

Five lessons over five years of social impact investing in affordable housing

MARCH 2025

ANN XU

Portfolio & Impact Manager,
CBRE UK Affordable Housing Fund
E: ann.xu@cbreim.com

Social impact investing has made significant strides over the last five years, generating measurable social and environmental benefits alongside risk-adjusted financial returns. As an early pioneer in affordable housing impact investing, we see this sector as key to addressing the UK's housing crisis and fostering inclusive communities.

Five years ago, we created a proprietary social impact framework to guide the CBRE UK Affordable Housing Fund (AHF). The Fund delivers sustainable, high quality and affordable homes for people unable to rent or buy on the open market in the UK. Launched in 2018, AHF has emerged as a pioneering unlisted fund targeting institutional capital for affordable housing impact investing, becoming a leading voice in social impact real estate.

Our impact framework revolves around five core pillars and bespoke performance metrics. These elements are integrated into our investment process to achieve both social impact and risk-adjusted returns for investors. As the framework evolves, so does our expertise. This article explores five lessons that have shaped our approach over the past five years.

Fiduciary Duty: balancing the twin priorities of financial returns and social impact

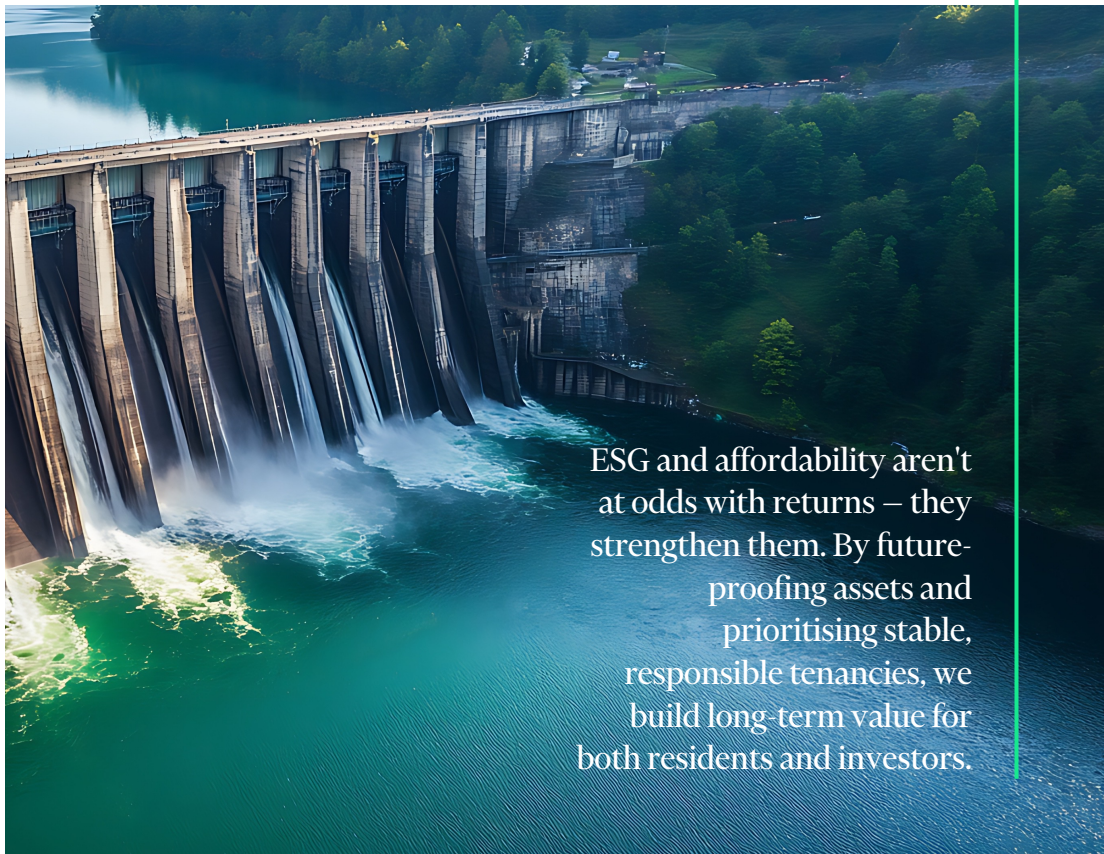
Harmonising societal and financial objectives is at the heart of social impact investing. The Fund's mission is to provide sustainable and truly affordable housing across the UK, allowing institutional investors to achieve their impact goals and an attractive risk-adjusted return. Duality of both these objectives is fundamental – impact investing is distinctly not philanthropy, and the Fund must deliver on its fiduciary duty to its investors.

Impact investing balances social good with financial returns. Integrating ESG safeguards assets, boosts performance, and creates shared value.



We see these dual objectives as complementary. Prioritising Environmental, Social and Governance (ESG) considerations, such as decarbonisation and heating system upgrades, not only benefits our residents but also enhances financial performance (while safeguarding the environment). These considerations are viewed as a form of risk, such as obsolescence, regulatory changes, income stability challenges, and future capital expenditures. Mitigating these risks future-proofs our assets and valuations which over time helps improve overall financial performance.

Our commitment to the affordability impact pillar ensures our housing remains affordable and sustainable by setting rents below market rates and capping them relative to local incomes. While this may appear as a performance sacrifice, it enhances financial resilience by reducing tenant turnover, arrears, and vacancies, thus fostering stable income streams beneficial to investors.



ESG and affordability aren't at odds with returns – they strengthen them. By future-proofing assets and prioritising stable, responsible tenancies, we build long-term value for both residents and investors.

Clear Impact Methodology: an evolving framework supported by continuous investor communication and greater data collection

The impact methodology serves as a roadmap, defining end goals, key themes, and measurable social and environmental benefits. Initially theoretical and untested, this framework becomes operational only with acquisitions and subsequently a portfolio of stabilised assets. Over five years, we have refined and improved our approach, recognising that impact investing demands continual evolution.

Impact investing
demands continual
evolution.



Partnering with The Good Economy (TGE), an independent impact advisory firm ensures transparency and accountability. TGE conducts an annual independent assessment of our portfolio, highlighting strengths and weaknesses. Together, we host annual impact framework discussions with investors, responding to TGE's feedback to enhance our impact approach. This collaboration has led to new portfolio targets, tighter investment parameters, and more detailed performance metrics. For example, to meet our affordability objective, we committed to setting rents relative to local net median incomes where not stipulated by local authorities, shifting towards a more people-centred approach.

Impact reporting differs from typical quantitative fund metrics like internal rates of return and yields. It blends qualitative and quantitative methods to assess impact, focusing on who is affected, the magnitude of impact, associated risks, and our contribution. This requires different data sets and processes, involving close collaboration with our Registered Provider (RP) partners who conduct tenant satisfaction surveys, including real-time app-based feedback, to capture emerging issues and track sustainability through energy consumption meter readings and service quality through rent collection and response times to queries. All data collected is reported to the Fund, illuminating the human side of our strategy.

We're committed to setting rents relative to local net median incomes where not stipulated by local authorities, shifting towards a more people-centred approach.





Alignment: shared values across partners, investors, and external stakeholders

We have learned that shared values with all our stakeholders are essential to social impact investing success. Across our partners (e.g., RPs and operational managers), external stakeholders (e.g., TGE), and investors, we have shared our aspirations to: solve the UK's housing crisis, deliver quality housing at affordable rents, build lasting communities, and safeguard the environment. Our success is interdependent.

We select partners who prioritise the well-being of residents and quality service delivery. For example, Pinnacle Spaces, our primary RP in London, manages our affordable housing and undertakes rent collection, maintenance, and tenant engagement. In the words of Kate Donovan from Pinnacle Group: "Residents want good quality accommodation, affordable rents, and a landlord that listens and responds. They also want to feel part of the community and be able to contact a person they know if problems arise. If these needs are met, they will be satisfied tenants."

Our investors are committed to resolving the UK housing crisis by delivering affordable, high-quality housing. Many investors focus on local impact and the "levelling up" agenda, which aligns closely with our social need pillars. Investors are engaged and holding us accountable for our shared objectives. Our partnership with TGE is also collaborative; we evolve our impact approach together and they serve as an external sounding board, stress-testing our impact measurement procedures and proposing alternative approaches. TGE's feedback on our performance is shared with investors, ensuring accountability and continuous improvement.

Tenant Experience: tenure-blind approach

Tenant experience is a cornerstone of our social impact investing strategy guided by our “tenure-blind” approach which ensures equal, high-quality service to all residents. We treat our tenants as residents and customers, and all receive the same service.

During residents' onboarding, RPs capture testimonials that reflect the impact of our housing on their lives. Many testimonials are emotional and express deep gratitude for the quality and security our homes provide. “For many residents, securing a new-build apartment is like winning the lottery because many have been on waiting lists for years,” says Kate Donovan from Pinnacle Group

The human stories underscore the tangible outcomes of our strategy, which include seeking to improve resident well-being and increase disposable income. Site visits and interviews with RPs and residents consistently reveal strong preferences for our housing over alternatives. Our homes are also significantly more affordable—on average, 22% cheaper than market alternatives—resulting in higher disposable income for our residents.

Equal service, real impact: We treat all residents with dignity, offering quality homes that are on average 22% more affordable – bringing stability, choice, and hope to those who need it most.



Raising standards through an institutional approach

As an institutional investor, we leverage our influence to raise standards and drive improvements in affordable housing development. Our negotiation power and scale enable us to advocate for higher specifications comparable to private housing standards, including better heating systems, energy efficiency, insulation, provision of white goods, amenities, and security measures.

We proactively set higher standards and reject proposals that compromise quality. Our aim is to inspire other investors and developers to adopt similar approaches, fostering knowledge-sharing and best practices across the industry. This collaborative effort creates a positive ripple effect and additionality, ultimately enhancing the overall quality of affordable housing. By driving improvements and setting benchmarks, we contribute to creating housing solutions that would not otherwise exist.

By driving improvements and setting benchmarks, we contribute to creating housing solutions that would not otherwise exist.



Conclusion

Our five-year social impact journey in affordable housing has taught us invaluable lessons. The themes across our five lessons are intertwined, reinforce one another, and evidence our evolving impact approach. By embracing continuous learning, prioritising measurable impact, and fostering stakeholder alignment, we can unlock the true potential of this field. This isn't just about building homes; it's about building a future where financial gain and social impact go hand in hand. As an institutional investor, we have the opportunity to raise standards in the market and contribute to positive outcomes for people, places, and the planet – aspirations worth striving for.



Contact

Ann Xu

Portfolio & Impact Manager,
CBRE UK Affordable Housing Fund
E: ann.xu@cbreim.com

Disclaimer

This presentation (the “**Presentation**”) is being furnished on a confidential basis to a limited number of accredited investors on a one-on-one basis for informational and discussion purposes only and does not constitute an offer to sell or a solicitation of an offer to purchase any security. Any such offer or solicitation shall be made only pursuant to a confidential placement memorandum (as amended or supplemented from time to time, the “**Memorandum**”), which describes risks related to investments in the Fund as well as other important information about the Fund and its sponsor. The information set forth herein does not purport to be complete and is subject to change.

The information contained herein is given as of the date of this Presentation and must be treated in a confidential manner and may not be reproduced, used or disclosed, in whole or in part, without the prior written consent of CBRE Investment Management.

Past or projected performance is not necessarily indicative of future results. There can be no assurance that the Fund will achieve comparable results, that targeted returns, diversification or asset allocations will be met or that the Fund will be able to implement its investment strategy and investment approach or achieve its investment objective. Actual returns on unrealized investments will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, legal and contractual restrictions on transfers that may limit liquidity, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the valuations used in the prior performance data contained herein are based. Accordingly, actual returns may differ materially from the returns indicated herein.

Assets under Management (AUM) refers to the fair market value of real estate-related assets with respect to which CBRE Investment Management provides, on a global basis, oversight, investment management services and other advice, and which generally consist of investments in real estate; equity in funds and joint ventures; securities portfolios; operating companies and real estate related loans. AUM is intended principally to reflect the extent of CBRE Investment Management's presence in the global real estate market, and its calculation of AUM may differ from the calculations of other asset managers.

All target or projected gross internal rates of return (IRRs) do not reflect any management fees, incentive distributions, taxes, transaction costs, or other expenses to be borne by certain and/or all investors, which will reduce returns. Gross IRR or Gross Return shall mean an aggregate, compound, annual, gross IRR on investments. Net IRR or Net Returns are shown after deducting fees, expenses and incentive distributions.

Statements contained in this Presentation that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of the Fund's sponsor. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. Additionally, this Presentation contains forward-looking statements. Actual events or results or the actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements.

Certain economic and market information contained herein has been obtained from published sources prepared by third parties and in certain cases has not been updated through the date hereof. Neither CBRE Investment Management, the Fund, its general partner nor its respective affiliates nor any of its respective employees or agents assume any responsibility for the accuracy or completeness of such information.

Target returns are derived from analysis based upon both quantitative and qualitative factors, including market experience and historical and expected averages related to the risk/return profile and criteria for investments (i.e. the Investment Targets) of the Fund. The Investment Targets are based on the expected cumulative internal rates of return generated by the expected investments across a multi-year period. After synthesizing this information, the respective general partner has arrived at what it believes are realistic target returns for respective the Fund. The Fund's target returns are presented to establish a benchmark for future evaluation of performance, to provide a measure to assist in assessing the anticipated risk and reward characteristics of an investment in the Fund and to facilitate comparisons with other investments. Any target data or other forecasts contained herein are based upon subjective estimates and assumptions about circumstances and events that may not yet have taken place and may never do so. If any of the assumptions used do not prove to be true, results may vary substantially. Actual individual investment performance may not achieve the Investment Targets upon realization/liquidation as initially expected, which may have a material effect on overall realized portfolio performance over the life of the Fund and the ability to achieve targets. The ability to achieve a given Investment Target may be affected by numerous factors, including, but not limited to, investment values, cash flow, environmental and structural factors, ratings and market conditions. Many factors affect performance, including changes in market conditions and interest rates and changes in response to other economic, political or financial developments. The target returns are pre-tax and represent possible returns that may be achieved, but are in no way guaranteed. The target returns are subject to change at any time and are current as of the date hereof only. In any given year, there may be significant variation from these targets, and there is no guarantee that the Fund will be able to achieve the Investment Targets in the long term. The Investment Targets are being shown for information purposes only and should not be relied upon to make predictions of actual future performance. Targets are objectives and should not be construed as providing any assurance as to the results that may be realized by the Fund in the future.

CBRE Investment Management has not made any representation or warranty, express or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of any of the information contained herein (including but not limited to information obtained from third parties) and it expressly disclaims any responsibility or liability therefore. CBRE Investment Management does not have any responsibility to update or correct any of the information provided in this Presentation.

Prior to investing in the Fund, prospective investors should consult with their own investment, accounting, regulatory, tax and other advisors as to the consequences of an investment in the Fund.

Issued by CBRE Investment Management (UK Funds) Limited, which is authorised and regulated by the FCA in the United Kingdom.

