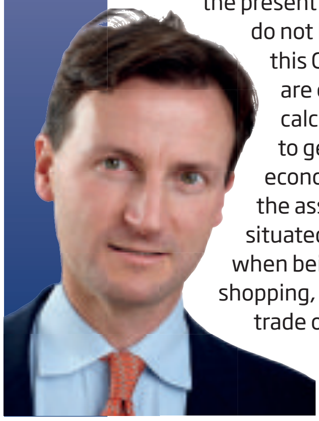
CHARITY TALK Hugo Llewelyn

For profit and social impact can go hand in hand

As investors in social-infrastructure-related property, we spend a lot of time dealing with D1 use classes – education, healthcare and the like – and the conversion of religious and community-led buildings (also D1/D2) to such uses.

The interchange between such uses highlights not only the close links between the for-profit and not-for-profit sectors in terms of planning and use but also the distinctions in terms of how they are funded. Healthcare and education uses are generally funded either privately or through current taxes and we aim to make a profit from those users.

Religious and community uses, however, are often funded on a voluntary, charitable basis by past users for the benefit of those in the present and future. As such, you do not have to pay to go to church this Christmas. Such buildings are often a sanctuary for the calculating property investor to get away from pondering the economic relationship between the asset in which they are situated and its use – zone-A rents when being dragged out Christmas shopping, or the fair maintainable trade of a convivial and seasonally decorated pub.



The funding and management of charitable property uses run a parallel course to that of the for-profit sector. The skills to run them are no different and there are increasing instances of funding methods running together, as the spectrum of uses that are part charitable and part for-profit require private sector support in the current economic climate. This is becoming prevalent in the cases, for example, of mental health, social housing and homeless hostels.

Many wealthy individuals choose to keep their philanthropic and business interests separate, making a clear distinc tion between the two. There is, however, a growing trend outside the property world towards 'for-less-profit' models that generate some return but also deliver some social good. A good example of this is social impact bonds, which have been pioneered in healthcare and judicial social infrastructure. This might be a bond to fund reduced crime in an area; it might be guaranteed by the government but 'interest' is paid only in the event of the success of the project.

We are increasingly being asked to look at projects where on traditional, risk-adjusted, for-profit measures the returns may not stack up, but where social impact, not measurable in sterling, can be huge. This could be in projects where build costs are high and tenant covenants not strong enough to justify development yields, such as clinical healthcare, policing and justice – and certainly in the regeneration of poor areas.

In the latter case, many long-term investors have proven that for-profit returns can go hand in hand with social impact. Sometimes it can also make sense to make a decision for wider social impact that is also pragmatic, for example to secure planning. We have one situation at present where we have opted to seek planning for a 100% affordable/social housing development rather than private housing, as while we will receive a lower receipt on success it substantially reduces the planning risk. We and the investors in that fund also feel the positive effect of doing something to help the UK social housing crisis.

Finally, we believe that if there is capital willing to take reduced returns where there is also proven social impact, and if there are property-related projects that need such finance, then there is a natural place for property fund managers – raising, stewarding and dispersing this capital into those projects. Managers might look at this as part of their corporate responsibility; that is, not making a profit on it but allowing employees to use part of their working time and skills in a challenging and satisfying way to create that social impact.

It is an intriguing set of co-ordinates and one I believe that an increasing number of property businesses will come to embrace.

Hugo Llewelyn is managing director of Newcore Capital Management

OFFICE ANGLES Steve Jude

Offices should have no reservations about new model

The hospitality sector is going from strength to strength. Marriott's recently announced record occupancy rates and its merger with Starwood Hotels & Resorts show how customer experience and service are integral to success. There are clear parallels between the hotel industry and offices – after all, guests and office tenants both rent space – so what lessons can office landlords take from hotels' customer-centric approach to reinvigorate their proposition and adapt to the changing market?

A while ago, you would have said not many. Most of us have been on the receiving end of Basil Fawlty-style customer 'service'. It will come as no surprise that actor John Cleese based the fictional character on a real-life experience of a hotel manager during his stay at Torquay's Gleneagles Hotel in 1970.

But the hospitality sector has come a long way since then. Companies such as Intercontinental have taken the lead and are renowned for the way in which they treat their customers. 'Customer' and 'guest' are synonymous with special treatment and good service. This guest-centric approach ensures these companies are putting customers and their needs at the very core of their business.

So why isn't this model being applied across the office sector? Like hotels, offices need to have high occupancy and be efficiently run to be profitable. Now more than ever, customers are demanding a positive 'guest' experience and an approach that is tailored to their needs, rather than a one-size-fits-all outlook. In the hotel sector, management companies or opcos come with the huge depth of skills and expertise to run the business, fill the hotel and keep customers happy. Frontline knowledge and insight is fed into an agile business strategy, enabling it to adapt and use customer trends to future-proof.

Many building owners do not have the inclination, time or knowledge to invest in managing numerous customer relationships. As a result, landlords often prefer large corporates, which require less flexibility and are easier to manage. Long leases have not been conducive to the sector needing to