Is There a Future for Socially Responsible Property Investments?

BY GARY PIVO, MRP, PHD

THE PURPOSE OF THIS PAPER IS TO EXPLORE THE POTENTIAL for a new niche in real estate investing, focused on "socially responsible" property investments. Socially responsible investing (SRI) in general, according to the Social Investment Forum (SIF) means investing "that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis."[1] It focuses on the "triple bottom line" by which investments are evaluated in terms of their financial profitability, social equity, and ecological integrity.

According to the SIF, there were 2.16 trillion dollars in socially responsible investing of all kinds in 2003, including pension funds, mutual funds, foundations, religious organizations, and community development financial institutions. This includes all funds that are professionally managed and using one or more of the core socially responsible investing strategies—screening, shareholder advocacy, and community investing. One explanation for the magnitude of the SRI movement may be the size of the American sub-culture that's been dubbed the Cultural Creatives by author Paul Ray.[2] According to Ray, Cultural Creatives comprise approximately 26% of the American population and include individuals who place a high value on ecology, community, and social responsibility and other strongly held concerns.

Socially responsible investment typically entails 3 strategies that work together to promote sound business practices and societal improvements: Screening is the practice of including, excluding, or evaluating investments on the basis of social and/or environmental criteria. Shareholder Advocacy entails becoming involved as owners of corporate America. And Community Investing provides capital to communities that are underserved by traditional financial services.

Asset flows indicate that investors are finding socially screened funds more attractive than other funds. According to SIF, screened funds attract and retain investor assets longer than non-screened funds and socially responsible funds saw net inflows of $1.5 billion during 2002 compared to a $10.5 billion outflow for U.S. diversified equity funds over the same period.

About the Author

Dr. Pivo works at the University of Arizona where he is Professor of Urban Planning, Professor of Natural Resource, and Senior Fellow with the Office of Economic Development. Previously, he served as UA Dean of Graduate Studies, Co-Founder and President of 1000 Friends of Washington, and Chair of the University of Washington Department of Urban Design and Planning. Dr. Pivo has served as a planning consultant on numerous redevelopment, growth management, community planning and zoning projects. He can be reached at gpivo@u.arizona.edu.

Like many other investors, individuals interested in socially responsible investing increasingly realize that they should include real estate in their portfolios because it can "enhance the portfolio's returns while helping to diversify volatility and risk."[3] According to one study, an investor that put 10% of his or her portfolio into publicly traded real estate investment trusts in 1992 would have had 7.5% more in his account by 2001, compared to those who stuck with just stocks, bonds and cash.[4] And a recent review of the literature concluded that "real estate has a definite role in the formation of efficient portfolios. There are many works suggesting optimal allocations to real estate of approximately 10% to 20%."[5]

Given this understanding, socially responsible investors want to know whether the various real estate investment products they might select are consistent with their values. They're looking for real estate investments that can "do well while doing good."

If 10% of the more than $2 trillion in socially responsible investing today were in real estate, it would equal nearly 75% of the entire REIT equity market capitalization in the U.S., which was around $300 billion at the end of 2004. Clearly then, the potential scale of a socially responsible property investment (SRPI) market may be very substantial. Yet despite this opportunity, there is no system in place for grading the social and environmental responsibility of various real estate investments and there are virtually no real estate investment funds that are either designed for or marketed to the socially responsible investment community. In fact, interviews conducted by the author with leaders in the SRI world have uncovered the remarkable fact that they are simply unaware of even a single real estate investment product that meets their needs. At the same time, they indicate that there's a great deal of interest in future opportunities, should any arise, that would allow them to invest in real estate in a manner that is consistent with their values.

SRI investors recognize that their acquisition of real estate cannot be satisfied by their simply acquiring conventional real estate investment products. This is because they understand that real estate is not a socially or environmentally benign commodity. Depending on how a property is sited, designed, or managed, it can produce either harmful or beneficial consequences for society and the natural environment. For example, the UN reports that inefficiencies in urban energy use, partly attributable to the nature of urban development, are a primary cause of the rise in greenhouse gas concentrations globally. And the under-investment of real estate investment in lower income, high minority urban areas has long been a concern to social reformers.[6] Given this understanding, socially responsible investors want to know whether the various real estate investment products they might select are consistent with their values. They're looking for real estate investments that can "do well while doing good."[7]

Pension funds, which now hold about 19% of all U.S. commercial real estate equity,[8] also have begun to express an interest in the social and environmental consequences of their real estate investments. California is perhaps the leader in this regard. The state's two large public retirement funds—the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS)—hold over 200 million square feet of property. They have both set goals to reduce the energy use in their real estate holdings by 20% over the next five years. They also have increased their investment in urban, inner-city real estate to over $2 billion, including $300 million for affordable housing. And California is not alone. For example, TIAA-CREF recently received an award from the U.S. Environmental Protection Agency for their increased use of high-performance building management practices that promote energy conservation.

Given this situation, it is remarkable that SRPI products are either non-existent or impossibly hard to find. For example, despite the fact that there are over 300 real estate investment trusts in the U.S., the author has yet to find a single one that makes social responsibility or sustainability an explicit goal. Moreover, neither the real estate research firms that evaluate real estate funds nor the SRI screening firms that evaluate all kinds of companies collect or distribute information on the social or environmental practices of the many retail or institutional real estate investments that are offered in the USA. This is not to say that no real estate investment firms may be constructively engaged in these issues. But if they do exist, they're simply too hard to find. Of course, one option is to invest in community development investment funds. But these funds typically spread their assets among low income housing, micro-lending, small business, and community development and may only be open to institutional investors or highly capitalized individuals. While there are a variety of socially responsible mutual funds and a variety of conventional real estate funds, so far there don't appear to be any funds in the U.S. that merge the two and offer both institutional and retail investors a professionally managed socially responsible and progressive real estate portfolio.

Curiously, this is not the case at the international level. For example, Commonwealth Property Office Fund, listed on the Australia Stock Exchange (CPA) and managed by Colonial First State Property Ltd, has adopted explicit policies that commit it to reducing greenhouse gasses, minimizing waste production, ensuring the health and safety of its employees, and benchmarking its progress on various sustainability issues. Commonwealth is just one of several such companies outside the U.S. that have made an overt commitment to these issues.

The total dollars in socially responsible investing of all kinds, including pension funds, mutual funds, foundations, religious organizations, and community development financial institutions—all of which have a current or potential interest in real estate investing—exceeds $2 trillion.

POSSIBLE TYPES OF INVESTMENTS

As with conventional real estate investing, SRPI could take several different forms. One possibility could be publicly traded REITs that seek to own, develop and operate a portfolio of properties that fit certain criteria, such as Energy Star labeled office buildings. A second option might be publicly traded real estate companies that make conservation, urban revitalization and sustainability a key part of their corporate strategy. A third approach could be private funds that are not traded on the public securities markets, but that buy, develop and sell SRPIs. These would be marketed to institutional investors, foundations, and high net worth individuals and could be particularly helpful in increasing the stock of SRPI properties. Closed-ended funds with limited life spans could then transfer their properties to SRPI REITs as an exit strategy. A fourth strategy might be SRPI funds of funds that would acquire interests in multiple private funds. The minimum investments required to invest in a fund of funds is usually smaller than that normally required by private funds, making them a more practical option for individual investors. A fifth possibility could perhaps be socially screened real estate mutual funds, which would buy and sell publicly traded REIT or real estate related stocks that the fund has determined pass certain social and environmental screening criteria.

Each of these types of SRPI investments could be new funds or new companies that are established with the SRPI market in mind. But it could also be possible, and perhaps more practical, to certify existing funds or companies as meeting SRPI criteria. This could be done by independent fund analysts from the real estate industry, the social research industry or the non-profit sector. Likely candidates for certification include public companies that already own a good number of Energy Star labeled buildings or have been recognized by the EPA for their conservation efforts. These would include Arden Realty, Equity Office Properties, Hines, Brandywine Realty, Carr America, Glenborough Realty, Parkway Properties, Prentiss Properties and USAA Realty. Other candidates could be real estate companies that are listed in the various socially responsible investing indices, which screen companies of all kinds for social and environmental issues. These indices include the FTSE 4Good Index, several KLD's indices, the Calvert Index, and the Dow Jones Sustainability World Index (DJSWI). Companies found on such lists today include British Land, Investa Property, Hammerson, Land Securities and The St. Joe Company. A third source of SRPI certified investments might be existing investment funds that are already serving social goals. An example would be the various urban funds that are focused on urban revitalization projects. Current examples here include the American Ventures Urban Fund, the Canyon-Johnson Urban Fund, the CIM Urban Real Estate Fund, and the Southern California Smart Growth Fund. It should be noted, however, that in order to make these funds and companies attractive to the SRI community they would need to be marketed to the community and certified as meeting certain standards that would make them suitable SRI investments.

SRPI MARKET DRIVERS

As already noted, the total dollars in socially responsible investing of all kinds, including pension funds, mutual funds, foundations, religious organizations, and community development financial institutions—all of which have a current or potential interest in real estate investing—exceeds $2 trillion. But beyond this aggregate view of the potential market universe, there are a variety of activities emerging in the U.S. and abroad that may help drive customers to the SRPI market. Only a few of several will be cited here:

- A group of foundations known as the Funders Network for Smart Growth and Livable Communities has been actively exploring the potential for investing their portfolios in real estate in a way that is consistent with their values. The group includes 29 foundations from the U.S. and Canada that are particularly interested in promoting "better development decisions and growth policies." Members include some of the largest and most respected foundations in North America such as Rockefeller and Ford. This October, the Network will hold the nations first conference highlighting how foundations can support green building and green neighborhood design through their grant-making, investment portfolios, and commercial office choices.

- At the international level, 15 of the world's largest investment companies are currently engaged in a process under the auspices of the United Nations to develop a set of principles for responsible investing. An expert group has adopted principles which are now under consideration and refinement by the institutional members. For real estate and project finance investment the expert group has suggested[9] that detailed environmental analysis should be done before investing, that there should be an accounting of externalities over the entire life cycle of buildings, and that the best practices in the industry should be observed, such as the utilization of eco-efficiency standards. The term 'eco-efficiency' was first used by the World Business Council for Sustainable Development in its 1992 publication 'Changing Course'. It means creating more goods and services while using fewer resources and creating less waste and pollution. The 1992 Earth Summit endorsed eco-efficiency as a means for companies to implement Agenda 21 in the private sector, and the term has become synonymous with a management philosophy geared towards sustainability. The UN expert group also recommends that the Equator Principles be followed, which are industry approaches for financial institutions in determining, assessing and managing environmental & social risk in project financing. They were drafted following a meeting sponsored in 2002 by the International Finance Corporation, a World Bank institution, and have been adopted by numerous financial institutions worldwide including Bank of America, JP Morgan Chase, Citigroup and others. These and related international developments all encourage investors to seek SRPI opportunities.

- This September, at SRI in the Rockies—an annual national gathering of the socially responsible investment industry in the United States—the first ever session will be held on socially responsible real estate opportunities. The meeting will be attended by brokers, investment advisors, financial planners, mutual fund managers, asset managers, and others from around the country and should stimulate further interest in SRPI products.

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Growing attention to two other concepts, both related to the demand for corporate and governmental accountability in the post-Enron era, also seem to be increasing the interest in the evaluation of real estate funds in terms of their social and environmental merits. First, funds and companies, and the institutions that invest in them, are expected to report on issues that are material to their performance. This concept is referred to as materiality and its definition appears to be widening to include social and environmental factors. The term comes from the field of financial auditing and has been defined as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."[10] In other words, something is material and ought to be reported if it has the potential to shape someone's perception of a company. In the context of SRPI, information about the social and environmental characteristics of a real estate portfolio may be material and should be reported in order to allow these consequences of a fund or company to be used when evaluating the company. In some instances, such as the company's commitment to energy conservation, this could have a very real impact on the financial bottom line, as will be discussed further below. In other cases, such as whether the company invests in lower income areas, the impacts may be less financial, but no less important to the judgments formed by investors about the company. And then there is the sharpening concern for fiduciary responsibility, which obligates fund managers to look out for the best interests of their investors. Fiduciary responsibility suggests that fund managers who are investing in real estate should be informed about the social and environmental consequences of their investments, especially if they impact either their investor's financial returns or the quality of their lives. Growing attention to such issues may well increase the demand for SRPI. At the very least, it strengthens the case for more reporting on the social and environmental performance of property companies.

SCREENING SRPI INVESTMENTS

Despite the fact that the social screening of investments is a well established industry, there is no screening process specifically for the real estate sector that is being widely applied in the U.S. One will be required if SRI investors are to objectively determine whether new or existing real estate investment products really do meet their needs.

Two well known systems for rating the environmental and energy credentials of real estate are the LEED and Energy Star programs. LEED stands for Leadership in Energy and Environmental Design and is a "voluntary, consensus-based national standard for developing high-performance, sustainable buildings" that was created and is administered by the U.S. Green Building Council. In the system, buildings can earn points for satisfying various criteria related to topics such as project siting, conservation, and indoor air quality. Various ratings are achieved depending on the total points awarded. The Energy Star program is run by the U.S. Environmental Protection Agency. Under that program, the energy used by individual buildings is benchmarked against buildings with similar characteristics. Those that perform among the top 25% of their peers are awarded the Energy Star label.

The problem with using these systems to evaluate the suitability of a company or fund for SRI investment purposes is that both are focused primarily on environmental concerns and both are designed to be applied to individual buildings. When one considers the fact that the typical real estate investment fund may hold dozens if not hundreds of properties as well as the fact that the SRI community is concerned with a wide ranging set of issues that extend beyond just environmental concerns, it would seem that neither of these systems are immediately useful for guiding the creation of new SRPI products or for certifying existing funds and companies.

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To their credit, however, the EPA Energy Star program has recognized the need for a portfolio-level evaluation tool and has responded with the Energy Star Leader program. The program recognizes the management of portfolios that have demonstrated "continuous improvement in energy performance". The program still requires portfolio managers to baseline each building in under their management, however a portfolio management tool is provided to assist them in the process. While this may sound like a challenging process, the approach was formally adopted by the California State Teachers Retirement System (CalSTERS) Investment Board in 2004 for portfolio wide energy auditing by all of its Investment Managers. This approach that uses the measurement of continuous, portfolio-wide improvement in certain performance measures to confer status on a company, may be a suitable model for a broader SRPI rating system that incorporates other performance measures beyond energy utilization.

Another possible model for conferring SRPI certification on real estate investments is the approach to social investment screening that is currently used by various research firms to evaluate publicly traded companies. Generally, this work is done by independent evaluation firms and focuses broadly on environmental, social, management and human rights issues. Analysts conduct research to determine whether companies have made commitments to monitoring, reporting and achieving certain environmental performance targets, to meeting certain health and safety standards for their employees, to maintaining an independent board of directors and to respecting indigenous people's rights. A case in point is the research done for the Dow Jones Sustainability Index by SAM Research using the SAM Corporate Sustainability Assessment Model. Under their assessment, companies are ranked within their industry group and selected for the Dow Jones Sustainability Indexes if they are among the sustainability leaders in their field. There are 60 different industry groups that are evaluated, including both real estate financial services and construction. Both general and industry specific criteria are defined. Data on firms are verified and externally audited. They are collected from questionnaires completed by participating firms, from company documents, from media and stakeholder reports and from personal contacts with the companies. General sustainability criteria include corporate governance, financial robustness, environmental management and performance, human rights, supply chain management, risk and crisis management, and labor practices. Industry specific criteria have been developed by SAM for the real estate and construction groups but they are not public. However, based on their reports on real estate companies, the criteria probably include topics such as the company's commitment to identifying and mitigating the impacts of development, the resource efficiency of their properties, the use of performance benchmarks for properties, and the degree of engagement with community stakeholders in the development and property management processes.

Analysts conduct research to determine whether companies have made commitments to monitoring, reporting and achieving certain environmental performance targets, to meeting certain health and safety standards for their employees, to maintaining an independent board of directors and to respecting indigenous people's rights.

There are two major differences between the approach represented by LEED and Energy Star and the one represented by the SAM research for the Dow Jones Sustainability Index. The first difference is that the LEED/Energy Star approach focuses on environmental concerns while the SAM approach is broader, covering topics beyond the environmental arena, such as corporate governance and stakeholder engagement. The second major difference is that the first approach uses data on the characteristics of individual properties while the second approach relies on the evaluation of corporate-level policies and behaviors. Energy use per square foot or whether a building is located within walking distance of a transit stop would be examples of property level characteristic. A company's policy commitment to urban revitalization or awards for green building would be examples of corporate level considerations.

Ultimately, any real estate investment aimed at the SRI community will need to consider the full range of issues of concern to SRI investors. However, the degree to which building level vs. portfolio or corporate level criteria should be evaluated is less clear. It will depend on what is both demanded by SRI investors and on what is feasible for SRI analysts to deliver. Currently, SRI analysts focus on corporations' overall records and do not tend to investigate management practices at the level of individual plants or offices, which would be analogous to investigating the performance of individual buildings in a real estate fund. However, it is unclear whether this approach would be satisfactory to investors in the case of SRPI. The LEED and Energy Star programs may already have created an expectation among SRI investors that in real estate, social and environmental issues should be evaluated at and aggregated up from the property level. Furthermore, even if some criteria will need to be applied at the building level, there's the question of whether building design is an adequate measure of performance, as opposed to actual measurable performance results. The LEED approach gives many of its points for building design features, which might be characterized as building systems inputs, which are assumed to produce certain performance outcomes. The Energy Star program, on the other hand, focuses much more on measurable building system outcomes, particularly energy utilization. Thus, in designing some future SRPI certification system, a variety of issues will need to be resolved including the three mentioned here: the range of criteria considered, the degree to which those criteria are collected at the building or corporate level, and whether inputs or outcomes should be the basis for making evaluations.

Some investors may be willing to accept lower financial returns in exchange for the knowledge that their investments are helping to address leading social or environmental issues of the day. Other investors, however, consider it their fiduciary responsibilities to avoid such tradeoffs.

Another interesting issue that would have to be answered in developing a screening system is whether the real estate products themselves would need to be screened as opposed to merely product performance. In this case, "product" refers to the type and location of a particular building (e.g., urban high rise residential vs. suburban garden apartments or new urban vs. conventional suburban subdivisions). In general, in SRI investing, few companies are eliminated or included in funds or indices because of the products they produce. Exceptions include guns and tobacco. But generally, companies that do a good job with social, environmental and governance issues regardless of their products are included. The focus is on how they do their business and produce their products, not on what products they produce. However, with real estate, companies or funds or trusts can be differentiated both in terms of how they produce their products and the type of products they produce. Moreover, city planning debates that, for example, draw sharp distinctions between urban sprawl and smart growth may have oriented SRI investors to think in terms of the specific types of real estate products being produced. Perhaps properties in cities and denser developments would be considered preferable from an SRPI perspective because they help invigorate cities and reduce urban sprawl. Any system for screening real estate investments will need to come to grips with this issue. Is high rise better than low rise? Is housing better than shopping? Is mixed use better than single use? Is new urbanism better than shopping malls? In other words, are the product types themselves to be judged or would it be appropriate to limit the evaluations to comparing peers, as the Energy Star program does, in order to select "best in class" within each type of real estate investment.

Perhaps it is best to follow the normal protocol found in the SRI industry—to exclude only the worst products from investment; the real estate equivalents of guns and tobacco. Then, all other types of real estate could be SRPI if it was produced or managed according to certain criteria or ranked among the best of its peers. Thus, regional shopping malls could be certified as being socially responsible investments as long as they are managed to conserve energy, follow reasonable employment policies and so on. While this could work, there would no doubt still be those who would not want to invest in low density suburban style office parks, regardless of how well they perform in terms of energy, ecological land planning, community engagement, employee training and other possible indicators. And there will be those who are truly seeking investment opportunities in green, transit oriented, urban developments. In the end, it may be best to evaluate investments in terms of a variety of dimensions or criteria and to offer a range of choices that investors can select among, allowing the individual investors to determine what they consider to be acceptable investments.

One other question raised by the notion of screening is whether there would be enough properties to choose from that meet any established criteria. For example, there are currently less than 200 LEED Certified projects, under the green building program administered by the U.S. Green Building Council. [11] However, there are many thousands of apartments and office buildings located within walking distance of public transit stations, which is known to increase transit use and reduce driving alone.[12] Additional research is required to determine how coarse or fine to make the screens, but it should not be assumed that only the most progressive or "deeply green" projects or funds would be suitable for inclusion in SRPI portfolios. Indeed, many socially responsible mutual funds only screen to avoid tobacco and alcohol-related companies[13] and so SRPI funds would not have to be particularly restrictive to be in line with SRI industry practice.

MANAGING PROPERTIES: "DOING GOOD BY DOING WELL"

Some investors may be willing to accept lower financial returns in exchange for the knowledge that their investments are helping to address leading social or environmental issues of the day. Other investors, however, consider it their fiduciary responsibilities to avoid such trade-offs. So what do we know about the economics of socially responsible investing in general and SRPI in particular?

The answer to the general question is that social investing does not appear to require concessions in financial performance. This was the finding of a 2001 study by KPMG Consulting which evaluated the academic literature on the impacts on financial performance when social and environmental criteria are used in the investment process.[14] Their conclusion was that although the existing literature is limited, it nevertheless indicates that financial returns and risk levels are not negatively affected by adding these criteria.

Would the same general finding be true if social and environmental criteria were used to screen real estate investments? We don't really know. But there certainly is evidence that at least certain real estate strategies, which would likely quality as SRPI, can perform at least as well as more conventional approaches.

One of the most promising strategies, from a financial point of view, is placing an emphasis on energy conservation in project design and property management. In fact, of all the possible SRPI strategies, energy conservation may the greatest potential to be a significant value-driver. Perhaps, in more conventional terms, it should be viewed as a kind of value-added strategy or what might be called "environmental repositioning" in which property management skills are used to increase the value and returns of under-performing properties.

According to research done by the EPA drawing on experience from companies that participate in their Energy Star program,[15] a recommended sequence of upgrades designed to save energy costs an average of $2.30 per square foot, reduces energy use by as much as 40% or more, produces an annual savings of $0.90 per square foot, and is paid back in 2.5 years. If this sequence of costs and returns is analyzed for a 10 year period, with the energy savings being capitalized into building valuation and returned at the end of 10 years, then the internal rate of return for the investment would be 41%.

A number of mainstream investors and real estate companies are increasingly aware of the returns that can be earned from energy conservation, as well as the social benefits it can produce. For example, when CalSTERS made its commitment last year to participate in the EPA Energy Star program, it was noted that "a consistent and comprehensive energy audit program…has the potential to increase current cash flow by lowering operating costs, increase asset values by increasing Net Operating Income, (and) promote a cleaner environment...[16] Arden Realty, Inc., which operates 83 Energy Star labeled buildings (out of 217 in the State of California) has also recognized the economic benefits that can be achieved from energy conservation. In fact, they've created Next Edge, a wholly owned subsidiary, to be turnkey provider of fully integrated energy solutions for owners and operators of real estate. And as Next Edge points out, "energy inefficiency impacts your organization's bottom line by inflating your facility's operational costs. The comfort of your occupants and the impact on their environment are critical concerns as well. Investment in energy efficient systems in existing facilities can dramatically lower your operational costs and yield returns from 20% to over 50%, while increasing comfort levels and minimizing environmental impact.[17]

It also appears their forward thinking management may pay dividends in stock prices. A study done by Innovest Strategic Value Advisors for the EPA Energy Star program looked at the relative energy efficiency and energy management performance of publicly traded REITs. "Leaders in energy management achieved superior stock market and financial performance over the two year study period," outperforming below average companies by over 3,400 basis points in the stock market.

Another economic argument being made in support of SRPI in general and green buildings in particular is that it can be a more secure real estate investment because it can reduce the physical and policy risks of global warming.[18] And according Paul McNamara, Head of Research for London's Prudential Property Investment Managers, Ltd., this should lead to lower discount rates and higher prices.[19]

Unfortunately, as of yet, we do not have any systematic research on the financial costs or benefits of socially responsible real estate investing. But until that is done, we can consider various other pieces of evidence such as the following:

- According to the 2003 Real Estate Performance Report by the National Council of Real Estate Fiduciaries, the 240 central business district office properties in their data base produced an average annual total return of 10.2% over the past 5 years, compared to 7.7% for 915 suburban properties. Downtown office buildings could easily be classified as SRPI because they use less land, generate less driving alone, and provide better access to jobs for lower income households. In addition, the same report shows that high-rise apartments, which by virtue of their higher density help save land, materials and energy, outperformed garden-apartments over the same 5 year period.

- Residential market studies are suggesting there's strong demand for sustainable housing. A 1995 survey found that 21% of all homebuyers embraced new urbanism and its findings were reinforced in 1999.[20] A 2001 study by USC researchers projected a large future demand for housing in denser, walkable, mixed use communities, much beyond what will be available if current development trends continue.[21] The reason is increasing numbers of older households who favor denser, more central locations. Similar findings were reported recently for transit oriented housing. At least 14.6 million households, or a quarter of all new households, are expected to want housing within a half-mile of urban rail transit systems by 2025. That's more than twice the number living there today.[22]

- Up until 2003, The Woodlands was owned by Crescent Real Estate Equities Company, one of the nation's largest REITs. The Woodlands emphasizes the preservation of the natural forest environment and was designed by Ian McHarg, author of *Design with Nature* and perhaps the foremost landscape architect of the 20th century. According to Crescent, the company recognized over $200 million in funds from operations (FFO) and received more than $310 million in gross cash distributions over the approximate six-year life of their investment, which translated into a pre-tax internal rate of return of 43%.

- An academic study assessed the impact of new urbanism on single family home prices. It found that consumers were willing to pay 12% more for homes built in the Kentlands, compared to similar homes in surrounding areas.[23] This demonstrates a consumer preference for living in walkable communities.

- A recent book on infill housing, published by the Urban Land Institute, reached the following conclusion: "Though developers are quick to agree that it's easier to build in greenfields and that infill housing typically costs more to develop…they also agree that when infill housing succeeds, the financial returns for lenders and equity investors are greater over time."[24]

- In the commercial market, "traffic congestion and changing lifestyles impel more mixed use town center developments, urban mixed-use projects, and infill residential," according to Emerging Trends in Real Estate, 2005. Indeed, the prospects for sprawling congested metropolitan areas "hinge on developing successful 24-hour infill environments and integrating mass transportation alternatives to the car."[25]

It may well be time for innovation and leadership in the field of socially responsible real estate. With the current level of interest in socially responsible investing and the rapid growth in real estate investment funds, it is remarkable that there is no mechanism that gives investors the opportunity to own real estate that's been certified as suitable for SRI investors.

Better information could help us understand the economics of SRPI. One solution would be to work with the data on real estate returns produced by the National Council of Real Estate Investment Fiduciaries. The NCREIF data set contains financial performance data on hundreds of properties of various types. Data could be collected on SRPI criteria, such as each property's location in relation to public transportation and energy utilization. Statistical analysis could then determine whether performance on SRPI criteria is correlated positively, negatively, or not at all with financial performance. NCREIF already reports on the comparative performance of different property types and locations. A similar process could be used to report on the comparative performance of different types of properties categorized in terms of certain social and environmental dimensions. An effort of this kind could help settle the question of whether its possible to "do well by doing good" in a scientific and professional manner.

CONCLUSION

It may well be time for innovation and leadership in the field of socially responsible real estate. With the current level of interest in socially responsible investing and the rapid growth in real estate investment funds, it is remarkable that there is no mechanism that gives investors the opportunity to own real estate that's been certified as suitable for SRI investors. However, there is a potentially large and growing market for such products and it seems inevitable that they will be created. Perhaps the easiest way to achieve this is by certifying existing funds and companies as suitable investments where appropriate. Hopefully, companies will step forward to be recognized as leaders in this emerging field. The multi-trillion dollar SRI investment universe is searching for them and would welcome the opportunity to invest in their products. There may also be opportunities to create new products designed for the SRPI market which perform even better on the triple bottom line—socially, environmentally and financially

In the meantime five key actions might deserve consideration. First, leaders from the SRI and real estate industries should sit down together to explore what's needed and can be done. Second, work should commence on means of evaluating and certifying new and existing investment products. Third, data on the financial, social and environmental performance of properties should be pooled in order to determine the relationships between these outcomes and expand our knowledge of how to maximize all three at the same time. Fourth, companies and funds that are achieving social, environmental and financial success should be identified and rewarded. And fifth, companies and funds should explore how they can make social and environmental goals more central to their strategic planning and how they can report on their performance in these areas. ■

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