RMIT UNIVERSITY

The "S" in ESG

Achieving social impact through rental housing investment

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What's next...

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1 Executive Summary

Rental housing is increasingly valued by institutional investors seeking investments in alternative asset classes that offer stable diversified income streams. For many of these investors, the environmental, social and governance (ESG) credentials of rental housing assets have become more central to their investment analysis and decision-making processes. For some of these investors, ESG considerations are now ‘as central to credit process as a [investee] company’s balance sheet or profit and loss profile’ (ESG Social Housing Working Group, 2020: 3). Rental housing investment is not unique in this regard, with ESG considerations increasingly factored into investment analysis and investment decision-making across diverse asset classes.

Responsible investment provides an umbrella term for the multiple investment approaches investors may use to consider ESG factors in their investment practices. ESG integration, which is the most common responsible investment strategy (GSIA 2020: 5), is typically defined as an investment strategy and practice that incorporates ESG considerations into investment analysis and decision-making by considering future-orientated and financially-material risks and opportunities ESG factors pose to the investment. Despite various challenges surrounding ESG integration, much hope is placed in its power to effect positive change amid dire climate predictions, the COVID-19 pandemic, and myriad social struggles. Chief among those expectations is assistance with the achievement of the UN *Sustainable Development Goals* (GIIN 2022a), which include a right to adequate, affordable and secure homes.

Since 2010, ESG-orientated investment practices have gathered momentum globally and the value of ESG assets under management has grown. The *Global Sustainable Investment Alliance*’s 2020 report shows responsible investment assets under management in the five major markets (Europe, the US, Japan, Canada and Australia/NZ) has reached US$35.3 trillion, growing some 15% in two years, and now equates to some 36% of all assets under professional management (GSIA 2020: 5). In Australasia, responsible investment assets have grown by 25% over the same period, and now account for some 38% of assets under management (GSIA 2020: 5). This momentum has been driven in part by a raft of new legislation, taxonomies, and certification frameworks, including the European Union’s *Shareholder Rights Directive II* which requires investors to be active asset owners and to act with a more long-term focus.

However, with the traditional focus on environmental and governance considerations, the “S” in ESG has largely been ignored. Nevertheless, investees and investors increasingly recognise social factors as relevant to business and investment perspectives. Broadly speaking, the “S” in ESG refers to factors that affect the lives of humans. For investors, a focus on social factors calls for an assessment of the material impacts of social megatrends, from globalisation and inequality to digital disruption, on the businesses or assets they invest in. It also calls for an assessment of the potential social impact of environmental megatrends, including climate change, transition risks and mass migration. It requires consideration of social factors ‘internal’ to that business or asset, such as working conditions and health and safety. It also requires consideration of factors ‘external’ to that business or asset, such as problematic supply chains or local opposition. With regards to real estate assets, commonly cited factors include employment standards and health and safety throughout their supply chain; accessibility and inclusivity; First Nation rights; and stakeholder opposition. With regards to housing assets, other factors commonly cited include the delivery of diverse and affordable housing options and tenant satisfaction. In practice, investors may face distinct challenges in factoring social factors into their investment decision-making, including because relevant social factors may be hard to identify, monitor and measure.

Moreover, with the rise of ESG investing, key questions surround ESG governance and ESG investment impact. A headline criticism of ESG innovation is that it represents foremost a tool for managing and mitigating risk to investors, rather than a tool for ensuring the impact of investments through environmental, social and governance considerations. Some argue outcomes of ESG-orientated investments are exaggerated, including because purported evidence does not adequately account for the additionality of ESG-orientated investments above and beyond those that would have been otherwise delivered. Some go further, arguing ESG innovation can fail to ‘do good’, with its legitimacy called into question by charges of greenwashing and social washing. Worse, some assert ESG-orientated investment may provide cover for investments with negative impacts and also reinforce hegemonic perspectives that harnessing private finance is the best—or indeed only—solution to deliver beneficial impact.

This scoping report narrows its focus to responsible investments in real estate and responds directly to the lack of understanding surrounding how operationalising “S”-components of ESG integration frameworks, tools and metrics in housing investments might deliver better outcomes. This report examines ESG integration among private equity firms and other institutional investors, such as pension funds (hereafter: institutional investors) who are investing in Australian rental housing. A focus on institutional investment is apt since institutional investors dominate the financial markets and asset owners with long term liabilities, such as pension funds, are in theory well aligned to recognise, pursue, and benefit from long-termism investment practices associated with good ESG governance. A focus of these institutional investors is timely given that institutional investment in rental housing is growing in many corners of the globe, and in Australia inflows of institutional investment are stimulating an emergent Build to Rent (BTR) market amid a national housing crisis in which growing numbers of renters face escalating rents and insecure, short leases on often low quality, poorly maintained properties. Build to rent’s (BTR) proponents claim that BTR professionalises rental housing, provides secure and high-quality housing, and creates more liveable communities. Those promises position BTR as a potentially compelling conduit for achieving social outcomes through rental housing investment.

A first aim of this report is to provide timely insights into emergent “S” in ESG thinking and practices among rental sector stakeholders. A second aim is to establish some important avenues for future research at the nexus of ESG investing and rental housing development and operation. This report provides insights informed by engagement with rental sector stakeholders during Q3 and Q4 2022, including ten 60-minute semi-structured interviews and an industry stakeholder workshop. This report focuses on Australian actors, governance, and practices, but many of its insights are relevant for housing systems in other market-led economies.

This report answers three foundational questions: (1) How do rental investment stakeholders understand the “S” in ESG?; (2) Which ESG frameworks do rental investment stakeholders use and why?; and (3) What challenges surround the use of ESG frameworks and metrics? In responding to these questions, this report corroborates the finance industry’s considerable involvement how the social performance of rental investments is governed. It corroborates that their role includes helping produce, legitimate, and propagate ESG frameworks and tools to rate and rank their investments. It further corroborates that the influences on ESG investing strategies and practices include international conventions and best practice codes, regulatory requirements, business commitments, shareholder interests and action, and tenant requests for information.

This report also delineates key directions for future research and debate at the intersection of ESG investing and rental housing, including: (1) the mobilisation and role of expert knowledge in social factor considerations; (2) the politics, practices, and impacts of governance *through* ESG frameworks; and (3) business models for social impact.

We must recognise that what appropriate social impact is – how its defined, measured, audited and resourced – is still an open debate. For many stakeholders, “S” considerations are a new concern, and one that often has clearer application (from their vantage point) to their organisational practices and staff than to the people and communities living within and around their investments. Our assertion is that we need informed national debate about about the kinds of social value we might secure through institutional investment in rental housing, what the governance of this investment should look like, and how this might best be achieved. This calls for further scrutiny of the governance of ESG investing, including the production of tools and associated investment practices, and exploration of untapped opportunities to create non-financial value through rental housing investments. Amid the groundswell of buy-in for ESG and long-overdue interest in “S” factors, basic empirical work is needed to provide critical accounts of the governance of the social performance of housing investments and to develop a more robust shared language and terms of reference.

This report was produced as part of a five-month project funded by RMIT’s *Enabling Capability Platform Strategic Capability Deployment Fund 2022*. Its focus was informed by lead author Dr Megan Nethercote’s Australian Research Council DECRA project on Build to Rent (BTR) which explores institutional investment in rental housing.

2 Introduction

“The “S” is social, isn't it? Yeah, Environmental – Social – Governance. You know what it's like: you hear these acronyms all the time, you think you kind of know them, and then you have to actually sit back and think…” (GRC02)

Everyone has a right to an adequate, affordable, and secure home, as the United Nations *Sustainable Development Goals* endorse. Yet these goals remain unrealised. Instead, we face a deepening national housing crisis in which growing numbers of renters face escalating rents and insecure, short leases on often low quality, poorly maintained properties. At the same time, rental housing is increasingly valued by institutional investors seeking investments in alternative asset classes that offer stable diversified income streams. For many of these investors, the environmental, social and governance credentials of rental housing assets have become more central to their investment decision-making and, for some major investors at least, these considerations are now ‘as central to credit process as a [investee] company’s balance sheet or profit and loss profile’ (ESG Social Housing Working Group, 2020: 3).

Responsible investment provides an umbrella term for the multiple investment approaches investors may use to consider ESG factors in their investment practices. ESG integration, which is the most common responsible investment strategy (GSIA 2020: 5), is typically defined as an investment strategy and practice that incorporates ESG considerations into investment analysis and decision-making by considering future-orientated and financially-material risks and opportunities ESG factors pose to the investment. Despite various challenges surrounding ESG integration, much hope is placed in its power to effect positive change amid dire climate predictions, the COVID-19 pandemic, and myriad social struggles. Chief among those expectations is assistance with the achievement of the UN *Sustainable Development Goals* (GIIN 2022a), which include a right to adequate, affordable and secure homes.

Since 2010, ESG-orientated investment practices have gathered momentum globally and the value of ESG assets under management has grown. The *Global Sustainable Investment Alliance*’s 2020 report shows responsible investment assets under management in the five major markets (Europe, the US, Japan, Canada and Australia/NZ) has reached US$35.3 trillion, growing some 15% in two years, and now equates to some 36% of all assets under professional management (GSIA 2020: 5). In Australasia, responsible investment assets have grown by 25% over the same period, and now account for some 38% of assets under management (GSIA 2020: 5). by a raft of new legislation, taxonomies, and certification frameworks, including the European Union’s *Shareholder Rights Directive II* which requires investors to be active asset owners and to act with a more long-term focus.

However, with the focus traditionally on environmental and governance considerations, the “S” in ESG has largely been ignored. Nevertheless, investees and investors increasingly recognise social factors as relevant to business and investment perspectives. Broadly speaking, the “S” in ESG refers to factors that affect the lives of humans. For investors, a focus on social factors calls for an assessment of the material impacts of social megatrends, from globalisation and inequality to digital disruption, on the businesses or assets they invest in. It also calls for an assessment of the potential social impact of environmental megatrends, including climate change, transition risks and mass migration. It requires consideration of social factors ‘internal’ to that business or asset, such as working conditions and health and safety. It also requires consideration of factors ‘external’ to that business or asset, such as problematic supply chains or local opposition. With regards to real estate assets, commonly cited factors include employment standards and health and safety throughout their supply chain; accessibility and inclusivity; First Nation rights; and stakeholder opposition. With regards to housing assets, other factors commonly cited include the delivery of diverse and affordable housing options and tenant satisfaction. In practice, investors may face distinct challenges in factoring social factors into their investment decision-making, including because relevant social factors may be hard to identify, monitor and measure.

With the formalisation and mainstreaming of ESG investing, key questions surround ESG governance and its outcomes. Real estate investors face benefits and challenges with ESG integration. Much like investors in other asset classes, real estate investors face established challenges such as inconsistent approaches and misalignment of ESG data and performance standards. Institutional investors may also have relatively longer-term investment horizons and may enjoy majority or full ownership of their real estate assets. This may

increase these investors’ motivation to pursue ESG integration and give them more control over how ESG factors are defined, applied, and reported. Real estate assets also have a distinct spatial fixity and relative durability, making them especially sensitive to local conditions (e.g. climate; resourcing, etc) and to local communities, including those communities’ needs and expectations. Critically, it remains unclear the extent to which operationalising “S” components of ESG frameworks, tools and metrics in rental housing investment might deliver better outcomes. Recognising that many key questions remain unanswered, this report queries:

How are “S” components in ESG frameworks, tools and metrics operationalised through institutional investments into Australian rental housing and how might associated governance arrangements help deliver social benefits?

This report aims to provide timely insights into emergent “S” in ESG thinking and practices among rental sector stakeholders and identify important avenues for future research at the nexus of ESG governance and rental housing investment. ESG governance as used here refers to the systems of oversight and decision-making that shape how ESG is factored into capital deployment. ESG governance involves multiple stakeholders including governments, investee companies, investors, and communities, each with differing influence over and power in governance processes.

This report responds directly to the lack of understanding about how operationalising “S”-components of ESG integration frameworks, tools and metrics in rental housing investments might deliver better outcomes. This report focuses on responsible investments in real estate and specifically ESG integration within rental housing investments made by private equity firms, real estate investment trusts, and other institutional investors, such as pension funds (hereafter: referred to as institutional investors). A focus on institutional investment is apt since institutional investors dominate the financial markets and asset owners with long term liabilities, such as pension funds, are in theory well aligned to recognise, pursue and benefit from long-termism investment practices associated with good ESG governance. A focus of institutional investment is timely given that institutional investment in rental housing is growing in many corners of the globe, and in Australia inflows of institutional investment have given rise to an emergent Build to Rent (BTR) market. (For more details on Build to Rent, see pop-out box on Page 7 below). BTR’s proponents claim that BTR professionalises rental housing, provides secure and high-quality housing, and creates more liveable communities. Those promises position BTR as a potentially compelling conduit for achieving social outcomes through rental housing investment. This report engages primarily with the equity side of these investments into rental housing, while acknowledging the relevance of debt financing, including stakeholders’ growing interest in accessing concessional finance, including the role of social bonds in social housing financing (Section 8: Resources, for details on NHFIC’s social bonds).

A first aim of this report is to provide timely insights into emergent “S” in ESG thinking and practices among rental sector stakeholders. A second aim is to establish some important avenues for future research at the nexus of ESG investing and rental housing development and operation. This report draw on engagement with rental sector stakeholders during Q3 and Q4 2022, which included ten 60-minute semi-structured interviews with private sector stakeholders who deploy or manage capital investments in BTR, such as (social impact) fund managers; ESG specialists working within those same firms, such as sustainability managers; real estate service companies who advise public and private sectors, including on ESG investing; and real estate peak bodies. In addition to this, the authors engaged with private and public sector stakeholders in a workshop in December 2022. All stakeholders are anonymised using basic codes (e.g. GRC01; GRC02, etc) as per ethics requirements. While this report focuses on Australian actors, governance, and practices, many of these insights are relevant for housing systems in other market-led economies.

This report answers three foundational questions: (1) How do rental investment stakeholders understand the “S” in ESG?; (2) Which ESG frameworks do rental investment stakeholders use and why?; and (3) What challenges surround the use of ESG frameworks and metrics? A first section introduces ESG governance and discusses some headline criticisms. For readers seeking a broader overview of ESG governance, Section 8.3 provides a curated list of excellent primers. A second section contextualises ESG integration within responsible investing schemas then introduces ESG in the context of real estate assets. Three subsequent sections respond in turn to each of the three research questions and provide additional relevant background as required to contextualise those responses. Those sections corroborate the finance industry’s considerable involvement how the social performance of rental investments is governed. It corroborates that their role includes helping produce, legitimate, and propagate ESG frameworks and tools to rate and rank their investments. It further corroborates that the influences on ESG investing strategies and practices include international conventions

and best practice codes, regulatory requirements, business commitments, shareholder interests and action, and tenant requests for information.

The second half of this report delineates three key directions for future research and debate at the nexus of ESG governance and rental housing investment, including: (1) the mobilisation and role of expert knowledge in social factor considerations; (2) the politics, practices, and impacts of governance *through* ESG frameworks; and (3) business models for social impact.

Our assertion is that we need informed national debate about about the kinds of social value we might secure through institutional investment in rental housing, what the governance of this investment should look like, and how this might best be achieved. This calls for further scrutiny of the governance of ESG investing, including the production of tools and associated investment practices, and exploration of untapped opportunities to create non-financial value through rental housing investments. Amid the groundswell of buy-in for ESG and long-overdue interest in “S” factors, basic empirical work is needed to provide critical accounts of the governance of the social performance of housing investments and to develop a more robust shared language and terms of reference.

This research was conducted as part of a five-month project funded by RMIT’s *Enabling Capability Platform Strategic Capability Deployment Fund 2022* and its focus was informed by lead author Dr Megan Nethercote’s research into Build to Rent (BTR). The BTR project explores financial flows in and through rental housing and its implications and included discussions with UK and Australian BTR stakeholders about the opportunities and practical challenges of ESG integration in investment decision-making and active ownership of BTR assets. Participants in this project were identified from among the authors’ professional networks and through snowballing, and recruited via email.

Australian Build to Rent

Build to rent (BTR, also multifamily housing) represents a growing global asset class within the expanding ‘beds’ sector, where it sits alongside single-family rentals, student housing (PBSA) and other operational residential asset classes. BTR refers to large purpose-built apartment complexes owned and operated by corporate landlords as rent-generating assets. As noted, Build to rent’s (BTR) proponents claim that BTR professionalises rental housing, provides secure and high-quality housing, and creates more liveable communities. Those promises position BTR as a potentially compelling conduit for achieving social outcomes through rental housing investment.

Australia’s BTR sector remains immature relative to the mature US multifamily (ie. BTR) market and to the growing UK market. Nevertheless, Australia’s BTR market has expanded year-on-year since its inception in 2017 (Nethercote 2020). Some $3.5 billion dollars have been committed in the past 18 months and estimates forecast some 15,400 homes will be delivered by 2024 (Savills 2022).

This institutional investment into the Australian rental sector deviates from the private rental sector’s longstanding traditions of small-fry, so-called ‘mum and dad’ investor/landlords. At its inception, BTR was characterised by media and industry alike as a luxury rental product with ‘bell and whistles’ amenities and services. However, BTR stakeholders are increasingly exploring middle-market and sub-market rentals to deliver BTR development projects. This follows similar trends in the UK where, during the COVID-19 pandemic, BTR platforms pivoted to cater to key-worker rental submarkets. A share of the Australian BTR pipeline is subsequently likely to feature key worker, sub-market and disability rental housing, as stakeholders leverage NDIS and social housing subsidisation pathways.

The rise of build to rent is symptomatic of broader trends towards the financialization of housing and this trend therefore represents a key context for appraising ESG investing. The financialization of housing describes the intensifying treatment of housing foremost as a financial asset rather than as a home for city residents and has been critiqued as inconsistent and even incompatible with optimising social outcomes. Research on the financialization of housing underscores how finance and financial flows shape the development, operation, and exchange of housing, including in ways that perpetuate declining homeownership, rising household debt, and soaring rents, all of which risk exacerbating social exclusion, housing insecurity and homelessness (Gabor and Kohl 2022; Nethercote 2020). It is with these risks front of mind that the 2017 UN Special Rapporteur’s report on the financialization of housing called for the development of human rights guidelines specifically for financial actors operating in the housing sector (UN 2017). That report also advised governments to reconsider the relationship between corporate and government finance, housing, and human rights and to make reforms to improve housing access, affordability, quality, and security of tenure and to reform housing finance.

3 The Rise & Critique of ESG

3.1 Responsible Investment

Despite growing engagement with ESG, there is no global standard for classifying ESG-orientated investment practices and approaches. For instance, the *Global Sustainable Investment Alliance* (GSIA 2020: 5) uses the term sustainable investment, which it defines as “an investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management.” It further states that “sustainable investment may be used interchangeably with responsible investment and socially responsible investment, among other terms, whilst recognising there are distinctions and regional variations in its meaning and use.”

In the absence of global consensus, investors’ varying focus on social impact and financial returns has been conceptualised in multiple ways. The diagram below produced by the OECD helpfully conceptualises a continuum across which investors’ interest in social impact and financial returns is variously weighted. At one end of this spectrum, philanthropists are focused singularly on social impact (left hand side). These investors are willing to accept sub-market returns to achieve greater social impact, they may engage in social investing or venture philanthropy. At the other end of the spectrum, investors are singularly focused on financial returns (right hand side). Where financial returns remain the priority, investors may use various so-called ‘responsible investment’ approaches to hedge against ESG related risk and/or exploit ESG related opportunities (second from right). Responsible investment thus provides a helpful and broadly used umbrella term to describe the multiple ways environmental, social and governance considerations are factored into investment analysis and decision-making while seeking market-rate returns on investment.

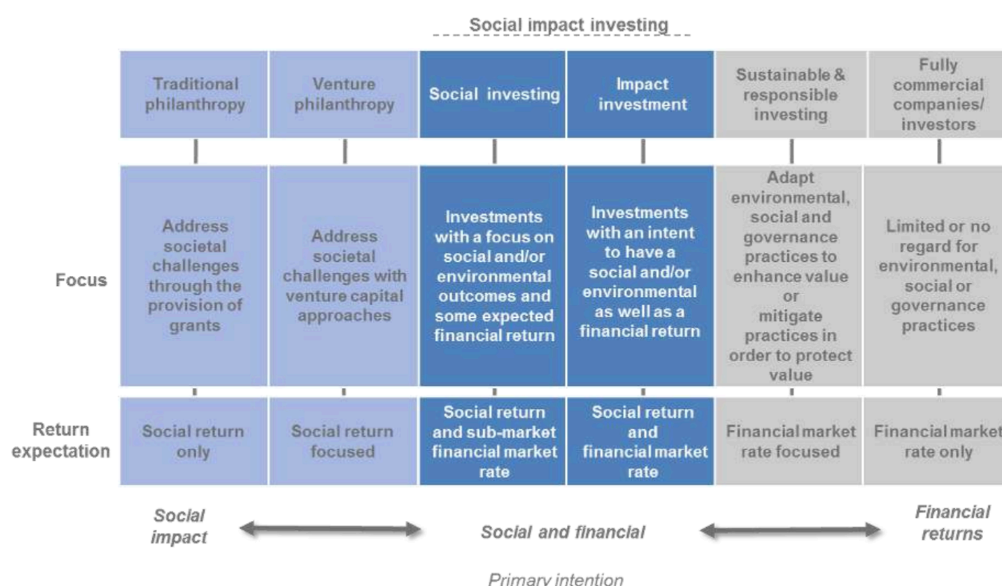

Figure 1: Responsible Investing
Organisation for Economic Co-Operation and Development (OECD) (2019: 30), *Social Impact Investment 2019: The Impact Imperative for Sustainable Development*, OECD Publishing: Paris.

ESG integration is currently most common responsible investment strategy, followed by negative screening (GSIA 2020: 5). ESG integration is typically defined as an investment strategy and investment practice that incorporates ESG considerations into investment decision-making and is the primary focus in much of our discussion. Negative screening involves investors opting out of any investments in companies or assets that do not meet a minimum entry hurdle, usually because they are misaligned with pre-determined values. These latter strategies are sometimes referred to as ‘profits with purpose’ or, more critically, as ESG Capitalism. For additional ESG-related typologies, see: Rosenman 2020: Table 1: 145-6; for additional background: Langley 2020; also see Section 8: Resources.

Note that regardless of the investment approach, the financial materiality of any single ESG factor will differ depending on the specific investment context. Accordingly, the financial materiality of any single ESG factor must be determined within a specific investment analysis context and will be subject to change over time.

3.2 ESG Governance

Since 2010, consideration of ESG factors within investment analysis and investment decision-making has gained momentum globally and the value of ESG assets under management continues to expand. The *Global Sustainable Investment Alliance’s* 2020 report shows responsible investment assets under management in the five major markets has reached US$35.3 trillion, growing some 15% in two years, to equate to some 36% of all assets under professional management (GSIA 2020: 5). In Australasia, responsible investment assets have grown by 25% over the same period, and now account for some 38% of assets under professional management (GSIA 2020: 5). As noted, ESG integration requires that investors consider future-orientated and financially-material risks and opportunities posed by ESG factors in the investment analysis and decision-making. For investors, a major appeal of ESG integration is that it reduces risk and/or enhances returns. That promise is substantiated by studies, such as by Freide and colleagues (2015), that identify a positive relationship between ESG integration and corporate financial performance. There are also academics and industry professionals who remain unconvinced, including by causality claims between ESG integration and corporate financial performance. Nevertheless, major year-on-year rises in signatories to the UN *Principles for Responsible Investment*—signatories who together represent some $100tn in assets—provide concrete evidence of the growing centrality of ESG to investment decision-making.

Interest in governing environmental, social and governance impact through investment is not new. 2004 represented a watershed moment in this regard, with Kofi Annan, then UN Secretary General, proposing a joint initiative with major financial institutions to integrate ESG into capital markets. The *Who Cares Wins* report put the business case forward for ESG integration, rationalising this would deliver healthier markets and societies. Contemporaneously, the United Nations *Environment Programme Finance Initiative* (UNEP FI) together with legal firm Freshfields Bruckhaus Deringer, considered the fiduciary duties of investors with regards to ESG. Their subsequent report, typically referred to as the *Freshfields Report*, showed that ESG factors are relevant to financial valuation. This finding led the report’s authors to argue that investors’ fiduciary duties required investors to integrate ESG factors into their investment analysis and investment decision-making. Together, the *Who Cares Wins* and *Freshfields* reports provided the foundations for the launch of the United Nations *Principles for Responsible Investment* (PRI) in 2006 which sought to embed ESG in investment decision-making. The 2019 PRI report reinforces the argument that investors’ failure to consider long-term drivers of investment value, which include ESG factors, represents a failure of their fiduciary duty. The EU 2019 *Shareholder Rights Directive II,* which requires investors to be active asset owners and to act with a more long-term focus, the *UK Stewardship Code* and guidance from the US Department of Labor reinforce the regulatory requirements of investors regarding ESG integration.

More broadly, many national governments and financial regulators are deploying a range of policy and regulatory levers to render the financial system more sustainable and to encourage responsible investment. Those levers include legislation and voluntary codes focused on: corporate ESG disclosure, stewardship best practice and investor duties and disclosure requirements, alongside the introduction of taxonomies for sustainable economic activities.

The EU has taken a leading role in agenda-setting on ESG governance. This is in large part because the EU has been a frontrunner in sustainability and ESG legislation. That legislation has had immediate repercussions not only for all financial market stakeholders operating in the European Economic Area, but also globally in terms of influencing corporate ESG activities and ESG regulation and guidance. Chief among EU interventions in the ESG sphere was the 2021 EU *Sustainable Finance Action Plan* which included legislation to pursue the following objectives: improve European corporate disclosure, further embed sustainability into risk management, and direct capital towards sustainable activities. Of special note are the *EU Taxonomy Regulation* and the *Sustainable Financial Disclosure Regulation* (SFDR). The 2020 EU *Taxonomy Regulation* provides a classification system that organises economic activities into environmentally sustainable activities and provides a definitional baseline for ESG investing to mitigate greenwashing. For an economic activity to be classified as sustainable, it must contribute substantially to at least one of six named environmental objectives; do no significant harm to any of the other five environmental objectives; and comply with minimum, EU-specified, social and governance safeguards. The 2019 *Sustainable Financial Disclosure Regulation* (SFDR) came into effect in 2021 with the aim to normalise and classify sustainability risks into three tiers: Dark Green (Article 9, sustainability as primary objective), Light Green (Article 8, ESG-orientated) and Other (Article 6, no ESG). It stipulates mandatory disclosure at both the investment firm and product level of *Principle Adverse Impacts*, namely named negative effects of an investment on sustainability factors.

3.3 Developing a Social Taxonomy

In the development of a social taxonomy, the EU has likewise taken a lead role. In 2018, the European Commission established a technical expert group on sustainable finance to further develop the EU Taxonomy for classifying environmental sustainable economic activity. The impetus for a social taxonomy was that a well-designed social taxonomy would provide further classification for economic activities that contribute to the EU’s social goals for investors, business and regulators.

Development of this social taxonomy was in its infancy, before appearing to stall in 2022. Speculations for the apparent shelving of this work include the poor reception and contestation surrounding the associated green taxonomy, methodological difficulties, and other political tensions.

Before this recent pause, the European Commission’s work on a social taxonomy involved the publication of two important reports by the EU’s *Platform on Sustainable Finance*, which advises the European Commission.

A first draft report was published in July 2021 titled: *Draft Report by Subgroup 4: Social Taxonomy* (Platform on Sustainable Finance 2021). One of the key focuses of this draft report was to establish a structure for a social taxonomy, including considering the relationship between the social and environmental taxonomies. The report identified four critical differences between a social and environmental taxonomy. These are reported as follows (cited verbatim, Platform on Sustainable Finance 2021: 4-5):

1. *Economic activities such as job creation are inherently socially beneficial. A social taxonomy has to distinguish between these inherent benefits and added social benefits such as improving access to quality healthcare or ensuring decent jobs.*
2. *2. Environmental objectives and criteria can be based on science, but a social taxonomy could be founded on international authoritative standards of topical relevance such as the International Bill of Human Rights.*
3. *The environmental taxonomy links criteria to economic activities. However, some social aspects, such as collective bargaining or tax transparency, cannot be linked to economic activities. Rather, they must be linked to the economic entity.*
4. *For some social topics it might be more difficult to develop meaningful quantitative criteria*

The report proposed a social taxonomy structured around so-termed vertical and horizontal dimensions. The vertical dimension focuses on products and services for basic human needs and basic infrastructure. Any investment that makes these products and services more accessible (which doing no significant harm to other social objectives) could be classified as social activity under the taxonomy. The horizontal dimension concerns how the investment impacts on different stakeholder groups such as workers (including through the supply chain), consumers and communities. The report proposes that horizontal objectives would ‘be likely to include a combination of entity- and activity-level criteria, crucial for ensuring businesses’ respect and support for human rights as part of the social taxonomy’ (Platform on Sustainable Finance 2021: 5).

The report also argued that minimum environmental safeguards should be part of the future social taxonomy, in a similar vein to the way social and governance minimum safeguards are part of the environmental taxonomy, through the UNGPs and OECD guidelines on multinationals.

In February 2022, the Platform on Sustainable Finance published a second key report: *Final Report on Social Taxonomy* (Platform on Sustainable Finance 2022). This report set out proposals for a future social taxonomy. The social taxonomy subgroup who worked on the social taxonomy proposals considered a wide range of documents including:

- the Universal Declaration of Human Rights;
- the International Covenant on Economic, Social and Cultural Rights;
- the International Covenant on Civil and Political Rights;
- the ILO Declaration on Fundamental Principles and Rights at Work;
- the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy;
- the European Convention on Human Rights;
- the European Social Charter;
- the Charter of Fundamental Rights of the European Union;
- the European pillar of social rights;

- the SDGs;
- the UNGPs;
- the UN Global Compact;
- the OECD guidelines for MNEs;

From within these documents, social topics were identified to be covered within the scope of the proposed social taxonomy. Those topics included:

- labour rights;
- social protection and inclusion;
- non-discrimination;
- the right to health care, housing, education (including professional training) and food;
- assistance in the event of unemployment or self-employment;
- consumer protection;
- peaceful and inclusive societies;
- the fight against corruption and tax evasion.

The social taxonomy subgroup further agreed that ‘the most convincing way to articulate the objectives of a social taxonomy – which should operate at a higher level of generalisation – was by setting out the type of stakeholders that different economic activities can affect’. (Platform on Sustainable Finance 2022: 33). The report identified three sets of stakeholders whose lives and/or livelihoods are affected by investment activities:

(i) *an entity’s own workforce (including value-chain workers);*
(ii) *end-users or consumers; and*
(iii) *(iii) affected communities (directly or through the value chain).*

The report argued that these three sets of stakeholders should sit at the heart of a future social taxonomy, with aforementioned social topics allocated to each stakeholder group as deemed relevant. The report further sets out three objectives for a social taxonomy in relation to (1) decent work (including value-chain workers); (2) adequate living standards and wellbeing for end-users; and (3) inclusive and sustainable communities and societies. The report intends that each of these objectives would then be broken down into a series of subobjectives and propose non-exhaustive examples. For instance, a sub-objective for objective 2, is ‘improving access to good quality housing’ (Platform on Sustainable Finance 2022: 37). Chapter 8, Section 2 returns to the challenges surrounding producing a public social taxonomy.

3.4 ESG Challenges

Key questions surround how investors factor ESG considerations into investment analysis and investment decision-making, how and how accurately ESG-attributed asset performance can be measured, and the broader impacts of a rise in ESG-orientated investment strategies and ESG assets under management. There is emergent recognition of practical barriers to ESG implementation, including issues surrounding the uptake of ESG practices and other basic methodological issues. Beyond this, others raise more foundational issues with the ambitions and motivations driving ESG activities. These challenges are the focus of the next two subsections.

There are several commonly cited challenges to ESG integration. In the first instance, there are at least three barriers to the *uptake* of ESG integration by investors. First, the persistence of beliefs that ESG integration can or will undermine financial performance, despite evidence that ESG integration limits volatility and enhances returns. Second, the enduring argument that an investor’s fiduciary duty to deliver financial returns limits responsible investment practices, notwithstanding authoritative reports evidencing the contrary (see above). Third, the use of investment consultants and advisors undermines a stronger trend towards ESG integration. In the second instance, there are barriers to the *implementation* of ESG integration. These barriers include the (perceived) additional costs and resourcing required; issues of information disclosure; issues of data quality, availability and consistency; challenges of modelling ESG within traditional financial models; the subjectivity of using discount rates in valuations to account for ESG factors and other judgement challenges; inconsistencies in ESG data reporting across companies, geographies and sectors; lack of ESG data auditing and comparability difficulties (including between different ESG ratings, including due to inconsistent use of

terminology). Private equity may face distinct challenges to ESG integration, including a lack of public transparency, established reporting standards, regulatory oversight, and public market expectations around ESG.

In engaging with these criticisms of ESG, there are further insights to glean from less familiar aspects of ESG’s origin story. A telling moment in that story came in 2019 when Wall Street’s MSCI, an index and ratings agency, made public ambitions to expand ratings to cover ESG (Simpson et al 2021). MSCI [Morgan Stanley Capital International] had been a global provider of indexes and benchmarking products and services for investors for some two decades at the time, and was tasked with grouping stocks into indexes by country, sector, market capitalisation and all kinds of other foci (e.g. ‘Ageing Society Opportunities Index, etc). In turn, MSCI’s customers, including behemoths of the asset management world such as Blackrock, used their indexes to create portfolios and other financial products for investors. In early 2019, long-time Chairman and CEO Henry Fernandez voiced plans “to help global investors build better portfolios for a better world.” The basic premise was that ‘the stocks and bonds of big companies can yield tidy returns while also helping to save the planet or make life better for its people’ (Simpson et al 2021, np). Since then, as previewed, ESG ratings have gained increasing legitimacy and ESG investments have become “the fastest-growing segment of the global financial-services industry” such that some 90% of stocks in the S&P 500, for instance, sit in ESG funds ‘built with MSCI’s ratings’ (Simpson et al 2021 np).

But while MSCI plays a foundational role in these new investment dynamics governing corporate ESG practices, its ratings’ methodologies and practices are largely unregulated. Moreover, the weak link between rating methodologies and real world environmental, social and governance benefits remains mostly overlooked or unrecognised. A Bloomberg exposé titled ‘The ESG Mirage’ explains why that disconnect should come as no surprise:

> *That’s because the ratings don’t measure a company’s impact on the Earth and society. In fact, they gauge the opposite: the potential impact of the world on the company and its shareholders. MSCI doesn’t dispute this characterization. It defends its methodology as the most financially relevant for the companies it rates (Simpson et al 2021 np).*

As MSCI’s CEO acknowledges, their ESG ratings ‘gauge the risk the world poses to a company [and its shareholders], not the other way around’ (Simpson et al 2021 np). For instance, if regulations to mitigate climate change don’t impact company profits then ‘No matter how big a company’s greenhouse gas emissions are, they might not even count in MSCI’s ESG rating…MSCI deems emissions irrelevant.’ (Simpson et al 2021 np). Meanwhile, companies score points for doing things they are legally required or otherwise sanctioned for, from providing recycling facilities to developing internal company policies on standard business ethics and anti-corruption.

The Bloomberg reporting points out additional flaws in ESG rating methodologies. First, it highlights how ESG scores are assigned relative to peers rather than against a universal standard, with the ‘starting proposition…that an average company in each peer group is worthy of a BBB rating’, ie. ‘investment grade’. Moreover, it highlights how a company’s ESG scores can get recalculated and upgraded simply through various ‘methodology changes, re-weightings, or similar tweaks’, rather than any actual or planned upgrades to ESG practices (Simpson et al 2021 np). MSCI and competitor ESG ratings agencies might wildly disagree with each other’s assessments, including since they all rely on their “own proprietary system, algorithms, metrics, definitions, and sources of nonfinancial information, most of which aren’t transparent and rely heavily on self-reporting by the companies they rate” (Simpson et al 2021 np). A concrete example of these discrepancies in ratings is the divergent ESG scores assigned to Tesla versus Exxon by different ratings protocols (Mackintosh 2018).

These inconsistencies also speak to the absence of regulatory oversight of methodologies or results. More generally, as we’ll see, ESG methodologies purport to capture, quantify or describe tricky to quantify and/or intangible elements, such as ‘well-being’ or ‘community’. Rating tools may also prioritise present and near-future impacts, rather than longer term interests. In short, ESG ratings are very different from corporate ratings for creditworthiness, for instance, where shared methodologies produce similar ratings under watchful regulators. Put together, the risk of incomplete, inconsistent and/or unverifiable ESG data and ratings abounds.

Vest interests are integral to the production of ESG methodologies and tools. GRESB (est. 2009; Global Real Estate Sustainability Benchmark), which is an ESG framework increasingly used by fund managers in the real estate space, provides a classic example. GRESB was founded in 2009 by several large pension funds to

provide commensurate data on ESG performance and was later acquired by the Green Business Certification Inc, a US company that provides third party credentialing and verification for rating tools.

Meanwhile, the machinations of ESG rating production remain obscured for various reasons. Such is this obscurity, it seems, that “Even sophisticated investors can be forgiven for not knowing what’s going on inside the ratings used to build their ESG funds…[with] detailed rating reports…available only to its financial-industry clients” (Simpson et al 2021 np). The fallout is that ESG ratings do not necessarily open the doors to that ‘better world’ painted by ESG marketing hype. A former chief investment officer for BlackRock has recently spoken out against ESG. He criticises ‘greenwashing’ and ‘deadly distraction’ at the heart of green/ESG financial products that ‘boil down to little more than marketing hype, PR spin and disingenuous promises’ (Fancy 2021 np). Moreover, the ex-CIO has argued that the rise of ESG was delaying real impact, and worse, ‘doing irreversible harm…all in the name of profits’ (Fancy 2021 np). MSCI’s Fernandez publicly concedes as much, agreeing on the financial sector’s motives: “we’re doing this [rating] to protect capitalism. Otherwise, government intervention is going to come, socialist ideas are going to come” (Simpson et al 2021 np).

Some point to more foundational issues with ESG, beyond these implementation and methodological challenges. A major criticism is that ESG represents another tool for managing and mitigating risk to Wall Street, rather than a tool for ensuring environmental, social and governance factors are considered in investment decisions. For instance, ESG integration, as a distinct form of responsible investment, solely tasks investors with integrating financially material ESG factors into their investment analysis and decision-making (See Chapter 4 below for further details on Responsible Investing). Accordingly, ESG integration typically involves a singular focus on the risks and opportunities ESG factors pose to the investment in question. The limitations of this approach have not gone unnoticed and in 2019 the European Commission introduced the concept of ‘double materiality’. Double materiality extends the accounting concept of financial materiality involves identifying and monitoring not just for the risks/opportunities that ESG factors pose for an investment (in a company, an asset, a portfolio, etc), but also the reverse dynamic, namely: the impacts of that investment on our environment and society.

There is growing acknowledgement, even among some actors who issue or deploy ESG capital, that these ESG-orientated financial innovations can fail to ‘do good’ (Simpson et al 2021). Critiques suggest public good outcomes are less than claimed, including because they do not adequately account for the additionality of ESG rated investments, above and beyond those impacts that would have been delivered by conventional investments and existing regulation. This has led to concerns that the rising mainstreaming and formalisation of ESG-orientated policy and practice risks encouraging greenwashing and social washing. Worse still, they argue that ESG may provide cover for the deleterious impacts of investments or guard against further regulation and legislation on the non-financial performance of housing investments. Critiques emphasise that the mainstreaming of ESG risks reinforcing hegemonic perspectives that harnessing private finance in this way is our best or only solution for delivering required ESG change.

3.5 Divergent Perspectives

As earlier sections indicate there are differing perspectives on the value and drivers of ESG. On one hand, ESG advocates share a deep conviction that, with the right incentives, investment can affect positive environmental and social change in the sectors it flows into. They argue that sound ESG ratings help minimise investment risks and ‘future proof’ assets by correctly identifying, assessing, and pricing environmental, social and governance risks and opportunities. Highly rated assets may attract a premium or offer a competitive advantage based on rising client demand. In this sense, ESG ratings have become means to create investment value against a backdrop of rising consumer and investor expectations and shifting regulatory landscapes. For fund managers, for instance, highly rated ESG funds can help secure additional capital and attract higher management fees. Indeed, much hope is placed on the power of sustainable investing and ESG integration. Notable among this raft of expectations is the achievement of the UN *Sustainable Development Goals*, with ESG integration increasingly framed as the key tool amid dire climate crisis predictions, the COVID-19 pandemic, and myriad social struggles (GIIN 2022a).

Economist Daniela Gabor (2021: 18) provides a valuable counter perspective, describing ESG ratings as a ‘strategic necessity’ for institutional investors within a new ‘Wall Street Consensus’. The ‘Wall Street Consensus’ describes a new paradigm in which global private finance is positioned as key to achieving green transitions and the UN Sustainable Development Goals. For states, this consensus engenders a state actively engaged in de-risking to ensure private sector investment and preferential rates of profit, including via green

finance products. (For more on the active role of the state, see Chapter 8.2). As Gabor (2021: 3-4) writes, the consensus represents ‘… an attempt to re-orient the institutional mechanisms of the state towards protecting the political order of financial capitalism against climate justice movements and Green New Deal initiatives…an organized attempt to forge what conceptually can be conceived as the *de-risking state.*” For investors, engaging with ESG stands to: ‘boost their climate warrior credentials’, including by vying for the highest ratings; gain legitimacy as partners to the so-termed ‘de-risking state’, thereby reducing some demand risks, and become ‘epistemic guardians of green taxonomies’; secure opportunities to claim SDG outcomes, even when their actions might represent ‘SDG/green washing’; and protect themselves against political, regulatory (e.g. through concessions), financial and other risks, with some of those risks now absorbed by the state (Gabor 2021: 18; 19).

4 ESG & Real Estate Assets

Interest in ESG integration has filtered through to investments in real estate. Initially, the focus was almost exclusively on environmental sustainability, including in recognition of the significant carbon footprint involved in the construction and operation of buildings. But while social and governance factors remained relatively neglected in the early years of ESG, this oversight is slowing being addressed as stakeholders increasingly acknowledge that ESG is about more than just environmental factors. Much like in other investment domains, this growing interest and uptake of ESG-oriented investment decision-making coincides with growing regulation and incentives for businesses and investors in real estate assets to pursue more comprehensive ESG-oriented strategies and decision-making.

With regards to the application of ESG to real estate assets specifically, the UN PRI’s *Introductory Guides to Responsible Investment* advises consideration of ESG factors in relation to both: (1) initial investment decisions and (2) the asset ownership phase (ie. operational real estate assets). In terms of investment decisions, a key consideration is the impact of ESG factors on real estate asset valuation. For instance, some ESG factors may warrant discount valuations. Some of the most obvious examples of this include discounting due to: additional capital expenditure in relation to upgrades to improve energy performance; increased costs from higher insurance premiums due to physical risk factors (e.g. floods); future income uncertainty due to tenant and leasing disruption due to extreme weather events; and obsolescence risk, for assets that do not meet legislated minimum energy performance standards. During the ownership phase, the PRI distinguishes two broad strategies for creating value through responsible investment in real estate assets. These a very straightforward: a first strategy involves reducing costs and liabilities, and a second strategy involves increasing revenue. The focus on investment decision and ownership phases is apt for so-called operational residential assets, such as BTR that are owned and operated by investors as rent-generating assets.

An important touchstone in this evolution towards a more comprehensive ESG focus within the infrastructure and real estate sector was the 2009 launch of the *Global Real Estate Sustainability Benchmark* (GRESB). As noted, GRESB has a strong focus on commercial and residential real estate assets and has since become one of the leading real estate focused ESG investor initiatives. In the case of BTR assets, fund managers increasingly use the GRESB framework to report on the ESG credentials of their portfolios. Beyond this portfolio level governance, one of the most common asset-level national certifications in the ESG real estate space is the Green Building Council of Australia’s *GreenStar* rating. Note that this well-established rating tool is currently being expanded from its original emphasis on environmental factors to include a stronger focus on social factors. There are also other international certifications with specific remits that are increasingly being used, including by some BTR stakeholders. They include frameworks and ratings tools that monitor and report on social factors, such as building occupant health and wellbeing. Another focus area for ESG-orientated analysis is the selection and appointment of property managers and residential/commercial tenant engagement, with ESG clauses in lease agreements one strategy favoured in commercial tenancies.

Real estate investors increasingly recognise the value of ESG integration, products, and ratings. In the case of ratings, specifically, three benefits are frequently cited. First, ESG ratings can provide easier access to (cheaper) capital. Conversely, many anticipate eventual financing challenges for real estate assets that are not ESG compliant. Those challenges might come in the form of reduced or unfavourable lending to carbon intensive development and buildings, for instance. Second, stakeholders anticipate that factoring ESG into investment decision-making can help ensure the efficient operation of real estate assets. In the case of BTR, for instance, investors rely on these operational efficiencies to reduce operating costs and/or increase operating revenue to make BTR assets (more) profitable. In this same vein, stakeholders associated with the management of ‘greener’ building assets, for instance, describe a raft of benefits to their bottom line. Those benefits include lower energy costs, improved occupancy rates, better tenant retention, and increased productivity of on-site tenancy and property managers, including through fewer sick days and better staff retention. Third, ESG compliance is a risk mitigation strategy in the face of shifting regulatory landscapes and evolving public expectations. For instance, the COVID-19 pandemic catalysed a stronger focus on the health, wellness and safety of building occupants and prompted a rise in healthy building certifications, such as WELL Building and Fitwell. (These and other certifications are discussed in more detail in subsequent chapters.) ESG compliance can offer investors a means to de-risk against potential physical risks (e.g. poorly performing and/or catastrophic failure) and reputational risks. ESG compliance is thus often framed as a form of asset futureproofing from the threat of future obsolescence (i.e.. brown assets) and associated financial risks from under-occupancy and asset price depreciation.

There are a range of “S” factors to consider during the investment decision phase and during the ownership/operational phase. Later sections of this report will discuss those factors in detail in relation to rental housing assets. Suffice to reiterate here that commonly cited “S” factors in real estate include: employment standards and health and safety through their supply chain; questions of accessibility and inclusivity; First Nation rights; and stakeholder opposition. With regards to housing assets specifically, the delivery of diverse and affordable housing options and tenant satisfaction are also frequently cited. Emergent research suggests “S” considerations may prioritise organisational policies and practices over the social outcomes of occupants and local communities, including because the latter are relatively more complex to assess and quantify.

ESG integration in the real estate sector suffers many of the well-recognised challenges surrounding ESG governance cited in the previous chapter, including inconsistent approaches and misalignment of ESG data and performance standards. Social factors can be tricky to identify, monitor and assess because metrics are relatively less well established and may require a more qualitative approach than has typically been necessary with prevailing “E” factor measurements. Real estate investment also faces distinct benefits and challenges for ESG integration. Real estate investors may have relatively longer-term investment horizons and enjoy majority or full ownership of their real estate assets. This may give investors more motivation to consider ESG factors and more control over how ESG factors are defined, applied, and reported. At the same time, real estate assets also have a distinct spatial fixity and durability, making them especially sensitive to local conditions (e.g., climate; resources, etc) and communities, including their needs and expectations.

5 How do rental investment stakeholders understand the “S” in ESG?

5.1 “S” in ESG & Housing Investments

Investees and investors increasingly recognise social factors as relevant to business and investment perspectives. As previously noted, the “S” refers to factors that affect the lives of humans. For investors, a focus on social factors calls for an assessment of the material impacts of social megatrends, from globalisation and inequality to digital disruption, on the businesses or assets they invest in. It also calls for assessment of the potential social impact of environmental megatrends, including climate change and transition risks and mass migration. This requires consideration of social factors ‘internal’ to that business or asset, such as working conditions and health and safety. It also requires consideration of factors ‘external’ to that business or asset, such as problematic supply chains or local opposition. Investors face distinct challenges in accounting for social factors, including because relevant social factors may be hard to identify, monitor and measure.

Despite growing interest in the “S” in ESG, the development of a social taxonomy for housing is very much in its infancy. In the UK, the development of a social taxonomy for housing is more advanced than in Australia. In 2020, impact advisory firm The Good Economy produced *The Sustainable Reporting Standard for Social Housing* in consultation with stakeholders across the housing and finance sectors. This provides a new social taxonomy, focused on social housing rather than the rental sector at large. The production of this taxonomy evolved out of a meeting with large institutional investors in the UK in 2019 during which: “The conversation turned to the rapidly growing interest in ESG and the way in which ESG factors would likely form a more fundamental role in the credit process underpinning future investment decisions” (ESG Social Housing Working Group, 2020: 3).

The new reporting standards produced by The Good Economy recognise not only the social housing sector’s potential to deliver social impact. It also responds to risks associated with the significant growth of for-profit registered social housing providers. A prime example of such providers is Sage, which is majority owned by Blackstone, itself one of the world’s largest alternative investment management companies, and commercial landlords. The Good Economy’s social criterion link back to the UN *Sustainable Development Goals*, encompassing affordability and security, building safety and quality, resident voice, resident support, and placemaking. The social taxonomy uses units of measurement that are quantitative for some criteria and qualitative for other criteria, such as resident satisfaction or resident complaints. Impact assessment focuses on the resident/building and local community scales.

Another key report is the 2022 *The Financialization of Housing in Europe:* “*My Home is an Asset Class”*, authored by European academics Daniela Gabor and Sebastien Kohl (Gabor and Kohl 2022). This report has a broader remit than the report produced by The Good Economy’s, since it includes all social and private rental sectors. The report positions the growing institutional ownership of housing as potentially problematic and proposes key policy recommendations to regulate institutional landlords. The authors’ approach is premised on the notion that housing is a human right and aligned with the *Universal Declaration of Human Rights* and the *International Covenant on Economic, Social and Cultural Rights*. The authors advocate for special provisions for housing in the European Commission’s *Social Taxonomy*, supported by mandatory disclosure and regulation of institutional landlords with a goal to de-financialize housing for the public good.

Various stakeholders and researchers engaged with social taxonomies frame social outcomes in terms of a horizontal and a vertical dimension. As a conceptual framework, we suggest these two dimensions provide a helpful structure to think about the myriad ways rental housing investments might deliver social outcomes. A *horizontal dimension* focuses on the ‘processes and practices of companies that issue housing assets’ (Gabor and Kohl 2022: 4). Examples include recruitment and workforce policies and practices, particularly those aligned with international conventions and legislative and regulatory requirements, such as Modern Slavery, fair pay, health and safety, labour rights, human capital, and diversity. The *vertical dimension* refers to adequate living standards, with those standards usually defined through reference, for instance, to the *Universal Declaration of Human Rights* and the *International Covenant on Economic, Social and Cultural Rights*. Within the European Commission’s work on developing a social taxonomy, the vertical dimension is operationalised by using the AAAQ framework to develop metrics. The AAAQ framework considers Availability, Accessibility (which covers off both inclusion and affordability), Acceptability, and Quality. Gabor and Kohl (2022) stress the need to account for vertical *and* horizontal dimensions. Moreover, in accounting for the

vertical dimension, Gabor and Kohl insist that all the four AAAQ ‘buckets’ must be addressed to avoid social washing.

5.2 Stakeholder perspectives

Stakeholders interviewed in this project all expressed their commitment to ESG and suggested that much of the sector was committed to delivering good ESG outcomes. Stakeholders’ definitions and descriptions of the “S” in ESG reflected a wide range of ambitions for rental housing investment. Those ambitions ranged from avoiding doing harm to enacting substantive positive social outcomes through rental housing investments. Summarised below are key insights from stakeholder discussions about how social impact is defined and understood.

Stakeholders defined the “S” of ESG in diverse ways, with varying specificity and with emphasis on different sites and scales of assessment and impact. Stakeholders frequently framed social impact as something tricky to define clearly and comprehensively, but also emphasised growing interest and emphasis on social performance, including from (their) investors. Stakeholders defined social performance of rental housing in terms of a range of issues across both horizontal and vertical dimensions. Some social impact thematics also cut across both these horizontal and vertical dimensions, and that was certainly the case in our discussions on diversity and inclusion (e.g. cultural, gender, indigenous), with some stakeholders reflecting more deeply about Indigenous reconciliation and the question of Treaty.

Stakeholders repeatedly contrasted social performance with environmental performance (the “E” of ESG) and emphasised the latter as considerably more developed than (their) social impact considerations. For some stakeholders, consideration of environmental factors guided how they factored in (and demonstrated, see below) social elements. For instance, some stakeholders emphasised the role of a ‘healthy’ energy-efficient building in supporting resident health and wellbeing. Stakeholders emphasised synergies between sustainable design features and building occupant health and wellbeing citing examples such as good daylighting, air-quality and non-toxic building materials.

In terms of the *horizontal dimension* of social impact, stakeholders discussed workforce policies and practices. Stakeholders often mentioned policies that aligned with international conventions and national legislative and regulatory requirements. One prime example of this was repeated mentions of the *Modern Slavery Act 2018*. Stakeholders were cognisant of the risks of exploitation through employment processes and in procurement of goods and services. Stakeholders also emphasised that diversity and inclusion were an important focus within their organisations. Typically, they referred to gender, social, and/or cultural diversity and inclusion in their employment practices. Inclusion was also sometimes framed in relation to other concepts, such as belonging or inequality. First Nations Peoples and Country were also mentioned in relation to inclusionary policies and practices. Some stakeholders referred to specific programs and processes. Some examples include: engagement with conversations on Treaty; commitment to a Reconciliation Action Plan; fostering of a relationship with an Indigenous consulting firm; and engagement with the *Connecting with Country Draft Framework,* which was produced by the Government Architect New South Wales. A few stakeholders described specific projects where they had intentions to engage with Traditional Owners and indigenous histories on their development sites. Others described actions and plans to meet Indigenous recruitment requirements and/or develop opportunities for Indigenous employment. Health, safety and wellbeing were also central to all stakeholder organisations’ policies and practices in relation to their employees.

Stakeholders considered the horizontal dimensions of social impact across different scales. Some stakeholders focused foremost on their own organisations. They emphasised social impacts within their own (global) organisations. Examples of this emphasis include references to their staff policies that support gender inclusivity or healthy work practices. Other stakeholders had a wider remit, with more attention give to their supply chain. This included organisations who considered work practices across their development pipeline from recruitment of subcontractors on building sites to supporting design practices attuned to local community needs and employment associated with the operation of their assets. One example of the latter was a fund manager who suggested they pursued best practice in the procurement of service providers, such as apartment building cleaners.

In terms of the *vertical dimension* of social impact, the provision of quality new housing stock was a dominant emphasis. For some stakeholders, the provision of housing was *the* primary social contribution of rental housing investment. Often stakeholders specifically mentioned forms of submarket housing, including housing provision for key workers and provision of low-income, disability (NDIS), and social housing units. Discussion

often framed the provision of this new housing stock in terms of inclusion of community residents who might otherwise be excluded from particular neighbourhoods or buildings.

Resident health and wellbeing were also a major focus, especially for those closely involved in asset management. One stakeholder summarised: “The new universal norm for “S” will be the lived experience of wellbeing of individuals” (GRC05). The ‘curation’ of communities was mentioned repeatedly, within this discussion on resident health and wellbeing. ‘Community’ was variously characterised as meaning mitigating social isolation through to enabling aspirational social connections to people and to place. Community building was presented as a means to support resident mental health, with some viewing their community building efforts as an antidote to the loneliness ‘epidemic’. In terms of scale, ‘community’ was variously defined in terms of the apartment building’s residents and sometimes more broadly, as the local neighbourhood or broader surrounding area. Broader community building was understood to transpire through, for instance, BTR operators’ engagement in hyper-local partnerships with local business, such as local coffee shops and other vendors and service providers. Stakeholders cited a range of approaches to ‘build’ community. This included design interventions such as shared spaces that encourage residents to congregate and interact. Another primary strategy was a social program of events and services to proactively stimulate resident interactions, such as ‘cheese and wine’ nights and dog-walking groups. Stakeholders mentioned ongoing consideration was needed to ensure spaces and social programs met their residents’ diverse and evolving needs. Some emphasised onsite community managers as a particular benefit of BTR housing with regards to encouraging this ‘community’ building.

In summary, stakeholders considered vertical dimensions of social impact at two main scales. For some stakeholders, the primary site of anticipated social impact was the apartment building. Others additionally considered the social performance of rental housing in terms of public benefits to the immediate surrounding community and more broadly to the city, in terms of the provision of quality (affordable) housing.

5.3 Defining social impact within financial frames

Financial frames delimit stakeholders’ understanding of the foreseeable opportunities for delivering social impact through rental housing. ESG integration requires only that investors account for ESG factors that pose a risks that is financially material to their investment. In this sense, social impact is not prioritised simply through ESG integration and indeed impact may be limited. Discussions demonstrated how investors’ (perceptions of) their fiduciary duties towards asset owners to prioritise financial returns circumscribed their investment decision-making with regards to social impact. A super fund, for instance, emphasised how their investment practices had to be in the financial best interest of their members first and foremost.

Within this overarching financial frame, stakeholders rationalised their interest in social performance across a continuum from avoiding risks (e.g. reputational risks, financial risks, etc) to securing financial rewards (e.g. an ESG premium on the asset and rents, for instance). This led to competing framings of ESG: a ‘downside risk management’ centred around what would be potentially harmful from an ESG perspective (including drawing on UN PRI signatory status), and a second ‘positive ESG’ perspective (GRC05). Some stakeholders subsequently emphasised how social impact credentialing through various ESG ratings provides a form of risk mitigation through ‘negative screening’ (ie. excluding assets that don’t meet certain benchmarks).

Many others emphasised how investors mobilise synergies between social performance (or sometimes social performance *ratings*) and financial profits. As stakeholders often pointed out, those synergies are far more self-evident and readily quantifiable with environmental indicators. One common example was how the pursuit of sustainable design could deliver operational efficiencies that cut operational costs for investors, and in turn helped deliver profits. Commentary from a Sustainability Manager at an Australian pension fund underscores this tethering of social impact possibilities to financial returns.

> *“…when you're talking about a mainstream investor, their job is to maximize return for a given level of risk. And that's pretty unsurprising, and I think your standard investors would look at ESG as a negative screen as opposed to something to maximize. So you're trying to maximize return and minimize risk, so that would see [poor] ESG as risk. So poor governance is a risk; poor environmental standard, you've got a risk of stranded assets; you've got a risk of operational costs now, poor social outcomes; you risk your retail value; you risk your reputation, things like that. And I think by contrast, impact investors, they try and maximize return and they also try and maximize impact. [...] Where it can kind of get complicated [is] because when they're [social impact and profit] in conflict with each other,*

which one do you choose to maximize? […] Across the different ESG buckets will identify the most material issues that can drive investment value or affect investment performance and then that's the guide stick for how we approach our ESG process.” (GRC03).

Indeed, some stakeholders emphasised that it was likely the case that “E” factors were being prioritised because, alongside growing regulation on environmental performance of buildings, investments to improve environmental performance provided far more tangible financial benefits to stakeholders. One stakeholder commented, for instance: “I think the reason that energy efficiency was so good - such a driver - is the demonstratable savings for building owners, as opposed to the ease of measurement [of E indicators]” (GRC09).

Stakeholders nonetheless also often connected aspects of social performance, such as resident wellbeing and the curation of communities, to financial returns. One stakeholder commented, for instance:

"So hopefully the two are synergistic. In other words, if people’s wellbeing increases, their tenancy is going to go longer and so [they would be] less turnover of residents and therefore better profitability. It’s not necessarily a cost burden on an asset to have better property management that connects with people." (GRC05)

It is these financial framings of social impact that inform the production of social performance tools and frameworks and are then mobilised through those tools. As previewed earlier, vested interests hold significant sway in developing the contents of most of the prevailing ESG frameworks, including national tools. For instance, a stakeholder involved in ESG tool production described the intensive consultation they undertake with industry ‘right across the spectrum...owners, developers, engineers, ESG consultants’, etc...’ in their efforts to ‘bring industry with us to a point where it's [the standards] achievable, but we also set the stretch goals that they change when something becomes completely standard’ (GRC09). Another ‘tool maker’ likewise described how, with every potential change to a framework or tool, they always queried how it would be received by industry. When (re)designing tools, they regularly asked: ‘How will this affect industry? And is it something that can be achieved or not […] where could industry realistically go with it...where we are up to with our sophistication’. Reflecting the comparable sway of major investors over ESG governance in Australia, one local superannuation (pension) fund told us – ‘our voice does count’ (GRC03).

Stakeholders also play a key role in legitimising and propagating these tools as credible benchmarking devices. Major investors, with significant global portfolios, for instance, engage in: significant lobbying efforts such as drafting regulatory submissions; collaborations and initiatives, such as leading roundtables and; providing learning and development opportunities to other stakeholders. This is similar to Europe, where the European Commission’s Platform on Sustainable Finance, for instance, includes a wide range of stakeholders, such as Allianz, another of the world’s financial services companies and asset managers. Back in Australia, peak bodies such as the Property Council of Australian help organise various ESG-related advocacy and lobbying efforts through roundtables and committees, as well as providing amplification of industry voices on ESG matters.

When stakeholders explained their involvement in helping expand ESG uptake, their financial interests were often evident:

“It’s looking at it entirely from what’s in the members’ [of the pension fund] best interest so, that should be the North Star’. [And then, more bluntly:]…our positioning is very clear and pragmatic on that front. Whilst, you know you might have societal benefits through what you do in your investments, societal benefits shouldn't be the ultimate objective, if that makes sense […] ‘and advocating for pragmatism, as well, so the base is...it always has to come from an investment lens’ (GRC03).

This report previously described the key role of private sector actors in producing the tools and agendas that shape ESG governance. Throughout the next few sections, investors emerge as especially critical in this regard. Stakeholders frequently noted that ‘it was all about what investors want’. For instance, interviews corroborated various ways investors shape how social impact is being defined, what gets counted and how, including through thought leadership, lobbying or other collaborations. In this, these findings corroborate Gabor and Kohl’s (2022) description of large institutional investors as “pace-setters” in the ESG ecosystem.

6 Which ESG frameworks do rental investment stakeholders use and why?

6.1 ESG frameworks & Housing investments

For the time being, there is no singular established social taxonomy governing the social performance of rental housing in Australia. This arrangement is not unique to Australia. Standards Australia, , a peak national non-governmental standard-setting organisation, confirms: “There exists no global body monitoring ESG reporting. A lack of ESG standards and frameworks coupled with a lack of comparable ESG data sets are common barriers faced by organisations worldwide” (Standards Australia 2022: 6). This is problematic for investors who are keen to access internationally commensurate standards and metrics to render the social performance of disparate rental assets readily commensurate.

There have been some notable national developments aimed at addressing this governance void. In 2022, the National Housing Finance and Investment Corporation (NHFIC), the Community Housing Industry Association, 23 Community Housing Providers (CHPs), and private sector partners led by SGS Economics & Planning consultants, began collaborating on a new national voluntary industry-led ESG Reporting Standard. The *ESG Reporting Standard* was launched in March 2023 (see: https://www.communityhousing.com.au/environmental-social-and-governance-esg-reporting-standard/). Inspiration for this collaboration came from the new UK Sustainable Reporting Standard for Social Housing. As discussed in the previous chapter, the UK standard now provides a voluntary disclosure framework for social housing providers to measure and report on the environmental, social and governance impact in a transparent, consistent, and commensurate way. The framework is expected to include measures such as tenancy duration (churn) and wrap-around services provided to tenants, for instance. Also expected imminently is the release of work by Standards Australia that aims to provide further guidance on social value standards.

As explained, in the absence of any established public social taxonomy, a range of proprietary frameworks and ratings tools have flourished. These frameworks and tools support investors, fund managers and other relevant investment stakeholders to document, verify and render commensurable social considerations associated with their investments in Australian rental housing. Global rating agencies, such as MSCI, also play an instrumental role in ESG investment processes, providing information that guides the evaluation of companies and funds, and in turn, investment decision-making.

In some corners, concerns have been voiced about the reliability, consistency, and overall quality of ESG ratings as well as the retroactive ‘rewriting’ of ESG scores to reflect ‘adjustments’ to scoring methodologies—rewriting that typically tightens the link between ESG scores and returns (Berg et al 2021). There is little coherence between rating agencies’ methodologies, between scores allocated, nor with subsequent ratings (e.g. Berg et al 2021). This undermines comparison between products and in turn the commensurability of non-financial asset performance information. In essence, the criticism is that ESG ratings may tell us little about the level of environmental, social and governance impact an asset or portfolio will have. Rather, ESG ratings tell us about what risk that asset or portfolio presents to a company, due to its ESG characteristics.

6.2 Using frameworks, standards, and tools

Stakeholders were variously familiar with a multitude of private non-financial reporting standards, frameworks, and tools. Relevant international frameworks and associated networks include, for instance: the Principles for Responsible Investment (PRI), Global Reporting Initiative (GRI), the Taskforce on Climate-Related Financial Disclosure (TCFD) and the Sustainability Accounting Standards Board (SASB), and the Sustainable Development Investments Asset Owner’s Platform (SDI AOP). In terms of ratings systems, they cited various tools they use, or plan to use, to measure, score, and validate the social risks and opportunities presented by rental housing assets or portfolio involving these assets. A commonly cited international tool was GRESB, which is increasingly used by fund managers and other asset owners for rating and peer benchmarking purposes. These kinds of codes, tools and frameworks offer stakeholders more or less detailed and comprehensive guidelines and indicators to assist with ESG integration. Stakeholders also cited more narrowly focused ratings tools, with WELL Building standards especially popular.

Many stakeholders suggested these frameworks poorly capture social impact:

So we can use GRESB and Greenstar and all the rest. But none of them really hit the issue in terms of what's the impact created and then how do you measure that impact …(GRC01).

"So what we what we want is a framework for building owners and governments to be able to measure social value in their own projects, which we don't have at the moment. So everyone does it slightly differently or very differently. And we want to be able to standardise it". …(GRC09).

Some contrasted the regulatory ecosystem surrounding investments in Australian social housing with more stringent UK social housing reporting requirements. They suggested that in the UK, regulation was helping to bring social performance considerations to the fore at project tender stage and that this in turn had helped prompt the development of frameworks and an industry of consultants to support investors.

The consideration at tender stage, and it can be up to 20% of your tender process - it's a really big deal and just really widespread in the UK […], the reporting that needs to be done in the UK and the follow up to make sure that it is actually done and measured, not just committed to at the start. We're a long way behind there and that it hasn't really got the traction yet in the Australian market that it could have and certainly the lack of some kind of regulation saying it has to be done… (GRC09).

Stakeholders cited a related lack of standardised definitions for key components of a definition of social performance in the housing sector, such as ‘affordable housing’ or ‘key worker housing’.

The biggest issue for us, as both investors and also asset managers and in the sector, is the definitive measurable framework. So it's really strong in environment [considerations] and it is easier in environment, to be fair, because they're physical, tangible outcomes. For social [outcomes], it's really hard. For example, in affordable housing, there's not one definition of what affordable housing is. It differs by jurisdiction. So when you're a national company working across multiple jurisdictions, it's different - hopefully the federal government's new focus will bring that all back into line. But the definition of key workers in the City of Melbourne is very different to the City of Sydney, which is very different to the Community Housing sector, which is very different to what people's perceptions of the traditional form of key workers is. So I think, really it’s finding those definitive measurable frameworks (GRC01).

While it is well recognised that social considerations require a local focus, international tools are not necessarily adapted for the Australian market. The WELL Building tool provides a good example of the complications associated with transplanting ESG tools designed abroad into the Australian market. This example also provides insights into how the uptake of ESG tools transpires through professional and industry networks and the perceived value of third-party accreditation. A sustainability manager at a major asset management firm described the uptake of the new WELL Building tool as follows:

We're all very involved with each other in terms of Property Council, Green Building Council, NABERS, and all the rest. So when a new tool was coming out, we sort of learned about it through the Green Building Council. Some of the players in the initial WELL Building tool in the US had been involved in green building and climate bond as well. So there was a lot of people who knew each other. They said “we've got this new way of measuring health and well-being”. […]

There's a lot of metrics to measure the environment and the environmental impact and performance. But there's nothing to really measure social so it was probably the first social tool that kind of did look at the human impact and had really strong measurement credentials. It had a third-party certification; for us, that's really important. So it's not just us saying we've done this and we're great; it's actually a third party certifying it. So we can sort of rely on that and our [investment] boards like that as well. So it's got a lot of rigour (GRC01).

More generally, interviews underscored an important role for national and international ESG frameworks and tools, as well as the potential role of international organisations in shaping ESG governance in Australia. As just one example, the content of the Australian Green Building Council is informed by the global strategy of the World Green Building Council. The international scope of their organisational network means the Green Building Council Australia keeps abreast of recent research produced by the UK Green Building Council on social value, which is itself informed by UK regulation that requires demonstration of social value for commercial projects. These kinds of international networks of ESG stakeholders open up opportunities for so-called ‘policy mobilities’ in shaping the nature of ESG governance in Australia.

Besides these international tools, other familiar national sustainability frameworks were also cited. Foremost among these was GreenStar, which has recently expanded to include social criteria, and which is complemented by the National Australian Built Environment Rating System (NABERS) which measures operational energy efficiency. BTR platforms had not yet deployed GreenStar’s new social criteria. Stakeholders believed the changes to GreenStar were primarily focused on the precinct scale, including providing ‘spaces’ within developments that would support the creation of social value. They anticipated changes to the GreenStar Buildings tool, rather than changes to the GreenStar Performance tool, which evaluates the operation of buildings. A sustainability officer at a private equity company said the update to GreenStar to include social criteria was ‘really a welcome change, but it’s only just started so we’re just exploring what that means’ (GRC01).

The UN *Sustainable Development Goals* were also used by stakeholders in various ways. Stakeholders described using the SDGs as: a basis to engage with investor interests; a framework against which to map the contribution of their portfolio; a measure of another company’s performance (e.g. how a company aligns with the SDGs as an investment indicator); and as a means to gauge how other frameworks, such as GreenStar, map against their organisation’s goals.

At the level of ESG-orientated tool production, the SDGs inform decision-making about how to iterate and refine the production of their tools. For instance, the priorities of the GreenStar tool are guided by the SDG attainment ambitions of the GBCA, alongside other significant global institutional bodies, such as the World Economic Forum. This alignment happens through close and intensive consultation with industry at every stage (e.g. some 50 in-depth interviews, etc, for any small update), alongside industry influence through its GreenStar Technical Advisory Committee.

On occasion, the SDGs guided the formation of an organisation’s inhouse ESG strategy, which in turn informed the ESG-orientated frameworks they adopted. Other stakeholders described mobilising the SDGs *indirectly* through their use of tools and frameworks which were themselves governed by SDG ambitions. Extending on the example above, for instance, stakeholders emphasised how their use of the SDG-aligned GreenStar tool ensures their own alignment with the SDGs.

Another way organisations mobilise the SDGs through ESG assessment tools is via the Sustainable Development Investment Asset Owners’ Platform, which was formed by a coalition of investors, including APG, Australian Super, British Columbia Investment Management Corporation and PGGM (see https://www.sdi-aop.org/). A sustainability manager at a super fund explained:

So it's a tool. It's also a data set and also a taxonomy, so the ambition of the Sustainable Development Investment Asset Owners’ Platform is…the mission is to foster a global standard in which investors can invest into the United Nations SDG goals. So it's a really big ambition. But what we wanted to do was standardize the way in which everyone's talking about SDGs […] it's like a set of data that you can run across your listed equities and bond portfolio to measure how much you invested into the SDGs. But [additionally] it's also a really good investment research tool. So if you want to look up listed companies that are aligned to the SDG's as an investment indicator, it can produce that information as well. It actually picks up what information they’ve publicly disclosed, say through their annual reports. So it's auditable, verifiable and it's a very transparent standard (GRC03).

Stakeholders also detailed how customised in-house social performance criteria and rating tools informed rental investment analysis and decision-making. A good example of this was one social impact investor’s custom framework, which they used to assess the social impact for all their real estate assets, in tandem with third-party proprietary tools. The tool rated each potential investment against a set of criteria, producing a single score out of 100 points. The investors valued this scoring for making disparate assets more commensurate. While the tool was not housing specific, the social impact investor described how it nonetheless enabled them to compare the social impact of a commercial project in Asia against a build to rent project in Melbourne, for instance. The tool was also described as a work in progress. For instance, a ‘not good enough’ threshold under which social performance was too inadequate and under which they wouldn’t invest had not yet been defined.

More generally, this social impact investor’s comments reflect a common desire among stakeholders to render (potential) investments readily commensurable so as to facilitate investment analysis and decision-making:

> *So how do you possibly measure that versus a build-to-rent property in Southbank? We needed a way to do that, which is why we developed our rating tool. As soon as the industry itself globally comes up with an effective way to do the same thing, we’ll drop our bespoke internal tool but until that happens, we need some way to do that. […]*

Further commentary from this same social impact investor reinforces the key role proprietary frameworks play and also speaks to circularity in ESG-orientated tool production, whereby social performance ratings and social performance-related investment practices, each inform the other:

> *[Our in-house tool] also gives us the discipline to think about how we improve the point scoring system. So that’s an internal bespoke tool, but to be harmonised with external tools, we’ll use WELL Building Certification so that the internal way we review and design solutions has an external certified practice that’s known by industry and properties can be regarded as a silver, gold, platinum, along the WELL Certification scale. […] So [our in-house tool] helps us ….work out how we lift the degree of additionality and intentionality of the investment and so if we’re running at 50 points [out of 100 points] we’ll have that internal conversation between investors and partners, how we lift that. That happens before, so the WELL certification is a later process because that’s once you’ve made some fundamental decisions of what opportunities you’re going to pursue. So think of the internal tool as determining what [social impact fund, name redacted] ends up backing in the market and think of the WELL Certification as a way of then quantifying based on an industry norm how that… (GRC05).*

Despite ambitions to integrate SDG goals into ESG-orientated investment strategies, some stakeholders remained critical of the SDGs. The primary criticisms in this regard were that some aspects of the SDGs were poorly suited to the Australian context and that the goals were poorly or vaguely operationalised in the Australian context.

> *We all talk about SDGs but if you look at them in terms of their targets and indicators, many of them - and I come from international development background - only really apply to developing economies where your basic needs in society are not being met and therefore we’ve got thresholds for them to find in the SDGs, which are applicable for many of our investment into emerging markets.*
>
> *A lot of people domestically therefore map onto the SDG themes without giving too much more meaning beyond the mapping exercise. Where I think the whole industry’s going and we’ve talked to the Global Impact Investment Network, GIIN, who preside over thinking on this and IMP, is the universal common denominator, whether you’re in Melbourne, Australia, or Mozambique or Madagascar or Myanmar - your lived experience of wellbeing versus the counterfactual within the context in which you live (GRC05).*

6.3 Strategizing social performance

Rental sector stakeholders were at very different stages in their “S” in ESG journeys, including because they were varyingly engaged with ESG more broadly. Some stakeholders had established ESG strategies. They described comprehensive internal strategies, policies and/or frameworks, and used numerous proprietary frameworks. They also described how private rating tools, such as WELL Building, informed and guided their

evolving approach to social considerations within investment analysis and decision-making, including through updates to measures and certification processes. Established investors or associated fund managers and asset managers described using an array of different international tools and frameworks. In Australia, ESG tools such as GreenStar are applied at the asset level, but they assist at the investment fund level too. For instance, an investment manager will use GreenStar as a reference in GRESB reporting on their fund. Additional functions were also mentioned including using rating tools and frameworks to help define an ESG strategy for an organisation; ensure organisations have the most up-to-date benchmarks for ESG both within Australia and globally; and demonstrate verifiable compliance.

By contrast, other stakeholders revealed their consideration of social factors was still underdeveloped, as comments from a local BTR newcomer demonstrate, and several were currently assessing which frameworks they might adopt:

> *I don't think we do yet [use any specific frameworks to measure the S], I think we're trying to work out, do we want to be part of what? What rating tool do we want to use? Do we want to use the GRESB or something else? That's something that we’ve yet to determine. [...] It's actually really hard to work out what which one of those things do you? […] We talk about them a lot [specifically the SDGs]. We're sort of in the process of recalibrating. What's this? What's the tool? What's the best tool to measure now? What's the next generation? You know, I talked about those generations and buildings. Like, what's next Gen for us, and that's changed so rapidly, like the no gas (in buildings) stuff. The first two buildings are gas. The third one doesn't have gas like it's…that's - every really just moved so quick. That's a live discussion right at this moment (GRC07).*

Industry was proactive in searching for appropriate frameworks and partnerships to rate and accredit the social performance of their assets. In deciding which tools to use, stakeholders were interested primarily in ‘how credible’ and ‘how relevant’ particular tools and frameworks were in the face of evolving consumer and investor expectations (GRC03). ESG strategy decisions were informed by stakeholders’ industry networks, including ‘a large network of information sources’, such as the Sustainable Development Investments Asset Owners Platform, the UN PRI, and broker updates. For social impact investors specifically, a survey by the Global Impact Investing Network suggests the vast majority use the SDGs as their ‘north star’ (GIIN 2020b). Some stakeholders also mentioned the cost of using particular frameworks such as WELL Building, suggesting that while this did not deter their use of these tools, they opted for the less costly, less comprehensive assessment options.

Investors also play an instrumental role in shaping the uptake of EGS-orientated tools and, conversely, several stakeholders also commented that better quality social performance rating data would assist in attracting more investors and enable some stakeholders’ access to cheaper concessional finance.

Stakeholders also suggested that ‘what investors want’ guided their decisions about which social performance rating tools they used. Stakeholders described investor expectations in terms of social performance ratings, or social performance evidence/data, again often pointing to deficits they saw in the tools currently available to them.

> *So from an investment point of view, the investors always say to us: “Yeah, we're interested in social, but there's no way for us to measure whether what you're doing is comparable.” There's also no way to ensure that the employment project that we've got a JV [joint venture] with and with the builder on a site isn't being reported three times. So I mean, we're very cognizant of that. But there is no rules and regulations around that or taxonomy around that. So I think for us, being able to have been quite definitive about what we're measuring and then having some best practice standards… (GRC01).*

Another stakeholder emphasised the key role of investor perferences: ‘I must say, it was more driven by the investors’ preferences rather than a domestic framework.’ (GRC05). Other commentary illustrates how investor expectations encourage investment managers to adopt particular international rating tools.

> *So actually in the capital raising process itself, that we [social impact fund manager] presented to investors how we can measure [social] contribution. They wanted something that’s more standardised that they could use and in a way that would be recognised across global markets. The investors that we work with are international and so that’s why the*

> *WELL Certification system worked well for investors.... Oh, that was the other factor, that WELL Certification cross-references Green Star and they collaborate together so it was - we are already using Green Star ratings so it made sense to cover the social through WELL Certification. (GRC05)*

Notably, while investor preferences could stimulate ESG-orientated investment strategies, discussions also highlighted that social performance came very much secondary to environmental performance ratings and usually to governance considerations too. One stakeholder thus summed up what investors want as: “Capital E, small case S, capital G, typically!’” (GRC05).

7 “S” in practice: What is measured? What is missed?

Discussions highlighted stakeholders’ perspectives on the practical challenges they encountered in using assessment tools to measure rental housing social performance. A handful of challenges are documented below. A second section distils some of the underlying complexities behind those challenges. That distillation provides a starting point for thinking about future research needs in Chapter 8.

7.1 Stakeholder experiences

Measuring the “S” in ESG was not seamless. Stakeholder discussions revealed at least six tensions or challenges they experienced with social performance assessments. In the first instance, international tools transplanted into the Australian context required recalibration to account for a wide range of local specificities, including local regulation. For instance, some US-driven standards in the WELL Building tool – such as for “No Smoking” signs were non-sensical, given Australia’s more stringent smoking laws.

> *We did have to -- when [Well Building Rating] first came to Australia -- "Australianise" it because a lot of the standards that they put which were great for America were below the Australian standards. [...] Things like they asked everyone to put up “No Smoking” signs. We said we don't need to because you can't actually smoke in the workplace in Australia. And they're like, but you still have to put up a sign for to get the accreditation. And we're going “No, we can't!” And some of their air quality requirements were lower than what we have in Australia so… [...] We also engaged with them because in Asia, you know, the air quality was so bad. [Well Building] were trying to reduce the requirements and we were saying: “No, no, we're not going to reduce - we're not going to sign up to anything that's making air quality worse just to make it easy for some of the other countries to get in. So that was really robust conversations and so we've got to a place now where if you're in Australia, there's certain parts of the tool that don't apply because you just get automatic points. (GRC01).*

This echoes accounts of MSCI ratings where points are being given to corporate practices that are legally required. Where physical testing was required for Well Building assessments, in the early days this involved investors paying to fly out WELL Building accredited staff from the US, since initially there were no approved local accreditors.

Second, social impact assessments tended to rely on measurement units that were readily available and countable. Staying with the Well Building example, for instance, the full complexity and health and wellbeing impacts are reduced to those things that are most readily measurable or ‘visibly quantifiable’, such as number of bike racks or resident events hosted or facilities provided (GRC09).

> *We've always been very focused on health and well-being and also on integrating that into the environments in which we operate. So we've been very focused on getting Well Building ratings across our buildings, which is really a lovely rating in the fact that it's not just about the built form and the physical building, but it's actually the way that it interacts with the people in it, and very much the human impacts of what a built environment creates. I quite like the Well rating, it's very scientific*

Such comments also highlight a common assumption that quantification produces scientific information about the non-financial performance of an asset or fund portfolio. This impression of objectivity is compelling to asset owners and managers alike, as it makes the social performance of highly differentiated housing investments easier to compare. This approach might work well enough with energy efficiency, for instance, but is not readily amenable to capturing more intangible impacts such as the quality of a ‘community’. One stakeholder summarised by making a key distinction between measuring outputs (i.e.. what’s delivered) versus impact (i.e. what’s achieved by delivering those outputs): ‘just counting housing units or the cost of those units or how much below market rates they are, because that’s only output level – it doesn’t determine wellbeing’ (GRC05).

Some stakeholders acknowledged that good ratings could be achieved without actual engagement with residents. One stakeholder commented:

But you can be Platinum on WELL Certification and still not be tracking on feedback from your residents. So that’s the disconnect…(GRC09).

More generally, tenant-related data was not always readily available to stakeholders. This data and other kinds of qualitative data was potentially difficult to collect and complex to audit. By contrast, some fund managers collected all manner of data from tenants which could be repackaged for GRESB reporting. Some of this data was collected directly through automated resident surveys and some through various forms of resident surveillance and tracking. This latter data might include residents’ RSVPs to community events or data about their engagement with resident apps.

Third, social impact is not readily verifiable at present and social impact ambitions do not always translate to impact on the ground. An investor gives an example of this in one of their commercial office assets:

“…when you're starting a development […] come up with these lovely designs, and you say this will be a public terrace and everything and then a tenant will come through, saying we want that whole [space] to ourselves, no one else [is] to access it. And the leasing teams go, well, it is the whole floor and all, they're taking several floors and they want that. And so your dream of a public terrace and a public garden have kind of gone. But at the same time, the tenants getting it, so it's like, at the end of the day, someone's achieving it (GRC07).

This example reinforces the earlier point about the tension surrounding the question of who benefits from investments into rental housing, and at what cost to whom. Social impact investors attempt to navigate related issues by appraising the ‘impact efficiency’ of investment opportunities. A social impact investor described impact efficiency as the comparable value [pace, efficiency, scale] per million dollars of impact investment, say $100m deployed into Australian BTR, over another investment, possibly into another sector, perhaps even abroad. For reporting, the IRIS Taxonomy, which was designed by the *Global Impact Investing Network [GINN]*, provides a number against a taxonomical code that enables fund managers to compare Australian BTR assets against assets elsewhere, be that in the US, UK, or the Netherlands. A GIIN annual report compares the impact performance of different housing solutions; if impact investors identified and collected performance data aligned with the taxonomy, they could use the IRIS codes to compare their (prospective) investments, for instance.

This tension over who the beneficiaries of investment are raises questions about how we define the scales/sites of impact. Institutional investors may attempt to negotiate to make provisions for affordable housing at an offsite location or claim social impact by having residents register for payment plans into philanthropic schemes that then raise funds to support social and affordable housing development (e.g. Homes for Homes). These ‘offset’ and off-site approaches potentially lock cohorts out of well-connected, job-rich urban sites while ostensibly compensating for this by delivering social benefits elsewhere. These strategies highlight the need for careful consideration about how the site of social impact is defined relative to physical site of investment.

Fourth, collection and aggregation of ESG data and reporting of this data to appropriate stakeholders was not seamless nor automated, despite the increased use of various property technologies:

We have to cut and dice the data according to who's asking [for the data]. So if a fund asked for it, we have to cut it by their funds [approach] and then we do it by their net lettable area and things like that. If it's for the platform that's a different sort of report again.[...] It it's not as seamless as I'd like I'd really like to have some nice dashboards that you can just pull it up and go “this is how everything's performing and then this is how we're tracking towards that net zero goal” -- because a bit of that is still a bit manual.

Fifth, proprietary accreditation attracts high fees. While investors are not strapped for cash, accreditation is big business, as private rating agencies and tool producers capitalise on growing interest in commensurable ESG-orientated products. For instance, a new BTR platform spoke begrudgingly about how GreenStar cost them around $250K for a large apartment building which might otherwise be invested into the development (GRC07). In the case of some accreditation models, the highest fee models give fund or asset managers access to the most comprehensive and stringent ratings, and more worryingly, the highest potential ratings. For instance,

with Well Building assessments, asset managers and fund managers can have their entire portfolio accredited (as a single entity) or asset-by-asset. One sustainability manager at a major international fund management company explained that they tended only to undertake physical testing on new building assets where commercial clients had requested it. This tendency to undertake minimal testing had potentially significant repercussions, they claimed: ‘[we] can’t get over a certain point score if you don’t do physical testing of each building, which for us is too expensive’.

A sixth and final tension raised by stakeholders was the claim that a non-negligible share of responsibility for the social outcomes of a real estate asset is ceded to the occupier, who has some agency over how a home is operated. Stakeholders suggested that rating agencies are conscious of this. Stakeholders want to see a framework that investors can readily adhere to given occupant agency and suggested this may require various occupant education programs.

7.2 Assessment complexities

This series of practical issues surrounding the use of ESG assessment tools speak to some of the underlying challenges facing the assessment of social performance delivered through rental housing investment. Below, some of these challenges are briefly outlined.

Adequacy of social impact assessment methodologies and sophistication and accuracy of social impact ratings. The verifiability of some social impact claims made in relation to rental housing assets has not been robustly evaluated. There is potential for problematic substitutions of data on *outputs* (ie. what’s delivered) as a proxy for data demonstrating *impact* (ie. what’s achieved through that output). There are also potential disconnects between data used to demonstrate impact (e.g. engagement on resident app) and actual impact claimed (e.g. strong community connections). The seduction of quantification and various other data constraints risks encouraging difficult-to-measure but meaningful social impacts, such as connections formed amongst residents, to be reduced to questionable proxies.

Moreover, assessment methodologies typically do not establish any baseline from which to gauge social value associated with investments, which is *additional* to social value which would have been otherwise been achieved irrespective of investments. Conversely, assessment tools often do not adequately account for what has been lost, including the displacement of existing homes, communities, services and amenities, and so forth. These tools also tend not to account for the extent to which ‘new’ social value represents social value displaced from elsewhere. Some of these issues stem in part from definitional ambiguity surrounding what social value is in the context of rental housing investments, as overviewed in prior chapters.

Many of these issues relate to an overarching issue: the extent to which assessment tools can readily or accurately account for local needs and wants, given the lack of local community participation in ESG-orientated tool design and the lack of resident involved in the design or operation of the rental buildings. Relatedly, there are unanswered questions about the appropriate scales/sites and timeframes for *delivering* social impact through rental housing investments. Where should social value be delivered, and across what timeframes? How do we ensure that social value, once delivered, is sustainable and is actually sustained in practice? Relatedly, to what extent should investor ‘exits’ from rental housing assets be considered? These issues also highlight tricky questions about the appropriate scales/sites and timeframes for *assessing* the social impact of any single rental housing investment. As noted, some tools allow for benchmarking of entire property funds, such as WELL Building. Conversely, some tools allow for measurement at the precinct level, such as GreenStar Community tool, which rather rates all homes and shared infrastructure (e.g. Ginninderry in Canberra, Australia’s first 6-star rated community).

Data quality. Stakeholders were cognisant of data quality issues, with these issues related to the complexities of defining, and in turn measuring, social value. This complexity contrasts with the relatively more straightforward measurement of environmental performance. This complexity also raises questions about the accuracy and auditability of qualitative descriptors for some measures of social impact, especially when sources include aggregated data from existing datasets. Examples of the latter include the use of non-asset specific data in NHFIC’s social bond reporting and the use of third-party data science companies to ascertain resident experience, for instance.

There are also questions to be answered about the collection and use of renter data and the role this data should play in assessments. Renter data appears especially important in assessing social value as it provides vital first-hand accounts about residents’ housing experiences, for instance. On the other hand, reliance on

data collected from tenants repeatedly, over time, raises concerns about intrusions on privacy, survey fatigue and use of data to discipline tenants. These concerns require careful consideration to ensure renters are adequately protected within their private homes.

Conflicts of interest in social performance assessments. Previous sections underscore the collaborations and crossovers that exist between tool makers and tool users. There are also potential conflicts of interest where the pool of tool users overlaps with the pool of tool assessors. One respondent referred to issues that arose when Social Ventures Australia (consultancy) devised the Disability Housing Outcomes Framework but then turned out to also be the organisation best placed to undertake assessment interviews with residents.

Priorities, trade-offs and unspoken assumptions. Tools and frameworks inherently prioritise some impacts over others. This prioritisation involves a host of trade-offs underpinned by a raft of assumptions about what matters most and what matters less, or indeed not at all. The simple matter of assessing the quality of a communal space, for instance, involves subjective judgements about the relative importance of size, functionality, and design quality, for instance.

Many ESG-orientated tools and frameworks provide little to no incentive to move beyond siloed, asset-level thinking and integrate within system-level thinking and strategies to deliver coordinated approaches to social objectives. For instance, prevailing social performance benchmarking might well encourage 'flagship' or bespoke solutions at specific sites that have the potential to advance debate and eventually shift social performance standards and expectations. But current assessments may not even register any potential harms associated with these projects, such as the displacement of existing communities and various forms of financial (ie. affordability) or racialized exclusion in the 'curation' of resident communities. Academic literature, especially the new literature on so-termed eco-apartheid, engages with these kinds of access risks, especially in relation to 'green' projects. It is partly in this sense that the unscrutinised rise of ESG investing risks contributing, and indeed providing validation for, investment approaches that do little to move the needle on social indicators.

Commensurability versus flexibility. Measuring the "S" relies upon indictors that flatten the complexity and diversity of complex social phenomenon into readily countable impact indicators. Legal anthropologist Merry (2016) frames the tension within such methodological approaches in terms a dilemma between commensurability and flexibility, noting that flexibility remains essential for ensuring that indicators can accommodate for local needs.

8 Future Research Directions

Outlined below are three lines of inquiry for future research. Note these selections are far from exhaustive.

8.1 Expert knowledge in the governance of social impact

Social performance tools provide the veneer of expert (international) consensus on the social impact credentials of an asset or portfolio. Yet private decisions and technocratic expertise about *what* to measure and *how* to measure are embedded in the design of ESG-oriented frameworks and tools. This has myriad implications. Social performance frameworks codify understandings and definitions of social impact delivered through rental housing investments. Seemingly objective and transparent measures of social performance delimit how (the possibilities for) social impact is understood including what matters and what does not. Social performance ratings help render commensurable the financial materiality of social factors on each investment for financial actors. This commensurability in turn helps transform spatially fixed housing assets into the liquid assets capital requires.

Fine-grain qualitative research could valuably examine the politics and practices of tools production, including to understand the evolution of tools across time and place. Social performance indicators reduce complex social phenomenon into a selective set of data points on a series of indicators. These data points may be simple numerical representations, such as quantity of affordable homes provided, and they may include qualitative information, such as providing case studies to document placemaking or place-shaping activities (The latter is an example from the Good Economy framework for ESG measurement in social housing). The production of these tools will often involve radical simplification. Things that are readily countable may be favoured. Even composite indicators, that merge together multiple data points, may yield more or less inaccurate descriptions. Further research could explore how the complexities of scale are navigated during tool production and in turn how these shape social performance expectations and outcomes. Standard setters prioritise particular scales both when they set the size/scope of ESG assessment (e.g. asset, portfolio) and when they define measurement methodologies that delineate the site of impact (e.g. dwelling, building, community, national level, etc). Their (de)prioritisation of one scale over another necessarily favours some outcomes over others. For instance, social performance standards say things about whose experiences matter (ie. the building tenants, the broader community, etc) and whose matter less or not at all (e.g. communities that are displaced) in assessing social impact. Related work might consider what social performance tools say about timeframes of impact, and especially how metrics (de)prioritise particular impact timeframes. These kinds of concerns are well-established in the academic literature, albeit not within private rental housing (for excellent discussion about the seduction of quantification technologies and practices see: Merry 2016; and for examples of housing-specific fallout, see: Sisson 2021).

This is not merely a question of assessment accuracy, but also a question about the politics of standard setting. Future work might additionally explore, for instance: consensus-building on social performance methodologies; underlying assumptions and the (de)prioritisation of certain social impact scales and timeframes in benchmarking tools; and the management of tensions, such as the desire for generic standardised metrics and local specificities (e.g. in housing need; institutional, geographical, cultural, etc), for instance.

We require better understandings of those involved and excluded from ESG-orientated standard-setting in the governance of rental housing investment. This report suggests some key community stakeholders are overlooked in the production of tools, including renters themselves, with their agency and ambition to participate in shaping their own futures undervalued and overlooked. Prior research on social impact investment underscores potential beneficiaries as ‘experts in their own lives’ to be engaged in co-creating and co-designing to ensure that approaches and interventions are well targeted, inclusive and equitable (Muir et al 2018: 1). Local communities need adequate resourcing to meaningfully engage and exert control over their housing futures.

Beyond tool production, future work could valuably explore the practices of social performance benchmarking/rating, and the relationship between those practices and actual social impact. First, there is a need for greater understanding about how fund managers and asset managers select tools, and how those tools and associated ratings inform investment decision-making. There is a need for greater specificity about the role of ratings and their beneficiaries. These lines of inquiry stand to deepen our understanding of how

those things that are counted becomes the thing that matters, or that are optimised, in investment analysis and decision-making.

Given the role of property technologies in collecting, aggregating and analysing social performance data, there is interest in understanding the (automated) digitalised practices and technologies involved, how these work, how the technologies themselves inform measurement methodologies, and their risks. Second, given the weak evidence of links between ratings and actual impact, research could valuably trace the subsequent connections between benchmarking methodologies, the geographies and modalities of investment and, in turn, the impact of those investments. Among other things, we need evidence of the link between what’s measured and real world impact. In this, ascertaining the local lived experiences of investments is a must, to triangulate other evaluation approaches.

8.2 Governing *through* social impact frameworks

This research raises questions about the various roles and responsibilities of government and the private sector. We are interested in the governance of social performance of rental housing assets, namely through frameworks and ratings tools. But we are equally interested in the way states govern *through* on the social performance of rental housing assets, be that via regulation (stick) or incentives/de-risking efforts (carrots) at various junctures. One such example is the potential for government tenders to further integrate social performance ratings into scoring processes in (pilot/demonstration) projects.

There is value in moving beyond binary conceptions of state/private power and simplistic notions of state/market relations in framing the challenges and opportunities surrounding the formalisation of ESG governance. We endorse a move away from a simplistic rendering of states as having simply ceded power to markets to define, measure and govern social impact. The idea that states would be motivated – if only we could define ‘best practice’ – to discipline markets represents an overly simplistic perspective of the state that does not appreciate the state’s active role in creating conditions amenable to private finance. Instead, we suggest a way forward must be cognisant of the role of the state in sustaining conditions for deep and liquid markets – including in rental housing – ranging from ‘safeguarding liabilities to encouraging asset creation’ (Christophers 2022: 136), increasingly through de-risking activities.

There are helpful conceptual tools to move beyond tired framings of state/finance relations. Those tools bring more sensitivity to constraints on state actions by recognising the entanglement of ‘state and state-policymaking ...[as] operationally entangled with market mechanisms’ (Christophers 2022: 148). In this vein, one alternative way to understand the essential relationship between the state and finance capital is through the concepts of *instrumental power* and *infrastructural power* from the critical macro-finance literature. These offer helpful conceptual tools for understanding the role of the state and the private sector vis-à-vis the social performance of rental housing (assets) to move this discussion forward.

Instrumental power refers to the finance industry’s capacity to shape decision-making with regards to social impact, such as through lobby power or through direct involvement in ESG tool production. As previewed, industry enacts instrumental power for various reasons. For instance, ESG ratings assist industry in managing transition risk; provide political cover to dissuade or block further regulation on ESG that might limit returns; help cement the perception that rental investments contribute adequately; and enable fund managers to attract higher fees and enable some investors to access lower cost credit.

However, the finance sector’s power (over states) is not simply instrumental, but moreover infrastructural as states rely on markets to govern, such as using markets to pursue particular policy agendas. This perspective understands the market as an infrastructure of governance. This does not deny state power; it does not assume the state is a passive bystander nor understand the state as simply a reactive respondent to capital flowing into and through rental investments. Rather, it draws on the basic premise of critical macro-finance, namely: the notion that financial markets are a key means through which the state manages social and economic life (Gabor 2020). This perspective positions states as intimately involved in markets – through policies and regulation, but also as active participants, for instance in the SII and indirectly through CHP, for instance, and as sovereign borrowers. But also more actively than this, in the way the state draws on the market as key governance infrastructure through which to govern, be that monetary policy, climate policy or housing policy. Indeed housing policy is, to a large degree, conducted via markets (Christophers 2022; Braun and Gabor 2020). This leaves states with an ‘infrastructural dependence on finance’ and it leaves finance with an ‘infrastructural power’ over states, since states rely upon those markets to govern (Gabor 2021). In times of

crisis, for instance, we see states intervene to stabilise or de-risk markets by implementing policies to de-risk capital flows and liquidity, such as by assisting in constructing new asset classes (Christophers 2022).

These conceptual framings lead us away from framings of the private sector as market makers, market fixers or indeed from narratives of market failure. Instead, they suggest that moderating or reducing the power of finance over the ESG governance requires not just addressing the instrumental power of finance, but those ‘infrastructural entanglements’ between finance and states.

While this report underscores the deep involvement of the private sector in producing myriad ESG-orientated tools, the role of public governance warrants further attention. In the first instance, future work might explore the potential for other mechanisms to incentivise and regulate compliance to achieve higher social performance of rental housing investments. There is a need to investigate the potential social performance benefits/efficacy of interventions (including over the longer-term) to prioritise, quantify, and report on social metrics. This includes interrogation of government-led or supported incubator/pilot/demonstration projects; of process to integrate and weight social performance in government tendering processes; and of competitive design challenges (funding).

Beyond piecemeal interventions, there is also significant interest in the production of public taxonomies, their resourcing, methodologies, auditing and impacts. The European Commission Taxonomy Regulation (2020)—a classificatory guide for investors and decision-makers—to incorporate social objectives, warrants special attention to unpick the motivations for developing a public taxonomy and why this appears to have stalled. Research is required that recognises complex state positioning (see above) and investigates the subsequent complexities surrounding the development of public taxonomies. This should focus on both instrumental and infrastructural power. In terms of instrumental power, it might explore the considerable lobby power of institutional investors and their ongoing deep involvement in tool production; as well as the considerable incentives for any tool maker to continue to drive – rather than constrain - institutional investments into housing assets.

In speaking with stakeholders involved in that process in Europe, for instance, we heard how initial iterations of the EC social taxonomy were progressive, motivated by “a very clear sense that private taxonomies weren’t good enough, [and] that a public social taxonomy would really be a very detailed and comprehensive set of conditions” (GRC06). Those early iterations were to draw upon other authoritative standards such as the AAAQ approach [availability, accessibility, affordability, and quality] and proposed a vertical dimension informed, inter alia, by the International Bill of Human Rights. Private finance lobbies response was hostile, and the stalled taxonomy was significantly watered down.

> *“was 'this is mental, there will be no housing assets left for us, because if you impose all this, no housing in our portfolios will qualify […] And the fact that they kicked the vertical dimension out, is, to me, an excellent illustration of how politically unpalatable that is for institutional landlords that suggestion was...and it goes to the core of the ...conflict in housing [as an asset class]"." (GRC06).*

Such commentary underscores the politics of ESG framework production, and the bind of states that are committed to supporting market provision of housing, in which private capital holds enormous sway and for whom social impact assessments are calibrated by private finance’s profit imperative. This is not to deny opportunities for synergies between creating profits and social value creation. But it highlights the significant tensions and limits in that particular Venn diagram, that seeks to create social value via particular codified understandings of social impact. As some stakeholders conceded, this leaves us with private taxonomies, designed by and for private finance, that can ‘really allow you [as an investor] to say whatever you want about an asset class’ (GRC06). At worst, this leaves us with the ‘the lowest common denominator set by private finance’ (GRC06). The risk is that private finance leverages privatised codifications of social impact to create financial value while providing negligible social benefit, as some accounts already document (See Blackstone examples in Gabor and Kohl, 2022).

The European Commission’s Social Taxonomy work may embody motivations above and beyond ‘better regulation’ or the disciplining of private capital, including revealing vested state interests in making infrastructure more investable. The cited Blackstone case study also provides ready evidence that (initially admirable) ambitions are not easily realised in practice. Further work is required to understand public

taxonomies, including the complexities and challenges surrounding framework design, implementation, auditing and enforcement.

8.3 Business models for social impact

There are at least two interesting questions to be explored around the interaction between social impact and business models for institutional investment in rental stock. The obvious question here is: Which business models for institutional investment in rental stock might secure and sustain favourable social impacts? Below we provide some background to this line of inquiry. Additional to this, a less obvious but nonetheless important question to ask is: How are expectations surrounding social performance ratings of rental housing assets informing the business models of institutional investors? Exploration of this latter question could extend critical studies of actors across the value chain, from impact investors and real estate services firms that advise, track and audit social impact, to BTR operators.

In terms of exploring the first question on business models that secure favourable social impacts, an obvious site of inquiry is the social housing sector, whose models of provision and operation vary across jurisdictions.[1] We recognise that the social housing sector is increasingly financialised. The social housing sector is especially vulnerable to financialising forces because of the challenges of funding social housing provision. Those challenges include navigating the high up-front costs of buying or constructing homes, while competing with the private sector, including for land, development and commercial loan finance (Norris and Byrne 2021). In practice, this usually sees funding secured from various combinations of public, private, and not for profit sector funding sources (ie. breadth), various fluctuating volumes of finance that mirror (or not) wider economic and private housing market dynamics (ie. cyclicality), and various degrees of public subsidy retention (and reinvestment) within the sector and/or seepage (and privatisation) to external actors (such as rental revenues, interest payments). Put differently, the financial flows into the social housing sector vary in their breadth, cyclicality, and permeability (Norris and Byrne 2021).

Social outcomes achieved by the social housing sector are shaped by a wide range of macro level political economy dynamics as well as micro level financing arrangements, and particularly those aforementioned characteristics of the financial flows (ie. breadth, cyclicality and permeability) into and through the social housing sector (Norris and Byrne 2021). In Europe, for instance, financing variously flows from government and from private sources and is determined by a wide range of factors. That said, rent-setting mechanisms – whether market-based rents, utility-based rents or income-based rents, or cost-based – do tend to inform and reflect the particular funding structure of a social housing development.[2] Norris and Byrne (2021) underscore the importance of the sources, form and cost of finance for social housing in distinguishing between ‘resilient’ social housing sectors, such as found in Denmark, and ‘vulnerable’ social housing sectors, such as that of Ireland.

Cost-based social rental model

Housing Europe in collaboration with The Housing Agency (Ireland) evaluated a cost-based social rental home model. A recent Housing Europe (2021: 7) report delineated the ‘mechanics’ of rent-setting and financing in Austria, Denmark and Finland as a potential guide for national/local adaptations, and to promote this cost-based social housing model to ‘reimagine or restructure affordable housing provision’. The model differs in its local applications but iterations share the principle of universal access to affordable housing through proactive *longer-term planning* aligned with well delineated housing strategies rather than piecemeal efforts, and reliable funding options, including to recycle funds (cost-recovery). The report suggests this has enabled these countries to ‘fare better than most in recent times in terms of provision of new or renovated social housing’ (Housing Europe 2021).

[1] Social housing (especially a heavily financialised sector) is not the only site or ideal site for securing safe and affordable housing for all. It does not offer a panacea and it cannot replace public investments into government owned and operated housing, namely public housing.

[2] Cost-based refers to the mechanisms used for rent-setting. This approach allows for rents set at levels that cover operating costs to operator/landlord (e.g. loan repayments, maintenance, insurance, etc). This is a method used to set rents in some social rental homes in Austria, Denmark, Finland, France and Sweden, among other countries, for example.

Recently, academic research on the financialisaton of housing has been carried forward into the policy arena through the Housing 2030 project, which was commissioned by the United Nations *Economic Commission for Europe* (UNECE), UN Habitat and Housing Europe, which represents social landlords in Europe. The Housing2030 project aimed to delineate tools that could ‘tame’ financialization and underscored ‘good practice’ for delivering housing affordability (Lawson et al. 2021; Norris and Lawson 2022). Those tools aim to secure better housing outcomes using policy tools for governance, land, finance and climate neutrality.

In terms of finance specifically, the report cites two levers. Rirst, arrangements for *funding housing* (e.g. resources allocated to governments, business and householders) to cover capital investment and operating costs; and second, *housing finance* tools, including those that spread otherwise high upfront costs over time. Using these funding and financing levers, the authors argue, can promote better affordability and access outcomes. Among diverse tools, the Housing 2030 report cites: regulating financial institutions supporting non-profit affordable housing models (where surpluses are reinvested rather than extracted by shareholders); regulating rent setting; public investments in housing, and use of taxation mechanisms to steer housing outcomes. Affordable housing bonds provide another lever but require transparency and higher standards of reporting, alongside well developed affordable and social benchmarking (57). The report cites NWB, the Dutch public investment bank, as a case study, with their award-winning social bonds KPI data on bonds impact on social housing provision. Chapter 2 of their report discusses in detail investment and finance tools for affordable and inclusive housing.

9 Conclusions

Housing constitutes vital social infrastructure, the majority of which is private financed, privately owned and privately operated (Lawson et al 2022). This housing is meanwhile variously subsidised and regulated through a complex raft of federal, state and local government policy and legislation. Under these and other macro conditions, housing assumes a complex role, including operating as an investment vehicle for individuals and other investors. Ongoing trends towards the financialization of housing makes accessing and staying housed harder for growing numbers of households. Meanwhile, good housing outcomes involve a broad range of stakeholders and are delivered at multiple scales. Those sites/scales include: housing as a human right and the need for safe, secure, affordable, and quality houses to support a dignified life for all people; housing supply suited to population needs; housing that creates a sense of wellbeing and community for residents; and housing that supports inclusive and sustainable local communities.

Given that housing is a critical social infrastructure, we take the view that those who invest in housing should be held strictly accountable for the social impacts of their investments and that all investments should be geared to deliver the greatest possible public benefits and harm minimisation. As this report makes clear, a range of frameworks have been developed to support ESG credentialling of rental housing investments including GRESB, sustainability standards such as SASB Standards, and frameworks developed for housing such as The Good Economy’s 2020 *Sustainability Reporting Standard for Social Housing*. Global frameworks such as the Sustainable Development Goals provide additional opportunities for investors to identify, define and realise just outcomes and processes based on internationally agreed goals.

But we must recognise that what appropriate social performance is – how its defined, measured, audited and resourced – is still an open debate. For many stakeholders, “S” considerations are a new concern, and one that often has clearer application (from their vantage point) to their organisational practices and staff than to the people and communities living within and around their investments. While prior sections provide some initial reflections, further work is clearly required to adequately answer questions such as: How do we define and benchmark the “S” of ESG in rental housing? Indeed, what is and isn’t ‘counted’ in assessing housing’s social impacts, and how is it counted? What assumptions underpin those measurements?

This scoping report raises more questions than it answers in this sense, about how the growing formalisation of social performance of rental housing assets is and might shape rental sectors, modes and (uneven) geographies of investment, and rental experiences. It raises questions about the actual and appropriate scales and temporalities of measuring and assessing social impact, as well as questions about its (desired) beneficiaries and its risks. Other questions surround the extent to which rating mechanisms can be both meaningful and universally fit-for-purpose and how national and international frameworks might best be adapted to account for local specificity. Finally, there are significant outstanding questions about the extent to which ratings might meaningfully represent intangible complex social benefits such as ‘liveability’ and home-related needs for community, inclusion, health and wellness, safety, and agency.

A key context for appraising these and other outstanding questions is the prevailing financialization of rental housing and the Wall Street Consensus. As a vast corpus of research on the financialization of housing underscores, finance and financial flows matter considerably in shaping our housing system (ie. the development, operation, and exchange of private, social and public housing) and their social outcomes, including by circumscribing housing affordability and rental experiences. We suggest a critical geographic lens that is tuned to these financialising dynamics and to the power of finance capital will be especially well placed to advance thinking in this space. In particular, this lens stands to help contextualise and appraise ESG frameworks and ratings as key technologies in managing and mitigating investment risks.

The starting premise should not be that private investment holds all the answers, so long as these and other wrinkles can be ironed out. A subtext is that private investments into housing cannot fully alleviate the need for adequate public investment in building and managing housing, with great exemplars to guide our thinking and practice (e.g. Vienna’s Karl Marx-Hof).

10 Resources

10.1 Key terms

Green capital or green finance are hypernyms for sustainable finance, mission-driven financing and social impact investing. These represent a subset of ESG-orientated investing. These are typically financial instruments and products contingent on ESG credentials. Green finance encompasses, for example, diverse impact investment vehicles and products for states, corporates and NGOs including green bonds, green loans (e.g. for projects with ‘sustainability’ features), social loans (e.g. for affordable housing) and sustainability linked loans (i.e. conditional on performance targets).

Social impact investing (for typologies also see: Rosenman 2020: Table 1: 145-6) broadly refers to arrangements in which investment decisions are orientated around non-financial metrics and objectives. In a recent AHURI Inquiry report, Muir and colleagues (2018: 3), define SII as “investment intending to generate social and financial returns, while actively measuring both ... mechanism for using capital from investors to finance solutions to complex social problems.”, including provision of affordable housing and homelessness. Beyond this, Muir and colleagues conceptualise four key components of SII: intentionality (ie. Social objectives), returns expectation (both a social and financial return), measurement (ie. That social impact can be and is measured), and additionality (ie. ‘the outcome from the investment is beyond what would have been achieved without the investment’). As they also emphasise, a range of stakeholders are involved in SII, from the suppliers of capital (who provide both financial instruments and capital for investment, including banks, other financial institutions, pension funds, venture capitalists, etc), government and the beneficiaries (e.g. renters, communities, etc). Muir and colleagues (2021) identify several promising SII instruments and models, noting some of these models could contribute to rental outcomes without SII, but incorporating SII principles would increase prospects for better impacts: housing supply bonds (e.g NHFIC); property funds (REITs, listed and unlisted and private capital II firms with homes under professional management); funding social enterprises (for housing supply, employment, skills acquisition) ranging from direct debt or equity investments into ‘disruptive’ deliberative development models or into submarket housing providers to build capacity, scale and track-record, for instance; Social impact bonds as incubators for government to pilot innovations (see page 4-5). They point to the key role of government as ‘market builder, steward and participant’ in the SII market (page 6).

SII is certainly no panacea, and indeed may provide false hope, including by suggesting that solutions don’t require substantive costs and it may not curb externalities to the degree imagined. There are numerous risks impinging on the success of social impact investing (SII). Amongst others, this includes the significant scale and scope of the housing crisis, questions about the scalability of blended capital models, the financing ‘gap’ for social and affordable housing; and disconnects between investor expectations and programs, including where legal form doesn’t match capital requirements. Additional risks include the complexity of SII; poor design, targeting and implementation; tension between investor interests and social benefits; of displacement of non-SII programs and impact; unsatisfied investor performance expectations; low appetite for concessionary rates of return (in Australia); underdeveloped measurement methodologies; and power imbalances among stakeholders.

10.2 Frameworks relevant to social performance/impact

Term	Explanation
GRESB **https://www.gresb.com/** **Resource:** https://documents.gresb.com/generated_files/real_estate/2022/real_estate/reference_guide/complete.html	GRESB is an international member-based organisation created in 2009 that benchmarks real estate portfolios for use by investors (institutional investors, asset owners) and managers (companies, fund managers, asset operators). GRESB collects, validates, scores, and independently benchmarks ESG performance of individual assets and portfolios based on self-reported data. GRESB assessments cover Real Estate, and Infrastructure. The Real Estate assessment structure includes Management, Performance, and Development components for each ESG dimension. Components and their aspects are as follows: • Management: Leadership, Policies, Reporting, Risk Management, Stakeholder Engagement.

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Term	Explanation
	• Performance: Reporting Characteristics, Risk Assessment, Targets, Tenants and Community, Energy, GHG, Water, Waste, Data Monitoring and Review, Building Certifications. • Development: Reporting Characteristics, ESG Requirements, Materials, Building Certifications, Energy, Water, Waste, Stakeholder Engagement.
WELL Building Standard **https://standard.wellcertified.com/well**	The International WELL Building Institute (IWBI) is a company that delivers the WELL Building Standard, which was launched in 2014. The Standard is a performance-based system for measuring, certifying, and monitoring building features to benefit the health, wellbeing, and performance of people. Specific concepts within the Standard are mind, community, movement, water, air, light, thermal comfort, nourishment, sound, and materials. The WELL Building Standard includes WELL ratings, WELL certification, and WELL at scale (applied across a portfolio or organisation). More information about the features of each concept is available via the website.
NABERS (National Australian Built Environment Rating System) **https://www.nabers.gov.au/**	NABERS is a national sustainability rating of building performance across energy, water, waste, and indoor environment. Starting in 1998 in New South Wales, the rating system validates sustainability data and identifies areas for savings and improvement. The rating allows benchmarking of building performance with other similar buildings and progress and is valid for one year. NABERS rates apartment buildings, data centres, co-access for business, hotels, office buildings, office tenancies, public hospitals, residential aged care, retirement living, shopping centres, and warehouses and cold stores. NABERS ratings include NABERS Energy, NABERS Water, NABERS Waste, NABERS Indoor Environment, and Climate Active Carbon Neutral Certification. NABERS has also expanded to NABERSNZ, and NABERS UK.
Green Star **https://new.gbca.org.au/**	The Green Building Council of Australia (GBCA) is a national member-based organisation that is part of network of over 70 Green Building Councils worldwide. GBCA launched Green Star in 2003. Green Star is available to all new and existing building types. Rating tools and categories include: • Green Star Buildings and Green Star - Design & As Built: Responsible, Healthy, Resilient, Positive, Places, Nature, Leadership, People. • Green Star – Communities: Economic prosperity, Innovation, Livability, Environment, Governance. • Green Star - Interiors, and Green Star – Performance: Management, Indoor Environment Quality (IEQ), Energy, Transport, Water, Materials, Land use and ecology, Emissions, Innovation.
Sustainability Reporting Standard for Social Housing (Sustainability for Housing) **https://sustainabilityforhousing.org.uk/** **Resource:** https://sustainabilityforhousing.org.uk/latest-srs-criteria/	Sustainability for Social Housing is a company that developed the Sustainability Reporting Standard for Social Housing, launched in November 2020, to encourage ESG investment into social housing by developing a common reporting standard. The standard includes 48 criteria under 12 themes (the criteria are available on the website): 1. Affordability and Security 2. Building Safety and Quality 3. Resident Voice 4. Resident Support 5. Placemaking 6. Climate change 7. Ecology 8. Resource Management 9. Structure and Governance 10. Board and Trustees 11. Staff Wellbeing 12. Supply Chain
Global Reporting Initiative (GRI) **https://www.globalreporting.org/** **Resource:**	Global Reporting Initiative, founded in 1997, is a sustainability standard designed for organisations to report on their material topics, impacts, and management associated with the economy, environment, and people. The Standards include Universal Standards, Sector Standards, and Topic Standards (to be used with the Universal Standards). The Universal Standards include:

Term	Explanation
https://www.globalreporting.org/standards/standards-development/universal-standards/#about	• GRI 1: Foundation • GRI 2: General Disclosures • GRI 3: Material Topics The Universal Standards were revised in 2021.
Sustainability Accounting Standards Board (SASB) **https://www.sasb.org/**	Founded in 2011, SASB standards involve the disclosure of a company’s financially material sustainability information for investors. Standards are industry-based including a subset of ESG issues for 77 industries. The website reports: *‘Effective August 1, 2022, the Value Reporting Foundation–home to the SASB Standards–consolidated into the IFRS Foundation, which established the first International Sustainability Standards Board (ISSB). SASB Standards are now under the oversight of the ISSB. The ISSB will build upon the SASB Standards and embed SASB’s industry-based standards development approach into the ISSB’s standards development process. The ISSB actively encourages preparers and investors to continue to provide full support for and to use the SASB Standards until the SASB Standards become the IFRS Sustainability Disclosure Standards.’*
Integrated Reporting, now International Reporting Framework (IR) **https://www.integratedreporting.org/**	IR was originally published in 2013 and is now part of the IFRS Foundation, a global, not-for-profit, public interest organisation. The purpose of IR is to connect financial statements and sustainability-related financial disclosures for businesses and investors to develop a shared understanding of enterprise value - *how it is created, preserved or eroded over time*. The following guide explains how the IR Framework and SASB fit together: http://www.integratedreporting.org/wp-content/uploads/2022/08/Transition-to-integrated-reporting_A-Getting-Started-Guide.pdf
Task Force on Climate-Related Financial Disclosure (TCFD) **https://www.fsb-tcfd.org/**	The recommendations on climate-related disclosure were released in 2017. The purpose is to provide the information needed by investors, lenders, and insurance underwriters to assess and price climate-related risks and opportunities. The disclosure includes 11 key climate-related financial disclosures (recommended disclosures) across four thematic areas of: 1. Governance 2. Strategy 3. Risk management 4. Metrics and targets. Recommended disclosure are available in this report: https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf
NHFIC (National Housing Finance and Investment Corporation)*	* NHFIC is not a framework but rather a corporate Commonwealth entity tasked with improving housing outcomes for Australia. Relevant here, albeit not a central focus of this report, is NHFICs Affordable Housing Bond Aggregator and management of the $1B National Housing Infrastructure Facility, which provide low-cost and concessional loans to community housing providers and for ‘critical housing-enabling infrastructure respectively. NHFIC uses a framework developed by the Australian Housing and Urban Research Institute (AHURI) to measure the impacts of NHFIC’s social bonds. A working example of S in ESG thinking is demonstrated in NHFIC’s Social Bond Reporting "NHFIC's Social Bond Reports provide information on the use of proceeds from NHFIC's social bond issuances and demonstrates the impact that its transformative financing is achieving in improving housing outcomes. The reports form a key disclosure requirement under NHFIC's Sustainability Bond Framework." Their latest Social Bond Report (Oct 2022) is available online: https://www.nhfic.gov.au/media/1893/08522-nhfic_sb-report_12_accessible.pdf In line with their government mandate, NHFIC’s central focus is increasing supply of affordable housing, through social and affordable housing. That being said, their Social Bond Reporting (2021/22) details (using aggregate/general CHP sector data, such as from HILDA or the AIHW’s National Social Housing Survey, rather than NHFIC specific data) additional social impacts, such as tenants’ housing security and stability, accommodation provided to vulnerable demographics, such as older women, reduction in housing costs, increased prosperity (disposable income), improved employment and health outcomes.

10.3 Key Primers on ESG & Housing investment

Gabor, D. and Kohl, S. (2022). *The financialization of housing in Europe. “My home is an asset class”*. This report is based on research funded by the Greens/EFA in the European Parliament. The authors situate housing as a human right and institutional ownership of housing as contested. The report maps the financial systems underpinning private equity landlords, examines the contribution of European Union legislation to the financialization of housing, and makes recommendations to de-financialize housing for the public good.
https://pure.mpg.de/rest/items/item_3364652_2/component/file_3364653/content [full report]

May 2022. *Standards Australia - Standards: The building blocks of trust for Australia’s ESG investing landscape*.
The report provides an overview of ESG investing with a focus on Australia including ESG investment trends and the policy landscape whereby ESG reporting is voluntary however, there are related reporting instruments for specific issues and sectors. Prominent global ESG standards are described. The authors anticipate that mandatory disclosure will be instituted in Australia, leading to a recommendation for industry experts to participate in related ISO activities including joining the Strategic Advisory Group on ‘ESG’.
https://www.standards.org.au/getmedia/e4a37299-8b5e-46d1-a4fe-d8026374a4ea/F_1891-ESG-Investing-Research-Paper.aspx

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