Press Release

First Article-9 Funds Demonstrate How Impact Investing Works

- Only a handful of impact funds for institutional investors on the market so far
- No private investor funds launched yet
- Focus on energy generation or on real estate and energy efficiency
- Funds concentrated on upgrading standing properties or on manage-to-ESG approach
- Interest rate reversal makes environment for impact funds more difficult

Hamburg, 6 December 2022 – For roughly one year now, initial impact funds under German law—meaning investment funds that meet the strict sustainability requirements of Article 9 of the Sustainable Finance Disclosure Regulation (OffV)—have been launched. For the time being, funds of this type are reserved for institutional investors, and remain unavailable to private investor yet. Launching impact funds involves a considerable effort: Fund properties that are supposed to achieve environmental impact objectives have to undergo extensive measures. These include, without being limited to, the generation of energy on site, energy storage, energy optimisation and carbon avoidance. Some funds have chosen a strategy of buying standing properties and upgrading them along ESG lines. Here is why: New-build construction is resource-intensive, whereas standing properties already tie up a lot of CO2. Equally important is the recycling of building materials. This makes it easier for a given fund to achieve its social impact targets. The recent interest rate reversal makes the environment for impact funds more difficult, because many investors have adopted a wait-and-see stance. But in the medium term, the relevance of this format will grow significantly. Current energy prices alone will promote it further. It is also safe to assume that the regulatory parameters will keep tightening. Initial amendments entered into force on 1 January 2023.

These are the main takeaways from today's online press conference on the subject of **"Impact-Investing: What Is the Business Reality of Article 9 Property Funds?"** which was attended by Hannah Dellemann, Team Head ESG at INTREAL, Christean Schmidt, Head of Sustainability at PALMIRA CAPITAL PARTNERS, Ralph Andermann, Managing Director of WEALTHCORE, and Prof. Dr. Robert Göötz, Managing Director of Real Blue KVG.

Hannah Dellemann started by elaborating the regulatory framework of Article-9 funds. In doing so, she focused specifically on the changes that will enter into force on 1 January

2023. “So far, the Taxonomy covers only two of six environmental objectives, namely climate change mitigation and climate change adaptation. At the start of next year, another four objectives will be added, although the technical criteria to be met have yet to be published in their final version. The scope of transparent disclosures required in the future will also expand within the framework of the Sustainable Finance Disclosure Regulation – and include annual reports, websites and pre-contractual information,” said Dellemann. A proven ESG expert, she moved on to provide a market overview: “Impact funds are still few and far between. We have identified seven open-ended institutional property funds under German law. Four of these invest in residential real estate.” Among Germany’s open-ended public property funds, there is not a single impact fund yet. “Just when the first Article-9 fund for private investors will hit the market depends essentially on how quickly supervisory authorities and market players come to an understanding of impact investing as a unified format. How big a challenge it is to measure the impact of a property investment on the environmental objective is illustrated by the current reticence among fund providers in the context of launching impact funds. The situation has been compounded lately by the interest rate reversal and the current jitters on the real estate markets,” said Dellemann.

PALMIRA Focuses on Standing Properties, CO2 Reduction and Carbon-Neutral Management

Next, Christean Schmidt presented PALMIRA’s logistics impact fund: “New-build construction consumes far too many resources and has a poor carbon footprint. Our fund strategy seeks to acquire existing logistics properties, to lower their energy demand by 30 percent, and then to operate them in a carbon-neutral manner.”

In practice, this means that the energy is generated at the property itself, for instance via photovoltaics or solar-air collectors, and subsequently stored – for instance, via a redox-flow battery electricity storage or ice storage. This is complemented by energetic optimisation and consistent CO2 avoidance. Schmidt went on to say: “All the energy consumed in or at the property is offset against the energy produced on site using CO2 output as control variable. At the bottom line, the system should return a zero sum.” Palmira has earmarked 500 million euros to invest in the fund. The net cash-on-cash return for institutional investors will be 4.0 percent annually.

WEALTHCORE Prepares Fund for Future Regulatory Changes

Ralph Andermann used the example of the Wealthcore Green Impact Fund to discuss the topic of residential real estate: “We designed the fund on the basis of the Taxonomy Regulation’s criteria. On top of these, we developed some criteria of our own, firstly because we wanted to have a safety buffer against further regulatory changes, and secondly because we simply set a higher standard for ourselves."

He moved on to detail the criteria, illustrating them with the example of a property of 153 residential units in Vienna. "The property's primary energy demand undercuts that of a nearly-zero-energy building by another 50 percent. Moreover, the property has ways to adjust to future climate changes. To this end, a thermal building simulation was conducted based on the climate data anticipated by 2050, which the property completed with an excellent score. Another important criterion is the recycling of the materials tied up in the property. In the case of the asset in Vienna, 80 percent of the building materials are recyclable," as Andermann elaborated.

Preserving the Impact Status of the Social Criteria is Easy

In closing, Prof. Dr. Robert Göötz gave a talk on the question how impact investing works in care home real estate. "In the case of care-home and healthcare real estate, it is comparatively easy to achieve a great impact status because every asset your pick will enhance social sustainability. For example, if a given rural district has a shortage in long-term care home places, fund properties located there will help to reduce the short cover. Our recommendation is to limit the focus of investment funds to a single impact objective—such as social objectives in the case of care home real estate—rather than pursuing several impact objectives at once, because doing so could create a conflict of objectives."

This is not to suggest, however, that no environmental objectives are pursued with care home real estate. "You should define secondary environmental objectives that don't necessarily have to result in an environmental impact. An example for a secondary objective would be that a property should at no point violate the climate path of the Intergovernmental Panel on Climate Change (IPCC)," as Prof. Göötz explained.

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About INTREAL

As a third-party AIFM, INTREAL concentrates exclusively on the business of launching and managing regulated real estate funds on behalf of third parties under the German Capital Investment Act (KAGB). The platform lets clients take advantage of every service an AIF management company (KVG) provides without having to form one of their own. Options include the launching of open-ended and closed-end property funds or the outsourcing of AIFM back offices to INTREAL. Employing 482 staff, the INTREAL Group offers long-term real estate know-how along with detailed and highly professional fund management expertise.

INTREAL collaborates with a large number of third-party fund partners to administrate 292 investment funds with a combined investment volume of c. 59.2 billion euros (all figures as of quarter-end Q3 2022).

About PALMIRA CAPITAL PARTNERS

PALMIRA CAPITAL PARTNERS is a European investor and asset manager for logistics and light industrial real estate. Our interdisciplinary team manages properties along the entire value chain, providing all of its deliverables as one-stop full-service management. Our spectrum of services covers everything from the concept design to investments, and from fund management to asset management, always taking ESG criteria and the EU Taxonomy into account.

About Real Blue

Real Blue is committed to sustainable real estate investments, and sees itself as a partner of institutional investors, property developers, property asset holders, and as a provider of tailored one-off solutions for other client groups. The company’s activities are centrally anchored in an active, holistic and sustainable asset management approach.

The company’s high degree of vertical integration, which integrates the know-how of Drees & Sommer, and the collaboration with specialised partners permits the implementation of target-oriented asset and portfolio strategies across a wide range of real estate sectors and various investment structures.

The global challenges arising from climate change confront the buildings sector with complex requirements and necessitate advanced technical expertise and solution competence.

Real Blue brings the operational know-how to implement its approach in all stages of the real estate lifecycle to the job. As an AIF management company, it develops bespoke investment solutions under the German Capital Investment Act (KAGB), diversified fund concepts, contribution solutions and club deals for its clients. Real Blue was set up as a subsidiary of the Drees & Sommer Group in 2021.

About WEALTHCORE Investment Management

Domiciled in Munich, WEALTHCORE Investment Management GmbH specialises in forward structures involving residential, retail and hotel real estate. The company’s service spectrum includes project supervision, acquisitions, active management and the disposal of real estate across all asset classes. Its management team has implemented more than 3 billion euros worth of transactions in Europe. Among its investors are national and international institutional investors, such as pension funds, insurance companies and family offices. For more details, go to: www.wealthcore.com