

Title: Green Exits - An EU Taxonomy initiated strategy framework for Nordic housing funds

Authors:

Maria Holopainen (maria.e.holopainen@aalto.fi)

Anniina Saari (anniina.saari@aalto.fi)

Seppo Junnila (seppo.junnila@aalto.fi)

Abstract:

In the past two decades, institutional investors have increasingly turned to private equity real estate (PERE) funds to diversify their portfolios and gain passive exposure to real estate. As a reward for the risks of capital lock-in and opportunity costs, investors typically expect to receive returns from two sources over the fund term: rental income and asset appreciation. The latter is realised through the liquidation of assets, or exit, at fund termination. An effective exit strategy is therefore critical for the fund's success. Furthermore, real estate funds face increasing sustainability demands from the market and regulatory entities – a theme that has received limited attention in academic literature.

Against this background, this paper investigated the impacts of the EU's new green finance taxonomy on the exit strategies of a Nordic housing fund. The research design consists of three parts: 1) analysing theoretical implications of the EU Taxonomy on the exit strategies of residential PERE funds, 2) interviewing major real estate fund managers, and 3) formulating a conceptual “green exit” framework which can help fund managers of core, value-added and opportunistic real estate funds align with the EU Taxonomy.

Preliminary results suggest that adherence to green standards in the real estate fund strategy offers multiple interesting exit strategy pathways and can significantly influence the fund's financial outcomes. The results also imply that the proposed green exit strategy framework can be a tool for fund managers to meet sustainability requirements and investor demand without compromising investor returns. Similarly, the framework can help public authorities better understand green transition opportunities in the private sector to support development towards a low-carbon built environment.

Keywords: Exit strategy, real estate funds, PERE, green, sustainability, EU Taxonomy