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# **A real estate fund for sustainability**

The case study of Piazza d'Armi in Milan



# Urban regeneration investments and SFDR's Article 9: setting the scene

# The impact of Urban Regeneration

The framework of the European Green Deal encourages the restoration and regeneration of unused areas and old buildings, to provide:



fresh air, clean water, healthy soil and biodiversity



cleaner energy and cutting-edge clean technological innovation



renovated, energy efficient buildings

On the other hand, the UN reports (2020) the high impact of the construction sector on the environment

36%

Of global final energy consumption

37%

Of energy related CO2 emissions

# The journey to SFDR's Article 9(2)

## Article 6

Integration of sustainability risks in investment decisions and assessments of impacts of these sustainability risks

## Article 9

A product that has sustainable investment as its objective shall include an explanation on how that objective is to be attained

## RTS

Periodic disclosure on the performance of the product and comparison to pre-contractual expectation and goals

Disclosure on how the product meets the promoted environmental and social characteristics

## Article 8

Consideration and analysis of Principals Adverse Impacts on sustainability factors and pre-contractual disclosure

## RTS

# Overview on the market

**Over the course of 2022, fear of greenwashing and declassification from Article 9 to Article 8 took over:**

46%

Of Article 9 funds were questioned by the Dutch Authority for the Financial Markets

663

Out of 6000 Article 9 funds set their minimum level of investment in sustainable objective to 0%, according to FE fundinfo (2022).

780

Out of 6000 Article 9 funds listed their sustainable objective between 0.1% and 85%, according to FE fundinfo.

**As of June 2021, GRESB (Global ESG Benchmark for Real Asset) detects that of 100 Real Estate Managers with activities in Europe:**

11%

Have funds that fall under Article 8

4%

Have funds that fall under Article 9

# Difficulties & Best in class

**At the moment, it appears to be extremely difficult for Real Estate funds to qualify under SFDR's Article 9, for two main reasons:**

## One and done asset

ESMA recommends Article 9 product not to be work in progress projects: this would exclude highly impactful urban regeneration projects

## Data

The amount of compliance to take on is significant. It is costly and hard to acquire reliable data to assess the Principal Adverse Indicators performances

**BNP Paribas managed to build the European Impact Property Fund, an Article 9(3) Real Estate Fund, with a reduction in carbon emissions as its objective**

## Best in class assets

BNP targeted investments in real estate assets that were already best in class in their respective sectors.

## Measuring Impact

The fund sets out to be compliant with the Paris Agreement and the International Energy Agency's proposed climate trajectory



**Art. 9 - why bother?**  
Exploring the possibility for an Urban  
Regeneration Article 9 Fund

Invimit is the asset management company, 100% owned by the Italian Ministry of Economy and Finance, established with the mission to valorize and manage properties owned by the state and public entities, operating as an asset manager of real estate funds.

The property they manage represent unique opportunities for foreign operators interested in investing in Italy, thanks to their historical and architectural value and, above all, their exclusive location: Milan, Rome, Florence, Bologna, Turin etc.

**12**

**Number of funds**

**€1,6 B**

**Asset Under Management**

**329**

**Number of Assets**

**2m sqm**

**Total m<sup>2</sup> under management**

# Piazza d'Armi



The area is a wide green space next to a building complex, once used as military barracks and deposits up until the 1980s. Since then, Piazza d'Armi has been abandoned in a state of decay, mostly used for illegal housing and sporadically as a polo pitch.

According to the PGT (Government of the Territory Plan), "Milano 2030", the park is labelled as a GFU (Great Urban Function); from an urbanistic perspective, it is considered a strategic point between the city and the parks of the west side of Milan

# The urban regeneration project

Aim to enhance the connections between green areas in west Milan, preserving biodiversity and revitalising the neighbourhood

Provide new lifeblood to the park through social, leisure and sport activities and the construction of affordable housing in line with the community's needs

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# The numbers of the project

400.000 sqm

Total area of the park and building complex

2nd

Biggest city-park of Milan

## The opportunity

- Unique position: market player managing public assets
- Mandate to maximise the value of public real estate assets through a range of solutions, including sustainable finance as leverage

## The solution

- A best-in-class fund targeting top ESG-aligned investors both government and institutional investors
- It's the meeting point between EU sustainable finance regulation and investors' ESG policies

# A ESG framework for Art.9 Real Estate Funds

## SFDR – Real Estate Principal Adverse Indicators

- **Exposure to fossil fuels through real estate assets\***
- **Exposure to energy-inefficient real estate assets\***
- GHG emissions
- Energy consumption intensity
- Waste production in operations
- Raw materials consumption for new construction and major renovations
- Land artificialisation

## Frameworks

UN Global Compact  
Net Zero Asset Managers Initiative  
UN Principles of Responsible Investment (UN PRI)  
Global ESG Benchmark for Real Asset (GRESB)

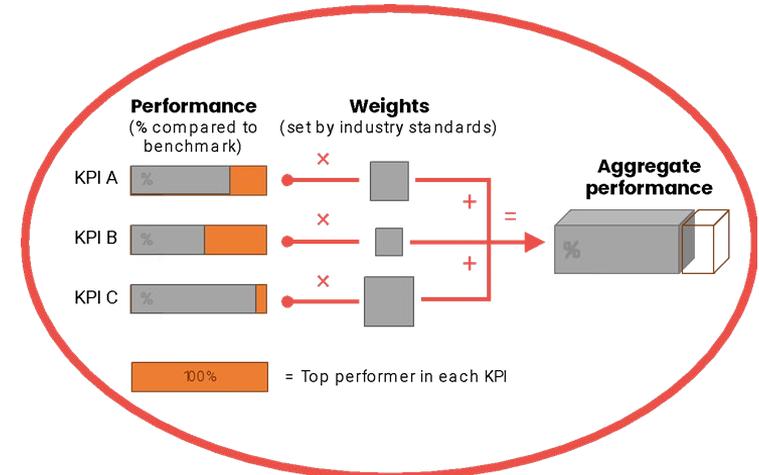
\* **Mandatory indicators**

**Existing approach**

## Our approach: an Art. 9 Industry rating

An **ESG rating** built on SFDR KPIs which allows to compare Real Estate investments qualifying for Art. 9

- Overcomes the issue of **greenwashing** by showcasing best-in-class
- Accounts for **multidimensionality**
- **Data** already available (and disclosed)
- Replicable **across industries/asset classes**



# It's not all about the «E»

How can the SFDR be used to promote financial products' social characteristics?

## Key themes

- Human rights
- Gender equality
- Anti-corruption and anti-bribery
- Workplace accident
- Fair compensation

## Frameworks

- OECD Guidelines for Multinational Enterprises
- UN Global Compact

Existing approach

## Too little too late? EU's faltering approach towards social sustainability

- Highly procedural approach (i.e. focus on the policies in place)
- Little more than standard legal requirements (e.g. controversial weapons, human rights)

**From a procedural to a substantive (and also pragmatic) approach**



The **European Pillar of Social Rights** as a reference for comprehensive social sustainability, starting from an existing policy (3 main chapters):

- 1) Equal opportunities and access to the labour market,
- 2) Fair working conditions
- 3) Social protection and inclusion

# Conclusion & next steps

The SFDR Regulatory Technical Standards will officially apply from January 1st, 2023. This will set the stage for financial players to put their efforts into the disclosure of their sustainable investments.

Such transparency in the market regarding ESG investments is unprecedented. But lacks efficient means to avoid greenwashing; the data provided by the institutions will be key to further advance towards a sustainable future

## – **Limelight test**

- Can the urban regeneration fund with best in class ESG policy register as Art.9?
- Do institutional investors, both national and international buy into it?
- Can the market be the ultimate greenwashing watchdog?

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**Thank you.**

**Filippo Addarii**

[filippo.addarii@plusvalue.org](mailto:filippo.addarii@plusvalue.org)



9 Perseverance Works, Kingsland Rd  
E2 8DD London (UK)

Corso Monforte 41,  
20122 Milano (IT)



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