UNEP

Disclosing Responsible Property Investing Strategies and Performance

Third in a Series of Toolkits on Responsible Property Investing

UNITED NATIONS ENVIRONMENT PROGRAMME

UNEP Finance Initiative
Innovative financing for sustainability

RP IC RESPONSIBLE PROPERTY INVESTING CENTER

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I. Introduction

Transparency is a core value of responsible investment. The United Nations Principles for Responsible Investment call for signatories to disclose their use of environmental, social, and governance [ESG] factors in their investment decisions. More generally, investors and other stakeholders have called on corporations to disclose how they address ESG issues both in their strategic decisions and their day-to-day performance.

In addition, disclosure can help companies:

- Set goals
- Measure progress
- Engage stakeholders
- Hold themselves accountable

The value of reporting comes both from the process -- which creates a vehicle for organizations to define and manage RPI, and from the end report itself – which serves as a tool for engagement.

The purpose of this brief toolkit is to outline steps for Responsible Property Investors to disclose their ESG strategies and performance. In what follows, it looks specifically at how property investors can design and implement an ESG report that discloses:

- Corporate governance and strategies on ESG-related issues
- ESG performance against year-over-year benchmarks
- Targets for future performance improvements
- Case studies that reveal how ESG issues are engaged in practice

For the purposes of this toolkit, we use the term “ESG” report as a covering term for “sustainability,” “corporate citizenship,” “corporate social responsibility,” and similar terms.

There are multiple forms of disclosure, from stand-alone ESG reports, to integrated ESG analysis in annual reports, to on-line platforms for ESG disclosure, to regular reporting on specific ESG topics. This toolkit is not meant to be prescriptive as to the form of ESG disclosure a company adopts: we believe that the successful implementation of RPI depends on the adoption of principles appropriate to the specific circumstances of each investment company.

This is the third in a series of toolkits produced by the Property Working Group (PWG) coordinated by the United Nations Environment Programme and its Finance Initiative. The first toolkit covered “Committing and Engaging,” the second “Metrics for Performance Measurement.” The Toolkit series is produced in conjunction with the Responsible Property Investing Center, to support the dissemination of RPI in the global real estate industry.

Determine the content of the report

The Global Reporting Initiative (GRI) argues that:

> *The information in a report should cover topics and indicators that reflect the organization's significant economic, environmental and social impacts or that would substantively influence the assessments and decisions of stakeholders.*

Put another way, RPI disclosure should reflect how an institution addresses key environmental, social, and governance issues, and how it performs on those issues over time. The particular set of topics will emerge from an investor's own evaluation of what is material.

Toolkit 1: Engaging and Committing outlined a process for defining strategies and governance of RPI within Firms.

Toolkit 2: Developing RPI Metrics outlined a process for identifying and measuring key performance indicators.

Disclosure may be seen as the process of publishing strategies and performance.

Disclosure covers a variety of topics which together encompass the RPI policies and performance, including:

Strategic commitments

Disclosure through an ESG report is an important forum for a company to outline its explicit commitments to the field of RPI. The commitments should outline both the general strategy with which companies address ESG issues, and the particular issues that a company finds most important. This section may include a vision and/or mission statement.

The section may also define how an investor defines ESG issues as material to their investment process. Company's can make clear the advantages they see – whether reputational, operational performance and efficiency, future-proofing, and so on – that lead them to adopt RPI as an investment strategy.

Finally, reports often include statements from an organization's CEO outlining the place of RPI in the context of market conditions. These statements may highlight immediate priorities within the broader range of issues under consideration.

The Australian manager *Colonial First State Global Asset Management* has published a concise sustainability policy for direct property investment across its funds. The policy outlines key areas for managing sustainability, including integrating ESG criteria, setting performance goals, developing data management systems, publicly reporting results, and dedication to continuous improvement.

http://www.cfsgam.com.au/uploadedFiles/CPA/About_Us/Policies/PAI%20Sustainability%20policy.pdf

In the opening letter of its 2009 RPI Report, *Kennedy Associates Real Estate Counsel*, a US based real estate advisory, has its President and CEO outline institutional commitments to responsible contracting, sustainable development and redevelopment, energy efficiency in operations, and transparency on corporate governance, laying a strategic framework for the report's analysis of ESG issues and performance.

http://kennedyusa.com/PDFs/RPI%20Report%202009.pdf

Hammerson, a European real estate fund manager, organizes its key sustainability commitments into 5 categories: Climate Change and Energy, Resource Use, Community Regeneration, Supply Chain, and Customers.

http://media.corporate-ir.net/media_files/irol/13/133289/crreport/Full_report.pdf

Governance structures

Explain the governance structures in place to manage ESG issues both at the board and management levels. This section may:

- outline how the Board of Directors oversees work on RPI, and whether there is a Board subcommittee devoted to the issue.
- address who manages RPI issues within a firm,
- Discuss policies and procedures in place to integrate RPI across firm functions, including the systems in place to educate employees on RPI.

The special characteristics of property investment may also support disclosure of efforts to educate tenants, contractors, and other stakeholders in RPI issues, or to incorporate ESG issues into Request for Proposals, leases, or other formal documents that engage external parties, insofar as they are incorporated into governance policies that oversee ESG management practice.

Lend Lease is an international real estate group with capabilities including: project management, construction, real estate investment management, and real estate and infrastructure development ; Lend Lease includes an extensive description of corporate sustainability governance policies in its online sustainability report.

http://www.lendlease.com/sustainability/index.html#/direction-detail

Hermes Real Estate, a UK-based investment manager, has in its 2009 RPI Policy Statement both an outline of its strategic commitments and an outline of the board-level oversight and RPI Policy Committee members from different business units within the company.

http://www.hermes.co.uk/files/pdfs/HRE_RPI_Policy_July_09.pdf

Performance measurement

Investors and other stakeholders will find most compelling those reports with clearly defined performance measurement, presented as year-over-year data that reveals relative movement over time. RPI reports, following guidelines published by the GRI (as one example), may break out separate sections on environmental and social performance, and include both quantitative and qualitative data. The GRI is currently developing a real estate and construction sector supplement intended to offer more specific guidance on reporting principles directly relevant to RPI.

In RPI reporting, a narrative account of the policies in place to improve performance can complement hard numbers, and offer readers additional information on how to judge an organization's commitment to RPI over the longer term.

When possible, quantitative data should conform to common international standards for reporting, to facilitate apples to apples comparison of building and portfolio performance. One key development in this regard has been the release of the Common Carbon Metric by the UNEP Sustainable Buildings and Climate Initiative, an effort to standardize energy use, intensity, and greenhouse gas emission data.

The issues addressed in performance measurement will naturally follow from those issues that a company measures internally, including categories such as:

Environmental: Greenhouse gas emissions, energy use, water consumption, waste produced, amount of land conserved, number or percentage of buildings certified by third party standards

Social: accident rate, employee turnover, affordable and workforce housing provided, percentage of activity in underserved areas

Community Impact: jobs created, taxes and fees paid, employee and tenant volunteering

For a fuller account list of RPI metrics that may go into RPI reports, including an overview of third party standards that may be used in reporting, see ***Toolkit 2: Developing RPI Metrics.***

There are third party standards for buildings – such as the US Green Building Council's LEED standards, BREEAM in the United Kingdom, CASBEE in Japan, or the Green Building Council of Australia's Green Star rating system -- that can be included in the category of performance measurement. To date, investors have most used new building standards to describe both their policies, and the expected performance of new development, in their RPI reports, but third party standards for existing building performance are a growing concern for standard-setters and investors alike.

Performance targets

One way that a report can demonstrate accountability on ESG issues is through the publication of clear, consistent, year-over-year performance targets. Companies can then measure and publish their performance against these targets, and if available against industry benchmarks, and ensure that their disclosure moves beyond the rhetoric of commitment to demonstrable action.

Performance targets will most often be expressed quantitatively. They will need context to explain how performance measures up to stated goals.

Groupe SNI, the real estate arm of the French-based pension fund Caisse des Dépôts, sets clear performance targets, including strategies for their implementation, in its web-based sustainability reporting. These target relate to two corporate priorities of greenhouse gas emissions and reduced water usage.

http://www.groupesni.fr/recherche_et_innovations/developpement_durable/les_actions_du_groupe

Investa Property Group, an Australian-based real estate company, includes both performance targets, and progress against those targets, in its 2008 sustainability report, including progress against portfolio-wide goals, across issues as diverse as energy, water, health and safety, community engagement, and employee recruitment and retention.

http://www.investa.com.au/Reports/2008/sustainability/Highlights/Performance.aspx

Industry Collaboration, Thought Leadership, and Rewards

RPI reports may also include a record of efforts an organization has taken to engage the industry on important topics in the field. This may take the form of participation in collaborative organizations such as the UNEP FI Property Working Group, and the publication of research, opinion pieces, and case studies on RPI trends and practices.

Organizations typically also list recognition they have received over the course of the reporting period, from advocacy and public interest groups and industry peers, on their RPI work. They also report on listing on sustainability indices, membership in relevant organizations, and participation in multi-stakeholder initiatives such as the Carbon Disclosure Project.

In its 2009 Corporate Social Responsibility Report, Jones Lang Lasalle, a global real estate services and investment management firm, highlights its role as pioneer member of organizations such as the UK Green Building Council, and Ceres, an network of investors, corporations, and environmental advocacy groups addressing climate change.

http://www.joneslanglasalle.com/csr/SiteCollectionDocuments/CSR_full_report.pdf

Prologis, a US-based Real Estate Investment Trust, uses its 2009 sustainability report to highlight participation in 52 different organizations, including a variety of ESG- and sustainability oriented groups.

http://ir.prologis.com/reports/2008SustainabilityReport/memberships_list.cfm

Preparing the report

The process of preparing an RPI report is complicated, and can be time and resource intensive. Disclosure should not be seen as an end in itself, but rather a piece of a larger RPI strategy. For this reason, the process of preparing a report should be carefully calibrated to support your organization's broad RPI goals.

Creating a reporting process

Effective disclosure of RPI strategies and performance requires a long-term commitment to gathering information, data management, producing a report, and ensuring that the report is disseminated to stakeholders. Clearly identifying the key parties involved in preparing the report up front is a crucial step in producing a valuable, timely and relevant report. Disclosure almost inevitably involves the creation of a cross-functional team, or at least network, to support the reporting process. The same discipline in financial reporting applies to ESG reporting as well.

The production of a report necessarily requires participation from a broad range of internal stakeholders and functions, from environmental and human relations officers to legal, compliance and communications teams. This is unlikely to be successful without a central point of reference within an organization to manage the process.

Where the function exists, the director of sustainability, or corporate social responsibility, or related title, will manage the process of producing an RPI report. This person is most likely to know the various corporate initiatives around RPI, and may have as his or her mandate the dissemination of those initiatives.

If there is no RPI specific function, the report may fall into the mandate of the Director of Communications or similar role. In this case, the team should reach out, at the very beginning of the process, to those employees actively engaged in RPI activities to gather input on daily RPI activities.

Stakeholder input

For many practitioners, formal collection of stakeholder input at the beginning of the process helps shape the content of ESG reporting. This may take two forms:

Internal stakeholder input: the process of reporting necessarily crosses multiple functions within a corporation. Gathering input at the beginning of the process may help identify key areas of concern to those groups of internal stakeholders who will be engaged in the process. This may shape/offer valuable input into the issues addressed in the final report.

External stakeholder consultation: the definition of materiality put forward by the GRI (cited above) emphasizes the materiality of information as it affects all stakeholder decisions. A formal process for engaging key stakeholders at the beginning of the process may help identify key issues for the report, from community concerns to broad strategic questions around:

External stakeholders might include representatives from:

- Industry trade associations
- Companies in the supply chain
- Environmental and community advocacy organizations
- Tenants
- Academia

PRUPIM, a UK based property fund manager, has conducted stakeholder reviews to determine which issues are most material to the company, and how to incorporate those issues into sustainability strategy. An overview of the stakeholder review process itself has become a significant part of its RPI reporting strategy.

http://www.prupim.com/site/media/documents/3410_Our_Stakeholders.pdf

Third party consultants

Third party consultants, particularly those with experience with ESG reports, can be useful in managing the process of data collection and report writing. The essential question is whether a firm has internal capacity to write a report, and whether those employees engaged in report writing might be more productively used to work directly on ESG or other issues.

RPI reports need to assess the potential value derived from using consultants. While they may offer a productive external viewpoint, and have familiarity with RPI issues or producing ESG reports, consultants may also need extensive work to learn a company's day-to-day activities. Careful support, and internal engagement, is necessary to make the most use out of the reporting process.

Gathering information

Early definition of those categories for performance measurement will help the team in charge of reporting collect information for the final report. But the process of gathering information is difficult, both in terms of the information's usability and its timeliness. A company may be best served by signaling, early in the reporting process, that requests for information and case studies from various internal and external stakeholders are considered a fundamental requirement for relevant parties.

As discussed in Toolkit 2: Responsible Property Investing: Metrics for Performance Measurement, gathering data is a long-term process, involving education, engagement, and system building. Over time, information collection can be automated as much as

possible. An online data management system can help stakeholders input data directly into a report's database, and may also facilitate external auditing if a company chooses or is mandated to verify its report.

A variety of programs will offer qualitative rather than quantitative data, such as those involving community engagement, public/private partnerships, or efforts to educate tenants on property management. Information about these programs, in particular, will depend on effective outreach and engagement beyond the immediate team in charge of preparing the report.

Systems should be put in place by the report team to ensure the accuracy and comparability of information gathered. These will likely take significant time and effort in the early stages of reporting, as multiple stakeholders become familiar with the process.

Context explaining performance measurement

While quantifiable information offers particular opportunities for investors and other stakeholders to measure relative performance, this information requires context to be properly understood.

For instance, a portfolio whose greenhouse gas emissions has risen may have acquired poorly performing buildings and disposed of superior performing buildings, in line with a strategy of repositioning acquisitions through energy efficiency programs. Readers will need this context in order to interpret raw numbers for portfolio emissions.

Investa includes with its performance measurements on greenhouse gas emissions noted above a detailed account of how the changing composition of its portfolio affected overall emissions.

More generally, data should be normalized, so that readers can understand not just overall portfolio characteristics but the relative performance based on geography, number of tenants and employees, tenant occupations, and so on. Careful narrative exposition allows investors and other stakeholders to compare apples to apples, and gives meaning to numbers which may not be immediately useful.

Verification and Auditing

One of the more difficult questions that disclosure raises is the need for verification and auditing of ESG reports. We do not yet have good evidence on how much audits reassure readers as to a report's veracity. Verification can be a relatively costly component of a report's budget. On the other hand, third party verification can supply important credibility, and also signal to internal and external stakeholders that a firm takes the production of a report seriously.

Each company will have to decide for themselves what the value of third-party verification is to them. The answers to this question will likely change as the demand for ESG reporting increases, and the supply of ESG auditors increases along with it. Changes in regulatory disclosure requirements will also play a significant role in the ESG audit market.

Case Studies

RPI reporters regularly include case studies of particular buildings or programs together with the aggregated data for their portfolios. Case studies help reveal the particularities of a firm's RPI strategies in practice, and they can offer important support for strategies, and performance measurements, that otherwise might seem removed from day-to-day practice.

Case studies are most effective when they focus narrowly on a specific procedure or program, and they are tied both to concrete actions, and to the challenges in improving performance. The risk with case studies can be that they become substitutes for portfolio performance – signature projects that mask underlying corporate weaknesses in ESG performance.

Effective case studies, in contrast, illustrate how a company translates its programs into behavior, and how those cases illustrate general trends in ESG management. Done this way, case studies can be important complementary support for the quantitative data that investors and other stakeholders increasing demand.

Chamartin Inmobilaria, a Portuguese real estate developer and fund manager, uses case studies in its 2008 sustainability report to illustrate efforst to reduce carbon emission, improve community outreach, and increase customer satisfaction.

http://www.chamartinimobiliaria.com/sustentabilidade/cache/1001174.pdf

The Igloo Regeneration Fund, a UK based private equity fund from Aviva investors, includes in its sustainability overview multiple case studies of properties that illustrate its approach to urban regeneration, environmental sustainability, and urban design.

http://www2.igloo.uk.net/media/dContent/mediaCentre/footprint-secure-080926.pdf

Disseminating the report

Despite the effort that goes into gathering and processing information, the imperatives of production deadlines, and so on, the production of the report itself is not the end of the process. Disclosure is a tool for engagement, and disseminating the report is as important as producing it. In the field of ESG reporting generally, practitioners report that the most difficult task is getting the right information to the right people, and many lament that their reports go largely unread.

Identifying the audience

The immediate task for dissemination is to identify who are potential readers, and recognize that each group of potential readers will look for different information. Relevant groups might include:

Investors – a report can signal to investors how an organization manages to important long-term ESG issues, how an organization links RPI to business value, the distinguishing features of an organization's RPI approach, and where an organization is likely to concentrate its RPI efforts in the future

Employees – the report can signal employees as to the importance that management attaches to the topic, provide them with relevant information on, for instance, job creation and health and safety records, and may be a tool to attract superior candidates for open positions

Business partners and contractors – the report can lay out standards of practice, engage them on RPI issues, and move best practices through the supply chain

Civil society organizations – community groups may want information on economic and social impacts in their areas; environmental advocates may review total greenhouse gas emissions, policies for improvement, and long-term environmental performance targets.

Government – regulators may review the report to gain a better sense of an organization's contributions to issues ranging from job creation to community outreach to environmental risk mitigation. They may consider reports when making decisions about a company, or when designing regulation for the industry more broadly.

It is important to note that identifying the report's audience should take place at the very first stages of the reporting process, and the anticipated needs of users should guide the identification of topics, the gathering of data, and the creation of a report itself.

Publishing the report

Reports are increasingly being published in online format, both for environmental reasons, and because few readers will need a full hard copy of the report in any case. Among other benefits, online publication allows for useful cross-referencing, links to important

supplementary information, and increased transparency of the data used to draw conclusions.

A full RPI report may be unwieldy for individual readers. For many, an executive summary and an index of key topics will be enough to guide them. An organization may also wish to present highlights covering key performance targets and measurement, or tables which include key measurements and brief explanations of performance.

Many companies now provide a snapshot of highlights from their sustainability reports, often with key performance indicators highlighted. These pull out sections are meant to address the problem of reporting overload, and to provide concise summaries of goals and performance both. Online publication allows for a layered approach through which interested readers can gather more detail while those in hurry can quickly read top-level highlights. It also allow for regular updating of key information if necessary.

Given the likely variety of readers, a series of one-page highlight sheets specifically tailored to audience needs can increase interest in and attention paid to an RPI report. These, along with an executive summary, may make up the bulk of the printed matter used for outreach.

Framing stakeholder discussion

Some organizations use the published report to convene dialogues with key stakeholders to review company performance, the transparency and utility of the report itself, and to use the information in the report to reflect on future goals. The report may serve as a valuable focal point for engagement.

Such stakeholder discussions may also be the beginning of next phase of the reporting process, highlighting strengths and weaknesses of the exercise, and laying out new tasks for subsequent reports. The circular nature of reporting, from design to publication to the

next report's design, lends itself to stakeholder review and engagement.

Management review

The publication of the report will require due diligence and management sign off, and often approval from a variety of other internal departments (legal and compliance, human resources, property management, property development, etc.). These approvals can be the basis for extended internal dialogue on RPI goals, strategies and performance. They may be the most available opportunity to engage management across an organization on key issues. An ESG report can thus raise the profile of RPI issues within the organization, and draw attention to key problems and opportunities moving forward. The process of reporting can drive strategic discussion, and the report itself can offer a guide for strategic decisions.

Practitioners insist that an ESG report itself is unlikely to drive systemic change within a corporation, or more broadly within an industry sector. The report must be integrated into performance management, and made a tool for engaging business units as they bring ESG concerns into their daily practice.

The Boston College Center for Corporate Citizenship has recently published two studies that address the uses to which ESG disclosure can be put. The first, "The Value of Social Reporting," examines how leading reporters have found value both in the process and the final publication of these reports, and where they see room for improvement in making the reporting process as effective as possible. The second, "How to Read a Corporate Social Responsibility Report: a user's guide" looks at how investors have used information provided by ESG reporting to analyze long-term corporate potential.

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United Nations Environment Programme Finance Initiative (UNEP FI)

The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership between the United Nations Environment Programme and the private financial sector. UNEP FI works closely with the more than 180 financial institutions that are signatories to the UNEP FI Statements, and a range of partner organizations, to develop and promote links between the environment, sustainability and financial performance. Through regional activities, a comprehensive work programme, training activities and research, UNEP FI carries out its mission to identify, promote, and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations.

RPIC

The Responsible Property Investing Center, a joint project of the University of Arizona and the Initiative for Responsible Investment at Harvard University, fills a void in the real estate landscape by bringing together leading real estate practitioners, from developers and lenders to fund managers, asset owners and institutional investors, in order to coordinate and disseminate their best practices, conduct crucial research, and to create networks of investment opportunities that take advantage of the changing landscape of property investment. For more information see www.responsibleproperty.net.

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