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Cover story



Making places for people

As the 'S' element of ESG attracts more interest, Mike Cobb sees investors looking to turn social strategy into social impact

SOCIAL ISSUES

ESG is one of the most misunderstood elements of business strategy in recent years. Each company tends to have its own concept of the meaning and implementation of an ESG strategy, but what has often been overlooked is the importance of the 'S' or 'social' element of the ESG triumvirate.

In real estate, there is a lot of focus on the environmental side – finding solutions to the high carbon impact of real estate development is a key goal, after all. However, as Ed Dixon, head of responsible investing at Aviva Investors' real assets platform, says: "ESG is a process that you apply to investments; it is about risk and it is about financial materiality. It is not synonymous with sustainability." Therefore, integrating the social element into an ESG strategy should not be overlooked.

All developers know that if a scheme does not positively impact a community, the unused and unloved structures can become reputational and financial millstones around their necks. "Two years ago, social impact was very much a pounds and pence topic," says Dixon. "People have now realized that while those are a useful guide, investors want to know what you have actually

delivered – the concept of impact investing has really grown up in those couple of years."

Effective delivery

The social element is made of many smaller elements. Community engagement is an essential one of those considerations. Thinking about this needs to start before the strategy is even drawn up, believes Hattie Charlier-Poole, senior development manager at Henley Investment Management.

"When we think about our master plan, we need to think about its impact on local people," she says. Drawing out opinions on public spaces and looking at the existing use of the areas around the site is fundamental to inform the master plan and helps deliver what the community may need ahead of the public consultation phase.

The public consultation is a better understood process for many developers. Community engagement agencies are well used to delivering on their experience and contacts to procure effective community feedback. Increasingly, seeking the involvement of minority groups is essential.

"It is widely recognized now that good design is inclusive design," says Charlier-Poole. "[Communities] are

Cover story



likely to have different needs from our developments and we like to work with local consultants who are aware who those groups are and what they need."

This phase also develops ideas for social spaces and services that are adapted for later developments. For instance, UK based mixed use developer Socius is creating a 'Library of Things' at its Devonshire Gardens scheme in Cambridge, where the local community will be able to hire items that are too expensive to buy and not use regularly, such as lawnmowers.

A growing sense of social involvement has also encouraged and rewarded volunteering programs among investment and management teams. As Cristina García-Peri, managing partner and head of corporate development and strategy at Spanish investor Azora Capital, highlights: "We are active in philanthropy – we use our balance sheet through NGOs to support their work in communities or sectors where we invest. We also encourage our employees to do voluntary work."

Happy to help

Dixon says that Aviva's investment team has engaged in more than 900 hours of volunteering work in local

communities this year alone, with at least one member out volunteering per day on average.

The idea of encouraging staff to work in the local community can extend to suppliers and contractors, too.

Rob Sim, managing partner at private equity real estate firm Europa Capital, says: "Social impact isn't necessarily monetary value, as, or if not more, important is offering your time, experience and insights to help advance others."

Olaide Oboh, director at developer Socius, says partners often work with local groups. "They have the connections within the local community and we like to bring businesses together and say 'you need a work experience candidate and this is a local organization that can help,' or encourage them to go in and talk about female engineers at a local school," she says.

Encouraging people into real estate is a significant element of new social programs being integrated into ESG strategy. Europa Capital, NREP and Socius are examples of companies making these strides, with internships, scholarships and work experience programs all currently running. In the case of Europa, it also offers a bursary

to students interested in real estate at Sheffield Hallam University, which is due to expand in the coming years.

Historically, measurement of the effects of these strategies has been either too binary or not accurate enough. Azora's García-Peri says: "The 'S' has always been seen as something that couldn't be measured, but there is so much you can do and you can measure it."

"You can measure the number of people you employ and the amount of tax paid, on top of the amount that is given to charity. But I think the next step in ESG strategy is creating more rigor in the 'S' of ESG."

One of the steps on this path is the B Corporation movement. Set up by B Lab UK, the project aims to certify the social and environmental performance of companies through a rigorous process, which includes impact assessment and changes to a company's articles of association, all of which is re-assessed tri-annually. This is part of the growing trend to see the impact holistically. "Even the most difficult parts to measure have a positive return," says García-Peri.

One of those benefits is happier and more engaged staff, with more diversity of thought, believes Europa's Sim. And for investors, the financial upside is becoming increasingly obvious, too.

Henley's Charlier-Poole says: "If the scheme is tailored to the client, then you create a desirable product and that has to be beneficial. And we are becoming more sophisticated in working out what those financial benefits are."

Integrating the social element into a comprehensive ESG strategy is therefore a complex and long-term commitment, but its benefits become obvious among the investment team and local community. The pounds and pence are important, but as Charlier-Poole says: "If you spend a bit of time, a bit of money and a bit of effort at the beginning identifying who you are benefiting... then the intangible 'making people feel better' benefit is worth it" ■