

# Exploring Responsible Property Investing: a Survey of American Executives

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## ABSTRACT

Property is an important part of modern economies with significant social and environmental consequences. As a result, practitioners and scholars have begun focusing on the social responsibility and sustainability of property investors. This paper expands that work by examining Responsible Property Investing among investment organizations in the United States. Responsible Property Investing is defined as efforts that go beyond compliance with minimum legal requirements to better manage the environmental, social, and governance issues associated with property investing. A survey of senior American executives finds that most organizations are going beyond compliance, implementing management strategies and investing in properties that are consistent with Responsible Property Investment principles. Most executives also place their organization beyond compliance in a Responsible Property Investing stage model. Business concerns are the leading drivers and impediments. Among the various types of organizations studied, pension funds, foundations and endowments lag behind others in implementing Responsible Property Investing. Copyright © 2007 John Wiley & Sons, Ltd and ERP Environment.

Received 1 May 2007; revised 6 July 2007; accepted 10 July 2007

**Keywords:** real estate; property; sustainability; responsibility; investing; corporations

## Introduction

**T**HIS PAPER EXAMINES CORPORATE RESPONSIBILITY IN THE US PROPERTY INVESTMENT INDUSTRY. Previously, this journal has reported on other industries, including fisheries (Cummins, 2004), mining (Jenkins, 2004), banking (Coulson and Monks, 1999), retail (Preston and Bailey, 2003), cement (Klee and Coles, 2004), utilities (Schaefer, 2004) and finance (Jayne and Skerratt, 2003; Weber, 2005). In each of these cases, the authors have reported increased attention to social and environmental issues, more often than not because of perceived threats to business caused by resource depletion, risk liabilities, legal restraints, negative publicity or community opposition. Other drivers that have been reported include opportunities to attract customers and reduce costs, pressures from external advisors, and corporate leadership. Until now, however, property investors have not been covered.

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Other authors have discussed green buildings (Browne and Frame, 1999), high performance buildings (Preston and Bailey, 2003), and large scale development projects (Johansson and Svane, 2002), but no one has examined the firms that finance them. That is the purpose of this paper.

Property investing is an important part of modern economies. In the US economy, for example, there are over 700 commercial, industrial and apartment building ownership and operating companies, over 300 real estate investment trusts and over 800 development companies (Dunn and Bradstreet, 2007). More than 200 investment management firms manage at least \$1 million in separately managed accounts and pooled investment funds for institutional investors and high net worth individuals (Pensions and Investments, 2006).

In 1997 the property industry comprised 11% of the nation's GDP (Hu and Pennington-Cross, 2001). In 1999 it comprised 23% of all tangible and financial assets held by households and nonprofit organizations, 29% of all tangible and financial assets held by non-financial companies and 44% of total debt outstanding (Hu and Pennington-Cross, 2001). Although publicly held real estate investment trusts comprise just 3% of the total capitalization of US companies on the NYSE, AMEX and NASDAQ, researchers find that optimal allocations to property investments should be 10–20% of total portfolio value (Waggle and Johnson, 2004).

From the perspective of social responsibility and sustainability, property takes on even greater importance when its social and environmental consequences are considered. For example, 54% of global CO<sub>2</sub> emissions from the use of fossil fuels in 1995 were produced by residential and commercial buildings and the transportation between them (IPCC, 2001), 18% of all fatalities in US private industry are in building construction, related trades and property (US Bureau of Labor Statistics, 2007), the nation loses 1.5 acres of farmland annually from urbanization (American Farmland Trust, 2007) and 2 million occupied housing units have severe physical problems such as no hot or cold water, flush toilets or electricity (US Census Bureau, 2000).

Given the financial, social and environmental significance of property investing, ethical investors are beginning to press property investment firms to pay more attention to social and environmental issues. In the US, the Interfaith Center on Corporate Responsibility (ICCR) has been filing shareholder resolutions asking property companies to disclose their energy efficiency and impacts on global warming (ICCR, 2007) and Christian Brothers Investment Services (CBIS) has begun engaging property investment trusts on energy, water and community engagement (CBIS, 2007). This was anticipated by Mansley (2000), who predicted that property would join the main debate on socially responsible investing because 'property is at the frontline of many social and environmental debates today'. There can be practical difficulties, however, such as the challenges posed by the limited influence that owners have on the conduct of their tenants (Browne and Frame, 1999; McNamara, 2000) and the paucity of available space with environmental and social credentials (St. Lawrence, 2004).

In editorials and book reviews, academics have also been emphasizing the need to build more linkages between property investing, social responsibility and sustainability. Sayce (2003) asserts 'that the social and environmental agenda reflected in the SRI (socially responsible investing) movement will increasingly impact on property investment'. Jayne (2003) opines that 'an understanding of societal, environmental and ethical issues is essential for informed property investment'. McAllister (2005) argues that property management textbooks should address 'the implications of corporate social responsibility and socially responsible investment'.

Research papers on the social responsibility of property investing have touched on five themes: the role of property in socially managed funds (Newell and Acheampong, 2002), metrics for measuring the social responsibility of property portfolios (Sayce and Ellison, unpublished paper; Kimmet and Boyd, 2004; Boyd, 2005; Boyd and Kimmet, 2005), the impact of social and environmental issues on property valuation (Sayce and Ellison, unpublished paper; Sayce *et al.*, unpublished paper; Lutzkendorf and Lorenz,

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2005), the effect of independent directors and CEO compensation on the performance of real estate investment trusts (Ghosh and Sirmans, 2003; Scott *et al.*, 2005) and the emergence of socially responsible property investing as a niche or business strategy (Pivo and McNamara, 2005; Pivo, 2005).

This paper begins a new line of work: the level of responsible property investment activity by property organizations. The work is intended to be exploratory and descriptive. It seeks to lay the groundwork for more detailed explanatory investigations by answering seven basic questions. Are US property investors and developers practicing social responsibility? How advanced are the organizations that are implementing RPI? What strategies are they using? What are the major drivers and impediments? What related information and services might they need or desire? How do the answers to these questions vary by type of organization?

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### A Primer on RPI

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Responsible property investing (RPI) is taken here to mean efforts by property investors that go beyond compliance with minimum legal requirements to better manage environmental, social and governance issues associated with property investing. This definition is adapted from Portney (2005), who defines corporate social responsibility as ‘a consistent pattern (. . .) of private firms doing more than they are required to do under applicable laws and regulations (. . .)’.

Its core purpose is to address social and environmental problems related to the built environment by aligning property investments with principles of corporate social responsibility, smart growth, green building and sustainable urbanization in financially prudent ways.

RPI involves both property organizations and property portfolios. Investors, lenders, owners and developers can implement RPI in their own organizations through better reporting, disclosure, governance, location and leasing decisions, and human resource management policies. RPI also applies to their portfolios. Lenders can incorporate RPI criteria into their underwriting processes. Asset owners can assess their portfolios for social and environmental performance, and ask fund managers to incorporate RPI principles into their investment mandate. Fund managers can increase allocations to property types that are associated with greater social or environmental benefits, such as green buildings, brownfield developments, transit oriented developments, low-income housing and historic properties. Asset and property managers can implement RPI by improving the eco-efficiency of properties, using fair employment practices, hiring from locally underemployed groups and engaging in other community programs. Developers can create projects that adopt socially and environmentally considerate construction practices, create greener properties, target underserved areas and communities, and incorporate stakeholder consultation through the development process.

In a recent group process involving leaders from the property and SRI industries, multiple dimensions were identified as components of RPI (Pivo, forthcoming):

- walkable urbanity (e.g. transit-oriented development, walkable communities and mixed-use development)
- urban revitalization (e.g. infill development, flexible interiors and brownfields)
- energy conservation (e.g. conservation retrofitting, green power generation and purchasing, and energy efficient buildings)
- environmental protection (e.g. water conservation, recycling and habitat protection)
- social equity and community development (e.g. affordable housing, community outreach, local hiring and training, and fair labor practices)
- worker well-being (e.g. parks and plazas, indoor air quality, childcare on premises and handicapped access)

- health and safety (e.g. property security, avoiding hazards and first aid readiness).
- local citizenship (e.g. aesthetics, minimum neighborhood impacts, considerate construction, stakeholder engagement and historic preservation)
- corporate citizenship (e.g. regulatory compliance, sustainability disclosure, independent directors and adoption of independent voluntary codes such as LEED, Energy Star, Green Seal, UN Principles for Responsible Investment and the Global Reporting Initiative).

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## Methods

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To study the level of responsible property investment activity by property organizations, a web-based survey was used to collect information about RPI views and practices in US property investment organizations. The target population was chief executive officers of

- pension funds, foundations and endowments with property assets,
- real estate investment trusts (REITs),
- real estate operating companies (REOCs),
- property fund managers and
- property development companies.

CEOs were selected as key informants because they are good sources of strategic information and information about their organization as a whole (Cycyota and Harrison, 2002).

The sampling frame of 1169 CEOs was provided by Institutional Real Estate, Inc., and was supplemented by 92 names provided by the National Association of Real Estate Investment Trusts (NAREIT). All the CEOs were emailed an invitation to participate in the survey, which required about 5 minutes to complete. The invitation described the nature and purpose of the survey and provided a link to the survey instrument.

Follow-up, personalization, sponsorship and topic salience were relied upon to increase response rates. Four reminders were sent every 2–3 weeks. The invitation was addressed to the specific recipients and emailed to their personal address. Prominent co-sponsors were identified in the invitation including The Urban Land Institute, the National Association of Real Estate Investment Trusts, Building Owners and Managers International and The Real Estate Roundtable. Moreover, the survey was designed to be relevant to each type of organization that received it.

A total of 189 surveys were returned from November 2006 to January 2007 for a total response rate of 15.0%.<sup>1</sup> This exceeds the 10–12% that is typical of mailed surveys to top executives in large American firms (Hambrick *et al.*, 1993). The fact that the survey was online does not change the expected response rate because for most online surveys response rates are equal to or worse than conventional modes (Fricker and Schonlau, 2002).

As the findings will show, there were some significant differences in answers given by respondents from different types of organization. Therefore, the results could be biased if the sample was unrepresentative of the population in terms of organizational mix. To check for this, the total population of the different types of organizations studied was determined using independent databases (Dunn and Bradstreet, 2007; Pensions and Investments, 2006). Responses were then weighted so the mix of organizations in the sample conformed to the whole population, following procedures recommended by Mohadjer and Choudhry (2002). This process adjusted for potential biases that could have been caused

<sup>1</sup> Individuals to whom emails could not be delivered due to incorrect addresses, filtering or blocking, were not counted in the response rate calculations. About 15% of the email addresses in the original sample frame could not be used for these reasons. If they had been included, then the response rate would be 12.7%.

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by biases in the sampling frame (survey non-coverage) and different response rates among the various types of organization (survey non-response).

Wave extrapolation was used to check for non-response bias, which is the possibility that answers given by those in the sample who responded differed from those who did not (Armstrong and Overton, 1977). Answers given to each question by late and early respondents within each type of organization were compared, on the assumption that late respondents were more like non-respondents in their views. No statistically significant differences were present, suggesting the lack of non-response bias in these findings.

Despite these tests, there is still the possibility that the results may be somewhat biased in favor of RPI and the reader should take this into consideration when interpreting the results. One way to add caution is to assume that the results reported here overstate the number of responses that are favorable to RPI. Nonetheless, as the reader will see, even if the percentages of executives reporting the use of RPI practices are cut in half, the findings still indicate a substantial level of involvement with RPI.

The reliability of the survey instrument, or the extent to which it would provide the same results with repeated measurement, was tested by measuring the internal consistency of the responses using Cronbach's reliability coefficient, or alpha. The level of consistency exceeded that normally considered acceptable by social scientists (0.70).

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## Results

### Beyond Compliance

Once again, responsible property investing (RPI) was defined as going beyond compliance with minimum legal requirements to better manage environmental, social and governance issues associated with property investing. According to the survey results (see Table 1), 82% of all executives slightly, moderately or strongly agreed that their organization 'goes beyond minimum legal requirements to address social or environmental issues' and 88% agreed that 'this activity will be more important in the future'.

### Management Strategies

Table 2 gives the proportion of CEOs that reported implementing, not implementing or considering various RPI management strategies. The strategies they could choose from were based on prior studies of leaders in the field (Pivo and McNamara, 2005). The proportion of CEOs that reported implementing each one ranged from 9 to 61%. The most ubiquitous tools – conservation and stakeholder engagement – are being implemented by 61 and 52% of the organizations, respectively.

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	My organization goes beyond minimum legal requirements to address social or environmental issues.	This type of activity will be more important for us in the future.
Strongly disagree	3.3% ( $\pm 2.1$ )	2.8% ( $\pm 2.0$ )
Moderately disagree	6.4% ( $\pm 2.9$ )	3.9% ( $\pm 2.3$ )
Slightly disagree	8.1% ( $\pm 3.3$ )	5.5% ( $\pm 2.7$ )
Slightly agree	19.6% ( $\pm 4.7$ )	25.5% ( $\pm 5.2$ )
Moderately agree	34.3% ( $\pm 5.7$ )	30.9% ( $\pm 5.5$ )
Strongly agree	28.2% ( $\pm 5.4$ )	31.3% ( $\pm 5.6$ )

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**Table 1.** Beyond compliance (0.90 confidence intervals given in parentheses)

	Not done	Planned or under consideration	Implemented
Conservation: promoting energy conservation, water conservation or recycling in your assets.	17.3% ( $\pm 5.1$ )	21.7% ( $\pm 5.6$ )	60.9% ( $\pm 6.6$ )
Stakeholder engagement: conferring with stakeholders that are affected by your properties, such as neighborhood organizations, labor unions or environmental groups.	35.3% ( $\pm 6.4$ )	13.3% ( $\pm 4.5$ )	51.5% ( $\pm 6.7$ )
Value statement: mentioning community, human resource or environmental issues in your credo, values, vision or mission.	35.8% ( $\pm 6.4$ )	19.9% ( $\pm 5.3$ )	44.3% ( $\pm 6.6$ )
Strategic planning: paying attention to social or environmental issues in your strategic planning.	29.9% ( $\pm 6.0$ )	28.6% ( $\pm 6.0$ )	41.5% ( $\pm 6.6$ )
Women or minority owned businesses: supporting these types of businesses.	49.1% ( $\pm 6.8$ )	12.3% ( $\pm 4.4$ )	38.7% ( $\pm 6.6$ )
Responsible contractor: asking contractors and subcontractors who work on your properties to provide fair wages and benefits to their employees.	49.8% ( $\pm 6.8$ )	12.6% ( $\pm 4.4$ )	37.6% ( $\pm 6.6$ )
Social or environmental accounting: monitoring the performance of your assets using social or environmental indicators (e.g. safety record, energy consumption etc.).	56.0% ( $\pm 6.8$ )	15.1% ( $\pm 4.9$ )	28.8% ( $\pm 6.2$ )
Committee for sustainability or corporate social responsibility: having a committee actively working on these issues.	68.5% ( $\pm 6.3$ )	12.5% ( $\pm 4.6$ )	18.9% ( $\pm 5.3$ )
Disclosure: publishing information on the social or environmental record of your organization.	64.2% ( $\pm 6.5$ )	19.0% ( $\pm 5.3$ )	16.8% ( $\pm 5.1$ )
Learning/management systems: linking strategic social and environmental objectives to management actions via tools such as the balanced scorecard, performance metrics or environmental management systems.	54.1% ( $\pm 6.7$ )	34.3% ( $\pm 6.4$ )	11.6% ( $\pm 4.4$ )
Targets and benchmarks: comparing the social or environmental indicators to norms and objectives.	68.3% ( $\pm 6.4$ )	22.6% ( $\pm 5.7$ )	9.0% ( $\pm 3.9$ )

**Table 2.** Use of RPI management tools (0.90 confidence intervals given in parentheses)

## RPI Investments

Table 3 gives the percentages of organizations that report having funds in four types of property that have social or environmental merits and should be considered RPI investments. Anywhere from one- to two-thirds of the organizations are invested in these types of property. To make the survey easier to complete, respondents were not asked how large their holdings were. Consequently, we cannot say how much of their holdings is composed of these assets.

## Total Activity

A total activity level was computed for each respondent by summing the number of management strategies and investments that they reported having implemented. Table 4 and Figure 1 give the descriptive statistics and histogram for the results. Nearly 25% of the organizations have not implemented RPI strategies or investments. Seventy-four percent have implemented at least one. The median was four. Those in the top quartile have implemented a total of 8 to 13 strategies and investments.

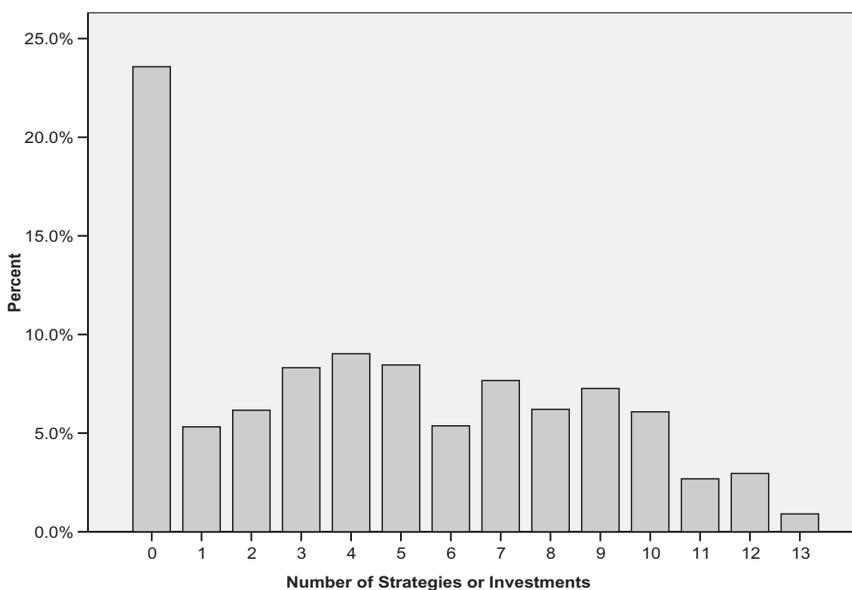
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	Not done	Planned or under consideration	Invested
Brownfields: properties on sites complicated by environmental contamination.	48.9% ( $\pm 6.8$ )	13.4% ( $\pm 4.6$ )	37.7% ( $\pm 6.6$ )
Green buildings: properties designed to conserve natural resources and improve human health.	32.0% ( $\pm 6.3$ )	26.8% ( $\pm 6.0$ )	41.3% ( $\pm 6.6$ )
Transit-oriented development: properties in a mixed-use area within walking distance of a transit stop that mixes residential, retail, office, open space and public uses in a way that makes it convenient to travel on foot or by public transportation.	32.6% ( $\pm 6.3$ )	12.4% ( $\pm 4.4$ )	55.0% ( $\pm 6.7$ )
Urban infill or revitalization: properties in older areas.	18.9% ( $\pm 5.3$ )	15.3% ( $\pm 4.8$ )	65.8% ( $\pm 6.4$ )

**Table 3.** RPI investments (0.90 confidence intervals given in parentheses)

Number of strategies and investments	
Mean	4.6 ( $\pm 0.5$ )
Median	4.0
Minimum	0
Maximum	13
Percentile 25	1
Percentile 75	8
Std deviation	3.76

**Table 4.** Total activity (0.90 confidence intervals given in parentheses)



**Figure 1.** Total activity

## Other Activities

About 10% of the executives responded to an open-ended question asking for any other activities they are undertaking that they consider to be sustainable and responsible. The submissions included serving on the boards of non-profit organizations, making donations to charity, allowing flex- and part-time work to accommodate working parents, occupying green office space, investing in affordable housing and historic buildings, and actively engaging the management of shareholdings to strengthen their environmental, social and governance policies.

## RPI Stage

Each executive was asked to place the organization in a stage model of responsible property investment adapted from Dunphy *et al.* (2003). Table 5 gives the stages they could choose from, the results of their placements and descriptive statistics for the total number of strategies and investments implemented by organizations in each stage.

The most common selection was 'efficiency', chosen by 39% of the respondents. Nearly 80% of the executives placed their organization in one of the three stages beyond the 'compliance' stage in the model.

To test whether RPI stage predicts total activity (i.e. the total number of strategies and investments implemented), each organization's total activity was compared with its reported stage. The measures were moderately correlated ( $r = 0.59$ , sig. = 0.000). Reported stage was a reasonably good predictor of RPI activity, explaining 35% of the variation in total activity.

## Drivers and Barriers

As shown in Table 6, CEOs thought that the strongest drivers of RPI were conventional business considerations such as concern for risk and return and opportunities to outperform. Moral sensibilities, voluntary codes of behavior and internal leadership also received relatively high scores.

Table 7 shows that business concerns also led the list of impediments, followed by a lack of more investment products and information. Perceived legal restrictions and internal resistance were less significant restraints.

## Interest in Information and Services

Over half the executives moderately or strongly agreed they would like more information on RPI investment opportunities and the merits of their current activities. Many also agreed they would probably increase their allocation to RPI if it met their investment criteria. Most were disinterested in joining a working group or paying extra for data, though many did support the idea of a conference being held on the topic (see Table 8).

## Aggregated Comparisons

Responses by the various types of organization were compared by examining their mean responses to each set of questions about compliance, management strategies, investment, RPI stage and interests. There were no significant differences between the types of organization (at the 0.10 level), except for the pension funds, foundations and endowments, which:

RPI stage	Description of stage	Percent of orgs at the stage	Mean No. implemented	Median No. implemented	Std deviation of No. implemented
Rejection	Employees, community infrastructure and the environment are regarded as a resource to be exploited for economic gain.	0.0% (na)	na	na	na
Non-responsive	Focus is on conventional business as usual without any effort to incorporate sustainability into decision-making. Community issues are ignored where possible and the environmental consequences of activities are taken for granted or disregarded.	4.4% ( $\pm 2.8$ )	1.0 ( $\pm 0.5$ )	1.0	1.0
Compliance	Focus is on reducing the risk of sanctions for failing to meet minimum standards as an employer or producer. Emphasis is on being a decent corporate citizen by avoiding worker or environmental abuses that could lead to litigation or strong community reaction.	17.1% ( $\pm 5.1$ )	3.2 ( $\pm 0.9$ )	3.0	2.6
Efficiency	Growing awareness there are real advantages to be gained by proactively instituting sustainable and responsible practices. Workforce development and environmental policies are used to reduce costs and increase efficiency.	39.2% ( $\pm 6.7$ )	4.8 ( $\pm 0.7$ )	4.0	3.0
Strategic proactivity	Strategic proactivity—concern for employees, community development and environmental protection are part of the business strategy. It is viewed as a potential competitive advantage and the firm is positioning to lead in sustainable business practices. The motivation, however, remains intelligent corporate self-interest.	30.6% ( $\pm 6.4$ )	7.5 ( $\pm 0.6$ )	7.0	2.5
Sustaining organization	Leaders have strongly internalized the ideology of working for a sustainable world. Excellent returns are pursued together with actively promoting ecological sustainability values and practices in business and society and there's a fundamental commitment to ecological viability, social equity, social justice and human fulfillment.	8.7% ( $\pm 4.0$ )	8.7 ( $\pm 1.4$ )	10.0	3.0

**Table 5** Number of strategies and investments implemented by RPI stage (0.90 confidence intervals given in parentheses)

	Mean (0.90 confidence interval = $\pm 0.2$ )	Median	Std deviation
Concern for risk and return	4.55	5.00	1.16
Opportunities to outperform	4.24	5.00	1.47
Business advantage	4.20	4.00	1.33
Moral responsibility	4.15	4.00	1.46
Voluntary codes of behavior	3.92	4.00	1.42
Cost avoidance	3.90	4.00	1.46
Internal leadership	3.86	4.00	1.47
Customers	3.78	4.00	1.52
Employee recruitment/retention	3.27	3.00	1.45
Investors	2.95	3.00	1.54
Peer activity	2.83	3.00	1.35
Stakeholder pressure	2.70	3.00	1.40

Table 6. RPI drivers

	Mean (0.90 confidence interval = $\pm 0.2$ )	Median	Std deviation
Insufficient financial performance	4.00	4.00	1.38
Insufficient tenant demand	3.87	4.00	1.44
Lack of products to invest in	3.46	4.00	1.47
Lack of information	3.23	3.00	1.51
Incompatible with fiduciary duty	3.07	3.00	1.67
Legal restrictions	2.69	3.00	1.40
Internal resistance within your organization	2.35	2.00	1.37

Table 7. RPI impediments

	It would be useful to know more about the social or environmental merits of our activities and investments.	It would be useful to have more information about RPI investment or management opportunities.	There should be a conference on RPI.	We'd pay up to \$2,000 per year for data on the social and environmental merits of our current and/or future real estate investments.	We'd be interested in joining a working group on RPI.	We would probably increase our allocation to RPI if it met our risk/return criteria.
Strongly disagree	2.5% ( $\pm 2.2$ )	2.2% ( $\pm 2.1$ )	3.0% ( $\pm 2.4$ )	21.8% ( $\pm 5.9$ )	12.8% ( $\pm 4.8$ )	3.9% ( $\pm 2.8$ )
Moderately disagree	2.4% ( $\pm 2.2$ )	2.8% ( $\pm 2.3$ )	8.0% ( $\pm 3.9$ )	29.4% ( $\pm 6.5$ )	20.5% ( $\pm 5.8$ )	2.8% ( $\pm 2.3$ )
Slightly disagree	5.1% ( $\pm 3.1$ )	5.1% ( $\pm 3.1$ )	12.4% ( $\pm 4.6$ )	15.3% ( $\pm 5.1$ )	20.7% ( $\pm 5.8$ )	7.8% ( $\pm 3.8$ )
Slightly agree	37.0% ( $\pm 6.9$ )	33.5% ( $\pm 6.7$ )	43.4% ( $\pm 7.0$ )	24.6% ( $\pm 6.2$ )	33.8% ( $\pm 6.7$ )	45.3% ( $\pm 7.1$ )
Moderately agree	36.3% ( $\pm 6.8$ )	43.7% ( $\pm 7.1$ )	22.2% ( $\pm 5.9$ )	8.5% ( $\pm 4.0$ )	10.2% ( $\pm 4.4$ )	32.2% ( $\pm 6.6$ )
Strongly agree	16.7% ( $\pm 5.3$ )	12.6% ( $\pm 4.8$ )	11.0% ( $\pm 4.5$ )	0.3% (na)	2.1% ( $\pm 2.1$ )	8.1% ( $\pm 3.9$ )

Table 8. Interest in information and services (0.90 confidence intervals given in parentheses)

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	All types	Advisor	Developer	REIT	REOC	Pension funds, foundations, endowments	Pension funds, foundations, endowments minus all types
<b>Drivers</b>							
Concern for risk and return	4.55	4.79	4.35	4.67	4.76	4.39	-0.16
Opportunities to outperform	4.24	4.45	4.15	4.54	4.19	4.18	-0.06
Business advantage*	4.20	4.34	4.35	4.71	4.00	3.59	-0.61
Moral responsibility*	4.15	4.31	4.16	4.54	4.19	3.58	-0.57
Voluntary codes of behavior***	3.92	4.36	4.04	4.27	3.81	3.17	-0.75
Cost avoidance	3.90	3.97	3.71	4.14	4.24	3.47	-0.43
Internal leadership	3.86	3.97	3.96	4.38	3.69	3.32	-0.54
Customers	3.78	3.79	4.20	4.05	3.33	3.16	-0.62
Employee recruitment/retention**	3.27	3.69	3.04	3.96	3.53	2.39	-0.88
Investors	2.95	3.36	3.04	3.17	2.56	3.00	0.05
Peer activity	2.83	2.93	2.81	2.83	3.00	2.45	-0.38
Stakeholder pressure	2.70	2.90	2.62	2.87	2.69	2.69	-0.01
<b>Impediments</b>							
Insufficient financial performance*	4.00	4.07	4.23	2.83	4.13	4.14	0.14
Insufficient tenant demand	3.87	3.64	4.12	3.00	4.13	3.61	-0.26
Lack of products to invest in	3.46	3.86	3.35	2.87	3.88	3.24	-0.22
Lack of information	3.23	3.66	3.04	3.13	3.38	3.28	0.05
Incompatible with fiduciary duty**	3.07	2.90	3.15	2.61	2.63	4.18	1.11
Legal restrictions	2.69	3.10	2.62	2.43	2.80	2.65	-0.04
Internal resistance within your organization	2.35	2.14	2.46	2.35	2.06	2.74	0.39

**Table 9.** Comparison of mean ratings for drivers and impediments by type of organization

\* Sig. difference at 0.05 level, \*\* sig. difference at 0.01 level, \*\*\* sig. difference at 0.001 level per ANOVA.

- compared with every other type of organization, are less likely to agree that they go beyond minimum legal requirements and will do so in the future;
- compared with developers and REITs, have implemented fewer RPI management strategies;
- compared with developers and advisors, have invested in fewer RPI properties;
- compared with developers, place themselves at a lower RPI stages, and
- compared with REITs, developers and advisors, are less interested in information and services.

What explains the significantly lower level of RPI activity among the pension funds, foundations and endowments? Possible explanations were sought using analysis of variance to compare the mean ratings given to the drivers and impediments by each type of organization. As shown in Table 9, six drivers and impediments varied significantly between the groups. In five of these instances, the pension funds, foundations and endowments rated a given driver as significantly weaker than did the other types of organization or a given impediment as significantly stronger. The instance where they differed the most from the others concerned the impediment 'incompatible with fiduciary duty'. Apparently, pension fund, endowment and foundation executives are particularly worried about the compatibility of RPI with their fiduciary duties. Their other notable differences were all instances where they gave drivers lower ratings, that is, where they saw less of a positive reason to pursue RPI. These were, in order of

declining magnitude, employee recruitment and retention, voluntary codes of behavior, business advantage and moral responsibility.

The one instance where another type of organization differed the most from others was the lower rating given by REIT executives to 'insufficient financial performance' as an impediment to RPI. As publicly traded companies, REITs are commonly thought of as being highly sensitive to short term financial performance. Yet, in this case, they see financial performance as a smaller impediment to RPI than do other types of organization.

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## Discussion

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The first study question was whether US property investors and developers are practicing RPI. The answer depends on the definition. If RPI means any effort beyond compliance, then the question can be answered using results from three of the measures studied:

- 82% agree their organization is going beyond minimum legal requirements to address social or environmental issues,
- 74% are implementing at least one RPI management strategy or investment and
- 79% place themselves beyond the compliance stage in the RPI stage model.

Therefore, if RPI means going beyond compliance, then 74–82% of all US property investment organizations are engaged in some form of RPI.

If a higher standard were applied, then fewer would qualify. For example, a tougher standard could be that practicing RPI means implementing at least half, or eight of the 15, strategies and investments studied. By this standard, about 25% of the organizations are practicing RPI.

The second question was how advanced the organizations are that are implementing RPI. Seventy-nine percent of the organizations place themselves beyond compliance in the stage model. Those just beyond compliance, in the efficiency stage, are implementing a median of four strategies and investments. Those in the two most advanced stages are implementing a median of seven and 10, respectively (about a half to two-thirds) of the strategies and investments studied. Thus, even though there is considerable activity in the organizations that are implementing RPI, even the most advanced could do more.

The third question was what strategies are being used. The most common ones are conservation and stakeholder engagement. This seems consistent with the conventional business considerations that respondents said are driving RPI, because these strategies could well produce financial benefits. Conservation can reduce property management costs and stakeholder engagement can help with obtaining development permission and reduce the cost of the entitlement process.

The fourth question was what are the major drivers and impediments. The fact that business considerations are key drivers bodes well for the future growth of RPI because it suggests that RPI can make good business sense. It is notable, however, that moral responsibility and voluntary codes rank just behind business concerns, suggesting that leaders are sensitive to non-pecuniary values. The last place showing of stakeholder pressure as a driver is interesting as well. Leaders do not feel externally pressured to be more responsible. This could be due to a lack of attention to property investors by SRI activists. RPI activity could be increased with greater stakeholder attention to the issue.

As for the impediments, the top worries – insufficient financial performance, tenant demand and products to invest in – are also market considerations. Proponents of RPI could do well to show how RPI can be implemented without diluting returns, by demonstrating that tenants, such as corporations committed to CSR, may prefer RPI properties and by providing more information about the RPI investment opportunities available in the marketplace.

## Exploring Responsible Property Investing

The weakest impediments are interesting as well. Internal resistance, fiduciary duty and legal restrictions are relatively minor concerns. This appears contrary to what many SRI advocates sometimes expect to hear from investors.

Finally, there is the notable divergence of the pension funds, foundations and endowments from the other types of organization. Their lower activity levels and ratings of drivers and their higher ratings of impediments are a concern, since they are major asset owners and can be very influential. It is common for these types of investor to be the most important clients of fund managers, REITs and REOCs. It therefore seems reasonable to assume that if these investors made RPI a high priority, RPI would become more common in the property investment industry.

There are three possible explanations for the lower ratings and activities reported by the pensions, foundations and endowments. First, they may not be very involved with real estate decisions, leaving them to their management partners and advisors. Second, real estate is a smaller part of their portfolios, so they may focus most of their management attention on other types of investment. And third, they may view RPI as inherently contrary to their fiduciary duties.

This latter view is troubling because it may be based upon a misunderstanding of current law. According to a study of the legality of integrating environmental, social and governance (ESG) issues into institutional investing (Freshfields Bruckhaus Deringer, 2005), fiduciaries are governed by the 'modern prudent investor rule'. Under the rule, investors 'are given latitude to follow a wide range of diversified investment strategies, provided their choice of investments is rational and economically defensible' and the investments 'are made for the purposes of the fund and/or for the benefit of the fund's beneficiaries'. Under this rule, the report finds that 'environmental, social, and governance considerations may be taken into account as long as they are motivated by proper purposes and do not adversely affect the financial performance of the entire portfolio'. It goes on to conclude that 'there appears to be a consensus, so long as ESG considerations are assessed within the context of a prudent investment plan, ESG considerations can (and, where they affect estimates of value, risk and return, should) form part of the investment decision-making process'.

A closer look at how the pensions, foundations and endowments differ on the other leading drivers and impediments is also instructive. The drivers which they feel are much less important are business advantage, moral responsibility and voluntary codes of behavior. This is notable since these are three of the most important drivers of RPI overall, according to all the respondents. If the pensions, foundations and endowments do not see them as important, they may not pursue RPI even if their concerns about fiduciary duty are overcome. Clearly then, it would behoove RPI advocates to explain to these investors how RPI supports their business interests and ethical responsibilities. When it comes to business, there are indeed opportunities to demonstrate how a responsible property fund can be less risky or more profitable, as in the case for urban regeneration (McGreal *et al.*, 2006) or energy efficiency (Pout *et al.*, 2002). When it comes to ethics, it might be best to point out that their own beneficiaries are directly affected by the positive and negative externalities associated with property investing and that RPI may be in the best interest of their own beneficiaries (Pivo and McNamara, 2005). Moreover, several leading institutional investors are signatories to the Principles for Responsible Investing, the UN Global Compact and other voluntary codes of conduct, which clearly call for something akin to RPI in the property sector.

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## Conclusion

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This survey of American property investment firms has found that most executives think their organizations are going beyond minimum compliance toward responsible property investing. They report

implementing management strategies, such as conservation and stakeholder engagement, and investing in properties, such as urban infill and green buildings, that are making them more responsible and sustainable organizations. Most executives think they are past the compliance stage, where they merely try to avoid sanctions. Most see themselves at least at the efficiency stage, where they are aware of the advantages to be gained from sustainable and responsible practices. And more than a third go further than this, saying that responsibility is a core part of their business strategy or they are fundamentally committed to ecological viability, social equity, social justice and human fulfillment.

More than anything else, and consistent with the other industry studies from this journal cited at the beginning of this paper, the actions are being driven by business considerations. Concern for risk and return is the biggest driver, and fear of insufficient financial performance is the biggest impediment to doing more. Therefore, further studies of the economic costs and benefits of RPI, perhaps more than anything else, will do the most to support further development of the field.

The sample for this study was drawn from US property executives and therefore it would be dangerous to do more than hypothesize about its implications for other US sectors or the property industry in other countries. It is striking, however, that these executives report such a high degree of activity and interest in responsible business practices. After all, the US property industry is not known for its leadership on these issues, and with the exception of recent media attention to green buildings there have been few reports of socially responsible property investing in the mainstream press. If in fact the US property industry has been quietly making progress toward greater responsibility then perhaps the same is true in other sectors and countries. Perhaps business has crossed the tipping point where responsibility is unavoidable. Perhaps by looking at the uptake of various specific practices normally associated with corporate social responsibility, as was done here, as opposed to looking for broader declarations of commitment, researchers may find the kind of widespread progress that this survey revealed.

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