



UNEP **Finance Initiative**
Innovative financing for sustainability

CEO briefing

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During 2006-2007, UNEP Finance Initiative's Property Working Group undertook a key markets survey to identify and highlight emerging opportunities in responsible property investment. This CEO Briefing crystallizes the findings of that survey and presents a series of mini case studies for investors focused on property as an asset class. The full report will be published on the UNEP FI website (www.unepfi.org) by January 2008.

Key Findings

- Property investors can realize greater returns on their investments through considering and acting on a range of social and environmental issues. We call this Responsible Property Investing (RPI).
- Lenders, owners, fund managers, asset and property managers, and developers can all incorporate RPI strategies into their own activities.
- RPI strategies can be categorized into ten elements covering environmental, social and community issues.
- There are two types of financially sound RPI strategies: no cost and value added approaches.
- More research needs to be carried out to understand the economic impacts of some strategies.

Responsible Property Investing

What the leaders are doing

“Man really is the only animal that builds his terrarium around him as he goes and real estate is really the business of building that terrarium. So we have a tremendous ethical content, a tremendous social purpose.”

James A. Grasskamp
pioneer of modern real estate studies

Message from the PWG

The purpose of this briefing is to help those making investment decisions on existing commercial real estate portfolios to understand how environmental, social and governance (ESG) issues impact upon the current value and prospective investment performance of the assets they own and manage. In our view, efforts to understand and respond to these issues constitute the practice of Responsible Property Investing (RPI). We hope that this Briefing will help property asset owners, managers and developers understand and react to financially sound RPI.

As such issues grow in importance for governments, businesses and society at large, they are increasingly influencing the context within which property investments are held and related decisions made.

For example, if tenants exercise a preference for occupying more ‘sustainable’ properties, then the income growth from such investments should prove superior to that from less sustainable, less desirable, stock. Similarly, if investors exercise the same preference, then less sustainable assets will prove less liquid, more risky and potentially less valuable than more sustainable assets. If new social standards based around improved sustainability lead to existing landlords having to improve the performance of their properties, then less sustainable assets will probably require greater expenditure and deliver poorer returns. Investors who preempt these new standards may be best placed to seize the opportunity they offer.

Given this, it is the fiduciary responsibility of property investors to (at least) understand the implications of these issues and to seek economic ways to improve the sustainability of the assets they buy and hold.

With this in mind, the PWG has brought together representatives from some of the foremost property investment organisations from around the world, committed to improving the environmental and social performance or governance of their property portfolios. This briefing collates examples of how existing property investors are meeting their social and fiduciary responsibilities simultaneously, and ‘doing well by doing good’. They provide robust examples of emerging and innovative practice today, which we hope will become common practice tomorrow.

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Responsible Property Investing: An Introduction

Definition

Responsible Property Investing (RPI) means property investment or management strategies that go beyond compliance with minimum legal requirements in order to address environmental, social and governance issues.

RPI strategies

Because so many factors contribute to the social and environmental performance of buildings, RPI touches upon literally dozens of property location, design, management, and investment strategies. We have grouped these strategies into ten elements. Including these in building management decisions will improve an investor's performance on ESG issues¹.

Ten Elements of Responsible Property Investing

- Energy Conservation: green power generation and purchasing, energy efficient design, conservation retrofitting,
- Environmental Protection: water conservation, solid waste recycling, habitat protection
- Voluntary Certifications: green building certification, certified sustainable wood finishes
- Public Transport Oriented Developments: transit-oriented development, walkable communities, mixed-use development
- Urban Revitalization and Adaptability: infill development, flexible interiors, brownfield redevelopment
- Health and Safety: site security, avoidance of natural hazards, first aid readiness
- Worker Well-Being: plazas, childcare on premises, indoor environmental quality, barrier-free design
- Corporate Citizenship: regulatory compliance, sustainability disclosure and reporting, independent boards, adoption of voluntary codes of ethical conduct, stakeholder engagement
- Social Equity and Community Development: fair labor practices, affordable/social housing, community hiring and training
- Local Citizenship: quality design, minimum neighborhood impacts, considerate construction, community outreach, historic preservation, no undue influence on local governments

Financial benefits from RPI

There are two types of financially sound RPI strategies: no cost and value added approaches. With the no cost approach, managers find ways to improve the social or environmental performance of their properties at zero added expense. Turning out the lights in unoccupied areas, for example, is a no cost strategy that fights global warming and reduces energy bills. Value added strategies, on the other hand, require some initial financial outlays, but pay for themselves by either increasing net incomes (via higher rents or lower costs) or reducing risk premiums (via lower environmental risks, less depreciation or less marketability risk). For example, designing in a childcare facility may cost more in architectural services and materials but the added costs are offset by higher rents. Many of these measures have been shown to increase returns. In some instances, more research is needed to quantify the financial return.

¹ Environmental, social and governance issues.

What Investors Are Doing

Each brief in this collection is focused on a single strategy, for example there is one on Transit-Oriented Development and another on certified green buildings. The following examples of RPI are drawn from the full report. For more details, including complete research citations, the full report can be found at: www.unepfi.org

Energy Conservation



Saving energy can lower operating expenses and guard against future price spikes while simultaneously reducing CO₂ emissions. Systematic studies from around the world show that energy-related capital expenditures that improve lighting, boilers, air conditioning, and office equipment are nearly always cost-effective for private investors. It's also cost-effective to check the performance of existing building energy systems, making sure they're performing at expected levels.

What Investors are doing:

Investa Property Group (Australia) audits the energy use in its office buildings, diagnoses inefficiencies, and identifies cost-effective ways to save energy. In one building alone it is saving AUS\$30,000 and 363 tonnes of CO₂ per year, all with minimal or no cost conservation strategies.

AXA Real Estate Investment Managers (France) is refurbishing the energy systems in its buildings. In one of its properties, updated heating and cooling units and a change from fuel oil to natural gas is saving more than €20,000 and 107 tonnes of CO₂ per year.

PRUPIM (UK) cut the energy used by its Mall at Cribbs Causeway by 14% in just one year by switching off unessential lighting in the car park at night. Some electrical work was needed to make this possible, but with the energy savings, the capital expenditure will generate a rate of return of nearly 40% per annum over its first 10 years.

Community Development



Efforts to improve local health, public safety, education, housing, and employment can lower property vacancies, increase rents and cut losses from vandalism and petty crime. Research shows that anti-social behavior harms business and property values, that better social conditions, such as language proficiency, homeownership, and education improve property values, and that tenants will actually pay extra to cover programs that improve their communities.

What Investors are doing:

PRUPIM (UK) is sponsoring the Prudential 4 Youth program to encourage young people to help tackle crime and safety issues in the neighborhoods around PRUPIM shopping centers. In properties with the program, youth nuisance and criminal damage problems reported to management have declined by as much as 70%.

Learning Links Centers (USA) is addressing educational achievement in urban centers by including a learning resource center staffed by a teacher in each of its apartment buildings. Graffiti and other problems have declined,

occupancy rates and net incomes have improved and the children show marked improvement in the classroom.

Phoenix Realty Group (USA) is creating affordable middle-income for-sale housing through its Urban Equity Funds, which are providing home ownership opportunities for the middle class, revitalizing urban neighborhoods, and yielding impressive returns for investors.

Ethical Property Company (UK) is developing and managing centers for community organizations in inner-city neighborhoods. The centers have helped over 130 organizations while paying institutional and individual shareholders competitive investment returns.

Hermes Real Estate (UK) encourages its shopping centers managers to engage with their communities. The firm holds an annual conference to discuss their initiatives, gives awards for the very best practices, and has hired a Community Champion to promote community initiatives. One center, Clarks Village, generated over £150,000 in public relations value from its program to support the homeless during one recent 9 month period.

Green Power



Green power is electricity generated from renewable sources, which produces lower environmental impacts, a smaller contribution to global warming, less air pollution, and reduces our dependence on finite fossil fuels. It is now offered by utilities worldwide. There is generally a modest price premium for green power purchased from utilities, however it can be avoided through bulk purchasing or offset with cost-effective energy efficiency measures. Research also shows that customers are willing to pay a premium for green power to obtain the environmental benefits. Therefore, tenants, especially those with corporate environmental programs, may be comfortable absorbing any remaining premiums.

What investors are doing:

PRUPIM (UK) has worked with an energy procurement service provider to contract for green power for 240 of its properties, avoiding 21,000 tonnes of CO² emissions per annum. The £75 million contract provides the properties with green power at a significant discount to the current market rate. Because the power is generated from Combined Heat and Power plants, it is also exempt from the UK Climate Change Levy, making the price even more competitive.

New Gaia Co., Ltd. (Japan) has developed four apartment buildings equipped with solar electric power systems and other energy savings devices. An independent assessment of one of the projects, conducted by the Sumitomo Trust and Banking Co., Ltd, found higher returns on equity and total capital compared to conventional properties due to favorable bank financing, construction incentives, higher rents, lower vacancy rates, and lower energy bills.



Water Conservation

Water in commercial properties is used for restrooms, cooling, heating and landscaping. Property owners can conserve water by reducing losses (e.g., fixing leaks), reducing uses (e.g., installing low-flush toilets), and reusing otherwise discarded water (e.g., catching runoff for irrigation). Water conservation benefits water quality, fish and wildlife, forests, groundwater reserves, and other environmental systems. Studies indicate that cost-effective measures with acceptable simple payback periods can produce an average water savings of 28% in offices and 22% in hotels.

What Investors are doing:

CNP Assurance (Groupe Caisse des Dépôts) (France) is undertaking a program to analyze and control water consumption for all of its apartment and office buildings throughout France. It focuses on invoices in order to identify opportunities for improvement.

PRUPIM (UK) reduced water consumption by 17% in one year at its Mall Shopping Center at Cribbs Causeway. It was achieved through more prudent use of the external water feature and the installation of presence sensing urinals and passive infra-red sensors in the urinals. Meanwhile, at the PRUPIM headquarters, water displacing “hippos” were placed in all their toilet tanks resulting in a 25% savings.

Investa Property Group (Australia) cut water use by 27% at one of its 34 year old mixed use properties. The savings came from adding flow restrictors to tap ware and installing urinal sensors and waterless urinals.

In Tower 42, the tallest building in the City of London, **Hermes Real Estate** (UK) upgraded the urinals to a waterless system. This has significantly reduced the amount of water used from 8,500 units in September 2005 to just 2,600 units in 2006. Installation cost £3,510, but the program is saving £9,300 per year.

Solid Waste Management

Better management of waste disposal and recycling can help conserve natural resources, lessen the need for expensive new landfills, eliminate nuisances and improve aesthetics. It can also lessen public complaints and lower running costs. In office buildings, for example, replacing waste desk bins with paper recycling desk bins and a central bin for garbage can lower the cost of cleaning and waste removal. And in shopping centers, recycling can lower waste disposal costs by as much as two-thirds.

What Investors are doing:

VF Outlet (USA) owns the 450,000 square foot VF Outlet Village in Reading, Pennsylvania. The recycling program there lowered disposal costs from US\$100,000 at the start of the program to US\$32,000 after implementation – a 67% drop. All 80 tenants participate in recycling plastics, bottles, paper, aluminum, yard waste, and corrugated cardboard. Savings from the program more than cover the additional labor expenses. The program saves money, creates jobs, and protects the environment.

F&C Property Asset Management (UK) instituted the Clean Sweep program at its St. Christopher's Place Estate in London in 2006. Waste related problems were an issue for the wider community until the property manager and city council waste officer worked together to launch a new approach. Support was sought from residents and businesses for a new coordinated disposal



service that would lessen noise, odors and other problems. Many occupiers now use a single disposal provider, which has improved both the quality and efficiency of services and reduced the carbon footprint of the estate. There is also an economic benefit for commercial tenants, who only pay for the waste they produce, rather than a set waste removal fee. Plans to increase recycling are underway, which are estimated to reduce costs by up to 40%.

Fair Labor Practices



Construction, maintenance, janitorial, security and other workers underpin the returns produced by property investors. The rights of workers to fair wages and benefits, the freedom of association, vocational training, and decent working conditions are enshrined in global principles. Research shows that better rental incomes come from better building services and that better building services come from fairer wages and benefits. Evidence also suggests that the rent gains produced in this process exceed any additional outlays for labor that might be needed, making fair labor practices a win-win strategy for workers and owners alike.

What Investors are doing:

Kennedy Associates Real Estate Counsel, LP (USA) manages the Multi-Employer Property Trust (MEPT) for over 318 participating pension plans. This US\$7 billion portfolio is composed of nearly 100% union-built, high-quality properties. Operational building staff is ensured fair wages and benefits. On a risk-adjusted basis, MEPT consistently outperforms the long-term returns of indices in its asset class.

General Growth Properties, Inc. (USA) has committed to providing janitors, at the company's 194 regional shopping centers, access to affordable health insurance, market-based wage rates, and an employee complaint resolution process. They are also moving to environmentally friendly, "Green Seal" certified cleaning products. The policy reflects the company's commitment to social responsibility and enhances its reputation. Also, by having a group of motivated and dedicated janitors, they can help assure that their malls are desirable places for the customers.

Amalgamated Bank (USA) offers the LongView Ultra Construction Loan Fund, for financing properties built by union-affiliated workers. While the fund therefore supports the protection of workers' rights that a union affords, it is also creating over 200,000 hours of work per year for every \$30 million invested in the fund. And it has produced returns since inception that are 37% higher than its benchmark index.

CalPERS (California Public Employees' Retirement System) (USA), the largest US public pension fund, adopted its Responsible Contractor Policy in 2005, "to support fair wages and benefits for workers employed by its contractors and subcontractors", based on the belief that "an adequately compensated and trained worker delivers a higher quality product and service." As above, this policy also promotes the protection of workers' rights.

Environmental Quality Certification



Several voluntary certification programs, such as LEED, BREEAM and Green Star have established "green building" standards. Green buildings are designed to conserve natural resources and improve human health. Green buildings can deliver a variety of public benefits related to resource conservation, indoor air quality, and reducing carbon emissions and air

pollution. Systematic research is tending to show that green buildings can be built at the same cost as conventional properties. Survey research is also finding that occupiers may be willing to pay marginally higher rents to obtain the benefits of green buildings. Evidence is growing that green buildings increase worker productivity and lower running costs. Given this context, green buildings could become more valuable relative to conventional properties over the coming years. Buildings obtaining an environmental quality certification tend to have higher tenancy rates and augment reputational value.

What investors are doing:

ICADE/EMPG (France) developed a 10,000 square meter property in Aubervilliers that was certified under France's High Environmental Quality Office program. To date it has achieved a 20% lower than average running cost and required no additional budget for its green features. Vacancy rates have been lower than for other buildings.

Morley Fund Management (UK) completed the City of Edinburgh Council Headquarters, incorporating a variety of sustainability measures. It achieved a BREEAM rating of "very good" and has attained particularly efficient energy performance, reducing its carbon footprint and energy costs for tenants.

Infrastructure Leasing & Financial Services (India) financed Chennai-One, a 1.2 million square foot office space for information technology businesses. It is the first LEED Gold certified commercial office building in India. The aim is to achieve a 30% energy savings. Environmental features added 3% to the project cost, but rents have been higher than for conventional properties.

Good Corporate Governance

Investors, employees and external stakeholders depend on good corporate governance to achieve fair consideration for their interests. Good governance, particularly the active oversight of management, is associated with improved corporate financial performance. For example, studies of Real Estate Investment Trusts (REITs) find a correlation between good governance (as indicated by small boards with a majority of outside directors that are not chaired by the CEO) and better financial returns.

What investors are doing:

Hermes Real Estate (UK) invests funds on behalf of over 240 clients including pension funds and other financial institutions. Real estate assets are managed according to its published corporate principles of Responsible Property Investment. Through these principles, Hermes has committed itself to 4 key challenges: 1) ensuring compliance with laws and regulations, 2) working toward good practices that benefit the environment, communities, and stakeholders, 3) strategically managing its portfolio with due consideration for environmental and socio-economic risks and opportunities, and 4) establishing management systems that incentivize managers to address these challenges.





Historic Preservation

The preservation, restoration, and reuse of historic buildings, sites, and landscapes enrich and educate people, promote cultural diversity, and support tourism and community development. Historically designated properties can be more valuable than other properties and produce market rate total returns. Also, the value of contemporary buildings can be positively affected by their proximity to landmark structures. In some cases, governments will assist with financing historic preservation because citizens are commonly willing to pay higher taxes to support preservation programs.

What Investors are doing:

National Trust Community Investment Corporation (USA) is a for-profit subsidiary of the National Trust for Historic Preservation. It makes equity investments in projects that qualify for federal and state historic rehabilitation tax credits. Investors generally earn 8% to 15% in cash and tax credits for their investments. The credits can be used to defray corporate income taxes.

Parks, Plazas, Atriums and Natural Areas



Open spaces of all kinds, from urban to rural, provide important recreational amenities along with wildlife habitat, storm water management, energy conservation, and other public benefits. Fortunately, they also increase property values, especially for residential properties, by anywhere from 10% to 30% or more. In fact, the added value produced by parks and open spaces is generally more than enough to offset the expense of providing them.

What investors are doing:

PRUPIM (UK) supports the award winning Prudential Grass Roots program, which helps communities improve their local environment. The projects bring lasting environmental benefits to neighborhoods while also removing blighted wastelands near Prudential-owned shopping centers.

Hermes Real Estate /MEPC (UK) is developing a series of unique public squares and spaces culminating at a major new riverfront beach park as part of its 14 acre, 2.7 million square foot Wellington Place development, in Leeds, West Yorkshire. The creation of a high quality public area will add to the success of the project by building a strong identity for the district. The pedestrian spine will be activated by a linear water feature running along its length and the riverfront will be planted and managed to support otters and other wild creatures.

Safety & Risk Management



Responsible property investors support ongoing efforts to reduce risks to the health and safety of their tenants, visitors, and staff caused by accidents and criminal activity. Unsafe conditions can lead to injuries, sickness and even accidental deaths. For example, 18% of all fatalities in US private industry are in building construction, related trades and real estate. Owner liability for such problems can be substantial and is estimated to cost more than US\$2.2 billion per year in the US alone.

What Investors are doing:

PRUPIM (UK) has adopted a robust safety management system at its Mall at Cribbs Causeway. The system was reviewed by the British Standards Institution and gained the Occupational Health and Safety Advisory Services 18001 accreditation. The Mall is the first shopping centre in the country to be awarded this certificate.

Hermes Real Estate (UK) requires its office and shopping center managers to coordinate a variety of integrated services. These include asset protection audits of fire, contamination and other issues, statutory engineering inspections of plant and equipment issues, health and safety inspections of hygiene, disability, fire and other issues, and claims management. Key Performance Indicators are tracked over time. Annual Responsible Property Investment awards are distributed to the top managers with risk management issues accounting for 50% of their scores (sustainability and community engagement represent the other 50%).

CNP Assurances (Groupe Caisse des Dépôts) (France) covers all the apartment and office buildings they own in France by their Safety and Building Program. Every six years properties are evaluated on 36 different points. Necessary improvements are recommended and implemented.

Transportation Demand Management (TDM) and Transit Oriented Development (TOD)



TDM includes efforts, such as carpool services, aimed at reducing or redistributing peak period travel. TOD includes property ownership and developments within walking distance of transit stops and stations. Together, these strategies can reduce energy consumption, air pollution, urban sprawl, traffic deaths, and fuel consumption. They can also increase the use of public transport, improve housing choices, and increase access to jobs and housing for the young, old, poor and handicapped. Economically, TODs are more valuable and out-perform as investments. In Dallas, for example, office properties near transit appreciated more than 50% faster than elsewhere. Future demand in these locations is expected to be strong as both older and younger householders seek housing near public transportation.

What Investors are doing:

Hughes Development (USA) created Mockingbird Station, a transit oriented project adjacent to a major Dallas Area Rapid Transit rail line station. It contains over 500,000 square feet of retail, restaurant, residential, office and other uses on 10 acres (4 ha). The project has been very successful, with rents commanding a 40% above-market premium.

Hermes Real Estate /MEPC (UK) established the Birchwood Park Express Bus and Shuttle Bus to help the 4,200 workers at its 123 acre Birchwood business park become less reliant on car-based commuting. A service charge is added to the price for car parking to help pay for a free, peak time express bus between Birchwood Park and Warrington Town Centre where commuters can connect to train services.

Shamrock Capital Advisors and KOAR Development (USA) is currently developing Solair Wilshire, a 22 story mixed-use, transit-oriented high rise in the Wilshire Entertainment Corridor of Los Angeles. Solair is projected to be consistent with KOAR's mission to develop projects that generally meet three economic thresholds: 20% margin on project development costs, 20% return on equity, and 20% internal rate of return.

Tree Planting and Preservation



Planting and preserving trees around properties can improve property values by enhancing aesthetics, and lower operating expenses by cutting heating and cooling costs. Trees also benefit the public by giving shade, cleaning the air, saving energy, absorbing carbon, screening noise, supporting wildlife, and reducing erosion. Economic studies find that trees can add 10% -15% to office property values and lower winter heating bills by 20% or more. In addition, shoppers will spend about 10% more for various goods and services in shopping areas with trees. They'll also drive further, pay more for parking, and stay longer to shop at well landscaped locations.

What Investors are doing:

ÆON (Japan) has adopted its Hometown Forests Program to ensure that all of its new shopping centers are lushly verdant and grow into true community facilities that fit in with the local environment. The program has planted nearly six million trees so far. In 2005, tree planting events took place at 59 sites with more than 50,000 people participating in the planting of more than half a million saplings. Their target is the absorption of 1,658 tonnes of CO₂ by an estimated 471 stores in 2010.

ICADE (France) intends to have “one tree per apartment” for its 45,000 apartment units, requiring 10,000 new trees to be planted on its properties. Seventeen sites have been selected for the installation of carefully chosen species. Meanwhile, at its new EMGP business park campus near Paris, ICADE has decided to double the vegetated space at the former warehouse center and create a new arboretum.

Urban Regeneration



Investments to revitalize and regenerate urban places can advance urban vitality, economic development, infrastructure efficiency and physical accessibility. They can also reduce urban sprawl, conserve natural resources, and lessen auto use and related carbon emissions. Economic evidence suggests that such investments can also be financially competitive. A University of Ulster study found that property investment performance in urban regeneration areas in the UK has matched or exceeded national and local city benchmarks, had a lower level of risk per unit of return, and added diversification to property portfolios.

What Investors are doing:

Morley Fund Management (UK) has created the UK's first urban regeneration fund, called the Morley Igloo Fund. It invests in mixed-use urban regeneration projects in major towns and cities in the UK. The fund was designed to take advantage of under-priced opportunities created by the regeneration market being erroneously perceived as high risk and low return. It is expected to outperform its benchmarks.

California Public Employees' Retirement System (CalPERS) (USA) created the California Urban Real Estate (CURE) program as part of its overall property portfolio. It invests in low-to-moderate-income housing, urban infill, community redevelopment and similar projects where the risk is no greater than in other property investments made by CalPERS. Since CURE's inception, CalPERS' average annual return has been 16.5% after fees, through December 31, 2006. This compares to the benchmark industry returns of 8.1 percent.

Shamrock Capital Advisors and DECOMA Developers (USA) are investing in the development of South Pas Town Square – six mixed-use buildings on

three blocks in South Pasadena's historic downtown core in the Los Angeles metro area. The certified green project is expected to produce an internal rate of return of more than 25% over four years.

Cherokee Investment Partners (USA) specializes in the sustainable redevelopment of brownfields, or properties complicated by environmental contamination. Since 1993, they have acquired more than 520 properties.

Mitsubishi Estate Company (Japan) is redeveloping the 120 hectare Marunouchi Area in Tokyo where it owns 30% of the buildings. The project is focusing on sustainable urban infrastructure to maintain property values and increase competitiveness.

Design Quality



According to The UK Commission for Architecture and the Built Environment, “good design” means: fit for purpose, sustainable, efficient, coherent, flexible, responsive to context, and good looking. Public safety, sustainability, health and beauty are all shaped by design quality. Poor design has been empirically linked to functional obsolescence and rapid depreciation. Meanwhile, economists find that the best designed properties produce rents more than 20% higher than otherwise similar structures.

What Investors are doing:

The Birmingham Alliance (UK), composed of Hammerson, Land Securities Group and Henderson Global Investors, developed The Bullring – a 1.2 million square foot commercial area in Birmingham City Centre, UK. Stunning contemporary architecture and public spaces were central elements of the project. It received the 2004 Silver Jubilee Cup from the Royal Town Planning Institute and the 2005 Design Award from the International Council of Shopping Centers for its outstanding planning and design.

We hope to see this collection grow and improve. If you have a story to tell, please let us know. With better scientific research and more case studies, we can give investors an increasingly comprehensive view of the opportunities and limits associated with Responsible Property Investing and provide a repository they can refer to when looking for inspiration.

Key findings and recommendations

Property investors can realize greater returns on their investments through considering and acting on a range of social and environmental issues. We call this Responsible Property Investing (RPI).

Managers in the various areas of the property investment sector can apply RPI. Lenders, owners, fund managers, asset and property managers, and developers can all incorporate RPI strategies into their own activities.

RPI strategies can be categorized into ten elements:

- Energy conservation
- Environmental Protection
- Voluntary Certifications
- Public Transport Oriented Developments
- Urban Revitalization and Adaptability
- Health and Safety
- Worker Well-Being
- Corporate Citizenship
- Social Equity and Community Development
- Local Citizenship

There are two types of financially sound RPI strategies: no cost and value added approaches. With the no cost approach, managers find ways to improve the social or environmental performance of their properties at zero added expense. Value added strategies, on the other hand, require some initial financial outlays, but pay for themselves by either increasing net incomes or reducing risk premiums.

More research needs to be carried out to understand the economic impacts of some strategies, for instance flexible interiors, barrier-free design, stakeholder engagement, and sustainability reporting. We call on scientists and property professionals to fill these gaps over the coming years through a systematic worldwide research effort.

Final thoughts on responsible property investing

It is a truism that properties accommodate most human activity. However, the corollary of this is that properties are also the places where a significant proportion of CO2 emissions are generated. The Association for the Conservation of Energy in the UK estimates that, through their construction, use and demolition, built structures are the source for nearly 50% of such emissions. On this basis, any coherent strategy towards constraining and reducing CO2 emissions must place thought and action on the environmental impacts of properties at its core.

Substantial and important work is already underway to identify practical ways and policy measures to ensure that newly constructed buildings are built and operated in environmentally sustainable ways. UNEP's own Sustainable Building and Construction Initiative is important in this regard. However, depending on economic and property market cycles, newly developed buildings typically replace up to 2-3% of the existing stock per annum. This means that any environmental programme that focuses solely on new construction would leave untouched the current universe of built structures where most environmental and energy inefficiencies reside and, as such, make only slow progress in the crucial theatre of the built environment.

Hence, there is a need for concerted thought and action to be given to finding ways to reduce the environmental impacts of the existing built stock. This is the specific subject area that the UNEP Finance Initiative's Property Working Group is committed to exploring. The complexities surrounding how properties are owned, leased and occupied are such that this requires specialist attention albeit, clearly, in dealing with the practical management and refurbishment of properties.

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UNEP FI publications:

Climate Change

CEO Briefing - Adaptation and Vulnerability to Climate Change: The Role of the Finance Sector (2006)



The UNEP FI Climate Change Working Group report, launched at the UNFCCC COP 12 in Nairobi, calls for a new approach on part of governments and the private sector to address the physical changes that climate change will bring, integrating adaptation with sustainable economic development and disaster management.

Investment

Report - Responsible Investment in Focus: How leading public pension funds are meeting the challenge



This report contains 15 case studies offering a snapshot of some of the most advanced approaches to responsible investment around the world. It is intended to serve as practical guidance for the institutional investment community, particularly trustees of pension funds, foundations and life insurers, and their agents, on how and why leaders integrate environmental, social and governance considerations into their investment processes.

Report - Unlocking Value: The scope for environmental, social and governance issues in private banking



This publication addresses the question of why responsible investment has at best been modest in private banking compared to the surge it has experienced in institutional asset management. It analyzes private clienteles' potential demand for responsible investment products, the special

characteristics of the wealth management industry and the barriers to the further uptake of ESG-inclusive investment strategies in private banking.

Insurance

Report - Insuring for Sustainability: Why and how the leaders are doing it



Today, the insurance industry faces the great challenge of coping with a rapidly changing risk landscape, one from which global sustainability issues have emerged, and continue to emerge. The risks that these issues entail are serious, while the opportunities, largely untapped. It is therefore insightful, as a starting point, to look at what leading players are doing in addressing some of the most challenging global sustainability issues, and to recognise the vital role the insurance industry can play.

Sustainability Reporting

Report - Sustainability Management and Reporting: Benefits for Financial Institutions in Developing and Emerging Economies



The take up of SMR by financial institutions especially in developing countries is still low whilst the financial sector plays an important role in sustainable development as intermediaries to the allocation of financial capital. UNEP FI identifies lack of awareness and capacity as the two main barriers hindering many financial institutions to implement SMR. The report aims to address both these barriers by first setting out a business case for SMR.

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