Responsible Property Investing in 2007

Gary Pivo, MRP, PhD
University of Arizona
UNEP FI Property Working Group
Responsible Property Investment Center
Property’s Triple Bottom Line

- **Economic Accounts**
  - Investment returns, productivity, growth, public finance

- **Environmental Accounts**
  - Global warming, biodiversity, water quantity and quality, natural hazards, open space, congestion, brownfields, infrastructure and public services

- **Social Accounts**
  - Obesity, worker wages and benefits, worker safety, respiratory illness, affordable housing, urban revitalization, segregation, unemployment, crime, history & culture, aesthetics, childcare, infrastructure
A definition

- **RPI** includes portfolio, asset, or property mgt. practices that go beyond minimum legal requirements to produce social or environmental gains without harming financial returns and other business performance metrics.

- **SRPI** involves 3 core strategies:
  - Acquiring good properties (e.g. energy star) and avoiding bad ones that can’t be improved (e.g., housing adjacent to freeways),
  - Managing properties to improve their social or environmental merits (e.g., recommissioning),
  - Being a better company for your employees, community, and environment (e.g., flextime for parents).
We endorse adequate shelter for all and making human settlements safer, healthier and more livable, equitable, sustainable and productive by socially and environmentally responsible corporate investment.
RPI lies at the nexus of ...
Two examples

- **Learning Links Centers, LLC**
- **Morley Igloo Regeneration Fund**
A negative example

• *Childhood Asthma Linked to Freeway Pollution*
  
  – proximity to freeways poses a respiratory risk.
  
  – For every 1.2 K (3/4 mi) the students lived closer to the freeway, asthma risk increased by 89 percent.

Reasons for CSR

• Your fiduciary duty to act wisely on behalf of investors.

• Your ethical duty to not do to others what is hateful to you.

• Your duty as a citizen
Leaders around the world

- **France** – *Caisse des Depots, Klepierre*
- **Japan** – *Mitsubishi*
- **US** – *CalPERS, Cherokee, Kennedy, General Growth*
- **Australia** – *Investa, Lend Lease, Colonial*
- **UK** – *PRUPIM, Land Securities, Morley*
- **China** – *Swire Pacific*
- **Holland** – *Wereldhave*
- **Korea** – *Korea Land*
Types of RPI activities

- **Policies and Programs**
  - SRPI benchmarking and reporting
  - SRPI officer and committee
  - Resource conservation policies
  - Responsible contractor policies
  - Corporate engagement
  - Community engagement

- **Investments**
  - Urban Funds
  - Brownfields Funds
  - Workforce & Low Income Housing Funds
  - Historic Preservation Funds
  - Union Built Funds
  - Green Buildings & Smart Growth Funds
  - Community Investing Funds
  - Sustainable REITs and Investment Managers
  - Separate Accts and Direct Investments
Specialized RPI Investments

- Urban Funds
- Brownfield Funds
- Historic Preservation Funds
- Low Income Housing Funds
- Community Development Funds
- Green Building and Smart Growth Funds
- Union Labor Funds
## Examples by property type

<table>
<thead>
<tr>
<th>Office</th>
<th>CalPERS Green Wave</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Kennedy Union Only</td>
</tr>
<tr>
<td>Industrial</td>
<td>ProLogis Carbon Trading</td>
</tr>
<tr>
<td></td>
<td>Transwestern Energy Mgt</td>
</tr>
<tr>
<td>Residential</td>
<td>Learning Links Teachers</td>
</tr>
<tr>
<td></td>
<td>Phoenix Genesis Workforce Housing Fund</td>
</tr>
<tr>
<td>Retail</td>
<td>PRUPIM for Youth</td>
</tr>
<tr>
<td></td>
<td>EBL&amp;S Transit Development</td>
</tr>
</tbody>
</table>
SRPI comes in various formats:

- LPs & LLCs – Learning Links
- REITs – Boston Properties
- REIT Mutual Funds – Uniplan Forward Fund
- Private Funds – Rose Smart Growth Fund
- Private Funds of Funds – Heron Urban Fund
- Certificates of Deposit – Shore Bank Community Development CDs
SRPI REITs

- **Brandywine Realty Trust**
  USGBC member and LEED building owner

- **Boston Properties**
  US EPA energy star partner and
  NAREIT Leader in the Light

- **Simon Properties**
  Carbon Disclosure Project participant

- **Equity Office Properties**
  General Growth Properties
  DJWSI and FTSE4Good constituents

- **Others**
Which are best in class?

- **Boston Properties** (office)
  Best workplace for commuters, Energy Star, FTSE4Good
  +140% over 3 yrs

- **Brandywine** (office & industrial)
  Commuters, Energy Star and USGBC;
  +33% over 3 yrs

- **Liberty Property Trust** (office & industrial)
  WasteWise, Energy Star, USGBC
  +33% over 3 yrs
Are there common practices?

The 2005 Principles for Responsible Investment Project
Common Environmental Practices

- Setting energy, water, waste, GHG targets
- Building recommissioning
- Obtaining 3rd party endorsements (e.g., DJWSI)
- Using renewable energy
- Preparing habitat conservation plans for projects
- Training occupiers on conservation
- Supporting urban forestry
Common Social Practices

• Providing fair benefits and wages
• Investing in urban revitalization and affordable housing
• Pursuing local hiring and training
• Seeking design and service awards
• Supporting community organizations
• Maintaining good health and safety records
Common Governance & Mgt Practices

- Adopting an RPI policy
- Using supply chain screening
- Communicating SRPI work via the website or annual report
- Designating an RPI Officer and Committee
- Conducting staff training around RPI issues
- Using risk analysis, lifecycle costing, & value engineering
- Publishing RPI guides for developers & property mgrs.
Some of the drivers

- The $2.7 trillion SRI Industry
- The Principles for Responsible Investment signed by 149 financial leaders with $6 trillion AUM
- 225 investors with $31 trillion involved in the Carbon Disclosure Project
- Forthcoming GRI property sector supplement
What are the most important property characteristics?

2006 SRPI Delphi Project
RPI Metrics
4.0-5.0, 3.0-4.0, 2.0-3.0; No LEED® Coverage

• More Walkable, Less Auto Dependent Places
  – Transit, Central, Dense Mixed Use and Walkable, Carpooling, Bike Trails and Facilities

• Energy Conservation
  – Energy Efficiency, Daylight and Ventilation, Renewables, Local Sources

• Worker Well Being
  – Parks & Open Space, Sense of Community & Place, Childcare, Handicapped Accessible, Amenities for Parents

• Urban Revitalization and Reuse
  – Urban Revitalization, Flexibility, Suburban Redevelopment, Brownfield, Not farmland
RPI Metrics

4.0-5.0, 3.0-4.0, 2.0-3.0; No LEED® Coverage

- Corporate Responsibility
  - Compliance, Disclosure, Supplier Engagement

- Environmental Quality

- Good Neighbor and Local Citizen
  - Aesthetics, Local Impacts, Displacement, Considerate Construction, No Undue Influence
RPI Metrics

4.0-5.0, 3.0-4.0, 2.0-3.0, mixed; No LEED® Coverage

- **Social Equity & Community Development**

- **Voluntary Certification**
  - EPA Partner, Green Certified, SRI Pariah Tenants, SRI Mortgagee

- **Health and Safety**
  - Security, Risk of Injury, Natural Hazards, Gyms/Showers, Evac/Aid Training, First Aid Equipment, H&S Signage, Visitor Insurance
Can SRPI pay its way and be neutral or positive for returns?
Business Arguments

- Attracts talent
- Proven, Low Cost, Profitable Models
- Lowers costs - operating, maintenance, insurance, refurbishment
- Improves Competitiveness – rents, service charges, property comfort and functionality, market share, retention, differentiation, brand value
- Future proofs against risk and depreciation
- Investor relations - attracts more capital, lowers cost, pleases investors, proxy for superior management, preempts resolutions
- Quickens permitting; attracts credits and subsidies
- Pre-empts new regulations
- Reduces fines and torts
- Reduces universal externalities
Return on Historic Properties
UK Regeneration Properties,
Total Annualized Returns, ‘81-’02
*J. of RE Portfolio Mgt*, 2006

<table>
<thead>
<tr>
<th></th>
<th>Retail</th>
<th>Office</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IPD UK Universe</strong></td>
<td>11.49%</td>
<td>9.65%</td>
<td>9.09%</td>
</tr>
<tr>
<td><strong>Eight City Regeneration Universe</strong></td>
<td>15.50%</td>
<td>10.59%</td>
<td>12.60%</td>
</tr>
<tr>
<td></td>
<td>N=76</td>
<td>N=67</td>
<td>N=46</td>
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</tbody>
</table>
## Value for REITs from EnergyStar®
(Nadeau, Cantin and Wells, 2003)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Premium per $MM assets</th>
<th>Market Value (millions)</th>
<th>Percentage of Total Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>EStar Partner</td>
<td>$16,026</td>
<td>$51.67</td>
<td>3.66%</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>$6,437</td>
<td>$20.75</td>
<td>1.47%</td>
</tr>
<tr>
<td>Both</td>
<td>$22,463</td>
<td>$72.42</td>
<td>5.13%</td>
</tr>
<tr>
<td>Energy Efficiency</td>
<td>$45,564</td>
<td>$146.89</td>
<td>10.40%</td>
</tr>
</tbody>
</table>
## Change in Return on Equity in Small Apartment Building

E. Mills, Lawrence Berkeley Lab, 2004

<table>
<thead>
<tr>
<th>Investment</th>
<th>Return on Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low flow shower-heads</td>
<td>+0.6%</td>
</tr>
<tr>
<td>Low-flow toilets</td>
<td>+0.2%</td>
</tr>
<tr>
<td>Clothes-washer</td>
<td>+0.4%</td>
</tr>
<tr>
<td>Energy Package</td>
<td>+3.1%</td>
</tr>
</tbody>
</table>
The “Green Tilt” at Work

A risk-controlled, “green-tilted” Dow Jones Wilshire REIT Index created by Innovest outperformed its benchmark by 480 basis points annually over a 5 year period in a recent simulation:

Source: Innovest
## Changes in Valuations near Dallas Light Rail Stations, 1997-2001


<table>
<thead>
<tr>
<th>Land Use</th>
<th>Control</th>
<th>DART</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>11.5%</td>
<td>24.7%</td>
</tr>
<tr>
<td>MFR</td>
<td>34.8%</td>
<td>42.0%</td>
</tr>
<tr>
<td>Retail</td>
<td>30.4%</td>
<td>28.3%</td>
</tr>
<tr>
<td>Industrial</td>
<td>21.5%</td>
<td>13.0%</td>
</tr>
</tbody>
</table>
Figure 1. Castcon production yearly productivity.
## RICS Green Value Report 2005

<table>
<thead>
<tr>
<th>Financial Measure</th>
<th>No. of Cases</th>
<th>Comparison to Financials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absorption Rate</td>
<td>4</td>
<td>+8-15%</td>
</tr>
<tr>
<td>Rent</td>
<td>5</td>
<td>+4-8%</td>
</tr>
<tr>
<td>IRR</td>
<td>6</td>
<td>+4-8%</td>
</tr>
</tbody>
</table>
Leaders’ views on RPI
2007 Survey of Senior Real Estate Executives

Sponsored by
BOMA, ULI, NAREIT, RER

Conducted by
U of Arizona and IRE, Inc.
My organization goes beyond minimum legal requirements to address social or environmental issues.

Error bars: 90% CI
<table>
<thead>
<tr>
<th><strong>Are you using...?</strong></th>
<th>Not Done</th>
<th>Planned or Under Consideration</th>
<th>Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Statement</td>
<td>39%</td>
<td>18%</td>
<td>43%</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>36%</td>
<td>22%</td>
<td>42%</td>
</tr>
<tr>
<td>Learning/Management Systems</td>
<td>55%</td>
<td>29%</td>
<td>16%</td>
</tr>
<tr>
<td>Conservation</td>
<td>24%</td>
<td>23%</td>
<td>53%</td>
</tr>
<tr>
<td>Responsible Contractor</td>
<td>50%</td>
<td>16%</td>
<td>34%</td>
</tr>
<tr>
<td>Women or Minority Owned Businesses</td>
<td>52%</td>
<td>13%</td>
<td>35%</td>
</tr>
<tr>
<td>Committee for Sustainability or CSR</td>
<td>68%</td>
<td>12%</td>
<td>19%</td>
</tr>
<tr>
<td>Social or Environmental Accounting</td>
<td>59%</td>
<td>15%</td>
<td>26%</td>
</tr>
<tr>
<td>Targets and Benchmarks</td>
<td>69%</td>
<td>19%</td>
<td>13%</td>
</tr>
<tr>
<td>Disclosure</td>
<td>65%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Stakeholder Engagement</td>
<td>44%</td>
<td>11%</td>
<td>45%</td>
</tr>
</tbody>
</table>
Are You Invested In...?

<table>
<thead>
<tr>
<th></th>
<th>Not Invested</th>
<th>Planned or Under Consideration</th>
<th>Invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brownfields</td>
<td>52.4%</td>
<td>17.0%</td>
<td>30.6%</td>
</tr>
<tr>
<td>Green Bldgs</td>
<td>35.1%</td>
<td>32.4%</td>
<td>32.4%</td>
</tr>
<tr>
<td>TOD</td>
<td>31.8%</td>
<td>16.9%</td>
<td>51.4%</td>
</tr>
<tr>
<td>Infill or Revitalization</td>
<td>22.3%</td>
<td>15.5%</td>
<td>62.2%</td>
</tr>
<tr>
<td>SRPI Stage</td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------------</td>
<td>-----</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non Responsiveness</td>
<td>7.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance</td>
<td>17.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficiency</td>
<td>37.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Proactivity</td>
<td>29.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustaining Organization</td>
<td>9.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drivers</td>
<td>Mean</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost avoidance</td>
<td>3.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concern for risk and return</td>
<td>4.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peer activity</td>
<td>2.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee recruitment/retention</td>
<td>3.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal leadership</td>
<td>3.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business advantage</td>
<td>4.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opportunities to outperform</td>
<td>4.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moral responsibility</td>
<td>4.1</td>
<td></td>
<td></td>
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<tr>
<td>Voluntary codes of behavior</td>
<td>3.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stakeholder pressure</td>
<td>2.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investors</td>
<td>3.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>3.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Your Future Interests

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Moderately Disagree</th>
<th>Slightly Disagree</th>
<th>Slightly Agree</th>
<th>Moderately Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Info on our activities and investments</td>
<td>3%</td>
<td>2%</td>
<td>5%</td>
<td>35%</td>
<td>40%</td>
<td>14%</td>
</tr>
<tr>
<td>Info on opportunities</td>
<td>2%</td>
<td>3%</td>
<td>5%</td>
<td>34%</td>
<td>40%</td>
<td>16%</td>
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<tr>
<td>Conference</td>
<td>4%</td>
<td>9%</td>
<td>13%</td>
<td>46%</td>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>Pay for data</td>
<td>27%</td>
<td>27%</td>
<td>17%</td>
<td>20%</td>
<td>8%</td>
<td>1%</td>
</tr>
<tr>
<td>Working group</td>
<td>19%</td>
<td>21%</td>
<td>21%</td>
<td>29%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Increase allocation</td>
<td>5%</td>
<td>3%</td>
<td>10%</td>
<td>40%</td>
<td>31%</td>
<td>11%</td>
</tr>
</tbody>
</table>
8 steps to a stronger sector

- Build an RPI Cluster with shared principles
- Work on metrics and data sources
- Collect, recognize and market leaders
- Encourage disclosure
- Share links to models
- Research the risk/returns
- Launch new products
- Bridge with leading SRI & RE orgs.
RPI Working Groups

RPI Center
- CalPERS
- TIAA-CREF
- BC Investment Mgt Corp.
- AFL-CIO Investment Trust
- Rockefeller Foundation
- Methodist Church Pension Board
- GE Real Estate
- Kennedy Real Estate Counsel
- BOMA
- Urban Land Institute
- Real Estate Roundtable

UNEP FI
- Morley
- Hermes
- Caisse des Depots
- Prudential
- F&C
- AXA
- Lend Lease
- Investa
- Land Securities
Five distinguishing features of the RPI Center

1. *Focus on financial feasibility*
2. *Goes beyond energy and green to consider all ESG topics*
3. *Supports continuous improvement*
4. *Targets 100% of the market*
5. *Emphasis on existing properties and whole portfolios*
Imagine a world in which socially responsible and eco-friendly practices actually boost a company’s bottom line. It’s closer than you think. **BY PETE ENGARDIO (P.50)**