development Goal 4:
Quality Education**
(Real estate for educational and care facilities, etc.)
- **Sustainable Development Goal 6:
Clean Water and Sanitation**
(Water supply, water efficiency measures, etc.)
- **Sustainable Development Goal 8:
Decent Work and Economic Growth**
(Occupational safety in the construction industry,
building safety, small businesses, etc.)
- **Sustainable Development Goal 9:
Industry, Innovation and Infrastructure**
(Industrial real estate and infrastructure projects, etc.)
- **Sustainable Development Goal 15:
Life on Land**
(Greenery, land sealing, conservation of nature and
landscapes etc.)

The 17 Sustainable Development Goals are specified in 169 sub-goals. They show which measures are necessary in order to achieve the overarching goals. For example, a sub-goal of SDG 3 (Good Health and Well-being) is: “By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination”. The sub-goals of SDG 4 (Quality Education) include sub-goal 4a: “Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, nonviolent, inclusive and effective learning environments for all.”²⁷

²⁷ <https://www.globaleslernen.de/de/fokusthemen/fokus-sustainable-development-goals-sdg/broschuere-zu-den-sdgs-mit-allen-169-unterzielen>

d. IMP framework

The IMP provides a common framework for recording effect

The Impact Management Project (IMP) is a multi-stakeholder initiative launched in 2016, whose goal is to develop a global consensus to understand, capture and manage impact.²⁸ The initiative, coordinated by Bridges Fund Management (UK), has joined nearly 2,000 organisations worldwide. These include players from the asset management side such as BlackRock or Allianz, but also foundations and impact experts such as PHINEO. In a participative process, the members agreed on five impact dimensions, characterised by the keywords “What”, “Who”, “How Much”, “Risk” and “Contribution”.

In addition, various categories of impact data were assigned to each of these five impact dimensions, which enable a more precise breakdown. For example, the question about

the “Who”, i.e. about the target group affected by the investment, can only be answered concretely if data on the type of target group, its geographical distribution, its starting position (“outcome level at baseline”) and relevant socio-economic and demographic characteristics are available.

On the occasion of the UN General Assembly 2019, the establishment of a formalised “IMP Network” made up of nine global organisations with complementary work priorities was announced, which is intended to further advance the standardisation of the impact measurement and management approach that has been developed.²⁹

The IMP reached global consensus that impact can be measured across five dimensions: What, Who, How Much, Contribution and Risk

Impact dimension	Impact questions each dimension seeks to answer
 What	What outcome occurs in the period? How important is the outcome 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 does not occur as expected?

Figure 7: The five impact dimensions of the IMP

²⁸ <https://impactmanagementproject.com/>

²⁹ Members of the IMP Network are the United Nations Development Programme (UNDP), the International Finance Corporation (IFC), the Organisation for Economic Cooperation and Development (OECD), Social Value International (SVI), the Global Reporting Initiative (GRI), the Global Impact Investing Network (GIIN), the Principles for Responsible Investment (PRI), the World Benchmarking Alliance (WBA) and the Global Steering Group for Impact Investments (GSG).

e. *IRIS Database*

IRIS+ is a database of standardised key figures for measuring impact

Since 2018, the GIIN has been offering free access to a database under the name IRIS+ that shows impact indicators according to impact topics or categories.³⁰ The evidence-based, standardised key performance indicators enable the comparability of data for impact measurement. IRIS+ is based on the SDGs and the five dimensions of the IMP, among other things. The goal of IRIS+ is to act as a dictionary for indicators and to provide clear and consistent definitions for measuring social and ecological impact. Investors choose the indicators that are suitable for them from the indicator database based on criteria such as agreement with impact goals or measurability. The advantage of a uniform indicator language is that key figures can be consistently collected, aggregated and compared at portfolio level.

According to the current Annual Investor Survey of the GIIN, almost half of the respondents use indicators from IRIS+ to measure impact.³¹ In addition, IRIS+ offers investors instructions for data collection and reporting according to professional standards. However, although IRIS+ now includes around 650 indicators, it is not always possible to map all relevant aspects of social and ecological impact for individual investments. In this case, the indicators from IRIS+ can and should be supplemented with customised key figures or also with qualitative case studies.

The specified standards and methods complement each other

The working principles, frameworks, standards and indicators presented here are complementary and apply their respective strength in various areas of application and phases of the investment process. The example from Franklin Templeton shows what this can look like in practice. It is clear that the IFC principles and the SDGs are being considered and planned throughout, while the methodological framework of the IMP is primarily used in the acquisition and management phase. Although the indicators are selected based on their informative value on the desired effect targets, the actual survey falls under investment management. Since widely accepted formal certifications for impact investments in real estate are lacking, Franklin Templeton has decided to commission a customised Impact Due Diligence Report.

The process for standardising methods and benchmarks continues

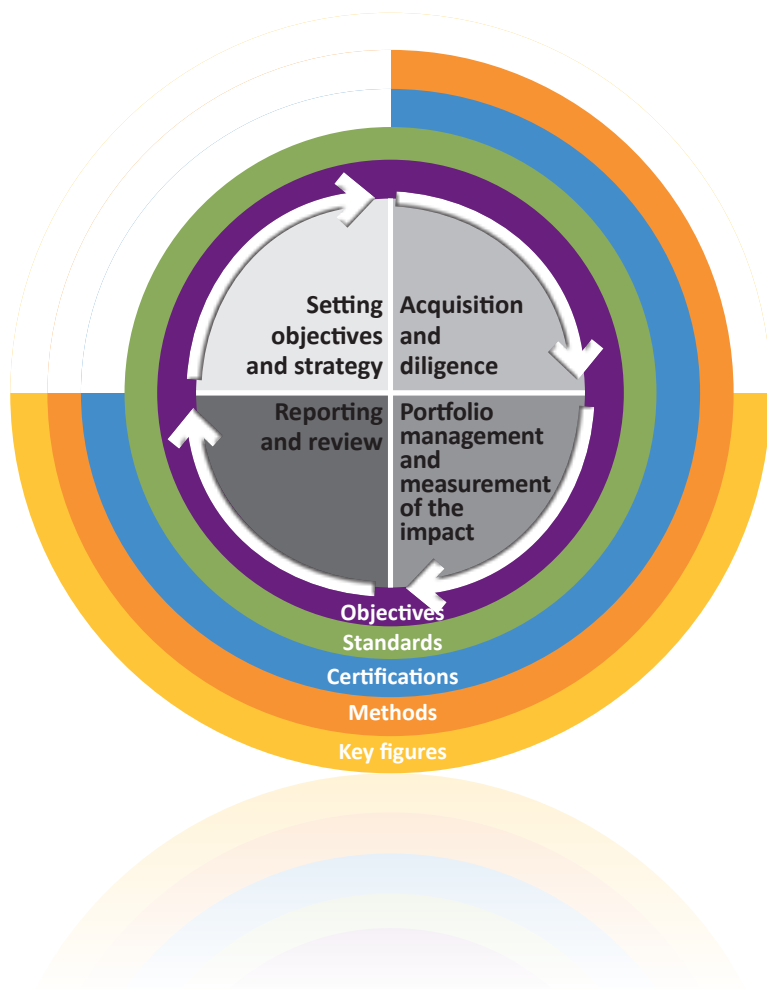
The ongoing efforts of international organisations to standardise various methods and to integrate different method levels for impact investing are developing dynamically. The process has not yet been completed. Rather, the development of an increasingly broad range of methodological approaches and products for the practical use of impact-oriented investments, also for the real estate industry, is evident.

³⁰ <https://iris.thegiin.org/metrics/>

³¹ Annual Investor Survey of the GIIN 2019, p.29

Impact Management framework conditions in practice: Relevance and benefits in the investment process

Summary of Franklin Real Asset Advisors' strategy for the effective use of important framework conditions



The United Nations Sustainable Development Goals are important goals for the strategy of social infrastructure and are integrated into the Impact Management System (IM System) at every step of the investment process.

The Operating Principles for Impact Management of the IFC form a superordinate guideline to ensure that the IM system is based on best practises.

Instead of formal certifications, the management team has decided to selectively commission tailor-made "Impact Due Diligence" reports from leading environmental and engineering firms.

The Impact Management Project method has formed the approach for due diligence, monitoring and reporting in relation to the effects.

In addition to customised key figures and key performance indicators from other sources, the IRIS key performance indicators are an important part of the KPIs that are selected for measuring the impact.

SDG = Sustainable Development Goal IFC = International Finance Corporation IRIS = Impact Reporting Investment Standards

Figure 8: Franklin Templeton's application of fund-level methods and approaches



5. Real Estate Impact Areas

Affordable housing and sustainable neighbourhood development as areas of impact for impact-oriented investment

With the creation of affordable housing and the promotion of sustainable neighbourhood developments, there are two areas in which impact investments can achieve a particularly high social impact. Both areas of impact are the focus of public perception and are directly integrated into the target compass of the SDGs. Affordable housing in particular increases the disposable income of tenants from medium and low income classes, which can then be used on other things such as education and health (No Poverty – SDG 1). If the opportunities of disadvantaged groups in the housing market are improved, it reduces the social inequality in cities (Reduced Inequalities – SDG 10) and enables the realisation of safe, inclusive and sustainable cities and communities (SDG 11).

The area of impact of sustainable neighbourhood development can be understood as an overarching topic that includes the area of impact of the affordable residential space via the corresponding residential properties. For example, a neighbourhood that integrates different income groups into a shared, lively and socio-economically mixed living environment addresses the problem of social inequality (SDG 10). SDG 11 (Sustainable Cities and Communities) is also directly linked to the implementation of sustainable neighbourhoods. However, the neighbourhood development is not limited to these two SDGs. Depending on which goals investors pursue with their investment, other SDGs may also be important. For example, a greater focus is placed on improving the infrastructure in healthcare or education (SDG 3 – Good Health and Well-being and SDG 4 – Quality Education). In addition, commercial spaces can, for example, preferably be leased or sold to small or impact-oriented companies and/or local employers (SDG 8 – Decent Work and Economic Growth and SDG 9 – Industry, Innovation and Infrastructure).

The two areas of impact are described in more detail below using the impact-oriented control cycle and an impact plan. For a systematic approach, a clear objective must first be

articulated on the basis of an impact plan (Impact Plan), then the implemented impact is tracked with the aid of selected indicators (Impact Analysis) and continuously improved on the basis of the measurement results (Impact Optimisation)

Affordable Housing



Neighbourhood development



Figure 9: Health and well-being, reduced inequality and sustainable cities and communities are the core development goals to which neighbourhood development contributes.

a.

Affordable Housing

The importance of affordable housing for social justice and social cohesion

The demand for “affordable housing” is a political permanent topic of high social urgency. Appropriate living is one of the basic human needs and forms the basis for social participation. Rental and real estate prices have risen sharply in the last few years, especially in urban areas. Households with middle and low incomes are particularly affected by this development, since in comparison to higher income groups a large part of the cost of living is accounted

for by housing costs. Together with expenditure on water/sewage, energy, heating and maintenance, household living costs make up the largest item in consumer spending on average. In addition, living costs are often only controllable to a limited extent, as the spatial connection to family, work and educational institutions limits flexibility.

The lack of affordable housing intensifies the contrasts between rich and poor and exacerbates social tensions, for example through overcrowding in residential units, displacement and gentrification effects and increasing social segregation in geographically separated, socially homogeneous residential areas. By providing additional affordable housing, impact-oriented investors can help to avoid or mitigate such negative developments and in this way contribute to social justice and social cohesion.

Income is a decisive factor for living conditions: families with lower incomes often have a poorer quality of living, a smaller area and have to bear a significantly higher rent burden. There is no uniform definition of when housing is “affordable”. On the other hand, the housing cost burden ratio shows when the share of housing costs in household income is too high. Even if guideline values are only of limited significance without consideration of the condition, location and size of the property, a share of the housing costs of more than 40 percent in the net income is considered an overload.³³

Lack of state-subsidised council flats tightens the pressure

For many residents of large German cities, rents and high housing costs have become a serious problem. In total, around 1.9 million affordable flats are missing from the large cities. The biggest supply gap exists in single-person households with income below the poverty threshold. Here there is a need for more than 1.4 million small flats with rental prices between 4 and 5 euros per square metre in order to offer all tenants from this income group affordable rent.

There is not yet any end in sight where this trend in concerned. On the contrary: according to a study by the Pestel-Institut³², the stock of 2.1 million council flats nationwide in 2003 fell to only 1.1 million in 2019. While

social housing can be subsumed under the term “affordable housing”, council flats cannot be directly equated with affordable housing. Council flats consists of flats built using public subsidies, which are only awarded to tenants with a residence permit. Affordable housing, on the other hand, is intended for people who earn too much for a council flat and not enough for a flat on the free market.

As a result, the lack of council flats is causing additional people to enter the market for affordable housing. According to estimates by the German Tenants’ Association³⁴, around 80,000 council flats would have to be built every year to meet the demand - in 2018, however, it was only around 25,000, while at the same time around 49,000 social homes were excluded from the fixed rental price. Although building permits for new multi-family dwellings are tied to the condition of building between 20 and 30 percent of the units as council flats in many places and despite promises by the federal government to create around 100,000 new council flats by 2021, the supply gap will continue to grow without sufficient investment from the private sector.

Impact planning - target groups for affordable housing

Impact-oriented investments require that positive impact can be articulated in the form of a change for a disadvantaged or undersupplied target group. Therefore, it is often not enough to be satisfied with a generic goal such as the “realisation of affordable housing”. Different target groups may be affected by different forms of disadvantage in the housing market. In order for an intervention within the framework of affordable housing to take into account the needs and requirements of different target groups, the planned activity should be based on a sophisticated analysis of the causes of the disadvantage and possible intervention levers. An example: If senior citizens with restricted mobility are the target group, additional affordable housing will only bring a positive change if the residential units are designed to be sufficiently barrier-free and if the target group is informed about what is available in a target group-oriented manner.

As a rule, there is a direct disadvantage in the housing market from the financial situation, for example in the case of the long-term unemployed or single parents.

³² https://www.destatis.de/DE/Presse/Pressemitteilungen/2020/10/PD20_428_639.html

³³ <https://www.pestel-institut.de/>

³⁴ <https://www.mieterbund.de/presse/pressemeldung-detailansicht/article/40480-deutschland-2017-1-million-wohnungen-fehlen-mieten-steigen-ungebremst.html>

	Poor/risk of poverty	Lower-income groups (60-99%)		Higher-income groups (≥%)		Main challenge
Refugees/Asylum seekers						Language skills Neighbourhood
Long-term unemployed						Social welfare benefits Neighbourhood
People with mental illnesses						Social welfare benefits Outpatient help
People with severe physical disability						Accessibility
Seniors with reduced mobility						Accessibility Loneliness
Assisted living for under-age adolescents						Neighbourhood Outpatient help
Single parents						Childcare
Trainees, students						Lack of credit rating
Young families with small children						Space Neighbourhood
One-person households						Offer

Figure 10: Target group analysis for the planning of impact investing for affordable housing.

These are often confronted with the problem that flats are given preferentially to higher-income competitors, as their creditworthiness is estimated to be better. Nonetheless, non income-dependent disadvantages can also prevent successful participation in the housing market. For refugees, incomplete language skills are often an obstacle because they make it difficult to find suitable offers and negotiate with landlords. In addition, because of their migration background (regardless of their income situation), applicants can be disadvantaged when flats are awarded.³⁵ Often, when awarding a property, flat managers are not aware that they are contributing to it through their award criteria - they are primarily concerned with getting tenants that are as homogeneous as possible to try and avoid social conflicts or any complaints. For people who are dependent on outpatient help, such as people with mental illness, the availability and range of the services narrow the search for accommodation in geographical terms.

In addition to social disadvantages, there is also the possibility of defining target groups in the lower, but also the middle income segment through their occupation of belonging to certain ("e.g. systematically relevant") professional groups, such as care staff, nurses, social workers or policemen. These target groups could be considered to be particularly worthy of funding due to their social contribution in the context of their occupation

Impact plan for affordable housing

An important basis for the definition of impact goals is a valid impact plan. Investors and asset managers can apply the impact plan to an entire portfolio as well as create it for individual properties. Figure 11 (next page) outlines an example of an impact plan for creating affordable housing. At the input level, there are resources such as access to long-term financing, networks and local partners and development competencies. Inexpensive building plots (or existing properties) represent an important success factor,

³⁵ https://www.antidiskriminierungsstelle.de/SharedDocs/Downloads/DE/publikationen/Leitfaeden/Leitfaden_Wohnungsmarkt.pdf?__blob=publicationFile&v=1

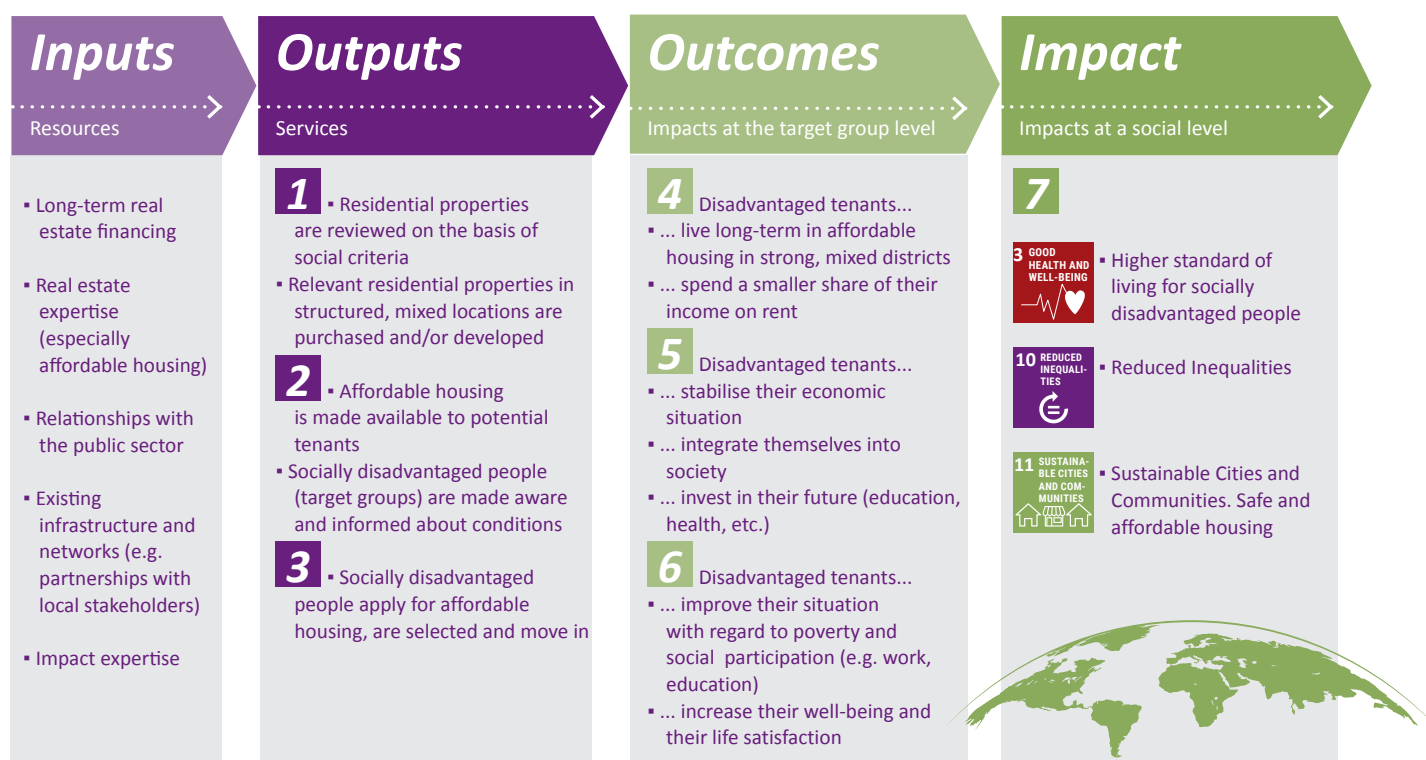


Figure 11: Impact plan for affordable housing. Source: PHINEO

on which additional, affordable housing can be created cost-effectively. These are in short supply, especially in large cities, and can only be found on the free market on the outskirts. Nevertheless, there are areas that would be predestined for affordable housing and belong, for example, to churches or public authorities. The use of these areas could be made through the leasehold and linked to certain impact goals. Investors could thus achieve savings and pass them on via controlled rents.

Investors can respond to the challenge of the rising construction costs of affordable housing through the extensive unification and standardisation of floor plans and equipment or modular construction. With a space-efficient floor plan and interior design, even relatively small areas can be designed in such a way that they offer living comfort and feel “more spacious” than they are. The end result can be architecturally appealing and at the same time create scope for lower rents through economies of scale, cost savings and a higher density of residents.

On the output and outcome levels, in connection with impact-oriented investments, the additionality of affordable housing, which can be expressed, for example, in the fact that more affordable housing or council flats is provided than would be required for the building permit, plays an important role. The extension of the price fixing beyond the mandatory deadline represents a further form of additionality. Furthermore, renting at a rental price below the local rent level creates an additional positive income effect for families and households that would not have had access to a comparable residential property under normal circumstances.

At the impact level, it is ultimately about bringing about positive and lasting changes of a social nature. In addition to the effect of the individual residential real estate, it requires a socio-political commitment to impact-oriented frameworks, incentive structures and funding programmes.

Measure the impact - impact goals for affordable housing

The area of impact of affordable housing can be broken down into a number of impact goals, which represent various aspects and success factors:

- **Creation and maintenance of affordable (and/or social) living spaces**
- **Supplying disadvantaged target groups with affordable housing**
- **Improving the income situation for target groups**
- **Creating stable living situations**
- **Improving the life situation of disadvantaged target groups**

While these goals can be given different weightings in practice, it is recommended that none of them is completely disregarded. Some impact goals, such as creating stable living situations, require a sensible sense of proportion - on the one hand, it is about avoiding the tenants changing frequently due to dissatisfaction with the quality of the flat or due to evictions; on the other hand, it should be possible to reduce the financial support which is associated with a controlled rent if the need for social support (e.g. due to a substantial increase in income) no longer exists, in order to benefit other target groups. In this case, a moderate fluctuation is desirable. Another conflict of objectives can arise when target groups with the highest possible income-related disadvantage are to be supported, which can inevitably result in relatively high exposure rates. In certain circumstances, higher stress rates can be temporarily justified, e.g. if an improvement in the income situation can be achieved with the help of social support offers, or if mobility costs can be saved significantly due to the improved location.

Impact indicators for affordable housing

A number of indicators can be assigned to each impact goal of affordable housing. The restriction to a few meaningful indicators has proven effective. Particularly relevant or typical indicators are marked as core indicators. The following compilation of possible KPIs provides a more detailed explanation of possible and typical indicators for the collection of various impact goals for affordable housing.

Creating and maintaining affordable (and/or social) housing

- **Affordable/social housing units**
- **Area of affordable/social housing units**
- **Additional affordable/social housing units**
- **Area of additional affordable/social housing units**
 - Persons who live in affordable/social housing units
 - Housing density
 - Consideration

Supplying disadvantaged target groups with affordable housing

- **Households with persons with non income-dependent disadvantage**
- **Households with income-related disadvantage**
 - Households with WBS (Wohnberechtigungsschein, or social residence permit)
 - Households with persons from special occupational groups
 - Households related to SGB2 (Sozialgesetzbuch II, or Book II of the Social Security Code)

Improvement of the income situation for target groups

- **Difference in rent compared to the usual local rent**
- **Housing cost burden rate**
 - Net income after deduction of housing costs
 - Change in mobility expenses
 - Relative amount of utilities

Creating stable living situations

- **Annual rent increase**
- **Duration of the additional price and occupancy commitment**
- **Duration of the lease/fluctuation rate**
- Frequency of forced evictions
- Availability/quality of a feedback system
- Relationship between tenant and landlord/administration

Improvement of life situation of disadvantaged target groups

- **Number/proportion of people/households for whom the quality of the situation has improved**
- **Satisfaction with living environment and living conditions**
- **Availability and quality of social support services**
 - Availability/quality of social/community facilities
 - Availability/quality of green spaces/playgrounds
 - Relationship of trust with the neighbourhood

IRIS+ is a database of standardised key figures for measuring impact. On the website (<https://iris.thegiin.org/>) there are a number of possible indicators for the following aspects relating to the subject of “real estate”:

- Improving quality of life/standard of living
- Improving home stability (less fluctuation)
- Improving access to social support services
- Improved affordability of living

When taking a closer look, it becomes clear in places that there may well be a need for more tailor-made indicators beyond the proposed IRIS+ indicators. The IRIS+ indicator collection is subject to a continuous improvement process and part of the commitment to the further development of the impact investing market can also consist of making a contribution to improving existing indicators.

Impact optimisation

Impact indicators only become productive when they are used in the investment process for ongoing adjustment and optimisation of impact. If a project to create affordable housing, for example, results in rental prices below the market level, which does not benefit the actual target group, but mainly tenants from a higher income group, then a new plan or improvements must be made.

Impact-oriented real estate processes require impact management from the planning through the construction and operation phases to the exit

For this purpose, indicators must be collected regularly and the results communicated to relevant stakeholders in a standardised, usable and understandable form and taken into account in project management. Such feedback loops are essential for effective impact management. Ideally, the impact indicators collected will be evaluated as a matter of course and the results taken into account in the investment management process, as is the case with the business indicators. However, there are also pragmatic aspects here: it should be possible to collect the indicators used both regularly and systematically, without involving a disproportionate amount of effort or expense.

Case study on the creation of affordable housing: Shore Hill Senior Community in Brooklyn

The Shore Hill Senior Community provides a positive example of how affordable residential property can be effectively developed (Figure 15). Overlooking Upper New York Bay and Verrazzano Bridge, the property is for senior citizens only and has communal areas, a dining room and full-time care staff. Tenants can participate in various activities. Comparable models would also be conceivable in Germany. Nuveen Real Estate acquired and developed the complex.



Figure 15: Shore Hill Senior Community in Brooklyn, New York

The most important added values of the Shore Hill Senior Community are the following:

▪ Affordable housing preserved in the long term:

Nuveen has extended the rental price restriction of the 558 flats in the complex by another 20 years. This means that senior citizens can continue to live in one of the most expensive regions in the US without having to spend more than 30 percent of their income on rent.

▪ **New learning together:** The complex offers communal rooms in which the residents can meet, acquire new skills through shared language, computer, physical education or craft courses and remain active. Everyday care and support is provided.

▪ **Responsible exit:** One of the easy ways to ensure affordable housing in the United States is to extend the rental price restrictions on a property while the property is being sold to another low-income housing tax credit investor. They can then use the associated tax benefits.

▪ **Affordable housing and ecological sustainability are not mutually exclusive:** In order to improve the quality of the living environment for the tenants, the property is retrofitted in an environmentally-friendly manner. The measures include the modernisation of the lighting as well as the installation of thermal insulation and water-saving toilets and reduce water and energy consumption by 21 percent and at least 11 percent respectively.

C. Sustainable Neighbourhood Development

Sustainable neighbourhood development as a social task for the future

Today, the majority of the population worldwide already lives in cities – and thus in urban neighbourhoods. According to UN estimates, that figure will be almost 70 percent by 2050.³⁶ Boroughs or districts that represent an administrative unit are often referred to as neighbourhoods. However, the term is by no means defined beyond administrative boundaries; a borough can consist of several neighbourhoods or a neighbourhood can extend over boroughs. Even a single street or an extensive former factory site that has been upgraded with new flats and commercial space can become a neighbourhood.

Many urban agglomerations magnify the social and ecological problems of our time. This obviously applies from an ecological point of view: cities with their concentration of buildings, traffic and consumption cause around 75 percent of global CO₂ emissions.³⁷ The social challenges are no less serious. A typical problem is socio-spatial segregation; a process of segregation and increasing inequality in urban sub-areas, with detrimental effects on the socialisation of the neighbourhood residents and their opportunities to participate in the school system and the labour market. As a result, rising rents and living costs mean that people

with lower incomes, and growing elements of the middle class, are increasingly being displaced from city centres or attractive residential areas to unfavourable peripheral locations with inadequate infrastructure and connections.

Against this background, it becomes clear how important ecological and social aspects are when designing new neighbourhoods. A modern neighbourhood development should allow people to combine living, working, leisure and social activities. At the same time, it should encourage a feeling of togetherness. Many cities have recognised these tasks in the last three decades and have made efforts to create a better mix in new urban districts and to prevent the emergence of so-called “dormitory cities”. In addition to the “Good Friend” case study in Aachen described later in this chapter, other positive examples of sustainable neighbourhood development include the Seestadt Aspern in Vienna, the Domagkpark in Munich and the Überseestadt in Bremen.

Impact plan - target groups of sustainable neighbourhood development

As with affordable housing, the success of sustainable neighbourhood development also depends on the fact that disadvantaged or underserved target groups are defined from the start. For the development of sustainable neighbourhoods, it is also important to consider the people who live and work there. Unmet needs, both in terms of local infrastructure and in terms of supporting disadvantaged target groups, should be identified and taken into account. In addition, consultation with the residents of the neighbourhood promotes the sense of belonging among the residents and their identification with the neighbourhood.

The spectrum of possible target groups is wide and includes both neighbourhood residents and organisations

▪ **For trainees and students, the district** must provide adequate school and other educational opportunities in an appropriate proximity, plus they need the opportunity for professional orientation and an infrastructure of facilities and amenities that enable and promote social engagement and leisure activities.

³⁶ United Nations 2019: World Urbanization Prospects 2018. Highlights.

³⁷ Ren21: Renewables in Cities. 2019 Global Status Report.

- **Families** represent a target group that depends on the compatibility of work and family life, requires sufficient opportunities in the labour market and places demands on mobility, local care and social infrastructure. In addition, families need an environment that offers a high level of protection and security.
- **For older people**, a functioning local supply network in the neighbourhood is also essential, as is accessibility in the home and living environment, and a sufficient health and care infrastructure. Furthermore, an age-based and inclusive residential structure is important in order to enable exchange between generations, promote social interchange and avoid isolation.
- **For people with disabilities**, the main needs in the neighbourhoods are characterised by a barrier-free design adapted to the degree and type of disability and by the promotion and guarantee of inclusion.
- **People with an immigration background** are dependent on finding social and cultural integration opportunities in the neighbourhood, especially locally. Furthermore, as a prerequisite for participation, they need integration opportunities in the local labour market.

- **Small and medium-sized businesses as well as commercial enterprises** need protection against displacement. They have to find fair conditions in the local competition and are dependent on a healthy local economy in the neighbourhood. Younger and smaller social enterprises in particular with relatively low credit ratings have difficulties in finding affordable commercial space, although they have a higher social impact than some large companies.
- **Associations and non-profit initiatives** must also be protected from displacement and find premises that are affordable for such organisations. Cultural institutions and providers of social support services are dependent on central and/or well-connected locations for high accessibility.

Impact plan for sustainable neighbourhood development

Analogous to affordable housing, an impact plan can also be developed for sustainable neighbourhood development. The following figure shows what the impact staircase can look like in the case of sustainable neighbourhood development.

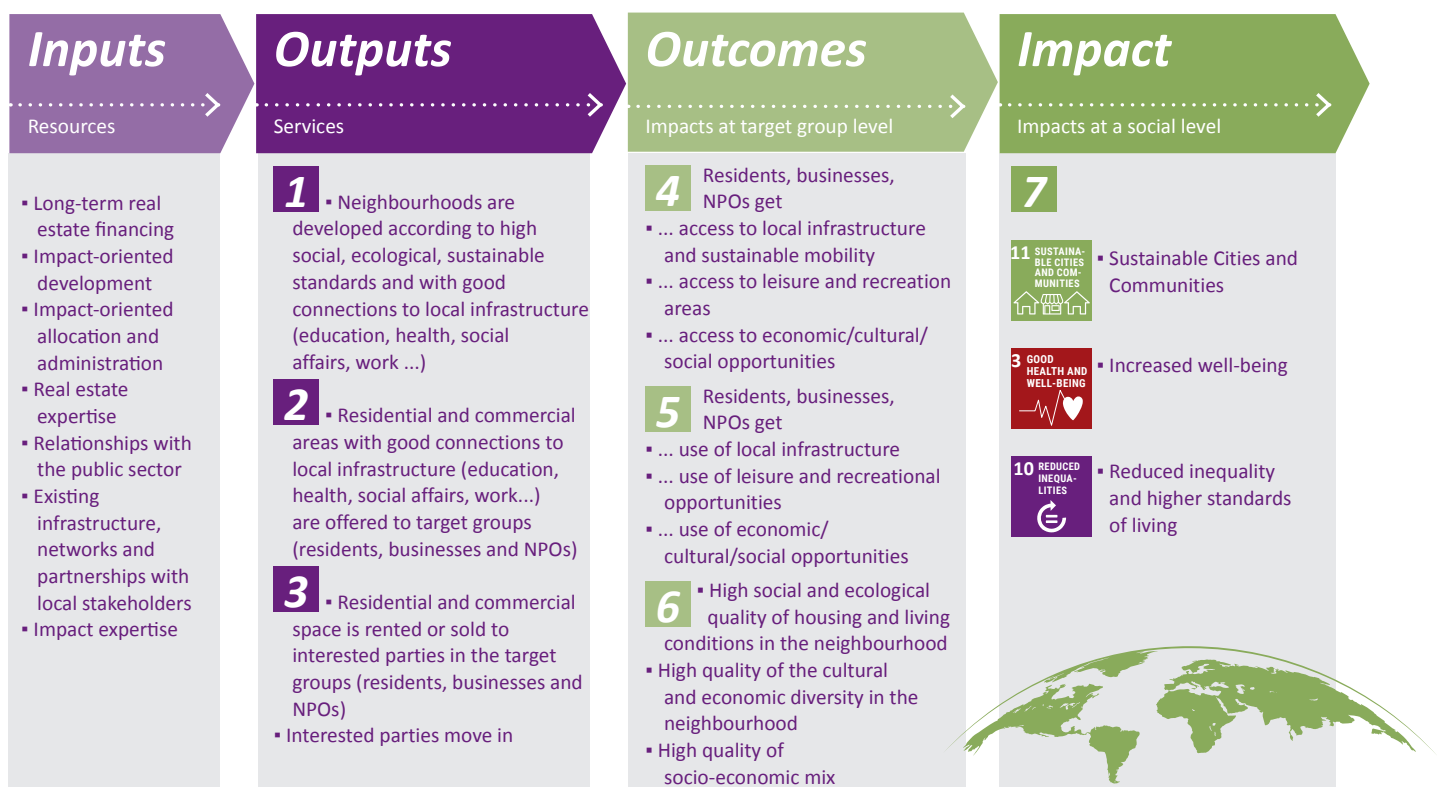


Figure 12: Impact staircase for sustainable neighbourhood development. Source: PHINEO

In contrast to a real estate project, the scope of the investment and the associated impact goals are significantly expanded in the development of a neighbourhood. The area of impact “affordable housing” usually only represents a more or less large part of the neighbourhood, with the impact goal of promoting a balanced socio-economic mix. In addition to residential space, commercial space must also be taken into account, the awarding and administration of which should be impact-oriented. Overall, it is about the interaction of several properties in a neighbourhood, whereby existing areas and properties (in private and/or public ownership) that are not the subject of the investment should also be taken into account. Another additional element is an increased need for coordination with public administration and urban district management as well as other local stakeholders from the cultural and social sectors.

Possible outputs of investments are neighbourhoods designed according to social and ecological aspects, geared towards the needs of residents, with good connections and sufficient areas for the various types of use. A functioning neighbourhood should be lively and therefore requires a healthy balance of housing and social facilities, shops for everyday needs, offices, gastronomy and other commercial spaces. The same applies to a diverse range of residential units tailored to different needs, from student and single to senior-friendly and family flats in different price levels. Another impact goal can ultimately be the creation of an appealing and diverse social infrastructure of meeting points and places of social interaction, from green spaces between the buildings to youth clubs and cultural institutions. The importance of ecological sustainability for the development of the neighbourhood will continue to increase in the future. For example, the entire neighbourhood can be developed according to the C2C approach or planned in such a way that conventional, motorised private transport is largely dispensed with.

At the outcome level, the success of the impact is shown by the usage behaviour and the satisfaction of the residents of the neighbourhood, as well as by the diversity, viability and socio-economic mixing of the neighbourhood. The characteristic of additionality is evident in the form of social, cultural and economic changes that go beyond what would have been expected from ordinary, primarily profit-oriented

players. For example, an impact-oriented development can be characterised by the allocation of commercial space to less solvent and cultural social institutions that would otherwise have been displaced in peripheral locations. Or by creating additional care or recreational opportunities that go well beyond the minimum public requirements.

At the impact level, it is ultimately about bringing about positive and lasting changes of a social nature. In addition to the effects of a single neighbourhood development, this requires a socio-political commitment to impact-oriented frameworks, incentive structures and funding programmes.

Impact measurement - Impact goals for sustainable neighbourhood development

Analogous to affordable housing, the impact area of sustainable neighbourhood development can be broken down into a number of goals, which represent various aspects and success factors:

- **Promoting the socio-economic intermixing in the neighbourhood**
- **Accessing local infrastructure and sustainable mobility**
- **Promoting cultural and economic diversity in the neighbourhood**
- **Improving social living and quality of life in the neighbourhood**
- **Improving ecological living and quality of life in the neighbourhood**

Here, too, different impact goals can be weighted differently depending on the context and the framework conditions. In contrast to affordable housing, the environment and the requirements of the existing neighbourhood residents play a greater role, and the impact goals of urban neighbourhood management should also be taken into account. Public education and support institutions such as schools, childcare centres, kindergartens or libraries are, for example, the responsibility of the municipality.

Nevertheless, supply and demand are diverging in many neighbourhoods. It is not uncommon to find a lack of care places in the immediate living environment. The situation is similarly challenging for many childcare centres, charitable associations, social welfare companies or other charitable organisations, which can find it difficult to acquire suitable real estate. Impact investing can help to ensure that public and private educational spaces are integrated in line with needs and target groups.

Another aspect of a sustainable neighbourhood is a high degree of personal, environmentally friendly mobility or short distances. People in the neighbourhood should be able to run all their important errands on foot or by bike. Intelligent and innovative mobility networks ensure time savings, lower traffic burdens and less air pollution and noise, among other things. Special needs of target groups such as people who rely on wheelchairs or parents with pushchairs should also be taken into account. Instruments such as Transport-Oriented Development (TOD) or the Geo Open Accessibility Tool (GOAT) of TU Munich enable the effective and target group-focused optimisation of accessibility in the neighbourhood.

Impact indicators

For the most part, the information provided in Chapter 4.1 with regard to the impact indicators for affordable housing can also be applied to sustainable neighbourhood development. A number of indicators can be assigned to each impact of sustainable neighbourhood development. Particularly relevant or typical indicators are marked as core indicators. The following KPIs provide a more detailed explanation of possible and typical indicators for evaluating various impact goals for sustainable neighbourhood development.

Promoting the socio-economic intermixing in the neighbourhood

- **Composition of residents of the neighbourhood (non income-dependent)**
- **Composition of residents of the neighbourhood (income-related)**
- Availability of social support services
- Availability and quality of education/care offers
- Neighbourhood residents from special occupational groups

Access to local infrastructure and sustainable mobility

- **Availability of local infrastructure**
- **Availability and quality of public transport**
- Routes and mobility expenses
- Quality of the bicycle and pedestrian infrastructure
- Presence of sustainable mobility offers

Promoting cultural and economic diversity in the neighbourhood

- **Commercial types of use of real estate**
- **Presence of cultural/creative facilities**
- **Presence of social/non-profit organisations**
- **Frequentation/vitality**
- Presence of gastronomy
- Jobs created
- Unemployment rate

Improving social living and quality of life in the neighbourhood

- **Feeling of atmosphere and quality of stay**
- **Range of leisure and recreational opportunities**
- **Security in the neighbourhood**
- Quality of climate resilience
- Availability/quality of a feedback system
- Quality of coexistence
- Recommendation (neighbourhood-related)

Improving ecological living and quality of life in the neighbourhood

- **Quality of noise and air pollution in the neighbourhood**
- **Type/quantity/quality of green and nature areas in the neighbourhood**
- Optional: Climate friendliness of the neighbourhood
- Optional: Quality of the construction-related life-cycle management (Cradle2Cradle) in the neighbourhood
- Quality of the microclimate in the neighbourhood

IRIS Database

IRIS+ is a database of standardised key figures for measuring impact. Interestingly, there are hardly any references to the overarching topic of neighbourhood development - instead, relevant key figures are available from various areas, while other areas (mobility, air quality, safety, circular economy, cultural/creative industries, etc.) are rather poorly covered. This circumstance suggests that the area of impact of sustainable neighbourhood development has played a relatively small role for impact investors so far, which could be due to the fact, among other things, that the positive and additional contribution to affordable living is significantly easier to determine and influence than is the case with sustainable neighbourhood development. Nevertheless, the increased degree of difficulty should not prevent the more impact-oriented development of neighbourhoods in the future with the help of impact-oriented capital.

Impact optimisation

Due to the increased complexity and possibly unclear responsibilities, continuous impact management in sustainable neighbourhood development represents a greater challenge than is the case with affordable housing. Compared to paid housing, the regular collection of impact data turns out to be more time-consuming, as it is based more on qualitative data. This speaks in favour of less frequent but more extensive/in-depth surveys. One example of a key indicator that is not easy to collect and influence is the socio-economic composition of the residents of the neighbourhood. It can also be more difficult or costly to correct planning-related impact deficits during ongoing operation. As far as possible, urban neighbourhood management should be included in the definition and collection of impact indicators. Equipped with a sufficient budget and working in close coordination with the respective city or municipality, continuous neighbourhood management should be possible. Under certain circumstances, an additional positive impact on the social level may also be seen in the fact that a grievance affecting a communal facility or service can be recognised and addressed more quickly than usual.

d. Key Features of Impact Investments

The quality requirement of impact investing

The explanations on impact investing make it clear that the distinction between ESG-compliant investment strategies and impact investing is not always very clear in practice and that market observers sometimes work with different definitions. How can investors ensure that their investment strategy meets the quality requirements of impact investing? The Finance Initiative (FI) of the United Nations Environment Programme (UNEP) has defined four key features in its “**UNEP Positive Impact Real Estate Investment Framework**” (Figure 13).³⁸ They are intended to help investors, real estate funds and real estate developers make a direct contribution to the SDGs through their real estate investments and put the social and/or ecological impact at the centre of investment decisions.

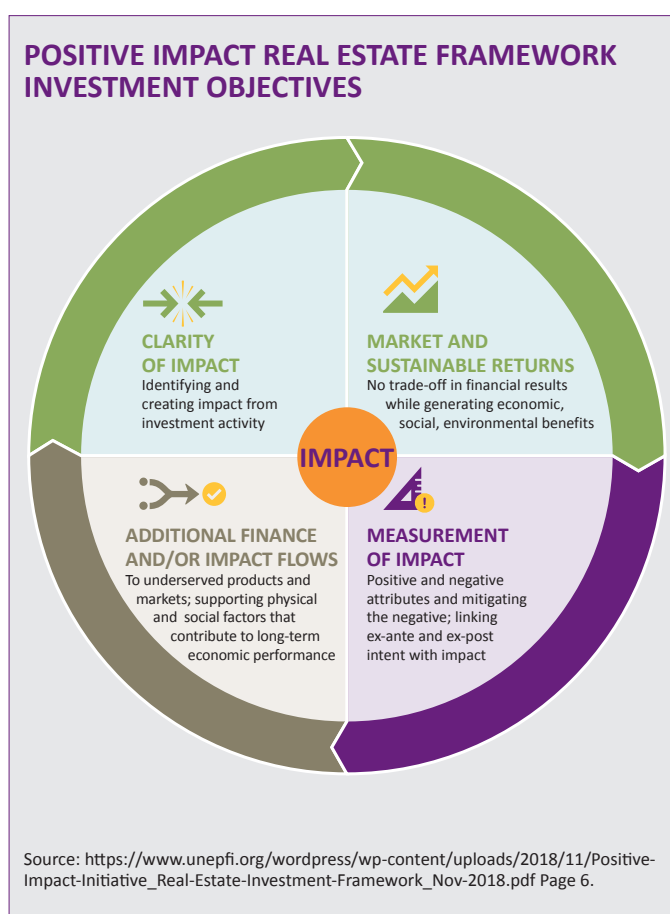


Figure 13: Key features of impact-oriented real estate investments

³⁸ UNEP Finance Initiative, UNEP Positive Impact Real Estate Investment Framework, 2019

Key features of impact-oriented real estate investments

The four key features are:

1. Clarity of impact

To pursue positive impact goals throughout the investment process.

2. Market and sustainable returns

Social and ecological impact is not at the expense of a marketable and sustainable return.

3. Measurement of impact

A robust impact measurement enables a continuous comparison between the impact goals and the actual results and creates the basis for reporting to investors.

4. Additionality

Additional finance and/or impact flows

Ultimately, an impact investment should always provide added value that would not have come about in comparison to day-to-day business. This “additionality” of the investment can be determined and measured according to the following categories:



New markets

(Service of undercapitalised sectors/sub-sectors)



Timing

(Faster provision of capital)



Quality

(Provision of capital at better conditions)



Endurance

(Longer provision of capital)

e.

Principles of Impact Investment

Holistic approach

Impact investment cannot be reduced to an “attractive investment strategy” or “asset class”, but rather represents an investment philosophy that should shape the entire portfolio strategy and the entire asset allocation process in the medium to long term.

Empirical and context-related concept of impact and sustainability

The social and ecological impact is ultimately realised in the physical world. The empirical impact, which impact investments should enable and support, depends in turn on the impact of an asset as a result of real economic activities. The quality of the sustainability of an asset is measured by the relationship between its empirical impact and normative target values, such as ecological limits (“planetary boundaries”) or minimum ethical requirements (universal human rights).

Impact orientation

The self-image of impact investors includes a consciously controlled and verifiable realisation of positive impact. For this purpose, there are clearly defined impact goals and a properly implemented impact management process. Impact investors do not measure impact as an end in themselves, but rather serve as the basis for a continuous improvement process in accordance with the model of a “learning organisation”. Accordingly, impact investors also have the long-term effect after a possible exit in mind.

Additional impact aspiration

The impact aspiration of an impact investment goes significantly beyond what would be expected from purely profit-maximising players. This is where the additionality of the impact on the asset and/or capital level comes into play. Of course, a high impact and high financial performance are not necessarily mutually exclusive. But in day-to-day management, trade-offs and conflicts of goals are more the rule than the exception. There are numerous investment opportunities with a high impact that require (more or less large) reductions in financial performance. These can only be implemented if the investor attaches significant, financially “material” value to an extraordinary potential impact.

In the trade-off between the goals of financial performance maximisation and impact maximisation, impact-oriented investors can set a visible example by specifically opting for a sensible, measured balance and in this way generating an additional capital impact.

Adherence to ethical principles

Investments do not take place in a value-neutral, ethical-free area. Impact investors orient themselves to normatively well-founded ethical principles, such as the desirability of the short-term and long-term, direct and indirect consequences of an activity or the respect for fundamental rights. These ethical principles are also taken into account if they - as in the case of the rights of young/future generations to a habitable planet - are not yet legally binding. Investments with a negative effect are also excluded even if they are highly financially attractive. The commitment can therefore go significantly beyond the legally required extent.

Stakeholder orientation

Impact investing stands for an investment practice that is based on the vision of an impact-oriented, inclusive and sustainable stakeholder capitalism - in contrast to the current norm of an unsustainable, short-term oriented shareholder capitalism. The current economic model does not attach sufficient financial weight to the (long-term) positive and negative impacts of investments and assets. A still inadequate pricing system for the future social damage and risks of the climatic catastrophe by the mechanism of the market price formation has led over the last decades, for example, to the "greatest market failure in human history" (Nicholas Stern). An ambitious and steadily increasing pricing system for greenhouse gas emissions could address this market failure and would make sustainable assets increasingly more attractive. In addition, in the current company law, there is a lack of a clearly articulated, legally binding obligation of managers not to pursue economic profit (in the sense of sustainable corporate governance) at the expense of social and ecological minimum requirements.

Systemic commitment

Beyond pure investment activity, impact investing is also about becoming more socially and politically effective in the financial sector and the real economy, e.g. through advocacy, lobbying, awareness building, lighthouse projects, best practice sharing, etc. The main obstacles to the mainstreaming of impact investing are not just a lack of awareness ("not knowing") or a lack of motivation ("not wanting"), but also a lack of scope for decision-making under current expectations and obligations ("not being able to").

In this respect, it is to be expected that a better disclosure of non-financial data and a higher impact transparency alone will only cause a limited systemic change.

Achieving a system-wide change in the behaviour of investors and companies requires changed legal framework conditions and economic incentives in the sense of stakeholder capitalism. Against this background, the understanding of corporate responsibility beyond charitable donations/volunteering should also include socio-political commitment as a civil-society player.



Figure 18: The Aachen neighbourhood “Guter Freund”

f.

Case study

Sustainable Neighbourhood Development: The Guter Freund neighbourhood in Aachen

One positive example of the impact-oriented creation of affordable housing in the course of sustainable neighbourhood development is the “Guter Freund” (“Good Friend”) in Aachen, completed in 2018 (Figure 18: Aachen’s “Guter Freund” neighbourhood). It is located on a former military site and offers almost 250 new flats, of which more than 180 units can be counted towards affordable housing. The neighbourhood was developed by Landmarken AG.

It offers the following added values:

- **183 affordable flats:** The flats offer a new, affordable home for very different people - such as families, single parents or students.
- **Housing for people with systemically relevant professions:** So-called key workers, who ensure the company’s success in key positions, are equipped with central housing in a good location and quality.
- **Promoting good neighbourhood:** Property management and caretaker services are located on site and support residents with everyday problems. Tenants can exchange information and help each other via a neighbourhood app. This promotes coexistence in the neighbourhood.
- **Care for young and old:** A childcare centre that provides places for children from the neighbourhood and the surrounding area is just as much a part of the neighbourhood concept as a senior citizen day care system, so that people receive the support and care they need across generations.
- **Sustainable mobility concept:** Thanks to its central location, the neighbourhood is well connected to the local public transport network. There is also an in-house sharing offer with e-bikes and two e-cars. For residents who cannot do without a car, there are sufficient underground parking spaces.

Interim conclusion: Ecological impact

The previous chapters outlined the potential for social impact and the steps involved in implementing impact investments in the real estate sector for the fields of “affordable housing” and “sustainable neighbourhood development”. In the context of the guide, the focus was placed on social impact aspects, since minimum ecological standards can be taken for granted in projects for affordable housing and sustainable neighbourhood development and questions of impact measurement are already being addressed in detail by the DGNB. The minimum ecological standards are dynamic variables that are based on the standard that can be considered customary on the market at a given time (such as “KfW55” for new construction projects). For the future, it can be assumed that these minimum standards will continue to rise and one day include, for example, the ecological footprint of the building materials used or the degree of recycling and reusability of the materials used (circular economy, cradle to cradle).

Often, ecological and social effects are closely related. It is not uncommon for it to be necessary to consciously weigh up an exceptionally high ecological impact, which is usually associated with additional costs, and exceptionally controlled rent and additional affordable housing. Apart from a few exceptions, not all impact goals can usually be pursued equally. Notable exceptions include cost-efficient energy-saving measures such as the use of sustainable insulation materials, solar thermal energy and heat pumps. These reduce annual operating costs and thus the tenants’ living costs. In addition, current technological advances mean that “tenant electricity”, e.g. electricity generated through a building’s own photovoltaic systems, has now become so cost-effective that there are significant utility cost savings and, in the end, tenants have more of their income left over. In order for this socio-ecological impact potential to be realised to a greater extent, a holistic view of the power supply as part of the housing offer (instead of as a private matter for tenants) would be necessary.





6. Products and Investment Strategies

a. *Capital Flows*

Redirecting capital flows - taking up social challenges in proven structures

Social impact investing puts established and beloved investment strategies in the real estate industry to the test. On the one hand, this applies to the asset classes. Anyone who invests in a fully let office property in a prime location in a German A city, i.e. in a classic core product, achieves a return - albeit a small one - but does not pursue any ecological or social goals.

This is less likely to be the case with capital that flows into the acquisition of a neighbourhood with affordable flats in a city with a high unemployment rate. The greater leverage makes residential real estate (affordable, rent-controlled) and mixed neighbourhoods appear as predestined impact investment asset classes. In principle, other types of real estate use could also be used on the product side, such as social and educational real estate (schools, universities, libraries, research institutions, nursing and kindergartens).

A fund from PGIM, one of the world's largest asset managers, invested in a project with affordable housing and a homeless shelter in California in the summer of 2020.³⁹

But building hybrids that are springing up in commercial or office properties that are falling empty as a result of the Covid-19 crisis and being converted for social uses would also be fundamentally suitable for impact. Redevelopments in special and commercial properties could also be suitable as impact investments, provided that the positive effect on the environment and the surrounding area can be presented transparently and comprehensibly.

More impact, not just location, location, location

But it is not only the asset class division that seems to need adjustment from the impact investment perspective, but also the real estate situation basics. Already active impact investors with a real estate connection concentrate on

regions - countries, city districts, neighbourhoods - which fall through the grid with every classic core investor; either because they do not fit into the vehicle's investment strategy and/or it is foreseeable that no bank would bear the financing risk. Impact investors, on the other hand, could break the negative spiral of negative investment and financing decisions and channel capital into properties, projects and regions that would not attract traditional real estate capital due to their economic and social conditions (unemployment rate, purchasing power, crime, educational level, health, etc.).

Open discussion of conflicts of interest

National investor engagement is particularly important here because the public sector does not (any longer) play a decisive role in providing services of general interest in many precarious areas and local banks are ruled out as financial partners due to bias.

Of course, conflicts of interest are inevitable: investor groups operating according to conventional financial logic will want the greater risk that higher-risk locations or asset classes mean for them and their capital, with correspondingly high interest rates. Impact investors would go without return points, depending on their orientation. But how much is a lot and how much is little? Where do you set the limits of what is economically justifiable and where does philanthropy begin? This certainly depends not only on the attitude, but also on the investor type. Special funds and family offices therefore seem particularly suitable to be the first to go in this direction. This is different from large capital collection agencies such as insurance companies and pension funds whose mission is to invest capital managed by them in a fiduciary way at a profit. Here it should be clarified whether the investors for their part would be willing to forego income in favour of ecological and social effects.

³⁹ <https://www.multiphasingnews.com/post/bridge-jv-to-bring-120m-affordable-project-to-california/>

b. Impact Returns

Premieres in the USA and UK

It is therefore not surprising that the first Social Impact Investing Funds were launched in the USA. PGIM, one of the world's largest asset managers, with \$1 trillion of capital invested worldwide - 67.8 billion of which in real estate - is already very successful with impact-oriented real estate investments. It is still too early for a final assessment of the effects sought in the various projects. Various quantitative and qualitative methods for measuring impact already exist, but there is no clearly defined benchmark that is just as meaningful as the classic return on investment.

As long as this benchmark is missing, each real estate-related impact investment is viewed separately and measured against specially defined KPIs. These in turn are checked regularly over the entire term of the investment. Transparency does not apply solely to the successes achieved. Missing effects are also included in the reports.

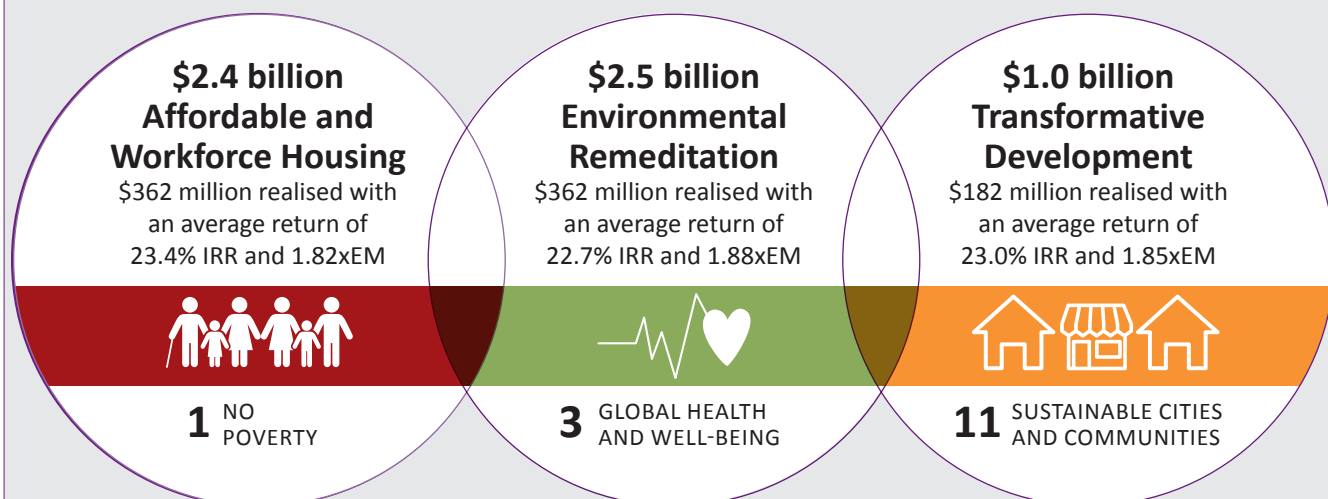
c. Impact Measurement

How do you measure social effects?

Indices can make an important contribution to measuring the impact. Sustainability effects have already developed a whole series of certificates and labels, such as the green building certificates LEED, BREAM and DGNB. In contrast, we are right at the beginning with the quantitative and qualitative classification of social impacts. The United Nations SDGs have certainly established themselves as a normative framework for strategic objectives. Investors cannot (yet) rely on an overarching catalogue of criteria that would be applicable to any impact-oriented real estate project. There are approaches such as the "Social Return on Invest" (SROI) or the "Impact Multiple of Money"⁴⁰, but such quantification approaches are often confronted with the conceptual challenge that some societal outcomes cannot be readily converted into a monetary value - or if they can, then only on the basis of subjective assumptions. These include, for example, humanitarian suffering, human rights violations, social injustice, democratic participation, awareness-raising, migration pressure, geopolitical conflict risks, successful social relationships. Nevertheless, these factors naturally have an impact on the success of the investment.

PGIM real estate experience: Transactions with impact components

Since 2010, the firm has committed **\$4.9 billion** into **182 properties** with impact components across **23 MSAs**¹



⁴⁰ (<https://therisefund.com/measurement>)



Example of PGIM: Residential construction project USA

How diverse the objectives can be - and therefore the associated KPIs - is illustrated by a housing project from the PGIM portfolio in the USA.

The following criteria were defined as measured variables for a positive social impact:

- **Construction companies that have built the flats for the vehicle must pay the minimum wage**
- **All employees must be organised by trade unions**
- **The employees of the construction companies must belong to various ethnicities**
- **Employees must be from the neighbourhood**

User surveys can also be included in the impact measurement. The happier the tenants, the less fluctuation and vandalism, the better the social and economic effect. In order to prevent arbitrary criteria or stakeholder influence, the rating agencies and advisory boards that have been convened could be involved in the creation of a fund and accompany the investment over the entire term.

d. Reporting

Financial standards are internationally agreed - standards for sustainability are just emerging

Homo economicus knows the International Financial Reporting Standards (IFRS) well. These are international accounting standards for companies published by the International Accounting Standards Board (IASB). They are intended to regulate the preparation of internationally comparable annual and consolidated financial statements independently of national legal provisions. The IFRS are prescribed by many countries, at least for capital market-oriented companies. They consist of standards and official interpretations of these standards. However, the stronger focus on “demonstrably effected changes”, as required by impact investing, also changes the reporting requirements. The highly specific impact reporting (according to IMP, with IRIS+ indicators) and rating-related sustainability reporting are currently not the same. However, the areas are increasingly being converted/overlapped.

The ecological and social dimension

Companies, banks and insurance companies in Europe should act more responsibly and sustainably. The EU is pushing this improvement process with the CSR reporting obligation and the sustainable finance strategy as part of



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the Green Deal. It ensures greater transparency of business processes by standardising different procedures throughout Europe via the CSR Directive and Disclosure Regulations. In some member states, such as France and Denmark, certain aspects of sustainability have been required to be published for a long time. Now companies in all member states must report uniformly on environmental, social and employee issues, human rights and the fight against corruption, and the published data must be made comparable.

CSR policy on the disclosure of non-financial information

The draft law of the federal government to implement the EU directive on the disclosure of non-financial information into national law came into force on 19 April 2017. The CSR Directive Implementation Act (CSR-RUG) defines the type of information to be disclosed and the group of companies, banks and insurance companies concerned in Germany.

Established standards provide guidance

Various standards are available as a framework for systematic and well-founded reporting - depending on the industry, size and strategic direction.

The most important framework worldwide comes from the non-profit, multi-stakeholder initiative Global Reporting Initiative (GRI). The vast majority of sustainability reports in Germany, but also in other countries, refer to the GRI. Particularly smaller companies or companies with a short value chain or small budget choose the German Sustainability Code, as this requires less complex key figures.

e.

Indicators and Standards

Overview of the most important standards⁴¹

Global Reporting Initiative (GRI):

The multi-stakeholder initiative offers internationally recognised indicators and guidelines (Sustainability Reporting Guidelines) for organisations of various sizes and sectors. Companies should concentrate on the information that is important to them, explain it precisely and substantiate it with data, facts and information. If a company decides in the course of this materiality analysis not to provide information on individual CSR aspects, these omissions must be clearly justified ("report or explain"). Many companies also have their GRI reports reviewed by an auditing company.

German Sustainability Code (Deutscher Nachhaltigkeitskodex, or DNK):

The standard is becoming increasingly established in Germany because it is easy to use and can be linked to more comprehensive standards such as the UN Global Compact and GRI. The DNK is getting more and more positive feedback, especially among medium-sized companies, as it is oriented towards the business realities of small and medium-sized companies. The DNK declarations of compliance of the participating companies can be viewed publicly in an online database.

UN Global Compact:

At the invitation of the United Nations, over 12,000 companies from 170 countries have now committed to complying with the ten minimum social and ecological standards set out in the UN Global Compact. This includes the protection of human rights and freedom of association (works council and trade union formation) as well as the fight against corruption, the promotion of general environmental awareness and the promotion of environmentally-friendly technologies. Many of the signatories prove compliance with an annual report (Communication on Progress (COP)).

Additional standards:

Additional standards and CSR reference documents relevant for reporting are the UN Guiding Principles for Business and Human Rights, the OECD Guidelines for Multinational

Enterprises, the ISO 26000 and ILO core labour standards, the certification of the environmental management systems EMAS and ISO 14001 and the ESG - Indicators of the European Federation of Financial Analysts Societies (EFFAS). The Sustainable Development Goals also have an impact on CSR reporting when companies use them to define corporate goals. Companies can then use CSR reporting to check whether they have achieved their goals.

International standards are on the way, but it's a journey

A effort by society in general is required to cope with the central tasks of the 21st century. Neither politics, business, nor civil society are in a position to solve global challenges such as climate change, the fight against poverty or the protection of human rights on their own. In addition to political action and civil society engagement, it is primarily companies that act responsibly that have a presence at home and abroad and that make a significant contribution to solving social problems. This is expressed, for example, in compliance with internationally recognised social and environmental standards, even if there is no corresponding legislation in the country of production or if this is not implemented.

The global economy needs global strategies for sustainability and corporate responsibility. Institutions such as the United Nations or the OECD shape this framework in close coordination with one another and with national governments.

The EU strategy clearly shows that the positive development of the European economy is closely linked to the implementation of sustainability and corporate responsibility in European companies and must also be driven by them. For this, the EU is creating a common political framework and driving the CSR discussion.

⁴¹ <https://www.csr-in-deutschland.de/DE/Unternehmen/CSR-Berichterstattung/Standards/standards.html>



Stakeholder Capitalism

Initiative of the World Economic Forum - Measuring Stakeholder Capitalism

The initiative of the World Economic Forum (WEF) to measure stakeholder capitalism is working towards common metrics and consistent reporting on sustainable value creation. At the 2020 Annual Meeting in Davos, 120 of the world's largest companies supported efforts to develop a core set of common metrics and disclosures on non-financial factors for their investors and other stakeholders.

The resulting report⁴² contains the conclusions of a six-month consultation process for the definition of common key figures for sustainable value creation.

The core set and the expanded set of “Stakeholder Capitalism Metrics” and disclosures can be used by companies to align their reporting with environmental, social and governance indicators (ESG) and to pursue their contributions to the SDGs on a consistent basis. The metrics are based on existing standards, with the short-term goal being to accelerate convergence among leading private standard setters and to achieve greater comparability and consistency in reporting ESG disclosures.

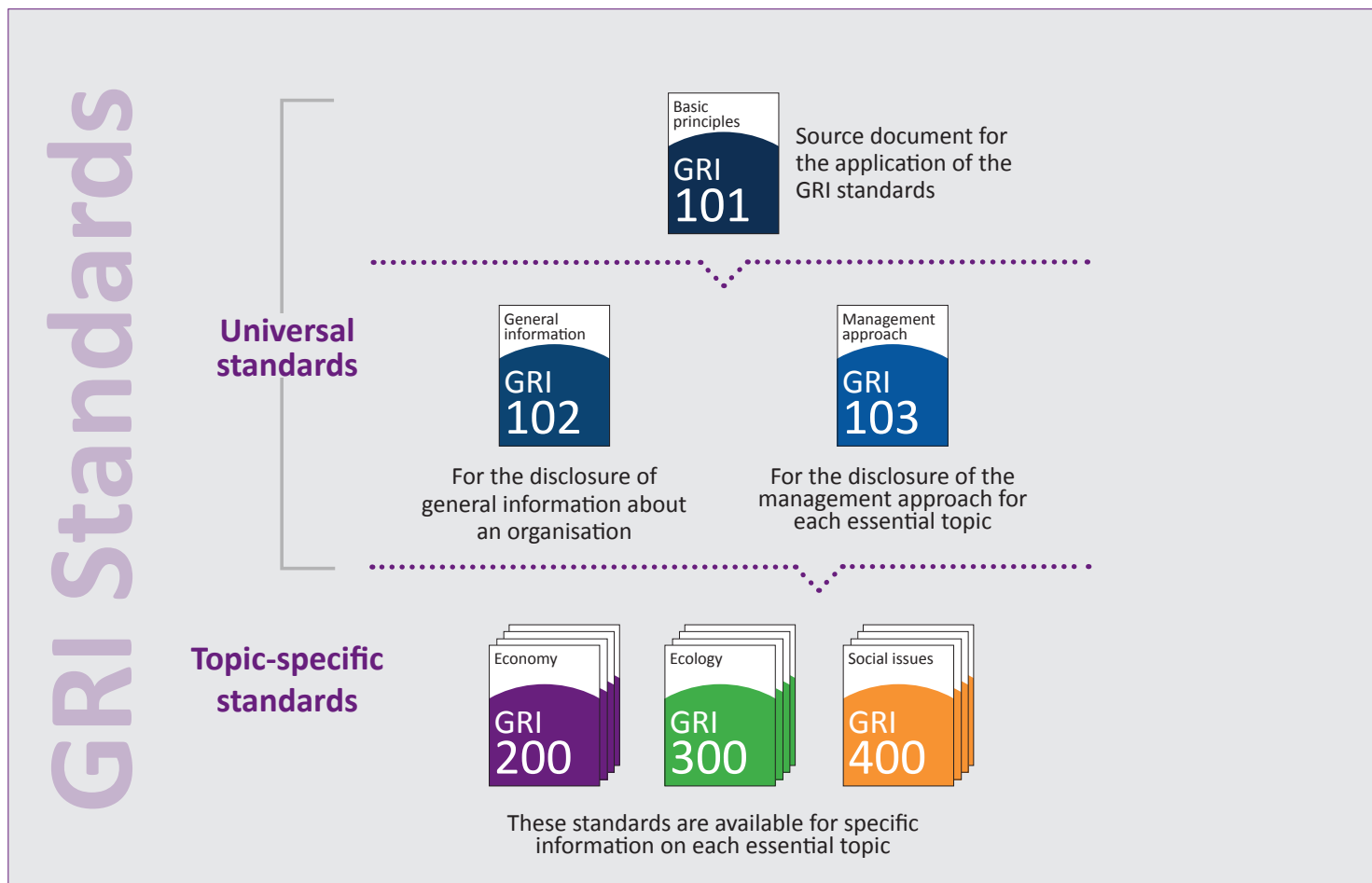


Figure 19: GRI standards overview

⁴² Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, 22 September 2020



GRI standards

In most cases, the GRI standards⁴³ form the basis of reference for the selected metrics. The GRI standards differentiate between universal and topic-specific standards:

- **GRI 101 Basic principles**
- **GRI 102 Disclosure of general information about organisations**
- **GRI 103 Disclosure of the management approach**
- **GRI 200 Economy**
- **GRI 300 Ecology**
- **GRI 400 Social matters**

The GRI standards can be used individually or in their entirety when preparing a sustainability report in accordance with the GRI standards.

Core metrics

Twenty-one established metrics primarily describe quantitative metrics for which information is already reported by many companies (albeit often in different formats) or which can be obtained with reasonable effort. They primarily focus on activities within one of the organisation's own confines.

Advanced metrics

Thirty-four advanced metrics are less well established in existing practise and include a broader value chain, or the impact requires a more sophisticated determination.

The recommended metrics are organised under four pillars that are aligned with the SDGs and cover the most important ESG areas.

⁴³ www.globalreporting.org/standards



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GOVERNANCE

The definition of governance is evolving as organisations are increasingly expected to define and embed their purpose at the centre of their business. But the principles of agency, accountability and stewardship continue to be vital for truly “good governance”.

Five categories were created for the Principles of Governance, to which GRI standards 102, 205 and 405 were essentially assigned.

- **Purpose of management**
- **Quality of the management body**
- **Stakeholder engagement**
- **Ethical behaviour**
- **Supervision of risks and opportunities**

PLANET

An ambition to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations.

The metrics for Planet comprise three categories, to which the GRI standards 304 and 305 were essentially assigned.

- **Climate change**
- **Loss of nature**
- **Fresh water**

In addition, metrics from the TCFD⁴⁴ and the GHG Protocol⁴⁵ are adopted. Reference is also made to SASB⁴⁶ 110 and the Science Based Targets Initiative⁴⁷.

⁴⁴ International Accounting Standards Board is an independent, private-sector body that develops and approves the International Financial Reporting Standards (IFRS)

⁴⁵ Financial Accounting Standards Board is a US-American accounting body organised under private law. Its purpose is to define what are the United States Generally Accepted Accounting Principles for corporations and private sector organisations

⁴⁶ Sustainability Accounting Standards Board

⁴⁷ www.sciencebasedtargets.org

PEOPLE

An ambition to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment.

The metrics for People comprise three categories to which the GRI standards 202, 403, 404, 405, 408, 409 were essentially assigned:

- **Dignity and equality**
- **Health and well-being**
- **Skills for the future**

In addition, metrics of the SASB HC topics are addressed.

PROSPERITY

An ambition to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature.

The metrics for Prosperity comprise three categories, for which the GRI standards 201 and 401 are essentially named:

- **Employment and asset accumulation**
- **Innovation of better products and services**
- **Community and social vitality**

In addition, metrics from IAS⁴⁸ 7 and US GAAP⁴⁹ are included.

The presented metrics were selected because of their universality across industries and business models, but the intention is not to replace the relevant industry and company-specific indicators. Companies should be encouraged to comment on as many core and extended metrics as they can materially provide and what is appropriate in the context of

the respective business model, on the basis of a “disclose or explain” approach.

The reporting structure will develop, there is no alternative to transparency

The demands for standardisation and comparability of the reporting on sustainability and climate issues continue to increase, as these topics are becoming increasingly important for the capital markets.

The international standard setters such as the IASB⁵⁰ or FSAB⁵¹ (US) are already in discussion about how future non-financial standards can be designed, in particular in order to provide investors with a clear and transparent basis for comparing their decisions based on sustainability criteria, but also in order to make them verifiable.

The IFRS Foundation is investigating by the end of 2020 whether and to what extent the Board should play a role in the development of such standards. The consultation paper identifies critical success factors for the creation of a new Board, including obtaining sufficient support from authorities and market participants, working with regional initiatives to achieve global consistency and reducing complexity in the reporting landscape, achieving adequate levels of funding and ensuring the current mission of the IFRS Foundation is not compromised.

The order of the day

Since there is still no international agreement on standards, market participants are forced to orient themselves to the criteria that the respective industry has already accepted or that are relevant to the respective individual project. The guiding principle can be followed here:

Less is more and it must fit the project and the desired impact

The impact examples for “affordable housing” and “neighbourhood development” show the possible range of impact, but also make it clear that tracking all criteria is neither efficient nor appropriate. For individual projects or investments, individual choices should therefore be made about which impact chains are to be influenced and which outcome is to be achieved. This requires an investor or investor strategy that, like the financial contributions, should be part of an investor agreement.

⁴⁸ International Accounting Standard

⁴⁹ United States Generally Accepted Accounting Principles

⁵⁰ International Accounting Standards Board is an independent, private-sector body that develops and approves the International Financial Reporting Standards (IFRS)

⁵¹ Financial Accounting Standards Board is a US-American accounting body organised under private law. Its purpose is to define what are United States Generally Accepted Accounting Principles for corporations and private sector organisations



7. Recommendations and Outlook

a. Stakeholders and Alliances

Achieving success together

Social impact investors include all the effects of their trading in their investment decisions and thus automatically penetrate urban, climatic and social contexts that their predecessors from the age of pure shareholder value were not necessarily interested in.

It is not only real estate investments that have an effect; the actual buildings do too. They are more than just built cash flow. A redevelopment, for example, is much more than upgrading an existing building, because it does not only affect the future users. Other aspects are relevant and must be included:

- **What do the immediate neighbours think about the measure?**
- **Do the measures also bring about an upgrade of the neighbourhood?**
- **What forms of mobility does it offer its users?**
- **Does it meet sustainability criteria after the conversion, if so, which?**
- **Which user groups are (newly) acquired through them?**
- **What type of energy supply was selected?**

The boundaries with other branches of the economy become blurred, as these in turn influence the success of the property or the portfolio. Mobility providers and the energy industry, for example, have long since started to dovetail their business areas more closely with the real estate industry. Not only because our industry depends on innovative solutions from these sectors, but also to ensure its own survival. New business models such as energy contracting, car sharing, smart home and neighbourhood apps significantly and sustainably influence the economic

and social success of real estate project developments and the associated financial products. It is all the more important to involve these segments in the development of impact-oriented projects or investment products at an early stage.

b. Creativity and Capital

Economic interests and overarching initiatives

In addition to alliances that have arisen from the economic interests of individual companies and industries at the interface with real estate business models, there are a number of overarching partly association-driven, partly political-driven initiatives that want to organise or force a balance of interests between all stakeholders and urban society. Impact-oriented real estate investors should include these bodies in their target group. In addition, in the targets required by these groups, there are often indications for the formulation of their own KPIs.

In direct exchange with politics, more freedom instead of stipulations would be desirable in order to free up creativity and capital for real estate-related impact investments. Whether it is EEG surcharges, monument protection or building regulations, we need better coordination between legislation and the players involved, more public-private initiatives, more thinking “out of the box” and the courage to take unconventional routes.

C. *Innovative Approaches*

Example 1: Leipzig Charter takes on new urgency

An innovative approach is the Leipzig Charter on the sustainable European city, which was initiated in 2007 by Federal Minister Wolfgang Tiefensee and signed by 27 ministers responsible for urban development in the European Union.⁵² The objective: Maintaining the social balance within and between the cities, enabling their cultural diversity and creating a high level of design, construction and environmental quality.

The Leipzig Charter wants to reformulate the idea of the European city. To this end, the Leipzig Charter opposes:

A unilateral approach and monotony in urban development

The time for individually optimised residential and business districts, oversized shopping centres and large traffic areas is over. Instead, the Leipzig Charter recommends a return to a more mixed living, working and leisure environment in cities. This will make cities more exciting, lively and socially stable. In addition, cities with a strong mix of usages are economically less crisis-prone.

Unilateral ownership claims

The cities are not owned by politicians and administrative authorities, nor by investors. The Leipzig Charter makes it clear that everyone is responsible for the present and future of the cities and needs to get involved: citizens, politicians and administrations, business and social organisations. Democratic states need local democracy.

Absolute individual interests

In the European city of the future, isolated interests such as traffic, housing or the economy should no longer dominate. The Leipzig Charter demands that urban planning is a result of a public process. In this process, all requirements for urban development must be balanced fairly with one another.

Exclusion and isolation of individual districts

The Leipzig Charter focuses on the social and cultural integration of disadvantaged districts and understands this integration as one of the main strategies of international harmonisation at the European level. Long-term and stable economic growth is only possible if cities as a whole remain socially balanced and stable.

The Leipzig Charter makes urban development a topic with a European dimension. It substantiates the model of the European city at the beginning of the 21st century by recognizing the values associated with this model (co-determination and self-determination of the citizens, mixed use, social integration, public space).

Example 2: The city saviours as a networking platform for municipalities and city retailers

The structural change in stationary retail, growing office vacancies, empty hotels and social tensions accelerated by Covid-19, are topics that are taken up by the “Die Stadttretter” (“City Saviour”) initiative⁵³, which was launched in 2020, and discussed in digital discussion rounds. The privately organised, but non-commercially oriented platform offers the opportunity to exchange ideas and at the same time contribute ideas and solutions for sustainable, economically viable and socially fair urban development. Local authorities, business development agencies and city marketing companies, the real estate industry, retail trade, large and small companies, solution providers, associations and institutes are involved in the network of city saviours and share their experiences and knowledge. The objective: To “save” the city centres and stationary retail as economic engines and living spaces and make them fit for the future.

⁵² https://de.wikipedia.org/wiki/Leipzig_Charta_zur_nachhaltigen_europ%C3%A4ischen_Stadt
<https://www.bmi.bund.de/SharedDocs/faqs/DE/themen/bauen-wohnen/leipzig-charta/leipzig-charta.html>

⁵³ <https://www.die-stadttretter.de>



Adobe Stock © Maksym Yemelyanov

Example 3: The Urban Land Institute (ULI) with a global network of experts

The Urban Land Institute (ULI) as a global, member-run research and education organisation offers real estate impact investors a variety of opportunities to enter into an exchange. To that end, 45,000 members have come together to deal with questions on the sustainable development and use of cities and all topics of the real estate industry. The goal of the ULI is to work with the public sector to continuously improve the quality of life in cities and municipalities through the transfer of knowledge and the exchange of experience. Founded in Washington D.C. in 1936, the ULI is now represented in over 80 countries and offers a multidisciplinary forum for experts in the real estate industry and urban development. It not only shapes the real estate industry, but also assumes social responsibility.⁵⁴ Thus, the ULI can be a good partner for all real estate players with the (new) focus on social impact for the transfer of knowledge and the formation of new alliances.

Example 4: Social Impact Award of the global professional association RICS for projects in the UK

In autumn 2019, RICS UK became the first region of the globally organised professional association to issue an award for social impact investing. The award invites players in the

British real estate industry to support the sustainability goals of the United Nations with their projects and thus also to pursue social and ecological aspects. It is noteworthy that RICS presents the award in nine categories. With this breakdown alone, the association signals that it trusts many different business areas of the real estate industry to launch impact-oriented projects and products:

Commercial
Education
Healthcare
Heritage
Infrastructure
Land & Rural
Leisure
Residential
Student Accommodation

The British grasp the possibilities of impact-oriented real estate investments more broadly than the Germans, who so far see the greatest social leverage in the asset class “living” and in “neighbourhoods”. In this respect, the Social Impact Award of the British RICS can be seen as an appeal to the other regions to highlight exemplary real estate projects through corresponding competitions and thus to point out the power of action of our industry. With its 120,000 members in 146 countries worldwide, RICS is committed to compliance with ethical professional standards, money laundering, transparency and sustainability.

⁵⁴ <https://germany.uli.org/>

d. *New Alliances*

Gain trust, build credibility

But new alliances are also necessary in order to establish new projects and new products and to mobilise new investors and thereby enlarge the global “investment pie”. Politics, business, church, social associations, science, cities and communities, art, culture and civil society are the addressees who need to be picked up and convinced on an equal footing to take new paths with us. There are already initial approaches for this: Business Improvement Districts, for example, as interest groups of city traders and real estate owners. Public-private real estate projects (public-private partnerships) have also been tried out several times, but have so far been more widely accepted in other countries - in the USA and Scandinavia - than here.

The rather negative image, which our industry unfortunately still enjoys today in large parts of society, may have a share in it and make it difficult to integrate new players. If we do not want to fail as “wolves in sheep’s clothing”, we should understand the reservations and prevent them accordingly. And make our business models and plans transparent. To this end, we should know how our actions are seen and evaluated and which channels our new addressees use to obtain information.

“Correctiv”, for example, the first research centre financed by donations in Germany, has shown with its series of articles “Who owns the city?”⁵⁵ that it scrutinises projects and players far more than any other leading German media. The multi-award-winning network of investigative journalists denounces vacancy, rental price explosion and gentrification, brought the ownership structures in several cities to light and has also done valuable groundwork.

On the other hand, the Correctiv research has unfortunately widened the gap between tenants and our industry in many cases. But what does that teach us in this phase of the paradigm shift?

Here are some recommendations:

- **If we want to achieve a positive impact for people and the environment with real estate, we must also talk to those who hold or even prove that we are guilty of causing negative effects.**
- **Our business models should be understandable to everyone.**
- **We should explain what activity we are doing in the life cycle of real estate and with what amounts. To do this, it is also necessary to explain our job profiles.**
- **In order to enter into dialogue, we should use the same channels as our addressees from politics, business, municipalities, art, culture and civil society: daily press, trade press, social networks. Not only B2B, but also B2C.**
- **Build credibility, gain trust: this is the special challenge for impact investors with a real estate focus, but also a great opportunity.**

It is also to be expected that the scope of our topic will change the communication strategies of our companies in the long term. Either our own experts for social impact communications come into play or the existing sustainability officers or PR departments will expand their range of topics and the storytelling accordingly. This, too, offers a great opportunity for the public perception of our players.

e. *New Challenges and Innovative Concepts*

Challenge and opportunity for the real estate sector

Rent-controlled flats in newly constructed neighbourhoods, space for a museum in a new office tower, concept awards for properties, rent control in cities: for several years, politics has been transferring social tasks to the real estate sector, providing tighter guidelines, setting new legal frameworks. Some control instruments are not even new and have already been tested. With the “**Socially Equitable Land Use**” (**Sozialgerechten Bodennutzung, or SoBoN**), Munich introduced a requirement as early as 1994 in order to allow planning beneficiaries to share in the costs and burdens that are causally triggered by municipal land-use planning. With this building land model, which is anchored

⁵⁵ <https://correctiv.org/wem-gehoert-die-stadt/>

in the building code, the city and private construction and real estate industries pull together for the benefit of the common good. By 2020 alone, over 170 legally binding development plans have been issued on this basis. 15,000 subsidised flats have been built on private land and the social infrastructure (establishment of kindergartens, nursery schools and schools) has been strengthened. The planning beneficiaries paid for the creation of public traffic areas to the tune of over 273 million euros, for public green spaces and compensation areas around 151.4 million euros, for proportionate financial contributions to the social infrastructure in the amount of 256.2 million euros and for planning costs and others causal costs of 61.4 million euros.⁵⁶

The SoBoN has made a significant contribution to the timely realisation of a demand-oriented and qualitatively demanding city planning to this day. **“Concept awards”** for building plots also aim to better harmonise social and ecological requirements with the private sector interests of the real estate industry. Cities and municipalities do not only offer properties to the “highest bidder”, but rather link the award to other content criteria.

These can be:

- a special architecture
- strengthening non-profit or cooperative living
- a climate-friendly energy and/or mobility concept
- higher density
- embedding local players as land users and/or designers (cultural institutions, kindergartens, clubs)
- implementing a certain quota of price-subsidised or age-appropriate flats

Newer models pursue more openly formulated goals such as the implementation of a greater mix in terms of the types and groups of use, stronger community formation or greater structural or design leeway. From the perspective of social impact investing, the award of concepts could be further developed into an even more important instrument and the basis for cooperation between the private sector and the public sector geared towards sustainability and

a long-term approach. The focus should not be on the “haggling” about land, which is still often practised today, but rather on trusting cooperation “on an equal footing”, which focuses on transparency and fairness for the duration of the respective project and beyond. For this purpose, both sides should define “prerequisites for success” and ideally establish these in a legally secure agreement. The goal should be that all desired effects – monetary, social, ecological – are regularly reviewed and are an irrevocable guideline, even beyond the time of completion and beyond election periods.

With the “Action Concepts Housing” developed in the 2010s, cities and municipalities have reacted to the price explosions on the housing markets and have given private-sector players templates for the development of price-reduced or rent-controlled flats, whereby the proportions can vary depending on the concept.

In principle, the following objectives are in the foreground:

- Maintaining a balanced supply of housing in all price segments through property promotion and the support of publicly subsidised housing construction
- Sustainability through internal development
- Climate-adjusted urban and residential construction
- High-quality standards
- Future-oriented, regional cooperation

Most of the concepts not only focus on the new construction and renovation of existing structures, but also on the more efficient use and coordination of resources and funding. The action concepts act as a planning strategy and serve as an orientation aid for property managers and marketers.

In response to the demand for more participation by the citizens, so-called “workshop procedures” have been established. Especially in densely populated areas, new neighbourhoods, construction or conversion projects affect the interests of neighbourhoods and existing users. They want to be heard and integrated more than in previous decades. Project opponents, in particular, are often and very intensively organised via social networks and know how to

⁵⁶ file:///Users/mbeul/Desktop/SoBoN_Broschuere_web.pdf), Die Sozialgerechte Bodennutzung 2020 (Socially Just Land Use 2020), Der Münchner Weg, Vorwort (Preface).

delay or fail even large projects, as shown to great effect in a scientific study by the Federal Institute for Building, Urban and Spatial Research from 2018.⁵⁷ Therefore, the motto is to involve all forces at an early stage.

These instruments have not always been met with anticipation in our industry, even though they have long been established in many places.

So far, there are no sanctions

The indolence with which we approach new topics and implement them in our business areas is partly inherent in the subject. With real estate, we plan, build and operate the largest economic assets that directly shape the lives of millions of people: as homes, as workplaces, as places of culture and leisure. Hundreds of laws and regulations determine the framework in which we can become active. In the real estate business, years often pass between the idea, planning and implementation of a project. This distinguishes us from other industries, but it may also explain why our companies are considered shy of innovation and naturally tend to be sceptical of new impulses.

And the market has and does in many cases prove these positions right – traditionally built residential properties continue to sell like “hot cakes”, owners of poor energy performers have no sanctions to fear, rents and purchase prices continue to rise unabated in metropolitan areas, abandoned properties can end up “on the rubbish heap” without any recycling strategy.

Covid-19 – the real estate world and possible consequences

It is only the Covid-19 pandemic that has made the predominantly creeping structural change in our industry visible as if under a magnifying glass and reinforced structural weaknesses – across almost all asset classes. Former trophy objects in the top business districts of our cities are preparing for new times. Retail space on the prime shopping streets in major German cities – suddenly vacant and rentable. Co-working spaces as the epitome of the hip world of work and lavish returns – now at risk of becoming hotspots and vacancy victims. “Structural density” as a way of life in cities and value drivers for inner-city real estate portfolios – all of a sudden put to the test worldwide.

The vaccine certainly feeds the hope of a rapid return to “normality”. “Vaccination changes everything. The upswing is coming,” said a tweet from the former Head of the Ifo Institute, Hans-Werner Sinn⁵⁸. But what if the economy doesn’t start up again? If the Covid-19 subsidies run out and the true economic extent of the two lockdown phases becomes visible? What if people want to permanently bring life and work into a new balance – including spatially? Or we decide to shape our fundamental consumption to be more digital? Will everything be the same after Covid-19? Even in our real estate world with its predominantly commercial type of added value?

VUCA World strategies

Many exercise confidence and plead for “more of the same” in the New Normal. However, the global ecological and social changes in the VUCA World (volatility, uncertainty, complexity, ambiguity)⁵⁹ are already calling into question the principles and rules of our industry today. Many old certainties are just vanishing into thin air – and so are some business plans.

Whether we will generate two percentage points more or less return with our business models is no longer an ideological question, but an existential one. The game comes with new rules and whoever wants to leave the field as a good key player or even as a winner in the real estate world has to take greater account of the effects of his actions on the environment and people. Social impact investing will not remain a niche, but will fundamentally change our industry as the new standard.

In this respect, with this best practice guide, we would like to invite the real estate industry to think about the possibilities of social impact investing across all business models and to implement the sustainability goals (SDGs) of the UN in all future business plans. The examples given from the USA and UK are intended to encourage new alliances and real estate projects such as new residential buildings or neighbourhoods to be promoted in much closer coordination with all stakeholders – politics, city administrations, social associations, users – than before. For new projects, we need acceptance and majorities and not just the “Go!” from elites.

In this respect, the examples cited have given us valuable tips for starting a new era in real estate investment. The

⁵⁷ <https://www.bbsr.bund.de/BBSR/DE/veroeffentlichungen/sonderveroeffentlichungen/2018/erfolgskriterien-wohnungsbauvorhaben.html>

⁵⁸ <https://twitter.com/HansWernerSinn/status/1332255120046911488>

⁵⁹ <https://www.vuca-welt.de/woher-kommt-vuca-2/>



“impact” that we want to achieve, apart from the return on investment, must be defined in advance and therefore everyone who comes into contact with our developments should be entitled to vote. Rapid success can be achieved, above all where classic core investors are rarely found: in problem areas, in more peripheral locations, with redevelopments and conversions, with social properties. Smaller projects, as the international examples also show, can be useful to start with because the effects achieved are easier to measure and compare. It will certainly take years before empirical values turn into new standardised benchmarks by which the success of social impact investing can be measured. We are certain that the effort is worth it.

f. Outlook

This first best practice guide to social impact investing presented by the ICG is intended to be a prelude and an invitation to the entire real estate industry to take part, set up pilot projects and share knowledge and experience.

We are at the beginning of a new era in planning, building and operating real estate. Impact-oriented action with positive effects for people and the environment – this will be the mandate of our industry and will therefore also be an indicator of our success. We want to set this process in motion with our thoughts and examples.

As recommendations of the ICG for more social impact investing in the German real estate industry, we formulate the following messages for successful projects:

- Wanting to get involved
- Taking responsibility
- Demonstrating conviction
- Finding allies
- Experiencing participation
- Forging new alliances
- Sharing knowledge and experiences
- Questioning business models
- Defining impact factors
- Setting goals and timeframes
- Establishing a business plan
- Developing a communication strategy

We will continue to develop the ideas in this publication, address examples, bring together partners, report on projects and discuss them.

We would like to thank the sponsors who made this best practice guide possible in the first place, our knowledge and cooperation partners and our professional supporters for all their suggestions and contributions.



On the ICG website and our social media channels, we will keep you up to date and you can learn more about the next steps and the pilot projects.



8. Sponsors

Premium Partners



Timothy Horrocks

Head of Real Estate, Continental Europe, Nuveen, Frankfurt am Main,
Source: Nuveen

“We are facing a crucial challenge worldwide - impact investing is a financial innovation that helps to overcome the narrow focus of homo economicus.”



Nuveen has been helping to secure the financial futures of millions of people for over 120 years. Under the leadership of TIAA, we invest in the growth of businesses, real estate, farmland, forest land and infrastructure while building lifelong relationships with customers around the world. As one of the first asset managers in the industry to put Responsible Investing into practise, and thanks to our expertise in income and alternatives, we have been able to adapt to a rapidly changing world while maintaining our legacy as a leading asset manager.



Sebastiano Ferrante

Head of Germany and Italy, PGIM Real Estate, Frankfurt am Main,
Source: PGIM Real Estate

“The German real estate industry has some catching up to do with impact investing”



As one of the largest real estate managers in the world with 182.5 billion U.S. dollars in assets under management and assets under administration, PGIM Real Estate strives to achieve exceptional results for investors and borrowers through real estate equity and debt solutions across the entire risk-return spectrum. The rigorous risk management, smooth processing and comprehensive industry knowledge of PGIM Real Estate are based on a 50-year tradition of investing in commercial real estate, 140 years of experience in real estate financing² and the extensive local expertise of experts in 32 cities worldwide. PGIM Real Estate is a division of PGIM, the global wealth management business of Prudential Financial, Inc. with assets of 1.4 trillion U.S. dollars.

Premium Partners



Christina Geib

Managing Director WBM, Berlin

“We create affordable housing, promote active neighbourhoods and stand for lively, mixed districts. This means that we have a direct impact on the space and it is important that our diverse local commitment is also measurable.”

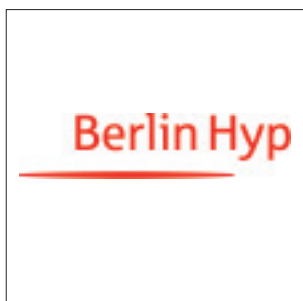


WBM Wohnungsbaugesellschaft Berlin-Mitte mbH is the parent company of the WBM Group. As one of six state-owned residential construction companies, we have the highest proportion of rental flats in Berlin’s city centre. We have more than 31,000 rental flats in the capital. Around 76% of this portfolio is located in the central districts of Mitte and Friedrichshain. Our social mission essentially comprises the provision, security and creation of affordable housing for broad sections of the population. It is expanding to include ecological and social dimensions, such as the climate-friendly, socially balanced and demographic development of our neighbourhoods, as well as the support and participation of our stakeholder groups. We implement the legal requirements and guidelines of the State of Berlin in a sustainable manner from an economic point of view.

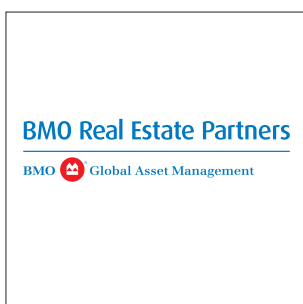
Gold Partners



Art-Invest Real Estate consists of several owner-managed companies. The shareholders of these companies are the managing partners, another partner is the Zech Group. Art-Invest Real Estate is the project developer and asset manager of the corporate group and maps the entire value creation process of a property. It acts as a property-related transaction manager, landlord, asset and property manager, project developer and builder. Regionally organised teams of specialists are the guarantee of management competence of AIREM – the cornerstone for leveraging potential and developing and managing innovative, unique construction projects with a character that shapes the cityscape. Within the group of companies, Art-Invest Real Estate Funds is the fund manager for regulated investment funds and a partner for institutional investors such as pension funds, insurance companies, foundations, pension funds or family offices. As an institutional investor and project developer, we see ourselves as the idea generator of tomorrow and see the challenges of digitisation in the real estate industry as a great opportunity - for us and our customers. To this end, we contribute our entire technical know-how as well as our many years of experience and the foresight developed from it. This is how we create solutions that, together with our customers and stakeholders, drive us forward in the long term in order to achieve sustainable value creation.



Berlin Hyp specialises in large-volume real estate financing for professional investors and housing companies. It develops individual financing solutions tailored to their needs. As an association of the German savings banks, it also provides these institutions with a comprehensive range of products and services. It has a pioneering role as the issuer of the first green covered bond and promotes the financing of sustainable real estate. Its clear focus, 150 years of experience and the ability to actively shape the digital transformation in the real estate industry in a future-oriented manner characterise Berlin Hyp as a leading German real estate and covered bond bank.



BMO Real Estate Partners Germany is one of the leading national companies for the management of real estate assets with a focus on retail, residential and office real estate. The company currently manages a portfolio in Europe with a transaction volume of €6.8 billion, of which more than 215 properties with a value of more than €3.5 billion are primarily in German medium-sized and large cities (as of 30/06/2020). As a wholly owned subsidiary of the Bank of Montreal, founded in 1817, it is part of the BMO Financial Group, BMO Global Asset Management and BMO Real Estate Partners Europe in addition to two other European offices in London and Paris. The German branch, headquartered in Munich, manages real estate in Germany and Europe for institutional clients and investment funds and stands for pooled competencies and excellent industry knowledge, a unique network with the relevant market players and innovative pioneering spirit.

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BNP Paribas Real Estate Investment Management (BNP Paribas REIM) manages commercial real estate in Europe valued at over €30.1 billion. This makes the company one of the most important market players. Our expertise covers the entire life cycle of commercial real estate investments. BNP Paribas REIM has been active in the European market for unlisted real estate investments for more than half a century. The company manages the assets of nearly 220 institutional investors and approx. 140,000 private investors. In 2019, our transaction volume was €5 billion. Our investment focus is on Europe, and our company is also positioned in Europe. The main objective of our investment strategy is to increase the income and value of real estate through active asset management. Our products are based on the current market structures and challenges. This includes comprehensive knowledge of the relevant legal framework conditions. As a responsible investment manager, we continuously work on the sustainable development of the value of the properties we manage.

With over 350 experts, we can cover the entire range of services in the real estate industry and offer and implement a wide range of strategies and solutions. Our expertise covers the entire investment process: from project development and asset management to structuring, risk management and market research. BNP Paribas REIM's local asset management teams manage more than 1,600 buildings in 17 European countries. With our strong presence in Europe, we are able to identify local market developments affecting managed properties and new investment opportunities faster than other market participants.

The Catella logo consists of a red square with a white border. Inside the square, the word "CATELLA" is written in a white, bold, sans-serif font.

Catella creates living spaces: Catella Project Management develops new neighbourhoods with a long-term perspective. The Swedish company implements the concept of the "15-minute city" with a mix of commercial and residential uses, with affordable housing for everyone, with a sustainable working environment and with a diversity that ensures the sustainable value of the neighbourhood. New mobility concepts enable people to regain their freedom in the city; greenery is planted in areas between the buildings and set up in a way that encourages people to meet and spend time there. The neighbourhoods developed by Catella are located in central locations, planned to be both car-friendly and low-car-friendly and, overall, designed to be future-oriented.

Previous projects include Living Circle in Düsseldorf, Living Lyon in Frankfurt and various commercial projects, such as the C&A headquarters and the largest service centre of Telekom. The neighbourhood developments Seestadt mg+ and the Düssel-Terrassen are the two largest, certified climate protection settlements in North Rhine-Westphalia. Around 4,000 new flats are currently being built in the Rhineland alone. Catella Project Management is part of the Catella Group, Stockholm, a leading specialist in real estate investments and fund management with offices in 15 countries. The group manages assets of around 20 billion euros. Catella is listed on Nasdaq Stockholm in the Mid Cap segment.

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Anyone who wants to invest in a stable and sustainable future cannot ignore real values. At Commerz Real, the Commerzbank Group's asset manager for real asset investments with assets under management of 34 billion euros, these have been the focus for 48 years. With around 750 employees, we pool comprehensive expertise in asset management and a broad structuring expertise in investment products for private and institutional investors, individual financing structures for commercial projects and alternative financing solutions for corporate customers.

As a Commerzbank subsidiary, we are involved in their concept of corporate responsibility. This follows a comprehensively defined strategy based on the UN Global Compact and is comprehensively documented every year. Commerz Real itself is on the way to becoming a digital and sustainable asset manager. In doing so, we focus both on the measurability of our sustainable goals and on integrating our stakeholders into our ESG strategy. Through numerous collaborations, participation in start-ups and the use of new technologies for test and trial purposes in our DigitalWerk, we can make a contribution to reducing the use of resources and lowering CO2 emissions through the technical upgrade of a property and the knowledge gained with it. We are taking a pioneering role compared to other providers.

In addition, we take into account the entire life cycle of the real estate in an integrated process based on defined ESG criteria. Furthermore, we are making targeted investments in creating affordable housing. Scope therefore certifies Commerz Real with a rating of A-ESG, for good quality and competence in the context of the current and future ESG orientation.



As one of Germany's leading residential developers, we plan mixed neighbourhoods, attractive residential and multi-family houses as well as publicly subsidised residential construction and renovate listed properties. We are also building the necessary social infrastructure for many neighbourhood projects. We have been working as a project developer of residential properties in Germany since 1991. Our many years of experience make us a reliable partner for the public sector, for private property buyers as well as long-term institutional housing investors such as pension funds and pension funds. The procurement of building rights is just as much a part of our expertise as the implementation of demanding development projects. As a partner of cities and municipalities, the integration of social aspects into our planning is of particular importance. We are also developing neighbourhoods with new childcare centres and helping to pay for new school buildings. With our planners, architects and consultants, we design and market residential projects and always keeping our customers' wishes in mind. More than 400 employees work for Instone at nine locations nationwide.

(as of 30 September 2020).

Gold Partners

 LANDMARKEN AG

We are developing the future of cities. We want to inspire and excite people by creating lively and identity-creating places, making cities more attractive, liveable and sustainable. Landmarken AG implements sustainable office, mixed-use and special properties as well as entire neighbourhood developments with a heterogeneous range of uses. We also set standards: many of our projects in the areas of office and administration, laboratory and research properties, hotel projects, special and listed buildings and affordable residential areas have won awards. With our experience in the area of city centre development, we create creative urban city building blocks, and our portfolio ranges from revitalisation to new construction, from sustainable specialist market centres to the conversion of inner-city department stores. In harmony with economics, ecology and social issues, we assume responsibility for an environment worth living in. We develop high-quality and sustainable projects through a sensitive approach to natural resources. Sustainability is part of our landmark spirit, which we live as a team and which we carry out through our projects. We are involved in the ICG Social Impact Investments working group because with our projects we create added value for society - not just for the users of our projects, but for everyone in the area or in the city. In this way, investors find in us a reliable partner and competent provider of attractive, sustainable investment properties.

 LBBW Immobilien

The LBBW Immobilien Group is the competence centre for real estate in the group of companies of Landesbank Baden-Wuerttemberg. With its business areas of Development, Asset and Investment Management as well as Real Estate Services, it offers the entire range of real estate services competently from a single source, thereby creating sustainable values. The focus is on the core markets of Baden-Württemberg, Bavaria, Rhineland-Palatinate, Berlin, the Rhine-Main area and Hamburg.

The development company of LBBW Immobilien Management GmbH specialises in the design and implementation of sustainable residential complexes and commercial space. As a service provider, the company offers its expertise, among other things, in the field of sustainability, revitalisation management and increasing efficiency. LBBW Immobilien Development GmbH is a member of the Deutschen Gesellschaft für Nachhaltiges Bauen e. V. (German Sustainable Building Council).

In the Asset and Investment Management segment, investors and owners receive all services related to their real estate investments. All asset and property management tasks are performed without interfaces.

In the Real Estate Services segment, all municipal services, such as building land and property development, are bundled. A large number of sustainable real estate and municipal development projects have already been implemented under the umbrella of the LBBW Immobilien Group - from the construction of pioneering ecological residential areas to concepts for the energy-efficient renovation of an entire city.

Gold Partners



UBM Development develops real estate for European cities. The strategic focus is on green building and smart offices in large cities such as Vienna, Berlin, Munich and Prague. With over 145 years of experience, UBM offers all development services from a single source, from planning to marketing. The shares are listed in the Prime Market of the Vienna Stock Exchange, the segment with the highest transparency requirements. The headquarters of UBM Development AG is located in Vienna. In addition, the company and its subsidiaries have an efficient local network in Central Europe. Strong local networking and high market expertise enable the timely recognition and realisation of market opportunities in order to secure the future pipeline. With our interdisciplinary team, we develop ideas for new projects, innovative usage concepts and bring different interests and users together. We offer all the services required for this integrated approach from a single source: market analysis, project development, planning and project management, financing, leasing and asset management. Specialists with many years of professional experience accompany the processes from the first project idea to the handover to the tenant or end investor. This know-how enables us to cover all phases of the real estate value chain in-house. In addition to real estate development, UBM also acts as a tenant of hotels. The subsidiary UBM hotels Management GmbH was founded in 2016 in order to bundle operational know-how in the area of hotel management and to unite all hotel leasing companies under one roof.



For more than 25 years, WERTGRUND has focused exclusively on German residential real estate. As an investment and management company, we cover the complete range of services from development to leasing and are represented in our properties with on-site teams. With the WERTGRUND WohnSelect D, we manage one of the most well-known public real estate AIFs in the housing segment, which has also received multiple awards. We have also launched a total of six special AIFs.

In all our activities, the guiding principles of ecological and social sustainability are our focus. Among other things, we make sure to keep the ecological footprint of our properties as small as possible: we subject existing properties to a comprehensive revitalisation and energetic renovation, while our new buildings are usually built in accordance with KfW-55 (Kreditanstalt für Wiederaufbau, or Reconstruction Credit Institute) or KfW-40 standards. In addition, we close construction gaps by consistently re-concentrating existing areas and thus implementing new flats in a space-saving manner.

An important aspect of our work is that we make our flats high-quality but affordable for a wide range of tenants and actively promote the mixing of people of various origins and ages. We supplement this with special forms of housing such as inclusive living. In addition, we invest in and develop many of our residential units specifically in the price-linked or rent-controlled segment and thus create market access for private investors in the urgently needed council flat construction.

Silver Partners



FAY Projects GmbH is innovative by tradition and deals with the project development of corporate real estate (offices, hotels, retail space), residential real estate projects, the revitalisation of existing properties and the creation of structures with long-term potential. We are therefore no stranger to neighbourhood development. From its founding in 1961 to today, FAY has repeatedly demonstrated its experience and competence as a project developer. Action is determined by values and convictions that go beyond the mere economic profitability of individual projects. All project developments of FAY Projects GmbH meet high effective social, ecological and economic requirements. Quality criteria that last for many decades. People at the heart of everything we do. This applies to customers as well as to cooperation partners and employees. Sustainable success grows from long-term, reliable partnerships, loyalty, initiative and responsibility.

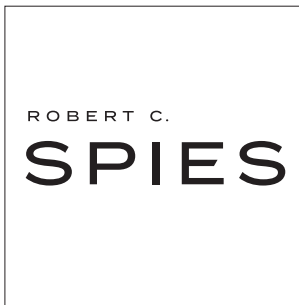


We are the first project developer to focus on redevelopment and to maintain existing ones. Through a user-oriented project development in unconventional locations, the Greyfield Group creates new living space by revitalising unused areas and returning them to society in the form of a new purpose. This brings together economic and social returns. Thanks to professional competence and a creative and architectural instinct, the Greyfield Group treads unconventional paths to create intelligent new use concepts from land and real estate with a history that give the region new added value. The not-for-profit Greyfield Foundation also promotes projects that pass on this idea and foster the components of resource conservation, sustainability, urbanity and social responsibility. Greyfield is based in Essen and was founded in 2012 by Timm Sassen.



As a family-run group of companies, we are pleased to use our more than 70 years of experience to comprehensively develop real estate projects. We are always committed to social, ecological, architectural and economic values. We direct our focus on the people who determine what happens in our projects: on the one hand, in inexpensive and publicly subsidised housing; on the other hand, in more complex, mixed-use neighbourhoods in future-oriented medium-sized and large cities. To do this, we combine the personal discussion with digital advances and think and act with a long-term perspective. Our customers can rely on this at all times. We provide you with everything from a single source: conception and planning, architecture, residential and commercial construction, real estate management and asset management, i.e., an all-round carefree service for tenants and owners. This is how we succeed in creating impact-oriented Lebens- und Gewerbelwelten® (residential and commercial worlds) for the players in our projects. Our goal is to create properties with soul in which people feel comfortable, and in which they enjoy living and working.

Silver Partners



Robert C. Spies is a property consulting firm operating nationwide. The company, founded in 1919, has around 100 employees and advises and mediates in the areas of private residential real estate, investment real estate, industrial and logistics space, office and retail space, hotel and health care real estate, and investment. The owner-managed group of companies with locations in Bremen, Hamburg, Oldenburg and Frankfurt am Main supports family offices, institutional investors, foundations and private customers in their search for residential and commercial real estate. Robert C. Spies will continue the continuous growth from January 2021 with another location in Copenhagen/Denmark. Building on a network that has grown over the years and increasingly international mandates, the consulting company will in future be able to offer its customers a platform for entering the Scandinavian market. The focus is on investments as well as consulting and mediation for tourism developments. Furthermore, Robert C. Spies specialises in the planning and realisation of complex real estate projects with a focus on neighbourhood development in urban areas with innovative structures – the focus for several years has also been on the interface of advising on socially shaped projects as well as transactions involving social, educational and infrastructure properties such as childcare centres and schools. These products are increasingly in demand by foundations, family offices and institutional clients. An in-house research department regularly creates its own market reports and location analyses on local and national real estate markets, detects relevant changes in economic, city and regional development and generates valid forecasts on the trends of the future. Robert C. Spies always focuses on the employee as a human being: individuality, authenticity, honesty, trust and commitment – the company pursues these values not only when dealing with customers, but also when dealing with one another.

Cooperation Partner



HEIDRICK
&
STRUGGLES

Heidrick & Struggles is the world's leading consultancy for the implementation of sustainable, value-oriented corporate management concepts in the areas of "top executives", "management culture", "processes" and "structures". For 60 years, H&S has filled management positions - supervisory and advisory boards, board members and management boards as well as executives at the upper levels - and supports its clients in all human resources issues at the decision-making level. The globally active CEO and board practice of H&S deals with the appointment and improvement of supervisory and advisory boards as well as the further development of corporate governance and sustainability standards, in the context of various studies and in cooperation with well-known institutions such as the World Economic Forum, Harvard Business School, Women Corporate Directors, and others. H&S makes a contribution to the training and further education of supervisory and advisory boards within the framework of the ICG Real Estate Board Academy. The commitment in the ICG and the ZIA on the topics of sustainable corporate management and ESG are part of the sustainability commitment of H&S in Germany.

Technical Management



PHINEO
damit Engagement wirkt

We help non-profit organisations, companies and philanthropies achieve their goals better. As a think tank, consulting company and social organisation, we work to ensure that social commitment really makes a difference. Our vision is that of a lively, strong civil society in which doing good and achieving good things belong together. Because only in cooperation will the potential for society and for each individual be fully developed. All those who want to participate in this social development should have comprehensive information and resources available for this purpose. Impact investments are financial investments that have been shown to have positive effects for our society - and at the same time generate a financial return.

We believe that capital is a powerful engine for promoting social and ecological innovations. Impact investments are suitable for visionary players who not only want to increase their capital, but also want to invest it for the good of society. We help to connect ideas and capital in order to address the most pressing challenges of our time - and thus to make a contribution to the financing of the UN's Global Sustainable Development Goals (SGDs). This is working: the market for impact investing is growing worldwide.

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