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# Impact Investing in Real Estate

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## ***In brief***

Companies are accountable for their social and environmental impact in a way that they were not 20, 10 or even 5 years ago. Many investors are now seeking to simultaneously achieve financial and social returns and as a result, impact investing has been growing rapidly in Australia and across the world. In this article we highlight the growth of impact investing in real estate, detail the government's response, and highlight the opportunities in the Australian market.

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## ***In detail***

### ***What is impact investing?***

Impact investing is investing which aims for positive environmental or social impact while also achieving a financial return. Historically an investor would have to choose between a charity doing the social good or an investment bringing a financial return. Impact investing aims to achieve both of these outcomes simultaneously.

### ***Profile***

JP Morgan and the Global Impact Investing Network, in its annual survey of market participants, found that organisations planned to invest USD 12.2 billion in 2015, up from USD 10.6 billion in 2014.<sup>1</sup> Of the 146 participants, USD 60 billion was being managed in impact investments globally. Interestingly, housing accounts for the largest sector of assets under management (27%), with microfinance (16%) and financial services (11%), second and third respectively.<sup>2</sup>



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<sup>1</sup> JP Morgan and GIIN, 2015, p.5

<sup>2</sup> JP Morgan and GIIN, 2015, p.6



## Australia

Closer to home, best available estimates are that the Australian market, as of 2013, was AUD 2 billion and could reach AUD 32 billion in the next decade.<sup>3</sup> Australia is an official observer of the Social Impact Investment Taskforce, established by Prime Minister David Cameron at the G8 in 2013. In Australia's submission to the G8 taskforce, Australia submitted that AUD 10 billion in impact assets under management within the next 5 years is possible.<sup>4</sup> Impact Investing Australia conducted a survey of the impact sector in Australia towards the end of 2015 with results to be available in early 2016.

Impact investing in real estate in Australia is set to see a marked increase in 2016. In the last couple of months, the NSW government launched the \$1.1 billion Social and Affordable Housing Fund (SAHF). The SAHF will support partnerships between the private sector to increase social and affordable housing and in the first phase will deliver 3,000 homes. The Federal Government also announced in January this year, the establishment of an Affordable Housing Working Group and related Issues Paper which will focus on innovative, transformative and implementable financing models for the supply of affordable housing. The closing date for submissions is 11 March 2016.

Large property companies have also placed a significant emphasis on societal impact through their real estate investments, with a focus on sustainability. Lend Lease, for example, have a significant focus on sustainability throughout the asset lifecycle, from design and construction through to investment management of an asset. Australian property funds have been judged to be world leaders in sustainability.<sup>5</sup> Lend Lease's Australian Prime Property Fund Commercial topped the ratings as the global sector leader for office in the 2015 Global Real Estate Sustainability Benchmark Report,<sup>6</sup> as evidenced by recent investments in high performance commercial assets like T1 International Towers, Barangaroo and Darling Square.

Other more recent entrants to the market include Impact Investment Group (IIG), an Australian fund set up in 2013 that has targeted impact investing in real estate. In July 2015, IIG bought K1 office tower in Brisbane's Fortitude Valley; in October 2014, IIG bought the headquarters of the Transport Accident Commission in Geelong for AUD 95.8 million;<sup>7</sup> and in May 2014, 401 Collins Street, Melbourne for AUD 32 million.<sup>8</sup>

## Government's approach

New South Wales (NSW) Premier Mike Baird has recently set up the Office of Social Impact Investment (OSII). The NSW Government also set up Australia's first social benefit bond. A social bond, as defined by the OSII, is a financial instrument that pays a return based on the achievement of agreed social outcomes. Private investors provide capital to a service provider to achieve improved social outcomes. If these outcomes are achieved, there are cost savings to Government that can be used to repay that upfront

<sup>3</sup> IMPACT-Australia 2013 *Impact for Social and Economic Benefit*, p.78

<sup>4</sup> Impact Investment Australia *Delivering on Impact, The Australian Advisory Board Breakthrough Strategy to Catalyse Impact Investment*, 2014, p.33.

<sup>5</sup> 2015 GRESB Report, p.10.

<sup>6</sup> 2015 GRESB Report - Australia/NZ Snapshot, p.4.

<sup>7</sup> The Age *TAC sale makes an impact* 15 October 2014.

<sup>8</sup> The Australian *VIC: Office building sale, 401 Collins Street, Melbourne* 27 February 2014.

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investment plus a financial return. OSII aims to deliver two new social impact investment transactions each year.

At the Federal level, impact investing is also on the agenda. David Murray in the Financial System Inquiry released in December 2014, made a recommendation that the government explore ways to facilitate development of the impact investment market and encourage innovation in funding social service delivery. Further the report suggested the government provide guidance to superannuation trustees on the appropriateness of impact investment and support law reform to classify a private ancillary fund as a 'sophisticated' or 'professional' investor, where the founder of the fund meets those definitions.<sup>9</sup>

### ***The takeaway***

Impact investing is providing innovative ways to fund and solve some of our most pressing social and environmental problems. Investors are increasingly interested in investment products that have positive environmental or social impact while simultaneously achieving a financial return.

There has been clear growth in impact investing in Australia and abroad in the past few years and real estate has seen a significant share of this investment. The scope for impact investing in the real estate sector is significant with governments supportive at both state and federal level. For property developers, investors, agents and tenants alike, it is important to understand these trends and consider the possible implications and opportunities for your business.

### ***Let's talk***

PwC's Legal, Tax and Real Estate Advisory teams work together to help clients in the funds management and real estate sectors to understand the impact investment opportunity and to execute projects designed to position those businesses for growth. We have established and act for some of Australia's most prominent investment funds, developers, landlords and tenants, government agencies, sovereign wealth funds and lenders on all aspects of real estate projects across Australia.

For a deeper discussion of how these issues might affect your business, please contact:

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<sup>9</sup> Financial System Inquiry Final Report, Recommendation 32 of 44, November 2014, p.261.