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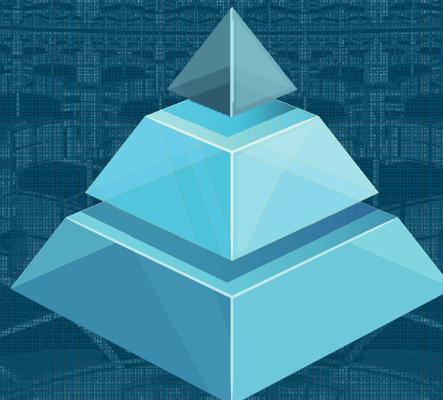
Sustainability Metrics

TRANSLATION AND IMPACT ON PROPERTY INVESTMENT AND MANAGEMENT

A report by the Property Working Group of the United Nations Environment Programme Finance Initiative
May 2014



UNEP

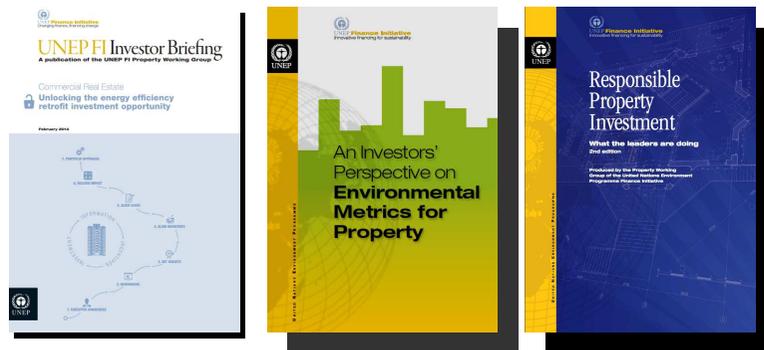


Sustainability is no longer a niche issue

The financial business case is clear: energy efficient and sustainable buildings provide an overall better market value for investors.

There is an increasing demand for data to assess the sustainability credentials and performance of companies, portfolios and buildings.

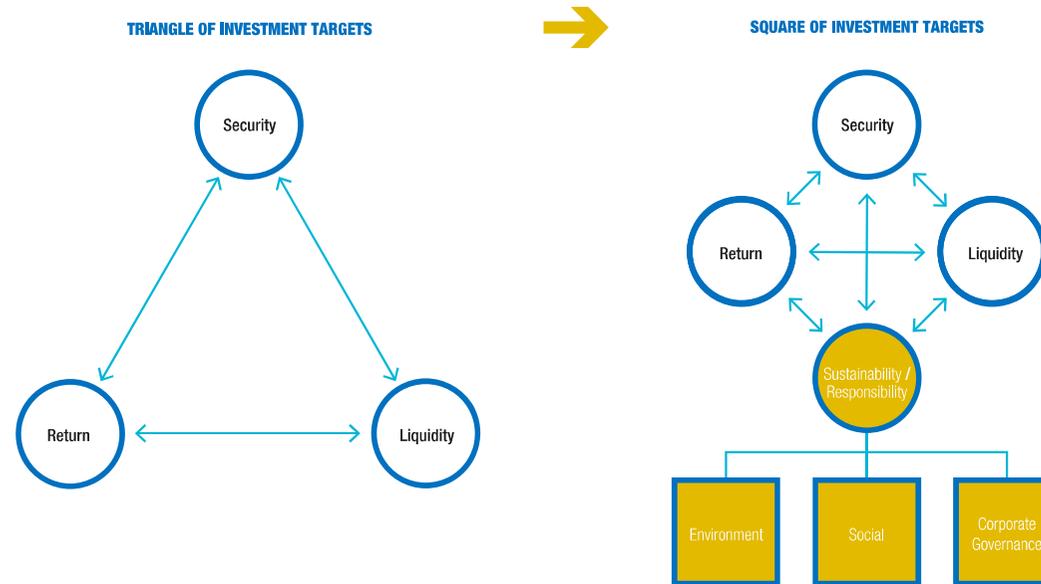
Asset owners and managers are increasingly confused by the ever thickening ‘alphabet soup’ of acronyms relating to building metrics and the organisations behind them.



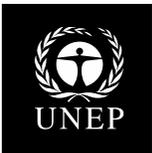
Link to download the publications
www.unepfi.org/publications/property



Needs and options to take action



- Existing tools and systems can be fine-tuned
- Sustainability considerations can be embedded within business and decision-making processes at different corporate levels
- Buildings' sustainability performance will impact on asset and portfolio value, corporate reputation and financial performance



The industry status



A survey of property investors and managers revealed that

A relatively sound understanding of sustainability exists in relation to single buildings and investment vehicles. The information/data on many performance aspects are already being gathered by leading organizations but the respective data are not yet systematically captured and processed:

81%

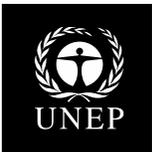
have some form of
“sustainability
check” in place

16%

is able to use the
information for
sustainability
reporting functions

58%

do not have any
form of internal
management system
in place



The way to success

Corporate Real Estate Sustainability Management (CRESM)

CRESM refers to the integrated management of all economic, environmental and social aspects of an organization's property (real estate) activities and associated investment decision-making. It involves all relevant strategies, processes and organizational structures that support corporate governance and sustainable business and product development.

“ *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.* ”

Ari Frankel

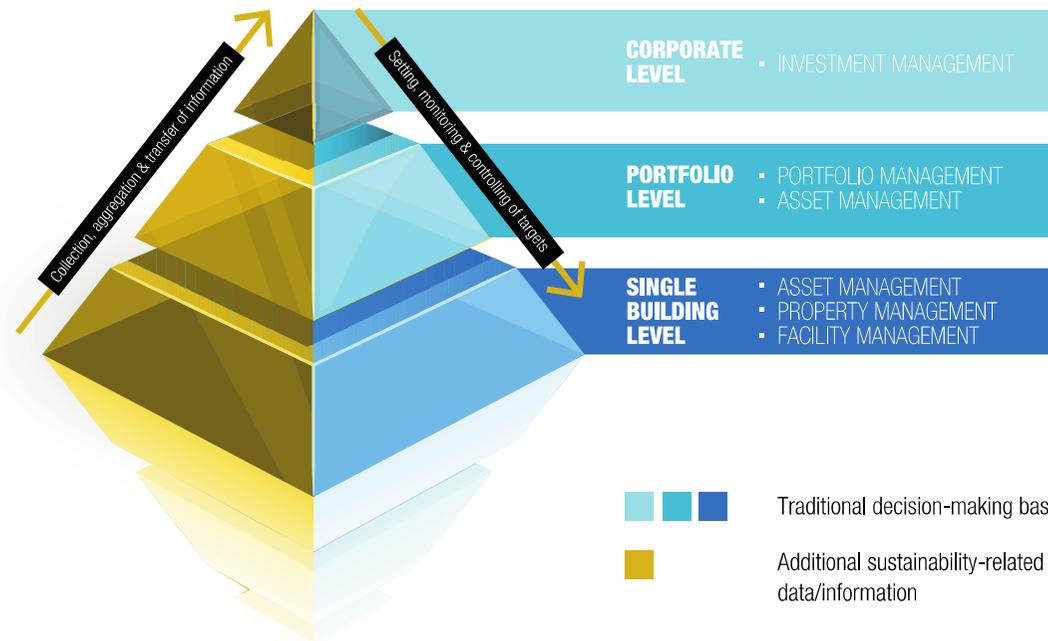
Head of ESG Strategy, Real Estate, Deutsche Asset & Wealth Management



The way to success

Corporate Real Estate Sustainability Management (CRESM)

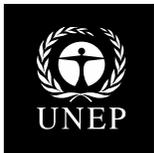
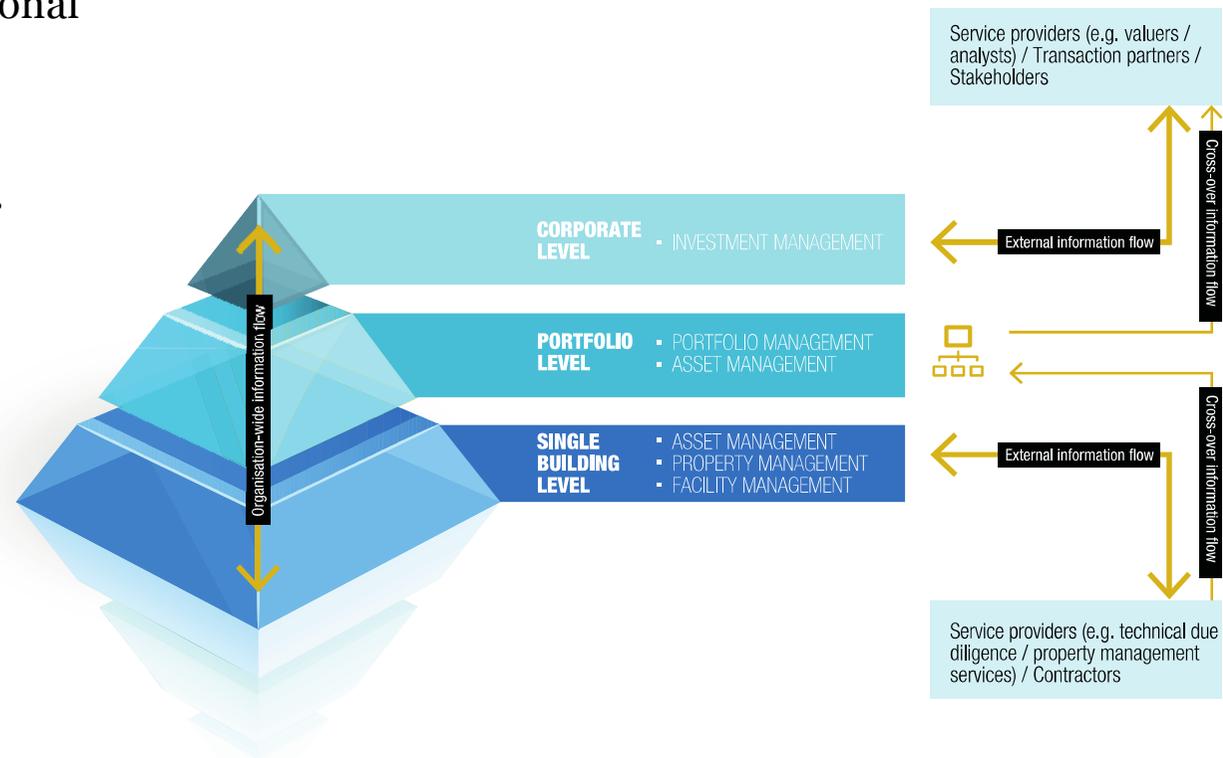
The implementation of CRESM requires a holistic approach across the whole organization. The successful management and integration of sustainability risks and opportunities into business routines and decision-making processes depends upon an approach to information/data at all corporate levels.



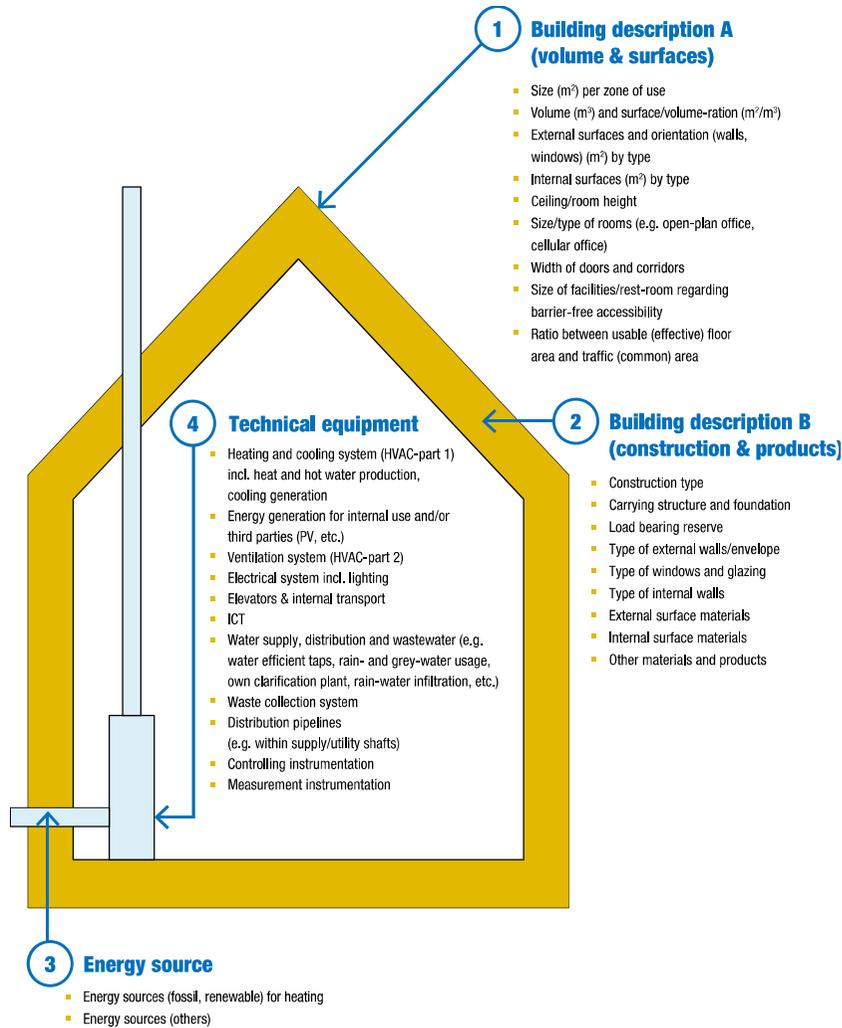
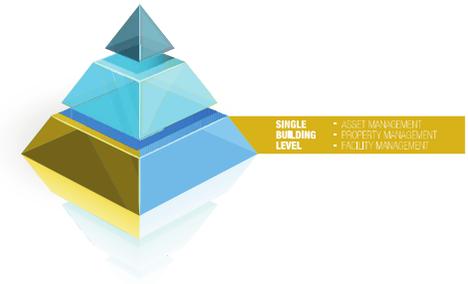
Structuring information flows

To address the problem, it is necessary to consider that **information flows** need to be structured and managed in relation to 3 domains :

- Organizational
- External
- Cross-over



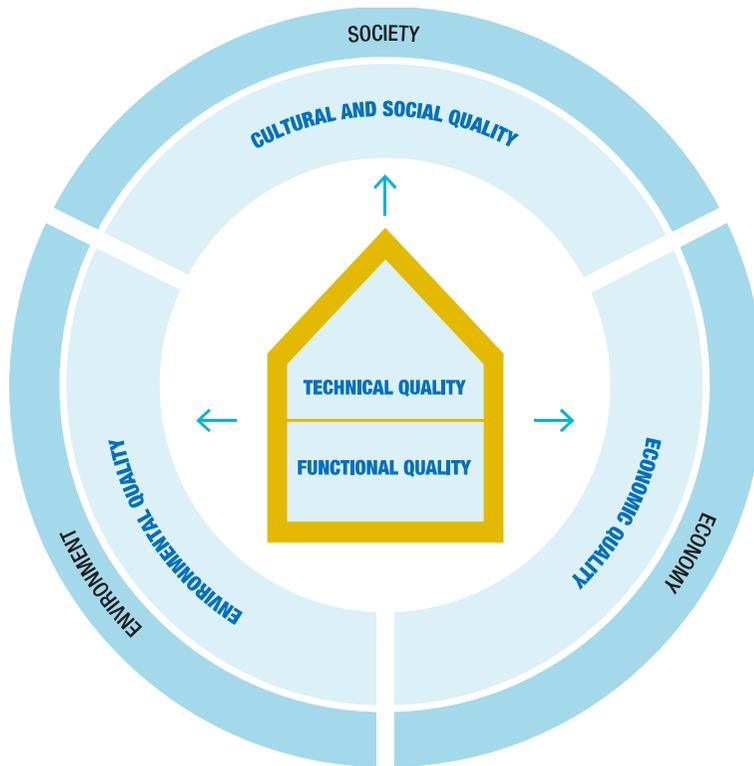
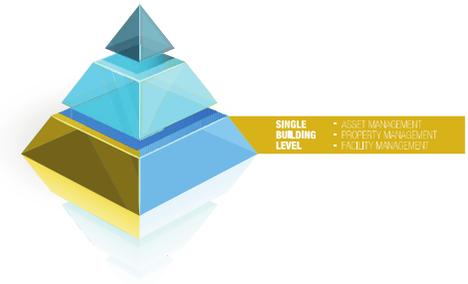
Collecting “physical” information at the building level



The following physical aspects influence a property’s performance characteristics. They are usually known from the planning phase.



Collecting “performance / quality” information at the building level



Technical quality

- Structural safety
- Fire protection
- Noise protection
- Moisture protection
- Maintainability
- Flexibility and adaptability
- Ease of cleaning
- Durability
- Resilience against natural and man-made hazards
- Design for deconstruction and recyclability

Functional quality

- Serviceability (fitness for purpose, usability)
- Space efficiency

Cultural and social quality

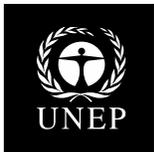
- Aesthetic quality
- Urban design quality
- Cultural value
- Health & well-being
- Indoor air quality
- Comfort (thermal, visual, acoustic, olfactory)
- User safety
- User participation and control
- Accessibility (to and inside the building)

Environmental quality

- Energy performance
- Resource depletion
- GHG-emissions & GWP
- Other impacts on the global & local environment incl. risks to the local environment
- Land use change & sealing
- Water consumption
- Wastewater
- Waste (construction & user related)

Economic quality

- Life cycle costs

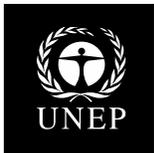


Understanding the areas of influence on quality characteristics

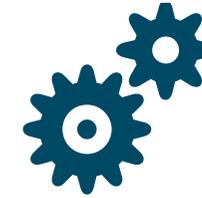
Quality and performance are not only influenced by the building's physical factors. Other factors include:

- Site and location
- Climate
- Surroundings
- Construction process
- Facility management
- Occupier behaviour
- Corporate tenant behaviour

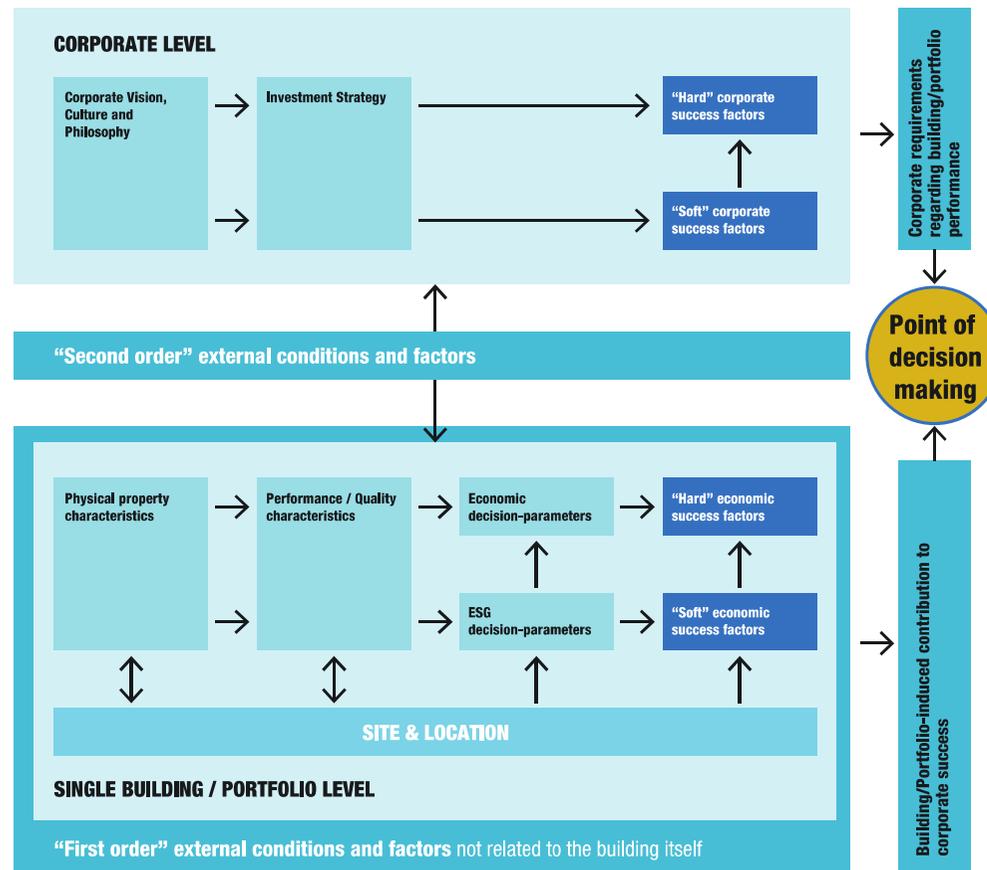
PERFORMANCE / QUALITY CHARACTERISTICS	INFLUENCED BY ...										
	Site and location	Climate	Surroundings	Construction processes	Building	Building equipment	Energy source	Facility management	Interior fitting	Occupant behaviour	Corporate tenant behaviour
1.1 Serviceability					■						
1.2 Space efficiency					■						
2.1 Aesthetic quality					■						
2.2 Urban design quality			□		■						
2.3 Cultural value					■						
3.1 Health & well-being					■			■			
3.2 Indoor air quality			□		■	■		■	■	■	
3.3 Comfort (thermal, acoustic, visual)					■			■			
3.4 User safety					■			■	■	■	□
3.5 User participation and control					■	■		■		■	■
3.6 Accessibility					■			□	□		
...											



Translating information for decision-making



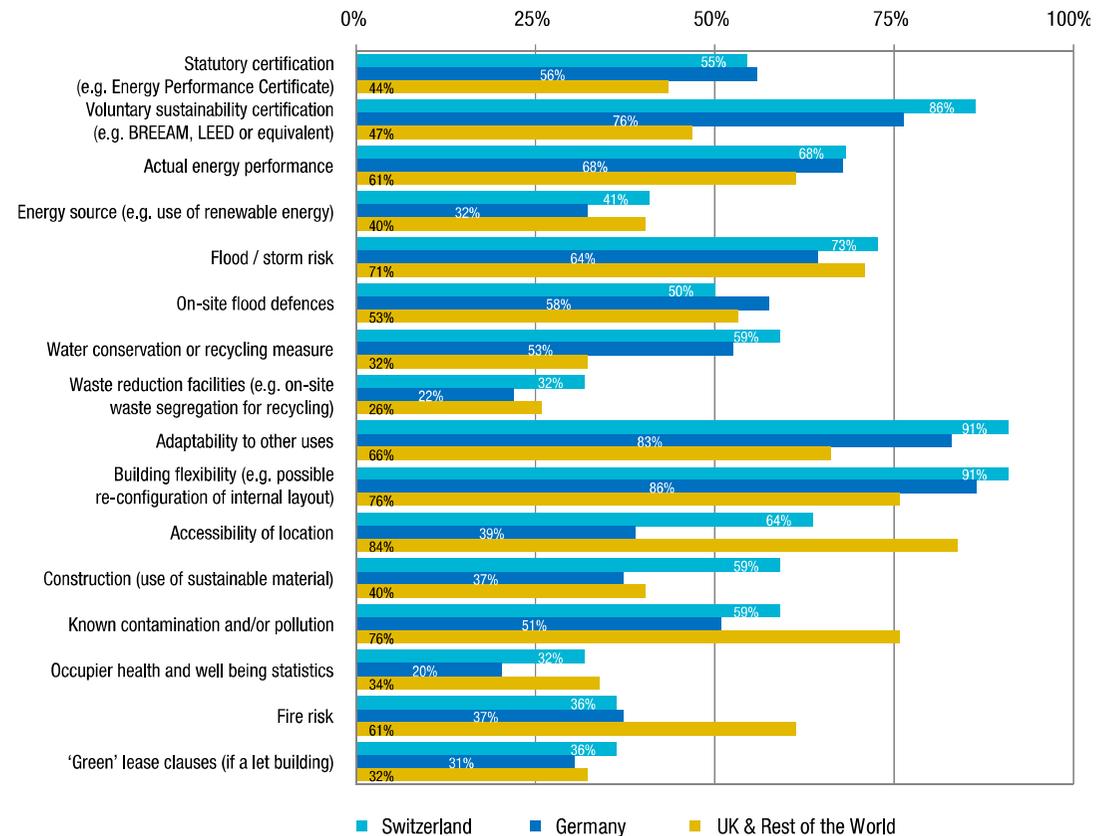
“ From the boiler room to the board room.



Valuers perceive that sustainability aspects have an impact on market value

Sustainability factors are perceived by valuation professionals to have an impact on market value. Other factors include:

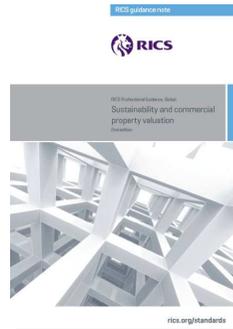
- Actual energy performance
- Flood / storm risk
- Water conservation or recycling measure
- Accessibility of location
- Adaptability to other uses



and these are already translated into sustainability metrics proper valuation guidance

“ *The January 2014 RICS Red Book edition now specifically lists sustainability as a factor that valuers must take into account when performing valuations and risk assessments for their clients as these sustainability factors can influence investment decision-making.* ”

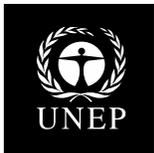
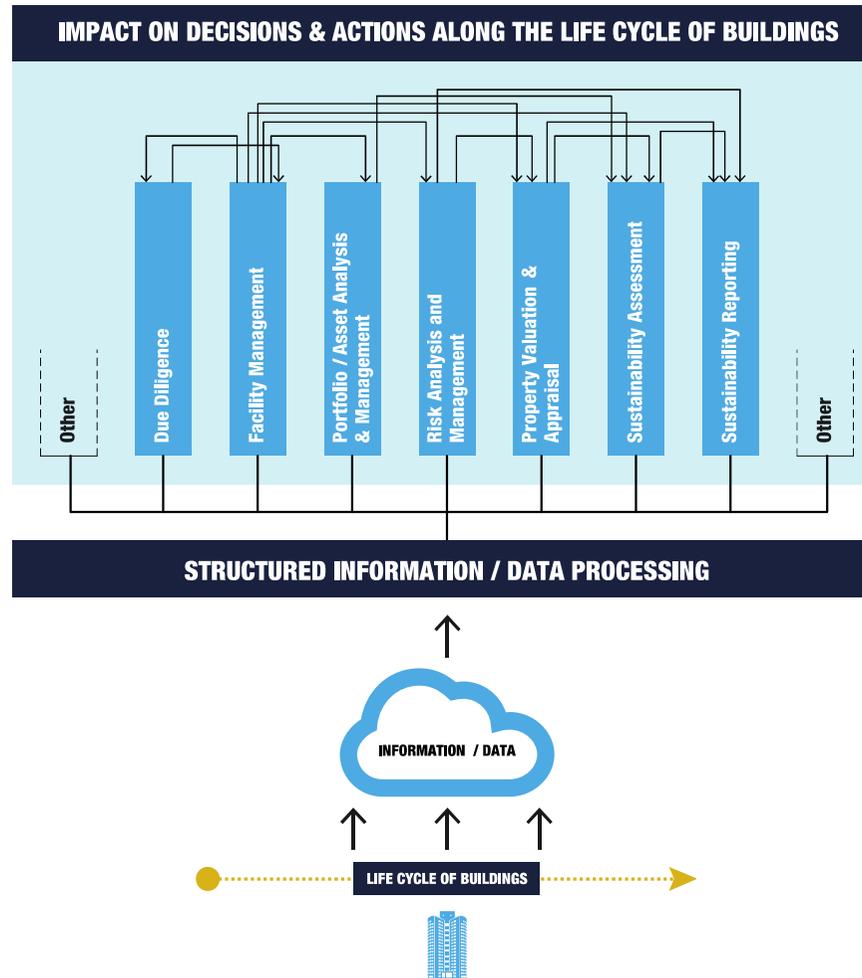
Ursula Hartenberger
Global Head of Sustainability, RICS



When a RICS property valuation is needed, clients will need to supply extended information. This will avoid additional risk premiums in the valuation process.



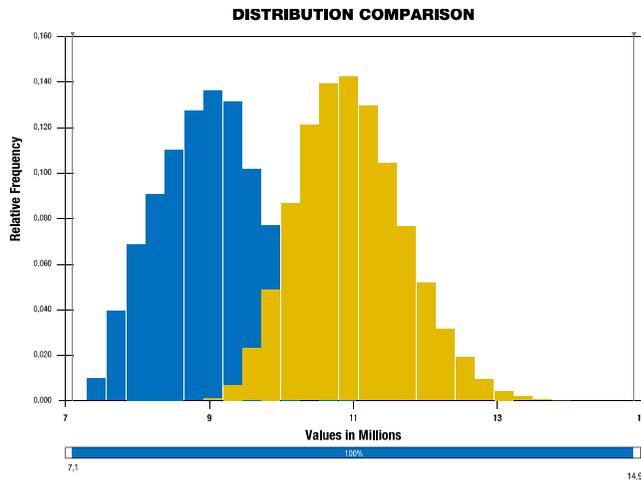
Added value of information as a basis for property-related functions and purposes



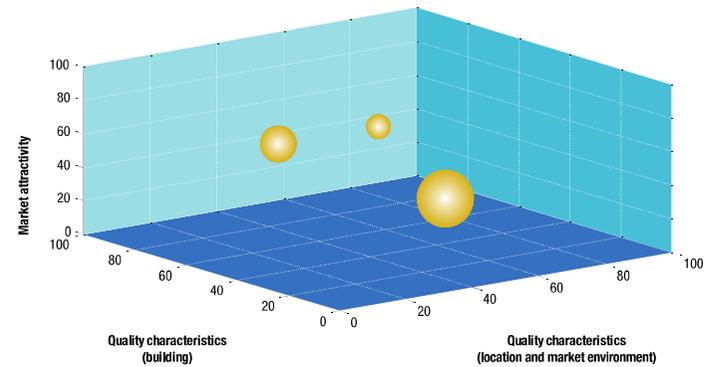
Adjusting methods and need to be integrated into decision making tools



DCF coupled with Monte Carlo Simulation



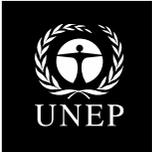
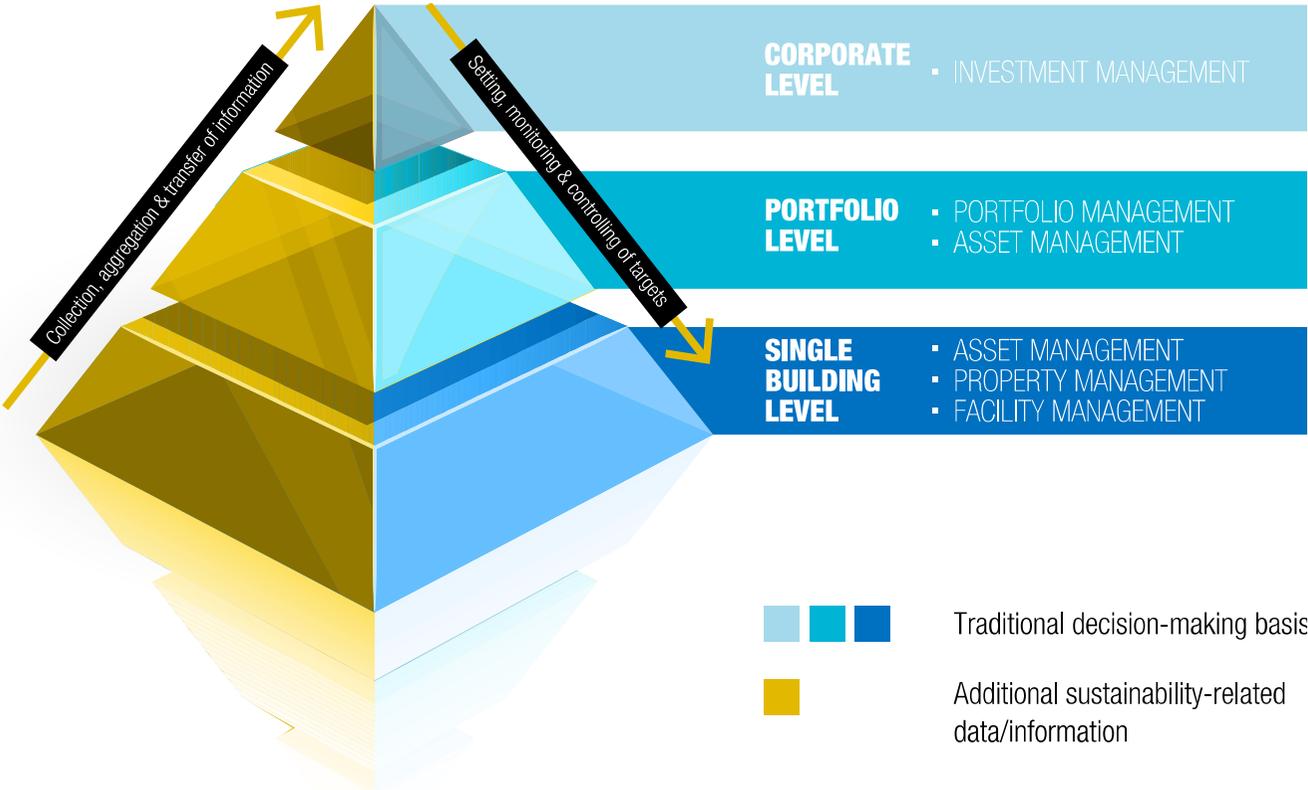
Three-dimensional approach to portfolio analysis



Additional information opens up new (analytic) opportunities.

How to get there: A selection of recommendations for best practice

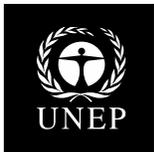
Recommendations for Best Practices for Corporate Real Estate Sustainability Management (CRESM)



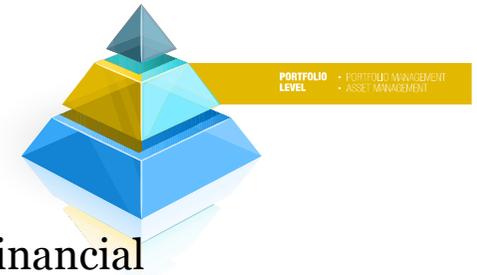
Recommendations at the corporate level



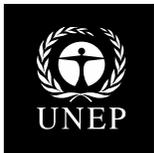
- Integrate sustainability into the corporate mission and value system
- Adjust the investment strategy by adding an ESG dimension to the investment targets
- Whenever property services are outsourced, create a framework of requirements with third-party service
- Set targets for portfolio level performance and monitor their compliance
- Produce meaningful sustainability reports
- Support the adoption of buildings documentation within the industry
- Cooperate with national and global initiatives (PRI, UNEP FI, GRI, etc.)



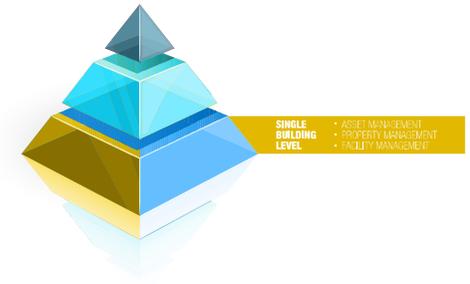
Recommendations at the portfolio level



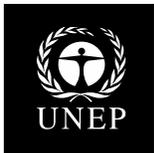
- Adopt a three-dimensional approach to portfolio analysis whereby financial success factors are depicted in relation to the quality characteristics of the building as well as its location and market environment.
- Integrate sustainability considerations into existing decision-making instruments (i.e: DCF methodologies)
- Set sustainability performance targets for property and facility management and monitor compliance
- Ensure that your external service-providers report continuously and consistently
- Ensure that data in physical property characteristics are available for all buildings. Then add quality characteristics.
- Exploit synergies when collecting and processing building-related information



Recommendations at the single building level



- Set sustainability performance targets and measure progress
- Extend facility management processes
- Make sustainability a requirement for new and refurbishment projects
- Actively request building-related information and documentation
- Ensure that building documentation is updated during the management phase
- Exploit the full potential of green leases
- Actively communicate the sustainability credentials of buildings/projects to banks and insurance companies



A win-win-win situation

Acknowledge the value of complexity involved and appreciate the added value of information/data.



“ *Sustainability is an implementation issue. If done systematically and consistently, implementation can lead to a mutually beneficial set of outcomes for the environment, society and business (i.e. a win-win-win situation).* ”



The key challenge

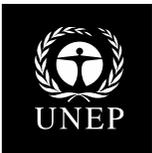
“ *Collect, organize, aggregate and interpret valuable (but often underrated) data/information so that it can be integrated into core business and decision-making processes. This will significantly support more responsible property investment and management practices and help organisations protect the value of their assets and comply with their fiduciary duties.* ”

Tatiana Bosteels

Head, Responsible Property Investment
Hermes Real Estate
Co-Chair
UNEP FI Property Working Group

Frank Hovorka

Responsible Property Director
Caisse des Dépôts et Consignations
Co-Chair
UNEP FI Property Working Group



Taking collective action

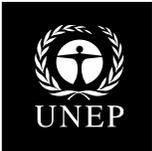
“ *The report contributes to changing the perspective on the management of sustainability-related information. It shifts the viewpoint from another duty within ESG and PRI commitments towards what it actually is an overall quality assurance tool and mechanism that supports all corporate processes. The resulting financial advantages need to be understood as an opportunity for the property industry **which requires taking action – the sooner the better.*** ”

Charles Anderson
Director
UNEP
Finance Initiative

Ursula Hartenbeger
Global Head of Sustainability
Royal Institution of
Chartered Surveyors

Fiona Reynolds
Managing Director
Principles for
Responsible Investment

Stephanie Pfeifer
CEO
Institutional Investors
Group on Climate Change



The project team

Lead Authors

Thomas Lützkendorf
Karlsruhe Institute of Technology

David Lorenz
Karlsruhe Institute of Technology

Project Team

Frank Hovorka
Project Lead and PWG Co-Chair
Responsible Property Director
Caisse des Dépôts et Consignations

Laurie Weir
PWG Co-Chair (2012 - 2013)
Senior Portfolio Manager
CalPERS

Felipe Gordillo
SRI Senior Analyst
BNPP IP

Rowan Griffin
Head of Sustainability, Property
Colonial First State Global Asset Management

Masato Ito
Deputy General Manager
Head of Sustainable Property Promotion Team
Real Estate Advisory Department
Sumitomo Mitsui Trust Bank, Limited

Tatiana Bosteels
PWG Co-Chair
Head of Responsible Property Investment
Hermes Real Estate

Calvin Lee Kwan
General Manager, Sustainability
The Link Management Limited

Helena Vines Fiestas
Head of SRI research
BNPP IP

Andrew Szyman
Head of Sustainability
F&C REIT Asset Management

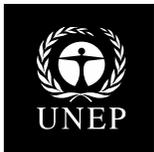
Yona Kamelgarn
Sustainable Real Estate Researcher
Novethic

UNEP FI Secretariat

Elodie Feller, Investment Commission and Property Working Group Coordinator
Annic Degen, Energy Efficiency Coordinator and Long-Term Finance Special Advisor

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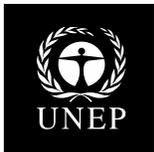
The mandate of the UNEP FI PWG

UNEP FI is a global partnership between UNEP and the financial sector

Over 200 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance. The Property Working Group (PWG) analyses the role of financial institutions in promoting sustainable development in the real estate and property finance sectors.

Members include:

- Actis
- Allianz Real Estate (Allianz SE)
- Aviva Investors (Aviva plc)
- Axa Real Estate Managers (Axa – Group Management Services)
- Bentall Kennedy
- BNP Paribas Real Estate Investment Services (BNP Paribas Fortis)
- British Columbia Investment Management Corporation (bcIMC)
- Caisse des Dépôts et Consignations
- CalPERS
- Colonial First State Global Asset Management (Commonwealth Bank of Australia)
- Deutsche Bank
- F&C REIT Asset Management
- Hermes Real Estate
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- Lend Lease
- The Link REIT
- M&G Real Estate
- Mitsubishi UFJ Trust & Banking Corporation
- Portigon
- RobecoSAM
- The Sumitomo Trust Bank Ltd.
- Sustainable Development Capital LLP
- Thomas Lloyd
- UBS Global Real Estate (UBS AG)





UNEP Finance Initiative
Changing finance, financing change

The United Nations Environment Programme Finance Initiative (UNEP FI) was established in 1992 as a partnership between policy makers and financial intermediaries. With over 200 members representing banks, insurers, and investors from around the world, UNEP FI contributes the perspectives of financial institutions to the United Nations and global activities on sustainable finance. UNEP FI's mission is to bring about systemic change in finance to support a sustainable world by 'Changing finance, financing change'.

www.unepfi.org



RICS

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. RICS accredits 118,000 professionals worldwide. Their expertise covers property valuation and management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland.

www.rics.org

PRI | Principles for Responsible Investment

The United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. Launched by the United Nations in 2006, the PRI has over 1200 signatories representing more than US\$ 34 trillion in assets. The PRI has circa 230 signatories with assets allocated to property investment. On behalf of these signatories, the PRI property work stream has been working with the UNEP FI Property Working Group since 2007 to explore how the Principles apply to property investment and management practices.

www.unpri.org

IIGCC
Institutional Investors Group on Climate Change

Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. It provides investors with a platform to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change. IIGCC currently has over 90 members, including some of the largest pension funds and asset managers in Europe, representing around €7.5trillion in assets.

www.iigcc.org



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