Responsible Property Investing: Growing the Field

Gary Pivo, University of Arizona
David Wood, Harvard University
“Improving environmental quality and social well-being in the course of profitable real estate investing and development”
SIGNIFICANCE
1) We will incorporate ESG issues into our investment analysis and decision-making. 2) We will be active owners and incorporate ESG issues into our ownership policies and practices. 3) We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- Townsend Group
- Prudential RE Investors
- JPMorgan Asset Management
- CBRE Investors
- Kennedy Real Estate Counsel
- BlackRock
- TIAA-CREF
- CalPERS
- CalSTRS
- New York State Local Retirement System
- AFL-CIO Staff Retirement Plan
- Multi-Employer Property Trust
- Los Angeles County Employees Retirement Association
- Maryland State Retirement and Pension System
- New York City Employees Retirement System
- Russell Investments
- Amalgamated Bank
- Teachers' Retirement System of the City of New York
- Connecticut Retirement Plans and Trust Funds
- Illinois State Board of Investments
- State Universities Retirement System of Illinois
- Northern Trust Global Investments
- Others

$329 Billion

= 6% of all commercial and multifamily residential assets in the USA
= 24% of property owned by retirement plans, endowments, & foundations
= 121% of the assets owned by US REITs
= 141% of NCREIF Property Index
What is RPI?

Responsible Property Investment (RPI) is a term that captures all the ways that investors can find and create value through improving the economic, social, and environmental profile of their investments. RPI is not philanthropy – it is a discipline that allows real estate professionals to better address risks and identify opportunities for long-term value creation.

RPIC Wants Your Input

The Responsible Property Investing Center website is currently being updated and expanded to feature the most timely RPI resources. We welcome any suggestions that would increase the website’s clarity and usefulness. Please direct your suggestions to David Wood at david_wood@hks.harvard.edu.
RPI: 33,100 results

WORLD PEACE: 58,300,000 results
## Executive Opinions

<table>
<thead>
<tr>
<th></th>
<th>USA 2007</th>
<th>Japan 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>My organization goes beyond minimum legal requirements to address social and environmental issues</td>
<td>82%</td>
<td>85%</td>
</tr>
<tr>
<td>Conservation Implemented</td>
<td>61%</td>
<td>54%</td>
</tr>
<tr>
<td>Contractor Fair Wages &amp; Benefits Implemented</td>
<td>38%</td>
<td>29%</td>
</tr>
<tr>
<td>TOD</td>
<td>55%</td>
<td>40%</td>
</tr>
<tr>
<td>Regeneration</td>
<td>66%</td>
<td>47%</td>
</tr>
<tr>
<td>Core Strategic Concern for Employees, Community, Environment</td>
<td>39%</td>
<td>45%</td>
</tr>
<tr>
<td>Would increase allocation if meets risk/return</td>
<td>40%</td>
<td>96%</td>
</tr>
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</table>
UNEP and RPIC Toolkits

Comitting and Engaging
First in a Series of Toolkits on Responsible Property Investing

Responsible Property Investing: Metrics for Performance Measurement
Second in a Series of Toolkits on Responsible Property Investing

Disclosing Responsible Property Investing: Strategies and Performance
Third in a Series of Toolkits on Responsible Property Investing
Better Building Partnership
Toolkits

Green Lease Toolkit
Working together to improve sustainability

Sustainability Benchmarking Toolkit for Commercial Buildings
Principles for best practice

Low Carbon Retrofit Toolkit
A roadmap to success
More UN Reports
Still More Resources

responsibleproperty.net
VARIETY
Beartooth Capital invests in ranch real estate to generate strong returns for investors by restoring and protecting ecologically-important land.
Types of RPI activities

Management Policies & Programs

- Portfolio Benchmarking
- Reporting
- SRPI officer and committee
- Eco-efficiency improvement projects
- Responsible contractor policies
- Stakeholder engagement
- Fund manager engagement
- Supplier engagement
- Green leasing and tenant engagement

Investment Products

- Urban Funds
- Brownfields Funds
- Workforce & Low Income Housing Funds
- Historic Preservation Funds
- Union Built Funds
- Green Buildings
- Smart Growth Funds
- Community Investing Funds
What About Returns?

Fig. 14: Performance comparison of sustainable companies versus the benchmark over five years (indexed: 30.7.2004 = 100)

Source: Bloomberg, Sarasin
<table>
<thead>
<tr>
<th></th>
<th>NOI</th>
<th>Market Value</th>
<th>Cap Rate</th>
<th>Total Return</th>
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<tbody>
<tr>
<td>Energy Star</td>
<td>2.7%</td>
<td>8.5%</td>
<td>-0.5%</td>
<td>-</td>
</tr>
<tr>
<td>Sub Transit</td>
<td>-</td>
<td>10.6%</td>
<td>-0.4%</td>
<td>-</td>
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<tr>
<td>CBD Transit</td>
<td>-</td>
<td>9.1%</td>
<td>-1.5%</td>
<td>-</td>
</tr>
<tr>
<td>Walkability</td>
<td>42%</td>
<td>54%</td>
<td>-</td>
<td>-</td>
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</tbody>
</table>
MILES TO GO
BEFORE WE REST
## Third Party Rating Surveys

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Europe</th>
<th>Canada</th>
<th>USA</th>
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<tr>
<td><strong>Maastricht U</strong></td>
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<tr>
<td>Listed Firms</td>
<td>60%</td>
<td>40%</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>Private Firms</td>
<td>57%</td>
<td>22%</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td><strong>Jantzi-Sustainalytics</strong></td>
<td>53%</td>
<td>50%</td>
<td>42%</td>
<td>46%</td>
</tr>
<tr>
<td>F&amp;C Investments</td>
<td>41%</td>
<td>52%</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td><strong>MEAN</strong></td>
<td><strong>53%</strong></td>
<td><strong>41%</strong></td>
<td><strong>42%</strong></td>
<td><strong>35%</strong></td>
</tr>
</tbody>
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### Sample ESG Questions

- Has the company set minimum environmental standards (e.g. LEED or BREAM)?
- Has the company set minimum labor standards?
- Has the Board evaluated the company’s social/environmental performance?
Fig. 12: Sarasin Sustainability Matrix – rating of large listed property companies

Source: Sarasin
“...WITHER GO WE?”

PAUL GAUGUIN
Themes from Strategic Engagement

• Sustainability has stuck
• A long term investment horizon is gaining attention
• Existing building portfolios are a focus
• Risk mitigation is the watchword
• Public private partnerships are of interest
• Heightened risk aversion leads to plain vanilla practice
What the Field Needs to Grow?

• Standard vocabulary and metrics
• The comfort of numbers
• Case studies and best practices
• Communications and a public presence
• Deal flow and vehicles
• Movement from the idiosyncratic to the routine
What the RPIC is Doing and Planning

- Building a network
- Portfolio metrics
- RPI Indices
- Research into performance
- Developing a curriculum
- Walkability and transit-oriented development
- Case studies about you
Thank you for being here!!

Gary Pivo, University of Arizona
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