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Education

What can ‘Just Transition’ deliver for Real Estate Investors?

AREF EDUCATION

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A 'Just Transition' recognises that reaching net-zero emissions whilst ignoring the human cost isn't enough. It means ensuring that the shift to a low-carbon economy protects workers and communities— addressing job losses, rising energy bills, and economic disruption—so that those who've contributed least to climate change aren't left to bear its heaviest burdens.

In brief

This article is the second in our three-part series exploring Just Transition's relevance for real estate investors. As established in our first article, Just Transition provides a framework bridging environmental sustainability, economic transformation with social inclusion—acting as a potential enabler of climate and nature action.

In addition to the benefits a Just Transition may provide for the environment, communities and economies, it also offers real value creation opportunities for real estate investment managers that chose to embrace its principles. This article explores the potential benefits of adoption. It also considers the challenges of implementation for the real estate industry, alongside future opportunities that overcoming these challenges can create.

Figure 1: Components of a Just Transition

Key themes explored:

- Potential value drivers of Just Transition, including enhanced capital access and operational benefits
- The challenges and opportunities of implementation for investment managers

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Introduction: Could Just Transition be Real Estate's Next Competitive Edge?

Just Transition has evolved from academic concept to practical consideration. In 2024, the Transition Plan Taskforce (TPT) published Just Transition metrics Just Transition Metrics and these are expected to influence mandatory reporting for asset managers in the future, while 'Financing a Just Transition Alliance' members, such the Local Government Pension Schemes (LGPSs), are already requesting disclosures on Just Transition. Some real estate investors are beginning to implement strategies that consider how they build, buy, and manage assets.

The importance of consideration is clear: real estate investors employ millions and house billions. Their transition decisions don't just affect emissions—they reshape communities, economies and livelihoods.

The Value of Just Transition for Real Estate Investors

Integrating Just Transition principles into real estate investment and development strategies can generate financial, operational, and reputational value for investors. Several potential value drivers have emerged:

Superior Capital Raising Opportunities

ESG Financing Access: Investors integrating social equity considerations can access specialised funding instruments with preferential terms. Projects that combine environmental upgrades with social impact attract favourable financing, with possible pricing advantages for qualifying developments.

Enhanced Due Diligence: Including Just Transition criteria in due diligence may improve investor confidence and support access to capital. Investment managers with proven Just Transition approaches may report certain fundraising advantages, though results will vary by market conditions and implementation approach.

Case Study: Orchard Street's Social and Environmental Impact Partnership (OSSEIP) integrates a 'Just Transition' at the core of its investment strategy by aiming to deliver both measurable environmental and social outcomes alongside attractive financial returns. Taking a holistic approach to impact investing, the Fund recognises that upgrading a building to improve energy efficiency can also drive local job creation and support the development of green skills.

OSSEIP, one of Orchard Street's two Impact strategies for Local Government Pension Scheme (LGPS) Pools, reflect the growing demand from long-term investors for opportunities that generate meaningful real-world impact and support a fair transition to a net-zero economy.

Enhanced Licence to Operate

Community Relationships: Projects that engage communities, ensure workforce inclusion, and maintain affordability foster social licence to operate. A positive relationship with local stakeholders prevents delays, reduces reputational risk, and facilitates long-term operational success.

Regulatory Advantages: Enhanced due diligence incorporating social impact assessments may help reduce post-acquisition surprises and support more effective integration processes. For example, the Green Skyline Taskforce promotes ways to reform 106 policies by shaping the Procurement Bill and reforming the Apprenticeship Levy.

Improved Market Stability

Portfolio Resilience: Developments guided by Just Transition principles contribute to market stability, as socially inclusive, sustainable properties are less prone to vacancy, resistance, or regulatory penalties. Properties serving diverse income segments demonstrate lower volatility during market stress periods.

Market Performance: Community-integrated developments maintain stronger occupancy through economic cycles whilst achieving superior long-term performance metrics.

Resilient Supply Chains

Skills Development: With 55% of UK construction firms currently facing shortages and one million additional construction workers needed by 2032, investing in workforce development and supplier inclusion under Just Transition principles strengthens supply chain resilience.

Operational Excellence: Initiatives that boost wages and create opportunities for underrepresented groups improve retention and project delivery reliability. Comprehensive stakeholder engagement can reduce project delays whilst preventing cost overruns.

Case Study: Thriving Investment's Mid-Market Rent Fund won AREF's 2024 Fund Award, delivering 1,200 high-quality, energy-efficient homes at below-market rents near Scottish city centres. By partnering with SME developers, the fund strengthens local business ecosystems whilst sustaining 27 construction apprenticeships—creating a skilled worker pipeline for Scotland's green transition. The energy-efficient homes combat fuel poverty, delivering significant cost savings versus typical Edinburgh and Glasgow tenements. This approach proves that profitable investment and community prosperity are mutually reinforcing outcomes.

Asset Value Uplift

Performance Premium: Buildings that demonstrate both environmental and social performance often achieve higher occupancy, tenant satisfaction, and long-term appreciation. Socially responsible retrofits and community-focused projects enhance asset valuation, linking ethical practice directly to financial outcomes.

Market Differentiation: Premium positioning attracts impact-focused investors, including pension funds and sovereign wealth funds, whilst commanding higher management fees for fund managers.

Performance Enhancement: Some buildings demonstrating environmental and social performance may achieve improved occupancy rates, tenant satisfaction, and asset appreciation, though results vary by market and implementation approach.

Challenges and Opportunities: A Balanced Assessment for Real Estate Investors

Despite the significant upside potential, the implementation of Just Transition strategies may afford challenges for real estate investors. However, with each of these challenges, there is a resultant opportunity.

Dimension	Challenges	Resultant Opportunities
Financial	Higher upfront costs for green retrofits, ethical sourcing, and certifications may amplify geographic inequality.	Access to green finance (e.g. sustainability-linked loans) and National Wealth Fund backing.
	Affordability pressures if upgrade costs passed to tenants, worsened by UK's 4:1 electricity-to-gas price ratio.	Moving from gas with efficiency measures can reduce tenant energy costs.
	Tension between financial returns and wider societal benefits.	Products with social criteria (e.g. low bills, affordable housing) appeal to impact investors.
Regulatory / Compliance	Requirement to meet tightening regulation (e.g. MEES) and voluntary net zero standards.	Early compliance reduces regulatory risk and voids by attracting occupiers.
	Risk of stranded assets as buildings with poorer ESG credentials face devaluation, vacancies, or financing challenges.	Repositioning inefficient assets and repurposing through change of use meets local needs and secures long-term value.
	No regulatory driver for investors to consider a Just Transition.	Future-proof strategy by aligning with leading planning policy and voluntary initiatives (e.g. Skills for a Sustainable Skyline).
Operational	First mover disadvantage with cost and resource barriers may encourage firms to wait.	Late mover advantage by avoiding higher technology, innovation, or market education costs whilst benefitting from efficiency gains.
	Complexity and disruption caused by retrofits with tenants facing relocation, reduced service, or business interruption.	Stakeholder-focused planning and co-input can build loyalty and long-term relationships.
	Supply chain constraints due to skills gap in existing workforce.	Workforce loyalty if reskilling and training programmes offered to grow green skills pipeline.

Social / Reputational	Tension between investor and stakeholder priorities (e.g. tenant pushback on cost-sharing impacts profitability).	Improved reputation and tenant loyalty where responsible landlords attract like-minded tenants.
	Reputational damage if not holistically considering impacts (e.g. narrow focus on carbon reduction whilst sacrificing thermal comfort).	Investors who integrate social equity into strategies build trust and may let space quicker.
	Unequal distribution of benefits where investors may not directly benefit.	Maintain 'license to operate' by demonstrating local benefit to communities, strengthening legitimacy with investors and regulators.

To effectively manage the trade-off between the challenges created by Just Transition and the resultant opportunities, investors should embrace three key considerations.

Investors should identify key stakeholders upfront and consider any unintended consequences that may need to be addressed or managed to ensure **stakeholder alignment**. Early and ongoing stakeholder engagement prevents costly late-stage opposition whilst building collaborative relationships that enhance project outcomes and reduce delivery risks.

A **phased implementation** approach by investors, piloting Just Transition strategies on select assets before portfolio-wide rollouts, allows for learning and optimisation whilst managing implementation costs.

Finally**,** robust **performance measurement** tracking both financial and social outcomes enable investors to demonstrate value creation whilst identifying areas requiring adjustment or additional investment.

Looking Ahead: From Theory to Adding Value Practicalities

Just Transition represents an evolving area in real estate investment strategy. The emerging evidence suggests that investment managers considering social equity alongside environmental performance may achieve certain advantages whilst building more resilient portfolios and stronger stakeholder relationships.

From potential enhanced capital access and reduced operational risks to improved asset performance and stronger community partnerships, Just Transition may create value across multiple dimensions for investors who implement it thoughtfully. Early adopters may also capture certain advantages through preferential financing, enhanced stakeholder relationships, and differentiated positioning.

Investment managers may want to consider whether and how to develop capabilities in Just Transition to potentially capture these emerging opportunities whilst fostering stronger connections and delivering positive outcomes for the communities they serve. The next and final article in our series will explore practical implementation steps for real estate investors, providing actionable guidance on integrating Just Transition principles into investment processes, stakeholder engagement strategies, and value creation methodologies.

AREF would like to thank the following members of the working group for their contribution to this article:

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This article is published by The Association of Real Estate Funds (AREF) to inform readers about developments in the Just Transition market. It is not intended to imply that real estate investors should immediately adopt Just Transition principles without careful consideration of their specific circumstances and investment objectives.

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