

Responsible Property Investing in Canada



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Presentation Overview



- The Footprint and Handprint of Responsible Property Investment
- Responsible Property Investment: The Canadian Experience
- Impact of ESG Standards on Real Estate Investment
- Implications

Property “Footprint”



- Environmental impacts – energy, water, waste
- Economic benefits of going green
 - Higher construction costs, BUT
 - Rent premiums, better occupancy, higher demand, greater selling price
- Investor benefits – limited research to date
 - Equivalent or superior portfolio performance (Pivo 2008), Investment appraisal variables (Ellison et al. 2007)

Property “Handprint”



- Move debate beyond “green” to “responsible”
- Social factors implicit in green buildings
 - Tenant’s employees, satisfaction, productivity, salary savings, lower absenteeism
 - Benefits: higher rents, tenant attraction, longer leases (Persram, Larsson & Lucuik, 2007)
- Urban revitalization, brownfield development, affordable housing, public transit, sustainable communities

Property “Handprint” (cont’d)



Property service supply chain **vital** to Responsible Property (construction, cleaning, security)

- Labour and employment conditions
 - Precarious work, job security & quality, subcontracting
- Negative impacts: worker health & safety, mental illness, absenteeism, turnover, externalize costs
- Stable workforce = improved building services, higher asset value, same/lower cost

Interviews- Canadian Perceptions



- Definition of RPI (narrow vs. broad)
- ESG as part of CSR (consensus)
- Costs associated with incorporating ESG into real estate portfolios (increase vs. decrease)
- Potential benefits
 - risk reduction and reputation-yes
 - tenancy satisfaction-yes
 - tenancy rates-not enough evidence
 - tenancy rents-not enough evidence

Interviews-Progress in Canada



*“ESG used to be something that was nice to have.
Now it is something we need to have.”*

- Policies and programs (focus on environmental side – social side is lagging in Canada)
- Metrics (LEED and Boma Best)
- Beginning to recognize social dimension of RPI (consultants)

Impact of ESG Standards on Real Estate Investment



- **Jantzi's ESG ratings cover five primary areas:**
 - community and society; governance; environment; customers; and employees.
- **ESG scores showed steady improvement since 2004**
 - 2004 only three real estate companies were rated by Jantzi with total ESG average score of 4.3.
 - By 2007 Jantzi rated fourteen real estate entities average total scores of 5.1.

Financial Performance of High ESG Firms



- We tested the financial performance of high ESG real estate entities versus those with low ESG ratings.
- On average, annual returns for the High ESG portfolio were 8% higher than the low ESG portfolio in the period 2003-2008.
- However given the low number of values examined and the 2008 financial crisis, we were not able to find a statistical significance in this finding. Further research is required.

Conclusion



- ESG factors are being taken seriously within the Canadian Real Estate industry.
- Good governance, CSR, and environmental concerns demonstrated through support of ‘green buildings’ currently receive the most attention by the industry.
- Social factors are harder to quantify and receive less attention.
- Firms with high ESG ratings have strong financial performance and mitigate both reputation and regulatory risk for investors.

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