Investing in social value

Prespectives from the real estate sector

Scott Corfe
Linus Pardoe

SMF Social Market Foundation

Investing in social value

Perspectives from the real estate sector

Scott Corfe
Linus Pardoe

Kindly supported by

FIRST PUBLISHED BY

The Social Market Foundation, March 2022
11 Tufton Street, London SW1P 3QB

THE SOCIAL MARKET FOUNDATION

The Foundation's main activity is to commission and publish original papers by independent academics and other experts on key topics in the economic and social fields, with a view to stimulating public discussion on the performance of markets and the social framework within which they operate. The Foundation is a registered charity (1000971) and a company limited by guarantee. It is independent of any political party or group and is funded predominantly through sponsorship of research and public policy debates. The views expressed in this publication are those of the authors, and these do not necessarily reflect the views of the Social Market Foundation.

CONTENTS

ACKNOWLEDGEMENTS

This Social Market Foundation (SMF) briefing paper examines the role of "social value" in real estate decision-making in the UK. In addition to providing an overview of existing social value literature, the paper presents findings from a series of depth interviews with expert stakeholders in the real estate community.

We are grateful to Trowers & Hamlins for sponsoring the research.

ABOUT THE AUTHORS

Scott Corfe

Scott Corfe joined the Social Market Foundation in 2017 and is our Research Director. As well as managing the SMF's research team, he authors research on a wide range of topics including consumer markets, taxation, low pay, housing and technology.

Before joining the SMF, he was Head of Macroeconomics and a Director at the economics consultancy Cebr, where he led much of the consultancy's thought leadership and public policy research.

Scott's expert insights are frequently sought after in publications including the Financial Times, the Guardian, the Times and the Daily Telegraph. Scott has appeared on BBC News, Sky News, Radio 4 and a range of other broadcast media.

Linus Pardoe

Linus is a Research Associate at the Social Market Foundation. Having previously worked on SMF events and external affairs, he now supports the research team on a range of subject areas. Prior to joining the SMF in 2019, Linus worked for the University of Warwick's Department of Global Sustainable Development and holds a BA in History from Warwick. He is currently studying for an MSc in Social Policy and Social Research at University College London.

“Social value is like carbon reporting. We have been doing it for years but only started to measure it consistently…at the moment social value is a bit of a Wild West.”

Dan Grandage, Head of ESG (Real Assets) at abrdn

“I actually see it as an advantage that there are a wide range of metrics. I think plurality of outcomes and metrics is more likely to lead to innovation and appeal to a broad variety of investors.”

Yolande Barnes, Chair of the Bartlett Real Estate Institute at University College London

“Things are changing…there is now more reputational risk in not having the ‘S’ in ESG in hand.”

David DeVos, Global Head of ESG, LaSalle Investment Management

“Almost every deal we are doing, the ESG question comes up…it’s now a huge demand.”

Larry Young, Head of International Investment Group at BNP Paribas Real Estate

“COVID has highlighted some deep inequality issues – for example the need for healthy homes and access to space – that weren’t so much at the forefront before COVID. Some of our clients are saying the jobs benefits of a development, whilst important, has to be balanced out alongside fostering better social cohesion or physical and mental wellbeing.”

Kate Ives, Strategic Director at Countryside Properties

“The pandemic and COVID absolutely brought into focus the ‘S’ in ESG. In March 2020 some people were asking me whether the ‘S’ had indeed overtaken the ‘E’ in ESG…COVID has really brought to people’s attention that society can be quite fragile.”

Helen Joscelyne, Sustainability Manager at Derwent London

“For many organisations, the driver is probably what peers and competitors are doing. Demonstrating social value becomes a bit of a hygiene and reputational thing. However, it should be about more than this – it certainly is for us.”

John Alker, Head of Sustainability at Legal & General Capital

“Personally I was very excited to do something in this space…in terms of how I am motivated and how my boss is motivated.”

Chris Jeffs, Director: Fund Management at M&G Real Estate

“Are they doing it at a surface level or embedding it into the DNA of the business?”

James Scott, Group Director of Strategy and Planning at Urban&Civic

EXECUTIVE SUMMARY

- "**Social value is huge with investors now...you cannot escape it".** Social value is undoubtedly growing in importance in influencing real estate investment decisions, driven my multiple factors – including demands from clients for a social return, observing competitors acting on social value, local authorities increasingly demanding social value strategies, and an interest among employees to deliver ESG in the workplace.
- **However, investors and developers are at different points along the social value journey.** While some that we spoke to were using "off-the-shelf" tools to measure social value, others had developed more bespoke approaches to suit their business model and social objectives. Key drivers of this latter approach included needing measures tailored to the business' needs and trying to ensure that social value is authentically imbued in an organisation, rather than a tick-box exercise used to maximise a score for public relations purposes.
- **"The time is coming...when the S is equal to the E".** But there were mixed views on what exactly social value is, including whether it covers all aspects of ESG, rather than just the "S" component. Several noted that the terminology is potentially unhelpful here and it would be better if organisations thought more holistically about the components of ESG.
- **"I do not think it is very clear where the buck stops when nothing materialises... it happens all the time".** Accountability remains an issue when it comes to social value, with several interviewees noting that there was relatively little to hold investors and developers to account if their promises on delivering social value – such as job creation and improved wellbeing – do not materialise in practice, if the magnitude of what is promised is relatively small, or if the social value created is not genuinely "additional" or sustained. This raises the risk of "social value washing", akin to "greenwashing" where firms deceptively portray their green credentials.
- **Pursuing social value is increasingly seen as consistent with pursuing profit.** It was argued that the long-term decline in global interest rates is encouraging investors to be less short-termist and think more about the role of social value in generating longer-term returns. Interviewees also argued that social value and "placemaking" are strongly-linked concepts, with the latter crucial for generating long-term, consistent returns (e.g. by improving tenant retention and reducing the risk of a development slipping into obsolescence).
- **"COVID really brought to people's attention that society can be quite fragile".** The pandemic has further elevated social value in the agenda. In part, this is due to public health restrictions leading to a stronger focus on society and community. Others noted that the pandemic had accelerated the shift towards online retail and remote working, raising questions about the future of urban centres. This in turn may drive a focus on placemaking and social value creation.

CHAPTER ONE – THE FORGOTTEN "S" IN ESG AND THE SOCIAL VALUE SOLUTION

The rise of ESG investing

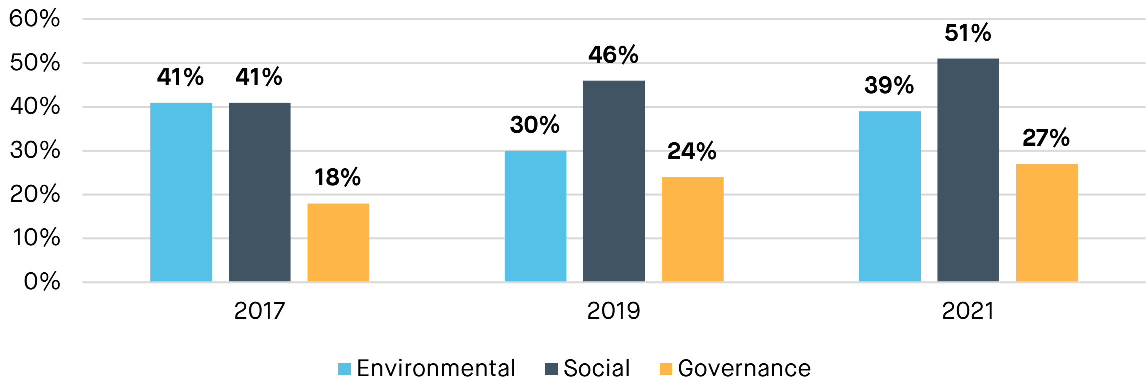
Pressure on investors to utilise financial capital to address climate change, inequalities, and social injustices is continuing to grow. The two global crises bookending the 2010s – one financial, the other epidemiological – have catalysed public demands for a stakeholder model of capitalism.[1] Governments are demanding more too, both in terms of financing the transition to a carbon neutral economy and by imposing new rules on environmental impact reporting.[2]

Investors are proactively responding to, and being compelled to respond to, this sea change in the nature of capitalism. Environmental, Social and Governance (ESG) investing and evaluation is the instrumental response from finance institutions. It emphasises that financial markets do not operate external to reality, but shape our environment and ways of life quite fundamentally. Departing from conventional commercial investment strategies, ESG investing views long-term investments which mitigate risk and support sustainable, equitable growth as preferential. As of 2020, the value of ESG investments in Europe amounted to $12 trillion, and $17 trillion in the US.[3]

Arguably, it is the 'E' which has come to dominate both the policy and investor landscape over and above the 'S'. This is unsurprising for two reasons. Firstly, national and international commitments to reduce carbon emissions have sent a relatively unambiguous signal to investors on the urgent need to 'finance green', such as the UK Government's 2021 Roadmap to Sustainable Investing.[4] Secondly, measuring the environmental impact of an investment is relatively more straightforward than ascertaining its impact on society.[i] What constitutes 'social impact' requires a complex set of ethical judgements about what outcomes to measure, and how. Investors have, in recent years, expressed that integrating social considerations is more challenging than environmental, as Figure 1 indicates.

[i] This is not to say that measuring environmental impact or defining what constitutes a 'green' or 'sustainable' asset is unproblematic, as recent concerns over the pervasiveness of 'greenwashing' attests to. See, for example, https://www.ft.com/content/74888921-368d-42e1-91cd-c3c8ce64a05e

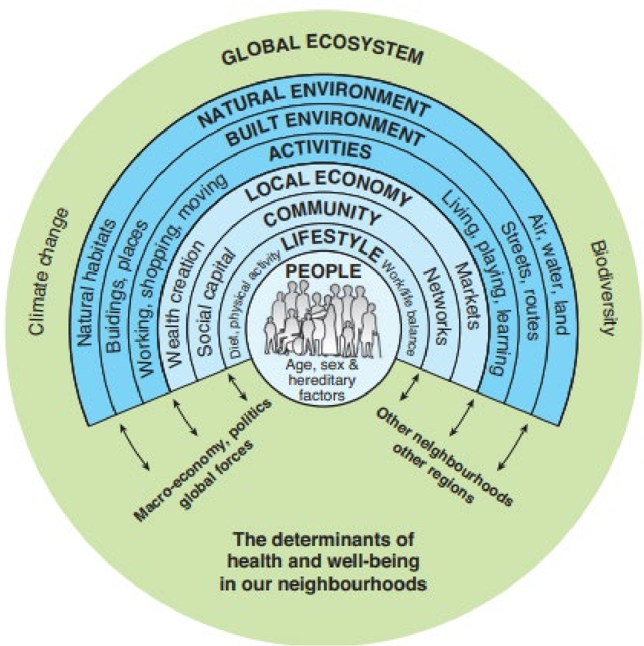
Figure 1: Investor responses to which element of ESG is the most challenging to analyse and integrate, 2017-2021



Source: BNP Paribas ESG Global Survey 2021

This issue is a particularly acute one in the real estate investment space. Buildings are inherently social assets; "[they] don't just sit there imposing themselves", as the sociologist Thomas Gieryn put it.[5] The built environment affects the quality of life of end-users and communities, impacting on health, crime rates, levels of autonomy, social cohesion, employment opportunities, and so on. Barton and Grant's widely-cited model (Figure 2) shows how the built environment functions as and relates to other determinants of health and wellbeing. This is not limited to residential housing, but also commercial property such as office buildings and retail premises, and social infrastructure such as education institutions and hospitals. Understanding how any real estate investment decision might positively and negatively affect every component of this map is the complex challenge that the concept of *social value* tries to meet.

Figure 2: Barton and Grant's model of health and wellbeing determinants



Source: Barton, H., & Grant, M, A health map for the local human habitat (2006)

What is social value?

The contemporary origins of social value are found in the early 2000s, when policymakers became increasingly concerned with how effectively public services and government activities created 'public value'.[6] The Public Services (Social Value) Act 2012 obliges anyone commissioning public services to consider (but not account for) the social, economic, and environmental benefits created. In the wake of the COVID-19 pandemic, a new Social Value Model has set out the Government's social value priority themes and policy outcomes for procurement.[7] A number of organisations including the Social Economy Alliance and Power to Change have recommended expanding the remit of the Social Value Act, for example to include assets and planning.[8] There has also been considerable spillover into the private sector in recent years, with the advent of organisations such as Social Value UK and Social Value Portal, as well as a number of consultancy businesses offering social value reporting services.

Defining social value

There is no single definition of social value. Indeed, as the UK Green Buildings Council (UKGBC) has highlighted, many conceptions have been proposed.[9] What most do emphasise, however, is that social value accounting should be people- and place-centric, focusing on the long-term economic, environmental, and social impact of an investment, i.e. both its financial and non-financial value. Internationally-agreed development priorities, notably the United Nations Sustainable Development Goals (SDGs), can provide an overarching framework from which specific indicators of social value can be agreed upon by stakeholders. The SDGs – part of the 2030 Agenda for Sustainable Development which was adopted by all UN Member States in 2015[10] - provide 17 goals including action on climate change, providing decent jobs and economic growth, poverty reduction, and gender equality.[11]

A principles-based approach has been put forward by Social Value UK to help stakeholders agree a working definition for a particular project (Figure 3). Similarly, the UKGBC has created a framework for defining social value, in which those whose quality of life is likely to be impacted by a project are identified, their best interests established, and a bespoke set of social value outcomes are agreed upon amongst all stakeholders.[12]

Figure 3: Eight principles of social value

Involve stakeholders	Understand what changes	Value the things that matter	Only include what is material
Do not over-claim	Be transparent	Verify the result	Be responsive

Source: Social Value UK

What is clear from the above is that defining what constitutes social value is relative and contextual. As Geoff Mulgan, a former head of policy under Tony Blair, has argued, social value can never be objective. [13] Ultimately, social value requires judgements about *what* is in society's best interests, *who* that 'society' is in a given context and whose interests should be prioritised where there is conflict, and *how* social value can be measured and translated into numerical data from which investment and development decisions can be made. One critic has argued that without providing a moral foundation for what is ‘good’ and in society’s ‘best interests’ – grounds which financiers may feel uncomfortable treading – social value becomes devoid of meaning.[14]

Measuring social value

Despite these conceptual challenges, practitioners have developed and adopted metrics and tools to measure the social value added by a particular project, once priorities and outcomes have been agreed.[15] [16] [17] Methodologies range from the National Social Value Framework (National TOMs[ii]), an online tool aiming to standardise social value accounting processes, other standardised tools such as the UK Social Value Bank[18], through to bespoke methodologies designed by consultancy services. As has been set out by RICS and Simetrica-Jacobs[19], different approaches to measuring social value draw on established valuation methods from across health, economic, and social policy, including:

- **Cost-benefit analysis (CBA)** – assesses the market and non-market price of benefits against the costs of a project, with non-financial impacts monetised through a HM Treasury Green Book[20]-approved method, such as revealed preference or wellbeing valuation.
- **Social return on investment (SROI)** – follows a CBA approach but emphasises that stakeholders impacted by and involved in a project must be embedded in the process of mapping, evidencing, and attributing value to outcomes.
- **Multi-criteria analysis (MCA)** – specific measurable indicators, which can be weighted contextually, are identified and used to compare how successfully agreed objectives are achieved by different options.
- **Cost-effectiveness analysis (CEA)** – assesses costs against outcomes in terms of non-financial units (as the objective(s) cannot be conventionally valued) such as per-life year gained, expressed in a cost-effectiveness ratio to allow for comparisons between alternatives.
- **Cost-utility analysis (CUA)** – shares traits with CEA but compares costs with outcomes measured in units that relate to wellbeing, often expressed in terms of quality-adjusted life years.

The UKGBC emphasises that practitioners should avoid narrow approaches which exclude certain population groups or factors (particularly the environment) and embed the measurement process across the entire asset lifecycle. [21] Most pertinently for this paper, practitioners must also avoid the trap of “measuring for the sake of measuring social value”.[22] Put another way, social value measurements (SVM) must influence decision-making or risk being seen as a form of “social washing”.[23] Equally, the social value predicted and actually created by a project needs to be communicated with a range of stakeholders throughout the value chain, from investors to end-users. In

[ii] The National TOMs (standing for themes, outcomes and measures) framework is piloted by the Social Value Portal. It has been endorsed by the Local Government Association and adopted by the NHS Sustainable Development Unit. For more, see https://socialvalueportal.com/what-is-social-value/

Caring Capitalism, Emily Barman emphasises the role of the "value entrepreneur", who is responsible for producing, justifying, and disseminating the assessment of social value.[24]

Attitudes to social value in real estate and finance

A number of studies have sought to explore how widespread understanding and application of social value is, among the various stakeholders in the real estate and financial sectors. A recent survey of Urban Land Institute members[iii] found that 63% of respondents were familiar with the concept of social value, but amongst investors and estate/asset owners, 87% were more familiar with terms such as ESG, impact, and corporate social responsibility.[25] The sustainability benchmarking tools BREEAM and LEED were used by close to half of respondents, but these accreditations are almost exclusively focused on ascertaining environmental impact of real estate development; less than 10% used RIBA's Social Value Toolkit, by comparison. Perhaps more concerningly, whilst 80% stated that they saw the monetisation of social value as important, only 22% actually made use of this approach and results primarily are used for communicating with stakeholders rather than driving decision-making. Indeed, some interviewees expressed that attempts to calculate social value were merely a "box-ticking exercise".

These findings are echoed in a study of Italian financiers and social venture managers, suggesting that social impact investors have been "unable to 'walk the talk' by translating a social value ethos into practice".[26] On the one hand, investors are criticised for continuing to employ the logic of mainstream investing— i.e. desire for short-term returns and prioritisation of financial goals. On the other hand, one-third of investors in the study suggested that demand-side stakeholders are often unaware of financing opportunities, alongside concerns that investor pressure may lead to mission drift. The study concludes that standardising methodologies and KPIs will not proliferate a social value approach, given the heterogeneity of projects and stakeholders. Rather, efforts should be directed at data infrastructure and data production to improve the validity and ease of measurement, snowballing into increased understanding of social value which can promote the kind of cultural shift that is already taking place with regards to environmental considerations.[27]

Catalysing a cultural and institutional shift towards prioritising social value and convincing all stakeholders is likely to be key. All investments add or subtract value for the investee(s) and/or the benefactor(s) – getting the balance right here is known as the "split incentives dilemma". Social value measurement provides a means of substantively demonstrating the full scope of value created (or lost) for those impacted by an investment, thereby evidencing financiers and developers' social impact. There is some evidence that this cultural shift is already underway. A study by Real Worth[iv] indicates that patient capital approaches in the interest of maximising

[iii] Survey conducted in November 2020 and included investors, asset owners, asset and fund managers, developers, urban planners, government and municipal officials, architects and real estate consultants.

[iv] This research was also sponsored by Trowers & Hamlins

social value are prevalent amongst investors. Akin to the "greenium" in rental income and capital returns associated with sustainable built environment assets[28], interviewees provide strong evidence that social value creation is positively linked to higher financial returns.

CHAPTER TWO – VIEWS FROM THE INVESTOR AND DEVELOPER COMMUNITY

To better understand the role of social value in shaping today's real estate investment decisions, the SMF undertook a series of depth interviews with senior individuals working for major firms in the real estate and investment sectors. The SMF is grateful to all of those that participated in these discussions. Below, we provide an overview of the key themes that emerged from our conversations with expert stakeholders.

Social value is a concept of growing importance and prominence

"Social value is huge with investors now...you cannot escape it"

Among the depth interviews we conducted, there was a unanimous view that social value was an area of growing importance in real estate investment decision-making. There was also a sense that social value as a concept is being taken more seriously within organisations:

> *"At the moment things are a bit of a tick-box in relation to social value...but that is changing."*
>
> *"[Our organisation has] had an interesting journey with social value. It used to be the flowery side of the business... people didn't take it seriously at all."*
>
> *"We used to have project managers that were builders. Now they need to be thinking like investors, thinking about social value. Before we had project managers that did not deliver because they did not understand social value. We have had to up our game to ensure they are skilled."*

The drivers of this appear to be numerous. Several noted an increasing expectation from clients that a real estate investor should be focusing on social value as well as pure financial returns:

> *"I think people are increasingly looking for something where they get a financial return as well as seeing environmental change and societal good."*
>
> *"We are definitely seeing interest from our clients ... our [shared ownership] fund raised £200m at launch."*
>
> *"I think the main driver is investor interest. We are seeing an uptick in questions in Requests for Proposals/Requests for Quotes regarding what we are doing in the [social value] space."*
>
> *"With almost every deal we are doing the ESG question comes up...it's now a huge demand."*

Observing what competitors are doing on social value was also cited as a factor, with a virtuous cycle forming as more organisations home in on social impact and see what other firms are doing in this space. Ultimately, this creates an environment in which demonstration of social value is seen as an essential part of an organisation's reputation management:

> *"For many organisations, the driver is probably what peers and competitors are doing. Demonstrating Social Value becomes a bit of a hygiene and reputational thing. However, it should be about more than this – it certainly is for us."*

> *"Things are changing ... there is now more reputational risk in not having the S [in ESG] in hand."*

Multiple interviewees expressed a feeling that the real estate sector is "waking up" to social value and this was creating pressure to act, even if they could not quite place their finger on the drivers of this. As one put it:

> *"Social value is huge with investors now...you can't escape it."*

Several mentioned that regulatory pressures and demands from government had also played a key role in driving social value up the agenda. Some cited the Public Services (Social Value) Act 2012, which came into force in January 2013 and requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.[29] Others also mentioned increasing demands from local authorities, with social value being incorporated into planning requirements and authorities requiring developers to produce a social value strategy – potentially in part as a way of meeting statutory duties (e.g. on homelessness) at a time when local authority funding is constrained:

> *"The Social Value Act was a big driver in the first instance, especially among contractors... this has filtered through into some planning requirements. In some local authorities a social value strategy is required."*

> *"Increasingly planning departments within local government are pushing social value... compliance is no longer good enough... for example, saying we have done our Section 106."*

> *"What we are seeing is local councils struggling internally with their own finances. They have had years of cuts from central government and have disposed of a lot of their assets. Councils are now saying we need you to help us support local communities in need as they are just about managing their mandatory activities like homelessness and social care. Councils are essentially offsetting land value to get social impact outcomes through development partnerships. By directing their land in this way, councils can have an element of control over how the social impact is delivered within their local communities."*

One interviewee said that the United Nations Sustainable Development Goals are a "*very effective prism*" with which to understand and conceptualise social value, while another thought that it had contributed to more investors thinking about social value:

> *"Investors clearly have responded – several years on from the UN directive – I would say most investors I come across are at least asking about [social value]."*

Another stated that the SDGs were a key part of their organisation's framework for measuring social value:

> *"We are using the SDGs. We have got nine SDGs that we are using in our framework."*

Others said that a key driver of measuring, monitoring, and pursuing social value is their organisation's business model, sense of purpose, and *raison d'être*. This included Hugo Llewelyn, the CEO of Newcore Capital Management – a real estate investment manager with £300m of assets under management which specifically target "social infrastructure" in the UK. Social infrastructure refers to real estate that delivers essential services to society such as education, healthcare, transport, waste management, and retirement living. [30]

Newcore Capital holds B Corp certification – a "designation that a business is meeting high standards of verified performance, accountability, and transparency on factors from employee benefits and charitable giving, to supply chain practices and input materials"[31] – and the company was the first dedicated UK real estate investment manager to achieve such certification.[32] The company is also classified as an Article 9 Fund under the EU Sustainable Finance Disclosure Regulation (SFDR). This is a Fund that "has sustainable investment as its objective or a reduction in carbon emissions as its objective."[33]

Beyond decisions made at the C-suite level of an organisation, another view expressed in our interviews was that consideration of social value can be a way of motivating staff who are increasingly interested in making a positive contribution to society as part of their job. One fund manager described how being involved in setting up a new housing fund with a significant focus on social value strongly appealed to him and his team:

> *"Personally, I was very excited to do something in this space, in terms of how I am motivated and how my boss is motivated."*

This aligns with broader survey findings that workers "want ESG" in the workplace.[34] Survey findings from the United States have found that employees who believe their company has a higher purpose over money-making are 27% more likely to stay with their employer– rising to 43% among millennials.[35]

Investors and developers are at different points along the social value journey

"Are they doing it at a surface level or embedding it into the DNA of the business?"

While everyone that we interviewed spoke about the growing prominence of social value within real estate decision-making, organisations appear to be at different points along the social value journey – in terms of measuring and monitoring social value, and ensuring that it is imbued within an organisation rather than a superficial consideration. Broadly, this ranged from those who had heard of social value and were aware of rudimentary tools and benchmarks, to those for whom social value is a fundamental component of their business and decision-making.

A diverse range of views were expressed on what the right approach to measurement is, and indeed whether it is possible to have a "right approach" given the differing nature of organisations and their social objectives. While some that we spoke to were using "off-the-shelf" tools such as the National TOMS and UK Social Value Bank to measure social value, others had developed more bespoke approaches to suit their business model and social objectives – even spending several years refining their approach to defining social value.

An example of this bespoke approach is abrdn's "ESG Impact Dial", a tool that allows the organisation to "tailor investors' ESG aspirations to their risk profile and target goals – and to fully integrate these into real estate management".[36] Another example is Urban&Civic, which has developed a bespoke framework for considering sustainable value, based around five types of capital – physical, social, economic, natural and human. The approach "aims to embrace sustainability as an opportunity for [its] business rather than a challenge to overcome."[37]

Among interviewees adopting a bespoke approach to social value measurement, key drivers included the requirement to develop measures tailored to the business' needs, and trying to ensure that social value does not just become a tick-box exercise used to maximise a score for public relations purposes:

> *"I think at the moment [some of the metrics used] are a bit tick-box."*
>
> *"The reason we [developed our own measures] rather than getting it off the shelf is that what was there just didn't work for 20–30-year long-term developments. We had to identify something that was useful for us as a business rather than as a tick-box exercise…*
>
> *…what we did [measuring social value] is what works best for our business. What we could have done instead is fit a square peg into a round hole and choose a measure that maximises our score."*

Indeed, it was noted that, *"for public businesses there is a real tension"* when it comes to social value. While standardised metrics can aid transparency and comparability of organisations and particular real estate investments, their use can also encourage an excessive focus on maximising scores on these metrics – even though this might not fit a business model or, in practice, generate the greatest social impact.

Perhaps tellingly, one developer interviewee spoke of her frustrations with some of the standardised social value measures and the need to maximise scores on these metrics for use in public sector tender submissions:

> *"National TOMS ... should it have a higher value for local employment and does it overvalue local spend? if I leave the local spend out of a tender submission it looks like we create near no social value."*

Many noted the difficulty of measuring the "S" in ESG, relative to the "E", and this being a barrier to measuring social value and using it to drive the organisational decision-making process:

> *"The E bit of ESG has probably been talked about much more in terms of investment because it is possible to do carbon accounting. There are metrics that can and could be measured."*

> *"S is much more complicated. There has to be a different set of rules."*

> *"It is much harder to define the S in ESG, than it is to define the E."*

> *"S has always been there. Having said that, social value can be seen as harder to measure and quantify."*

One interviewee leading on ESG within an international organisation argued that measuring the S was particularly challenging in the real estate sector given the diverse range of property types and views on what "S" means across the globe:

> *"Historically there has been a focus on the E... the S is a little more challenging. The S changes by property type and by region... there are some universal themes that are global but others that are different by property type and region."*

Further, there were mixed views on whether social value as a concept covers all aspects of ESG, rather than just the "S" component. Several noted that the terminology is potentially unhelpful here and it would be better if organisations thought more holistically about the components of ESG:

> *"For us, separating out social value from the environmental and the commercial ... it is very difficult for us to do this ... we have prided ourselves with this approach to business."*

> *"I personally wouldn't differentiate between environmental and social value...I can't envisage a situation where one doesn't involve the other"*

> *"It is really unhelpful to look at the E and S separately."*

> *"The time is coming...when the S is equal to the E."*

One concern about the current, diverse landscape in terms of how social value is measured, is that it makes it considerably harder to compare the social impact of different organisations' investment activities – in contrast to say a world in which all companies were reporting back on the same standardised measures. This can be additionally complicated when we consider benchmarks used in other countries and internationally, as one interviewee told us.

Generally, however, most individuals that we spoke to thought that diversity of approaches is preferable to a more rigid regime of standardised metrics – given the risk of standardised measures leading to firms seeing social value as a box-ticking exercise to be dealt with superficially, rather than something that ought to be imbued within the organisation. This reflects the stakeholder-based approach to defining social value on a project-by-project basis that the UK Green Buildings Council has advanced.[38]

Some interviewees felt that the risk of box-ticking was associated with trying to *quantify* the numerous aspects of social value, even though this is often difficult in practice (e.g. wellbeing impacts) and a more *qualitative* approach to measurement may be more useful.

It was noted that one benefit of having a diverse range of approaches to measuring social value is that it may be a useful driver of innovation:

> *"I actually see it as an advantage that there are a wide range of metrics. I think plurality of outcomes and metrics is more likely to lead to innovation and appeal to a broad variety of investors."*

It was also argued that, going forward, a key gauge of social value will be the monetary value of residential and commercial property – with social impact increasingly being woven into the valuation process, rather than a separate measurement exercise. One interviewee argued that valuations needed to better factor in social impact and the likely obsolescence of developments that fail to generate significant social returns (such as "zombie" shopping centres on the peripheries of towns and cities):

> *"Market forces might help here – the ultimate measurement [of social value] may be the value of your building. We do not measure potential devaluation and obsolescence well enough… discount rates are likely to be wrong… certain investors will start demanding a different form of valuation.*
>
> *The way we value assets has to change and when it changes assumptions about social value and environmental value will be key … in other words will people keep coming [to a development]? There are a wide range of reasons why people come to an area… so that value measure has to be diverse.*
>
> *In Hong Kong there was this assumption that retail rents would always be high and growing… consequently, yields have been completely inappropriate. Any valuer that supported those valuations hasn't done their job for a long-term or even a medium-term investor."*

Accountability remains an issue

"It is really difficult to hold a developer to account. There are 'build it and bugger off' players"

Related to concerns about social value becoming a tick-box exercise for investors, lack of accountability on social impact was an issue noted by several interviewees. At present, there is relatively little to hold investors and developers to account if their promises on delivering social value – such as job creation and improved wellbeing –

do not materialise in practice, or if the magnitude of what is promised is relatively small:

> *"It is really difficult to hold a developer to account. There are 'build it and bugger off' players."*

> *"You get a lot of grandstanding about a community centre here or there... but often it is a small percentage of [an investor's] net income."*

> *"Some [companies] may be false reporting. You need to ensure you have quantitative evidence to back up your claims."*

Indeed, accountability can be particularly difficult to enforce in this space given the challenges of measuring some "social" goals such as improved wellness and reduced loneliness as a result of a real estate investment:

> *"I do not think it is very clear where the buck stops when nothing materialises... it happens all the time, developers promising jobs... some of the social value things like wellness are hard to quantify... the planning process ought to have some element where you can check back."*

Another challenge is proving that investors are genuinely creating "additional" social impact, rather than displacing social value from elsewhere or supporting things that would have taken place even in the absence of an investment. As one fund manager put it:

> *"The most important thing in my view is additionality... you need to be measuring the additional positive impact you are doing with your money... I have very little time for affordable housing funds buying housing stock that's already there ... that is not additionality!"*

> *"People will say any existing student housing or affordable housing adds value to society... but this can be disingenuous."*

Some organisations are, however, taking steps to hold themselves to account. One fund manager that we spoke to talked about the work that their organisation was doing with The Good Economy – a social advisory firm formed in 2015 which aims to "enhance the contribution of business and finance to inclusive and sustainable development." [39] Working with Big Society Capital and fund managers investing in social and affordable housing, the Good Economy has been working to develop a common framework to social impact reporting in the affordable housing sector, with a reporting standard that drives "high standards of transparency and accountability for how and what positive change occurs."[40] The proposed framework identifies social issues and corresponding impact objectives aligned with three types of social housing provision, with environmental sustainability a cross-cutting issue across all housing types. A proposed reporting standard sets out a range of core metrics for demonstrating progress in meeting these impact objectives.

Table 1: Impact reporting for investments in social and affordable housing – core metrics

General needs housing	Specialist supported housing	Transitional supported housing
Number of housing units financed	Number of housing units financed	Number of housing units financed
Projected number of individuals housed	Projected number of residents at full occupancy	Projected number of individuals housed
% of units financed in areas of constrained affordability	Describe how you ensure provision meets a local need	Breakdown of people housed by previous housing situation
Average % rental discount to market	Describe your approach to rent setting	Breakdown of tenant rents relative to Local Housing Allowance
% of sub-market tenures meeting a person-centred affordability test	% of homes with a life-cycle plan reviewed on a minimum five-year basis	% of homes receiving inspections in the last 12 months
% of homes certified by a designated building quality mark	% of homes with a CQC rating of "Good" or higher	% of tenants with agreed support plan in place
% of properties meeting Nationally Described Space Standards		% of tenants sustaining their tenancy
% of renting tenants with security of tenure		Average number of hours of support per individual housed
Environment metrics		
Distribution of EPC ratings of financed units		
Scope 1 and Scope 2 greenhouse gas emissions per square metre		
Total capacity of renewable energy production		
% of portfolio meeting green building standards		
Describe how climate risks are mitigated		
Describe your approach to meeting net zero carbon emissions		

Source: The Good Economy and Big Society Capital (2021),"Towards an approach to impact reporting for investments in social and affordable housing"

Pursuing social value increasingly seen to be consistent with pursuing profit

"This is a moral debate... if you genuinely want to be positively impactful, you might have to consider making less profit"

"There is always an argument that social value makes sense as it is future proofing... but there has to be a line and for most, a fund's financial gains are the priority"

While some that we spoke to felt that there was a tension between pursuing social value and pursuing financial returns – as demonstrated in the quotes above – a majority felt that this was not the case, or at least becoming decreasingly so.

Reasons given included the link between social value creation and "placemaking" and "placekeeping", which can increase the long-term value and resilience of a development, and developments with high social value proving better at retaining tenants – reducing uncertainty around income streams:

> *"Ultimately, we think [our shared housing fund] is such a good product because we don't think there is much of a trade-off on returns on investment. Within the fund, some of our [social value] objectives on improving services are good for return on investment... tenants look after their property better... there are longer occupancy times. That is definitely yielding financial benefits."*

> *"There is a commercial logic to investing in buildings that are carbon neutral... there will undoubtedly be a carbon tax... future-proof buildings will be more valuable than those that are not... the E [in ESG] piece falls into a completely commercial rationale... we think getting social value will end up in a similar place."*

> *"Our investment management team is trying to move funds to green funds... they still want and are trying to make money from that. You can do both. That's where things need to head."*

> *"A lot of [social value] is about delivering high quality places and communities. If you think about the kinds of outcomes we are looking for through social value – on air quality, resilience, green infrastructure etc – a lot of that is fundamentally about good design."*

Several noted that, ultimately, the extent to which a tension between financial returns and social impact exists depends on the business model, with long-term investors such as "master developers" less likely to view there being a trade-off between pursuit of social value and pursuit of profit. Master developers operate at a strategic scale, focusing on larger developments that need to be delivered over a long time period. Such strategic sites typically require varying degrees of green, grey, and community infrastructure and placemaking to unlock their housing potential[41], meaning that generating social value and contributing to placemaking has to be a core component of a development:

> *"The premise of the business is that if you take control of large sites for 20 or 30 years you need to take a strategic view. The master developer approach is to act as that coordinated plan… we are looking at the value of land over time – unlike a housebuilder looking at more short-term profit."*

> *"The more you build into the quality of placemaking as a master developer… actually the higher the residual land value is of your product and therefore the more people will want it and the more housebuilders will want it and pay for it."*

Similarly, an interviewee working for a major real estate investment trust (REIT) noted her firm's emphasis on the long-term reduced tensions between social value and profit:

> *"We are known for being a long-term investor – we are a REIT – we are not just a property developer. What works in our favour is being a long-term investor. We have been in [Central London] for over 30s years… we make sure that the people we work with are aligned with us and have the same values as us."*

In contrast, it was argued that those with more short-termist business models are likely to struggle with achieving both social value and profit:

> *"It depends on the model – e.g. if it is a 'build it and bugger off' approach or there is long-term retention of assets. With our emerging build-to-rent offer… there is an inherent value in maintaining high quality places."*

Business model and the degree to which an investor is focused on the "long term" is likely to be a key factor in determining the organisational importance of social value. However, one interviewee argued that long-run economic trends were forcing all firms to take a less short-termist view on real estate investments – something that will drive an increased focus on social value maximisation going forward. In particular, it was argued that the long-term decline in global interest rates was making it harder for firms to make significant short-term returns, necessitating longer horizons:

> *"I think the late 20th Century was quite exceptional in focusing on specific forms of economics – capital growth. Occupier experience and rental growth were ignored. Investors are now taking a longer-term view… not just due to the UN Sustainable Development Goals, but due to declining global interest rates. The 20th century was an exception in which social and environmental performance was not tied into value.*

> *Zombie malls in the US and department stores in the UK… these have become stranded assets… customer experience and place-keeping are becoming crucial to asset value. This is very different to the portfolio management in the past."*

Lastly, it was noted that there are parallels with the debate about tensions between environmental sustainability and profit maximisation. While in the past it was frequently argued that pursuing environmental goals is financially detrimental, it is now widely acknowledged that the E in ESG can generate a positive return (e.g. in the form of a "greenium" to rental income) and reduce the risk of a building falling in obsolescence as regulatory requirements become more demanding. We are likely to be seeing a similar shift in how the S is viewed, with growing acknowledgment of its pivotal role in generating sustainable, long-term returns:

> *"There is a tension [between the S in ESG and profit]... but 10-20 years ago we had the same tensions with the E in ESG... history is repeating itself"*

The pandemic has brought social value into sharper focus

> **"The pandemic and COVID absolutely brought into focus the S in ESG. In March 2020, some people were asking me whether the S had indeed overtaken the E in ESG... COVID has really brought to people's attention that society can be quite fragile"**

Some interviewees thought that the COVID-19 pandemic had elevated the role of social value in real estate decision making. In part, this is due to the pandemic and associated lockdowns leading to a stronger focus on society and community, as per the quote above. Another put it similarly:

> *"With the COVID crisis, there is less focus from some of our clients on the jobs agenda. COVID has highlighted some deep inequality issues – for example, the need for healthy homes and access to space – those weren't so much at the forefront before COVID. Some of our clients are saying the jobs benefits of a development, whilst important, has to be balanced out alongside fostering better social cohesion, or physical and mental wellbeing."*

Others noted that the pandemic had accelerated the shift towards online retail and remote working, raising questions about the future of urban centres. This in turn may drive a focus on placemaking and social value creation:

> *"COVID has completely changed the whole environment in terms of what parts of real estate investors are looking at... retail investment won't just drop off a cliff, but it needs a rethink – this is an opportunity."*

> *"I think about what I call the 'domestication' of the workplace... it is about changing the office to deal with the things we don't like about working from home... suddenly the workplace and the working environment and the place has to be attractive to go to... I think the out-of-town business park will go the way of the zombie shopping mall."*

One developer interviewee also noted that demonstration of efforts to assist with the economic and social recovery from COVID-19 were finding their way into tender documents, providing another incentive for firms to focus on social value creation:

> *"A lot of the tenders we received [over the past couple of years] were asking what we were going to do for COVID recovery."*

CHAPTER THREE – WHERE NEXT FOR POLICY?

Overall, awareness and knowledge of social value was high amongst those we spoke to, although it was evident that stakeholders are at different stages in their journey towards embedding social value into decision-making. Left to run its natural course, it appears likely that even with little intervention from policymakers, social value will continue to rise up the agenda for real estate investors. Yet, there is likely to be scope for policy to further embed social value into decision-making, and address some of the issues around measurability, accountability, and transparency that we have discussed.

Given this, we asked interviewees where policymakers ought to go from here to increase the role of social value in real estate decision-making. A range of suggestions were put forward.

One fund manager interviewee felt that policymakers needed to work with industry bodies in the real estate sector to improve the way that social value is measured and utilised. The interviewee felt that, as things stand, trade bodies were not setting the agenda on social value:

> *"They have completely failed to be at the forefront of the measurement of environmental and social value."*

A couple of interviewees felt that the burgeoning[42] B Corp movement may be a route to getting more investors to embrace social value and provide a single route to certification that is applicable to a wide range of organisations rather than being overly specific:

> *"It is important to look at B Corporates in this area…"*
>
> *"Policy should promote single routes to certification rather than multiple options… B Corp is something we have looked at… it could be a route to social value. At the moment your options are quite specific – e.g. the Good Economy framework is quite specific to affordable housing… whereas B Corp is something quite general and any sector can have trust in it."*

B Corp certification is conferred by B Lab, a global non-profit organization. In order to achieve certification, a company must, according to B Lab[43]:

- **Demonstrate high social and environmental performance** by achieving a "B Impact Assessment score" of 80 or above and passing B Lab's risk review.
- **Make a legal commitment by changing their corporate governance structure to be accountable to all stakeholders, not just shareholders**, and achieve benefit corporation status if available in their jurisdiction.
- **Exhibit transparency** by allowing information about their performance measured against B Lab's standards to be publicly available on their B Corp profile on B Lab's website.

Others mentioned that the role of local government is likely to be crucial with, for example, more local authority planning departments demanding a social value strategy from developers. For example, Salford City Council now requires a social value strategy to be submitted at the planning application stage for all major developments, with the strategy identifying "how the development will support social inclusion and deliver social value throughout its lifecycle[44]". Similarly, Knowsley Metropolitan Borough Council requests that developers in the Borough prepare and implement a social value strategy in a case where their scheme meets or exceeds a certain threshold, with strategies committing to maximising the employment and training of local people during the construction phase and in the completed development.[45]

One interviewee noted that, to maximise the role local authorities can play here, there needs to be significant investment in skills to allow authorities to hold developers to account:

> *"There are some boroughs we work with that have highly capable social impact teams where we know they will hold us to account. There are other local authorities that do not have the same capabilities in this space. There is a skills agenda piece there for me. I would really welcome more training and learning programmes to grow the skilled workforce in social impact delivery."*

While the role of local government was seen as important among interviewees, it was noted that this perhaps needs to be supported with central government leading a regulatory agenda on social value – for example, through requiring organisations to provide more regular reporting on their social impact:

> *"I think there are two areas that need to be explored [by policymakers]. Firstly, having some more consistent metrics on ESG or a framework we can all use. Secondly, having some regulation to drive that – for example, on reporting.*
>
> *It is like carbon reporting. We have been doing this for years but only started to measure it consistently. At the moment, [social value] is a bit of a Wild West."*
>
> *"When legislation levels the playing field for all, it takes away the economic disadvantage that might be perceived by some … for example, if a developer pays a penalty to hit a social metric they are striving for."*

Conversely, several participants recognised that a one-size-fits-all approach to social value would be inappropriate and unhelpful. As we discussed above, selecting what outcomes to measure is a fundamental aspect of social value and implicit is the idea that this choice will reflect what a business believes to be of value.

One interviewee noted the risk of government intervention creating perverse incentives and undermining efforts to create real social value. This could occur if government pushes a "one size fits all" approach or an approach that amounts to little more than a box-ticking exercise for investors:

> *"My biggest worry when I look at government intervention is the law of unintended consequences… they put something through a system that works for one development or site but not others."*

The role of policy in unlocking social value will be explored in more detail in a subsequent SMF report to be published later in 2022. The depth interviews presented here suggest a wide range of areas worthy of exploration within that report.

ENDNOTES

[1] https://www.smf.co.uk/publications/banking-on-building-back-better/

[2] https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law

[3] https://www.nasdaq.com/articles/esg-assets-in-europe-shrink-after-regulatory-consolidation-efforts-2021-07-21

[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf

[5] Gieryn, T. F (2002). What buildings do. Theory and Society, 31(1), 35–74. https://doi.org/10.1023/A:1014404201290

[6] https://webarchive.nationalarchives.gov.uk/ukgwa/20100407164622/http:/www.cabinetoffice.gov.uk/strategy/seminars/public_value.aspx

[7] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/940827/Guide-to-using-the-Social-Value-Model-Edn-1.1-3-Dec-20.pdf

[8] https://www.socialenterprise.org.uk/wp-content/uploads/2019/05/Our_Money__our_Future-1.pdf

[9] UK Green Buildings Council (2021). Framework for Defining Social Value. https://www.ukgbc.org/ukgbc-work/framework-for-defining-social-value/

[10] https://sdgs.un.org/goals

[11] https://sdgs.un.org/goals

[12] UK Green Buildings Council (2021). Framework for Defining Social Value. https://www.ukgbc.org/ukgbc-work/framework-for-defining-social-value/

[13] https://ssir.org/articles/entry/measuring_social_value#

[14] Fujiwara, D. (2015). The Seven Principle Problems of SROI. https://socialvalueuk.org/wp-content/uploads/2016/03/The%20Seven%20Principle%20Problems%20with%20SROI_Daniel%20Fujiwara.pdf

[15] RICS. (2020). Measuring social value in infrastructure projects: insights from the public sector. https://www.rics.org/globalassets/rics-website/media/knowledge/research/insights/measuring-social-value_1st-edition.pdf ; UK Green Buildings Council. (2020).

[16] Watson, K. J., Evans, J., Karvonen, A., & Whitley, T. (2016). Capturing the social value of buildings: The promise of Social Return on Investment (SROI). Building and Environment, 103, 289–301. https://doi.org/10.1016/j.buildenv.2016.04.007

[17] *Delivering social value: measurement*. https://www.ukgbc.org/ukgbc-work/delivering-social-value-measurement/

[18] https://hact.org.uk/tools-and-services/uk-social-value-bank/

[19] RICS. (2020). Measuring social value in infrastructure projects: insights from the public sector. https://www.rics.org/globalassets/rics-website/media/knowledge/research/insights/measuring-social-value_1st-edition.pdf

[20] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938046/The_Green_Book_2020.pdf

[21] UK Green Buildings Council. (2020). *Delivering social value: measurement.* https://www.ukgbc.org/ukgbc-work/delivering-social-value-measurement/

[22] UK Green Buildings Council. (2020). *Delivering social value: measurement.* https://www.ukgbc.org/ukgbc-work/delivering-social-value-measurement/

[23] https://www.bloomberg.com/news/articles/2020-04-09/-social-washing-is-becoming-growing-headache-for-esg-investors

[24] Barman, E. (2016). *Caring Capitalism: The Meaning and Measure of Social Value*. Cambridge University Press. https://doi.org/10.1017/CBO9781316104590

[25] Urban Land Institute. (2021). *Zooming in on the "S" in ESG: A road map for social value in real estate.* https://www.estabona.com/wp-content/uploads/2021/05/ULI-Zooming-in-on-the-S-in-ESG-report.pdf

[26] Bengo, I., Borrello, A., & Chiodo, V. (2021). Preserving the Integrity of Social Impact Investing: Towards a Distinctive Implementation Strategy. Sustainability, 13(5), 2852. https://doi.org/10.3390/su13052852

[27] Jackson, C., & Orr, A. (2018). Changing priorities in investor decision-making: the sustainability agenda. RICS Research Trust. https://www.propertyresearchtrust.org/uploads/1/3/4/8/134819607/_495__changing-priorities-in-investor-decision-making-rics_1.pdf

[28] Jackson, C., & Orr, A. (2018). Changing priorities in investor decision-making: the sustainability agenda. RICS Research Trust. https://www.propertyresearchtrust.org/uploads/1/3/4/8/134819607/_495__changing-priorities-in-investor-decision-making-rics_1.pdf

[29] https://www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources

[30] https://www.newcorecapital.com/

[31] https://www.bcorporation.net/en-us/certification

[32] https://www.propertyweek.com/news/newcore-capital-management-becomes-b-corporation/5110034.article

[33] https://www2.deloitte.com/content/dam/Deloitte/ie/Documents/Audit/IE_SustainableFinanceDisclosureReg_Article9.pdf

[34] https://www.gallup.com/workplace/336275/things-gen-millennials-expect-workplace.aspx

[35] https://www.tinypulse.com/hubfs/2018%20Employee%20Retention%20Report.pdf

[36] https://www.abrdn.com/en-gb/institutional/insights-thinking-aloud/article-page/forces-for-change-dialling-up

[37] Sustainability | Urban&Civic (urbanandcivic.com)

[38] UK Green Buildings Council (2021). Framework for Defining Social Value. https://www.ukgbc.org/ukgbc-work/framework-for-defining-social-value/

[39] https://thegoodeconomy.co.uk/resources/reports/Towards-an-approach-to-impact-reporting-for-investments-in-social-and-affordable-housing.pdf

[40] https://thegoodeconomy.co.uk/resources/reports/Towards-an-approach-to-impact-reporting-for-investments-in-social-and-affordable-housing.pdf

[41] http://cbre.vo.llnwd.net/grgservices/secure/Master%20Developer%20FINAL.pdf?e=1644400944&h=1ed9a7f4d8d75f2396b7d77a072e353b

[42] https://www.pwc.co.uk/industries/retail-consumer/insights/b-corporations-in-2020.html

[43] Ibid

[44] https://www.salford.gov.uk/planning-building-and-regeneration/planning-policies/local-planning-policy/salfords-development-plan/salford-local-plan/publication-local-plan-chapters/4-a-fairer-salford/

[45] https://www.ukgbc.org/wp-content/uploads/2019/03/UKGBC-Driving-social-value-in-new-development-Options-for-local-authorities-1.pdf