



Practical Guidance #01

# Impact in Real Estate

Some financial market participants trying to get into impact investing are looking for the crucial and necessary first step, followed by a straightforward and clear operational process. The real estate working group has therefore taken on the task of providing practical guidance on how to operationalize impact goals.

This guidance builds on the qualities and characteristics outlined in [position paper #1](#) of the German National Initiative for Impact Investing, which defines “genuine impact investing.” The real estate working group has applied this core thesis to real estate position paper #2. With this practical guidance #1, we offer the German real estate community a hands-on, pragmatic presentation of this process.

Impact-aligned investing	Impact-generating investing
Intentionality	 Intentionality
Impact Measurement and Management	 Impact Measurement and Management
Significant, net positive Asset Impact	Significant, net positive Asset Impact
-	Significant, net positive <b>Investor Impact*</b>
Financial Return	Financial Return

Common core characteristics of impact investments as per [position paper #04](#) / Impact Investing in Alternative Investments.

**Investor Impact:** Real estate represents a direct investment into the real world. Investor impact is not only generated through intentional capital allocation but also through structuring deals, influencing property design, establishing management, selecting and empowering tenants, and further developing the property, among other factors.

**Investor Impact**

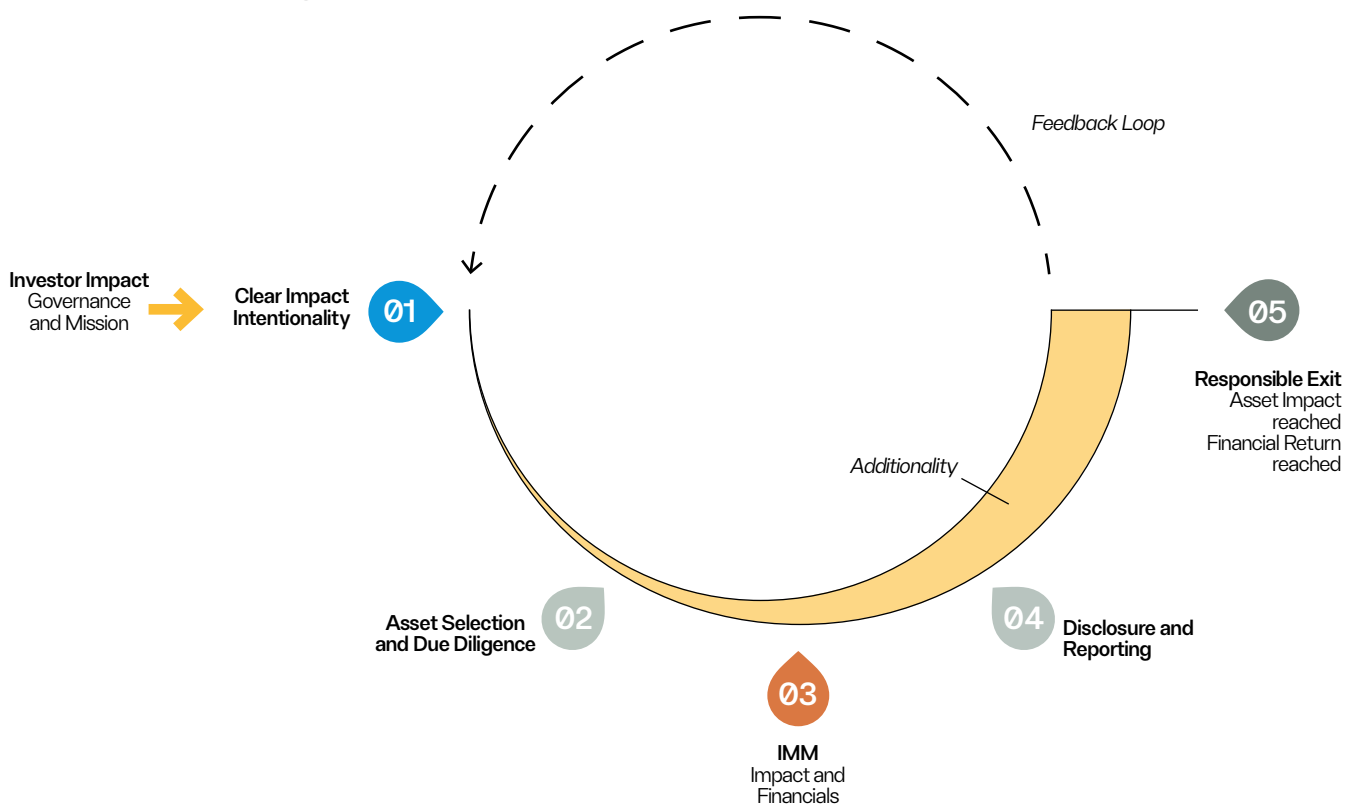
A solid governance structure is a prerequisite for a functioning impact process. Embedding the impact mindset throughout the entire organizational structure is essential—starting at the leadership level, supported by a dedicated team, and integrated into product-level considerations, such as compensation models. Investor impact is fundamental and runs through all the steps outlined below.

[GIIN Core Characteristics](#)

An internationally recognized framework for an Impact Measurement and Management process is the “Operating Principles for Impact Management” [“Impact Principles”]. The Impact Principles define an end-to-end process that covers the elements of strategy, structuring, portfolio management, exit, and independent verification. These are simplified below.

[THE 9 PRINCIPLES](#)

## Steps and Tools for Implementing an Impact Strategy



01

### Clear Impact Intentionality

The first step involves identifying fundamental challenges and key problems that the asset and investor can address. These are often based on the 17 UN Sustainable Development Goals, which since 2015 have provided an internationally recognized “North Star”: They define the individual and concrete challenges that require development, and which can be addressed through an impact investment strategy. To further validate [local] challenges and identify value-creating opportunities within the investment strategy, other research databases or independent studies, e.g., from the Fraunhofer Institute or the German Institute for Economic Research [DIW], could also be used.

<https://sdgs.un.org/goals>

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Identify the challenge and analyze how real estate can be the key to the solution.

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This is followed by the “impact logic,” which captures the systemic relationships between cause and effect – ranging from the resources deployed and the operationalization to the long-term impact goals at the target group and societal levels. The effective analysis of causes and solutions for societal problems is also referred to as the “impact logic” or “theory of change.” To substantiate the impact, investors must understand the steps that lead from the investment [input] through the immediately observable result [output] to the long-term outcome for the target group, and ultimately to the expected impact [on society and the environment]. The goal is to create an improved living environment as well as new perspectives or opportunities for the relevant stakeholders [e.g., customers, tenants, neighborhood residents].

<https://www.impacteurope.net/sites/www.evpa.ngo/files/publications/how-to-do-impact-measurement-and-management-2024.pdf>

02

### Asset Selection and Due-Diligence

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Alongside financial goals, impact investments pursue additional impact objective. The operationalization of this pursuit is carried out through an Impact Measurement and Management System [IMM].

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An important factor in asset selection is aligning the strategy with the investments [e.g., with reference to the UN SDGs] and documenting compatibility. This compatibility can be effectively supported through an impact due diligence process, which is based on the five dimensions of impact as outlined by the Impact Management Project [IMP]. These dimensions allow the key elements of the strategy to be evaluated from multiple perspectives. For instance, the strategy’s objectives, target group, contribution, and depth of impact can be defined—along with the balance between positive and negative, intended and unintended effects, or their net outcomes.

<https://impactfrontiers.org/norms/>

Another important component of due diligence is assessing the risk potential of negative consequences. Even if the path to achieving a positive intended value is consistently planned, negative outcomes can never be completely ruled out—take, for example, land sealing with new construction on greenfield, or the displacement of original residents from a neighborhood. Negative consequences and risks must therefore be controlled and measured as part of a holistic impact strategy, just like the prioritized positive impact metrics.

[Risks - Five Dimensions of Impact | Impact Frontiers](#)

03

### Impact/Portfolio Measurement and Management

Through the theory of change, impact investors can understand how their investment contributes to intended impact goals and outcomes. This framework defines the measurable KPIs [key performance indicators] and target dimensions for an investment in line with the defined impact strategy.

In portfolio management, these KPIs are monitored at the individual investment level in terms of impact and holistic value creation, collected at regular intervals, and then aggregated at the portfolio level to allow for a strategic assessment of the overall investment. The KPIs measure the efficiency and effectiveness of the investment's impact and contribution, such as its improvement of the targeted social and environmental outcomes. Throughout the investment's lifecycle, the KPIs document the progress of the Impact Measurement and Management [IMM] approach at both the asset and portfolio levels. It is also vital to benchmark against a baseline in a plausible and transparent way [e.g., differential to market rent, avoided carbon emissions, and increased energy efficiency].

The use of individually developed criteria catalogs is another way of measuring impact. Innovative technologies and data-support systems can help facilitate the process of measuring both positive and negative impacts [e.g., monitoring water consumption, tracking the differential to market rent, or access to affordable housing].

<https://iris.thegiin.org/metrics/>

<https://sdg-indikatoren.de/>

04

### Disclosure und Reporting

The next step is the disclosure of impact results, similar to how investment managers disclose financial performance. Transparent, robust, and comparable reporting on an impact investment's outcomes will provide investors with all the necessary information to assess the achieved outcomes and related impacts.

Additionally, under the Sustainable Financial Disclosures Regulation [SFDR], regulated vehicles in Europe are required to specify and document the target for an "Article 9 fund." Even an "Article 8 fund" can be an impact fund, as transition funds are still classified under this category of EU regulations. However, a change in favor of genuine impact funds should be expected soon.

The EU Taxonomy and the Disclosure Regulation also requires investors to ensure that a positive contribution is not achieved at the expense of other areas ["do no significant harm" / principal adverse impacts].

It is also beneficial to benchmark your impact investment within the competitive landscape ["competitiveness"].

A credible validation of the implemented Impact Measurement and Management [IMM] process further reinforces the impact investor's professional stance and can be supported by an independent board or independent evaluation institutions.

<https://impactfrontiers.org/work/impact-performance-reporting>

[https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/sustainable-finance-disclosures-regulation\\_en](https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/sustainable-finance-disclosures-regulation_en)

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Asset Impact: Although the literature sometimes dismisses additionally as being too abstract, it is crucial to highlight the space for innovation, advantages, added value, investor impact, and contributions. The underlying question is: What would not have been achieved without the involvement of the investor or manager?

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## Responsible Exit

A responsible exit [e.g., sale] of an impact investment is crucial for ensuring the impact's sustainability. Investments in affordable housing, e.g., carry the risk that subsequent owners may raise rents or no longer provide a supportive environment for the residents.

Several options are available to secure a lasting positive impact. In selecting the buyer, investors will ideally first prioritize non-financial criteria before discussing financial metrics. To balance financial outcomes with impact goals, each divestment must be analyzed individually. The current investors must assess whether the investment has achieved its goals and whether subsequent investors are committed to continuing sustainable impact objectives.

Mechanisms also exist for embedding the "mission" legally. Ideally, the impact-oriented management is maintained, or contractual agreements and clauses are set in the purchase agreement, lease, land register, or urban development contract [e.g., rent controls, easements] to preserve the impact.

This step is essential for the impact strategy's long-term success, but it does not need to mean accepting financial losses.

<https://thegiin.org/research/publication/responsible-exits>

## ...the Feedback Loop

The insights gained from a responsible exit or from unintended and intended outcomes are a valuable source for the continuous improvement of the theory of change. This is an interactive, iterative process that evolves over the fund's lifecycle and is refined by the specialized team and the investor. Furthermore, the ongoing exchange of standards and experiences within German and international impact networks supports the development of well-founded impact strategies and the goal-oriented alignment of actions in the real estate market.

# IMPACT INVESTMENT CHECKBOX

Investor Impact	01 Intentionality	02 Asset Selection and Due Diligence	03 Management and Measurement	04 Disclosure and Reporting	05 Responsible Exit
<p>A prerequisite is a value-based approach and governance by the impact investor. An internationally recognized framework for an Impact Measurement and Management process is the Operating Principles for Impact Management [“Impact Principles”]. Investor impact is the basis for all the following steps.</p>	<p>Identify challenges and key/fundamental problems. This is followed by the “theory of change,” i.e., the “impact logic” that spans from strategies, deployed resources, and operationalization to the long-term impact goals for the identified stakeholder/target group.</p>	<p>Align the strategy with the investments and document compatibility. Supported by an Impact Due Diligence which assesses the objectives, defines the target group, and evaluates the contribution and depth of the impact, as well as the balance between positive and negative contributions or their net effect.</p>	<p>The theory of change results in measurable KPIs [key performance indicators] and target dimensions for the investment, in line with the defined impact strategy. These KPIs measure the efficiency and effectiveness of the impact and its progress at both the asset and portfolio levels. The results are documented regularly.</p>	<p>Disclose impact results in a similar way to how investment managers disclose their financial performance. Reporting on an impact investments’s outcome should be transparent, solid, and comparable.</p>	<p>A responsible exit [e.g., sale] of an impact investment highlights the long-term objectives and plays a key role in ensuring the impact’s sustainability. In addition to financial metrics, review whether and how the purchaser remains equally committed to the impact goals.</p>
<p><a href="https://bundesinitiative-impact-investing.org/publikationen/">GIIN Core Characteristics</a> <a href="https://bundesinitiative-impact-investing.org/publikationen/">https://bundesinitiative-impact-investing.org/publikationen/</a></p>	<p><a href="#">UN SDGs [Sustainable Development Goals]</a> <a href="#">Skala Campus</a> <a href="#">Praxishandbuch IMV-Lab [in German]</a> <a href="#">how-to-do-imm2024.pdf</a></p>	<p><a href="https://impactfrontiers.org/norms/">https://impactfrontiers.org/norms/</a></p>	<p><a href="#">IRIS+</a> <a href="https://sdg-indikatoren.de">https://sdg-indikatoren.de</a></p>	<p><a href="https://impactfrontiers.org/work/impact-performance-reporting">https://impactfrontiers.org/work/impact-performance-reporting</a> <a href="#">EU disclosure SFDR</a></p>	<p><a href="#">GIIN Responsible Exit</a></p>
<p><a href="https://www.impactprinciples.org">https://www.impactprinciples.org</a></p>					

# CHEAT SHEET BASED ON THE IMPACT MODEL

Investor Impact	01 Intentionality	02 Asset Selection and Due Diligence	03 Management and Measurement	04 Disclosure and Reporting	05 Responsible Exit
<p>Is there a shared understanding of impact within the company?</p> <p>How is impact integrated into my organizational structure?</p> <p>Do I have sufficient resources and impact expertise for implementation?</p> <p>Am I already using [internationally] recognized IMM frameworks?</p> <p>How can I contribute to the impact market's growth?</p>	<p>Does the property/product/service fundamentally contribute to solving the problem?</p> <p>What are the systemic causes and consequences of the problem?</p> <p>Is the challenge faced by the target group scientifically validated?</p> <p>Have I established an impact logic along with a data collection framework?</p>	<p>Does the asset significantly contribute to solving the problem?</p> <p>Have I aligned it with the impact logic?</p> <p>Have I reviewed and documented the investment through my Impact Due Diligence?</p> <p>How does the investment compare to the rest of the portfolio?</p> <p>Have I prepared an action plan with indicators?</p>	<p>Is my data sufficiently meaningful and not too difficult to collect?</p> <p>Have I monitored and documented one primary goal with 3+ indicators?</p> <p>Am I also capturing negative impacts and actively mitigating them?</p> <p>Are high-quality, evidence-based studies being conducted for impact measurement?</p> <p>Do I validate my data with external sources?</p>	<p>Am I using [internationally] recognized templates for reporting?</p> <p>Do my transparency and communication contribute to the further development of the market?</p> <p>Am I benchmarking my impact results?</p> <p>Am I validating my impact results through an internal independent board or external verification?</p>	<p>Has the impact been achieved?</p> <p>How can I legally embed the mission without diminishing value?</p> <p>Can I encourage the buyer to maintain impact-oriented management?</p> <p>What legal tools support my target group [e.g., indexation, contract terms, ethical clauses]?</p> <p>Have insights and feedback from the target group been analyzed, and how are they integrated into future decisionmaking processes/ an impact logic?</p>
<p><a href="https://immpactguide/wp-content/uploads/2024/06/immpact-modellv1.0.2.pdf">https://immpactguide/wp-content/uploads/2024/06/immpact-modellv1.0.2.pdf</a></p>					

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Stephan Bohle [Sustainable Natives]  
Alice Drooghmans [Drooghmans Int.]  
Alexander Ertler  
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