



# Building responsible property portfolios

A review of current practice by UNEP FI and PRI signatories



**UNEP Finance Initiative**  
Innovative financing for sustainability



**for Principles Responsible Investment**

An investor initiative in partnership with UNEP FI and the UN Global Compact

# Introduction

## About this report

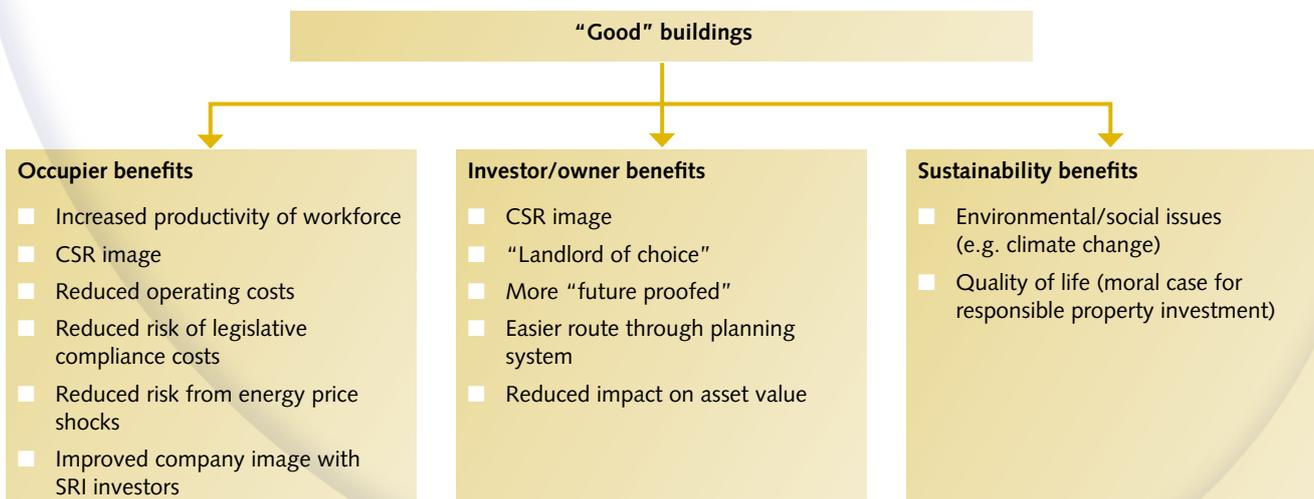
The Principles for Responsible Investment (PRI) are voluntary and aspirational guidelines for incorporating environmental, social, and governance (ESG) issues into mainstream investment decision-making and ownership practices. This report helps PRI signatories understand how they can apply the Principles to property assets through what some call responsible property investing (RPI). It does so by highlighting the work of leading practitioners. It is not intended to prescribe new requirements for signatories, but rather to aid those wishing to apply the PRI to property. This report was produced by the PRI Secretariat and the UN Environment Programme Finance Initiative Property Working Group (PWG). Its content was provided by members of these organizations, who together manage over \$300 billion in property assets. For more information about the PRI or PWG, please visit [www.unpri.org](http://www.unpri.org) and [www.unepfi.org](http://www.unepfi.org)

## The business case for responsible property investing

The PRI states, “We believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).” This statement affirms the view of the drafting signatories that the types of actions suggested in the Principles are underpinned by a strong business case and this consultation has found that many leading investors recognize its applicability to the property sector.

One of the few published studies on socially responsible property investment summarizes its major business benefits as shown in Figure 1.<sup>1</sup> Its authors argue that “while the wider sustainability benefits to society are well understood and really form the moral case for more sustainable buildings, it is the benefits to occupiers and investors which make the economic case. For example, it is thought that as occupiers become aware of these benefits, their attitudes toward “bad” buildings are likely to change, leading to their avoidance. This could result in increased letting voids and reduced asset values for these properties, while those with better sustainability profiles enjoy higher demand and increased returns.”

**Figure 1** The benefits of socially responsible buildings<sup>2</sup>



In a related study focusing on sustainability in house building, the authors emphasized two principal reasons for more responsible business practice: it indicates that a company is managing risk effectively and it demonstrates that a company is enhancing its reputation among stakeholders and maximizing business opportunities. More specifically, it facilitates compliance and risk management, improves competitiveness and operational efficiency, enhances reputation, and promotes market differentiation.<sup>2</sup>

As with many areas of investor and corporate responsibility, empirical research has not yet demonstrated a consistent link between responsible property investment practices and increased returns. However, many leading investors clearly recognize the importance of responsibility and are focusing upon it. Moreover, as we wait for research on portfolio returns and corporate responsibility in the property sector, a number of peer reviewed studies do suggest that better performance on specific ESG issues can benefit business metrics. Much of this work is summarized in *Responsible Property Investing: What the Leaders are Doing*, published by the UNEP Finance Initiative in 2007.<sup>3</sup> That report explains how investors and asset managers can achieve lower operating expenses, higher net operating incomes, improved tenant retention and satisfaction, and higher property values from responsible investment strategies such as energy conservation, water conservation, recycling, fair wages and benefits for janitors and other service workers, investing in urban regeneration, preserving parks and open space, tree planting, historic preservation, community engagement and development, good architectural and urban design, green buildings and green power purchasing, better corporate governance, transit oriented development, and maintaining safe premises.

There is also evidence that commercial and government tenants in particular are increasingly seeking premises with better environmental performance and social amenity. For example, a 2007 survey of corporate real estate professionals in London, Melbourne, Denver and Singapore found that nearly 80 per cent thought sustainability would be critical to corporate real estate within two years and they would pay at least 1 per cent more in rent for more sustainable spaces.<sup>4</sup> With this shift in demand, investors may need to enhance the ESG performance of their properties to avoid obsolescence and the incurring of additional taxes associated with emissions and energy use. Another risk for property owners is ending up on the wrong side of a two-tiered property market which could emerge, with lower valued traditional buildings in one tier and higher valued sustainable properties in the other.

A further argument for responsible business practices is that corporations have a stewardship responsibility to ally their activities with societal goals (often represented by regulatory momentum). This is reflected in the PRI statement that “*we also recognize that applying these Principles may better align investors with broader objectives of society.*” Indeed, the importance of buildings in relation to their ESG impacts across society at large can far outweigh their modest role within most diversified institutional portfolios. For example, climate change is the issue of our times, and even though property typically comprises less than 10 per cent of an investor’s portfolio, buildings and their location in relation to public transport are responsible for over half of all global CO<sub>2</sub> emissions.<sup>5</sup> Moreover, the total ESG impact from companies in which investors hold equities is very much related to how those companies select and manage the facilities they occupy. According to one study, up to 82 per cent of the environmental impact per employee of service sector companies is associated with the location, design and operation of premises.<sup>6</sup> Clearly, property must be a focus of those seeking to align their property and/or equity investments with broader societal objectives.

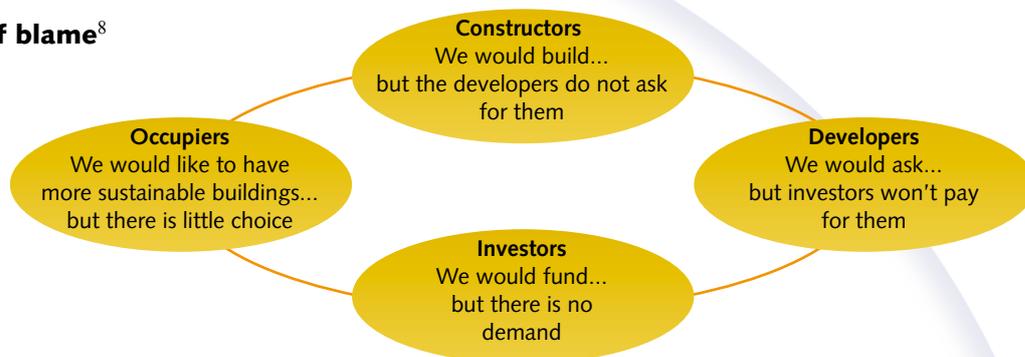
## Challenges particular to the property sector

A key challenge is the indirect nature of relationships between investors and ESG performance in the property sector. When investing in public companies, investors may be able to more easily influence outcomes through direct dialogue, because the companies in which they invest have more immediate control over their plants or branch offices, as well as the managers and employees who run them. With the property sector however, this agency chain is weakened by the indirect nature of many of the most relevant relationships. First, investors commonly invest through external fund managers. These managers determine which buildings to acquire or develop and what kinds of capital improvements are warranted. Second, fund managers may choose independent property managers to run the properties and interact with the tenants. This outsourced property management can involve contracting with independent security, energy, cleaning, solid waste and other service providers. Third, tenants are independent firms that, once a lease is signed, are free to use a property as they wish (within normal lease constraints). While tenants have contractual relationships with the property managers and owners and may be contractually required to act in certain ways, they do not have an employer-employee relationship with the property owner, eliminating an avenue of influence available to owners of listed equities through the managers of the companies they own. Fourth, investors may not be the sole or major owner of a property or property portfolio. Investment vehicles such as joint ventures, pooled property funds, and investment trusts – as compared to direct investments or separately managed accounts – result in any given investor being just one of many owners, which further dilutes their influence over investment and management strategy. Finally, there is the eco-efficiency principal-agent, or split-incentives, problem common to rented properties. When landlords pay for conservation measures and tenants pay for utilities, there are few incentives for owners to take actions that yield savings for tenants or for tenants to make capital efficiency improvements that revert to landlords when they vacate the premises. Conversely, when landlords pay utility bills, there are few incentives for tenants to moderate their behaviour, which is a major factor in conservation. Without some form of shared-savings contracts that benefit both parties, progress toward eco-efficiency in property will not achieve its full potential.<sup>7</sup>

## Opportunities for institutional investors

A number of strategies have been identified in this report to address the challenge of these indirect relationships in the property investment chain. However, institutional investors are in a unique and potentially influential position to help overcome these problems by virtue of the direct relationships they may have with property fund managers, property managers, service providers and tenants. For example, investors can help property fund managers who want their service providers and tenants to address ESG issues by engaging directly, alongside the fund manager, with the service and tenant corporations that are operating within the portfolio to emphasize the importance of these issues. Likewise, investors can help corporations that want their landlords to address ESG issues where those landlords are also part of the investor's portfolio. Other opportunities exist for coordinated action among investors in pooled investment vehicles to encourage those vehicles to improve. Ultimately, responsible investors can play a critical role in breaking down what has been termed the "circle of blame" that characterizes the property industry, as illustrated in figure 2 below.

**Figure 2 The circle of blame<sup>8</sup>**



## Responsible property investing in the context of the PRI

As stated above, the goal is not to prescribe what PRI signatories should do, but to explore what leading signatories are already doing, and place those best practices within the framework of the PRI. The following are examples of activities being undertaken by leading practitioners of responsible property investing. They are categorized according to the Principles for Responsible Investment. Under each Principle, “possible actions” are listed, which are then followed by examples provided by the report’s contributors. In some cases, the possible actions listed here relating to property correspond to those offered in the PRI themselves. In other cases they are new action categories that better capture what is happening in the field. For further information, the reader may contact the contributors’ representatives or visit their websites. Links to all contributing organisations are available at [www.unpri.org/property](http://www.unpri.org/property) and [www.unepfi.org](http://www.unepfi.org).<sup>9</sup>

### Principle 1 “We will incorporate ESG issues into investment analysis and decision-making processes.”

#### Possible actions

#### 1 Adopt governance practices that support ESG concerns

The Land Securities Board of Directors is advised on environmental matters by the group Environmental Director and provided with an annual environmental report. A single Environmental Policy is approved for the Board by the Environmental Director. The Board also is advised by a Corporate Environmental Group comprised of senior managers from each business unit. It oversees and communicates the group’s environmental policies, objectives, training and management systems, and adopts annual targets for the organization. Environmental panels exist at the operational level to ensure effective implementation.

#### 2 Make a broad commitment to addressing ESG issues

Hermes Real Estate has articulated its approach to responsible property investment by defining four key challenges including 1) compliance with current legislation and regulatory requirements, 2) good practice in property ownership, management and development which benefits the environment, communities and stakeholder relations, 3) strategy in portfolio and asset management that reflects a full consideration of socio-economic risks and opportunities, and 4) management systems that ensure full implementation of RPI and help managers to make progress.

Lend Lease Investment Management has adopted its Sustainable Responsible Investment Policy. The policy expresses the belief that environmental, social and safety factors are integral to property portfolio management and dedicates the firm to delivering positive economic, environmental and social outcomes. It also makes a commitment to specific actions related to reducing risks, reporting progress, adopting sustainability programmes, benchmarking, and working with stakeholders, industry bodies and government on these issues.

F&C Property Asset Management has adopted its Responsible Property Investment Strategy, articulating its approach and commitments through the core functions of governance, fund and asset management and property management, and detailing activity for each through a set of core objectives and milestones.

### **3 Make policy commitments focused on selected areas**

CalPERS Real Estate Program has established policies or plans pertaining to responsible contracting, investing in urban regeneration, energy efficiency and diversity. For example, its Responsible Contracting Policy ensures that workers employed by contractors servicing its eligible properties receive fair wages and benefits. Its Energy Efficiency Plan proposes a 20 per cent energy reduction in the core real estate portfolio.

Lend Lease Investment Management has adopted its Retail Development Sustainability Vision which commits it to moving toward net zero carbon, water and waste, seeking green building ratings, being incident and injury free, supporting community activity and diversity, balancing short and long term returns to maximize sustainable outcomes, continuously improving, engaging with stakeholders and working as a team to achieve this vision.

Since 1982, MEPT has maintained a Responsible Contractor Policy, which states that, for ground-up development or tenant improvement work, MEPT only engages contractors that are signatories to collective bargaining agreements with legitimate trade unions. This has meant that workers on MEPT projects represent the best skilled and trained labor available, are receiving fair wages and benefits and are afforded worker protections.

### **4 Establish leadership positions and teams dedicated to ESG issues**

Hermes Real Estate, Lend Lease Investment Management, and PRUPIM have each created an executive position with global responsibility for sustainability. Hermes Real Estate employs a 'Community Champion' to encourage good community engagement practices among its property managers. Kennedy Associates created a position for its RPI Initiative and ESG activities.

Hermes Real Estate created a Sustainability Steering Group, F&C Asset Management has a Corporate Responsibility Committee, Kennedy Associates developed an Energy/Sustainability Task Force, Morley formed a Sustainability Group, RREEF North America has a Sustainability Task Force and Eureka Funds Management Ltd and PRUPIM established a Sustainability Operations Committee dedicated to focusing management attention on ESG issues.

### **5 Assess the capabilities of internal investment managers on ESG issues**

Drapac has been educating its employees on the importance of social responsibility through internal workshops, literature reviews and development days.

Kennedy Associates has developed a green building curriculum to strengthen the knowledge base of Asset Managers and Acquisition Officers. So far, nearly 10 per cent of

its employees have become Leadership In Energy and Environmental Design (LEED) Accredited Professionals.

PRUPIM uses its *PRuViEW* employee survey to learn how well its managers understand what the company is trying to accomplish in its sustainability program.

## **6 Consider ESG issues in decision-making**

### **... when allocating assets or managing portfolio composition**

Environment Agency Active Pension Fund periodically reviews its strategy for allocating assets between different investments. In this process, it evaluates the risks and returns from investing more assets in green property funds. In conjunction with the Environment Agency Active Pension Fund, Morley has developed an environmental survey that enables it to assess different funds' sustainability credentials.

Investa Funds Management Ltd, when assessing whether an asset continues to fit within its investment criteria, considers whether it can further improve its social and environmental performance through capital improvements or enhanced management practices. Properties that are underperforming on social and environmental grounds and cannot be cost-effectively improved are considered for disposition.

On behalf of the Multi-Employer Property Trust (MEPT) and its separate account clients, the Investment Committee at Kennedy Associates Real Estate Counsel, LP (Kennedy Associates), reviews all investment opportunities within the context of RPI, focusing on environmental, economic and social components of each transaction. Client investment briefs detail how approved investments meet RPI metrics within ESG categories, while simultaneously meeting or exceeding the selected client's return requirements.

### **... when creating new investment vehicles**

Drapac has established a stand-alone wholesale sustainability investment fund (the Drapac Sustainability Fund) with a mandate to acquire, develop and hold property assets meeting a minimum 5 star rating from the Green Building Council of Australia.

Morley created the igloo Regeneration Fund in 2002. It invests in mixed-use urban regeneration projects in major towns and cities in the UK. The nature of the Fund's activities means that it has strong socially responsible investment (SRI) characteristics and adheres to formally adopted SRI policies.

PRUPIM has launched the PRUPIM Improver Portfolio as a way to improve the environmental performance of a group of 'typical' properties currently owned and managed by PRUPIM. Twenty-five managed properties were identified, covering all property types.

### **... when selecting funds or fund managers**

Environment Agency Active Pension Fund has adopted an Environmental Overlay Strategy (EOS) which requires each of the Fund's investment managers to assess environmental risks and opportunities before selecting investments. Each fund manager is required to submit a regular quarterly compliance report to the Environment Agency outlining any environmental considerations that have arisen, as well as any engagement and voting on environmental issues it has conducted with investee companies.

### **... when selecting properties for acquisition**

Drapac has amended its acquisitions checklist to include consideration of ESG issues when considering possible investments.

Investa Funds Management Ltd requires that certain social and environmental issues be considered as part of its due diligence for new acquisitions including distance from

frequent public transport services, accessibility for disabled people, and access to shops, services and community facilities. Environmental performance is benchmarked against the market, opportunities to enhance social and environmental performance are identified including their costs and benefits and effect on value, and enhancements that can improve the underlying yield are budgeted for. Properties that cannot be brought to above average social and environmental performance for the portfolio are disregarded. Priority is given to properties that can showcase superior social and environmental performance or are not achieving their full potential but can be improved to exceed the portfolio average.

On behalf of the Multi-Employer Property Trust (MEPT) and its separate account clients, Kennedy Associates evaluates the investment opportunities that have been vetted by its Investment Committee through a responsible property investment screen that considers social and environmental metrics. These metrics are organized into categories which address a given asset's sustainable attributes including its proximity to transit, provision of open space, use of renewable energy, waste management practices, provision of tenant amenities such as bike storage and showers, and overall energy and water efficiency. Social metrics include the use of responsible contractors and investment attributes that promote enhanced occupant indoor environmental quality such as use of low-emitting materials and green cleaning practices. Typical investments with RPI metrics also often utilize transit oriented development, mixed-use and urban infill which aid in sustainable community redevelopment and rehabilitation.

Lend Lease Investment Management incorporates environment, health and safety, community, and green building attributes and ratings within its due diligence process for new building acquisitions. Social and ethical factors are reviewed for consideration. Procedures related to capital expenditures, new development and redevelopment are also being adjusted to consider environmental and social considerations. All investment proposals to the internal fund board must address impacts on the environment and society.

RREEF North America has reviewed its due-diligence procedures for new acquisitions in order to consider energy efficiency and the potential to upgrade energy efficiency and other green building attributes.

### **... when selecting property managers**

In an effort to incorporate RPI activities into the expected services provided by third-party property management teams, Kennedy Associates has created new responsible property investing language for inclusion in property management agreements. The language lays out Kennedy's goals, property specific expectations for green building certifications, and intentions for ongoing property management activities. These include applying energy and water saving best practices, green cleaning, recycling and waste management, and use of low-emitting materials and implementation of sustainable construction practices.

### **... when managing existing property assets**

Hermes Real Estate has adopted a set of Responsible Property Investment Requirements for its property managers which oblige them to accomplish a number of related tasks such as collecting and reporting on utility and waste management performance, reducing energy and water consumption year on year, purchasing green power if the price is within 10 per cent of conventional supplies, facilitating the use of sustainable transport modes, providing adequate facilities for cyclists and implementing successful community engagement programs.

Investa Funds Management Ltd has adopted specific Socially Responsible Investing Guidelines for managing and operating its property assets that include standards for labor, environmental and social considerations. For example, properties must be safe, safety performance must be tracked, electricity, gas, waste, water, and greenhouse gas

performance targets must be set for each property and performance reported quarterly, and environmental performance ratings such as the Australian Building Greenhouse Rating must be maintained.

Kennedy Associates requires that all annual property business plans for clients such as MEPT highlight operations, initiatives, and activities that further energy conservation and environmentally sensitive practices. Kennedy has also carried out a comprehensive survey to assess each building's compliance with environmental, social and responsible building criteria.

RREEF North America is working with its many service providers and management teams throughout the continent to fulfill its commitment to greener operations, including adopting green cleaning products and maintenance plans and exploring opportunities for energy-saving retrofits. It also is an ENERGY STAR® Partner with the US Department of Energy, among the largest real estate investors to make this commitment to benchmarking energy usage and working to enhance energy efficiency throughout its portfolio. RREEF also supports client-specific initiatives to reduce energy consumption.

### **... when developing new properties**

Caisse des Dépôts in France has invested \$140 million in office developments aimed at outperforming usual green certifications. Through a dedicated working group that brings together all supply-chain actors (from investors to tenants), this future low energy building will be used to demonstrate what can be done by investors to offer tenants premium, high energy performance buildings.

In an effort to ensure a high level of sustainability with its development projects, Kennedy Associates, on behalf of MEPT and other select separate account clients, targets LEED Silver certification as administered by the U.S. Green Building Council (USGBC) for all new development and re-development.

Land Securities has published a Sustainable Development Brochure to organize all of its policies, objectives and targets for everyone that works with the company. The brochure specifies targets related to carbon emissions, recycling and sustainable wood products. It sets down principles for the design process and explains a standard approach to sustainable demolition and construction. The approach includes environmental impact assessments for major projects, responsible procurement for construction and contractor duties, aide-memoires to help project managers identify relevant environmental aspects at each stage of a scheme, project-specific environmental compliance registers, waste management and environmental auditing.

Lend Lease Investment Management has created minimum sustainability objectives for commercial assets under development for its Australian Prime Property Fund. All new developments must be certified by the Green Building Council of Australia, have their design, construction and post-occupancy evaluation monitored by an independent commissioning agent and be retuned one year after completion. They also have energy and water sub-metering installed for various pumps, fans, common areas, carparks, bathrooms and other facilities, have operational targets for electricity, gas and water, be designed to include recycling areas, bicycle storage, showers and lockers and use paints, carpets and adhesives with low Volatile Organic Compound (VOC) content.

### **... when obtaining other goods and services from suppliers**

Under Project Sentinel, Land Securities' revised procurement procedures require all new companies to complete a comprehensive questionnaire and be able to demonstrate that they satisfy Land Securities' corporate responsibility requirements before being added to the approved suppliers list.

PRUPIM, in collaboration with Buying Force, ensures high levels of compliance with sustainability standards. Business practices such as worker exploitation, human rights abuses and excessive polluting are unacceptable. One of the accomplishments to date has been the execution through Buying Force of a contract to purchase bulk green power for 240 properties at a significant discount.

## 7 Develop investment analysis tools and metrics

Hermes Real Estate has developed a coordinated set of metrics that includes energy performance ratings, flood risk assessment, a recycling rating tool and a new Sustainability Rating System. The Sustainability Rating System gives a numeric score for each property based on various sustainability criteria.

SIRIS has developed a range of property specific ESG analytics to assess and highlight the sustainable performance of the Australian listed REIT sector for investors. The process examines the strategic capacity of the manager to respond to key sustainability issues as well as the operational performance and ratings of properties – variable weightings are used to reflect the exposure of different property types to key issues such as climate change, resource efficiency and human capital.

CalPERS, Hermes Real Estate, Kennedy Associates, Land Securities, Lend Lease Investment Management, Investa, PRUPIM and others have set specific measurable targets for their new developments and existing property portfolios. For example, Land Securities' targets for its *new developments* include, in part, a BREEAM (Building Research Establishment Environmental Assessment Method) rating of "very good" or better, 20 per cent less CO<sub>2</sub> production than required by regulations, 100 per cent sustainable timber by 2010, 20 per cent recycled content for materials, and 80 per cent of demolition and construction waste re-used and recycled, rising to 90 per cent by 2010. Land Securities has also adopted targets for its own corporate operations, such as basic environmental awareness among 75 per cent of its staff by 2008 and a regular program of internal seminars and 100 per cent recycling at its head office by 2010. Meanwhile, Hermes Real Estate has adopted targets for its *existing properties* including a reduction in CO<sub>2</sub> emissions and water consumption by 5 per cent per year and 20 per cent by 2010, 50 per cent recycling across its directly managed portfolio of properties by 2008, and having properties submit a renewed annual return of their RPI Good Practice Matrix, containing at least two new environmental or community initiatives per RPI Challenge by 2008.

## 8 Support research on related themes

Hermes Real Estate commissioned the University College London Environment Institute to develop a research report on the likely impact of a changing climate on property. The report, *Climate Change – the Risks for UK Property*, was published in April 2008.

Morley, in conjunction with English Partnerships, sponsors research by the Investment Property Databank and Savills comparing the performance of regeneration properties to the wider property universe.

Sumitomo Trust & Banking is supporting research at the University of Tokyo on the role of environmental performance in property appraisal.

## 9 Work with service providers to incorporate ESG considerations

Caisse des Dépôts has asked a consultant to screen 100 per cent of its assets for energy consumption and CO<sub>2</sub> emissions and is defining a plan for progress.

Eureka Funds Management Ltd has contracted Green Globe to certify its portfolio of hotels and benchmark them against international best practice.

Hermes Real Estate has engaged Upstream to develop a series of Responsible Property Investment Metrics for its portfolio.

## Principle 2

**“We will be active owners and incorporate ESG issues into our ownership policies and practices.”**

### Possible actions

#### 1 Exercise shareholder voting rights or file shareholder resolutions

F&C Asset Management engages with property companies and REITs as part of its active ownership program. F&C actively votes all of its shares and encourages management to meet good practices. Fifteen property companies were engaged this way in 2006 and 2007. Recent examples are outlined in the table below:

Company/Issue	Engagement Details	Outcome/Next Steps
<b>Land Securities plc (UK)</b>	F&C met and engaged with the company to encourage it to improve reporting on its environmental and social supply chain practices. They also discussed how the company could design buildings sustainably.	The company already has excellent systems in place to mitigate environmental impacts and contribute to sustainable development. F&C continues to engage with the company to encourage it to widen its principles to its own stakeholders such as building materials suppliers and construction groups.
<b>Simon Property Group (US)</b>	F&C supported a shareholder proposal at the 2005 annual meeting and wrote to the company, asking it to establish board oversight for environmental management and energy efficiency of properties in its portfolio. The proposal also asked the company to improve disclosure of the greenhouse gas emissions from company owned properties, and to report on steps the company has taken to adapt its properties, in light of extreme weather events associated with climate change.	The company has since incorporated energy efficiency reporting into its annual report, and participated in the Carbon Disclosure Project <sup>10</sup> , which provides consistent information on corporate responses to climate change to investors.
<b>British Land plc (UK)</b>	F&C met with the company on several occasions both as a tenant and investor to encourage strengthening its environmental management systems.	The company agreed to introduce recycling systems into its Broadgate Estate office buildings in London. It also took on board F&C's suggestions concerning environmental management and reporting. F&C will continue to monitor implementation and will continue dialogue with British Land.
<b>Wheelock Properties Ltd and Wharf Holdings (Hong Kong/Singapore)</b>	F&C raised awareness of the biodiversity and climate change risks the company faced, and recommended that the company develop adequate environmental management systems to mitigate these risks.	F&C will continue to monitor whether the company takes our suggestions on board. The company has already provided some information that is not in the public domain, so F&C will further encourage public disclosure.

## 2 Engage with suppliers, joint venture partners and tenants on ESG issues

CalPERS is working with its real estate investment partners to collect data on electricity and gas usage, improvements to indoor air quality, water conservation efforts and waste management. It has surveyed its core housing and urban program partners to learn about the conservation and greening activities they have undertaken or plan to pursue.

Hermes Real Estate has developed a comprehensive approach to engagement that involves interacting with its internal team (investment, development and property management), its external property managers, and other stakeholders, including its joint venture partners. For example, in the case of joint venture partners, the program is designed to help the partners understand what Hermes considers vital and what additional actions Hermes would like to see implemented by order of priority. As a minimum Hermes expects its JV partners to have a Board member in charge of RPI issues, to improve their energy, water and waste management, to promote sustainable transportation, and to address community needs in such areas as employment, access for the disabled, and public safety.

Investa has published a Green Lease Guide for Commercial Tenants as a means of engaging its building tenants on social and environmental objectives. Hermes Real Estate and PRUPIM also run tenant engagement programs. The Investa guide explains to tenants that how they fitout or manage their workplace can enhance their reputation, attract and retain employees, enhance productivity, and reduce occupancy expenses. The guide encourages the tenants to commit to a variety of actions, such as installing green certified interiors and reducing travel demand. These commitments are then matched with commitments by Investa to better monitoring of indoor air quality, regular inspections for water leaks and other strategies. Hermes Real Estate has also developed a number of green lease provisions which are now incorporated in its standard form lease for all new tenants. Green leases are recommended for all tenants in buildings managed by the Lend Lease Investment Management Australian Prime Property Fund.

### Principle 3

#### **“We will seek appropriate disclosure on ESG issues by the entities in which we invest.”**

Nearly 300 faith-based institutional investors, via the Interfaith Center on Corporate Responsibility, have encouraged Simon Property Group, Liberty Property Trust, and other property firms to address sustainability and energy efficiency in their annual reports. F&C and others voted in favor of a shareholder proposal to this effect at the 2005 annual meeting of the Simon Property Group and wrote to the company, asking it to establish board oversight for environmental management and disclose the energy efficiency of its properties.

As of January 2008, Hermes Real Estate had about 300 properties in its Responsible Property Management Program that were managed by 10 property management firms. Hermes meets quarterly with the firms to evaluate the performance of the firms and their portfolios in terms of responsible property management issues. Each property manager is responsible for collecting and submitting information for this process. This includes reports on utility use and recycling, sustainable procurement, sustainable transport, flooding and subsidence risk, community engagement, and employee training. Certain specific tools have been developed to facilitate the process including the Hermes Waste Data Tool, the Hermes RPI Good Practice Matrix, and the Corporate RPI Workbook.

Each month, Lend Lease Investment Management asks its external property managers to report on the cost and usage of electricity, water, and natural gas and the waste stream recycled and sent to landfills. Quarterly information is collected on all initiatives underway to reduce energy and water use and increase recycling. Twice yearly reports are requested on refrigerant and diesel usage. These data are used, among other things, to monitor and benchmark environmental performance and calculate CO<sub>2</sub> emissions associated with the portfolio.

#### Principle 4

#### **“We will promote acceptance and implementation of the Principles within the investment industry.”**

Drapac has made a commitment to work with ADPIA (the Australian Direct Property Investment Association) and key industry stakeholders to educate them on the imperative of sustainable property investment through presentations, policy papers, partnerships and investment opportunities.

Kennedy Associates details how its acquisitions meet RPI metrics in its client investment presentations. It also highlights its environmental and social activities in company marketing materials, website content, and industry publications.

Lend Lease Investment Management has advised all Unit Holders of its commitment to PRI, includes its Sustainable Responsible Investment Policy in all Information Memoranda, and incorporates its approach to sustainability in all presentations to current and prospective Unit Holders.

#### Principle 5

#### **“We will work together to enhance our effectiveness in implementing the Principles.”**

More than a dozen of the world's leading property investors are collaborating to understand and support the development of responsible property investing as part of the UNEP Finance Initiative Property Working Group.

CalPERS, F&C Asset Management, RREEF's corporate parent Deutsche Bank (Asset Management Division) and many other investors have endorsed the Climate Risk Action Plan. Signatories will aim for a 20 per cent reduction over three years in energy used in core real estate investment portfolios. Investors that have endorsed the plan commit to collaborating and sharing information.

F&C, Hermes Real Estate, Morley Fund Management, PRUPIM and other UK property firms created a Property Workstream within the Institutional Investors Group on Climate Change. The Group's purpose is to “promote a better understanding of the implications of climate change amongst investors” and to “encourage companies and markets... to address any material risks and opportunities to their business associated with climate change and a shift to a lower carbon economy”.

Many of the leading property firms in Australia are working with the Global Reporting Initiative and the Property Council of Australia to standardize ESG metrics for property, development, and construction companies and wholesale funds.

## Principle 6

### “We will each report on our activities and progress towards implementing the Principles.”

Hermes Real Estate, Investa, Kennedy Associates, Morley and PRUPIM all maintain websites and/or reports on sustainability or responsible investing.

Investa obtained SRI certification for two of its funds from the Responsible Investment Association of Australasia while PRUPIM has its property managers achieve ISO 14001 (environmental management) and 18001 (occupational health and safety) accreditation.

Investa, Lend Lease Corporation (the parent company of Lend Lease Investment Management) and other real estate firms and REITs have issued standardized reports under the Carbon Disclosure Project<sup>11</sup>. Lend Lease has issued a sustainability report in conformance with the Global Reporting Initiative<sup>12</sup>.

Every year Lend Lease Investment Management responds to questionnaires from its investors on whether it is a PRI signatory, the extent to which it incorporates ESG considerations into the management of its investments, whether and to what extent labor standards or environmental, social, or ethical considerations are taken into account when selecting, realizing or retaining an investment, and its approach to corporate governance issues.

MEPT routinely reports to investors on its environmental, social and governance initiatives. The Fund uses meetings with pension plan trustees and their service providers, its quarterly and annual reporting, and its website to highlight and educate investors on its various RPI activities. Recent articles in the Trust Report, a quarterly newsletter that is sent to all investors and is available to the public, have focused on issues such as Transit Oriented Development (TODs), historical redevelopment, governance, the “greening” of the portfolio, and MEPT’s Responsible Contractor Policy. Additionally, through an independent, third party firm, MEPT generates a full report every two years on the job creation and economic impact of the Fund’s Responsible Contractor Policy. This report is also made available to the public.

## Conclusion

This report has provided a number of examples that illustrate how the PRI is being applied to the property sector. Many of these practices are relatively new and we look forward to monitoring their development and effectiveness over time. There are also many other organisations, beyond those cited here, that are developing more ideas and strategies. It is hoped that this report has provided an introduction to the types of activities that responsible property investors are undertaking, and inspires other investors to follow their lead.

## Notes

- 1 Daniel Rapson, David Shiers, Claire Roberts and Miles Keeping (2007), Socially Responsible Property Investment (SRPI): an analysis of the relationship between equities SRI and UK property investment activities, *Journal of Property Investment & Finance*, vol. 25, no. 4, pp. 342-358.
- 2 World Wildlife Fund-UK, Insight Investment and Upstream, *Building towards sustainability: Performance and progress among the UK's leading housebuilders*.
- 3 See UNEP Finance Initiative, *Responsible Property Investing: What the Leaders are Doing*, available online at [www.unepfi.org](http://www.unepfi.org). For a fully referenced version see the article under the same title forthcoming in the *Journal of Property Investment and Finance* or the full report version forthcoming from the UNEP Finance Initiative.
- 4 Ben Breslau, *Sustainability in the Corporate Real Estate Industry: Perceptions and Trends*, *Jones Lang LaSalle eReport*, December 2007.
- 5 Intergovernmental Panel on Climate Change. *Climate Change 2001: Working Group III: Mitigation*. 3.3 Buildings and 3.4 Transport and Mobility. UNEP and WMO, 2001. Available online at [http://www.grida.no/climate/ipcc\\_tar/wg3/089.htm](http://www.grida.no/climate/ipcc_tar/wg3/089.htm).
- 6 Seppo Junnila (2004), The environmental significance of facilities in service sector companies. *Facilities*, v22 (7/8), 190-198.
- 7 International Energy Agency (IEA) (2007), *Mind the Gap: Quantifying the principal-agent problem in energy efficiency*. IEA, Paris.
- 8 SCFG (2000), *SCFG Towards Sustainability: a Strategy for the Construction Industry*, Sustainable Construction Focus Group, Construction Confederation, CIP Ltd, London. Cited in Rapson, Shiers, Roberts and Keeping (2007), see supra note 2.
- 9 There are caveats the reader should consider. First, by drawing attention to these firms and examples, we do not wish to imply that others are not doing the same. Second, this is not a representative survey of practice. Consequently, any emphasis here on an area of practice (e.g. environmental) only reflects the work of the contributors. The relative emphasis in the field on environmental, social, and governance issues has not been established and it should not be implied that any single dimension is more important than another. Third, the focus here is on the fact that these activities are being undertaken, not their scope or coverage. We are not making claims about the influence these practices have in any given firm or throughout the sector. Finally, we do not seek to distinguish between the innovative and the ordinary. In some firms and regions, these practices may be common while in others they may be something new. It is hoped that both early and late adopters will find items of interest in this collection.
- 10 [www.cdproject.net](http://www.cdproject.net)
- 11 See supra note 10.
- 12 [www.globalreporting.org](http://www.globalreporting.org)

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## UNEP FI Property Working Group

UNEP FI is a global partnership between UNEP and the financial sector. Over 170 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance. The aim of UNEP FI's Property Working Group is to encourage property investment and management practices that achieve the best possible environmental, social and financial results.

Members: AXA Real Estate Investment Managers France, Caisse des Dépôts, Calvert Group, F&C Property Asset Management plc, Hermes Investment Management Limited, Infrastructure Leasing & Financial Services, Innovest Strategic Value Advisors Inc., Mitsubishi UFJ Trust and Banking Corporation, Morley Fund Management, PRUPIM, The Sumitomo Trust & Banking Co., Ltd., and WestLB AG.

## Principles for Responsible Investment

The Principles for Responsible Investment, an investor led initiative in partnership with UNEP FI and the UN Global Compact, was established as a framework to help institutional investors achieve better long-term returns through better analysis of environmental, social and governance issues in the investment process and the exercise of responsible ownership practices. <http://www.unpri.org>

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