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Impact investing in real estate

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YANANDA SOCIAL VENTURE FUND

IMPACT IN MOTION

About Ananda Ventures

Ananda Ventures (Social Venture Fund I and II) manages EUR 30m, and is the first social impact investor with a Pan-European focus. The funds invest in outstanding social enterprises that provide innovative solutions for urgent social challenges. The Social Venture Fund's active portfolio includes *Auticon*, a company providing IT consulting delivered by people with Asperger's syndrome, and *VerbaVoice*, a mobile transcription solution for people with hearing difficulties.

www.socialventurefund.com

About the Author

Stephanie Petrick is the Director of Social Investment at Impact in Motion and has more than ten years of experience in advising private equity investors, international corporations and social enterprises in Europe and the US. Impact in Motion is an impact investing think tank and consultancy. Through its activities Impact in Motion aims to contribute to the development of the impact investing market, and to enable investors to make investments with a positive social, environmental and financial return.

www.impactinmotion.com

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List of interview partners

Emilie Goodall, Director of Projects Impact+, Bridges Ventures (UK)

Francois de Borchgrave, Founder & Managing Partner, KOIS INVEST (Belgium)

Lorenzo Allevi, Managing Director, Oltre Venture (Italy)

Chloé Tuot, Investment Manager, PhiTrust Partenaires (France)

Frank Hinrichs, Founder & Managing Partner, Vivatus (Germany)

Layout

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EXECUTIVE SUMMARY

- The European real estate market is mature, highly competitive and dominated by large commercial real estate investors. The impact investing segment in real estate is, however, a nascent one with just USD 1.8bn of global impact investments invested in real assets (including real estate). So far, only a small number of impact funds have begun to move into this asset class.
- Comparing the size of these players to the overall real estate market suggests that they are operating in niches. Impact funds' roles within these niches are, however, quite diverse, since they invest in various sectors and property itself as well as in property-backed social business.
- Through their social sector experience and their risk/return profile, impact funds can perform many important functions in these niches, such as: catalysing larger resources into high-impact real estate developments, filling supply gaps and shortages in social real estate, scaling innovative high-impact operating models and monitoring outcomes and efficiency.
- To assess the social need and the opportunities for impact investors, we have looked at the sectors affordable housing, underserved communities, and ageing. Within these sectors, affordable housing and underserved areas appear to be highly attractive for impact funds, since there are interesting niche investment opportunities with low competition. Impact funds, due to their social sector experience, may be able to identify investment opportunities that are not commercially attractive or perceived as too risky for other investors, for instance
  - by redeveloping abundant areas as affordable housing projects,
  - by scaling proven specialist housing operators (e.g. supported temporary housing),
  - by investing in property-backed enterprises that have strong potential for local job creation or
  - by responding to local consumer needs in underserved communities.
- European impact funds investing in real estate have largely chosen two different approaches to the field:
  - Some funds have included real estate investments as part of their portfolios corresponding to their venture capital fund's outcome goals. They invest mainly into property-backed businesses in underserved communities (e.g. *Bridges Ventures Sustainable Growth Funds* and *PhiTrust*) or in affordable housing operators (e.g. *Oltre Venture*). In both cases, their investment focus is the operation of the real estate.
  - *Bridges Ventures* has been the first European impact investor to set up dedicated real estate funds. Since 2009, it has raised *Bridges Ventures Care Places Fund* (care homes) and *Bridges Sustainable Property Funds* (environmentally sustainable property) and is in the process of closing a new fund called the *Alternative Property Fund III*. Also, the Belgian impact fund *KOIS INVEST* is currently working towards the first closing of a new affordable housing fund. These funds are investing in property. In order to achieve impact goals, they need to ensure the impact-aligned operation of the estates by partnering with capable operators.
- Based on our assessment of impact capital in real estate, we have identified five capabilities defining the strategy of successful impact funds entering the field: 1.) leveraging their social sector experience to identify investment opportunities, 2.) investing in niche sectors, off-market or early-stage targets, 3.) investing alongside experienced real estate partners, 4.) linking the real estate investments to high-quality operating businesses, and 5.) taking a holistic approach to impact including environmental factors together with social outcomes.
- Going forward, we expect impact investing in real estate or real estate-related businesses to grow and increase its share of the overall impact investing market. This development will be driven by the availability of profitable niche investment opportunities, impact funds looking for larger scale, lower risk investments and the opportunity to attract new groups of investors, and investors diversifying their impact portfolio.

INTRODUCTION

OBJECTIVES AND SCOPE

The objective of this study is to understand the role of impact capital in the European real estate market and to map how impact funds approach this space. This is the fourth publication in a series of reports which Ananda Ventures (supported by Omidyar Network) initiated with the intention of sharing knowledge and fostering cooperation amongst European impact investors. The first three publications each discussed the opportunity for impact investing in a specific sector (i.e. long-term unemployment[1], ageing[2] and education[3]) in selected European countries.

This study exclusively focuses on real estate impact investments, i.e. investments where social impact is intentionally set, measured and reported. For the purposes of this study, we have excluded investments in agriculture and forestry, which is not in Ananda Ventures' investment scope. Also, we have excluded investments that have a solely environmental impact (e.g. energy-efficient renovation of houses) and do not have a related social impact. Social impact investors active in real estate will, however, most likely take a holistic approach to their investments and include both environmental and social impact goals. The scope of this report is illustrated in Figure 1 below.

STRUCTURE

In order to assess the role of impact capital in the European real estate market and to analyse impact funds' approaches in this field, we have looked at three key aspects:

- **What is the role of impact capital in real estate investing?**
- **Where are impact opportunities in real estate-related sectors located?**
- **What are the strategies of impact funds with regards to real estate?**

METHODOLOGY

The study draws on a review of secondary sources, in addition to a number of interviews with impact investors and market experts in real estate, and is further complemented by our internal market intelligence. A full list of interview partners is provided on page 2.

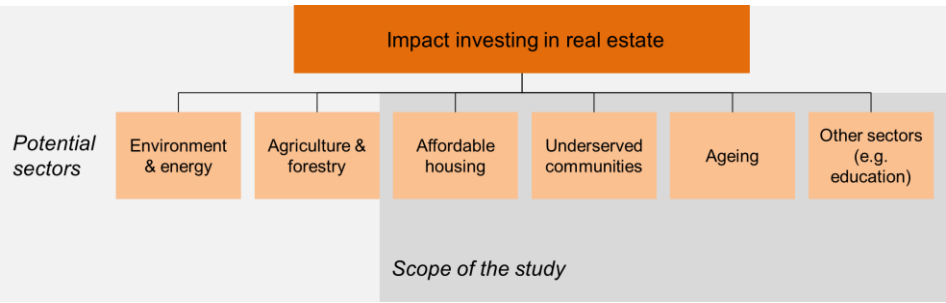

Figure 1: Scope of the study
Source: Impact in Motion (2014)

ROLE OF IMPACT CAPITAL IN REAL ESTATE INVESTING

Impact investing in real estate can be defined as *"purchasing physical properties with the intention of earning a financial return through rental income and property value appreciation, and/or, for social investors, achieving other social and environmental goals."*[4] While 'responsible' or 'sustainable' real estate investing is already well established in the European investment market, the impact investing segment in real estate is only nascent. J.P. Morgan's 2014 Impact Investors Survey reports just 4% of assets under management or USD 1.8bn of the global impact investing market is invested in real assets (including real estate)[5]. Further specific data is not available for the European market. In fact, only a few impact funds across Europe currently focus on real estate. These funds, originally active in Social Venture Capital, are just beginning to emerge into this new asset class. Comparing the size of these players to the overall real estate market gives rise to the assumption that they are operating in niches. However, when we map their investment activities, we assert that their roles within these niches are quite diverse along two main axes:

- Impact investments in real estate have been initiated in **various market sectors**. Impact funds chose the sector they invest in according to their fund's outcomes domain and hence their social sector experience. The most prominent ones, which will be assessed in the course of this study, are social housing, underserved communities, and ageing.
- Impact funds also invest in two different ways: either they directly invest in **property** or they invest in **'property-backed' social businesses**, which are social enterprises that constitute a crucial real estate component in their business model and that often 'operate' the property (e. g. a provider of office space for non-profits).

Since social impact through real estate can only be generated in the *way the property is operated* and not just by *owning* the property, impact funds investing in **property** have to ensure the 'impact-driven' operation of their developments - either by investing in or setting up an operating company, or by choosing a capable partner.

In contrast, investments in **property-backed social businesses** are investments in the *operator* of the property whereby the latter can only implement its business model with suitable property. Developing and owning property is crucial to a social business, if, for instance, certain requirements/ specifications have to be met by the property (e.g. housing for elderly people) or if there is a lack of property developments in certain areas due to low interest from commercial real estate developers (e.g. in deprived areas).Property-backed social businesses can own property in some locations and rent in other locations where suitable property is available.

In order to include this whole spectrum in our further assessment, we will refer to them as 'real estate and real estate-related investments'.

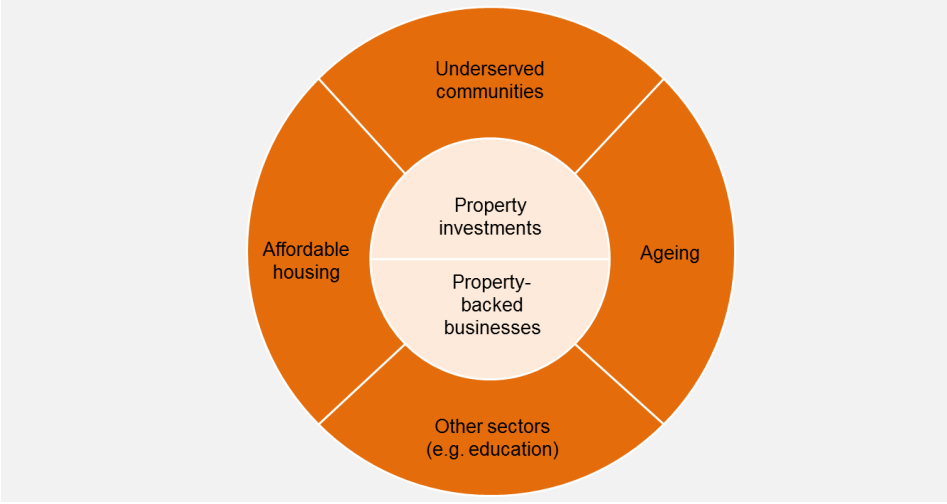

Figure 2: Spectrum of impact investing in real estate
Source: Impact in Motion (2014)

Even if the fields of application for impact capital in real estate are quite diverse, impact funds active in this field will have to find a way to position themselves in a highly competitive, mature real estate market. In fact, impact capital intended to achieve both a financial return and a social impact is most successful in areas, where it does not aim to compete with or to displace existing sources of funding, but instead seeks to address social needs that are not being fully met by the state or private markets.[6]

Through their social sector experience and risk/return profile, impact funds, compared to government or commercial real estate funders, are able to play a crucial role in a number of specific areas:

(1) Impact capital can help to **catalyse larger resources flowing into high impact real estate** by de-risking a project to a point where mainstream capital becomes available and wider pools of capital, for instance from institutional and private retail investors, can be accessed. An example would be *Bridges Ventures'* investment in the stylish boutique hotel *The Hoxton*, which is located in one of 3% of the most deprived areas in the UK and which was sold to a commercial investor in 2012.

(2) Additionally, impact capital could **fill in supply gaps and shortages in social real estate**, especially in sectors with high social need and a lack of supply, as it is currently the case in affordable housing markets across Europe. Niches in the affordable housing market, such as temporary housing, are further affected by this shortage. *Oltre Venture* has been successfully investing in this market segment in northern Italy since 2008.

(3) Impact investments can also **help innovative, high-impact operating models to establish a track record and to scale,** which makes it easier for mainstream investors to enter these projects. The field of supported housing, where organisations extend beyond providing a place to live for the beneficiaries, but deliver significant amounts of additional support for tenants with special needs (e.g. people with mental difficulties) is just one example of an area where impact funds, such as *KOIS INVEST*'s new real estate fund, could take on this role.

(4) Through systematically **monitoring of social and environmental outcomes** and potential externalities throughout the project, impact capital can play an important role in developing and evaluating the efficiency and wider societal impact of new operating models for real estate. This is particularly relevant in areas, where the social need for new operating model is pressing, such as social care for the elderly. *Bridges Ventures* has set up its *CarePlaces Fund* in cooperation with Castleoak to develop high-quality care homes for seniors.

These functions make impact funds valuable co-investment partners for government and commercial investors active in niche markets.

IMPACT OPPORTUNITIES IN REAL ESTATE-RELATED SECTORS

In order to assess the social need and the opportunities for impact investors, we have looked at three distinct target sectors into which the large majority of European real estate or real estate-related investments flow. These are **affordable housing, underserved communities** and **ageing**. Additionally, we have taken a brief look at other segments outside these core segments. The following assessment is based on a Pan-European view and may not cover the full picture in each individual European market.

AFFORDABLE HOUSING

In most European countries, there is a housing crisis where demand is outstripping supply, resulting in a large number of households who are unable to access suitable housing. Additionally, there is a need to ensure accommodation of a good standard, and that is suitable for the needs of households. A recent McKinsey study[7] revealed that the cost of closing the affordable housing gap in Western Europe would be around USD 59bn.[8] While one group of affordable housing beneficiaries require long-term, permanent homes (e.g. low-income workers, and jobseekers), others require temporary accommodation (e.g. students or parents accompanying their sick children). Individuals, who need additional care and support, such as people with mental and physical disabilities, homeless or asylum seekers, find it even more difficult to find suitable housing. Figure 3 gives an overview of the diverse types of beneficiaries an impact funds could target in the context of affordable housing.

The provision of affordable housing and related support can generate valuable social outcomes, as it meets a basic human need for shelter and can help to achieve other positive social benefits such as better health, stronger communities, improved employment opportunities and reduced crime.[9] Additionally, environmental outcomes can be achieved through the development of sustainable buildings.

The most promising areas for impact investors in affordable housing appear to be:

- Redeveloping abundant areas or vacant homes as affordable housing projects in cooperation with municipalities in order to fill in the affordable housing gap;
- Playing a catalytic role in funding affordable housing projects in bringing co-investors to the table and creating new financing approaches;
- Scaling proven specialist housing operators, for instance in temporary affordable housing and supported accommodation, are often small and operate complex business models, and therefore fail to access sufficient commercial or government funding.

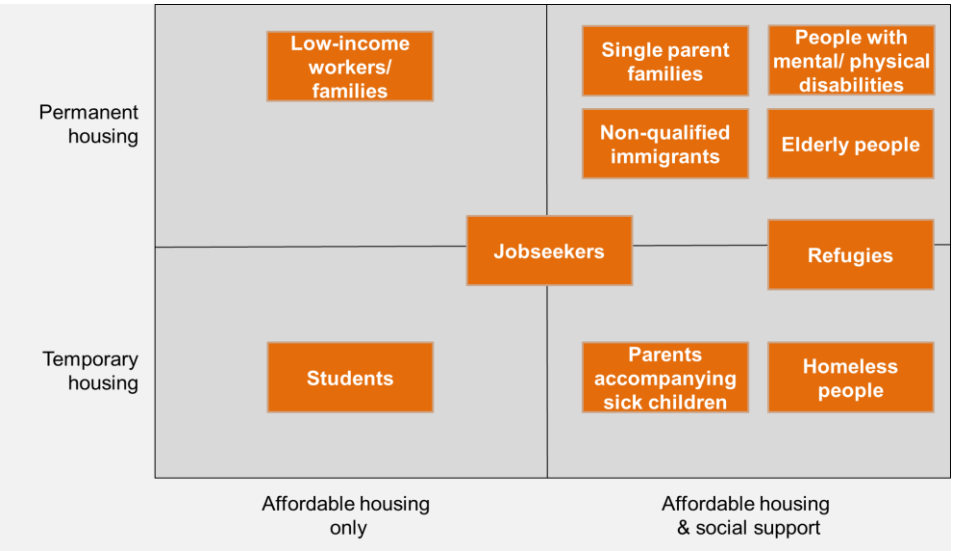

Figure 3: Target groups affordable housing
Source: Impact in Motion (2014)

Across Europe, there are different models of public loans, guarantees or government subsidies to support the development of an affordable housing project and the purchase of the corresponding land. The initial cost of land is often a determinant for the profitability of the overall project; this is why some impact funds closely cooperate with municipalities with regard to identifying suitable dwellings. In order to maintain the affordability of flats, rents cannot exceed certain thresholds. However, if occupancy rates are high, long-term lease and public housing allowances guarantee stable cash flows. If the property is owned by the impact fund, exit may become an issue as some funding models require the sale of the property in order to reimburse investors. Partnership approaches with landowners, developers, property managers and co-investors may lead to new approaches with regard to construction and design, which helps to minimise the development and lifecycle costs of a project.[10]

Active investors in this field include the impact fund *Oltre Venture*, who is developing and funding new temporary affordable housing projects in cooperation with large municipalities in northern Italy. Additionally, they invest in the operating company that manages the site and offers supported housing services. Another European fund who will soon become active in this field is *KOIS INVEST*, who is currently raising a new fund, named *Inclusio*, with the aim to investing together with partners in more than 500 units for supported housing in the Belgian market.

UNDERSERVED COMMUNITIES

The poorest communities in each country are over-proportionally affected by unemployment and low incomes.[11] Subsequently, inhabitants of these communities often suffer from poor health, social exclusion and crime. Private investors are scarce in these areas, even if they are supported by EU subsidy programmes, or country specific subsidies from national, regional or local governments.

Direct investments in businesses, which demonstrate strong links to their community through significant local job creation, or by serving local consumers yield in growing general business activity, and hence employment of the previously unemployed local workforce. In addition, secondary effects include increased income, reduced social exclusion, improved health and education, in addition to reduced crime.

Under-utilised and affordable property, unmet local demand, committed workforce and low competition for investment targets offer a lot of opportunities to impact funds. These appear to be especially visible in:

- Investing in property-backed businesses with strong potential for local job creation (both in the invested business and with suppliers);
- Investing in property-backed businesses offering low-cost products and services for underserved customers;
- Scaling innovative proven business models from underserved communities in new markets or new countries.

Impact funds investing in underserved communities have to take a very active role in shaping and developing the investment options, also drawing form their social sector experience e.g. in integrating previously unemployed people back into employment. Investments in property-backed for-profit businesses often offer market returns and attractive exit options, since mission lock is not an issue. When investing in low-cost consumer products or services, cost leadership appears to be key.

PhiTrust Partenaires invested in Ethical Property Europe (EPE), which turns under-utilised buildings and brownfields in underserved areas in Belgian cities into high-quality, environmentally friendly office space for non-profits, charities and social enterprises, offering tenants affordable rent, flexible rental contracts and customised offices with shared conference rooms, IT services, etc. *PhiTrust* also supported the replication of EPE's business model in France; the French sister-organisation operates under the name *'Etic'*.

AGEING

There is a rapidly ageing population throughout Europe, resulting in serious social and economic consequences. This trend is driving a fundamental transformation in the provision of support for care of the elderly. Whereas the overall real estate market for care homes appears to be saturated in most European countries and dominated by large commercial investors, there are gaps in the service provision in selected niches, such as new forms of care homes. Also, there is a trend towards new forms of residential care/assisted living for the elderly requiring new or reconstructed properties.

Potential outcomes include improved physical and mental health and improved social inclusion for the elderly. Additionally, environmental outcomes can be achieved through the development of sustainable buildings.

A dynamically growing elderly population, a higher demand for different types of care provision and additional services promoting health and wellbeing of the elderly are the main drivers of this market. Opportunities could arise in niche sectors, such as high-quality care homes or innovative residential care/ assisted living concepts with a real estate component, which may overlap with supported affordable housing for the elderly.

Competition in the care home market is higher than in the other sectors we assessed. Entry barriers for impact funds new to this field are more apparent due to limited financial resources and a lack of experience in healthcare operations. Partnering with an experienced player and identifying a profitable niche in which the impact fund can add value to the partnership appears to be important.

Bridges Ventures raised its *CarePlaces Fund* in 2012, where it invests, together with its partner Castleoak, in off-market, pre-let care home developments with a focus on sustainable design and construction.

OTHER SECTORS

Beyond the three sectors we analysed in-depth, there appears to be a significant volume of impact investments in property-backed businesses in the field of education, largely because innovative business models in this field seem to have special requirements for the layout or design of the property. *Vivatus*[12], a German impact investor, reckons that an investment into a social business in education often entails a real estate investment which enhances social impact and financial stability. *Vivatus* invests for instance in innovative school projects with a focus on inclusion. Another example of a property-backed social business in this field which strongly depends on the availability of suitable real estate is the *Social Venture Fund's* investment in *Kinderzentren Kunterbunt*, a nursery facility provider.

STRATEGIES OF IMPACT FUNDS IN REAL ESTATE

THE FUND'S PERSPECTIVE ON THE MARKET

Despite the fact that impact investing in real estate is only nascent in Europe, we assert that a number of European impact funds have already begun to operate in this field. They are attracted to this space for a number of reasons:

Compared to social venture capital, real estate investments imply more secure, more stable and longer-term cash flows, in addition to a lower level of risk. When setting up a dedicated property fund, this might help funds to attract a new type of impact investor.

Additionally, some real estate investments appear to yield significant returns. *Bridges Ventures* indicated 20%+ IRR on its existing property funds in a press release in May 2014.[13] Reasonable return expectations for impact funds operating in real estate might be driven by three factors: 1.) Low initial land cost, e.g. through cooperation with municipalities or through an investment in deprived communities; 2.) High occupancy rates, often secured by a simultaneous investment in the operator; 3.) Profitable exit options in some real estate market segments. The *Bridges Sustainable Property Fund* for instance, exited *The Curve*, a student accommodation development in East London by selling it to LaSalle Investment Management for GBP 60m resulting in a 27% IRR for *Bridges'* investors.

Furthermore, investment opportunities in real estate are somewhat larger, often requiring several million euros compared to small deal sizes in traditional social venture capital. On the one hand, this is attractive to impact funds that often face the challenge of having to channel capital into a large number of small-scale opportunities in the market. On the other hand, this also means that they have to co-invest with potent financial partners and sometimes only hold a minority stake.

Impact funds operating in the space, however, also face significant challenges. For instance, a lack of sustainable revenue streams, short leases and restrictive covenants could make it difficult to invest in niche temporary housing models. Pay-out and investor liquidity may also be an issue in affordable housing models. Furthermore, many real estate investments require an exit to generate a return for investors. This poses a risk that the property will cease to serve a social purpose. These risks and appropriate mitigants will need to be carefully considered and potentially addressed by impact investors.

INVESTOR LANDSCAPE

When mapping the activity of European impact funds investing in real estate, there are two main approaches to this space: certain funds have invested in property-backed businesses through their existing social venture capital fund, whereas others have raised dedicated property funds, through which they invest into real estate. The landscape of European impact funds active in real estate is illustrated in the figure below.

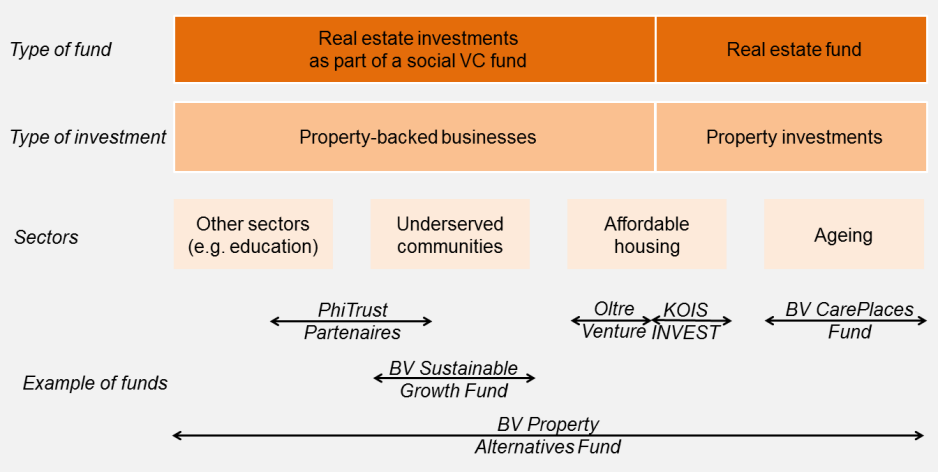

Figure 4: Landscape of European impact funds investing in real estate
Source: Impact in Motion (2014)

PROPERTY-BACKED INVESTMENTS

Bridges Ventures, PhiTrust, and *Oltre Venture* are three examples of funds that have included property-backed investments in their venture capital funds corresponding to their fund's goals. *Oltre Venture* started to invest in temporary affordable housing in 2008 and has continuously increased its capital allocation in this area. It initiates and develops temporary affordable housing projects together with major municipalities in northern Italy, helps bring together the real estate investors, and subsequently operates the buildings offering supported housing services for vulnerable populations. Affordable housing projects account for 22% of the fund's investments. In 2015, *Oltre Venture* plans to invest in a further two to four affordable housing projects.

Investment example: *Sharing* (*Oltre Venture*)

Together with its partner Fondazione CRT (a bank foundation), *Oltre Venture* set up the real estate company *Ivrea24* in 2008, of which *Oltre Venture* held 10%. In 2009, *Ivrea24* won a public competition held by the Municipality of Turin. Consequently, the company invested about EUR 14.5 m to purchase and renovate the building in order to start the most important Temporary Social Housing project in Italy. The project was designed for various beneficiaries, such as families waiting for public housing, single-income families, low-income young couples, relatives of people admitted to hospitals coming from outside the region or business trip workers that cannot afford to rent at the market level. Additionally, *Oltre Venture* created a community company that operates the building called *Sharing*, of which it holds 70% of shares with Cooperativa DOC holding the remaining 30%. In September 2011, *Ivrea24* delivered the building to *Sharing,* which opened the building on the 4th of September 2011 and started to pay the rent to *Ivrea24*. Subsequently, *Ivrea24* sold the building to a Turin private real estate fund and reimbursed its shareholders. *Oltre Venture* will sell its shares in *Sharing* at the end of 2015 to Cooperative DOC at nominal value.

PhiTrust entered the real estate space with their parallel investments in *Ethical Property Europe* (Belgium) and its French subsidiary *Etic*. These two organisations operate business centres for non-profit organisations, charities and social enterprises. *PhiTrust* will continue to provide financial and technical support to assist both organisations with their continued growth and development, and will continuously screen the market for further property-backed investment opportunities in France and across Western Europe.

Investment example: *Ethical Property Europe* (*PhiTrust Partenaires*)

In 2012, *PhiTrust* invested in *Ethical Property Europe*, which turns under-utilised buildings and brownfields in underserved areas in Belgian cities into high-quality, environmentally-friendly, low-cost office space for non-profits. By using local suppliers and employment integration companies, it takes a "360°-impact approach" to its developments. Currently, *Ethical Property* hosts 90 non-profit organisations in three locations.

Bridges Ventures Sustainable Growth Funds focus on providing growth equity for small and medium-sized enterprises in deprived inner city areas in the UK. Given the catalytic nature of real-estate investment for the development of the community in deprived areas, the fund invested in a substantial number of property-backed social businesses. Examples include *The Hoxton*, a hotel in London, *The Office Group*, which turned underutilised buildings in underserved areas into high-quality, environmentally-friendly offices for SMEs and *The Gym*, a low-cost fitness club chain.

Investment example: *The Gym* (*Bridges Ventures Sustainable Growth Funds*)

In 2008, the *Bridges Ventures Sustainable Growth Funds* invested in the fitness chain *The Gym*. It provides state-of-the-art fitness facilities in purpose-built gyms that are open 24 hours a day and located mainly in underserved areas. *The Gym* offers flexible, low-cost memberships. Its resultant membership base includes 40% of members who had not previously joined a gym or sports centre. The fund partly exited *The Gym* in June 2013 yielding a 50% IRR and 3.7x multiple for investors in Bridges funds. A minority was rolled over to retain a 25% stake in *The Gym* going forward. *The Gym* operates from 36 sites nationwide, with plans to open 20 to 30 new gyms per year.

REAL ESTATE FUNDS

Bridges Ventures has pioneered setting up dedicated impact real estate funds and is considered to be the most experienced player in the field. It currently invests through two real estate funds: *the Bridges Ventures CarePlaces Fund*, which focuses on the development of high-quality care homes for the elderly, and *Bridges Ventures Sustainable Property Fund*, which invests in buildings that promote regeneration and environmental sustainability. They raised their first real estate fund in 2009 (*Sustainable Property Fund*) and just saw the first closing of its third fund in this field - the *Alternative Property Fund III*. According to *Bridges Ventures*, the new fund will invest *"either directly or joint venture in property and property-backed operating businesses. It will target niche real estate sectors which are driven by demographic changes and consumer needs such as healthcare, education, SME business space, and affordable residential accommodation, as well as other sectors where there is identifiable occupational demand in growth locations."*[14]

Bridges Ventures' CarePlaces Fund

In 2012, *Bridges Ventures* closed its *CarePlaces Fund*, a joint venture with Castleoak, which invests in predominantly off-market, pre-let care home developments and develops them to high standard care facilities with a focus on sustainable design and construction. *Bridges Ventures* does not invest in the operating company, but helps to select a capable operator to ensure outcome goals. Through this investment model, *Bridges Ventures* has built 14 new care homes, 11 via the *CarePlaces Fund*. In November 2014, the fund already sold the first three care homes to Legal & General Property (LGP) for GBP 25.2m. The developments are usually held between 3 and 8 years. The new care homes financed by the funds include some of the UK's most sustainable healthcare developments and were awarded the Health Investor's 'Property Investor of the Year' prize in 2012. In operating this fund, *Bridges Ventures* is leveraging both its social sector experience in health and ageing and its experience in developing energy efficient buildings.

The second fund to raise a dedicated real estate impact fund is widely considered to be *KOIS INVEST*, which is currently working towards the first closing of its new *Inclusio* fund in January 2015. The fund will invest in the development of supported affordable housing projects in Belgium together with its partners, the real estate specialist Re-Vive and Bank Degroof, a private Belgian bank. Beyond providing affordable housing to selected fragile segments of the population, I*nclusio* will also ensure social reinsertion support for selected segments of the population such as homeless people, people with psychiatric difficulties or mono-parental families.

CONCLUSION

Going forward, we expect impact investing in real estate or real estate-related businesses to grow steadily, benefiting from new impact funds entering the field and experienced impact funds expanding their real estate portfolios. This development will be driven by three factors:

- **Availability of investment opportunities**, especially in underserved areas and affordable housing where impact funds can leverage their social sector experience;
- **Impact funds looking for larger scale, lower risk investments** and the **opportunity to attract new groups of investors** (such as institutional investors);
- **Investors diversifying for investments** that offer at market return rates and also yield social or environmental benefits.

Especially, we expect new dedicated real estate impact funds to be created. In this context, we are currently witnessing the creation of two new funds: *Bridges Ventures' Alternative Property Fund III*, which had its first closing in May 2014, and *KOIS INVEST*'s affordable housing fund *Inclusio*, which is expected to have its first closing in January 2015. Less experienced investors, who do not have the capacity to manage new funds, may increasingly look for attractive property-backed social businesses.

Based on our assessment of impact capital in real estate, we have identified five capabilities that define the strategy of successful investors in the field:

(1) **Leverage social sector experience** to identify promising investment opportunities, where more risk-adverse investors unfamiliar with the social sector may be unable to invest.

(2) **Invest in niche sectors, off-market and early growth opportunities** where information asymmetries prevail and where competition is substantially lower than in mainstream commercial markets.

(3) **Invest alongside experienced real estate partners** adding financial power and real estate experience to the projects. Most successful funds in this field are partnering closely with the developers, co-investors and operators in order to agree upfront on the 'win-win' strategy of how to create commercial and societal value.

(4) **Link the real estate investments to high-quality operating businesses** in order to ensure the achievement of outcome goals, since impact in real estate investments is hardly generated by 'owning' the property, but by 'deploying' it in a socially, impact-driven way.

(5) **Take a holistic approach to impact** including environmental factors together with social outcomes, in order to create sustainable developments that incur low operating costs (e.g. energy-efficient buildings).

Endnotes

[1] Stephanie Petrick (2013), *Impact Investing in the area of long-term unemployment*, The Social Venture Fund

[2] Stephanie Petrick et al. (2013), *Impact Investing in ageing*, The Social Venture Fund

[3] Stephanie Petrick (2014), *Impact Investing in education*, Ananda Ventures (previously The Social Venture Fund)

[4] Philipps, Hager & North (2010), *Overview of Impact Investing*

[5] Ysemin Saltuk, et al. (2014), *Spotlight on the market: The impact investor survey*, J.P. Morgan

[6] Big Society Capital (2014), *Housing and Social Investment*, Social Investment Insight Series

[7] McKinsey Global Institute (2014), *A blueprint for addressing the global affordable housing challenge*, McKinsey & Company

[8] Cost of bridging the gap is the amount of money needed to bring the annual income available for housing of all the low-income households to the market annual cost of a standard unit. Assumptions: mortgage rates by country where available, otherwise regional averages assumed, 30-year mortgage term with a 20% down payment.

[9] Big Society Capital (2014), *Housing and Social Investment*, Social Investment Insight Series

[10] The Smith Institute (2013), *Rebuilding the relationship between affordable housing and philanthropy*

[11] Bridges Ventures (2014), *Ten Year Report*

[12] Vivatus does not operate an impact fund, but sets up investment partnerships for each investment opportunity they identify.

[13] Press release from May 16th, 2014, *Bridges Ventures announces launch of £500m Property Alternatives Fund,* on www.bridgesventures.com, visited on November 30th, 2014

[14] Press release from May 16th, 2014, *Bridges Ventures announces launch of £500m Property Alternatives Fund,* on www.bridgesventures.com, visited on November 30th, 2014