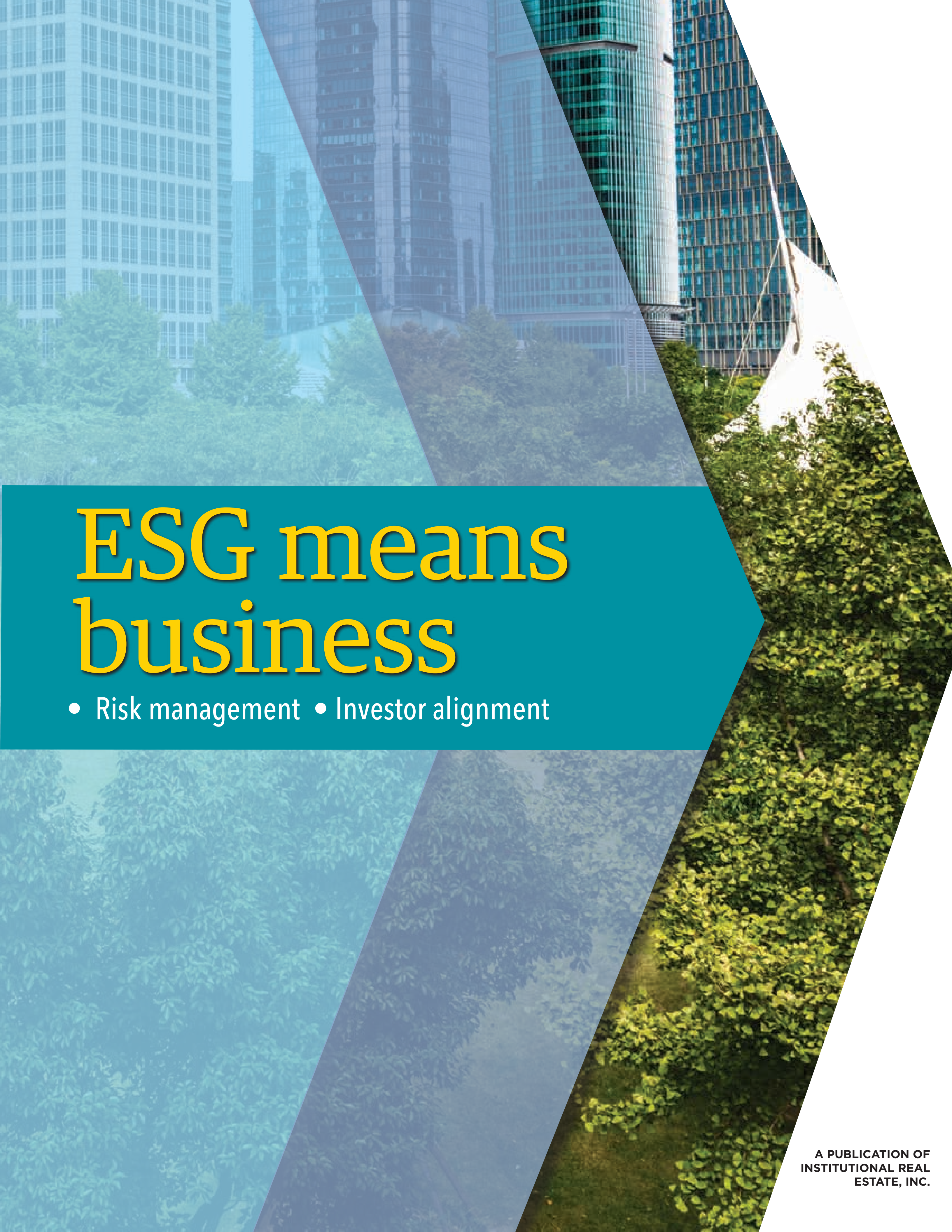

ESG means business

- Risk management
- Investor alignment

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ESG means business

Investors have gotten serious about sustainability and socially responsible property investing

by Loretta Clodfelter

Socially responsible or sustainable investing, which takes into account environmental, social and governance factors, has become serious business for investors in real estate. No longer a niche focus for a few European pension funds, ESG has gone mainstream, as more investors embrace a credo of doing well by doing good.

"Sustainability fits into our overall approach to doing business and fits with our overall business drivers," says Darryl Neate, director – sustainability with Oxford Properties Group, the real estate investment, development and management arm of Canada-based OMERS pension plan.

The business case for ESG

Supporters of ESG point to a compelling business case. On the environmental front, sustainable practices can attract tenants, improve occupancy, provide rent premiums and cut costs, which reduces operating costs to occupants and improves the property owner's bottom line and, therefore, the underlying value of the asset.

"As part of a pension plan, we take a long-term view on all investment decisions," says Neate. "Providing premium office space with leading sustainability technologies maintains our leadership position, drives net operating income and helps fulfill our pension payment obligations. Our commitment to leading the industry in sustainability practices has also helped us continue to lead in occupant comfort, which in turn keeps our customers happy and our buildings well leased."

Nowadays, with a proliferation of green building standards for real estate owners to adopt — LEED, BOMA Best, BREEAM, etc. — certification has become mandatory for a building to achieve class A status.

"It's a negative if you don't do it because so many buildings are LEED certified," says Tom Enger, a managing director with UBS Asset Management, Real Estate & Private Markets.

Real estate has become an example of the benefits of ESG integration. Deborah Ng of the Ontario Teachers' Pension Plan notes the clear relationship, for the real estate sector, between sustainable practices and outperformance, backed by a fairly long history of research and evidence. This empirical evidence can help drive or support activity in other areas of a pension plan's ESG process.

"Our customers have told us they want to be located in buildings that are smart, sustainable and service focused — their employees have told us the same. So in the war for talent, being in a great building is a meaningful advantage," says Neate. "The business case is a natural for us, which is why each of smart, sustainable and service focused are important parts of our business model."

"Sustainable real estate can meet premiere tenant demands supporting their attraction and retention, while focusing on initiatives that decrease ongoing operational expenses. The business case is very strong," agrees Deborah Ng, director – strategy and risk, head of responsible investing, with the Ontario Teachers' Pension Plan.

Real estate has become an example of the benefits of ESG integration. Ng notes the clear relationship, for the real estate sector, between sustainable practices and outperformance, backed by a fairly long history of research and evidence. This empirical evidence can help drive or support activity in other areas of a pension plan's ESG process.

Enger notes commercial real estate's sustainability is very quantifiable compared with other asset classes: "There are property-level scorecards with Energy Star and LEED certification, and there are fund-level score sheets with GRESB, but they don't really have anything comparable for equities or bonds."

A global leader in sustainable investing

Bentall Kennedy has been ranked among the top firms globally for its commitment to sustainable investing by Global Real Estate Sustainability Benchmark (GRESB) for the sixth consecutive year.

At Bentall Kennedy, sustainability isn't only about protecting our environment – vital as that is. Sustainability is also a catalyst for strengthening tenant relationships and continuous innovation.

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More and more studies are finding a link between "green" buildings and enhanced financial performance. Kathleen Mitzschke, assistant fund manager – global indirect real estate with Aviva Investors, notes existing research has found sustainable properties have higher productivity

Measuring success

It isn't enough for an investor to simply say ESG is important. Measuring ESG performance is key. And these days, a whole host of standards exist to provide some quantification for investors in real estate. For example, buildings can be rated by Energy Star and achieve LEED Certification from the U.S. Green Building Council. Competing building standards include BOMA Best in Canada and BREEAM in the United Kingdom and European Union. At the firm or fund level, GRESB provides an annual scorecard that tracks health and wellness in addition to environmental factors for real estate, infrastructure and real estate debt.

For investors, transparency and consistent reporting are key, notes Jennifer Young Stevens, a principal with The Townsend Group. "I am of the belief that a more consistent data set leads to more informed decision making and, therefore, results," she says. "And so, to the extent that we can encourage GPs to start tracking elements like environmental impact and year-over-year NOI savings or energy reduction related to ESG implementation at the asset level, I think that will improve the business case and make for more informed decision making."

"A core focus of our Sustainability Strategies is increasing the quality and quantity of ESG measurement, monitoring and reporting across our portfolios, enabling us to improve our internal benchmarking and set appropriate targets for driving continual improvements in sustainability performance. As such, the use of sophisticated data management systems is playing an increasing role in helping us benchmark ESG," notes Anne Valentine Andrews, managing director with BlackRock.

One of the advantages of real estate is the tangible nature of the assets, and that tangibility means many aspects of environmental performance can be tracked, including energy and water usage, waste and recycling volume, and the use of sustainable materials in construction.

"I can't emphasize enough how the quantitative data actually supports the thesis in a much more believable way than just these qualitative aspects. It is quantifiable data and the consistency of that data that leads to a better system for measuring ESG within portfolios," says Stevens.

There are advantages for investment managers, as well, in tracking and benchmarking ESG.

"Participation within GRESB also enables BlackRock to identify those assets where improvements in environmental performance should be targeted, including those with high carbon footprints and those where efficiency improvements are not being realized," says Andrews. "This, in turn, is factored into the wider business plans and capex strategies for our portfolios. Participation in the benchmark also increases our visibility to other areas where greater focus could be placed, such as ESG disclosure practices, third-party certifications and stakeholder engagement."

Katherine Giordano, head of property multi-manager – Americas at Aberdeen Asset Management, says many real estate managers are already doing a lot of the things LPs are looking for, in terms of green initiatives, but they do not know how to take that data and make it visible to the investors. "There is a lot of low-hanging fruit for managers that they don't take advantage of," says Giordano, "so one of the things that we try to talk about with our GPs is: 'What could you do that isn't going to require a complete refashioning of your investment process and retooling of your people? What do you already do?'"

Especially in the case of value-added or opportunistic investing, many managers are focused on a short-term process of acquisition, improvement, disposition.

Giordano notes that even though some managers might believe developing a green building or retrofitting a building to be more green will help to improve the ultimate sales price, it is very difficult to get them to translate that into tracking and reporting at the fund level.

Managers need to fully embed their focus on sustainability, says Patrick Kanters, managing director – global real estate and infrastructure with APG Asset Management. As part of the drive to develop GRESB in 2009, APG realized embedding ESG factors within its investment process would be crucial, he explains. "Back in 2009, there were different ways of measuring sustainability. There was no one consistent approach to be used across regions and also across both listed and private real estate. That is actually why we established it. We really wanted to start measuring our portfolios and also wanted to be able to compare our portfolios and managers against others to do benchmarking." He adds, based on the measurements of these results, "we have tangible outcomes to further engage with the managers and operators of our portfolios."

— Loretta Clodfelter

and worker satisfaction, lower operating costs, and enjoy green premiums on rental rates and transaction values. "New research suggests this link is not just limited to real estate equity. For example, a study based on more than 22,000 CMBS loans in the United States found that commercial mortgage loans made to assets with Energy Star ratings have a 20 percent lower likelihood of default," adds Mitzschke.

For many institutional investors, real estate has become a poster child for the successful application of sustainable principles leading to improved financial performance. Sustainability drives NOI growth, and LPs have taken notice.

"Different types of investors have different primary objectives, but most place returns at the top of their list," notes Neate. "Oxford has proven to its owner and co-investors that efficient, greener assets deliver more attractive returns."

"As a fiduciary investor in real assets, our primary objective is to secure better financial returns for our clients and the people they serve," agrees Anne Valentine Andrews, managing director with BlackRock. "To achieve this goal, we must ensure the long-term sustainability of the investments we make, and we consider the ESG factors as key pillars of long-term value creation and value protection, with real and quantifiable financial impacts over the life of our investments."

Andrews adds: "Whilst return on investment and long-term value remain key drivers, our business case for ESG investing is broad, and we ultimately believe that such factors help drive improved risk management, greater engagement with boards of directors and enhanced stakeholder relations."

Jennifer Young Stevens, a principal with The Townsend Group, agrees the business case has been made by a number of different organizations over time — "and that in itself leads to additional credibility." Stevens, who is the point person for ESG issues at Townsend, notes most LPs and GPs have now accepted the business case for sustainability in real estate.

A decade ago, notes Stevens, the real estate industry was only beginning to look at whether a business case could be made for sustainability. "At that time, there wasn't enough data available to quantify the business case, and so the effort became focusing on improving the quality and consistency of the data that was being reported to support the business case," she says.

But now, with the increased focus on gathering data and improving measurement, the business case has come into much sharper focus. "We are starting to see real data that is supporting the business case that many asset owners thought existed," says Stevens. "Until we had enough data to support that, we couldn't develop a thesis around it, so we have spent time tracking data related to the costs and savings of implementing an ESG strategy over time."

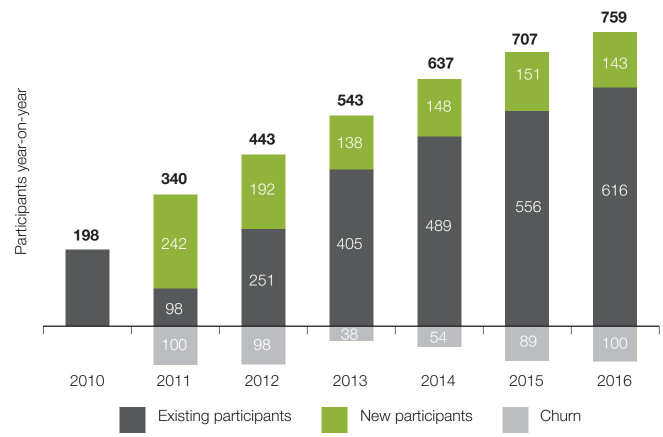
Supporting risk management

A focus on ESG also can help investors manage risks in their portfolio. Considering environmental factors, real estate managers are beginning to focus on resilience and how to future-proof a portfolio. And prioritizing governance issues can be an indicator of management quality.

"Directly embedding good ESG practices into our investment process will provide a degree of future proofing, for instance, by ensuring buildings do not become obsolete early or reducing the risk of reputational damage," says Mitzschke.

"Things change in the space around commercial real estate — the expectations of our customers change, regulations change and technologies change. Having a corporate focus on sustainability helps us respond to those changes

GRESB participation



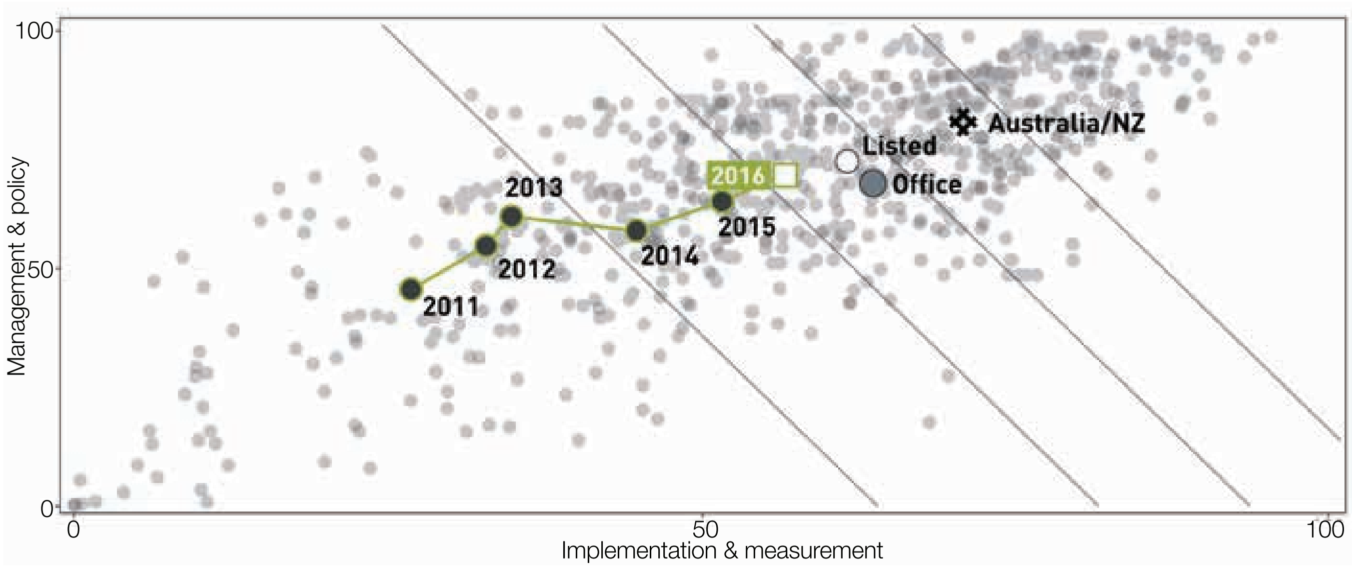
Source: GRESB

as well," says Neate. "A focus on sustainability supports our goal of ensuring that our assets remain competitive."

ESG often requires a holistic approach. Enger points to the due diligence for a recent acquisition that included looking at the benefits of integrating smart building technology. The cost of the technology was included in the underwriting for the project, explains Enger. In addition, the process also included a discussion of resilience, and how that could be enhanced. "For this same property this resulted in the decision to implement a Building Occupancy Resumption Program — BORP — that would enable the building to resume operations faster in the event of a major seismic event," says Enger.

"In our view, the consideration of ESG risks and impacts is crucial in determining all risks and impacts associated with any potential investment in both real estate and infrastructure," says Andrews. "When evaluating all of our investments, potential ESG factors and risks that may have material economic consequences throughout the investment lifecycle are fully considered by the investment management team, and such issues are also considered within the wider investment strategies and risk assessments." As standard procedure at BlackRock, she notes, comprehensive risk assessments that address ESG are performed prior to, and during, the acquisition of all assets to ensure sustainability policies are properly integrated.

GRESB model



Source: GRESB

"ESG performance, risks and opportunities are comprehensively analyzed for all new acquisitions and are further factored into our risk assessment and business plan processes for holding, disposal and asset management strategies," adds Andrews. "Issues that are considered include, but are not limited to, energy efficiency, energy supply, water efficiency, waste management, biodiversity, flood risk, contaminated land, climate change adaption and climate risks."

An argument in favor of ESG investing made consistently by investors is this: Companies that are outperforming on sustainability are likely outperforming on other things as well, and therefore it is a proxy for management quality, and management quality is a key driver of returns.

"Awareness of ESG issues by management — in itself — is an indicator of good management, a key determinant in investor returns," argues Mitzschke.

"You want to be investing with organizations that think about the long term and have a long-term view," explains Katherine Giordano, head of property multi-manager – Americas at Aberdeen Asset Management. She notes the degree to which real estate investment managers embrace and adapt to environmental and social factors will indicate whether they are serious, long-term investors. "I think it is a good way to gauge the character of the people you are dealing with," adds Giordano.

"Our primary focus is on the G, the governance, and I think that is a crucial part of what we do," says Giordano. During the underwriting process, her organization evaluates what level real estate investment managers are at, from an institutional standpoint, in their governance. She notes Aberdeen's multi-manager team conducts a thorough review of any fund documents, with one of the main objectives to understand the governance "and is that, among other considerations, something that we are comfortable with, or if it is not, how do we feel our efforts will be to try to push for better standards."

"If anybody is not focusing on longer term ESG issues, they are just not doing the job properly," says Garrie Lette, CIO of Australia-based Catholic Super. He notes a focus on ESG is "absolutely" about risk and return for his organization, and not an imperative to invest ethically without any concern for returns.

A focus on ESG "gives us a broader focus or lens when we consider all sorts of investment risks, so if you are just focused on financials, you may not see something that is more future-looking," says Ng. She notes a company with poor health and safety practices is going to have that catch up with them, in terms of disruptions in their operations or lost time at work or lower productivity.

"It is the view of BlackRock Real Assets that interest in ESG investing continues to gain momentum, and that more investors are now realizing the environmental, social and economic benefits of these policies," says Andrews. "BlackRock also believes that sustainability performance will increasingly impact the capital and yield values of real assets, and that the future investment performance of real estate and infrastructure portfolios will be increasingly affected by their ESG performance."

The main benefit of an ESG policy is it improves the risk/return profile. But for some investors, the social responsibility aspect goes hand-in-glove with risk mitigation and increased returns.

"It is our social responsibility to appropriately account for ESG factors in our portfolios," says Patrick Kanters, managing director – global real estate and infrastructure with APG Asset Management. "And, equally important, embedding sustainability properly in our portfolios will actually mitigate risk going forward or even increase returns of our portfolios." Kanters says embedding a focus on sustainability throughout an organization will have both financial and non-financial benefits.

Other investors have found similar connections between ESG practices and high performance.

Real estate debt: ESG benchmarking for lenders

As forward-thinking multinational banks implement green lending programs, the competitive landscape shifts. Leading real estate lending platforms benchmark ESG metrics against global peers to acquire business intelligence into market conditions, reveal emerging trends and inform financial product innovation.

The GRESB Real Estate Debt Assessment is tailored to primary lenders — banks, insurance companies, mortgage REITs and private equity funds. Participants identify ESG policies, risk underwriting processes and property collateral attributes related to both loan origination and ongoing portfolio monitoring.

Similar to the organization's scorecard of real estate private equity investors, GRESB offers real estate lenders an ESG benchmark utilizing a pragmatic, trackable set of key performance indicators (KPIs). Lenders receive an annual scorecard useful to:

- Management gap analysis and target setting
- Risk management process improvements
- Market insights informing new or enhanced loan products

The 2017 update builds upon two years' prior effort to acquire ESG insights into the private equity debt fund investments held by a number of GRESB investor members. Aggregated results to date show:

- 40 percent of investor members review borrower sustainability performance during due diligence
- Less than 30 percent of investor members have monitoring system(s) to track ESG KPIs in the loan portfolio
- Only one in six investor members track borrower ESG-based risk metrics during loan term

Early multinational bank leaders such as ING Bank and ABN AMRO use the GRESB Debt Assessment to benchmark their lending programs, and assess business unit implementation of broader corporate mandates. Private equity fund participants — including UBS Asset Management, Colony Capital, Standard Life, LaSalle Investment Management, Hermes Real Estate Investment Management, TH Real Estate, Aviva Investors and Syntrus — acquire data-driven, KPI-based insights useful to evolving risk management practices. All participants utilize their individualized GRESB Benchmark Reports as a toolkit to inform forward business planning and stakeholder communication efforts.

More expansive efforts to incorporate ESG elements into loan origination, risk analysis and portfolio monitoring are under way by a trio of Australian banks — Westpac, Commonwealth and ANZ. Each maintains a series of lending programs targeting energy efficiency equipment upgrades.

Westpac led Australia's first green bond transaction in 2015, using this positive experience to implement a portfolio mandate whereby a growing percentage of new loan originations must have a green component. Westpac now tracks all originated loans to include capital expenditure carve-outs for energy-efficient retrofits, those secured by certified green buildings, or fund on-site or off-site renewable energy projects. As a U.N. Principles for Responsible Investment signatory, resultant metrics and KPIs are used to report progress both internally and externally.

In early 2017, Fannie Mae issued a two-tranche, 30-loan $1 billion green REMIC to bond market investors, receiving an overwhelmingly positive capital market response. The business strategy, product innovation and internal system specifications required by Fannie Mae to identify and underwrite green loans into packaged securitizations was built over multiple years, designed to satisfy the capital market requirements of green bond buyers.

With $3.6 billion in 2016 green loan originations, Fannie Mae is well positioned to serve borrowers with green projects and investors placing capital into green bonds.

Prior year GRESB results demonstrate how sustainability-related issues are moving higher up the radar for property developers, fund managers and institutional investors in the real estate and infrastructure sectors. GRESB participants clearly exhibit a range of market behavior. Certain firms display ESG risk management leadership; others remain disengaged (at best) or have a track record littered with blemishes. Understanding a borrower's ESG engagement profile, or lack thereof, provides direct utility to major commercial real estate loan transactions.

Starting on April 1, real estate lenders around the globe have the opportunity to participate in the updated GRESB Debt Assessment.

GRESB Investor Members welcome the opportunity for real estate lenders to utilize the GRESB Debt framework as they set about formulating ESG programs and/or improving existing ESG metrics. The 2017 assessment capitalizes on knowledge offered by industry leaders including ABN AMRO, Colony Capital, ING Bank, UBS Asset Management and others.

Please visit GRESB.com to set up your organization's account or contact me at d.winters@gresb.com for further information.

— Dan Winters, CRE
GRESB Head of Americas


At Invesco, we're dedicated to delivering an investment experience that helps you get more out of life
For us, at Invesco Real Estate, a crucial component of this is being a sustainable investor, which is engrained in our business philosophy – for the benefit of our clients, our tenants, our business partners and our staff.
We are proud to have our efforts recognised in 2016, which includes:
- Being awarded a Global and regional GRESB Sector Leader for three strategies
- Achieving 1st in their respective peer GRESB group for three strategies
- Green Star rated for five of our strategies by GRESB
- LEED-certification in the US and Europe
- ENERGY STAR® certification across offices and multifamily in the US
- 35% of properties are CASBEE S- or A-Ranked in Japan
- An average NABERS score of 5.5 Stars for properties in Australia
This means that sustainability is not just a badge-wearing exercise at Invesco Real Estate:
- We have a global sustainability policy and share best practise across our business
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- We work closely with key stakeholders to deliver on this global plan
Invesco Real Estate is proud to be a sustainable investment manager.
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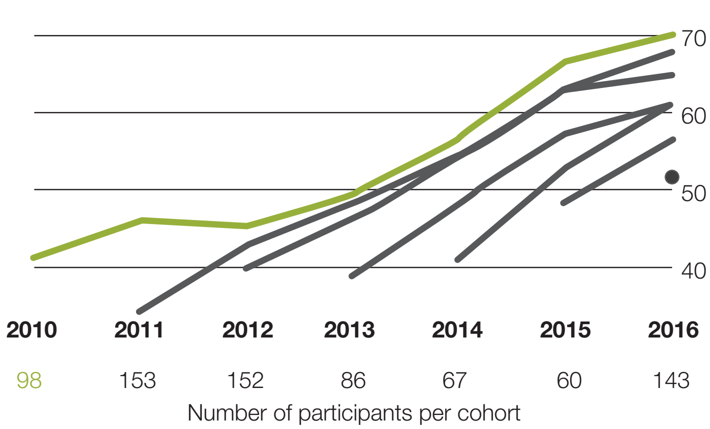
Photo: The Edge, designed by PLP Architecture, photo by Ronald Tilleman ©2017

The Edge in Amsterdam, developed by OVG, is considered Europe's greenest building. The property, which serves as the Amsterdam corporate headquarters for Deloitte, was rated Outstanding by BREEAM.

"At Aviva Investors, we have long believed that businesses managed in a sustainable and responsible way are more likely to outperform over the long term," says Mitzschke.

"We think having our managers focused on those issues is just a better way of avoiding unnecessary risks and hopefully capturing some opportunities from the gradual transition to a more sustainability-focused world," says Lette.

Performance trends — GRESB cohort analysis



Source: GRESB

An investor-directed approach

Once the business case has been established for an organization, there is an impetus for ESG to be incorporated at the portfolio level or even at the real estate or real asset level. And a dedicated focus on ESG has to be integrated throughout an organization.

According to APG's Kanters, the organizations most successful on the ESG front are those where "sustainability is fully embedded, so it is not necessarily in a separate department, it's really integrated, it's really a part of the DNA," says Kanters.

"LPs are starting to work to establish a framework for implementation," says Stevens. They will generally create, adopt and try to implement a responsible investment policy that would require the measurement of ESG activities within a portfolio with the goal of publishing an annual report that goes to the board, she explains.

"Our approach to ESG is about a process rather than a product or a type of investment, so our approach has been working across the plan with all our portfolio managers and our real estate manager to assist them in incorporating environmental, social and governance considerations in the investment process," says Ontario Teachers' Ng.

Future trends in ESG

The next frontier for ESG will likely involve increased awareness of social factors, while environmental initiatives get increasingly sophisticated.

On the social side, investors are increasingly looking at health and wellbeing. Patrick Kanters, managing director – global real estate and infrastructure with APG Asset Management, notes GRESB has added health and wellbeing to the survey.

"Health and wellness is an emerging area of focus," says Darryl Neate, director – sustainability with Oxford Properties Group. "We are currently piloting the WELL standard at our MMP Tower in Vancouver and implementing more sophisticated wellness practices across the board."

"While E, S and G are all important factors, I think that the social component will come into the spotlight in 2017," says Kathleen Mitzschke, assistant fund manager – global indirect real estate with Aviva Investors. She points to the United Kingdom's Public Services Social Value Act, which requires public authorities to have regard to economic, social and environmental wellbeing in connection with public services contracts. "While the Public Services Act has been in effect since 2012, recent examples suggest that local authorities are beginning to increase the weighting of social value in determining the winner of any tenders for contracts — some as high as 20 percent," adds Mitzschke.

On the environmental side, the No. 1 factor for commercial property continues to be energy usage. But a number of new technologies are emerging to assist building managers.

"Energy management has been a real area of focus for us for over a decade," says Neate, "but what's new is being able to better understand, analyze and act on real-time data to drive performance improvement." He adds: "Structure and discipline around energy management at our company has dramatically increased."

Tom Enger, a managing director with UBS Asset Management, Real Estate & Private Markets, says another new technology being developed involves energy storage using onsite batteries, which can be filled with either solar power or late-night lower cost electricity from the grid. "Then the building will pull the power from the batteries during peak demand to shed peak load off the grid and provide an economic benefit for your tenants," says Enger.

Enger also notes smart building technologies are improving rapidly. "We've had very good payback and energy savings from more sophisticated fault detection smart building technologies," says Enger.

"We also focus on the resources and materials used in our buildings. Our development and construction team has undertaken substantial work to understand the research and science behind different material types, and to understand where we can introduce materials that are less impactful on the environment than others," says Neate. He also notes there are some materials and design specifications that actively promote and improve human health, which is a win for everyone.

Resiliency is another emerging area of focus. A changing climate can mean additional challenges for long-term building owners. Enger notes a large part of increasing resilience at the property level includes due diligence to identify potential risks, and then developing or modifying a property to address the most significant risks, "whether that be wind or climate change, rising tides and potential flood, or earthquakes." In San Francisco, property investors can set up a BORP, a Building Occupancy Resumption Program, which allows building owners to pre-certify a private inspection of their buildings by qualified engineers that would take place post-earthquake or other disaster.

"I'm a little surprised that the BORP is not available in more cities than it is," says Enger. "I think it's a great program."

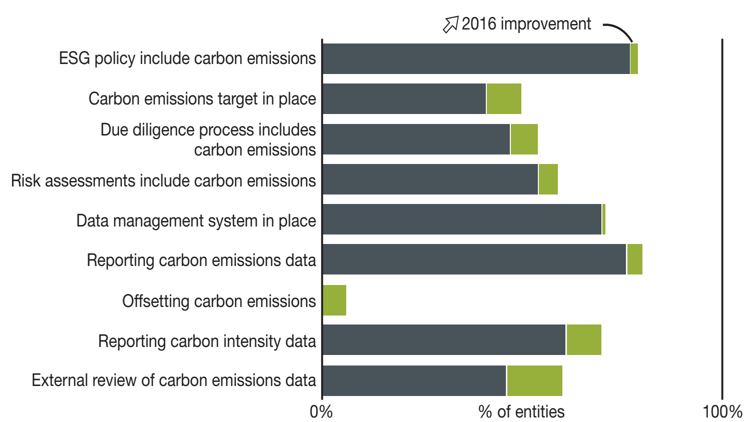
The future of ESG is so bright, building managers will have to wear shades.

— *Loretta Clodfelter*

Process over product type is key for many investors, whose key investment decision is the appointment of managers, so ESG factors are reviewed during the selection, appointment and monitoring of managers. For many investors, that means a detailed ESG due diligence questionnaire that must be filled out as part of the organization's broader due diligence. This includes questions on the firm-level policy, philosophy and approach around ESG as well as how a company incorporates ESG in investment decisions around particular assets and how it is incorporated in the firm's ongoing asset management program. In addition, an investor might want to know how a firm reports its ESG-related actions to investors and the broader community, in which ESG initiatives a manager might be involved, and how the firm might be more broadly supporting

Melbourne's 321 Exhibition St. office tower has achieved a 6 Star NABERS rating, the first for a retrofitted building in the Australian state of Victoria, and also marking the first time a 25-plus year-old retrofitted building has achieved the maximum NABERS performance rating in the country.

Carbon management



Source: GRESB

responsible investment within the sector. When a manager is hired, an investor might incorporate ESG requirements into the mandate with a manager, which include acting in accordance with the superannuation fund's policy and reporting on a range of ESG criteria. And manager mandates also could include participation in GRESB as a requirement for investment.

"We're starting to see some investors actually mandating their managers to respond to GRESB and have GRESB scorecards sent to them on an annual basis, or they won't even look at you to manage their money for them," says Wayne Zorger, a director with UBS Asset Management. "That's something new within the past couple of years."

"The investors are the ones who push the managers to do this work," says Giordano. By which she means the work of tracking and reporting ESG initiatives. She notes, even if a real estate investment manager is developing or buying a LEED certified building with an eye toward a higher sales price, "that doesn't mean that they want to have a process and someone in-house that they are going to pay a full salary to oversee all of that."

"The managers who are the strongest in this area," says Giordano, "if I had to guess, they have Dutch LPs or Australian LPs or Canadian LPs, or they have union investors."

In Australia, many of the superannuation funds were initially founded by labor unions, and the labor union movement had a social justice underpinning. And it was Dutch investors who were involved in the initial creation of GRESB — the Global Real Estate Sustainability Board, at the time, notes Kanters. "It was APG together with the University of Maastricht and PGGM," he says.

It is clear the push for ESG investing must come from investors. A decade ago, that push was primarily coming from European and Australian investors. But U.S. and Canadian investors are catching up.

"I've been responding to these client and consultant questionnaires at UBS for about 10 years, and at the beginning it was only European clients and potential clients that would ask these questions. Over the last couple of years, more and more U.S. clients and consultants are getting involved," says Zorger.

"Amongst our client base, the investors that have ESG initiatives either at the total plan level or at the real estate level — and most of them start at the total plan level — half of them are ex-U.S. investors," says Townsend's Stevens. She notes the European and Australian investors were the ones who began adopting and measuring ESG criteria in their real estate portfolios early on. "The United States has always been viewed as a laggard, but I think that this is picking up, as we are seeing more U.S. clients and managers become signatories [to the U.N. Principles for Responsible Investment], and also members of GRESB as well," says Stevens. "It is changing."

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Upcoming Events

2017 Spring Editorial Advisory Board Meeting
Institutional Real Estate Americas
April 25–27, 2017
Fairmont Grand Del Mar
San Diego, CA USA

2017 Institutional Investing in Infrastructure (i3)
May 24–25, 2017
Shangri-La Hotel Toronto
Toronto, Canada

2017 Fall Editorial Advisory Board Meeting
Institutional Real Estate Americas
September 12–14, 2017
Chatham Bars Inn
Chatham, MA USA

2017 Editorial Advisory Board Meeting
Institutional Real Estate Europe
September 26–28, 2017
Althoff Seehotel Uberfahrt
Rottach-Egern, Germany

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people data insights

At One World Trade Center in New York City, rain water will be harvested to be used in the high-efficiency cooling towers and to water the extensive greenery on the site. A highly efficient central chiller plant will siphon water from the nearby Hudson River, converting it to cool air for the entire site.

One of the challenges in the early days of sustainable property investing was the lack of a global standard. Stevens points to the differences across regions in terms of how sustainability was measured, "and so there has been a real effort in the ESG community to create a consistent form of measurement or at least bring into play all of the different forms of measurement that exist."

Investors in Europe have provided a lot of leadership on ESG issues, which has helped the practice to develop in other parts of the world. When Ontario Teachers began its ESG initiatives, the pension plan looked to investors in Europe to see what programs they have in place, says Ng. "We looked a lot to our European peers," she says. "The Europeans have a much longer history of thinking about it and evolving that practice."

As APG's Kanters sees ESG practices: "It is just an extremely important element that you have to take into account to be successful going forward."

Investors are serious about ESG

Investors in real estate and other real assets have gotten serious about the case for ESG. Sustainable investment practices have shown clear performance advantages, as investors look for value creation, risk management and alignment of incentives.

"The hope is the value and relevance of ESG is so clearly understood that we don't need to call it out as ESG," says Ng, "or set it out separately in a sustainability report so readers see that we manage ESG risks. If one were to ask, 'When does ESG get to the next level?' I think that is when it gets there." ❖

Loretta Clodfelter is editor of *Institutional Real Estate Americas*.

About GRESB

GRESB is an investor-driven organization that is transforming the way institutional investors assess the environmental, social and governance (ESG) performance of real assets globally, including real estate portfolios and infrastructure assets.

More than 250 members, of which about 60 are pension funds and their fiduciaries, use the GRESB data in their investment management and engagement process, with a clear goal to optimize the risk/return profile of their investments. GRESB has assessed nearly 1,000 property companies and funds, jointly representing more than USD 7.5 trillion in assets under management, as well as almost 200 infrastructure assets and funds.

GRESB's objective is to provide real assets investors and managers with the tools they need to accurately monitor and manage sustainability performance of participating funds and companies, and to prepare for increasingly rigorous ESG obligations. Institutional investors use GRESB to acquire credible quantitative data, based on relevant metrics, useful to investment decision-making processes to identify portfolio risks and opportunities.

The global property and infrastructure sectors are at the heart of the most important and far-reaching issues of our time including urbanization, demographic change, resource constraints, environmental impacts and emerging technologies. The design, construction and operation of assets reflects, drives and potentially mitigates the impact of all of these issues on occupants, owners, communities and the society at large. Investors can create better places for people and communities — places that reduce environmental impacts, improve social practices, are healthier for occupants — and set high standards for corporate governance. Crucially, leadership on ESG issues can be done in a profitable way, reducing investment risk and driving solid business metrics while also rewarding innovation.

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