Amsterdam School of Real Estate

Reporting on the SDGs by European Listed Property Companies

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Abstract

Institutional investors are increasingly looking at the societal impact of their investments. In order to monitor and measure impact, a growing number of investors is adopting the UN Sustainable Development Goals (the SDGs) as a framework to base impact investment decisions on. Because of the importance of real estate in society, it is an asset class that appears to be well-positioned to contribute to the SDGs. However, this is not widely acknowledged by property companies yet, despite the opportunities it offers in their communication with stakeholders. This paper looks at the universe of European stock market listed real estate firms and establishes the take-up of the SDGs by the firms. From a sample of 108 companies, 28 companies report that they use one or more SDGs in their corporate strategy in 2018. The adoption of SDGs is skewed towards larger companies, whilst small companies have yet to develop strategies around the SDGs. Furthermore, we find substantial geographical differences in the use of the SDGs. Interestingly, some property sectors that are likely to have a large societal impact are underrepresented in terms of reporting. This holds particularly true for those companies invested in (social) housing.

1 Introduction

In 2015 the member states of the United Nations adopted the 17 Sustainable Development Goals. In essence these are the successors to the eight UN Millennium Development Goals which were adopted in 2000. The millennium goals were primarily aimed at abolishing poverty worldwide; the Sustainable Development Goals (SDGs) have a broader scope, addressing climate change and other global challenges. Each SDG has a number of formulated sub-targets on how the Goal is achieved and with guidance on metrics that help to measure and monitor progress. The figure below provides an overview of the themes of the 17 SDGs.

Table 1: Overview of the UN Sustainable Development Goals

SDG #	Theme
1	No Poverty
2	Zero Hunger
3	Good Health and Well-being
4	Quality Education
5	Gender Equality
6	Clean Water and Sanitation
7	Affordable and Clean Energy
8	Decent Work and Economic Growth
9	Industry, Innovation and Infrastructure
10	Reduced Inequalities
11	Sustainable Cities and Communities
12	Responsible Consumption and Production
13	Climate Action
14	Life Below Water
15	Life on Land
16	Peace, Justice and Strong Institutions
17	Partnerships for the Goals

Whilst the SDGs have not been designed to specifically address focus areas for investors, they are becoming a de-facto standard both for companies and investors to disseminate information on the contribution to society. This should help to steer capital towards those activities that provide market practice financial returns while contributing to society. The SDGs have thus become an important topic among institutional investors. Investors have already come to embrace sustainability as a means of improving the financial performance of their portfolios. As investors increasingly also consider the impact of the investments on society as part of their fiduciary duty they have started reporting on this. Particularly European pension plans are

reporting on the investment volumes of so-called impact investments. Investors report either on the monetary value of these investments, the physical impact (e.g. energy savings or carbon emission reductions), or both. Both legislation ('hard law') and voluntary standards ('soft law') arising from voluntary market standards are expect to reinforce this trend going forward. The European union is developing a plan on sustainable finance, in which there is attention on products and services with positive impact[1]. Further to this goal, the EU has formed a Technical Expert Group (TEG) on Sustainable Finance to develop a definition or Taxonomy of those activities that contribute to a more sustainable economy. According to this Taxonomy, certain activities can be classified as being green investments, which will likely influence the ability to raise capital at more attractive conditions and will improve chances of winning contracts. Regulators are also moving in this direction, becoming signatory to the Principles for Responsible Investment like has been the case for the Dutch Central Bank[2].

Against this backdrop, it is important for property investors to consider these trends in determining their strategy. As long-term holders of assets that play a crucial role in society, property investors are – or can be - instrumental in a number of the issues that are being addressed by the SDGs. Furthermore, by reporting on the SDGs firms will create the type of transparency stakeholders such as governments, tenants and investors are looking for. Municipalities and other government entities want to be able to report the impact of real estate projects on neighbourhoods to stress favourable societal impact. This will potentially help property companies that consider the SDGs in doing business particularly in sourcing (public-private) projects. Tenants also want to demonstrate that impact is of importance to them and are likely to prefer owners that take this into account. Finally, investors want to demonstrate the contribution of their investments and will side with those companies that can provide evidence to that effect. This will lower the cost of capital of those companies that report and will help to attract and retain investors going forward.

[1] The taxonomy has been published by the EU in June of 2019.

[2] Source: Dutch Central Bank press release March 20, 1019.

2 Literature

The debate around the benefits to a firm of creating social impact precedes the SDGs and the Millennial Goals. First discussions on the merits of corporate social responsibility (CSR) date back to the 1970's. The debate developed on the back of the discussion of the shareholder versus the stakeholder approach to the purpose of companies. In the shareholder approach, a company should be focused on maximizing profits for its shareholders, as advocated by Friedman (1970) in his seminal article in the New York Times Magazine. This view asserts that by maximizing profits, the social benefit of companies is also maximized. It is up to the shareholders to subsequently decide over the allocation of the profits generated and this responsibility does not fall to the company. The opposing view is the stakeholder approach, in which companies are expected to not only look at the financial interests of the shareholders, but to also consider and weigh the interests of other stakeholders. This theory has been developed further by introducing classifications of stakeholders over time.

A number of papers in the 1990's discusses corporate social responsibility in the context of brand building, marketing and strategy. In a 1990 paper, Fombrun and Shanley look at the way in which companies are perceived and conclude that one of the elements reputation is linked to is the way in which a company engages in social contributions. This would be an incentive for companies to involve social issues into strategy and communication. A later paper by Kramer and Porter (2006) builds on this and frames it in the concept of the license to operate, i.e. the requirement of companies to look at long term issues that could pose a threat to the long-term survival of companies. Waddock and Graves (1997) look at the link between financial and corporate social performance. The study provides evidence that there is a link between corporate social performance and subsequent financial performance. One of the explanations for this is the 'slack resources theory' that asserts that companies that have high financial performance have the ability to invest more in corporate social activities, and will therefore show better performance in this field as well. This implies that it could mean that has a self-perpetuating effect. A better reputation, as Fombrun and Shanley already point out, might put companies in a better position with local governments and or communities to generate business opportunities. This is of particular importance for the real estate industry that relies on the interactions with public entities in developing product. Margolis and Walsh (2003) mention the choices between making, buying or allying on social contribution. The cooperative or, as the authors call it, the 'hybrid' way of creating social impact is the collaboration between public and private entities, as these both have an interest in working together in shaping or improving a project. This is of particular interest in the context of the built environment.

With the arrival of the Millennium Goals and subsequently the Sustainable Development Goals, the discussion around corporate social responsibility has developed further. According to a KPMG study published in 2017, about 40% of the world's largest listed companies discussed the SDGs in their corporate reporting. Furthermore, the European firms score particularly high, with 83% of the German companies, 63% of the French companies and 60% of the UK companies reporting on SDGs. According to the report, the financial services sector has one of the lowest adoption rates (37%), whereas utilities and the automotive sector score highest with 58% of firms reporting. A potential explanation for this is the carbon intensity of the highest scoring sectors. As real estate was seen as part as the financial services industry and was not separated out, the expectation is that the results for real estate also are likely to be on the low end, even though it has some similarities with utilities in terms of (the influence on) carbon intensity.

Besides corporates, an increasing number of investors is adopting strategies around the SDGs. In a taxonomy published by Dutch pension investors PGGM and APG (2017), the institutions provide insight in the ability to invest in the themes of the SDGs. They arrive at the conclusion that 15 out of the 17 SDGs are investable, whereas SDG 16 (Peace and Justice) and SDG 17 (Partnerships for the Goals) cannot be invested in as such. According to the taxonomy, the investors “distinguish between investments where impact has and those where it has not been measured, and stimulate the latter to report on measurable impacts.”. This substantiates the claim that investors are embarking on strategies discriminating between investments based on the SDGs. Further development hereof is reinforced by governments and regulators, that increasingly expect institutional investors not only to look at risk aspects of ESG, but also at the impact of investments on society at large. Evidence hereof is in the development of the aforementioned green taxonomy by the European Union.

This also clearly marks a change in the traditional interpretation of the fiduciary duty of investors to consider impact, even though investors continue to see boundaries on this. This is evidenced by discussions as put forward by a publication by the Banque de France (2019), in which PGGM discusses the ambition of finding investments that both achieve market rate returns and contribute to society in a meaningful way. Consequently, strong growth in impact investment and measurement of the contribution of investment portfolios on society is to be expected going forward. This offers opportunities to those companies that choose to include these issues in their strategy and in implementation through impact measurement.

3 The role of real estate in impact investment

Real estate plays an important role in society and as such should be able to also be an important category of impact investment. Meaningful positive societal upside can be made, ranging from the (on-site) generation of renewable energy to reduction in carbon and improvement in urban infrastructure. However, defining what impact investment means in the context of real estate investment remains a difficult topic. The commonly accepted prerequisites for qualifying something as an impact investment consider the factors of intentionality and additionality. Intentionality refers to the investment having an intentional societal effect, whereas additionality considers whether or not the investment contribution is generating change that otherwise would not have occurred. In the property industry both elements can be demonstrated. Intentionality can be substantiated by firms by having clear strategies in which the purpose of the investor is being explained in societal terms. Additionality can be shown by measuring the difference between (the performance of) an asset that is adhering to the market standards (e.g. building codes) and the actual performance of the asset in which societal impact has been considered. This could pertain to energy use, emissions and/or other elements in the construction, fit-out and use of an asset. To date, measurement of these elements is relatively poor and lacks standardization. As the data is relatively limited, this paper concentrates on the element of reporting in order to gauge how real estate investors have embedded impact in their strategies.

4 SDG reporting data

In order to arrive at the goal of identifying the development of the concept of impact investment and the SDG framework in the real estate market, this paper looks at a data sample from 108 listed property companies throughout Europe. The basis for the selection is the inclusion in the FTSE EPRA/NAREIT Developed markets Europe index as per May 2019. Many investors use this index as the reference universe and/or benchmark for listed real estate investments. The reference index includes companies in 13 countries across Europe. This offers an opportunity to look at differences on the national level. The choice for listed real estate companies is a pragmatic choice, as the availability of information is high compared to other investors.

For each company in the sample, (annual) reporting data is collected through the company website. Through a website-wide search, which includes both the sustainability and financial reporting of the company as well as all other (strategic) information provided, it is established whether or not companies have included a consideration of the SDGs in their strategy. In most cases, information on the use of and contribution to the SDGs are found in the sustainability report. A large proportion of companies does publish such a report. However, some companies choose to provide the information in a separate section on the website or in their financial report. As mentioned before, this information is also taken into account.

In the sample of 108 companies, 28 companies identify and discuss one or more SDGs as focus areas for their company. Another 5 companies mention the SDGs and the intention to develop a strategy around the SDG framework. This translates into a 26% adoption rate, which is below the percentages that resulted from the 2017 KPMG study. However, it is important to note that there is a large size difference between the two samples as the aforementioned study looks at the 250 largest global companies in all equity sectors. Only very few property companies fall into this sample. Furthermore, the absence of discussion of the SDGs does not imply that the remaining 77 companies in the sample do have strategies around impact; it is merely a reflection of not discussing the SDGs in public reporting. However, it does provide information as how property companies look at the framework in terms of relevance to their own company. Subsequent to the identification of information, the specific SDG(s) that the property company mentions are recorded. All companies that use the framework of the SDGs also indicate which specific SDGs are considered in setting strategy.

Previous literature (e.g. Waddock and Graves, Cajias and Bienert) has indicated that there are correlations between performance, shareholder ownership and the integration of non-financial information (or what has been referred to by earlier literature as corporate social responsibility). Market information on the company including size, property sector and institutional ownership through the Bloomberg LP system and through S&P IQ (formerly SNL) as well as company publications.

4.1 Key determinants of reporting take-up

Table 2 provides the distribution of the dataset in terms of size as measured by stock market capitalization and geography based on country of listing and the percentage of companies referring to the SDGs. Comparing the market capitalization of the companies that report on SDGs versus those that do not we find that, on average, the companies that do report are substantially larger than those that do not. Property companies reporting on the SDGs are on average twice as large in terms of market capitalization than companies that do not report. In all countries with the exception of Germany this size relation holds true. In Germany there only

is one company reporting on the SDGs and this company has a below average market capitalization, which is a deviation when compared to the other countries.

Table 2: Sample Summary Statistics

	Number of companies				Market capitalization in millions				Average market capitalization in millions		
Country	Non-reporters	Reporters	Total	% Reporting	Non-reporters	Reporters	Total	% Reporting	Non-reporters	Reporters	Total
Austria	1		1	0,0%	3.226		3.226	0,0%	3.226		3.226
Belgium	9	3	12	25,0%	9.849	7.402	17.251	42,9%	1.094	2.467	1.438
Finland	2		2	0,0%	4.800		4.800	0,0%	2.400		2.400
France	2	4	6	66,7%	11.427	24.819	36.246	68,5%	5.713	6.205	6.041
Germany	12	1	13	7,7%	65.588	2.493	68.081	3,7%	5.466	2.493	5.237
Ireland	3		3	0,0%	3.003		3.003	0,0%	1.001		1.001
Italy		1	1	100,0%		658	658	100,0%		658	658
Netherlands	3	2	5	40,0%	2.706	19.194	21.900	87,6%	902	9.597	4.380
Norway	1		1	0,0%	2.466		2.466	0,0%	2.466		2.466
Spain	2	1	3	33,3%	6.416	5.198	11.614	44,8%	3.208	5.198	3.871
Sweden	8	8	16	50,0%	17.256	23.673	40.928	57,8%	2.157	2.959	2.558
Switzerland	3	2	5	40,0%	8.496	6.463	14.959	43,2%	2.832	3.231	2.992
UK	34	6	40	15,0%	40.930	24.920	65.850	37,8%	1.204	4.153	1.646
Grand Total	80	28	108	25,9%	176.161	114.820	290.981	39,5%	2.202	4.101	2.694
											2,40

Notes: This table provides an overview of the sample of European property companies. Companies were selected based on the inclusion in the FTSE EPRA/NAREIT developed Europe index as per May 2019. The sample is broken down by country and includes the number of companies (not) reporting on the SDGs, as well as their respective absolute and relative market capitalization in € millions as per year-end 2018. For the difference in average size, the t-test statistic is provided.

In terms of jurisdiction, we find that French (67%), Swedish (50%), Dutch and Swiss (both 40%) companies report on the SDGs more often than is the case for other countries. Of those companies that have larger samples of four or more companies, the markets of Germany and the UK report least often relative to the number in the sample. This is noteworthy, since the UK is the largest market in number of companies and Germany is the largest market by market capitalization as per May 2019. In terms of number of companies, the UK ranks first and Germany ranks third. In the case of the UK, the size bias appears to be the key explanation for the low percentage of companies reporting. The UK market is the largest in terms of number of companies, but it is characterized by a few very large companies and a large tail of small companies. In Germany however, this does not offer an explanation. All companies are relatively large and there are less companies in the sample. Here it might be more related to sector specialization, as Germany has a bias towards the residential real estate sector.

Table 3: Sector composition of the data sample

	Number of companies			Total Market Capitalization			% of Market Capitalization	
Property Sector	Non-reporting	Reporting	Total	Non-reporting	Reporting	Total	Non-reporting	Reporting
Diversified	39	16	55	78.535	68.805	147.340	53,3%	46,7%
Health Care	3		3	3.893		3.893	100,0%	0,0%
Hotel		1	1		2.788	2.788	0,0%	100,0%
Industrial	4	2	6	5.506	12.328	17.834	30,9%	69,1%
Office	5	5	10	10.522	17.908	28.430	37,0%	63,0%
Residential	14		14	59.216		59.216	100,0%	0,0%
Retail	8	4	12	7.497	12.990	20.487	36,6%	63,4%
Specialty	7		7	10.991		10.991	100,0%	0,0%
	80	28	108					
Grand Total	80	28	108	176.161	114.820	290.981	60,5%	39,5%

Notes: This table displays the breakdown of the sample by sector in terms of the number of companies, as well as in market capitalization in € millions. Companies were selected based on the inclusion in the FTSE EPRA/NAREIT developed Europe index as per May 2019.

Table 3 provides an overview of the sector distribution of companies in the sample. Some sectors offer a sample that is too small to look at patterns (e.g. only one hotel company is in the sample, which happens to report on the SDGs). For the larger sectors, the office (50.0%) and retail companies (66.7%) have relatively high levels of reporting on the SDGs based on the number of companies reporting. Industrial and diversified companies appear to lag. Perhaps even more interesting is the take-up of SDG reporting by sectors that are intuitively logical to be associated with impact such as the healthcare, student housing and social housing sectors. Surprisingly, none of the companies involved (out of the 10 in the sample) reports on SDGs. Particularly for these companies, however, reporting would make a lot of sense as these are likely to offer a contribution to one or more of the SDGs. Reporting on these would help them both in relationships with shareholders trying to identify impact investments as well as in terms of public-private partnerships. By providing information on impact, the companies may hope to have better inroads with the local communities and/or the municipalities, generating better investment opportunities. Again, size may be a contributing factor: the larger the company is, the more likely it is to engage in large-scale projects that require good and long term relationships in the community.

All in all, company size appears to be a more relevant metric than sector, which supports the notion of the slack resources theory. An alternative explanation could be that larger companies stand to benefit more from communicating more about the contributions to the SDGs, as they are more likely to be engaged in larger activities that require public entities to work with the companies and might stand to benefit from this. This holds true both for development projects as well as for activities in more strongly regulated sectors, such as (social) housing.

Table 4: Ownership Structure Comparison of SDG reporters and non-reporters

	% Insider ownership			% Institutional ownership		
Property Sector	Non-reporting	Reporting	Difference	Non-reporting	Reporting	Total
Austria	32,97			29,11		
Belgium	10,24	11,74	1,50	41,47	28,07	-13,41
Finland	28,45			54,36		
France	21,41	36,52	15,11	43,80	43,22	-0,58
Germany	20,72	7,99	-12,73	43,27	51,51	8,24
Ireland	1,67			72,41		
Italy		52,99			14,26	
Netherlands	1,89	0,84	-1,05	32,42	43,34	10,92
Norway	23,87			40,54		
Spain	0,39	27,26	26,87	66,84	48,01	-18,83
Sweden	24,12	29,45	5,33	41,37	42,37	1,00
Switzerland	5,92	34,28	28,36	41,65	23,70	-17,96
UK	8,42	17,05	8,63	73,49	77,67	4,19
Grand Total	12,25	24,01	11,76 ***	57,41	46,95	-10,47 **
t-test			2,65			-1,97
n	74	27		74	27	

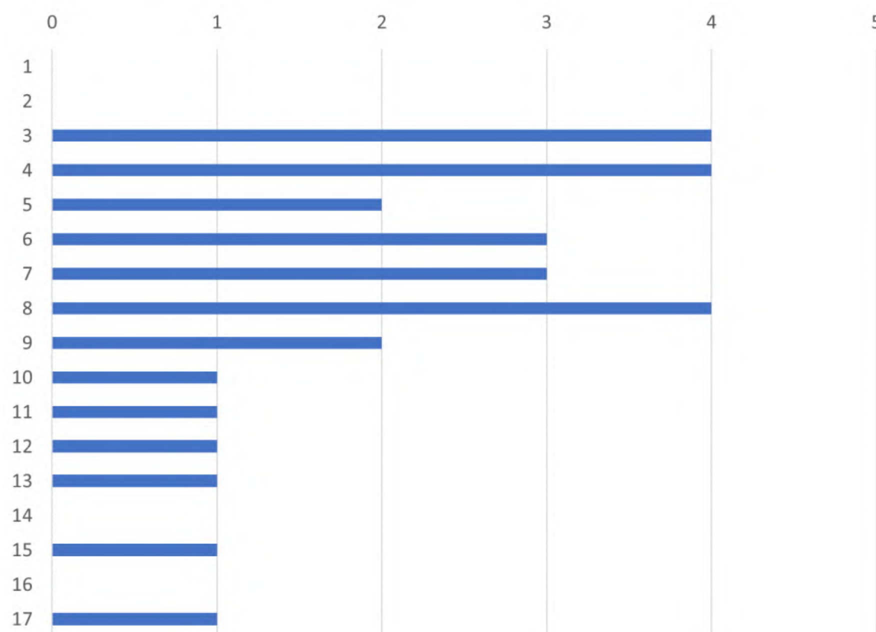
Notes: This table displays the percentage insider ownership and the percentage of institutional ownership of the companies that do report on SDG ('Reporting') versus those that do not ('Non-reporting'). All averages are equally weighted and are reported as per yearend 2018. The t-test statistic provides the significance of the difference between the averages as reported. *** denotes significance at the 5% level, ** at the 10% level.

Table 4 provides the key statistics in terms of insider holdings and institutional ownership as per 31/12/2018. This information is available for 106 of the 108 companies in the sample[3]. For these two metrics, we use definitions and data from S&P IQ. Interestingly, insider ownership is significantly higher for SDG reporters. The average (unweighted) insider ownership in these companies amounts to 24.0%, which compares to only 12.3% for the non-reporters. Apparently, insiders push harder for companies to release this type of information. Conversely, institutional ownership among SDG reporters is lower (46.9% versus 57.4%), even though the SDG reporters are much larger on average than the non-reporters. A potential explanation for this might be that insiders are more engaged on the issue than institutional owners because insiders are likely to have a stronger and active involvement. Among the institutional ownership passive holdings are a large portion. Passive owners might not have the same level of interest in the reporting of contribution to SDG's. Because it was established that SDG reporters are – on average – much larger, it could also be that because of their size, the larger companies bought by institutional investors that are more generalist in nature and that this leads to other reporting preferences.

4.2 Scope of SDG strategies reported

Turning to the number of SDGs each company reports on, we find a wide variance in the SDGs that are brought in scope by the companies. The minimum amount of SDGs mentioned is 3, whereas one company brings all 17 SDGs in scope. Figure 1 provides the distribution of the number of SDGs that each company cites.

Figure 1: Distribution of the number of SDGs cited

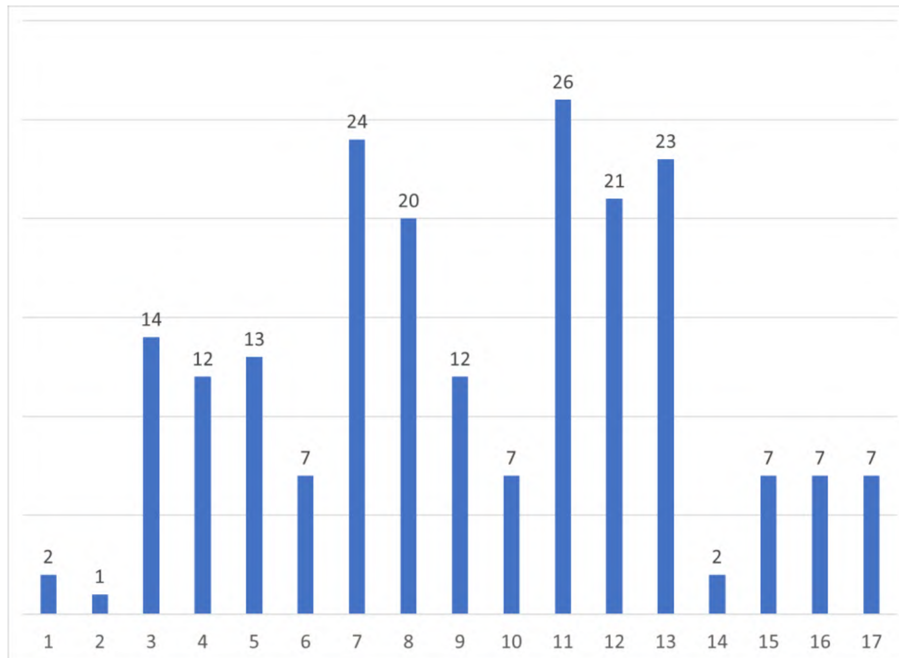


Notes: The graph depicts the number of SDGs mentioned by the property company as being in scope of the strategy of the company as per May 2019 (e.g. 4 companies have identified 3 SDGs as being in scope, whilst no company has only identified 1 or 2 companies). n = 28.

[3] For one company the data appears erroneous, another company was in the process of being acquired by another. Both companies were excluded from the sample.

One goal of this paper is to establish what areas are seen to be the key focus areas in terms of impact by the property companies. It is therefore interesting to look at the distribution of the SDGs as mentioned by the companies. To get a sense of the importance of each SDG according to the companies themselves, Figure 2a provides the tally of the SDGs mentioned across the whole dataset.

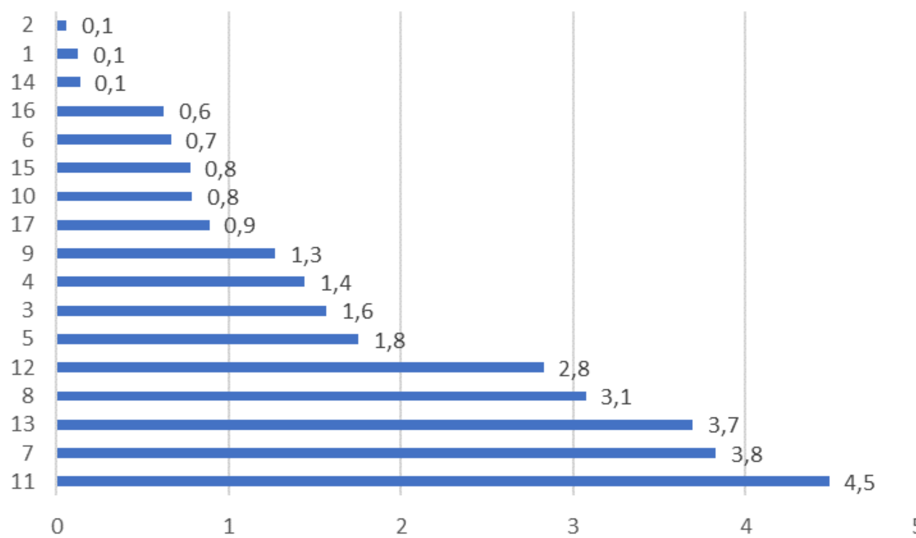
Figure 2a: Frequency of a specific SDG mentioned



The graph depicts the frequency with which a specific SDG ranging from 1 to 17 is mentioned by the companies in reporting as per May 2019. There are a total of 205 observations for the 28 companies that have identified a contribution to one of more SDGs in scope. The horizontal score refers to the individual SDGs (1 to 17), the vertical axis reports the frequency of observation.

From the graph, it is apparent that SDG 11: 'Sustainable Cities and Communities' is the most widely identified impact focus for the European listed property companies, with 26 companies including it in strategy. This is unsurprising given the specific goal which is directly associated with the built environment and real estate. The second largest is SDG 7, which is 'Affordable and Clean Energy', which is identified by 24 companies. Third in number of observations is SDG 13: 'Climate Action'. From these numbers it is apparent that listed property companies aim to contribute most in the areas of community building. renewable energy and CO_2 emission reduction. These are unweighted results. To check whether these findings are influenced by the number of SDGs in scope for the companies, the observations are subsequently weighed according to their relative importance in the number of SDGs mentioned by companies.

Figure 2b: Relative Frequency by SDG mentioned



Notes: This Figure provides the results of weighing the individual SDG's for each company based on the number of SDGs mentioned by those listed property companies that include information on SDG (n=28). The more SDGs are in scope of the company, the less the weight of each individual SDG in the count to come to an aggregate total. Thus the sum weight of the observations is 28. The vertical axis provides the number of the SDG ranked by importance, the horizontal axis the corresponding aggregate weight.

In order to do arrive at relative scores that assign a lower weight to a SDG when it is part of a larger group mentioned by a company, the observations are divided by total number of SDGs mentioned by the company. Figure 2b depicts the results hereof. From this we learn that the picture does not change substantially. However we do see that those SDGs that are mentioned less frequently change positions; the top-three rankings do not change. The SDGs that are mentioned the least are 2: 'End Hunger'; 1: 'No Poverty'; and 14: 'Life Below Water'. This is understandable in view of the subject matter. Those companies that do mention these three SDGs appear to have embarked on a comprehensive SDG strategy in which (nearly) all elements are included. The inclusion of the whole spectrum of SDGs raises the question of the ability of the company to actually make an active contribution or if it is seen as a marketing instrument, which is often referred to as 'rainbow washing'.

From the above, it is clear that companies prefer to focus on a larger number of SDGs and not just on one or two. This is in line with findings for companies from a wider range of industries. Some publications suggest that because of the correlation of underlying factors within the SDGs, a contribution to one SDG is likely to also affect the contribution to (an)other SDG(s), which explains the existence of clusters of SDGs being targeted. The underlying cause of this is that the underneath the SDGs are 241[4] indicators that share similar objectives. In the case of real estate, this is particularly clear in the area of climate change. Especially SDGs 7 and 13 are closely connected through energy use and carbon emissions. The most widely cited SDG 11 could also be seen as part of this cluster, as a sustainable city implies sustainable and clean power. Indeed, in examining the structure around the groups of SDGs companies focus on, a clear connection between the presence of combination of SDGs emerges.

[4] Note: the number is 230 when duplicates are considered. Source: UN.

Subsequent to the identification of focus SDGs, it would be logical for companies to set targets around this framework. Thus far, real estate companies have been reluctant to set clear targets based on the SDGs. Firms generally only mention the SDGs as a framework through which strategy is being determined, but stop short of providing detailed information on KPIs linked to the contribution to the SDGs. Targets can be linked into some of the ESG information that most companies provide, but so far this is hardly being done. This is understandable from the perspective of the companies as there is no clear framework yet to map the SDGs to physical impact consistently. However, these frameworks are in development at the moment and there is an expectation that companies will likely start reporting on physical impacts over the coming years.

In the investment industry, impact investment is rapidly becoming an interesting niche for investment managers. By adding the contribution to society to the profile of a fund, investment managers can distinguish their (real estate) strategy from generic strategies. A growing contingent of investment managers therefore is looking to adopt indices that are meant to select companies that contribute to society above the financial returns. Consequently, index providers are in the process of building or have already built various indices that address one or more areas of sustainability. Most indices to date are directed at ESG factors (i.e. with a focus on material environmental, social and governance issues), with the purpose of selecting those companies that manage the risks associated best with the idea to generate superior risk-adjusted returns over the long run. Impact indices are different in the sense that these are more oriented towards the contribution to society whilst maintaining market rate returns. This category of indices has yet to evolve, which is largely dependent on the availability of data. One potential direction this might take is that investors start to select on the basis of companies reporting on SDGs as a first step. This could serve as a minimum requirement investment criterion. The next step in maturity would be to actually set key performance indicators or physical contribution targets on this basis. This is not yet possible at this point in time due to data constraints, but might very well become part and parcel of the investment process in a few years.

5 Conclusion and research direction

The adoption of reporting on the contribution to the SDGs in European listed property companies hitherto has been slow. This is surprising in view of the fact that the real estate industry can have a significant contribution to the SDGs. Governments, regulators, NGOs and other stakeholders are increasingly paying attention to this. Furthermore, (institutional) investors are actively looking for opportunities to do impact investments, which offers opportunities for property companies to attract and retain shareholders. As a growing number of investors is allocating (part of) their capital into impact investment, this can be a source of additional capital being attracted to the industry. This presents property companies with a clear opportunity, particularly seen in the light of EU legislation further pushing investors on the path of sustainable investment.

There are two characteristics of SDG reporters that appear to set them apart from the broader European property company universe. The first characteristic is size. SDG reporters are on average about double the size of non-reporters. An explanation as per extant literature is that this is a reflection of the resources bigger companies have at their disposal. Bigger budgets and larger staff can explain why these companies are early adopters. A second explanation is that the importance of their societal profile with stakeholders such as municipalities is such that the investment in reporting pays off. The second interesting finding as for characteristics is the fact that those companies reporting on the SDGs display significantly higher levels of insider ownership. The relationship should not be confused with causality. However, it is likely that this finding is a result of insider owners pushing for more information on societal contributions than the broader set of shareholders due to the longer term engagement with the company.
At the same time it appears that having physical impact and reporting on it are divorced from one another. Property companies that intuitively might have meaningful impact (e.g. in social housing) are more likely not to report whereas property companies for which having impact is less self-explanatory do report. This is an important notion that is further evidenced by the analysis. Further research is needed to establish whether actual physical impact reached can also be established.

Going forward, it is interesting to monitor progress. As SDG reporting is relatively new, there is no evidence yet of the impact on performance after the adoption of the SDGs and subsequent reporting and target setting on this basis. Furthermore, it is interesting to look at the issue in terms of physical impact reporting. It is likely that this will become a standard or even a (legal) requirement over the years to come, as a growing contingent of stakeholders is looking at these issues both from a financial return as from a society perspective. This implies that those firms that do report on the SDGs and – perhaps more importantly – on physical impact will stand to benefit. A third area to explore is whether similar results are to be found in other jurisdictions, as it is conceivable that in other regions the take-up of SDG reporting is leading the European situation. Finally, research into the link with financial performance is to be explored further. This is particularly important considering the challenges surrounding the fiduciary duty that many institutional investors experience in embarking on a mission to dedicate capital to impact investment.

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