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THE VALUE OF COMMUNITY IMPACT IN SOCIAL INFRASTRUCTURE

From the UN's Sustainable Development Goals (SDGs) to an intentional approach

How can private investors have a positive impact on communities through investing in social infrastructure? This comment builds on previous research to examine the social and community value of the asset class and the importance of an intentional approach to enhancing related impacts alongside financial returns. Franklin Real Asset Advisors' (FRAA) work in this area is supported by the consulting firm Tideline.[1]

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Private investment in social infrastructure is not new, but focusing on the impact of these investments provides new opportunities to create value *(see the sidebar on page 3)*. While the connection between environmental impact and real estate is clear and significant, the potential for creating social and community value is more complex. Continued efforts to achieve greater clarity on the ways in which social infrastructure creates social and community value will enable investors to monitor, manage, and enhance impact in ways that deliver financial performance.

The link between real estate and environmental impact is clear and well understood. Real estate has a large environmental footprint, accounting for 40% of global energy use, 20% of global greenhouse gas emissions and 30% of total waste generated in the EU.[2] Incorporating objectives like energy efficiency, sustainable waste management, and reducing carbon emissions into real estate development and management is critical to improving the long-term health of the environment and the financial performance of the asset.

However, while the connection to environmental impact is clear, the opportunity for social infrastructure investments to improve community wellbeing is more context-specific and sometimes less clearly defined. A deeper appreciation of the nature and degree of community and social impact from social infrastructure – **as well as how investors can ensure and drive that impact** – merits a closer examination.

Articulating the community value of social infrastructure

The United Nations' Sustainable Development Goals (SDGs) is a common framework used by investors to articulate the social and environmental impact of their investments. Franklin Real Assets Advisors' approach to social infrastructure

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investing contributes to six of the SDGs: good health and well-being, quality education, decent work and economic growth, sustainable cities and communities, climate action and life on land. The table on page 2 (Exhibit 1) captures some of the key social and environmental performance indicators we track in alignment with these SDGs.

1. Tideline is a consulting firm that provides tailored advice to clients developing impact investment strategies, products, and solutions.
2. World Economic Forum, "Environmental Sustainability Principles for the Real Estate Industry", January 2016

Aligning investments with the SDGs is an important objective in its own right and an effective way of articulating impact at a high level. However, understanding the effects of investments on particular communities requires a deeper analysis of the impact achieved. In our view there are five dimensions that underlie the social impact of the asset class.

- To begin with, an asset's social and community value must be considered in the context of the surrounding area and residents. The **degree to which an asset meets a need in the community**, especially for underserved populations, indicates how essential an asset is and can be for the community's wellbeing.
- Beyond meeting an identified need, it matters **how well the asset performs in serving its community purpose**. The quality and quantity of benefits provided help to clarify the expected reach and depth of an asset's impact – or what could be possible with improvements. Impact is not just about the number of classrooms or housing units available, for example. It is about students having access to high-quality facilities that enable them to succeed and building homes that are affordable and desirable. To move beyond the outputs of investments towards a holistic assessment of impact, investors and companies are making increasing use of the five impact dimensions developed by the Impact Management Project – What, Who, How Much, Contribution and Risk – to articulate their impacts.[1]
- The **physical accessibility of an asset** makes it possible for the benefits provided to be broad and inclusive. Accessibility is determined by a number of potential factors, including the asset's proximity to users and public transit, the diversity of transportation options available (e.g., walkability, bike paths, parking, etc.), and the suitability for the elderly and disabled. The High-Level Task Force on Investing in Social Infrastructure in Europe identified accessibility of social infrastructure as a precondition for catalyzing wellbeing, promoting inclusive growth, and empowering communities in the EU.[2]
- Another element of the community impact of social infrastructure is its **effects on economies and employment**. This occurs most directly through maintaining or generating employment at tenant or property management businesses–particularly high-quality, permanent jobs–but may also result from the broader picture of contractors and suppliers supported, or workers employed through renovations or construction. According to the McKinsey Global Institute, infrastructure investment generally boosts overall economic productivity in the long run and creates jobs in the short term.[3]
- Finally, there is the possibility of **programs and partnerships** that increase the social value of the asset through community engagement or alternative uses. These opportunities are varied and numerous, but could include any effort that can complement or enhance an asset's core functions. Examples might include a police station that

Exhibit 1. Sustainable Development Goals and KPIs of Focus

Community	3 GOOD HEALTH AND WELL-BEING	• Individuals provided new or improved access • Number and type of patient visits • Caregivers employed or trained
	4 QUALITY EDUCATION	• Individuals provided new or improved access • Students per classroom • Classroom space developed or enhanced
	8 DECENT WORK AND ECONOMIC GROWTH	• Community programs offered or supported • Community-level socioeconomic characteristics • Permanent employees supported
	11 SUSTAINABLE CITIES AND COMMUNITIES	• Facilities re-use / space redeveloped • Energy efficiency improvements • Housing constructed or improved
Environment	13 CLIMATE ACTION	• Greenhouse gas emission reductions • Waste reductions • Water conservation practices
	15 LIFE ON LAND	• Land sustainably managed • Biodiversity practices enhanced • Green space developed or improved

Source: United Nations Sustainable Developments Goals, and Franklin Templeton Investment. For illustrative and discussion purposes only.

1. Impact Management Project: How Enterprises Manage Impact. https://impactmanagementproject.com/impact-management/how-enterprises-manage-impact/, accessed November 2018
2. European Commission, "Boosting Investment in Social Infrastructure in Europe", January 2018
3. McKinsey Global Institute & McKinsey Infrastructure Practice, "Infrastructure Productivity: How to Save $1 Trillion a Year", January 2013

organizes neighbourhood watch groups or a school that partners with a business for career development opportunities, among many other possibilities. Engaging the community in the planning process helps asset owners understand community needs and user expectations to better align the built environment with business and community outcomes.[1]

Taken together, these dimensions highlight that assessing social and community value in social infrastructure is a multifaceted exercise with a set of interrelated considerations. For institutional investors looking at this space, a clear appreciation of the nature of community value is an important first step. The question then becomes what role can be played in bringing about the prospective positive impacts on offer.

How investors can preserve and drive community impact

As an example, Franklin Real Asset Advisors' approach is explicit in its dual intentions: generating attractive risk-adjusted returns and social and environmental impact. Impact is not incidental to the asset, but rather a core component of the investment strategy to be monitored and managed. In practice, this has involved focusing on the key dimensions of social and environmental value described above and determining how, for each and every investment, the firm's knowledge, networks and resources can help preserve and enhance impact while aiming to outperform the market financially.

In practice, **a social infrastructure strategy can deliver social benefits by either *preserving* or *enhancing* an asset's community value**.

When real assets are acquired that already serve a community purpose, our focus is on helping to ensure those benefits continue to be provided to the surrounding community. In this case, we are leveraging our resources and knowledge as investors to identify valuable community facilities, partner with tenants to improve practices where possible, and measure and monitor impact to create accountability and transparency, such that the impact is preserved.

In other instances, properties are being converted, developed or improved, and investors can take a more active role in enhancing impact by conferring new, additional or higher-quality benefits to the community. This approach benefits from first understanding the community's needs for social infrastructure and examining whether resources could be improved to better meet the needs of the various stakeholders.

Financial benefits of investing to drive community impact

Preserving or enhancing the community value of an asset does not need to come at the expense of financial return. In fact, there is a growing body of research suggesting that managing the social impact of an investment can align with and drive increases in financial value. According to a report from Cambridge Associates analysing the returns of 20 impact-focused real estate funds compared to a group of traditional real estate funds, a larger proportion of the impact funds by count generated returns in excess of 15%, although the top return for the traditional funds was higher than the top return for the impact funds.[2] **At Franklin Real Asset Advisors, we believe in a virtuous cycle, with investments in social infrastructure benefiting communities, and stronger communities improving the long-term financial value of our assets.**

Social infrastructure offers real asset investors the opportunity to contribute to the SDGs and to make a positive social and environmental impact, in addition to achieving a financial return. As private investment in social infrastructure increases, there will be more examples of the ways in which these investments create financial and community value, informing investors on how to manage impact in performance-enhancing ways.

The opportunity in social infrastructure

Underpinning our economies and communities are buildings and services with a civic and social purpose. At Franklin Real Asset Advisors, we define this social infrastructure as the physical assets that enable delivery of social services in a community, including healthcare and education facilities, social and affordable housing, and buildings related to justice, emergency, and civic services.

While social infrastructure is crucial to the health and vibrancy of communities, the asset class has suffered from underinvestment in the past decade. According to a report from the High-Level Task Force on Investing in Social Infrastructure in Europe, the annual investment gap in social infrastructure is estimated to be a minimum of EUR 142 billion.[3]

Public investment alone is not sufficient to fill this gap, and social infrastructure has emerged as an important, institutional-scale opportunity for private investors to align their portfolios with societal benefits and achieve competitive financial performance. Social infrastructure investments typically offer predictable, steady returns and tend to be relatively less exposed to market and systemic risks. In addition to financial benefits we've covered in previous publications[4], there is an opportunity to achieve social and environmental impact through investments in social infrastructure.

1. Gensler Research, "The Value of Community Engagement: Aligning Business, Community, and Design Processes for Maximum Impact", 2016
2. Cambridge Associates, "The Financial Performance of Real Assets Impact Investments: Introducing the Timber, Real Estate, and Infrastructure Impact Benchmarks", May 2017
3. European Commission, "Boosting Investment in Social Infrastructure in Europe", January 2018
4. Franklin Real Asset Advisors, "Social Infrastructure in Europe: Private Investment Opportunities", February 2018.

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