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RICS



Principles for
Responsible
Investment



Institutional Investors Group on Climate Change

Sustainability Metrics

TRANSLATION AND IMPACT ON PROPERTY INVESTMENT AND MANAGEMENT

“The most thorough, yet clear-thinking, papers I have read on the practical implementation of sustainability metrics. [...] I can foresee corporations seizing upon many of your ideas as a road map for firmly embedding sustainable development objectives into their strategy-setting.”

This report, ‘Sustainability Metrics: Translation and Impact on Property Investment and Management’, provides a framework for a corporate real estate sustainability management (CRESM) system. The framework can be used by property investment and management organisations as a means (1) to meet their environmental, social and governance responsibilities whilst addressing the financial/risk implications of sustainability and (2) as an overall quality assurance tool and mechanism.

The objective of this report is to improve the industry’s abilities and sophistication in creating the necessary linkages and feedback loops within the property market. This enables the exploitation of the added value of information.

The report’s primary audience is commercial property investment and management firms. However, the report is also useful for decision-makers in related sectors such as banking and insurance.

“The challenge that our industry faces is developing consistent and robust, yet efficient, frameworks that combine information from various sources and processes in order to inform investment decisions.”

The ‘Sustainability Metrics: Translation and Impact on Property Investment and Management’ report represents a joint venture between leading stakeholders in the field of property investment, advice and management.

A complex web of interconnected information flows and requirements result from the interactions between property market players and the functions within investment and management organisations. Systematic management and use of this data is needed within standard business processes as a basis for informed decision-making.

Drawing on the findings of a sector survey, the report highlights that the property investment community has already developed a relatively sound understanding of what sustainability means in relation to single buildings and investment vehicles. However, the data and information crucial for sustainability performance assessment and management are not yet systematically captured and processed, even though it may already be available “somewhere” within an organisation.

Steve Williams

Executive Managing Director
Real Capital Analytics
Past President RICS

From a boardroom perspective, it is critical to harness the relationships between sustainability issues, related metrics and property investment / asset management operations. An individual asset’s sustainability performance can impact on portfolio value, corporate reputation and corporate success in many ways. The adoption of Corporate Real Estate Sustainability Management (CRESM) is a vital element of a responsible corporate policy.

This report adds to the body of knowledge and tools that will enable the wider uptake of sustainability risk management across the industry. It helps investors both protect the value of real estate funds and comply with their fiduciary duties. Finally, the report offers an opportunity for policy makers to better understand the complexity of sustainability management in the real estate sector. This should help them develop sustainability-related policies which maximise environmental and social benefits AND provide appropriate incentives and signals to investors.

Ari Frankel

Head of ESG Strategy, Real Estate
Deutsche Asset & Wealth
Management

“We believe that sustainability risks are integral to both functional and physical depreciation of buildings. [...] We see this as a key risk factor that should be incorporated in the real estate industry’s existing dividend discount models in assessing value. Only in this manner will we be able to manage our portfolios as a responsible investor on behalf of our clients.”

Chris Taylor
Chief Executive Officer
Hermes Real Estate

Key challenges for property investment and management firms are to:

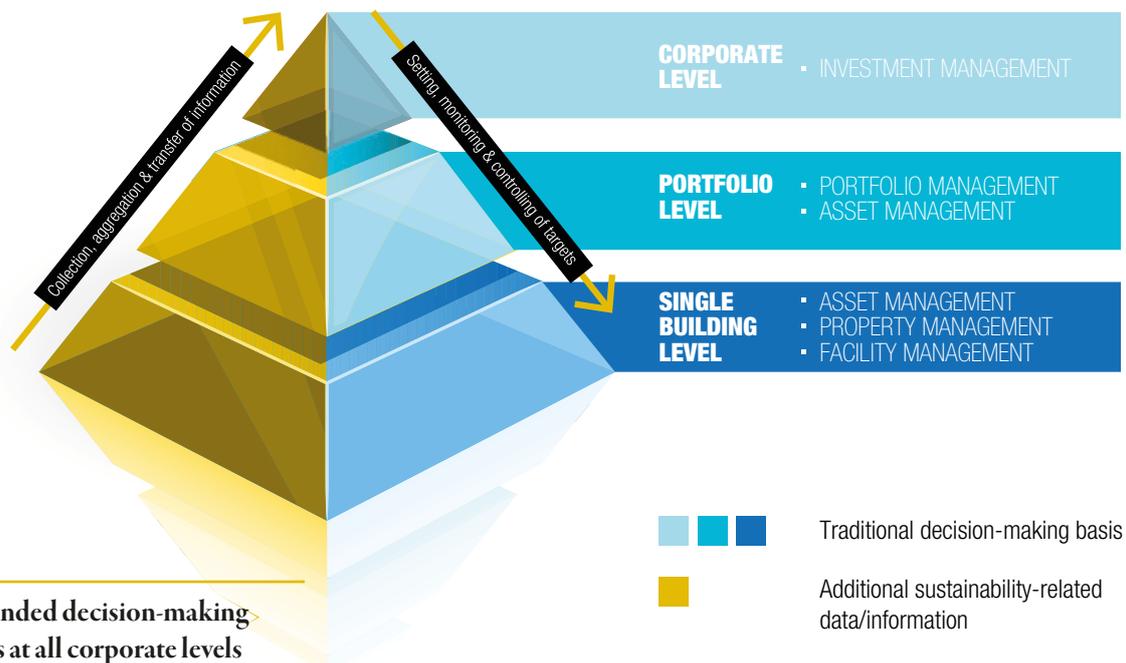
- organise information flows more efficiently
- ensure data accessibility and comparability across different corporate departments and between business partners and service providers
- develop and implement appropriate decision-support instruments.

A list of pragmatic sustainability metrics provides the basis for explaining:

- how sustainability considerations can actually be embedded within business routines and decision-making processes at different corporate levels
- how existing tools and methods (i.e. investment and portfolio analyses) can be fine-tuned accordingly
- how buildings’ sustainability performance can impact on asset and portfolio value, corporate reputation and financial success.

Led by the Property Working Group within the United Nations Environment Programme Finance Initiative (UNEP FI) and developed at the Centre for Real Estate at the Karlsruhe Institute of Technology (KIT), the report was supported by the Royal Institution of Chartered Surveyors (RICS), the Principles for Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC).

The implementation of CRESM requires a holistic approach across the whole organisation. The successful management and integration of sustainability risks and opportunities into business routines and decision-making processes depends upon an approach to information / data at all corporate levels:



Extended decision-making basis at all corporate levels

“This is an insightful report that should be of interest to any organisation, irrespective of their stage of maturity in managing sustainability metrics. [...] This is an excellent example of where academia meets commerce.”

Andy Szyman
Head of Sustainability
F&C REIT Asset Management

The full report is available at www.unepfi.org/work_streams/property

For more information regarding the activities of the UNEP FI Property Working Group contact pwg@unepfi.org