Coverage.

Date:	November issue
Client:	Patron Capital
Source:	IREI

A helping hand

Putting the 'S' in ESG

by Keith Breslauer

While some trends may come and go in life, others only gather strength as time goes on, shapeshifting to adapt to and survive in the changing environment. Fads like fidget spinners fade into nostalgia, although some crazes, such as social media, seem to take root in daily life — even if the channel *du jour* has evolved from MySpace to Facebook to Instagram.

ESG belongs firmly in the latter camp. It is here to stay, and rightly so, and is only set to become more important in the years ahead. ESG considerations are now a key pillar for businesses across banking and finance, having experienced phenomenal growth in recent years. Goldman Sachs has announced that it would spend $750 billion (€640 billion) on sustainable finance over the next decade,

while Bank of America has pledged $300 billion (€256 billion) to sustainable investments. Indeed, the global issuances of sustainable debt, including green bonds and sustainability-linked loans, spiked 78 percent in 2019 to $465 billion (€397 billion), according to BloombergNEF.

Real estate is no different. If anything, it is an especially important consideration for those involved in the built environment. After all, the sector has one of the highest carbon footprints going — contributing 30 percent of global annual greenhouse gas (GHG) emissions and consuming around 40 percent of the world's energy, according to the UN Environmental Programme. As a result of this, we have seen scores of large investment managers, developers and agents commit to net-zero carbon targets, including Nuveen, CBRE Investment Management, Landsec and Gerald Eve.

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However, with full respect and commitment to the complex problem of real estate and climate change, we need to remember that there is more to ESG than the environmental factor, important as it may be. Social issues — the "S" of ESG — have also escalated throughout the pandemic and in the years preceding it. From the struggle for racial equality that reached a global fever pitch in the summer of 2020, to English footballer Marcus Rashford's successful campaign for free school meals in the UK during lockdown — the "S" has rarely been more important, and it is time that institutional investors approached it with the same appetite as they do the "E".

The COVID-19 effect

Things are looking promising in this regard. The not-for-profit, industry group, The Global Impact Investment Network, recently estimated that the appetite for this form of investing was worth $715 billion (€611 billion) last year, a staggering 42 percent rise on 2019's $502 billion (€429 billion). The UK's leading social impact investor, Big Society Capital, recently announced its ambition to help the social investment market double in size to £10 billion (€12 billion) by 2025, from an estimated £5.1 billion (€5.9 billion) in 2019. And, while questions about and investor interest in impact investing had been on the rise ahead of the pandemic — notably with the launch of two UK affordable-housing funds in 2019 — the impact of COVID-19 has catalysed both the demand and supply side of things to create a unique opportunity set.

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Tragically, the pandemic also saw a sharp increase in domestic abuse. The UN has estimated that cases of domestic abuse worldwide will have increased by 20 percent due to lockdowns, as victims have been trapped with their abusers. In the UK, two-thirds of women in abusive relationships suffered more violence from their partners during the spring lockdown, according to *A Perfect Storm*, a report by Women's Aid. Meanwhile, Refuge, the UK's largest domestic abuse charity, reported a 700 percent rise in calls to its helpline in a single day, and there were 4,000 domestic abuse arrests in London alone in the first six weeks of lockdown.

However, just as the need for support increased, another side effect of the pandemic was its reduction. In the UK, Women's Aid showed that 38 of 45 service providers had reduced or suspended at least one service during the last lockdown, including services that provide shelter. Campaign groups Southall Black Sisters and Compassion in Politics wrote to hotel chains asking them to open up rooms to those fleeing abuse. Even prior to the pandemic, 23,000, or 64 percent, of women referred to specialist refuges were being turned away, while half could not accommodate women with two children, according to *Women's Aid, The Domestic Abuse Report*, 2020. The structural need is very much there.

Alongside adding fuel to the fire of social inequality, the COVID-19 crisis also fostered a

mindset of community and collective responsibility, as well as simultaneously increasing our knowledge of the scale of what needs to be addressed. Importantly, if the pandemic shone a greater light on issues such as these for the average person reading the news, it has done the same for investors scrambling to understand structural changes and provide realistic valuations in an uncertain market.

In fact, a recent survey by the law firm CMS proved that, following the pandemic, 92 percent of investors said they will invest more into companies with a strong ESG strategy, while 62 percent of occupiers agreed that corporate social purpose has become more important since the pandemic. There is a supply-and-demand imbalance that makes impact investments outright attractive as we "build back better".

Real estate's role

The real estate sector can play just as important a role here with these societal concerns, as it can when it comes to environmental issues. Patron Capital had been in talks to launch an impact investment vehicle since well ahead of the pandemic and achieved a first close with the Women in Safe Homes fund in December 2020. Patron Capital established this fund, believed to be the world's first gender-lens property fund, alongside social impact investment company, Resonance, as a solution to the lack of affordable, safe and secure homes for women who are experiencing homelessness, have been involved with the criminal justice system, are survivors of domestic abuse or have other complex needs.

The investor demand is there — since its first close with Big Society Capital, John D. and Catherine T. MacArthur Foundation, the US-based Lostand Foundation, and, in a personal capacity, me, Patron Capital has brought on a number of new investors who understand the compelling proposition a vehicle such as the Women in Safe Homes presents.

Institutional investors have a fiduciary obligation to generate the best possible risk-adjusted returns for their beneficiaries. However, are these returns really the best if they do not have a positive impact on the world around us — the one inhabited by those beneficiaries — and serve the long-term interests of the real economy? I would argue not, but one does not have to be at the expense of the other, and optimal risk-adjusted returns and measurable social impact are not mutually exclusive.

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We can create a return through rent and capital appreciation, making use of our investment background and network, while helping those who need it the most — successfully navigating the tricky path of fulfilling both social and financial needs and helping us to build back better in the post-pandemic world. This act of charity is not a zero-sum game, but one with significant upsides for every stakeholder.

Institutional investors are increasingly adopting and pursuing this growing demand for impact investing. As a sector, it is our responsibility to meet this demand by overcoming any challenges — such as scale and measurement — to prove that this is a viable model for not just pension funds, but for how we do business moving forward. ❖

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