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Integrating sustainability into our investment processes has led to top results for our 22 real estate and infrastructure funds in the 2017 GRESB sustainability survey.

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Shoved across the Rubicon

Adopting environmental, social and governance policies to make property more sustainable does not mean a drag on performance. It is part of optimizing an investment. It is additive to the bottom line. To institutions new to private real estate investment, you should know this sector is moving on from that message.

In addition to playing a greater part in keeping the planet’s temperature lower, private real estate’s investment managers are these days in the mood to demonstrate how the introduction of energy management system-linked LED lighting, photovoltaic roof cells or low-flow toilets boost, not impede, returns.

Data is transforming the market’s skeptics into believers and believers into provers. If there’s one theme running through PERE’s Sustainable Investing special magazine, it is that private real estate’s managers are scrambling to publicize measurements of their activities; one, so they can understand the proportion of their performance attributable to them and, two, so they can get this performance effectively benchmarked.

GRESB, formerly the Global Real Estate Sustainability Benchmark, has much to be thanked for shoving the sector across this particular Rubicon. From a standing start in 2009, it has assessed more than 1,200 property companies and funds, representing more than $2.8 trillion in assets. In eight years, its ESG data, scorecards, benchmarking reports and portfolio analysis tools have been adopted by 55 percent of the world’s listed market by capitalization. It reckons it is about 40 percent there with the private sector. Thus, there’s considerable coverage to go, particularly, and predictably, for value-added and opportunistic funds.

Improving that percentage will take four things. Investors will be the most influential; GRESB currently counts 60 pension funds and their fiduciaries using its services. PGGM is among them. The Dutch pension manager has made GRESB participation mandatory, alongside around 40 other investors in GRESB’s 60.

Secondly, local and national policy – Donald Trump’s US aside for now – is both supporting and, in places, dictating to the property sector to do its part for the planet’s green agenda. The Paris Accord signed in 2015 saw 196 nations agree to collaborate to reduce its average temperature to below 2 degrees above pre-industrial levels. Even the current American rhetoric around a withdrawal may not be realized, with 30 states quickly reaffirming intentions to continue with their carbon reduction plans. Public pensions managers will follow policy, their private managers must follow suit.

The third push factor comes from the renters. The bluest chip corporate tenants will only add to their occupational requirements and stationing in sustainable property is high up on their list of wants, as is operating in environments where employee wellbeing is prioritized.

The fourth consideration is the competition inherent whenever a financial markets benchmark reaches critical mass. Dotted throughout this magazine are references by managers of their GRESB scorecards or numbers of fund accreditations. The benchmarker lists regional sector leaders annually, too. Not making these lists will becoming increasingly painful. We are told a 10-point higher GRESB total score corresponds with a 34 basis points higher annual fund return. That is differential money. Implementing the policy, gathering data and becoming accountable has to be the name of the game today.

Enjoy the magazine,

Jonathan Brasse
Senior Editor
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Participation in GRESB's benchmark continues to grow, but private real estate remains a smaller contributor than its listed counterpart

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Private real estate has ignored Donald Trump’s plan to remove the US from the Paris climate agreement, with some executives suggesting the move may galvanize the industry’s efforts to advance sustainable practices in the sector, writes Thomas Duffell

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Trying to limit the use of natural capital in construction by coming up with innovative solutions can be a source of value creation, says NREP’s co-founder and CEO Mikkel Bulow-Lehnsby

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Amy Price, president and CIO at Bentall Kennedy’s US business, sees four eco-trends of the future that are influencing sustainable investment today
Stewardship

Would you invest without knowing all the facts?

ESG factors have long been a core element of Aberdeen’s investment process.

The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested.

aberdeen-asset.com/stewardship
More making the grade

Participation in GRESB’s benchmark continues to grow, yet private real estate remains a smaller contributor than its listed counterpart.

The real estate sector is scrambling to get in the sustainability game, with more than four times the number of participants seeking benchmarking this year than seven years ago. This year’s results, published last month, reveal a 12 percent participation increase in property entities fulfilling a real estate assessment on last year. The 850 property companies, REITs, developers and private funds included in the results represent assets with an aggregate value of $3.7 trillion. Nevertheless, while GRESB’s overall participation grew, private real estate participation continues to lag its listed contemporary. Europe remains the most sustainability focused region once again, with North American participation second and Asia third.

West does best

While smaller in terms of asset value, European participation is more than twice that of North America’s. Asian asset value and participation remains notably smaller.

Management before measurement

As in 2016, participants score higher for their sustainability management and policies than for implementation and measurement, although there is meaningful improvement in both this year.
GRESB results in numbers

Fourfold growth
Participation in 2017 was more than four times than when it was first counted in 2010

Total participants

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Europe</th>
<th>North America</th>
<th>Asia</th>
<th>Australia/NZ</th>
<th>Other</th>
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<td>340</td>
<td>543</td>
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<td>198</td>
<td>340</td>
<td>543</td>
<td>637</td>
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Increase in participants this year from last

63% Global average score achieved

$3.7tn Total asset value of the participating entities

Countries : continents represented

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Public : private entities included

62 6 204 646

Source: GRESB
**Leader board**

TH Real Estate, CBRE Global Investors, UBS Asset Management, Lend Lease and Invesco Real Estate are among 2017’s private sustainability sector leaders as logistics-focused investment vehicles stand out.

<table>
<thead>
<tr>
<th>Sector leaders</th>
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<td>Henderson UK Shopping Centre Fund - TH Real Estate</td>
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<td>GECINA</td>
<td>CBRE Dutch Office Fund - CBRE Global Investors</td>
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<td>Industrial</td>
<td>UBS (D) German Logistics Property Fund 2 - UBS Global Asset Management</td>
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<tr>
<td>Residential</td>
<td>GRIP REIT</td>
<td>CBRE Dutch Residential Fund - CBRE Global Investors</td>
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<td>Other</td>
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<td>Diversified - Residential/Office</td>
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<td>Lendlease Asian Retail Investment Fund 1 - Lendlease</td>
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<td>Office</td>
<td>City Developments Limited</td>
<td>Invesco Real Estate (Asia) - Invesco Real Estate</td>
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<td>Industrial</td>
<td>Nippon Prologis REIT</td>
<td>GLP Japan Income Partners I - Global Logistic Properties Limited</td>
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<td>Sekisui House Residential Investment Corporation - Sekisui House Asset Management</td>
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<td>Lionstone Hermes Real Estate Ventures - Lionstone Investments</td>
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<td>Institutional Core Multifamily Investors - Invesco Real Estate</td>
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<td>Vornado Realty Trust - Vornado Realty Trust</td>
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<td>Retail</td>
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<td>Vicinity Centres Direct Portfolio - Vicinity Centres</td>
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<td>Australian Prime Property Fund Commercial - Lendlease</td>
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<td>Industrial</td>
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<td>Frasers Logistics &amp; Industrial Trust - Frasers Logistics &amp; Industrial Asset Management</td>
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<td>Diversified - Retail/Office</td>
<td>Dexus Wholesale Property Fund - Dexus</td>
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Stepping beyond mere focus on energy efficiency, in 2014 NREP made a strategic partnership with the Lendager Group, a company specialising in circular economies and sustainable constructions. Complementing NREP’s inhouse sustainability team, the partnership with Lendager gives NREP access to expertise that allows it to improve the life cycle foot print of new developments. An example is the Pelican Self Storage property at Amager, constructed with up-cycled concrete using the demolition waste materials on site.

NREP is a leading Nordic private equity real estate firm focused on generating superior risk-adjusted returns for institutional investors by working with defensive value-add investment strategies and hands-on active asset management. NREP was established in 2005 and currently has total assets under management of €3.3 billion and employs more than 100 professionals across five offices in Copenhagen, Stockholm, Helsinki, Oslo and Luxembourg.
Governments across the globe have been wrestling with the negative impact of climate change for decades. In December 2015, 196 nations agreed to work together to tackle the issue, signing an accord in Paris to rubberstamp their collective ambition. The sole focus: measurably reduce greenhouse gas emissions.

“It emphasizes the direction of travel for governments when it comes to carbon and we very much welcome it because climate change is one of the mega-trends that is having a major influence on real estate, as well as other asset classes,” says Mathieu Elshout, senior director in the private real estate group at Dutch pension fund giant PGGM.

Earlier this year, US President Donald Trump sent shockwaves through political and business communities when he announced the US would back out of the agreement. But his call has done little to dent the resolve of the private real estate sector, despite his country having one of the biggest impacts on global carbon levels.

David DeVos, global sustainability officer, PGIM Real Estate, says that much is evident from the reactions of the US’s own state authorities. “Already 30 states, dozens of cities and scores of large companies have stated they will continue with their carbon reduction plans,” he says. “For many real estate industry stakeholders, the US leaving the Paris Climate Accord has little impact on sustainable real estate investing.”

Part of the reason is that many property investment managers already have long-term sustainability plans in place and are in no mood to replace them, particularly as significant pressure remains from their investors to improve the energy efficiency of their portfolios. “The whole topic of sustainability has such momentum now, and it’s such a key topic for institutional investors that any manager has to be doing this stuff and be seen to be doing it well,” says David Hirst, chairman of the Real Estate and Private Markets Sustainability Workgroup at UBS.

In fact, DeVos adds that since the US announced its intention to leave the Paris Agreement, some investors have enhanced their ESG-related due diligence questions and processes to ensure investments keep their sustainable targets. “For some stakeholders, the US leaving the accord has only aligned and catalyzed their efforts to preserve and advance sustainable real estate – keeping pressure on regulators and other stakeholders to continue with their climate plans,” he says.

No certainty
In any case, a US exit from the Paris Agreement is a future event, and not entirely certain, despite the rhetoric from the US president. Under the terms of the Paris Agreement, no country can give notice of its departure until November 4, 2019 – three years after it entered force. Further, no one country is able to leave until November 4, 2020 – which is exactly one day after the next US presidential election.

The US State Department also says that, up until its departure time, the US will continue to participate in the Paris Agreement’s international climate change negotiations and meetings “to protect US interests and ensure all future policy options remain open to the administration.”
As such, for organizations such as PGGM and Danish contemporary PKA, it is business as usual on the sustainability front. Consequently, that means sustainability remains a high priority for their external investment managers. The pair jointly issued a white paper in 2015 stating PGGM would halve the CO2 footprint of its investment portfolios and further integrate climate change risks and opportunities in all its investment activities.

To meet this goal, Elshout says the group is constantly in discussions with the pension plan’s external investment managers on what is expected of them with regards to sustainability. In turn, Elshout says he has not seen a “major shift” in behavior among its managers.

From the manager viewpoint, persevering with a greener agenda continues to make good business – and not just in terms of appeasing the capital support, but the renters of the space they provide. “If you don’t [get sustainable building certification] then you won’t get on the list of some of the major occupiers. If you are competing in a central business district which is well established, then one of the criteria that tenants are looking at is sustainability,” says Hirst.

“It lowers the risk of obsolescence and depreciation, enhances tenant retention, reduces void periods and lowers operating costs,” adds Tatiana Bosteels, head of responsible property investment, Hermes Investment, the London-based investment manager.

Dissidence remains

Yet, not everyone is convinced that investor and occupier demands are the best mechanisms for improving sustainable property investing. While institutions anticipate a greater role for ESG, only six out of 10 predict it will become standard practice for their organization in the next five years, according to a June survey of more than 500 investors from over 31 countries conducted by French asset manager Natixis Global Asset Management.

For some of these managers, the argument persists that government intervention is the real driving force behind sustainable property investing. Andrew Szyman, head of property management & sustainability at BMO Real Estate Partners, another London-based manager, says the Paris Agreement will manifest itself in tighter regulation over the coming years, and that legislation tends to be the one factor that tenants are looking at as sustainability,” says Szyman.

“Think there are clear leaders in this space, those who see other drivers beyond regulation, but I also think there is a long tail of legitimate property investors who don’t wish to be ranked against the likes of Hermes or Lendlease, for example. To those, sustainability is more about compliance rather than any moral or other imperative,” says Szyman.

The East’s mixed position

As such, the Paris Agreement remains an important initiative for the real estate sector as it is leading to specific regulatory and legislation changes. “The Paris Agreement is translating into a lot of legislation, both at the European level and at the country level, so I think we can see the policy drivers are fairly strong in those markets and getting stronger,” says Nina Reid, responsible investment manager at M&G.

“In Asia, it is more mixed, but the policy drivers are starting to become stronger. Singapore for example now requires you to get green building certification if you are undertaking a certain level of refurbishment work. Even in the US, the national government may not be as engaged on climate change, but, at a city and state level, there are strong drivers around disclosure and certification.”

Bosteels suggests that investor support and government involvement work hand-in-hand. “While investors are keen to play their part, the accord recognizes there are limitations to what investors can do to scale-up finance to the levels required to close the emissions gap without a supportive public policy environment,” she says.

“The pace of investing in low-carbon alternatives, without lower returns, is likely to be driven by government policy. Companies and investors alone, especially where climate risks have a significant impact on their value chain, cannot succeed in decarbonizing business models without supportive public policy that allows them to achieve a reasonable return on capital. Aside from pushing down emissions through win-win strategies such as energy efficiency, we will require effective public-private co-operation to achieve significant step-changes.”

Whether the sector gets to benefit from such co-operation from Washington, DC will be known come 2020. Until then, other governments and the investor and occupier communities are giving the sector all the impetus it needs to continue pursuing a more sustainable outcome for its assets. □
Stay on target

The private real estate sector will plow on with its efforts to meet the Paris Climate Accord, despite the US’s withdrawal from the agreement. It stands to gain more than goodwill in the process, writes Mike Sales, head of TH Real Estate.

The Paris Climate Change Agreement constituted a watershed moment for the global business community – and the real estate industry in particular – because it was the inflection point at which the transition toward a low-carbon economy became a certainty. Now, the corporate world has to develop the strategy to get us there. TH Real Estate sees the low-carbon economy as a significant opportunity for our business and for the world, which is why we’ve set a target to reduce the energy intensity of our real estate equity portfolio by 30 percent by 2030.

Because almost two-thirds of our more than $100 billion of commercial real estate assets under management is held in the US, I am often asked about the broad effects of the country’s withdrawal from the Paris Accord and the specific impact on our own sustainability strategy.

The reality is that market demand and a focus on sound business practices are more significant drivers than government policy. We will continue to incorporate responsible investment principles as part of our investment process, not only because it makes good business sense, but because we believe it benefits our investors over the long-term.

Elsewhere, the Global Real Estate Sustainability Benchmark (GRESB) has been a real driver of investor interest in the sustainability performance of real estate funds, and participation is now a minimum expectation for many investors.

These drivers are unchanged and indeed seem to be invigorated in recent months. As investors increasingly look to divest from carbon intensive investments, we believe real estate – an asset class well placed to transition to the low carbon economy – is a strong alternative.

Future proof

The World Green Building Council recently announced that all buildings must be ‘net zero carbon’ by 2050 if the Paris Agreement is to be fulfilled. A net zero carbon building is one that is highly energy efficient, with all remaining operational energy use coming from renewable energy. Only 500 commercial buildings globally have so far attained this status, so there is a long way to go, but the positive here is that the skills and technology to achieve this goal already exist, and these buildings are already being built and have shown to be commercially viable.

The evidence continues to mount that these buildings are easier to sell, more attractive to tenants and less vulnerable to obsolescence. Thus, it seems clear to us that we must invest our clients’ money in the buildings that are properly ‘future proof’ and that will ensure the best returns.

I am also a strong advocate for further transparency across this sector. In markets where energy efficiency performance is transparent, there is increased demand for efficient buildings. The Energy Star rating in the US and the NABERS rating in Australia are good examples of this, as properties that score well in these ratings are easier to let in core cities such as San Francisco, New York and Sydney. TH Real Estate is currently on the steering committee of the UK’s Design for Performance group that is looking to introduce a NABERS style system to the UK.

We, along with the other members’, hold an aspiration that this effort will at long last mean that the property industry in Europe is able to overcome the ‘performance gap’ issue of newly developed commercial buildings typically consuming more than twice the energy predicted during their design.

The opportunities across this arena are vast, from property-level optimization to target location selection and even an assessment of the countries that are moving away from fossil fuels. We, along with the other members’, hold an aspiration that this effort will at long last mean that the property industry in Europe is able to overcome the ‘performance gap’ issue of newly developed commercial buildings typically consuming more than twice the energy predicted during their design.

The opportunities across this arena are vast, from property level optimization to target location selection and even an assessment of the countries that are moving away from fossil fuels. We will continue to evolve and adapt our own investment process to capture opportunities that arise. And while I hope that policy will help guide these initiatives and bring standardization, regardless of government leadership, I do believe the real estate industry has already recognized the business case for these efforts and put them to work at the portfolio level.
We believe that environmental, social and governance best practices enhance the investment performance of our clients’ assets. We collaborate with all stakeholders to meet and exceed environmental regulations, monitor climate change effects and minimize the environmental impact of our properties. We are dedicated to delivering innovative solutions that ensure optimal sustainability outcomes in order to achieve our clients’ ESG goals.
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More than just the money

True engagement with ESG initiatives carries more than financial advantages, says David DeVos, PGIM Real Estate’s global director of sustainability

The evolution of sustainability governance and reporting in recent years has seen significant growth in quantifiable sustainability metrics and standards, as well as an increased focus from investors, which are not only seeking enhanced investment returns, but also non-financial metrics in request-for-proposals and due diligence questionnaires, says David DeVos, PGIM Real Estate’s global director of sustainability.

**PERE: How should private real estate investment managers incorporate sustainability practices into their investment process, and what should be the main areas of focus?**

David DeVos: A starting point for managers to incorporate sustainability practices into their investment process is developing, and then adhering to, an investment policy that includes the material aspects of sustainability and environmental, social and governance issues. This creates a framework for a sustainability program and helps to embed the objectives of the program into a manager’s investment processes. Identifying the areas in which managers have control or influence over creates an opportunity to incorporate specific sustainability actions into governance, risk management and due diligence processes.

It is important to incorporate sustainability practices into the investment process by analyzing sustainability or ESG opportunities in the due diligence process and within the investment analysis, and by identifying specific actions that may improve building performance. Involve tenants, business partners and service providers – the entire value chain – in initiatives to reduce resource use and waste to create a shared responsibility to boost building and financial performance.

**PERE: How can a manager’s focus on sustainability help to reduce risk and increase returns?**

DD: Evolving technologies, regulations and societal preferences impact real estate markets and their associated risks and returns. By focusing on sustainability and thoughtfully addressing the risks and opportunities, managers can better manage these risks and the costs to enhance the performance of their managed assets to help improve investment returns.

Improving the efficiency of an asset with new technology, such as installing LED lighting, helps to protect the asset from the risk of obsolescence, while lowering maintenance costs and operating expenses. Sustainability can also better prepare managers for other evolving risks, such as energy pricing, regulatory risk and changing tenant preferences. Other benefits that can increase returns include reduced operating expenses and maintenance costs; attracting and retaining tenants, and more frequent renewals.

**PERE: How has the industry evolved when it comes to sustainability, and how has it changed the way large asset managers like PGIM Real Estate conduct business?**

DD: When the Brundtland Commission Report defined sustainability in 1987 as meeting the needs of the present without compromising the needs of future generations, sustainability advanced from purely environmental issues to a broader definition including environmental, social and governance issues. As sustainability evolved, the demands of the industry’s stakeholders have also evolved.

As the importance of ESG grew, so did the realization that ESG can influence long-term value. This led to increased investor interest and the creation of investor-led organizations such as the Principles for Responsible Investment (PRI) and the Global Real Estate Sustainability Benchmark (GRESB). These organizations and their associated reporting have dramatically increased the reporting and transparency between investors and their managers, aligning our mutual goals and objectives.

Tenant preferences are also driving change. Studies show indoor environmental quality can have a dramatic influence on worker productivity. More environmental controls and improved health and wellness are important issues to manage. Large managers have always addressed the needs of their investors, but, today, the field of important stakeholders has grown and large managers need to address their needs as well.

**PERE: How should managers measure sustainable investment success within their portfolios or assets?**

DD: The focus should be on pursuing improved environmental...
performance metrics through enhanced policies and procedures that help to identify opportunities to reduce the environmental impact, improve operating efficiency and increase value for investors. To that end, submitting buildings and developments to voluntary certifications such as Energy Star, Leadership in Energy and Environmental Design (LEED), Building Research Establishment Environmental Assessment Methodology (BREEAM) and other internationally recognized green certification platforms is advisable. Similarly, aligning with, and providing reports to, performance tracking organizations, such as the PRI and GRESB, among others, is necessary.

We currently benchmark building performance at more than 900 properties, representing more than 235 million square feet, to track and monitor performance, while also preparing us for future regulatory requirements.

We find that sustainable investments are typically better positioned to provide reporting to stakeholders, address regulatory and climate risks, and minimize future demands to comply with regulations. Capturing the values of non-financial benefits and sharing that information with the appropriate stakeholders will help to measure the success of sustainable investments.

**PERE**: How should managers ensure their employees and their partners prioritize sustainability in their day-to-day work?

**DD**: Education, tools and communication all help to make sustainability part of the day-to-day business activities, and improve the likelihood of success. Therefore, discussing opportunities to improve performance, collaborate on innovative ideas, and exchange best management practices across regions, is critical. In fact, within PGIM Real Estate, asset managers have a mandate to include a sustainability goal as part of our employee appraisal process. We believe that linking performance to sustainability demonstrates our commitment to sustainability – and our view that it is a beneficial and worthy pursuit.

We have developed Sustainable Standard Operating Guidelines, which help our property managers identify opportunities to cut costs and improve efficiencies.

Lastly, monitoring progress helps to evaluate the success of completed initiatives, recognize those which delivered an initiative, provide metrics for communicating success and promotes future action.

**PERE**: Why is it important that managers heed the industry’s increasing focus on the ‘S’ and the ‘G’ within ESG and how should they go about that aspect?

**DD**: To maximize the value of real estate, it is important to recognize local and long-term social issues that are material to key stakeholders, including investors, employees, tenants and the local community. Issues like urbanization, transportation and crime are constantly evolving and have an impact on the use of real estate – and therefore the value of real estate. Actively measuring and monitoring social trends can help managers make smart decisions today and prepare for tomorrow.

Furthermore, investors want to know their investments are aligned with their own mission and interests – interests which can frequently extend beyond investment returns. Many investors need to report the financial returns and the impact of their investments to their stakeholders. Social metrics can help to tell that story in a meaningful way, promoting engagement and improved building and financial performance over time.

Building a brand can take decades. Damaging a brand can occur overnight. Investors and managers want to protect their brands from reputational risk and build trust with stakeholders. Addressing the social aspects of real estate can influence the reputation of an asset or organization, making it both more attractive to investors and tenants alike.

While there has always been a high level of interest in governance, the speed and availability of information today is greater than ever, increasing the importance of reporting and transparency. The question of ‘what’ the industry is doing with ESG has transformed to ‘how’ the industry delivers on its promises. In the new era of sustainability, focusing on the ‘S’ and the ‘G’ helps to reduce risk, enhance investment returns and allow investors and other stakeholders to better understand how the industry is meeting new challenges.

**PERE**: Taking the ‘S’ a step further, are there other ways that investors can capitalize on social investment opportunities while also achieving their financial objectives?

**DD**: Impact investing in real estate is an investment ethos that is starting to gain more interest among investors seeking social or environmental objectives alongside competitive market returns. These opportunities can take many forms – and be broadly defined as a strategy that incentivizes further economic development, creates jobs, activates public and civic spaces through introduction of new amenities, increases safety and comfort of living, and creates access to affordable housing.
Invest Soundly + Sustainably

Our commitment goes beyond the building

Bentall Kennedy is investing in the future with an emboldened commitment to leading the way in sustainability.

What started as a focus on energy efficiency and green building certifications is now the foundation of the next stage of our journey, taking our commitment to sustainability beyond the walls of our buildings and embracing our role as co-creators of communities.

Read our 2017 Sustainability Report, Invest Soundly + Sustainably, at cr.bentallkennedy.com. It’s a reflection of how we see the world, and how we put these words into action.
RESB, the global ESG benchmark for real assets, was set up in 2009 to validate, score and benchmark ESG (environmental, social and corporate governance) performance data on an annual basis and at the portfolio level. In a conversation observed by PERE, GRESB managing director Sander Paul van Tongeren provides an update on the growing participation in the scheme, while Mathieu Elshout, senior investment director in the private real estate team at Dutch pension fund service provider PGGM, assesses its offering and emphasizes the increased importance of sustainability benchmarking for institutional investors.

Growing coverage
Sander Paul van Tongeren: We have just closed the 2017 assessment and we have seen double-digit growth for all of the main assessments we provide. Around 850 companies and funds with close to $3.7 trillion of assets under management participate. Our main real estate assessment covers 55 percent of the listed real estate universe by market capitalization (FTSE EPRA/NAREIT Developed index or GPR 250 Index). However, our public disclosure assessment also collects all the ESG data that is publicly available and, when that is taken into account, we have full coverage of the FTSE-universe. We think we cover around 40 percent of the non-listed universe. There is still some room to improve, especially for opportunistic and value-added funds and strategies. But for core and core-plus strategies, we think we have pretty solid coverage.

Mathieu Elshout: Participation in GRESB is mandatory for all the managers that manage our private real estate funds. The coverage within our portfolio is 94 percent. Among the bigger institutional investors it is seen as a must to participate in GRESB so that they can have a clear view of the sustainability performance of their portfolios.

SPvT: Roughly 60 pension funds around the world use GRESB data and two-thirds of them say it is mandatory for their investment managers to participate. Year on year we add around 10 institutional investors and that is important because if they ask their managers to participate that has a very positive impact on overall coverage.

ME: The more funds and companies we invest in that participate in GRESB, the better we can benchmark sustainability performance within our portfolio. If a manager has performed really well we use that as an example to others within our portfolio to show what is possible. It is also very helpful to us to benchmark outside our portfolio to see how we are performing against our peers. We want to show our clients that we are able to outperform the benchmark for sustainability. What gets measured gets managed, but you have to

“A 10-point higher GRESB total score corresponds with 34 basis points higher annual fund return”
Sander Paul van Tongeren
start measuring first and sometimes it is a bit annoying that in the real estate industry we are still having to explain that it is important to be measuring.

**SPvT:** The question that you always get asked in some regions is: “Why does ESG matter? Is it only about doing good or is there a link with returns?” As part of a study with Tilburg University we reviewed all of the INREV funds, whether they participated in GRESB, and how they performed. We found that early GRESB-adopters tend to be larger funds with above-average returns. We also discovered that higher total GRESB scores are associated with higher total returns among non-listed funds. A 10-point higher GRESB total score corresponds with 34 basis points higher annual fund return.

### Assessing asset types

**SPvT:** In the past, we had one main assessment and that was it. Now we offer real estate assessments on both the equity side and on the debt side for banks, insurance companies and debt fund managers. We have introduced a developer assessment for new construction and major renovations, and an infrastructure assessment both at the fund and asset level. Over time, we need to develop dedicated supplements for sectors like residential, industrial, leisure and healthcare, and ones that have a regional focus that reflects local legislation and regulation.

**SPvT:** I think GRESB is on the right track. Ultimately not everyone will participate, but as with industry associations like INREV, ANREV and PREA, they may not represent everyone in the industry, but they certainly do represent the part of the industry that is willing to meet the high standards that institutional investors require. I would expect coverage to further grow, but the larger players are already on board. It is good that GRESB has broadened its scope to include more asset classes like debt and infrastructure. Private equity could be another area for GRESB to expand into.

**SPvT:** We will be launching a pre-assessment in mid-October. It is a standalone ESG pre-evaluation that applies indicators from the regular GRESB real estate assessment. It is designed as a stepping stone for funds that are in the capital-raising process, are undergoing due diligence of new strategies, or are seeking a preliminary assessment of their ESG performance.

**ME:** When you invest in existing funds, you can have a good view of what their sustainability performance is if they have been participating in GRESB, but we find nowadays that as a larger investor we very often define a new strategy that suits our needs, find a partner and then create a new partnership. By using pre-assessments we can get a feel for what the future sustainability performance will be, not so much in terms of the shape of the outcome, but to see what elements of the sustainability strategy we should emphasize for that partnership.

### Benchmarking across asset classes

**SPvT:** A lot of investors use other ESG rating companies like MSCI, Sustainalytics and S&P, but they all focus on securities and on publicly available data. There is no other initiative which focuses on the non-listed real estate sector, so investors use GRESB to provide more granular data for the real estate and infrastructure sector.

**ME:** Real estate and infrastructure are very different to other asset classes. We aren’t satisfied with a more high-level assessment because it doesn’t respect those differences. Even within real estate it doesn’t make sense to compare logistics with retail – we want to compare one logistics manager with another logistics manager. To really drive performance, you need to see the evidence of how the players compare with each other. When we have the data from this year’s GRESB assessment we can then track whether we are improving on a specific and portfolio level compared to last year. We want to further improve because we believe that by doing so we de-risk our portfolio. It also allows us to start a further round of engagement with managers on the performance of specific investments. It is fine if a new investment is not the highest-ranking from day one, but we want to see progress made and we get that through our participation with GRESB. When managers show good progress, we link them with other managers in our portfolio that we feel would benefit from their knowledge.

**SPvT:** How companies and fund managers team up when it comes to ESG is very different from what we see in other areas. They are really eager to show their thought leadership and try to help others. Investors are looking for material, comparable and reliable ESG data about investment managers, and they want coverage across all the asset classes and strategies that they are invested in. Investment managers are improving in terms of the amount and reliability of the data they are able to collect, but there is still a long way to go.
Australia has been one of the early adopters that sought to comply with environment, social and governance best practices through the implementation of a Green Star ratings system, which – similar to the LEED system in the US – assists in the measuring of a building’s ‘green design.’ In addition, the NABERS (National Australian Built Environment Rating System) rating was introduced more than a decade ago to measure the actual environmental ‘performance’ of assets by measuring consumption in areas such as energy and water or production of waste in comparison with peers to monitor and benchmark an asset’s environmental footprint.

NABERS comprises a collection of separate tools, each of which calculates and rates the performance of an existing building, or part of one, on a particular environmental indicator at a certain point in time based on retrospective consumption. Thus, it differs crucially from Green Star, which rates design rather than actual consumption. NABERS tools have been developed for offices, hotels, residential and retail buildings, and for each building type, the following environmental areas of concern can be rated separately: energy, water, indoor environment and waste.

Although NABERS tools have been developed for all real estate asset classes – so far – the NABERS rating has been most widely adopted by office and residential developers with some exceptions in the hospitality and retail space. This is partly because more passive asset classes – those that do not require day-to-day management – are arguably easier to monitor when it comes to following ESG best practice. Hotels, conversely, do require such active management.

However, the active management the hotel asset class requires also offers the opportunity to not only develop an asset in accordance with highest ESG standards, but also make sure that the desired environmental impact is achieved through proper day-to-day management post opening. Additionally, it provides for the possibility to constantly

**Properties made for precision**

The day-to-day nature of hotel management gives the asset class greater potential for measuring sustainability initiatives than its peers, writes Ronald Stephen Barrott, CEO and chairman of Pro-invest Group

Barrott: active asset management good for hitting ESG targets
monitor and introduce best practice ESG standards as this area evolves, combined with a variety of operational monitors that can be put in place in order to respond to calls for improvement. This level of flexibility and responsiveness should make the hotel asset class more prone to being an early adopter of the latest environmental standards.

NABERS ratings provide a simple indication of the overall environmental footprint of a hotel and offer the asset class the chance for progress to be marked relatively.

Hospitality’s added value
Many hotel owners are taking steps to improve their sustainability outcomes and having a rating systems such as NABERS enables environmentally responsible owners to monitor their consumption. It also allows them to communicate and benchmark standards of environmental performance in protecting and conserving the environment, and provide real evidence of their commitment to sustainability and socially responsible practices.

It is increasingly accepted that ‘being green’ goes directly to the bottom line of a business. But green hotels not only see higher operational returns coming back to their shareholders than other forms of real estate. They also tend to command higher sale prices due to improved value based on lower utility expenses and overall healthier aspects which increasingly consumers consider when booking a hotel as they proactively try and reduce their carbon footprint.

Leading global hotel brand owners and operators, such as Intercontinental Hotels Group, have long understood the importance of setting ESG best practice standards. IHG introduced its own ‘Green engage system’ to implement ESG standards throughout all its estates. Green Engage is an innovative online sustainability system designed to assist hotels monitor, reduce and manage waste, water and energy consumption by providing them with tools and recommendations that support the creation of environmental action plans. Green Engage hotels are rated on a scale of one to four, with ratings being assessed through a third-party quality assurance process administered by consultancy Deloitte. According to IHG, Green Engage can help hotels save up to 25 percent in energy use.

In addition to hotel users thinking more about their carbon footprints, business intermediaries have begun to focus on assisting the end consumer make a more conscious decision around their carbon footprint when selecting which hotel to stay in; a good example is hotel advice service TripAdvice’s GreenLeaders’ list, which actively filters out all hotel assets complying to some level of ESG standards. In particular, for millennials ‘being sustainable’ becomes a pre-request for them to select a hotel. From the owner’s perspective, by introducing higher sustainability practices it can enhance investments via yield-accrative ESG initiatives and mitigates resource price volatility on its fund returns by reducing consumption. As iterated earlier, an integrated ESG approach can improve the top-line performance of a hotel by appealing to guest preference. But it also aids in the retention of high caliber staff. All of these factors combined are likely to result in a higher price on exit of the asset.

Improving your rating
There are many different operational approaches that vary in sophistication that can be undertaken to improve a NABERS rating: simple steps such as providing guests with the option and rewards for reusing bed linen and bathroom towels, for example. This can result in significant savings

Pro-invest Group
Pro-invest Group is an international private real estate firm focusing on the development and operations of business hotels. In Australasia, our development portfolio is in excess of over A$1.5 billion ($1.19 billion; €1 billion). It is a GRESB member and all its hotels assets follow ESG standards and have NABERS ratings.
in multiple areas, such as laundry, cleaning and resource consumption.

Further examples of measures to save energy that are easily implementable include the introduction of dimmable LED lighting linked to an energy management system (EMS), often triggered by a guest’s card system or motion sensor. Use these and energy is not consumed in the room when guests are not present. Other initiatives include high energy efficiency chillers and air conditioning systems that allow guest room and public area isolation – again linked to a good EMS.

Measurements to improve water consumption can include the introduction of low-flow toilets or shower heads, or the installation of WELS (Water Efficiency Labelling and Standards) rated taps and fittings.

Further, waste hauling in hotels can be lowered drastically through recycling, avoiding wastefully-packaged products or requiring vendors to pick up their packing material after delivery.

There are benefits to implementing ESG requirements into the development of a new hotel assets too. Sustainable development initiatives, including high-energy efficiency chiller systems, photovoltaic cells, enhanced low E window glazing, reduced lighting power density and regenerative lift drive systems to high-rise lifts.

Similar to the previously mentioned initiatives, these allow for a significant reduction in energy consumption and will consequently reduce the ongoing energy expense for operating assets, resulting in increased distributions and higher expected sale proceeds.

In a country such as Australia, where energy costs have been rising significantly, achieving reduced energy consumption is no longer a ‘nice to have’ but a necessity asset managers are confronted with. Critically, they also assist in de-risking the market’s exposure to volatility in energy prices.

Part of the picture
Hotels have become an established asset class, trending in line with other core sectors. Provided they are skilfully acquired and actively managed, investments in the sector can generate attractive yields – an indeed – outperform CBD office building investments on a risk-adjusted returns basis. Hotels have proven to be an attractive investment, demonstrating double-digit cash-on-cash yields to investors, particularly when developed, resulting in more and more institutional investors looking for access to this asset class.

Keeping this in mind, although green building rating tools can be very effective in encouraging the spread of more environmentally friendly buildings – and hotel owners are starting to see the operational benefit – they are just part of the picture.

In Australia, the government has started to implement measurements including lower levels of council taxation applicable to buildings with a higher NABERS rating and the introduction of lower withholding taxes where the underlying assets of a managed investment trust achieve a 5.5 NABERS rating or above. For office buildings, the government even makes it a requirement for a building to achieve a five-star NABERS rating before any governmental body can become a long-term tenant.

Similar criteria could be used in determining which hotel assets government employees stay at in order to encourage a faster adoption of higher NABERS ratings throughout hotel assets. Additional government policy should envision guidelines around the hotels investment allocation of pensions or insurance companies.

Although the financial performance of an investment remains the priority, theGRESB or NABERS rating a company is achieving should form part of a manager’s due diligence. Setting a fixed quota on money to be invested with firms following the highest ESG standards can be a difficult and somewhat misleading exercise. Therefore, governmental funds, pensions, superannuation funds, and other investors, should be ranked not only by their returns, but also by how much of their funding goes into investments following higher ESG standards. Only if all stakeholders come together can the necessary outcome be achieved for the environment.

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Everybody needs good NABERS
A NABERS energy rating reflects the actual energy consumption of a building over the past year in four distinct areas

1. **Energy** – measures the amount of each type of energy (electricity, gas, coal, oil, etc) consumed on the premises in a year, and how much of it is supplied from ‘Green Power’ (renewable energy that can be purchased from electricity retailers in respect of electricity and gas use);
2. **Water** – measures the amount of water used on the premises in a year, and how much of this is externally-supplied recycled water;
3. **Indoor Environment** – requires sub-ratings of the premises in the areas of thermal comfort, air quality, acoustic comfort, lighting and office layout;
4. **Waste** – a relatively new addition to the suite of tools that measures the total materials used (such as paper) per person per day, and the amount of those materials that are recycled or reused.
When it comes to fundraising, closed-end private real estate funds with a focus on sustainable investments have lagged their private equity and infrastructure contemporaries since the global financial crisis, according to PEI data. In terms of current fundraising, real estate funds are also behind. While private equity funds with sustainable or ESG-relevant titles have dominated since the crisis, today there is greater appetite for such products from infrastructure managers.

**Streets behind**

Capital targeted for alternative assets funds in market with an ESG-focused title as of 2018-2017 YTD

**Property takes bronze**

Capital raised for alternative assets funds with an ESG-focused title holding a final close 2008-2017 YTD

**Green of the crop**

Capital raised for real estate funds with an ESG-focused title holding a final close 2008-2017 YTD

**Limited field**

Capital targeted by real estate funds currently in market with an ESG-focused title

**From buyouts to bridges**

Capital targeted for alternative assets funds in market with an ESG-focused title as of 2018-2017 YTD
Managing what you measure

For Colony NorthStar, the first and most important step in creating an effective sustainability program is collecting the right data

Colony NorthStar has undergone a dramatic evolution in recent years, becoming a public company, completing a three-way merger and acquiring various real estate platforms along the way. As the global real estate and investment manager’s property portfolio likewise has grown considerably, so has the need for proper collection and management of data from it. That data, senior vice president Ryan McManus tells PERE, is also the cornerstone to building and maintaining a successful sustainability program for the firm.

PERE: Describe the key aspects of Colony NorthStar’s sustainability program, including your long-term targets.

Ryan McManus: The mission of our corporate responsibility program is to manage our investment activity with a strong commitment to environmental, social and governance principles. As part of this, our long-term environmental targets are to reduce energy use intensity, greenhouse gas emissions and water use intensity by 20 percent over 10 years. We are also targeting waste diversion rates of up to 60 percent and have a number of related policy objectives. Overall, we have set the bar high, but we believe these targets are reachable. And we have a strong incentive to do so. It’s good business, from a dollars and cents standpoint, to reduce resource consumption, lower operating costs and improve building performance, all of which drive sustainable value.

PERE: How has your sustainability program evolved?

RM: Our sustainability program has evolved over time as our organization has evolved. Having recently completed a transformative merger, we have been making steady progress integrating our sustainability programs into all core segments. It’s not exactly a new effort – sustainability has been present in our business from our inception. But our efforts in the past were not as systematic as they are now. I think you’ll find this to be somewhat common in the industry. In the past, our focus was on one building at a time, one LEED certification at a time. It comes down to execution of our business plan. We look for opportunities to make the physical characteristics of a building more efficient, including lighting, roofing and

McManus: set high but reachable targets

PERE: What role does data management play in an effective sustainability program?

RM: Data collection for any company is the first step in creating a successful sustainability program. You can’t manage what you don’t measure. That means in order to set a baseline and achieve targets for reducing greenhouse gas emissions and water consumption, it’s vital to know how much energy and water your portfolio is consuming, down to the unit level, such as gallons of water and kilowatt-hours. For a single property, this is not a difficult thing to do. The information is available on each monthly utility invoice. But for a real estate portfolio of scale, with hundreds of properties of varying types and structures, collecting data portfolio-wide can be a highly granular task, making it perhaps one of the most difficult challenges of a sustainability program. But it is doable and there are a number of tools and solutions available.

At Colony NorthStar, we use several systems to collect and manage utility data, starting with Yardi. We use Yardi’s utility expense management solution to electronically capture utility data from monthly invoices through our normal accounts payable process. This means that through the ordinary process of paying our bills, we’re electronically capturing the units of measure directly off of those invoices, not just the dollars, but the gallons of water and the kilowatt-hours that our properties are consuming. This not only saves our property managers and accountants from manually entering that data, but most importantly, it gets that data into our central accounting system and makes it available to our management team to inform their day to day business decisions. On the reporting side, we use Energy Star Portfolio Manager to track our consumption patterns and identify areas for improvement to measure the effectiveness of our programs over time. The other important benefit of using ESPM is that having current data loaded into ESPM is also a prerequisite for any green building certification such as LEED.

PERE: And how do you take that data to the next level and actually meet your targets?

RM: It comes down to execution of our business plan. We look for opportunities to make the physical characteristics of a building more efficient, including lighting, roofing and
HVAC systems. Low-flow water fixtures, efficient irrigation and drought resistant landscaping are critical to reducing water consumption. But the first step in getting there is having the data available. It’s also important to entrust the data management process to a qualified team, both within the organization and through outside advisors that have expertise to meet these challenges.

We have had a lot of success teaming up with Verdani Partners, which provides services in data management, executing asset level sustainability strategies and many other aspects of our sustainability program.

**PERE**: What challenges have you faced, if any, regarding your data management process, and how are you addressing them?

**RM**: One of the main challenges that we face is in the diversity of our portfolio, where there is no one-size-fits-all approach. For example, data capture and collection is much easier for office buildings where there’s one owner responsible for the entire building, but it’s much more difficult for industrial assets where we typically have multiple tenants renting space. We have had a lot of success teaming up with Verdani Partners, who provide services in data management, executing asset level sustainability strategies and many other aspects of our sustainability program.

**PERE**: What have been some of your successes with the data collection effort of Colony NorthStar?

**RM**: The greatest measure of our progress over time is the fact that we are meeting our targets. In 2016, we were ranked second worldwide by GRESB in the debt/global sector, and ninth in the diversified office/industrial/global sector. And we are just getting started. Our data collection efforts are giving us a better understanding of our assets, which leads to better execution of our sustainability goals and improved performance and value to our stakeholders.

**Aim of the game**

Colony NorthStar’s data collection efforts are critical for hitting its sustainability performance targets.

<table>
<thead>
<tr>
<th>2018 Baseline</th>
<th>2028 Target</th>
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<tr>
<td>Energy use intensity</td>
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<tr>
<td>Carbon emissions</td>
<td>20%</td>
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<td>Water use intensity</td>
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<td>Waste diversion</td>
<td>20%</td>
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<tr>
<td>Properties</td>
<td>100%</td>
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<tr>
<td>Drought resistant landscape</td>
<td>30%</td>
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When dealing in scale, data capture has to be automated into existing accounting environment.

“Working with our tenants to include data sharing requirements into our standard lease language, ensuring our utility automation partners and looking into emerging technologies that may enable us to improve our sustainability objectives and the overall sustainability program.”

“Leveraging our utility automation partners and looking into emerging technologies that may enable us to improve our sustainability objectives and the overall sustainability portfolio.”

Colony NorthStar’s data collection efforts are critical for hitting its sustainability performance targets.
There has been something of a sea change in the way that the alternative asset classes pursue environmental, social and governance strategies in recent years. From relying largely on outside consultants, firms are increasingly appointing dedicated ESG heads to pore over assets and guide their responsible investment strategies. Private equity firms Permira and Coller Capital are among those to have appointed dedicated ESG chiefs since 2015. More big name appointments are expected over the coming months. So what does it take to manage a remit that encompasses everything from labor conditions to providing data to an investor base increasingly concerned about environmental and social issues?

Flexibility

The role involves working with a variety of stakeholders and that requires the ability to understand different viewpoints, says Ardian’s head of CSR and responsible investment Candice Brenet. “It’s important to be very open minded and curious because you have to be able to speak to different teams, adapt to their language, and be very convinced about what you do to be able to convince them. You have to be also very pragmatic and not apply principles that are disconnected from reality.”

Financial nous

While a background in sustainability issues is a definite plus – and something recruiters will typically target – it’s vital to also have the financial acumen to work with deal teams, says Adina Shackleton, Permira’s first dedicated head of environment, social and governance.

“I used to work in sustainability consulting. For about eight-and-a-half years I was with an international sustainability consultancy, working on environmental and social due diligence during transaction processes. I worked with private equity, but also with development banks and corporate clients. I think having that on the ground experience of looking at

What it takes to work in ESG

As more firms hire ESG heads to hone their responsible investing strategies, Graeme Kerr looks at what is needed to succeed in this increasingly crucial role.

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environmental, social, governance issues in the context of transactions is really helpful," she says.

**Communication skills**

“It’s not a job for a shrinking violet,” says Gail McManus, managing director of private equity recruiter PER which has hired for a number of senior ESG roles. “Communication skills are key. You have to hold the attention of a very demanding internal audience.”

That’s a point borne out by Brenet: “There are lots of day-to-day tasks. These could be discussions with the legal and investment teams during fundraising regarding LP investment restrictions; it could be to support an investment team looking at a new investment opportunity where there are specific ESG risks and opportunities. We also do a lot at the corporate level to develop training programs for our teams, which is key.”

**Broad background**

Helen Pradas-Page, who has recruited ESG heads in her role as principal consultant in banking and finance for Acre, a dedicated sustainability recruiter, looks for generalists who can master a complex brief. “Different sectors in different companies have different challenges,” she says. “There are such a variety of factors coming up at portfolio companies that it really is essential to have a broad understanding of different issues plus a very good black book of knowing who to contact when you need expertise.”

**Technical knowhow**

That doesn’t mean that specialist skills don’t come in handy. Mark Eckstein, director of environmental and social responsibility at the CDC Group, a development finance institution, looks for a set of sector specialisms such as a familiarity with areas such as agriculture, energy, infrastructure or textiles production to provide ESG support to the more than 130 private equity funds that it invests in. “We work in a complicated market where rules may be poorly enforced,” he says.

Prior to CDC, Eckstein, who has an MSc in applied hydrobiology, led the sustainable finance team at WWF in the US for six years and was also part of the environment and social risk management group at the International Finance Corporation in Washington, DC. He has overseen a big expansion in ESG professionals at CDC from four when he joined in September 2013 to 15 by the middle of this year. “The big question for us is whether they have the confidence and familiarity to discuss the issues with the people who run the businesses.”

Emerging markets pose a particular challenge. “These are difficult markets and stuff happens. Especially in supply chains,” says Eckstein. “The key is to find the culturally appropriate way to present solutions to real world problems in emerging markets.”

**An ear for a deal**

Working with deal teams is an important part of the job – and that requires a sensitivity to their needs. “Listening skills are very important,” says Pradas-Page. “You must be able to find out what people think, understand what people want to achieve and build relationships so the deal team see value.”

Indeed, the ability to build a relationship with the investment team is essential, she says. “You must be able to upskill and train the deal team in the understanding of ESG risks and opportunities using their language so they feel empowered to use ESG to identify opportunities.”

**A strategic view**

The ultimate requirement, though, is to be what Pradas-Page refers to as a “change agent.” “If you are a change agent in a business you need to know how to build rapport and know how to empower the deal team.” That requires a head for strategy and the ability to convince management of the need for a more sensitive approach to environmental issues.

A key part of her job, says Permira’s Shackleton, is “being able to work with management teams and help them think about what sustainability and ESG means for them and what their material issues are and how they can actually drive performance improvements in relation to those key areas for that firm.”

Or as Ardian’s Brenet says: “No single day looks the same. We have to constantly think about our strategy and what we want to develop in the future. We are constantly improving. We work a lot within the industry, with the PRI [UN Principles for Responsible Investment] and peer groups, and do a lot of collaborative work.”

A version of this article first appeared in PERE’s sister title Private Equity International’s Responsible Investing supplement, published in February 2017
Credit’s greater checks
Private real estate debt fund managers are increasingly making the sustainability of the assets they lend against their business, too

The notion of sustainability in the context of real estate is not new, but it is only starting to permeate among debt providers.

With institutional investors asking how investments measure up across all asset classes and tenants expecting more from the buildings they occupy, a growing number of credit fund managers – particularly those with real estate roots – are taking into consideration sustainability practices around the assets they back. A trend not driven by regulation, the benefits of downside protection and potential value enhancement – besides upholding fiduciary responsibility – are nonetheless compelling reasons to conduct what is essentially advanced due diligence.

UBS Asset Management’s David Hirst, chairman of the sustainability workgroup within Real Estate and Private Markets, discusses how real estate debt fund managers can incorporate environmental, social and governance principles into their strategies just as those managers focused on making equity investments.

PERE: How ingrained is the topic of sustainability among real estate debt fund managers?
David Hirst: Sustainability as a topic was picked up by institutional investors of real estate equity early on, five to 10 years ago; now lenders are pushing in the same direction. We were one of the first to complete the GRESB Real Estate Debt Assessment, the global real estate debt sustainability benchmark; 10 funds responded when it launched in 2015. Last year that number was 18 and this year it is 22. Our UK and US debt funds ranked top in the survey’s inaugural year, first and second in 2015 and first and third in 2016.

The experience we had in direct real estate informed what we’ve done on debt investing, which means debt funds like ours, bred out of a real estate group, have got a massive head start on understanding the topic.

I remember five years ago, sitting in a conference room of lenders that didn’t understand the topic at all. Their main criteria was: “What’s the value impact?” rather than the way we’ve come at it: there may be value impact, but the chief aim
is to protect value. In the UK, for example, in April next year, an underlying asset with an ‘F’ or ‘G’ EPC (energy performance certificate) rating can’t be leased or sold until the building’s standard is improved.

**PERE: How do real estate debt funds adhere to GRESB principals?**

**DH:** GRESB measures funds’ overall sustainability program across portfolios – 88 percent of UBS Asset Management’s REP M AUM is submitted to GRESB – through a series of questions against which you’re scored.

Do you have an underwriting process and lending checklist? What sustainability features are on that checklist – things such as contamination, energy, water, waste, certifications? We want to know there has been adequate environmental cleanup in the event an asset is constructed on the site of a former factory, for example. How do you look at business plans with an eye to improving value? A suggestion we might make is that environmental certifications are obtained on refurbishments. Do you have a committee or responsible people, or is your lending committee at least seeing the topic? Are you reporting back to investors?

**PERE: If commitment to sustainability is not mandatory, why should debt fund managers comply?**

**DH:** One factor is simply the downside perspective. There are regulatory obligations surrounding the underlying asset and occupier risks associated with poorly performing buildings. As a lender you’re taking security on a property so you need to know the security is worth what you think it is. If it’s a poorly rated building you have to factor in some capex or risk it becoming obsolete.

A few years ago, lenders hadn’t understood that. Now people are more cautious in their underwriting and there is lots of competition to lend against buildings that are fully leased to good covenants. Where traditional lenders have stepped back is from more interesting deals where you have to make an effort to understand the property.

In an up market, there is potential to improve a building’s desirability and market rent, as well as reducing occupancy costs through features such as voltage optimization and LED lighting.

Whole loan lenders like UBS think of it as more of a partnership therefore may share in any capital appreciation. Real estate debt fund managers also have a fiduciary responsibility to their investors to be doing the right thing. The work we do doesn’t cost our investors any more; it pays for itself. It’s really a case of enhanced due diligence.

**PERE: How can debt fund managers incorporate sustainable principles into their strategies?**

**DH:** The first step is to understand the topic, potentially engaging a third-party specialist to support your work. Then it’s a matter of creating a policy on sustainability, perhaps setting up a working group and putting it into your underwriting processes – you may want to include loan covenants that dictate EPC ratings are at set levels, for example.

To an extent, certain features of sustainability, like the presence of asbestos, are already taken into account as part of environmental surveys that are carried out upon purchase of a property. There are other things managers can do to be proactive and think about things in a bigger way, however, from bike racks and car charging points to waste management and air quality.

We don’t have set criteria, but work with borrowers to understand what improvements can be made on the sustainability front, encouraging them to carry out initiatives by granting a ‘green discount’ of 15 basis points.

**PERE: Are there any limiting factors?**

**DH:** There is a sliding scale of possible intervention. If you’re talking about a standing investment, with one tenant occupying the whole building, there’s nothing you can do to improve sustainability on site without the tenant’s agreement. When developing from scratch, a lender can insist on a certain standard as part of the loan agreement. The targets we’ve set are focused on what we can impact and where it makes financial sense. There’s a balance to be struck; we’re not going to insist on BREEAM certifications for the sake of it; only if it saves costs.

**PERE: How do you see the trend unfolding?**

**DH:** If you’re a fund with an institutional investor base like we are, no matter what the asset class, you’re starting to get questions about how you do it sustainably. We’re building a culture of sustainability around all second line investments, including infrastructure debt.

UBS Asset Management is taking it seriously across the piece, creating a chain effect by asking our suppliers and advisors to comply, also. Specifically with regard to debt we’re ahead of the market, but other people are now talking about it which is encouraging. Lending to smaller borrowers that aren’t necessarily thinking about sustainability means debt fund managers have the potential to make a real impact. Debt funds are only a small proportion of the overall lending market though; the banks have the potential to make a massive difference, likely over the next five years.
Green-sky thinking

Following its record-breaking sale, 20 Fenchurch Street has become a symbol of the UK’s post-Brexit appeal to Asian capital. However, it has equal claim to being a symbol of sustainable, counter-cyclical real estate development. Co-developer and seller LandSec took Jamie Henderson on an exclusive tour of the building.

When London’s The Leadenhall Building – or ‘Cheesegrater’ – was sold for £1.15 billion ($1.52 billion; €1.26 billion) to Hong Kong investor CC Holdings in March, breaking the UK record for a single office property, many observers believed the deal represented the peak of the market. Little did they know, the record would soon be broken by another nicknamed property just months later.

Famed for its distinctive top-heavy structure, 20 Fenchurch Street, or ‘The Walkie Talkie,’ was acquired by another Hong Kong investment firm, Lee Kum Kee, for £1.29 billion in July, defying forecasts that London’s office market had gone soft following Brexit.

The Walkie Talkie’s backstory has two clear narratives. One concerns the context in which it was built, with design and construction straddling the global financial crisis and its sale coming during the political fallout of Brexit. “We started it in 2010 and people said, ‘What on earth are you doing?’ – now it’s sold at record pricing,” said Noel.

The other narrative regards LandSec’s ambition to construct, in its own words, “an innovative, counter-cyclical and, most importantly, sustainable” office tower in one of the world’s most keenly-priced financial districts.

Beyond the standard features you might expect to see in a modern, sustainable piece of real estate, such as bike racks, heating and lighting sensors and recycling bins, with the Walkie Talkie, LandSec has taken things further. The building features a 7,000-square-foot Green Wall, the largest in the UK at the time of installation; a triple-tiered Sky Garden, the highest public park in the country; and a £2.5 million hydrogen fuel cell, the first in the Square Mile, which powers the building.

Straddling the crisis

LandSec’s head of engineering, Neil Pennell, who has been part of the 20 Fenchurch Street project since its 2005 inception, recalls discussing the possibility of a city office building containing a...
hydrogen fuel cell with an excited Ken Livingstone, predecessor to Sadiq Khan and Boris Johnson as mayor of London.

“We received planning permission for the building when Livingstone was mayor; I remember making a presentation to him. He was particularly interested in the fuel cell and the implications for it,” says Pennell.

The firm set out its ambitious design plans in 2006 and received planning permission, in its original form, from the City of London Corporation a year later. Demolition of the site’s original 91-meter structure took place in 2007, but a judicial review, triggered by the UK government, ruled in favor of English Heritage, a UK charity that protects historic buildings, which had complained about the height.

“There’s a conservation site near 20 Fen, at London Bridge and the Tower of London. But we were within the guidelines,” recalls Pennell. “However, it slowed us down by about six to 12 months. Then the crash happened and we couldn’t take things forward.”

Additional planning permission was eventually secured in 2009 after developers agreed to reduce the building’s height by nine stories, as per the review.

“When we came out of the downturn in 2010, we had the chance to get the project moving again. However, because of the perceived risk, we had to find a joint venture partner, which is where Canary Wharf Group came in. It had a construction arm so took the lead on that side of the development, while the operational side fell to LandSec,” adds Pennell.

The building was completed in 2014, the fuel cell added a year later and, in 2016, the Chartered Institute of Securities and Investments took over the last remaining lease.

Fueling ambition

Of the building’s main sustainable features, it is the hydrogen fuel cell that LandSec is proudest of. Not just because it was the first of its kind in the Square Mile, but because it is at the heart of the building’s sustainability strategy.

The fuel cell, using the same technology developed for the Apollo and Shuttle space missions, generates clean power and reduces the building’s carbon emissions by 7 percent. That equates to 270 metric tons per annum, preventing the escape of 18,000 metric tons of pollutants compared with conventional combustion-based power generation.

“We feed it very clean, high pressure gas and clean water,” says Pennell. “This triggers a chemical reaction in the fuel cell and electricity is produced. You also get a by-product of heat and we can use that heat directly or convert it for cooling using chillers.”

The cell was sourced from Danbury, Connecticut-based firm Fuel Cell Energy and provides both an electrical and thermal output of 300kW – about a construction arm so took the lead on that side of the development, while the operational side fell to LandSec,“ adds Pennell.

The building was completed in 2014, the fuel cell added a year later and, in 2016, the Chartered Institute of Securities and Investments took over the last remaining lease.
adequate to power 800 average sized households.

Caroline Hill, LandSec’s head of sustainability, says the fuel cell was challenging because it is a relatively new technology.

“It was a great learning curve for us and if we decided to use one in another building, it would certainly be less challenging.”

Staying on top of these challenges is key, she says: “With sustainability, you have to be ahead of your customer or your stakeholder. Otherwise, by the time the building is complete, you can be behind the curve.

“We use a concept called the ‘sustainable development brief,’ which sets out our expectations on projects such as this. It focuses on each stage of development and looks at how we can factor sustainability into each part of the process, from initial design to construction, to end use with the customer.

“But there is often a discrepancy between design and use in terms of energy consumption. One of the things we are very active on is monitoring all of our buildings, including customer spaces, so we have a team of energy managers working with customers across the portfolio.”

Sky gardens and green walls

It was widely reported at the time that one of the key factors that enabled LandSec to secure planning permission for such a well-located tower was the inclusion of a public park in its design.

The Sky Garden, which has become a popular tourist destination in its own right, is a triple-tiered botanical area located on the top three floors of the building. It contains a restaurant, bar and viewing platform offering a 360-degree view of the city. Much of the garden’s flora was chosen following consultations with the Royal Botanic Gardens, in west London. The plants on the top tier contain a number of these walls could talk | 20 FENCHURCH STREET

BREEAMing with pride

In 2015, 20 Fenchurch Street was awarded an ‘excellent’ BREEAM rating of 80.2 percent, making it one of the most sustainable properties in the City.

BREEAM used cutting-edge thermographic surveys, similar to fire and rescue teams, to check the building’s façade, which was found to conform to precise heat loss performance standards.

The green wall and solar panels were praised by assessors, as were its sustainably-sourced concrete and steelwork. The project was also one of only 80 globally to receive an FSC Timber Certificate for its use of wood from responsibly-managed forests.

Other contributing factors to the rating included the diversion of 96.4 percent of construction waste from landfill; the use of recycled material throughout the process; noise and air monitoring during construction; solar shading, reducing the cooling demand of the building; the optimum use of natural daylight; and the naturally-ventilated Sky Garden.

“The energy efficiency of the building is maximized through the integration of a fuel cell and photovoltaics together with selection of low environmental impact materials,” said Tobias Andrews, the BREEAM assessor. “The installation of the green wall was assessed as providing the optimum enrichment of plant habitat, thereby achieving the maximum BREEAM credits given the space available.”

Living wall: 7,000 square feet and 52,000 plants

“There are huge time lags between concept and completion. So you have to put yourself in the shoes of the investor, customer or stakeholder we are working with a decade before and think about future-proofing the asset”

Caroline Hill
of prehistoric offerings, and as guests move down to the lower two tiers, the plants become more contemporary.

Atop the Sky Garden are 250 50kW peak roof-mounted solar photovoltaic panels which generate around 27,300 kilowatt hours of electricity each year. The solar panels also save an estimated 13,260 kilogram of carbon dioxide annually.

Another feature of 20 Fenchurch Street is its Green Wall. At more than 7,000 square feet, the living wall contains around 52,000 plants including ferns, shrubs and grasses. It was installed in 2014 by UK-based living wall specialists Biotecture on an annexed service structure opposite the main building.

“Rather than reduce carbon, its main function is to create a better environment for workers,” says Pennell. “It produces oxygen and provides sound proofing, but also contributed to our BREEAM ‘Excellent’ rating.” The organization, in its 2015 report, praised the wall for providing a “much-needed plant and insect ecosystem.”

**Investor enthusiasm**

According to Hill, LandSec’s investors expect a company of its size to take sustainability very seriously. Since the Paris Climate Change Agreement, the firm has seen an uptick in questions from investors and more awareness from them of the importance of carbon reduction in real estate.

“When the first plans for 20 Fen were drawn up, I’m not sure it was top of their priorities,” says Hill. “But part of the art of property development is that there are huge time lags between concept and completion. So you have to put yourself in the shoes of the investor, customer or stakeholder we are working with a decade before and think about future-proofing the asset by...
LandSec’s sustainable corporate commitments across its portfolio

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<td>Employment</td>
<td>1,200 disadvantaged people into work by 2020</td>
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Don’t forget the ‘S’

Historically, Hill says, investors have been focused on the ‘G’ element of ESG, while the ‘E’ has received an uptick in interest in the last decade. “Governance concerns have always been there, from a company’s structure to the level of diversity to bribery and modern slavery concerns,” she adds. “But there’s been a definite shift more recently to the social side.”

In line with the ‘S’ of ESG, in 2015, LandSec and Canary Wharf Group created the 20 Fenchurch Street Legacy Fund, which provides grants for community groups in the east London. “The idea behind it is to provide help for the city fringes. The environment really changes if you walk less than a mile from the Square Mile. We have numerous funds, but this one is really building-specific and is well supported by most of the tenants,” says Hill.

“Separately, LandSec runs a community employment program for jobs in construction, hospitality and customer service in our portfolio. To date, we have put more than 1,000 people back into work. We also have a program in Brixton Prison, in south London, to help train prisoners for careers in construction after release.”

While LandSec has now handed over the keys to one of the most recognizable assets in its portfolio – and one that, sustainability-wise, it is most proud of – its commitment to ESG continues. Colette O’Shea, managing director of its London portfolio, sums up: “This is a building where we pioneered new technologies, new methods of efficient design and new attitudes to public space, at a time when most of the market was playing it safe.”

For LandSec and its partners, however, the risks they took were measured and their gamble has evidently paid off.

Caught in the odd controversy

While 20 Fenchurch has attracted praise for its design and the sustainable approach taken by its developers, the building has also garnered its share of criticism.

The height of the flak culminated in 2015 when it was awarded the infamous Carbuncle Cup, an annual prize created by UK property publication Building Design and awarded to the UK’s ugliest building. One of the more memorable media quotes described it as a “bulbous comedy villain of the London skyline,” while another compared it to a “broad-shouldered banker in a cheap pinstripe.”

But the Walkie Talkie’s most notorious transgressions happened before it was even open. In 2013, its south-facing glass façade channelled the sun’s rays into a beam of heat that melted the fender of a car, blistered painted shop fronts and singed carpets – with temperatures hot enough to fry an egg on the sidewalk. The furore led to further nicknames such as the “Walkie Scorchie” and the “Fryscrapcer,” forcing architect Rafael Viñoly to add ‘sun shades’ to prevent the reflection.

Its troubles did not end there. The building was then found to have an embarrassing wind problem after the downdraft caused by the tower’s curved exterior created a wind tunnel that knocked over pedestrians.

Following several changes to its original design, Viñoly famously said: “My name is on it, but it’s not my building.”

LandSec scooped an unenviable double last month after winning its second Carbuncle Cup in three years for its latest offering to the London office sector, Nova Victoria.
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Where to start

Finding baseline performance, leveraging local policy and educating the bench are among the primary goals for assessing a multi-billion-dollar property portfolio, according to LaSalle’s new global head of sustainability.

Eric Duchon was appointed global head of sustainability at Chicago-based real estate investment management firm, LaSalle Investment Management, in December. His first task? To sustainability check a $58 billion global real estate portfolio. Nine months in, he tells PERE how far along he has come to achieving that aim, where the wins have come and what the challenges ahead are.

PERE: What were your immediate goals for sustainability, and how has that changed a few months into the job?
Eric Duchon: LaSalle developed its policy on sustainability back in 2010. That included a number of priorities. My immediate mandate was to focus on translating those priorities into implementation across the firm. To that end, we’ve now published a white paper, Environmental Factors and Real Estate Demand, which details our expanded focus on sustainability. The sustainability measurement and improvement realm has developed significantly over the past five to six years. My job is to ensure LaSalle’s practices are keeping pace with that growth.
**PERE**: Where do you start when sustainability checking a multi-billion-dollar portfolio?

**ED**: It is critical to capture a baseline of your current operations. LaSalle has been doing this with the Urban Land Institute’s Greenprint Center for many years, so we have been able to leverage and expand upon those efforts to collect environmental – energy, water and waste – and cost data for all of our assets. We look at the baseline performance at the asset level and across the portfolio to identify opportunities to reduce our environmental impact. Those opportunities could be simply making small adjustments to manage operations better or they could be larger initiatives involving more capital-intensive retrofits.

**PERE**: How does property type play into sustainability considerations?

**ED**: There is a sliding scale of how much operational control we have over a building, with commercial office representing the most oversight, given we generally control most of the building systems. Multifamily and retail fall in the middle because of their lease structures, and the level of operational control drops for single-tenant or triple-net-lease retail or industrial properties. Regardless of a firm’s level of control, it is important to engage with tenants to try to better understand what ESG factors are important to them. That will determine how you can work together to make improvements mutually beneficial from both an environmental perspective, as well as economic.

**PERE**: How does geography affect sustainability concerns?

**ED**: At a global level, geographic dependent market factors include differing tenant demands and investor objectives; these factors work alongside regulatory forces. Europe, for instance, has mandatory Energy Performance Certificates; in the UK by April 2018, you won’t be able to execute a transaction without having a passable score on your EPC. We need to ensure that our buildings don’t just meet this passable level of performance, but exceed it in order to be attractive to new tenants. In the US, there is not a robust federal policy, but a significant number of local policies, such as benchmarking regulations, which aim to drive sustainability improvements. First and foremost, you ensure compliance, and then find opportunities for the supported enhancements those regulations may provide.

**PERE**: How should an investment manager of LaSalle’s scale, who should be involved in setting ESG policy?

**ED**: We have senior representatives from all functions involved led by our chairman and chief executive. Day-to-day, my most active partners are the asset management teams. These are critical frontline stewards that ensure what we’re doing on a given asset makes sense from a financial performance perspective as well as an operational perspective. One of my primary focuses is to take much of the technical work off the asset management team’s plate by working directly with their property management team. For our assets that are underperforming from an environmental metrics perspective, I set up webinars with them for training. Nine times out of 10, they come back feeling engaged and empowered to work with the asset management team to do a ‘cool’ sustainability project.

**PERE**: Walk me through an example of a sustainability evaluation process.

**ED**: On one commercial office asset we’ve owned for just over a year, our acquisition due diligence suggested significant capital would be required during our 10-year hold period, which we allocated in our pro forma based on the end of useful life of the building systems needing replacement. The building was performing pretty well already – it was eligible for LEED certification – but I went in and said looking based on their end of their useful life isn’t the most efficient way to run this replacement. We could get additional points for LEED by doing a more extensive energy audit, so we are taking advantage of that to determine if we can shift around the initiatives and capital. We could get additional points for LEED certification – but I went in and said looking based on their end of their useful life isn’t the most efficient way to run this replacement. We could get additional points for LEED by doing a more extensive energy audit, so we are taking advantage of that to determine if we can shift around the initiatives and capital. Now, we will ensure we’re not only upgrading the building’s systems, but that we achieve the best from our investment in terms of both environmental efficiency and financial return. Another asset, 9378 Wilshire Boulevard in Beverly Hills, California, was purchased in 2014 on behalf of a separate account client. We reduced electricity use by 2 percent in 2016.
compared with 2015, and in March, the building achieved LEED EBOM Silver certification and continues to improve efficiency through initiatives such as LED lighting upgrades.

**PERE**: What has been the most challenging aspect of your role?
**ED**: The biggest hurdle I’ve experienced so far is to overcome the stigma that certain industry stakeholders place on sustainability. When you start talking about sustainability in terms of investment return and performance, it makes so much sense to everyone. That’s also been the biggest surprise: how actively engaged people become once we start speaking their language and start talking about how sustainability fits into real estate and investment performance, rather than how real estate fits into sustainability. Part of what makes a sustainability practitioner in real estate successful, from my perspective, is the awareness that the sustainable investment numbers need to pencil out. We are responsible to our clients for investment performance. I’m never going to suggest doing a project just for sustainability’s sake. There has to be an attractive ROI driving any asset-level update.

**PERE**: What are LaSalle’s long-term sustainability benchmarks for success?
**ED**: At a global level, increasing our entries and improving our GRESB scores is a key objective benchmark for us. We submit for a number of funds globally and we want to see those scores and our rankings improve.

This year we materially improved our results by earning eight GRESB Green Star designations, the organization’s highest award. We will also remain a signatory to the United Nations’ Principles for Responsible Investment, and will pursue ongoing submissions into the ULI Greenprint Center evidencing improvement in our assets’ environmental metrics.

On a personal level, one of my long-term objectives for the firm is to eliminate the notion that sustainability requires a significant cost, with opaque returns. In two or three years, I hope colleagues here are thinking about how sustainability impacts their day-to-day job, and evolve to a place where these practices are naturally embedded in their activities to achieve best financial performance. □

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**East side story**

LaSalle’s 610 Broadway is one example within LaSalle’s global portfolio where sustainability improvements have led to greater financial performance.

610 Broadway is a 98,000-square-foot class A office building with a retail base in New York City. LaSalle’s core flagship fund, LaSalle Property Fund purchased the asset in 2012 and has driven sustainability improvements since acquisition. Most recently in 2016, the building achieved a 9.4 percent reduction in energy over its 2015 consumption via improvements such as LED lighting upgrades and HVAC system retrofits, which led to a 4 percent decrease in the building’s overall energy costs.
Bigger task and less time to do it

The West’s green policies have taken decades to evolve. Peter Verwer, chief executive of the Asia-Pacific Real Estate Association, explains why that will not be the case in Asia.

The contrast is stark. Every day, around 310,000 people join Asia’s middle classes. Meanwhile, the ranks of mass consumers in Europe shrink by 1,200.

Asia’s middle-class growth engine is urbanization, which generates the equivalent of a city with a 500,000-strong population every 21 days. This rapid movement of people helps lift millions from poverty and unleashes entrepreneurial spirits. It also foments congestion, pollution, heat islands, waste and social dislocation.

Asian policy-makers recognize the need for an alternative development model that decouples economic growth from negative environmental impacts.

While some European countries, such as Sweden, show how to grow economic and social capital while preserving ‘natural capital,’ Asian policymakers are looking to achieve the same outcome. The main differences between the two regions are timing and size. China, for example, is looking for this outcome within a single decade and on a colossal scale.

In one sense, China is the world’s largest experiment in decoupling. The Chinese State Council’s 13th five-year plan, launched in 2016, aims to give another 200 million citizens the benefits of an urban lifestyle by 2020.

This requires delivering a new generation of economic infrastructure, transport networks and social services, while also tripling renewable energy, reducing carbon intensity and drastically cutting pollution levels.

Of the 25 hard key performance indicators in the five-year plan, 10 relate specifically to green initiatives; all of which are compulsory, not aspirational. This includes deploying an arsenal of technology programs supported by capital markets solutions such as green bonds. Indeed, China is already the world’s largest green bond issuer.

But the property industry is a major focus of Chinese policymakers, too.

The past few years have witnessed the fine-tuning of nationwide performance measurement and labeling systems for buildings, including the ‘3-star’ accreditation regime.

China authorities are expanding the scope of green building and planning codes to cover different locations, sectors and building types.

For instance, healthcare facilities, residential and industrial premises are now included in an expanding menu of green codes, along with guidance on coping with a variety of climatic conditions.

Another goal of the 13th five-year plan is to join up a mixed bag of climate change, air quality and urban growth policies into a more coherent platform. This includes piloting financial and planning incentive schemes for new developments and retrofits. Some cities offer specific cash bonuses for implementing green building features.

However, the government will also wield sticks where carrots don’t nudge market behavior at a rapid rate. For starters, all ‘government-invested’ and leased buildings will soon need to meet tougher ‘3-star’ performance and labeling standards. This will include hospitals and civil infrastructure, as well as government-supported housing.

**Shaping the footprint**

More broadly speaking, Asia’s urbanization velocity is increasing. But even after meeting its 2020 goals, China will only be as urban as the US directly prior to World War II. India and emerging ASEAN are only as urbanized as the USA in 1890.

Consequently, the quality of every home, hospital, school, commercial property and transport hub built in Asia today will shape the global environmental footprint for another couple of generations.

Asian governments recognize that cleaner, more eco-productive cities can radically boost economic development and improve social prosperity.

Asian countries, such as Singapore, show how governments can leapfrog the green policy incrementalism of the West and adopt a coherent mix of carrots and sticks that motivate markets to implement sustainable technologies and report on measurable progress to their investors.

The property industry is at the vanguard of this green momentum, with China (and soon India) to play a starring role as home to the world’s largest cities and fastest growing middle class on the planet."
In 2013, London-based investment management firm Aberdeen Asset Management hired Dan Grandage as head of responsible property investing, a new position, with the aim of educating its various investment and asset management teams. Four years on, PERE caught up with the former WSP man to hear how he set about the task and the firm’s progress so far.

**PERE**: At what point should a real estate manager implement a sustainability education program?

**Dan Grandage**: Reflecting on our experience at Aberdeen, it has always been our aim to integrate ESG factors into each stage of our investment process, which means educating teams early. Originally my team was quite separate to the investment team and called on for support on an ad hoc basis. Since I joined in 2013, we have moved to sit within the investment team, with direct line management to our European head of property investment. This has really improved the ability to educate investment professionals and embed ESG. Our approach is not just about saving energy and carbon, it is about managing our risks and increasing operational efficiencies to the longer term benefit of building occupiers and ultimately our investors. Without educating and engaging with our investment colleagues, this would simply not be possible.

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**Preaching to the unconverted**

Educating investment and asset management teams to sustainability-check properties is more impactful than outsourcing the responsibility, argues Dan Grandage, Aberdeen’s head of responsible property investing.

Number one: Trafalgar Place, Brighton, ranked as Aberdeen’s greenest building.
Increasing interest from investors on ESG issues has further confirmed the importance of integrating these factors and having a team well versed in these areas. The sophistication of the questions being asked had to be fully understood. If not, from a capital raising perspective, it could have meant we lose out on potential capital or new clients.

There has also been increasing recognition of the value of global benchmarking, particularly GRESB, which offers the only way of measuring the sustainability of a particular fund. We were submitting funds to GRESB as far back as 2011, but we’ve been increasing the number of funds we now submit and this has paid dividends. Our GRESB scores have improved year on year as a result of educating the wider property team.

When I joined, I knew that the education process would not be an overnight exercise; it would be an ongoing journey because the market and ESG are constantly evolving.

**PERE:** So where did your journey start?

DG: One of the first challenges we had was deciding what to call the concept. The words sustainability, ESG, stewardship and responsible investing were often used interchangeably creating confusion both internally and for our clients. Across the asset classes, we recognized the importance of having a consistent message. Stewardship is the term we use at the highest level, which is split into ‘corporate stewardship’ and ‘investment stewardship’ and each asset class, including property, has a representative focused on this.

Initially, I spent a lot of time trying to get the investment teams to understand precisely what the concept entails and emphasizing that sustainability is not about being green or tree-hugging. It is about adding value and generating additional income streams. We try to talk to them in a language they can understand and in pragmatic terms.

**PERE:** Say I’m a new joiner. Where does my sustainability education begin?

DG: From a recruitment perspective, we aren’t trying to find people who have both property and sustainability knowledge. We recruit from a real estate perspective, but we have a responsible investing induction meeting and we run annual updates. For example, with a new-starter, I will go through some of the principles we adhere to, explain where the concept comes from and why it is important. My team and I are here to support, but people have to make their own decisions because they will understand the concepts better if they do. If there is anything unusual or difficult, then my team is here to help. But we have not gone down the route of having lots of people who are effectively a silo of sustainability experts.

It is also important that our teams know we haven’t outsourced our sustainability analysis to consultants. I know from experience, having seen it done elsewhere, that people will say: “This is not our job or that is dealt with by somebody else.” We go to investment committees and we offer support, but it is more important they articulate sustainability considerations themselves and can provide the sort of answers that satisfy investors.

**PERE:** So let’s talk about signs the education process is working. For instance, what are your transactions teams looking for in an asset that they were not looking for five or 10 years ago?

DG: There are three key areas that are investment critical. Firstly, the flood risk of a site: is it going to flood? Secondly, is there environmental contamination in the soil from, for example, any legacy industrial activities? Nowadays, our teams are making sure these assessments have been done. Thirdly, the energy performance certification of an asset. Using UK legislation as an example, any asset with an ‘F’ or ‘G’ rating cannot be let and therefore creates a huge risk to income. If an asset has an ‘F’ of ‘G’ rating but all other aspects of the property meet our investment criteria, we will investigate if it’s feasible to improve the rating. For example, we bought an ‘F’ rated building several months ago, replaced the roof, and that transformed it into a ‘C’.

**PERE:** What challenges have you faced when trying to educate the teams?

DG: The biggest hurdle has been identifying different personality types. Like in any education process, for some people it takes longer than others. Also, in different countries, there are different cultures and legislations to contend with, all of which needs to be understood.

We have introduced a form of carrot-and-stick approach into our process and, through that, are trying to tap into the inherent competitiveness of real estate professionals. We have Top 10 buildings and Bottom 10 buildings lists.

Another issue was the environmental data. When I joined, there was a bit of a step-change going on. Everyone in the industry was grappling with how to get their hands on this data. One of things I suggested was that we needed a robust data platform. We have since spent a lot of time making sure that data perform to an optimum level.

Ultimately, we have to do this because it is what investors are requiring. It really helps having the backing of senior management on this and the results are clear. □
**The case grows**

Green bonds have barely made a scratch in fixed-income, let alone property markets. But there is movement to note, writes Jonathan Brasse.

Bond purchasing is a staple of an institutional investor’s fixed-income strategy. Bond issuance, on the other hand, is a matter for anyone with half an eye on raising debt capital to fund investments. And while most private real estate investment managers rely heavily on traditional loans to place alongside their equity, those considering raising credit for brownfield development might want to review the nascent green bond markets.

According to the Climate Bonds Initiative, the sector awareness group, the green bond market should grow from $81 billion last year to $150 billion in 2017. Bloomberg New Energy Finance, a unit of media company Bloomberg, forecasts a slightly lower size, $130 billion, but agrees the growth of this sustainability-led and tax-advantageous form of finance is undeniable as investors are able to tick green credential boxes and not pay through the nose to do so.

“Evidence is mounting that bonds that finance environmental projects perform better than conventional ones,” reported Bloomberg last month. Citing UK investment bank HSBC’s *Global Green Bonds: Value or Vanity?* report, the news service said green bonds were trading closer to their benchmarks than regular debt issued by the same entity, particularly in developed markets.

In the report, HSBC also says there is little evidence that some green bonds price ‘tighter’ than non-green in primary trading markets and there is some evidence that green bonds outperform non-green counterparts. The bank does highlight how transaction costs for trading green bonds are slightly higher than for non-green bonds, but adds that green bonds are also less volatile than non-greens in times of stress. That may be down to there being slightly less trading of green bonds, however.

The sector remains a drop in the multi-trillion-dollar global bond ocean and the overwhelming majority of green bond issuance today comes from the infrastructure and energy sectors. But real estate projects are starting to crop up. Should they prove useful, it might not be long before property projects underpin a greater market share.

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**Minority report**

Property-backed climate bonds make up a minority of the issuance in the market, as seen in the last 10 certified green bonds to be issued.

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Month</th>
<th>Size ($m)</th>
<th>Jurisdiction</th>
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<td>New Zealand</td>
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<td>Azure Power</td>
<td>August</td>
<td>500</td>
<td>Mauritius</td>
<td>Solar</td>
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<td>South Africa</td>
<td>Water, low carbon transport</td>
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<td>Rural Electrification Corporation</td>
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<td>450</td>
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<td>December 2016</td>
<td>27</td>
<td>India</td>
<td>Solar</td>
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*Source: Climate Bonds Initiative*
Staying cool

Swedish pension manager AP2 and real estate fund manager TH Real Estate consider the steps necessary to hit the Paris Accord’s climate change target. By Stuart Watson

The Paris climate change agreement aims to limit the increase in the global average temperature to below two degrees celsius above pre-industrial levels. The built environment is believed to be responsible for 30 percent of global greenhouse gas emissions leading the World Green Building Council to estimate the real estate sector must operate at net zero carbon by 2050 if that target is to be met. In a conversation overheard by PERE, Helena Olin, head of real assets at the Second Swedish National Pension Fund (AP2), says tackling global warming is already a priority for institutional investors. Meanwhile Abigail Dean, head of sustainability at TH Real Estate, argues that the real estate industry has the capacity to achieve a step change in reducing its carbon emissions.

Meeting the climate challenge

Helena Olin: We have been following the Paris climate accord process closely. Investors in the Nordics and Netherlands were among the first to assess those issues, but now climate change is part of most institutional investors’ targets.

Abigail Dean: Because the investment community in general has increased its focus on sustainability and specifically on climate change in the last few years it has become a very important strategic factor for real estate funds. It is a risk factor that many investors into real estate expect to see asset managers taking account of. There has been a noticeable uptick in that since the Paris accord. I think that agreement really galvanized the investment community to focus on climate change.

HO: It is our aim to develop our portfolio in line with the two-degree target. ESG [environmental, social and corporate governance] is one of the factors from which we generate predictions about future expected values of stock returns. Our funds that invest in direct real estate report to GRESB and we follow up to monitor the work they are doing on climate change and energy consumption.

AD: When you select investments or

“We look first at the return, the location and the sector, but when we try to find the right manager we always take ESG factors into account”

Helena Olin

We’ll always have Paris: the rules of the accord are now being felt

SOURCE: UN CLIMATE CHANGE COMMONS CC BY 2.0
partners, is sustainability and climate change risk featuring as a decision point for you? Or is it about working to make those investments perform better over time?

**HO:** We look first at the return, the location and the sector, but when we try to find the right manager we always take ESG factors into account. Do they have an ESG policy and a process in place? The portfolio of assets doesn’t have to be fully sustainable already, but the manager operating it should have targets to improve ESG practices. If we are in a market where all the operators are doing this we always try to work with someone with a well-established grasp of these issues, but if we go to a region like Asia, where fund managers are a little less focused on sustainability, we try to help them to implement a process if no existing manager is good enough.

**A zero-carbon future**

**AD:** We have set a target to reduce the energy intensity of all of the properties that we manage by 30 percent by 2030, but we haven’t yet looked at that from a carbon perspective. What a zero-carbon built environment looks like is still very unclear. We and lots of others in the industry are starting to think about that. We manage the Cityhold Office Partnership (CHOP) on behalf of AP2 and your co-investors. As part of that we are doing some new development and we can set the bar quite high in terms of energy efficiency, renewables and low carbon technologies. But we also need to ensure that existing buildings are managed as efficiently as possible and improved slowly over time. When we are thinking about the role of the built environment in achieving a low carbon future, we must remember that most of the buildings that will be around in 2050 have already been built. We have to find ways to enable those buildings to become more energy efficient in a way that is cost-effective, gives a good return to investors and ensures that tenants have low energy bills.

**HO:** We like new buildings – partly because they are very attractive to tenants, but also because they are more energy efficient. However, building new is not always the most sustainable way overall. Sometimes refurbishing an existing building is more sustainable than building a new one. ESG includes not only environmental factors, but social ones too. Renovation and refurbishment of buildings can contribute to the gentrification of an area.

**“What a zero-carbon built environment looks like is still very unclear. We and lots of others in the industry are starting to think about that”**

*Abigail Dean*

**Health and wellbeing**

**AD:** One of the things we are looking at with the CHOP portfolio, and more widely as well, is the health and wellbeing impact of those buildings on the people that work in them. We are trialing sensors in some buildings that measure air quality, light, temperature and humidity.

**HO:** Tenants are getting more health-focused and it is an area that will become more important in the future. These trends are increasingly global. We will hear about an issue like that in Sweden and then everyone around the world will be talking about it within a year.

**Stranded assets**

**AD:** Tenants can be difficult to engage with around energy efficiency. Even though the work the asset manager is looking to do will reduce their energy costs, it still has a relatively marginal impact on their overall financial performance. Health and wellbeing presents a much more interesting area of engagement for those tenants because how happy and productive their staff are has a much more significant impact for their business. It will be interesting to see if engaging with them over that has a knock-on effect on the sustainability side as well.
Waste down, profits up

Trying to limit the use of natural capital in construction by coming up with innovative solutions can be a source of value creation, says NREP’s co-founder and CEO Mikkel Bulow-Lehnsby.

As an institutional investor, would you be concerned if the property you are capitalizing the development of was made from upcycled concrete? Do you think its future tenants would mind? Nordic real estate investment manager NREP does not think you will. In fact, the firm believes, that you, alongside its future occupiers, would welcome the value gain arising from this technique of re-using old materials – not to mention the fact it is not being dumped into the sea, as co-founder and partner Mikkel Bulow-Lehnsby explains.

PERE: When and why did NREP start to look at more innovative ways of approaching construction from a sustainability standpoint?

Mikkel Bulow-Lehnsby: Around 2012, we had conversations about the property industry being a large consumer of natural capital, either in the form of traditional utilities or maintenance, but also through the construction of new stock. Like most other firms, we initially focused on the utilities side and asked, “How can we make buildings more efficient?” We wanted every building we owned, from purchase to sale, to become more efficient. So, the early focus was on decreasing energy consumption through a combination of physical improvements – such as installing natural lighting, using LED lightbulbs or insulation – and behavioral changes, such as using benchmark analysis to help logistics tenants identify opportunities to cut costs by reducing the temperature – we even provided them with fleece sweaters to wear.

We also saw different certifications such as BREEAM and realized these were often tailored for a particular asset class, which didn’t always make them relevant. For example, they were aimed at vertical buildings with points received if the property was near a train station. But if you own a logistics building, then those criteria were not the most relevant. So, we felt there was a certain immaturity around the certification industry and felt a need to have a more functional approach. We decided that each building we bought had to go through some improvement whereby its environmental footprint would be lower when we sold it, provided the investment or activity also produced a measurable financial accretive return. This encouraged all asset managers to be creative and to come up with innovative solutions.

After testing various utility saving initiatives, it became apparent there was a lot of low-hanging fruit. We identified ways of cutting consumption and realizing savings, that involved investments with payback times of two to 10 years, which in most cases produced attractive risk-adjusted returns.

PERE: So you shifted from focusing only on utilities to also looking at the construction process and how that could be made more efficient?

Mikkel Bulow-Lehnsby: Yes, we had already discussed taking a closer look at construction techniques on numerous occasions because from an environmental perspective, the largest consumption of natural capital relates to the actual construction, not utilities and maintenance. Assuming a building has a 50-year lifetime, half of the footprint relates to construction, while the other half relates to the utility and maintenance cost over the next 50 years.

“Similar to having the best sourcing capabilities or the best insight or the best relationships, having superior knowledge in optimizing the use of natural capital is a source of value creation”

“Similar to having the best sourcing capabilities or the best insight or the best relationships, having superior knowledge in optimizing the use of natural capital is a source of value creation.”
the belief that it should be possible to convert waste into building materials. We formed a joint venture with him, acquiring a strategic interest in the company, and since then we’ve ventured into various projects to use waste as a construction material. As this is new territory, we realized that we need to be humble, diligent and take small steps.

Today, we have engaged in sufficient pilots to feel confident that there is substantial potential for natural capital optimization also in the construction phase. Based on this observation, we decided to establish an “optimization of natural capital” function in our company. We believe that having superior knowledge in optimizing the use of natural capital is a source of value creation.

**PERE:** Can we talk about the specifics in terms of this technique?

**MBL:** A specific area with a new practice is the use of concrete, or our re-use of it. As a construction material, concrete is a substantial CO2 contributor. When a building is torn down, the old concrete is traditionally put in landfill, the ocean or at best re-used in the construction of roads. When you mix concrete, a chemical reaction takes place between the cement and the stones, which is what firms up the mixture. But when old concrete is demolished, there is often part of the old cement, which has not reacted, which you activate when you upcycle it.

So, Lendager takes the old concrete and upcycles it, creating high-performance concrete, on site, with a substantial CO2 saving and potentially also securing an up-front financial reward. There is namely no need to pay for new aggregate and there is no need to pay for old concrete to be disposed of. Our partner, Lendager Group, spent around a year testing the approach and having ensured the methodology as well as the quality of the concrete, we built the world’s first “upcycled” concrete building, a Pelican Self-Storage site in Copenhagen.

**PERE:** Do you have to move higher up the risk curve to deploy some of these practices?

**MBL:** Our tenants are really starting to change their perspectives on sustainability, and some of the innovative solutions we are involved in attract very strong attention. NREP wants to push this agenda, but developing new construction methods and solutions is not our business and it involves risks that our investors would not want to be exposed to. By partnering with Lendager we have pushed the agenda, educated ourselves and secured unique access to Lendager’s pioneering development work.

In situations where we have used Lendager’s ideas, we’ve placed that risk with our construction partner or with Lendager themselves. In short, we have been able to push the agenda without increasing risk for the investors.

**PERE:** What kind of sustainability practices do you see on the horizon that will become more common place in the future?

**MBL:** Another area that is still immature is air quality. Research shows there is a substantial correlation between air quality, sick days, allergies and employee productivity, as well as general wellness. Considering that the air in buildings could in practice be perfectly controlled, then I am sure that this will be one of the topics of the future.

However, in general, my most important belief is that in five years, sustainability is going to be a much more important topic in real estate than it is today. As the world increasingly realizes that natural capital is scarce, then traditional supply/demand should push up prices on natural capital, and those that have identified ways of optimizing it will have an advantage. I am determined that NREP will be one of those.
Start as you mean to go on

Robust sustainability practices are a must as Africa’s real estate sector gets to grips with the region’s demographics, argues Paul Boynton, CEO, Old Mutual Alternative Investments

A new book called Making Africa Work, co-authored by Greg Mills and Nigeria’s former president, Olusegun Obasanjo, among others, has just hit the shelves, with the ambitious goal of being a blueprint for African leaders to prepare for huge population growth and rapid urbanization. “There are ever more people and they are on the move to the cities,” the authors opine on page one.

If the UN’s predictions are correct, Africa’s population will double to 2.5 billion in the next 30 years or so. Half of the world’s projected population growth to 9.8 billion by 2050 is expected to come from Africa.

The population of Nigeria, 45 million people at independence, is forecast to be in excess of 300 million by 2050, leapfrogging the US to become the world’s third most populous nation. Lagos alone sees a population increase of 1.5 million every year. Yet already there is a chronic housing shortage, possibly as high as 23 million homes for Nigeria, Egypt and South Africa combined.

Real estate attracts the largest share, 35 percent, of global alternative investments; North America has the highest share of allocations at 54 percent. Compare that with Africa (bundled in with ‘rest of the world’) attracting just 6 percent of global allocation, with only 6 percent of Africa’s total infrastructure spending going to real estate, according to Deloitte’s 2015 Africa Construction Trends report. When you combine the African growth story (seven out of 10 of the world’s fastest growing economies are on the continent) with the potential for alternative assets, at a low base compared with global norms, you have a powerful vector.

While shifting demographics have been heralded for a while, what is palpable is a growing sense of urgency both politically and commercially, all over Africa, that it’s time to invest more in people, job creation and infrastructure – particularly housing.

Our property interests are in impact funds, ensuring that as well as achieving acceptable returns for investors, a positive impact is felt not just now, but by the next generation too. OMAI, which manages the largest housing fund in South Africa, has just shy of $1 billion dollars, nearly a quarter of our total $4.1 billion in AUM, invested in affordable housing, education institutions and retirement accommodation through four impact funds.

There is a growing acknowledgement that responsible environmental practices, social engagement and strong governance can reap long-term financial success. ESG factors, at the heart of sustainability measurement, are becoming increasingly central to investment decisions worldwide amid mounting evidence that you can do well while also doing good. This is particularly true in emerging markets, as demonstrated by the outperformance of the MSCI Emerging Markets ESG Index compared with the benchmark since 2009.

Setting standards

Investors are increasingly demanding reliable and comparable ESG data from investment managers with environmental aspects, specifically energy consumption, a top priority and it’s encouraging to see the progress made by the world’s global property and infrastructure sectors in improving their sustainability performances in the recently released Global Real Estate Sustainability Benchmark.

However, a lack of standardization and regulation in Africa remains a challenge that needs addressing. Moves by global development institutions, such as the International Finance Corporation, to set standards in emerging markets – for example, its green building certification EDGE (Excellence in Design for Greater Efficiencies) – are to be welcomed. South Africa’s Fourleaf Estate, comprising over 300 housing units for low to middle-income families, in a fund managed by OMAI, was recently the first residential development in Africa to achieve this certification.

To paraphrase the co-authors of Making Africa Work: the time to develop infrastructure and make vital reforms is now, before vast swathes of young people armed with technology arrive en masse in cities. And I would add to this that at the core of these investment decisions are robust ESG elements that ensure stewardship for future generations. ☐
Seeing the forest and the trees

Amy Price, president and CIO at Bentall Kennedy’s US business, sees four eco-trends of the future that are influencing sustainable investment today.

In a world that often seeks instant results, the pathway to sustainable investing requires a longer-term outlook with careful analysis and a keen, well-trained eye to future demographic, social, technological and environmental trends. As the context in which all buildings exist inevitably evolves with time, a thorough analysis of future trends must inform our understanding and the decisions we take to invest sustainably. In other words, we must see the forest and the trees.

The following key factors constitute some of the critical analyses that go into assessing the value proposition for investing in real estate, soundly and sustainably.

1 Identify ‘next’ cities
Leverage the transformative power of human capital

Major markets such as New York, San Francisco, Chicago and Los Angeles have proven enduring value. But they are also mature markets that come at a high cost – both for residents and employers. In addition to investing in these gateway markets, we believe that opportunities lie in more affordable secondary markets as well. Key characteristics of these ‘next’ cities are being driven by the youngest cohort in the workplace – those aged 20-34, generally with high levels of education. This group is attracted to a live-work-play lifestyle, and the growth in these areas is a generational phenomenon. These urban centers are amenity rich, with access to transit, good restaurants and nightlife, and residential options that emphasize green credentials and health-oriented facilities.

The relentless millennial push to live in these centers is proving to be a transformative economic force, as employers that need this educated talent are relocating to these areas. A generation ago, employers called the shots, and employees came to them. Today, the power resides with the human capital and where they choose to live. This is especially true for innovative growth companies that rely on and compete for this cohort of talent.
2 Detailed analysis required

Find neighborhoods where sustainability initiatives will be magnified

When we drill down into the sub-regions and neighborhoods within these urban centers, as an investor, we want to be ahead of the largest part of the growth curve. That means screening for dynamic environments and identifying where growth has clear momentum. It is important to analyze a number of factors. These include:

**Age, income and education:** Examine demographic data and target areas that have a high percentage of residents under the age of 35, with higher than average income levels and higher than average education levels. This is the demographic that will be driving the knowledge economy for years to come.

**Affordability:** Look at lower-cost markets, with residential options at different price points that can attract younger price-conscious residents, but also provide move-up options as their careers advance. Companies will also be attracted to the lower costs of these areas. As these areas grow and mature, market values will rise.

**Innovation:** In addition to identifying and analyzing the type of companies that have located in the area, we look at indicators such as patents per capita to provide insight into the innovation potential of the region.

**Property type mix:** Seek neighborhoods that support a live/work/play lifestyle – with a mix of residential, office and retail.

**Commercial activity:** Examine the vibrancy and diversity of commercial activity by measuring the sales of amenities, such as food and drink. A growth in sales is a key indicator of demand in the area.

The old brick-warehouse district of Fort Point in Boston’s south end is a great example of an emerging and dynamic region – one in which Bentall Kennedy has recently invested. The area has continued to evolve from its 19th-century industrial roots to become a vibrant residential location, with strong occupancy levels, healthy rental rates and excellent access to public transportation, restaurants and entertainment. Following suit, this neighborhood has attracted a gamut of employers from small and mid-size start-ups to others, such as Amazon and General Electric.

3 ‘Good bones’ are critical

Choose properties that lend themselves to sustainability

Of course, not all properties are created equal, and there are a number of factors that go into investment decisions within the sub-regions. It is critical to look carefully at supply and demand, and focus investments on under-supplied asset classes within a location. So, if office space is being developed aggressively, and demand for residential is growing but is under-supplied, target that under-supplied use to increase the locational sustainability dynamic.

Target buildings with ‘good bones,’ features like high ceilings, good light and air, efficiency in design and flexibility in the infrastructure. For example, the brick-and-beam style of the early Boston buildings in the Fort Point area meets all of these criteria, with timber beams, duct-work and exposed brick walls providing a loft-like work space which appeals to our target tenant group.

It’s also important that the building structure allows for the creation of in-building amenities and to execute sustainability operation initiatives and implement sustainability plans and certifications.
Analyze the data, target the goal, set the strategy
Go beyond certifications to move the needle on consumption

Once a property is purchased, the move to improve environmental sustainability from an operations standpoint begins. We have created a proprietary, comprehensive data analytics system to report on energy, water, waste and emissions management. It presents real-time consumption and cost data in simplified views and verifies greenhouse gas emissions in a single management tool. This allows for benchmarking performance and helps to work toward target consumption goals across the portfolio.

We have a formalized energy management approach through our target setting program, which drives sustained improvement by systematically identifying energy efficiency opportunities and tracking performance at the building-level. Properties that participated in the three-year cycle that started in 2013 reduced energy usage by 14.2 percent on average. Rigorous data on energy, water and waste helps make informed decisions about where efficiencies can be made.

Tenant engagement is a critical part of this process, as reaching target consumption goals often requires behavioral changes. We have also developed our ForeverGreen program specifically to address and impact tenant and occupant behaviors. For that, we work closely with property managers, train them in sustainability initiatives and help them build campaigns with social or theme events, newsletters and posters. Building management may also partner with local businesses to promote green initiatives.

Case in point: Latham Square, Oakland, CA
In 2016, Bentall Kennedy purchased the Latham Square office building in Oakland as part of its focus on buying to facilitate a live-work-play-style tenant demand

A proximate submarket of San Francisco and its booming tech sector, Oakland is a relatively small and established 18-hour city in its own right, with a dynamic population and live-work-play features in place.

Bentall Kennedy sought out Oakland as an emerging, affordable location, with an established residential base and ongoing residential development. This influx of new residents has created a demand for office space, given that rents in Oakland run significantly less than those in San Francisco and office occupancy challenge in San Francisco remains tight.

The building features an architecturally vintage structure, with a U-shaped floor plan that allows for natural light to enter on all sides. Bentall Kennedy is presently working to create unique amenities throughout the street level and in the lobby areas. The building also has operable windows to maximize the natural air flow in the building. A plan is now in place to achieve LEED EB Platinum through Bentall Kennedy’s sustainability program.

An update of the building, combined with the building’s sustainability features, has allowed Bentall Kennedy to maintain positive leasing and repositioning momentum.
BUILDING SPACES MAY BE OUR MEDIUM, BUT PEOPLE'S WELL-BEING IS OUR MISSION. IVANHOÉ CAMBRIDGE BUILDS TO THE HIGHEST STANDARDS, ADHERING TO THE LATEST WELLNESS PRACTICES AND OPTIMIZING ENVIRONMENTAL PERFORMANCE.

REAL ESTATE IS ABOUT MORE THAN BUILDINGS, IT'S ABOUT HOW WE LIVE.

Proud recipient of the GRESB Green Star ranking three years in a row.
What’s a sustainability standout city?

Using our unique city-focused approach, we identify future-proof cities that we believe will be attractive investments both today and in Tomorrow’s World. We analyse each city’s ‘DNA’ in light of a number of global megatrends. Cities with ‘sustainable standout’ DNA demonstrate a resilience to the potential impacts of climate change and are well positioned to capitalise upon the opportunities presented by shifting to a low carbon economy. We have identified these cities by using several assessment factors, such as climate change vulnerability scores, the concentration of voluntary sustainability certifications (e.g. BREEAM or LEED), the air quality, local legislation, and which have electricity grids with a low carbon intensity.

Find out more about our cities DNA analysis at threalestate.com/cities

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