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ESG Investor Survey 2019

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ESG Investor Survey 2019

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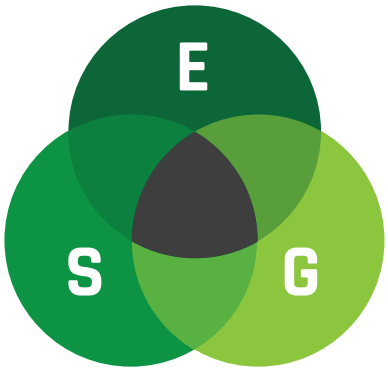
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Insight

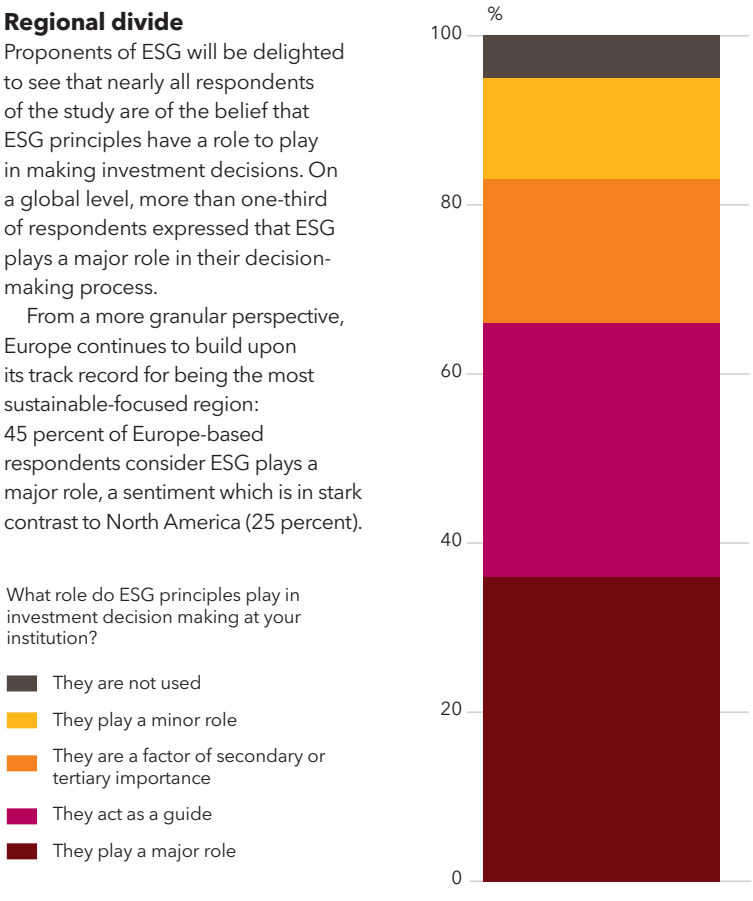
PERE ESG Investor Survey 2019 **Environmental, social and governance concerns play a crucial role in many investment decisions, especially in Europe, suggests our latest poll of institutional real estate investors**

ESG factors are of increasing importance to institutional investors in the real estate sector, according to the *PERE ESG Investor Survey 2019*. The survey, sponsored by LaSalle Investment Management, shows that environmental credentials and governance are key considerations, especially throughout the due diligence process. There are, though, clear regional differences in ESG attitudes, ***writes Nicole Douglas***, *PERE*'s head of investor research. The following eight charts showcase findings from the study and offer a closer look at investor sentiment.

Regional divide

Proponents of ESG will be delighted to see that nearly all respondents of the study are of the belief that ESG principles have a role to play in making investment decisions. On a global level, more than one-third of respondents expressed that ESG plays a major role in their decision-making process.

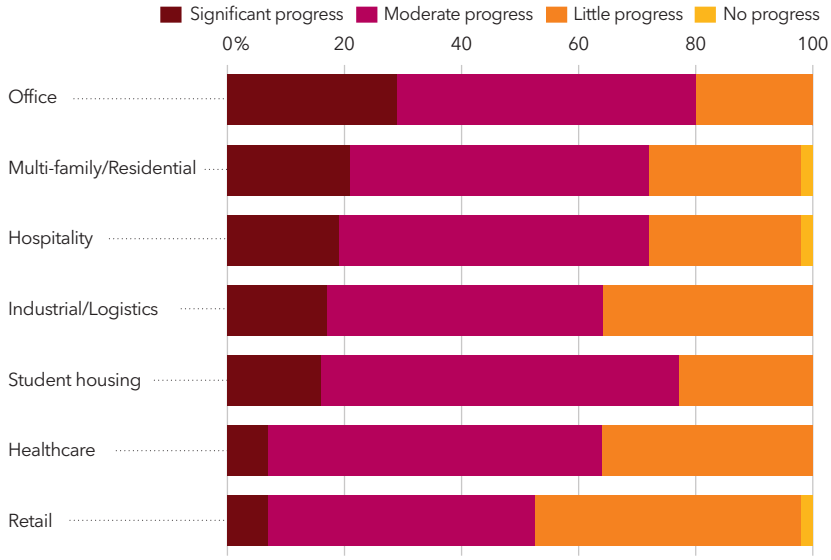
From a more granular perspective, Europe continues to build upon its track record for being the most sustainable-focused region: 45 percent of Europe-based respondents consider ESG plays a major role, a sentiment which is in stark contrast to North America (25 percent).



Sector disparity

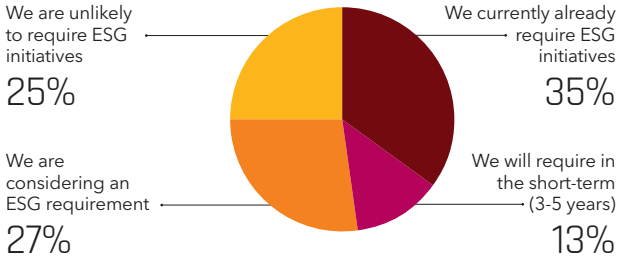
Real estate investors are paying closer attention to the level of ESG commitment across sectors. Our study reports that most investors have experienced moderate or significant progress toward ESG commitment, though the level of progress varies across sectors. Investments into office space have made the greatest stride, with 80 percent experiencing moderate or significant progress. On the other hand, 48 percent of investors have experienced little or no progress with retail investments. Looking ahead, this disparity will become more notable as ESG commitment becomes a more important factor in the decision-making process.

What level of progress do you see in the following private real estate sectors in terms of commitment to ESG?



Mounting pressure

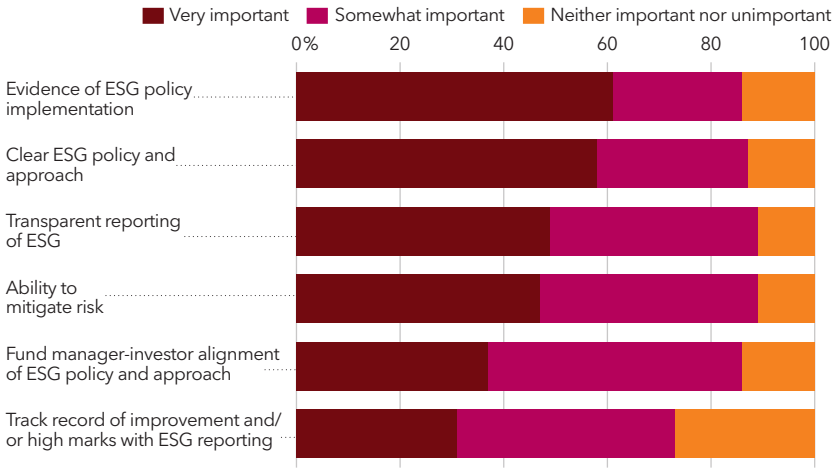
Our study found that investor sentiment in favor of ESG initiatives is on the up: 35 percent of investors already require private real estate firms to implement ESG initiatives, with 13 percent making this a requirement over the next three to five years. Fund managers will do well to embrace ESG as a core part of their proposition, especially as nearly half of all respondents said that they would not invest with a manager that does not have a defined ESG policy.



Need for transparency

When it comes to carrying out due diligence on fund managers, ESG takes center stage for many investors: 61 percent of respondents believe that evidence of ESG policy implementation is very important, followed by a clear policy and approach. With investors paying closer attention to transparency, the ability to demonstrate ESG integration becomes a greater and more important challenge for fund managers to face.

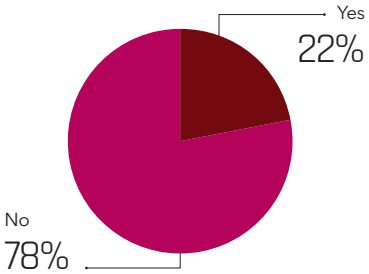
When carrying out ESG due diligence on fund managers, how important is each of these factors?



Room for improvement

It is clear from our study that investors are becoming more focused on ESG integration, though there remains room for improvement. Globally, less than a quarter of investors work to a policy whereby investment is restricted with managers that fail to meet certain ESG due diligence criteria. In North America, only 7 percent of investors work to such a policy, though this is unsurprising given that 85 percent of these investors would consider investing with a manager that does not have a defined ESG policy.

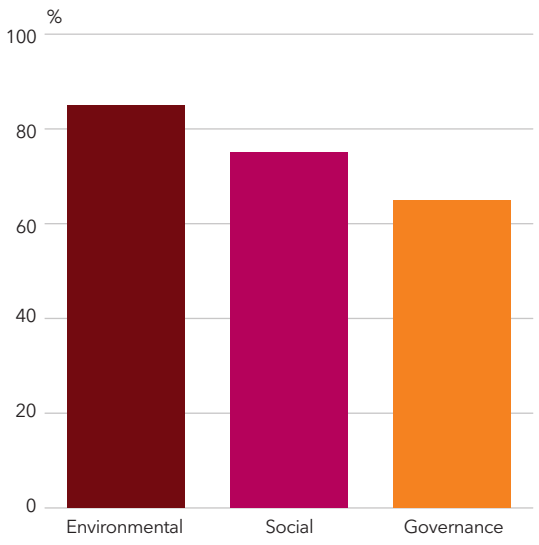
Does your institution have a policy/ practice in place that prevents investment with a fund manager if they fail to meet certain minimum ESG due diligence criteria?



Looking for returns

Respondents had a clear view on the ESG component that has the greatest influence on returns. Of the three components, investors believe environmental factors are the most likely to affect investment returns, with social in second place.

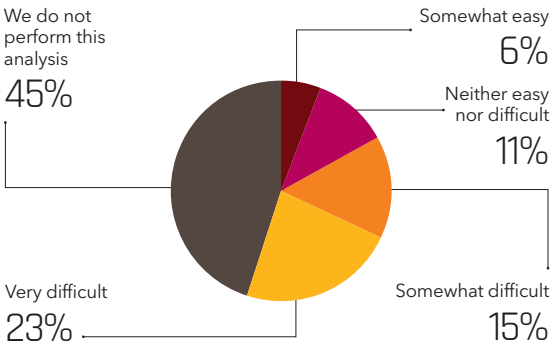
Please indicate which ESG factors you believe influence investment returns



Measure for measure

Measurement is one of the greatest topics of discussion among investors and fund managers. Over half (55 percent) of investors measure the correlation between the strength of a fund manager's ESG policy/initiatives and the investment return they are seeing. Of the investors that do measure this correlation, the majority find this to be somewhat or extremely difficult. A mere 6 percent of investors said measuring this correlation is easy.

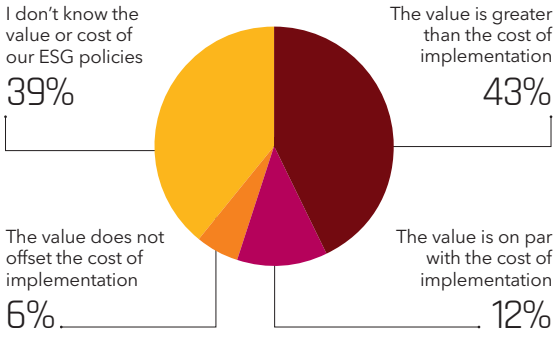
How easy it is to measure the correlation between the strength of a fund manager's ESG policy/initiatives and the investment return you are seeing?



Valued approach

Supporters of ESG will also be pleased to read that overall, investors are optimistic about the value versus cost of ESG policy implementation: 43 percent believe the value of ESG is greater than the cost of implementation, with a further 12 percent stating that the value is on par: just 6 percent of investors consider the cost of implementation to outweigh the value.

Which of the following statements best describes your experience in terms of the value that a manager's ESG policy generates?



Nicole Douglas is head of investor research for PEI's Research & Analytics department. In addition to overseeing the *PERE ESG Survey 2019*, she is also responsible for the annual *Macquarie PERE Global Investor 50*, ranking the largest institutional private real estate investors.

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Editor's letter

ESG is on investors' minds



Helen Lewer
helen.l@peimedia.com

ESG has become a core talking point in the private real estate investment world. You will be hard-pressed to attend an industry event or conference where the issue is not discussed and debated to some degree. But is it just chatter; a mere verbally expressed desire to invest capital and manage portfolios responsibly to meet the ever-growing list of criteria from climate resilience to health and wellness? Or are these conversations backed up by demonstrable commitments by investors to drive forward the ESG agenda by being proactive on the issue within their own organizations, and through careful selection of the managers to whom they allocate capital?

Here at *PERE*, we were eager to take a deep dive into these questions. And we went straight to the horse's mouth for answers – the institutional investors themselves. The outcome is the survey within these pages, conducted in partnership with manager LaSalle Investment Management. And the findings yield some compelling insight and much for contemplation.

Happily, many good news stories emerge; too many to cover in this short note. But let us put a spotlight on a couple of them. A whopping 95 percent of investor respondents report that ESG plays a role in their investment decision-making, while 70 percent profess to having an explicit ESG policy in place. Further, these investors – 86 percent – deem it important for managers to evidence a clear ESG policy at due diligence. So managers beware – ESG is very much on investors' minds and they are going to quiz you on what you are bringing to the table.

But – there had to be one – some findings are a red flag that the industry has some work remaining to put ESG right at the heart of the investment agenda. Fifty-seven percent of respondents will consider going ahead and investing with a manager without a defined ESG policy in place. And investors highlight their struggle to correlate a manager's ESG policy to actual investment returns – only 6 percent find this an easy exercise; 45 percent do not bother with this analysis at all. And from this single finding emanates perhaps the most important message – more needs to done to develop a clear methodology that allows investors to assess the value ESG delivers to the bottom line.

Enjoy the report.



Helen Lewer

The LaSalle view **ESG is a moral imperative and a fiduciary duty for private investment managers**



Expert analysis by **Eric Duchon**, Global Head of Sustainability

The real estate investment sector, both private and public, is in a period of ESG evolution with institutional investors and managers determining the actions they will need take over the short, medium and long term to address climate change. We are all driven by the Paris Agreement goal to keep the increase in global average temperature to well below 2C above pre-industrial levels and to limit the increase to 1.5C. The actions required are broad, from redlining geographical areas due to physical climate risk to hardening physical property assets to make them more resilient, from implementing retrofits to reduce onsite consumption at assets to offsetting carbon emissions through renewable energy credits and virtual power purchase agreements, from creating green spaces at the properties we own to engaging with our tenants. Our industry has an obligation to think about these issues beyond today.

ESG in the investment strategy

Investors of all types, public REITs, consultants and private investment managers, recognize the need to price ESG factors into the investment thesis. At LaSalle Investment Management, we undertook a detailed exercise with our parent company, JLL, to identify the UN Sustainable Development Goals (SDGs) that are most material to our business. Following guidance published by the Global Reporting Initiative, the UN Global Compact and the World Business Council for Sustainable Development, we mapped the value chain impacts of the SDGs. This exercise has enabled us to understand the most significant upstream and downstream impacts on our business and from that to prioritize the actions where we have the greatest potential to make a positive contribution and to mitigate any negative impacts.

As such, we added environmental factors to our investment strategy to form the Demographics, Urbanization, Technology + Environmental Change program, which is our map of the megatrends and demand drivers in the current real estate market that are influencing investment decisions. We did this given our belief that multiple environmental issues will exist as long-term demand drivers, which must be considered for all acquisitions as a fiduciary to our investors. In conjunction with the social issues we already recognized through the lenses of demographics and urbanization, adding these environmental factors rounded out ESG in our investment approach. Through this work, we have the opportunity to capture a 'green premium' by improving the ESG credentials of the assets acquired and managed by LaSalle Investment Management.

The connections between the six SDGs we consider material and our investment strategy are clear. SDG 13 on Climate Action aligns to climate change impacts in our Environmental Change pillar in the DTU+E; SDG 7 on Affordable and Clean Energy ties in to our Technology pillar and energy efficiency drivers in our Environmental Change pillar; and our pillars of Demographics and Urbanization tie into SDG 3 Good Health and Well-Being, and SDG 8 Economic Growth and SDG 11 Sustainable Cities.

Developing an eco-system of stakeholders

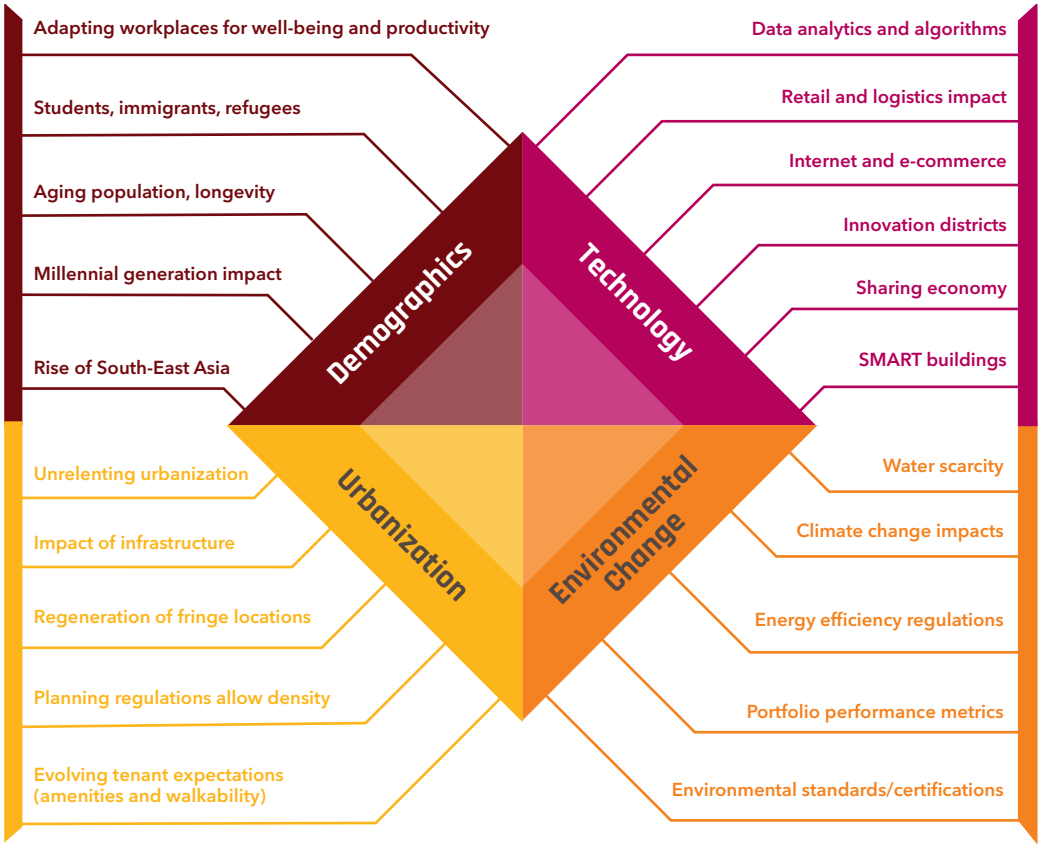
Private investment managers cannot meet global ESG and sustainability goals alone, so, in 2017, we developed a framework, called the 'Eco-System of Stakeholders.' Reflecting on this framework, there are clear ties to ESG factors that have become even more prominent today, almost two years later. The work being done by The Taskforce on Climate-Related Financial Disclosures (TCFD) has since both formalized and socialized the terminology being used to discuss climate change risk to the associated physical and transition risks. Perhaps we were a bit ahead of our time before this teminology became commonplace.

Physical climate change risks in the eco-system:

- from a tenant's perspective, climate change is a factor to consider for enterprise risk management and disaster recovery planning;
- the insurer's perspective begins to

Six UN Sustainable Development Goals material to LaSalle's investment strategy





LaSalle's DTU+E investment approach: environmental change is one of the key megatrends impacting real estate investing

quantify the potential financial impact that physical climate change risks – floods, wind, wildfires, earthquakes, droughts – have on insured portfolios. We even identified the need for insurers to further develop models and applications to supplement traditional pricing practices based on historical loss experiences;
- neighboring market perspective: disaster preparedness plans that make a property and an entire district more resilient to extreme weather events.

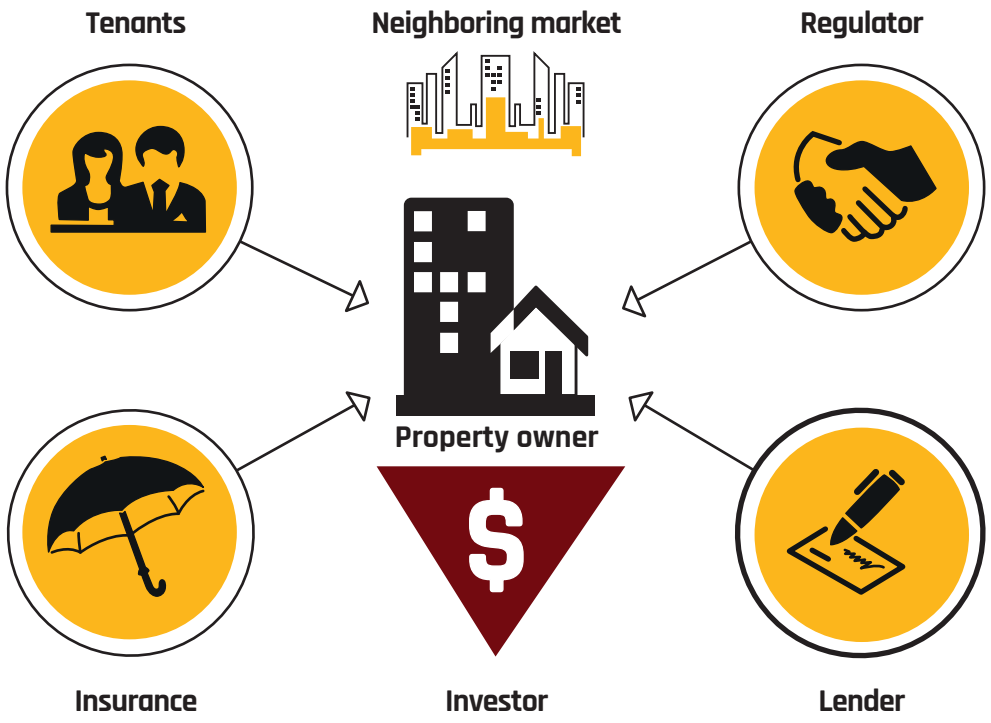
Transition climate change risks in the stakeholder eco-system:
- the regulator's perspective is driving transition risk, as government-driven ESG initiatives are increasing both on a national and local scale in order to reduce carbon emissions;
- neighboring market perspective: voluntary efforts in local communities – farmers' markets, ride-sharing, bike-sharing, for example – often promote sustainability and healthy living and are initiatives that extend beyond the perimeter of a single building, thereby reducing the carbon footprint of an entire district.

As a property owner in the lens of this framework, investment managers like LaSalle Investment Management must be both proactive and reactive to both physical and transition climate risks. In order to be proactive, we continue to participate in the United Nations Environmental Programme – Finance Initiative pilot project on implementing the TCFD recommendations externally, leveraging this work to further ESG in our investment strategy and to develop our house approach to pricing climate risks.

How ESG factors interact

ESG covers a broad set of objectives, as evidenced in the results and perceptions from the survey. When LaSalle Investment Management added environmental factors to its house investment strategy to form DTU+E, we recognized that sustainability, and even the acronym ESG, is often understood to only apply to environmental issues. While investment managers and investors alike would agree that environmental factors are the most likely to influence investment returns, this is due to the fact that environmental factors are the easiest to quantify. A building with gross leases that implements an LED retrofit potentially reduces utility expenses by $50,000 annually. Capitalized at 5 percent, this is a $1 million addition to that asset's valuation. While this is easier said in this simple example than achieved in reality, it has been a great driver of environmental investments in real estate.

However, across the eco-system of stakeholders, we need to address environmental, social and economic factors in order to endure and hopefully thrive in the long term, and certainly in the face of the long-term economic risks posed by climate change. These may feel like disparate categories to group together, but by overlaying these three elements onto the search for strong investment returns, the concept of responsible investment becomes clear.



LaSalle's ecosystem of key ESG stakeholders

Effectively, in order for an investment to perpetuate in the long term, the impacts of that investment activity on both the environment and on society must be positive, while providing market rate returns. Given that most institutional investors – pension funds, endowments, insurance companies – hope to serve their participants and clients over the long term, this is clearly a sensible business decision to be making today to protect future returns and asset values for tomorrow.

Investors as drivers of ESG

Turning our focus to investors and the intent behind this *ESG Investor Survey*. As a fiduciary to our investors, long-term value creation and protection is fundamental to our business and we believe that ESG best practices can enhance returns. We are seeing investors all over the world, especially in Europe and coastal US areas, asking new and deeper questions demonstrating their increasing knowledge of the subject and their growing involvement in industry ESG initiatives.

Investors are asking us to expand our horizons in this area and take a greater leadership role, so we continue to define our impact on climate change, identify opportunities for building-level resilience initiatives and explore the newest trending area of impact investing.

At LaSalle Investment Management, we remain focused on being a leader in this evolving ESG landscape through continued integration of best practices across our businesses. Through this survey, we have validated that focus, with 95 percent of the respondents indicating they believe that ESG principles have a role to play in making investment decisions. Our aim, as a manager, is to help investors think about efficient ways to better analyze, price and integrate ESG factors into the risk-return evaluation of each asset. We are thinking beyond today for our planet, society and investment performance. ■

Clean energy in LaSalle's European portfolio

In Germany and the UK, 100 percent of our energy is procured through contracts with energy obtained from renewable sources.

We regularly review our portfolio for opportunities to install solar panels on the roof space of our assets with the objective of generating energy on site for use by the tenants. This has the triple benefit of reducing the carbon emissions of the asset, providing cheaper electricity for our tenants and providing energy security.

We have installed rooftop photovoltaic panels at five properties in the UK totaling 523kw, generating over 770,000kwh on site annually. These installations produce positive returns for our clients' assets from the income they generate. LaSalle Investment Management has implemented this initiative at assets across its global portfolio and continues to seek additional opportunities.

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How we conducted our ESG Investor Survey

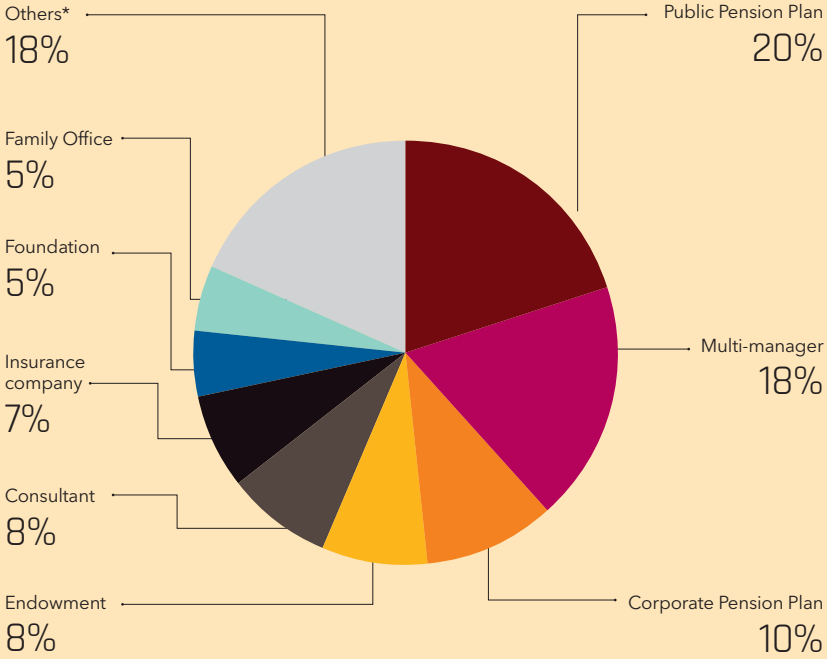
PERE's comprehensive survey covered institutional investors' attitudes toward both the progress and importance of environmental, social and governance principles in private real estate investment. Broadly, the survey reveals investor perspectives of ESG in five key areas:

- **Policy** Whether an explicit ESG policy is considered a must-have or a nice-to-have in 2019, and whether managers are expected to provide evidence
- **Regional progress** The investment markets seen as having made the most, and least, progress in adopting ESG principles
- **Due diligence** How investors evaluate managers' credentials and track record, and the metrics they use in their assessments
- **Performance** The perceived impact of ESG on investment returns and the degree to which a correlation is deemed easy to establish
- **Progress by property type** The perception of sector – office, residential, logistics, retail – acceptance of ESG principles

The global nature of this study, reflected in the questions set and the location of respondents, allows for meaningful views and cross-regional comparisons. Sentiment was captured on active investors in private real estate funds, however positive or negative their views on ESG. The results serve as a valuable benchmarking tool and offer a granular insight into ESG in the context of private real estate.

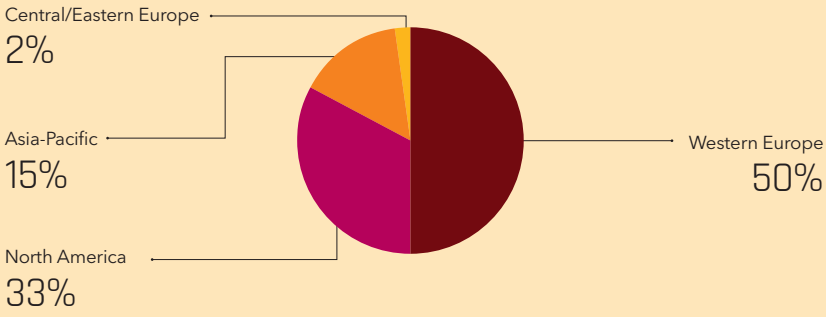
For this 2019 study, *PERE*'s Research & Analytics team surveyed 60 institutional investors of private real estate funds. Fieldwork was carried out from March to June 2019. Participation in the *PERE ESG Investor Survey 2019* was anonymous, with the findings amalgamated and published in this report. The results may not add up to 100 percent due to rounding. ■

Investors' institution types

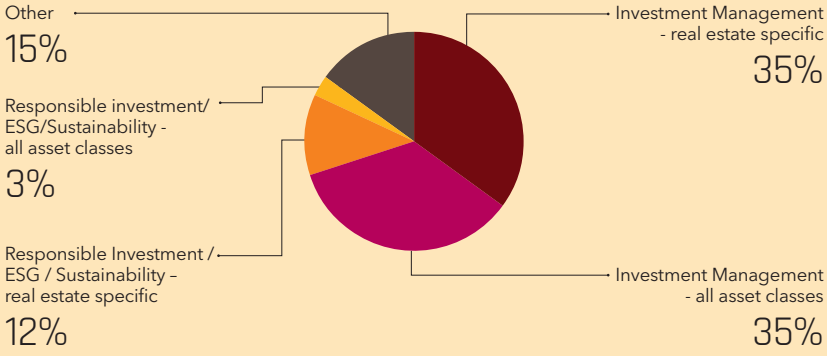


*Others: Bank/Financial Services, OCIO, Sovereign Wealth Fund

Investors' HQ location (region)

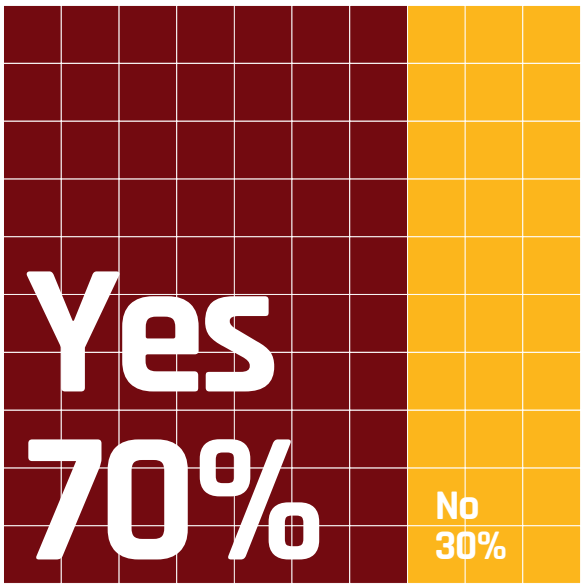


Investors' job roles



Moving front and center

Environmental, social and governance issues are key to investor decision-making, but there are variances in attitude between regions, writes Mark Cooper



Does your institution have an explicit ESG policy?

The majority of institutional real estate investors are demonstrating a commitment to ESG investing and building the resources required to implement policies in this area.

Globally, the majority of institutions surveyed have established an explicit ESG policy. However, there is considerable regional variance. Respondents headquartered in Europe lead the way, with 77 percent of respondents having an ESG policy, compared with 65 percent of respondents based in North America and 56 percent in Asia-Pacific.

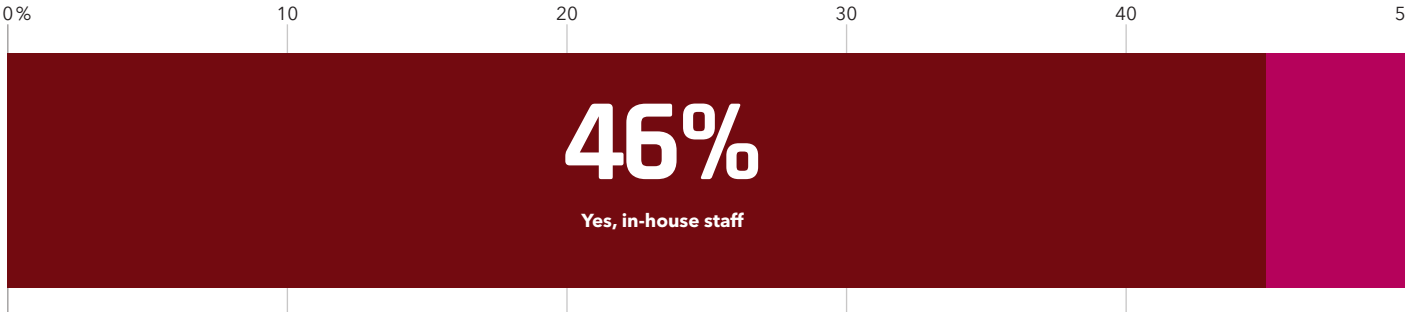
Alan Dalgleish, chief executive of Asia Pacific real estate funds body ANREV, says: "We see a growing commitment to ESG from investors and the wider real estate industry in this region, with investors from Australia tending to lead the way."

Bill Schwab, principal at Real Estate Investments and formerly global head of real estate at Abu Dhabi Investment Authority, says forming an ESG policy is not just about a real estate investor's portfolio. "When it comes to recruiting and retaining a workforce, to motivating people, it is increasingly important to be seen to be on the right side of history, which the ESG movement is."

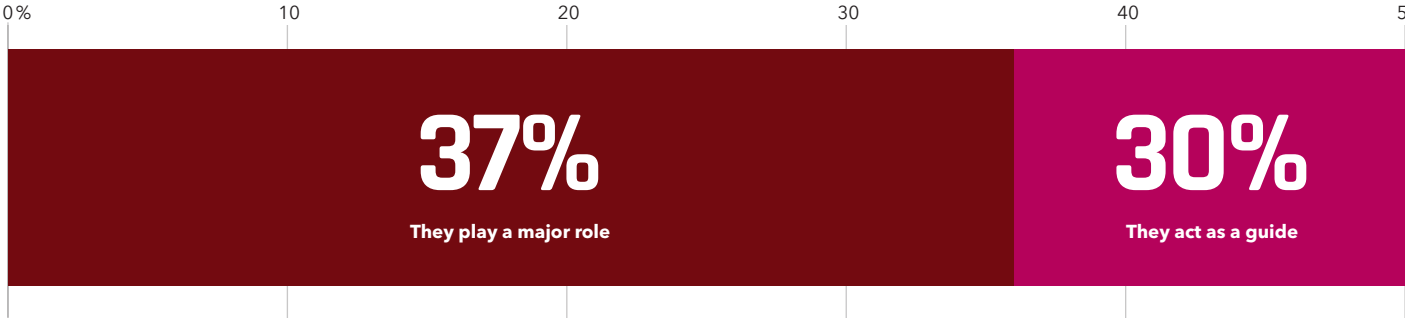
Over half of respondents have established a resource responsible for ESG issues. This is more likely to take the form of in-house staff rather than outsourcing to a third-party consultancy. Dutch pensions group APG has dedicated significant resources to its ESG team, explains Derk Welling, senior responsible investment and governance specialist at APG. He says: "Our global responsible investment and governance team consists of 17 full-time employees, each of whom has a specific area or asset class focus."

Close to one-fifth of respondents do not currently have a dedicated resource, but say they plan to establish this resource in the future, suggesting ESG policy is growing in importance among investors. However,

Does your institution have a dedicated resource responsible for ESG issues in your investments?



What role do ESG principles play in investment decision-making at your institution?



there is still a sizable rump: almost one-third of respondents say they do not have a specific ESG function and have no plans to add one in the future.

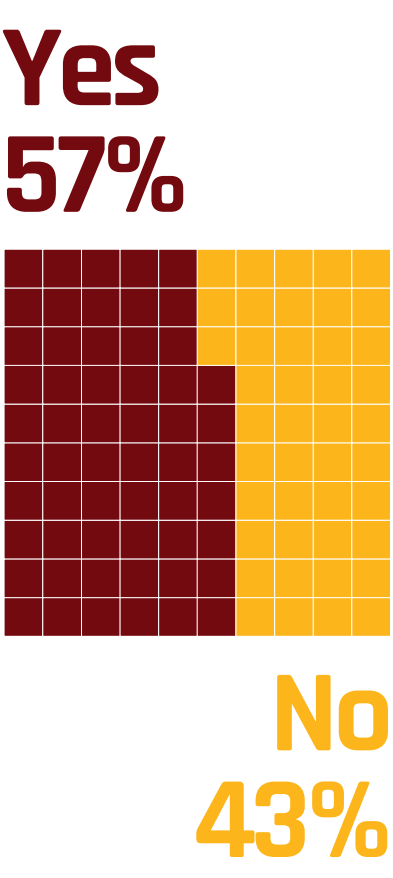
Almost all (95 percent) of respondents say ESG principles have a role to play in making their investment decisions. Moreover, one-third of respondents globally say they believe ESG plays a major role in the decision-making process.

Asia-Pacific respondents demonstrate some mixed feelings about ESG policy, as respondents display nearly balanced sentiment. In North America, nearly one-third of respondents consider ESG principles a factor of secondary or tertiary importance, while 25 percent of respondents consider it a major role. Again, Europe, in which 45 percent of respondents consider ESG to play a major role, is ahead of the rest of the world. A further 35 percent of European respondents use ESG policy as a guide, and only 10 percent consider it to play a minor role.

APG is one investor where ESG considerations are front and center in decision-making. Welling says: "Our approach started with governance, voting and exclusion. Now it is fully integrated and more about inclusion and engagement. Further, the department has a vote in the investment process and we can provide an unconditional, conditional or negative signoff on an investment by any of the investment teams globally."

Billy Grayson, executive director at the Urban Land Institute's Centre for Sustainability and Economic Performance, says: "For some investors, ESG may play a small role in their investment decision, but not be the deciding factor. Potential investments with 'good' ESG may get a couple of extra points in the analysis, or investments with 'less good' ESG reporting or performance may lose a couple of points."

Would you invest with a manager that does not have a defined ESG policy?



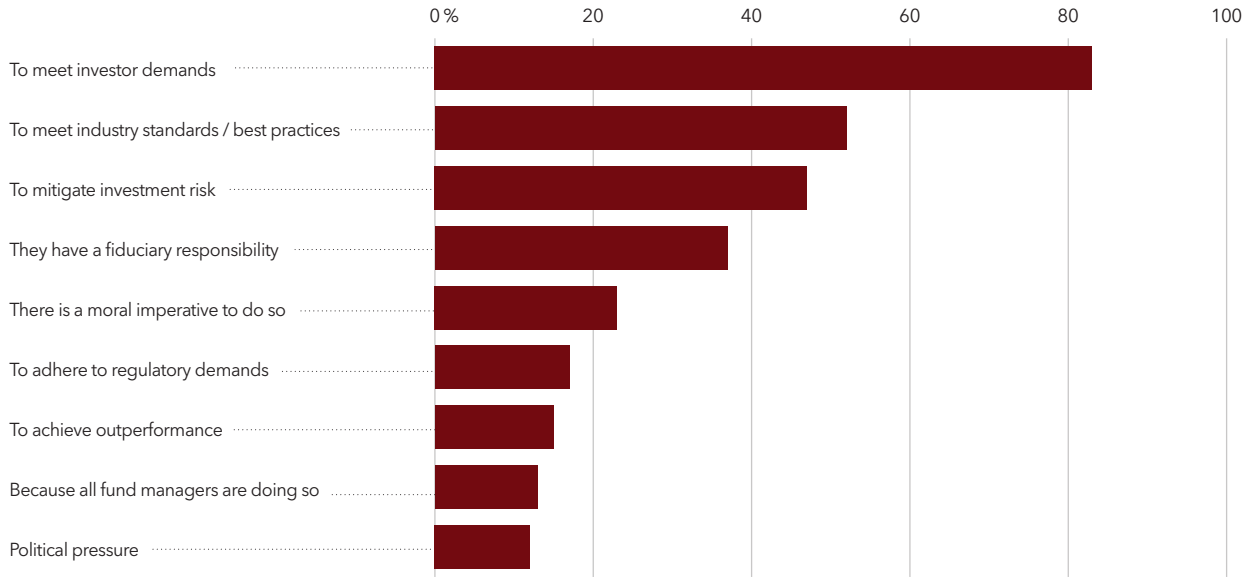
Investors drive ESG

Globally, investors are somewhat split as to whether they would invest with a manager that does not have a defined ESG policy. On a regional level, investors headquartered in Europe and Asia-Pacific are more reluctant to invest with a manager that does not have a defined ESG policy. However the vast majority (85 percent) of North American respondents would invest with a manager lacking a defined ESG policy.

"If we came across a manager that did not have an ESG policy, we would require that it develop a policy within a set time frame, in order that we do business. We believe better managed companies and management teams pay attention to ESG," says Welling, again demonstrating the sterner



Why do you believe fund managers establish an ESG policy?



ESG demands European investors make of their managers.

Investors are the primary drivers behind fund managers establishing an ESG policy, according to the managers themselves. When asked their thoughts about the drivers behind managers establishing an ESG policy, investors believe that the manager's need to meet investor demand tops the list. Dalgleish says: "Globally, the major driver for ESG policy in non-listed real estate is the demands of investors."

About half (47 percent) of respondents believe the ability to mitigate against investment risk is a driver, while 17 percent do so in order to adhere to regulatory demands. Schwab says: "It is simply good business to be sensitive to ESG factors because costs which used to be externalized are being internalized. For example, if a company polluted a river, society had to pay. Now legislation means the polluter must pay. So some of those externalities will now be internalized via regulation or pricing. So it is smart business to factor in ESG." ■

KEYNOTE INTERVIEW

Why having an ESG policy is critical to capital raising



LaSalle Investment Management's global head of sustainability, Eric Duchon, tells PERE why having a clear ESG policy is critical to attracting investors and capital raising

Q How has LaSalle Investment Management's ESG policy evolved over the years?

Our ESG policy was first developed in 2009 and implemented in 2010. Lynn Thurber was chair of the firm then and she was very forward thinking and passionate about ESG; and she still is. The UN Principles for Responsible Investment (PRI) were launched around that time and there was a general realization that the sector was going to have to formalize its commitment to ESG. So LaSalle got on board and became an early signatory of the PRI.

I was hired to really drive the integration of the policy across the company; to ensure ESG issues became an integral part of every business process and a priority at each stage of the investment life cycle from acquisition to active management through to disposition. Two and a half years on and I think we have been successful in delivering that outcome.

We are now actively considering how best to incorporate relatively new ESG themes, such as climate risk and resilience, and health and wellness, into our existing policy going forward.

77%

European investors that have an explicit ESG policy in their own organizations

Q What part does policy play in entrenching ESG as business priority in the firm and ensuring every member of staff is thinking about these issues?

Our ESG policy is purposefully general in scope, which has allowed us to strategically implement ESG themes in areas where we have the most expertise and therefore achieve the greatest impact: the real estate assets for which we provide investment advisory services. For example, LaSalle team members responsible for asset oversight have had a program in place, for several years now, to measure and manage the environmental consumption of our client properties. The program used the Urban Land Institute Greenprint environmental

management system, and LaSalle relied on third- party property managers to apply it. LaSalle is now better suited to implement and drive the program. We are now in a position to capture more timely and accurate feedback, with access to data that are informing future decisions. In my opinion, having a formal policy in place allows us to drive our ESG agenda from the top down to the actual management of the physical assets on the ground.

And in order for the policy to succeed, for these issues to become deeply entrenched across the global business, it is essential to have senior management buy-in. Management firms need a senior leader who is an enthusiastic proponent of ESG as a business priority. Lynn Thurber took on that mantle at LaSalle several years ago and has passed it on to our global CEO, Jeff Jacobson. As a result of their influence, the firm continues to make ESG issues a priority at every level across the business. It is also critical for investors to see this buy-in from the senior leadership team

Our Global Sustainability Committee is also very important. To have professionals across the entire firm who are not only interested in the topic but committed to it is important. For example, we have asset managers on our committee who are interested in the topic but are also implementing it at the asset level. Then we have fund managers who are deeply involved with our annual GRESB reporting. That buy-in across the entire firm is essential. Our job is to ensure that everyone across the firm feels educated on ESG and feels empowered to go out on their own and drive it within their own role.

Q Is having an ESG policy critical to attracting capital?

Yes, it is critical. Pretty much every due diligence questionnaire we receive from investors now has questions on ESG. I spend about 15 percent of my time answering these questions. That also includes investors that may not be that interested in it themselves, but know that they have to ask these questions on behalf of their constituents. Some investors may not believe in it personally but they know it is best practice. This means that to raise capital these days an ESG policy is a must-have and that policy must be properly implemented.

Investors want to know whether we have an ESG policy and how we report on our ESG policy from a transparency perspective. The next question we get from investors is how our ESG policy is integrated into the investment processes. These are the most common diligence questions. Some investors want even more detail such as the carbon footprint of the fund in which they are invested. Others want to receive a regular report with ESG initiatives at the buildings. Investors are really becoming more granular with their diligence questions. They want evidence that we are improving assets through our ESG initiatives.

> *"To raise capital these days, an ESG policy is a must-have and that policy must be properly implemented"*
>
> **ERIC DUCHON**
> **LaSalle Investment Management**

Q Do you see a difference in the level of investor ESG due diligence depending on their geographic location?

The intensity is higher from European, Nordic and Dutch investors. European investors were definitely the first movers in the space. Seventy-seven percent of European investors have an explicit ESG policy in their own organizations, far more than either Asian or American investors. Canadian and Australian investors are also ahead of the curve.

In the US, we are seeing the coastal markets lead the way on ESG. Everyone recognizes the California Public Employees' Retirement System and The California State Teachers' Retirement System as leaders in this space, but others are becoming more proactive and starting to ask more questions of their managers.

To date, we do not get too many ESG or sustainability-related questions from investors in Asia or non-coastal US, but I expect that will change soon.

Our position as a manager is always to be proactive in terms of volunteering information on ESG, whether an investor requests it or not.

Even if an investor is only interested in us confirming that we have an explicit policy, we will always go one step further and explain to them how we implement that policy in practice.

Q How do you measure the impact of ESG on actual returns and performance and how do you demonstrate that track record to investors?

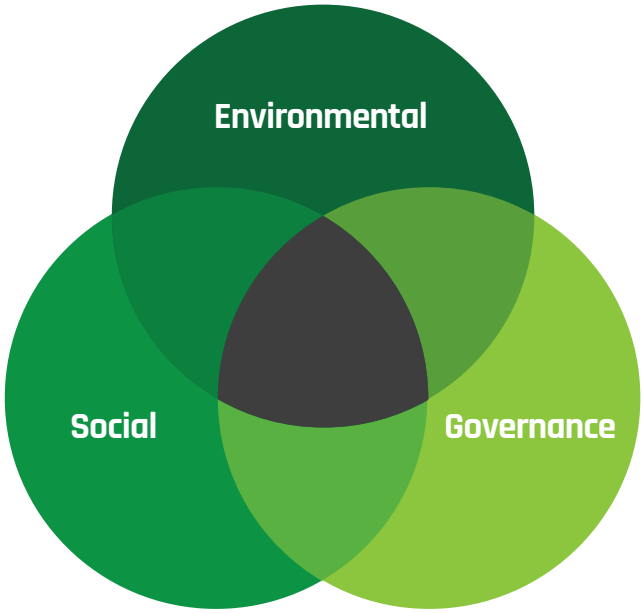
We demonstrate our ESG track record through reporting. We have evidence of improvements in our year-over-year GRESB scores and strong track record in our PRI scores.

It is more difficult to measure the direct impact that ESG initiatives have on overall returns and investment performance.

We can trace the impact of a certain project, for example an LED retrofit on net operating income, which improves asset valuation, but it is tough to isolate that initiative when it comes to overall investment performance.

That does not mean we do not give the ESG initiatives credit for their impact on investment performance, it means we do not isolate it in our reporting.

Frankly, nowadays, even with correlating ESG to financial outcomes being challenging, everyone in the sector recognizes that it is best practice. It is an expectation. If an investment manager is ignoring it, they will not achieve the risk-adjusted returns they want. ■



Shades of green

Concern about ESG issues is global, but practices and priorities vary around the world, writes Mark Cooper

It would be a contrarian real estate investor or investment manager that said environmental, social and governance issues were not a priority, but adoption of measures to improve these factors varies across the world.

LaSalle Investment Management professionals agree that European investors have thus far led the way in pushing for implementation of ESG measures in real estate, while Australasia is also at the crest of the ESG wave. But Asia and the Americas are not far behind.

Sophie Carruth, head of sustainability, Europe at LaSalle, says: "European investors have really been at the forefront of ESG for quite a number of years and pushing the agenda. It has been interesting over the last few years to see how questions from investors have really evolved.

"Initially we would be asked, 'Do you have an ESG policy?' whereas only a few weeks ago I was asked, 'Have you got a plan on net zero carbon and what is your target date?' Now that is a very explicit and specific question. It is a very clear indicator of the direction of travel for investors."

Eric Duchon, the firm's global head of sustainability, agrees that European investors have historically been the most progressive on ESG issues, but Americas-based investors have caught up and are "getting more sophisticated".

Asia lagged for some time, but is catching up with a vengeance, says Tom Miller, head of development for Asia-Pacific. "Four or five years ago, except in Australia, which has long been a leader on ESG, we would hear a lot of nice sounding platitudes but there were very few people actually moving ahead. Now, however, attitudes and actions have changed dramatically. In Singapore, Japan, China, South Korea and Hong Kong there has been a push from investors and from government, so managers have responded. In China, the consumer has also been a driver; buyers of high-end residential property demand attention is paid to ESG issues, so developers have to take note."

Investors have been the prime drivers of ESG measures in real estate, with certain groups being particularly proactive. In Europe, investors from the Netherlands and Scandinavia have been particularly keen. "With the Netherlands I think it's fairly easy to understand," says Carruth. "It is a country very susceptible to the impact of climate change on sea levels."

Stateside, Duchon says Canadian and US coastal pension plans have led the ESG agenda: "They are asking more detailed ESG questions in their due diligence and annual surveys that go beyond just policy and reporting; they are now asking us how ESG is being implemented at the fund and asset level."

In fact, Duchon points out that in terms of implementation GRESB data shows North America as the regional leader with a score of 70 with Europe and Asia tied on 66. "From my perspective, the perception that

Europe is the leader is a dated one as American REITs and funds have mobilized over the past five years to implement ESG on the ground at the fund and asset level."

Meanwhile, in Asia-Pacific, the most demanding investors have been Australian and investors from outside the region, says Miller, often including the Dutch. So far, Asian investors have been less pushy about ESG issues, but this is expected to change.

In both Asia-Pacific and Europe, there is considerable variation between nations in the importance given to ESG measures. In Asia-Pacific, Australia and Singapore are still clear leaders, while both China and Japan have been making rapid improvement.

However, Miller notes that Hong Kong, despite being a mature market, is lagging somewhat. "Government policies tend to be more voluntary than not and while many developers talk about ESG issues and some are really committed, others are not and that is probably because there is no real market perception that attending to ESG matters will help their bottom line."

In Europe, the investor and industry focus on ESG issues tends to decline from west to east and north to south, says Carruth, with nations in Eastern and Southern Europe less focused on such matters.

Emphasis on the 'E'

Across the world, it is clear that the environmental element of ESG is the most crucial to investors. Miller says: "The environment side, especially energy use, is the real priority for most investors, managers and tenants as well. It is built into the DNA. This is partially because the improvements that ESG measures make are more likely to be quantifiable and applied to the bottom line. If you can reduce the energy per square foot required to run a building by 20 percent over the competition, you have a better building and you get a higher value."

While Europe tends to the temperate, in some parts of the Asia and the Americas the energy used in cooling or heating a building – or both in some markets with varying seasonal climates – is substantial, so any savings add real value.

Carruth agrees: "Frankly, it's easier for managers to respond on the 'E' than on the 'S' and the 'G', because that was just much more clearly defined and easier to communicate. In the UK, for example, for quite some time we've been reporting to our clients and investors on environmental performance, the energy, carbon, water and waste performance of the assets in their portfolio on a quarterly basis."

Duchon agrees that at the asset level, investors place most emphasis on the 'E' because it is more quantifiable, but notes that in the Americas, the weighting on the E, S and G shifts if you are talking about investor selection of a manager: "Investors have long weighted governance heavier than environmental or social when it comes to manager selection because they want to hire one that is legally, ethically and financially responsible. But they have begun to place more importance on the 'E' and 'S'."

'S' on the rise

Social sustainability is becoming more and more important, says Carruth. "The social side of things has been a little bit slower to evolve, but the dialogue around the social aspect of ESG within real estate has evolved over the last couple of years.

"Community engagement is one example of this; we have a community engagement program across our shopping centers, where we help with fundraising for local charities and also work with a series of community groups to offer them space for events – like pop-up venues in a shopping center, which might also use a vacant unit."

This initiative has been beneficial to communities and also increased dwell time in the malls, says Carruth.

Miller notes that social sustainability is becoming a bigger issue in Japan. However, in Asia more generally, the mixed-use nature of many major developments means they have to take account of the social fabric "for potential tenants, for purchasers, for the neighborhood, for the city," he says. "And at the end of the day, those values enhance the asset value, and our investors are happy as well."

Carruth adds: "We will soon see more assessments of the socio-economic impact of our assets. It is still pretty early days, but I think that is an area where it will become more normal for landlords to assess the socio-economic impact of their assets and try and quantify the benefit."

Wellness is a relatively new area within the social sustainability umbrella and is a particular focus in Europe and the US. Carruth says: "More recently health and wellbeing has become a massive focus. I'd say we do more work on the office side of things and also on our residential portfolios. We are trialing building level certifications to demonstrate the health and wellbeing credentials of our assets."

Quantifying the benefits of healthy buildings will be crucial to the real estate industry taking it forward and Miller says big data analysis will be key to that in future.

The governance aspect of private real estate is no less important, but tends to be more static. In this area, industry bodies were established in the US and Europe earlier than in Asia, with Australia again being an outlier in its region. However, the demands of international investors are the same in Tokyo or Toronto, so managers naturally meet these requirements. "We are not rapidly changing what we are doing on the governance side of things because we already have lots of very robust policies and processes in place," says Carruth.

Looking to the future

New priorities in ESG are developing which vary somewhat around the world. In Europe, the phrase du jour is impact investment. Impact investing refers to investments made with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return, to provide capital to meet social or environmental needs.

"Impact investing has been around for years and years, but it has gained momentum over the last two years," says Carruth. "It is at an early stage for real estate, but managers are taking note because there is capital interested in impact investing."

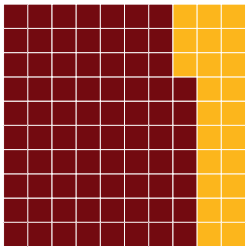
In Asia-Pacific, where a number of nations are already dealing with the fallout from climate change, the concept of resilience is becoming more and more important, says Miller. "Investors are increasingly focused on how climate change will impact their building over the next five to 50 years. And you need to think about this when you look to acquire an asset. How is it set up to handle potential changes in climate? Is the building going to take valuation hits, or be less desirable, if it's flooding every second month, instead of every 20 years like it might have done before?

"No matter what the time frame that you're investing in, resilience is an area that needs to really be considered. In a very practical way, I think the insurance industry, which up until now has based premiums on historic trends, will drive this, once it starts using climate modeling to set premiums." ■

Does your institution have an explicit ESG policy?

EMEA

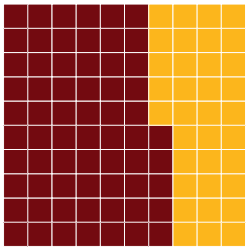
Yes 77%



No 23%

Americas

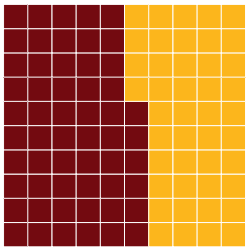
Yes 65%



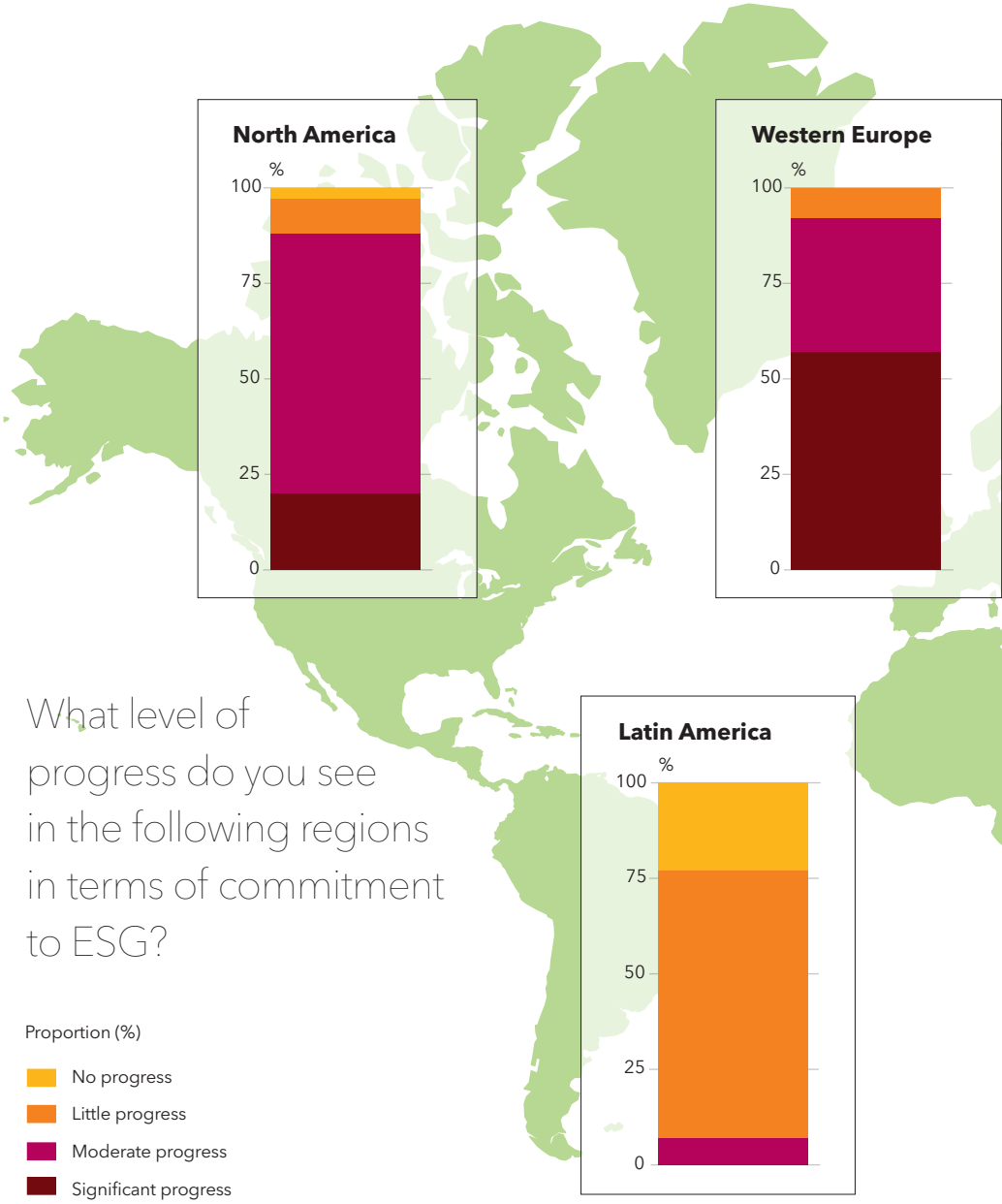
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Asia-Pacific

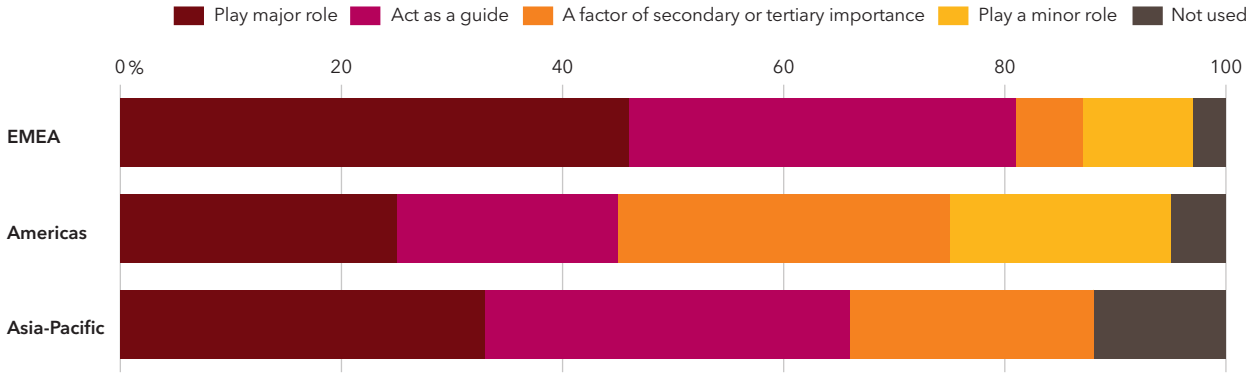
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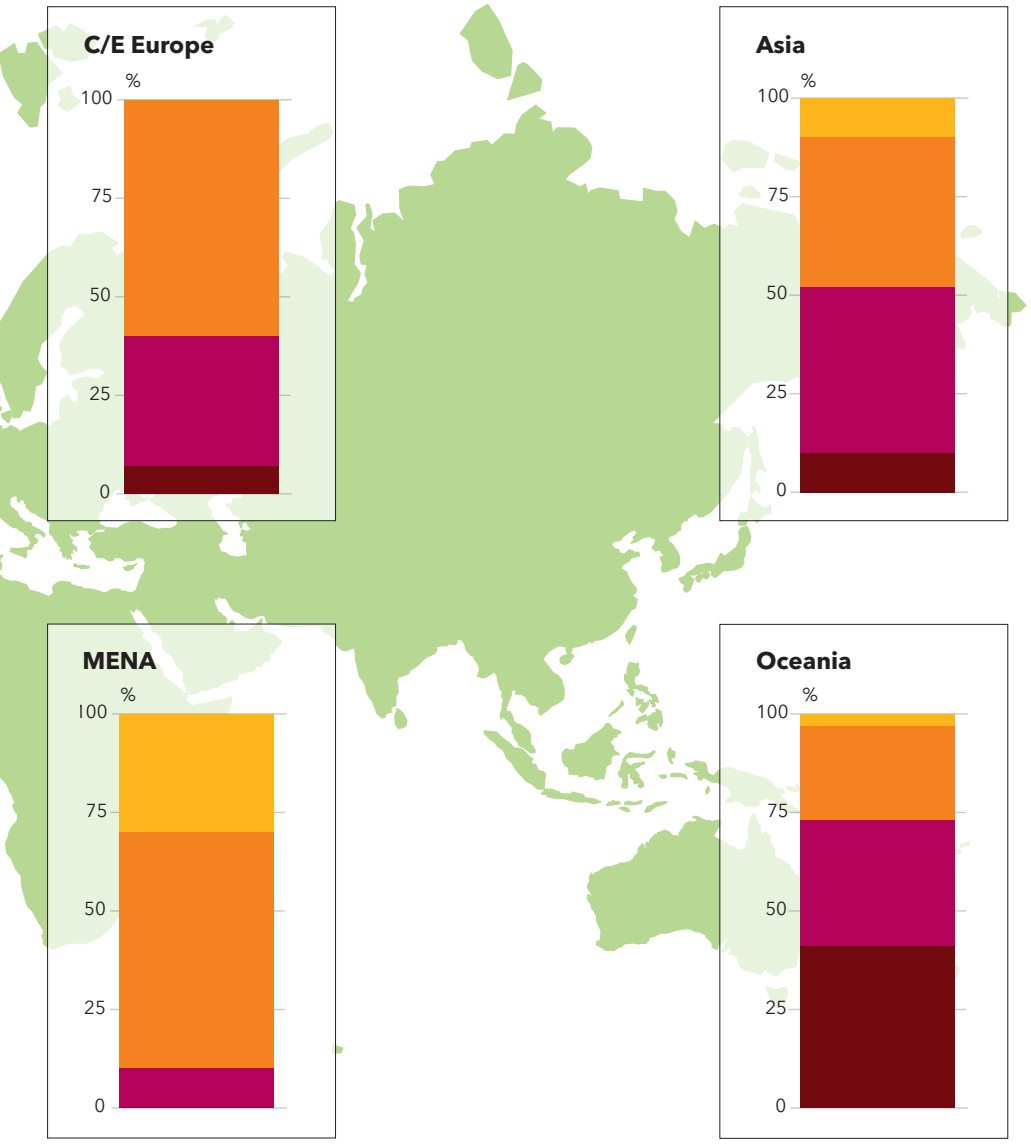


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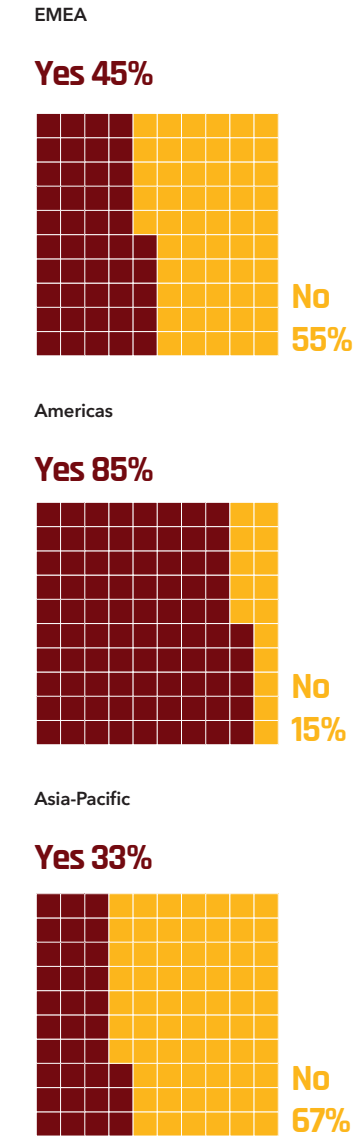


What role do ESG principles play in investment decision making at your institution?

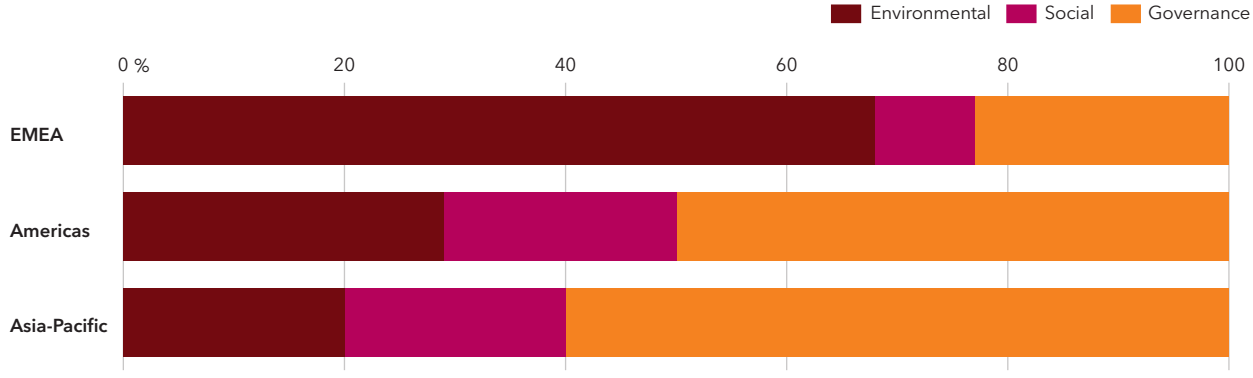




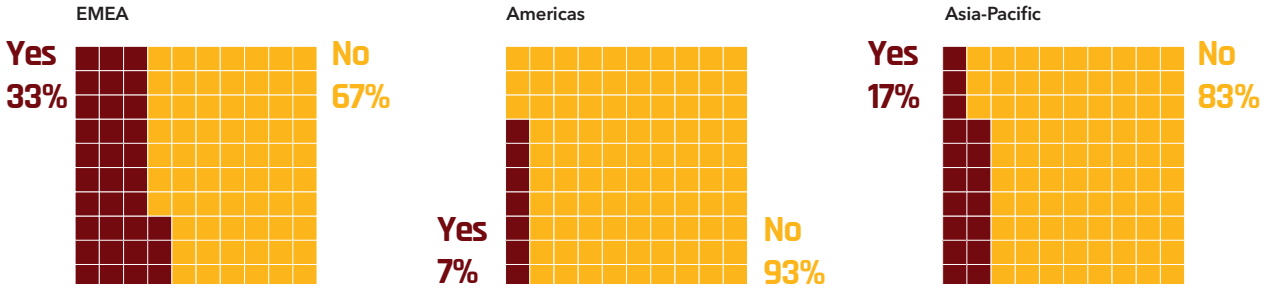
Would you invest with a manager that does not have a defined ESG policy?



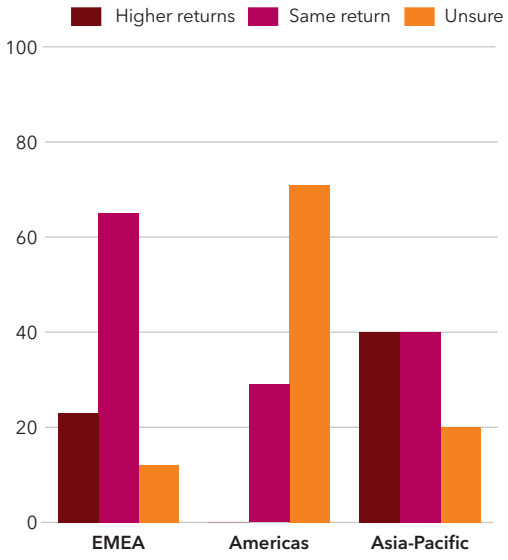
Which component of ESG is the most important to your institution when considering private real estate investments?



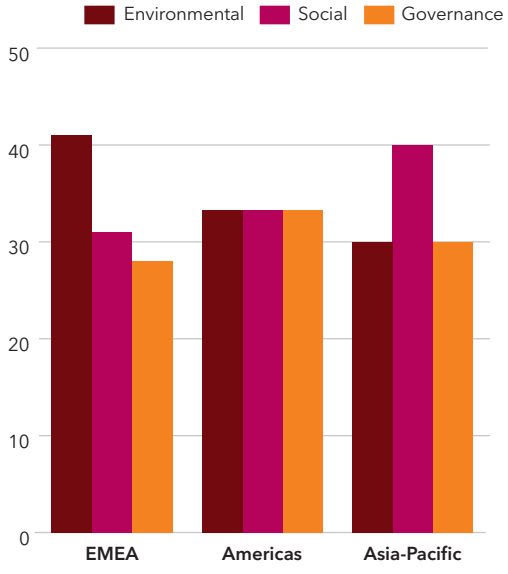
Does your institution have a policy/practice in place that prevents investment with a fund manager (ie, negative screen) if they fail to meet certain minimum ESG due diligence criteria? (ie, must be a signatory to UN PRI)



In your current private real estate portfolio, do investments with strong ESG credentials display higher or lower risk-adjusted returns compared with those without? (Proportion, %)



Which ESG factors do you believe influence investment returns (Proportion, %)



Which of the following best describes your relationship with the following industry reporting systems? (Proportion, %)



GRESB (Global Real Estate Sustainability Benchmark); UN PRI (Principles for Responsible Investing); TCFD (Taskforce on Climate-Related Financial Disclosures); INREV/ANREV Sustainability Reporting Guidelines; IRIS (an initiative of the Global Impact Investing Network, GIIN)

The diligent approach to investing responsibly

Real estate investors are undertaking detailed assessments of ESG credentials, with a strong focus on environmental sustainability, writes Mark Cooper

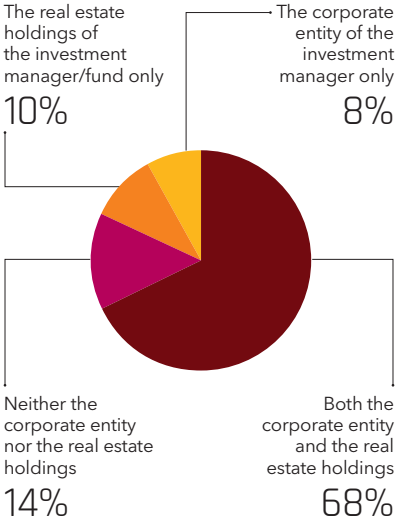
Green credentials and governance are the priorities for investors when assessing managers and assets, while social factors are given lesser consideration.

The due diligence process is crucial to investors in private real estate, with the vast majority of investors considering both the corporate entity and the real estate holdings of a manager when evaluating ESG credentials, according to the *ESG Investor Survey* 2019. However, a surprising 14 percent of respondents say they do not carry out ESG due diligence.

When carrying out due diligence on a potential fund manager's corporate entity, investors place the greatest importance on ESG disclosure, such as an annual sustainability report or voluntary ESG reporting to investors (cited by 93 percent of respondents). Meanwhile, 86 percent of respondents consider the manager's commitment to ESG standards such as UN PRI or GRESB. Alan Dalgleish, chief executive of Asia-Pacific non-listed funds body ANREV, says: "We see GRESB getting a tremendous amount of buy-in from investors and an increasing insistence that managers are assessed. Investors doing due diligence are looking for quantifiables."

External governance factors, such as fiduciary duty and adherence to bribery and corruption legislation, are considered by 79 percent of investors, while internal governance, such as employee remuneration and compensation, is highlighted by 72 percent of investors.

When evaluating an investment manager's ESG credentials and track record, do you evaluate:



Investors carrying out due diligence on a potential fund manager's real estate holdings place the greatest importance on energy and sustainability building certifications, factors cited by 90 percent of respondents. The efficiency of a portfolio in terms of energy, water and waste is the second highest ranked.

Meanwhile, 64 percent of respondents consider resilience and the ability to react to climate change, 62 percent consider building safety and materials and 60 percent consider regulatory metrics. While more economies are looking to move toward becoming net zero carbon emitters, only 48 percent of investors consider greenhouse gas emissions when carrying out due diligence of a potential fund manager's portfolio.

Consideration of the socio-economic impact of assets came further down the list, cited by 38 percent of respondents.

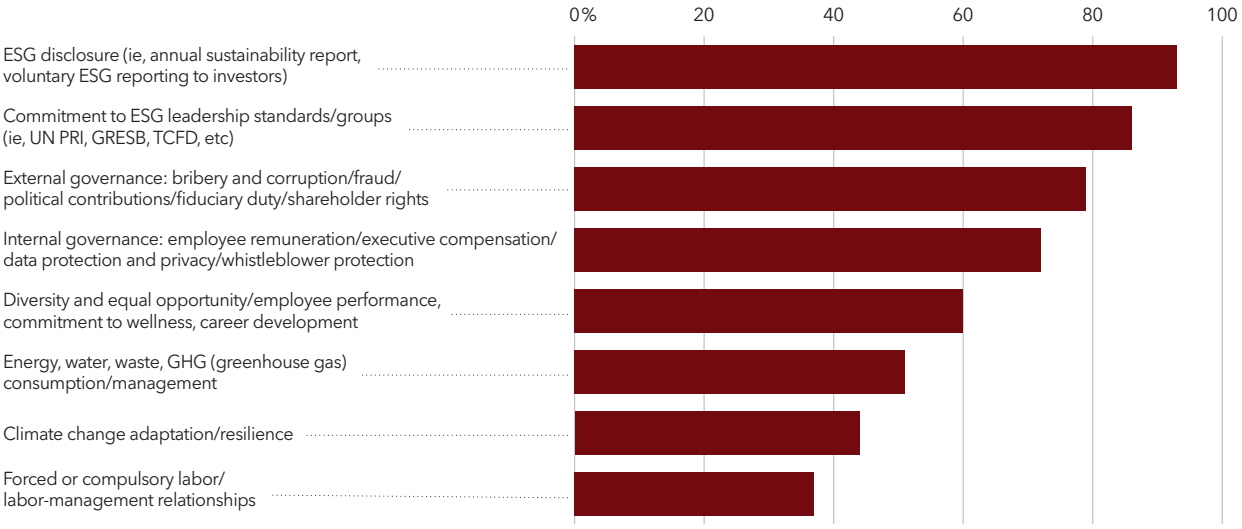
Health and wellbeing in the portfolio is valued by 45 percent of institutions. Bill Schwab, principal at Real Estate Investments and formerly global head of real estate at Abu Dhabi Investment Authority, says: "This is something that people would not have been as concerned with 15 years ago. There has been a gradual ramp up of concern as the workforce has become more sensitive about the quality of their environment."

A number of factors are considered of prime importance in carrying out due diligence of managers. Clear evidence of ESG policy implementation is considered very important by more than half the respondents, as is a clear ESG policy and approach, while only 31 percent of investors said it was important for managers to show improvement or 'high marks' in ESG reporting.

More work needed

However, Mathieu Elshout, senior investment manager, private real estate at PGGM, says: "Even our best performing partners in the GRESB assessment agree more can still be done. Climate change is deemed the biggest risk to the global economy, according to the World Economic Forum. So we continue to address ESG issues with our partners, we benchmark within regions and push them

Which metrics do you consider in your ESG due diligence of a potential fund manager's corporate entity?



to continue improving their results. We also bring together managers across regions, in order to exchange best practices."

Mitigating risk

Meanwhile, 89 percent of investors feel a manager's ability to mitigate risk is either somewhat important or very important. Schwab considers risk mitigation to be at the heart of ESG concerns for investors. "Institutions are the owners of assets for the long term, so need to address the opportunities and the risks over that time. So ESG is bound up with the concept of future proofing, of mitigating future risks. You want your building to be attractive in the future and to be able to pass whatever future regulations you might face."

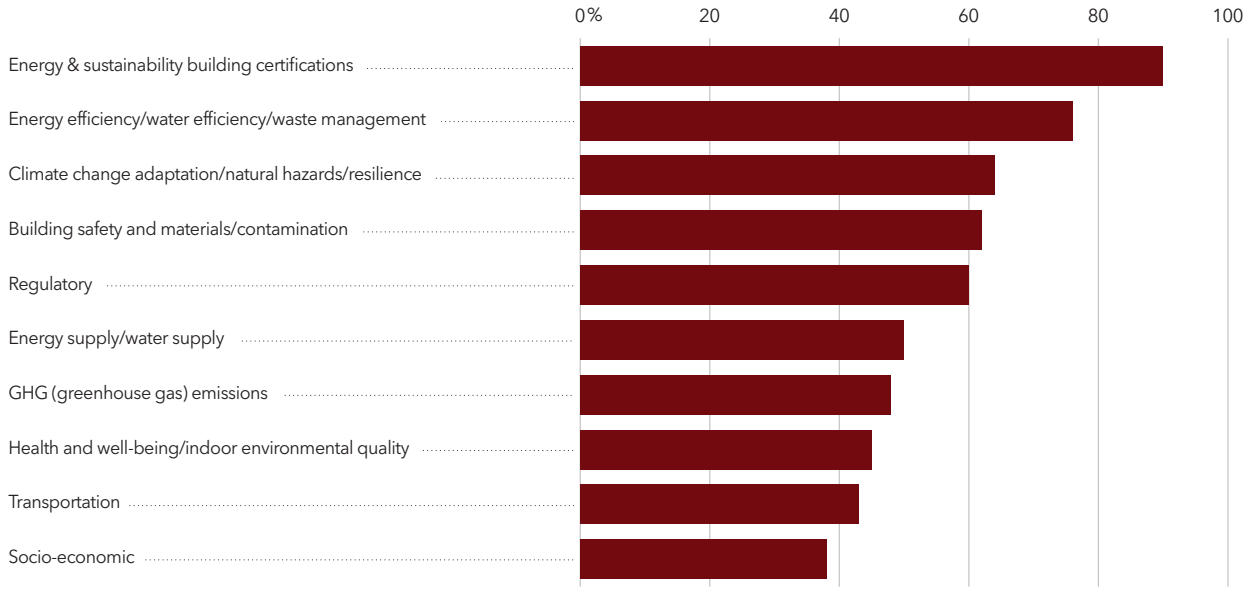
The two most common methods for sourcing ESG information about their managers are questionnaires, used by 78 percent of institutions, and site visits or face-to-face interviews, used by 52 percent. Meanwhile, 17 percent admit to struggling with finding reliable information on a manager's ESG policies.

Despite most investors undertaking detailed due diligence on prospective managers, only 22 percent of institutions have a policy that prevents them from investing with managers that score below a certain required level. Those investors that do carry out this 'negative screening' cited reasons such as non-participation in GRESB or failing to be sign up to the UN PRI.

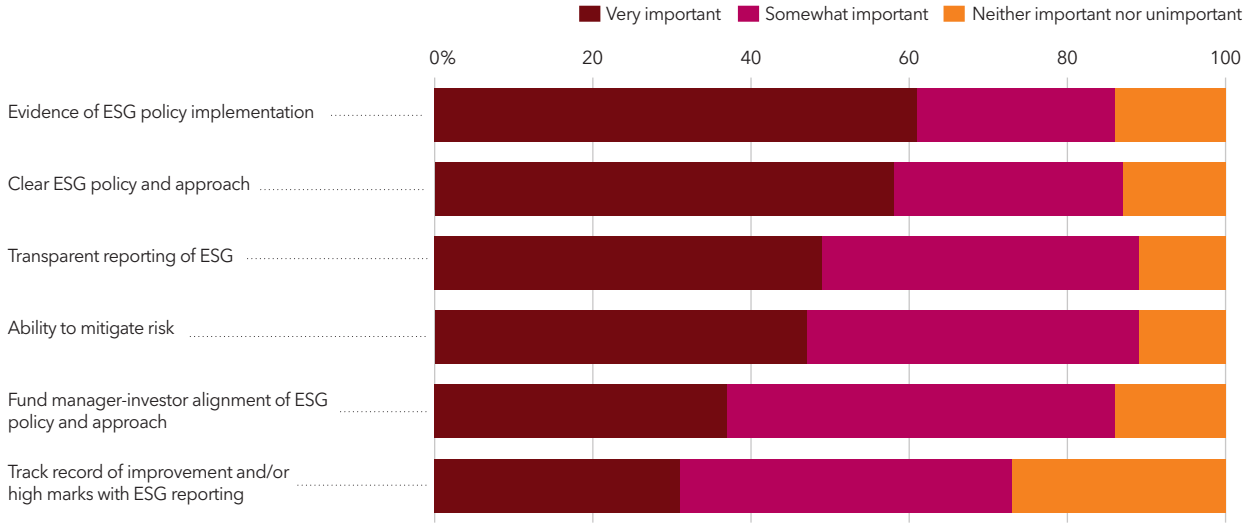
Globally, environmental issues are the most important component of ESG for investors, with 54 percent ranking them number one.

However, governance is considered the most important factor by 41 percent of investors globally. Social factors seem to be

Which metrics do you consider in your ESG due diligence of a potential fund manager's real estate holdings?



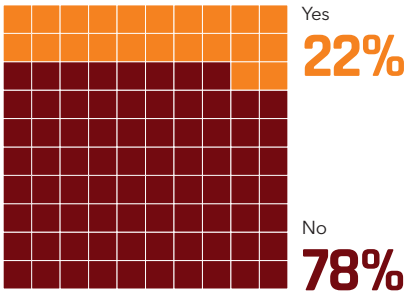
When carrying out ESG due diligence on fund managers, how important is each of the following?



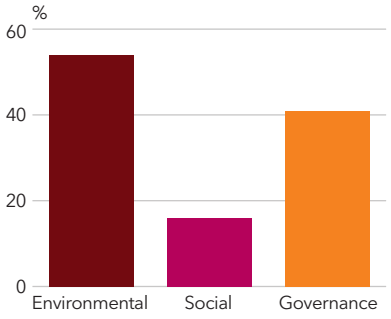
considered the least important, with only 16 percent of institutions considering these to be the most important factor. However, it is the second most important factor for nearly half the respondents.

Billy Grayson, executive director at the Urban Land Institute's Centre for Sustainability and Economic Performance, says: "For most investors we talk to, the 'G' is by far the most important: issues like board and executive compensation, policies and programs to manage business ethics and avoid issues like insider trading and anti-competitive behavior." ■

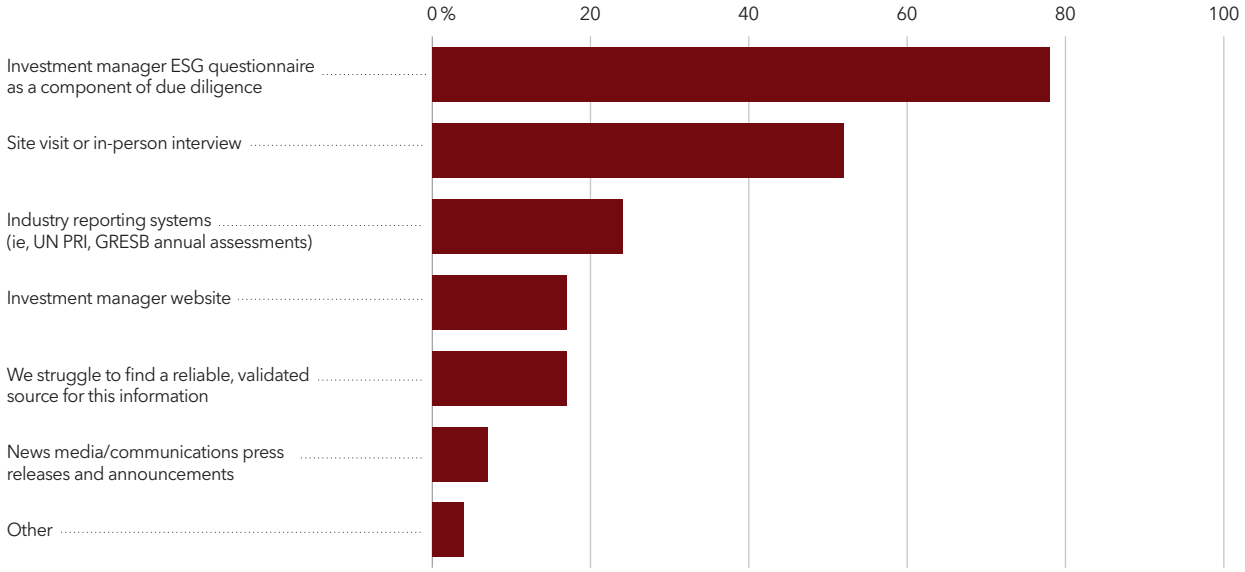
Does your institution have a policy/practice in place that prevents investment with a fund manager if they fail to meet certain minimum ESG due diligence criteria?



Which component of ESG is the most important to your institution when considering private real estate investments?



What are the two main sources from which you source ESG information about your investment managers?



A question of value



Guest comment by **Lonneke Löwik**

ESG is now so much more than a 'nice to have,' but establishing a direct link to improved investment returns remains a challenge, says INREV's CEO

ESG is firmly on the agenda for INREV members. The topic receives plenty of airtime at our events, and members are now quick to express their commitment to it. A straw poll conducted at our annual conference in Venice in April reflects this mood with 45 percent of delegates believing that the industry could reduce its contribution to greenhouse gases by 50 percent over the next decade.

External pressure

Market dynamics, regulation and the drive for greater transparency across the board – from investors to occupiers – are fueling the momentum for ESG principles. The Paris Agreement on climate change and the UN Sustainable Development Goals, for example, have added pressure on the private real estate industry to act. The Paris Agreement has set a target for the rise in global temperatures to stay below 2C (or preferably 1.5C) for the remainder of this century.

Ignoring these targets could have profound consequences, especially given the fact that a considerable percentage of the value of global investment portfolios is vulnerable to climate-related risks. Making things even more difficult, banks are refusing to lend against assets that do not comply with the Paris Agreement or the UN SDGs.

Across Europe, at a national level, regulations are already in place with very direct consequences for the real estate industry. In the Netherlands, all commercial property will need to meet a minimum energy efficiency rating of 'C' by 2030. Buildings without this certification will be unrentable. By 2020, all new buildings (commercial and residential) in the country will need to be gas neutral. Similar restrictions were imposed in 2018 in England and Wales, stopping owners from leasing commercial buildings without an energy rating of 'E' or above.

INREV is aligned to both the Paris Accord and the UN SDGs. In Brussels, we have been a conduit for a two-way information exchange: interpreting and sharing insights from EU regulators with members, and relaying members' ideas and experiences to the European Commission. INREV's professional standards committees, including our dedicated ESG committee, have made sure ESG is incorporated in key documents, such as the INREV guidelines, global definitions database and due diligence questionnaire. And ESG is broadly embedded across all our services from training, to research, to events.

> *"There is an apparent correlation between ESG and the ability to attract and retain lucrative tenants, and, in some instances, to increase rental values"*

Elsewhere in the industry, the Global Real Estate Sustainability Benchmark has played a key role in establishing a high bar for the sustainable performance of real estate funds.

These initiatives have changed attitudes. ESG best practice is now more broadly adopted in the sector. And there is now compelling anecdotal evidence that it is increasingly seen as an integral element of the risk assessment and investment decision-making process because it is perceived to contribute to real estate investment returns.

Proof of value

The extent to which ESG adds to property values – and by extension, internal rates of return and yields on real estate portfolios and investment vehicles – remains difficult to prove, however. The ongoing debate about cashflow valuations at the individual asset level, for example, means the industry has yet to reach a consensus on how to quantify the financial advantages of ESG.

Since 2015, INREV has been collating and curating a global ESG library, which documents case studies from members.



The good news is that a growing number of these stories are pointing to a clear link between the adoption of ESG principles and demonstrable financial benefit.

There are common threads that show how ESG plays an important part in helping to reduce onerous costs – specifically those associated with the development and life cycle management of individual buildings. There is an apparent correlation between ESG and the ability to attract and retain lucrative tenants, and, in some instances, to increase rental values. From the point of view of investor and tenant-driven demand, programs enable real estate entities to optimize operational performance, and to identify and mitigate risks.

An independent academic study carried out in 2017* makes for interesting reading, too. The report compared GRESB scores between 2011 and 2015 with returns performance data from the INREV Annual Index covering the same period. One of three key conclusions stated: "…the GRESB score itself can help us to understand the observed cross-sectional variation of non-listed fund returns. High total GRESB scores are associated with higher excess returns, a result which is important in a market in which information is harder to find."

"We must maintain the pressure for full industry adoption of ESG principles because the level of external scrutiny will only intensify in the future"

If not entirely conclusive – and taking account of the obvious caveats about potential sample size, timing and coincidence anomalies – this finding is instructive. Work is still required, but perhaps the industry is edging closer to an agreed metric for proof of value.

No time to rest on laurels

As a whole, the non-listed real estate industry is making solid progress on ESG, but there is no room for complacency.

We must maintain the pressure for full industry adoption of ESG principles because the level of external scrutiny will only intensify in the future. Investors, industry bodies, policymakers and regulators will insist that buildings conform to energy-efficient standards, that occupiers' health and wellbeing are optimized, and that the industry upholds the highest standards of ethics and transparency.

ESG is evolving all the time and we are already reaching the next frontier. The focus is shifting beyond economic, social and governance considerations to the more stretching target of impact investing, with its much more deliberate attempt to generate a broader social or community dividend. Specific funds, such as those focused solely on affordable housing, are a good example. The principle is that delivering investment returns is no longer the only important output and the creation of a bigger positive impact on society, such as decent, affordable homes, is also a must-have.

It remains to be seen where this particular conversation lands, but impact investing is firmly on the agenda for INREV's ESG committee because it is creeping ever closer to the mainstream. The task is to rapidly interrogate the facts and relate them to the wider real estate market, with supporting guidance and direction. Then, of course, we will be back to the thorny issue of establishing meaningful industry-wide standards of measurement. ■

**Sustainable Insights in Private Equity Performance: Evidence from the European Non-listed Real Estate Fund Market,* Dirk Brounen and Maarten van der Spek, July 2017

Quantifying good intentions

Institutions believe ESG measures are at least neutral for returns, but there is a clear need for more quantifiable and comparable performance data, writes Mark Cooper

Investors looking to quantify the effects of environmental, social and governance measures in their portfolios are facing an uphill struggle.

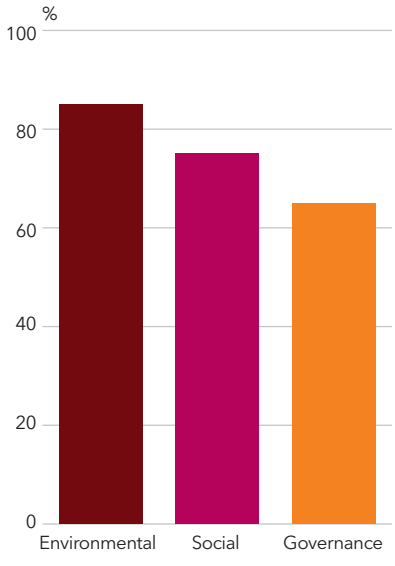
The *ESG Investor Survey 2019* reveals that just over half of investors measure the correlation between the strength of a fund manager's ESG policy and the investment return they are seeing. However, of the investors that do measure this correlation, 38 percent find it to be somewhat or extremely difficult. A mere 6 percent of investors say measuring this correlation is easy.

Over half of investors say they believe investments with strong ESG credentials perform broadly in line with investments that lack those credentials and 27 percent reckon strong ESG performance is linked to investment performance. However, more than a quarter of respondents are unsure if these measures have any positive effect. US investors are notably less certain about the effect of ESG measures, with many expressing uncertainty in this regard.

Constantin Sorlescu, INREV director of professional standards, says: "To shift the dial from a broadly neutral view of the benefits of ESG to something that clearly identifies advantage, the industry needs to focus on linking asset-level sustainability performance to performance at a vehicle level and vice versa – in other words, adopt a bottom-up and top-down approach.

"It also needs to ensure better access to performance data and the ability to quantify sustainability actions using consistent metrics and methodologies. Essentially, the task boils down to creating a robust, standardized system of measurement."

Please indicate which ESG factors you believe influence investment returns



Environmental focus

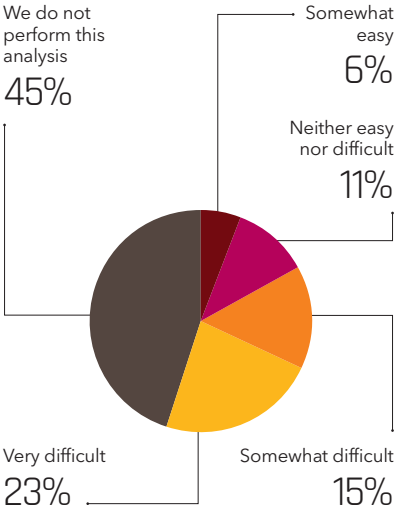
Of the three components to ESG, investors believe environmental factors are the most likely to influence investment returns, which is likely driven by these factors being easier to measure.

Bill Schwab, principal at Real Estate Investments and formerly global head of real estate at Abu Dhabi Investment Authority, says: "If you take energy efficiency measures, for example, you can calculate the return you get on your capital investment from the subsequent reduction in energy costs."

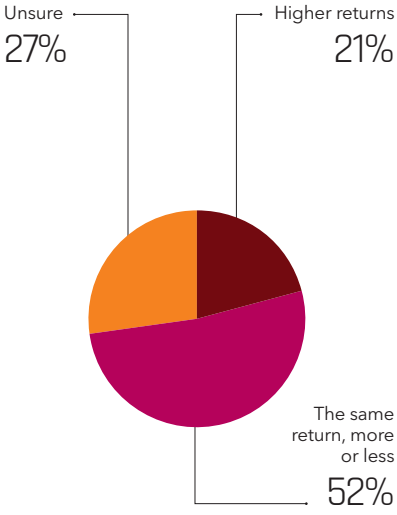
Sorlescu predicts that social factors – such as health and well-being – will become increasingly important in asset performance. "Ensuring building occupiers are happy and fit is clearly good for individuals, but there's also a direct link to improved productivity. Productive workforces mean healthy businesses, and healthy businesses generate long-term income for real estate asset owners and investors.

"That is why many of our members have started incorporating health and well-being into both their real estate investment, and their own business, strategies. We believe

In your current private real estate portfolio, how easy it is to measure the correlation between the strength of a fund manager's ESG policy/initiatives and the investment return you are seeing?



In your current private real estate portfolio, do investments with strong ESG credentials display higher or lower risk-adjusted returns compared to those without?

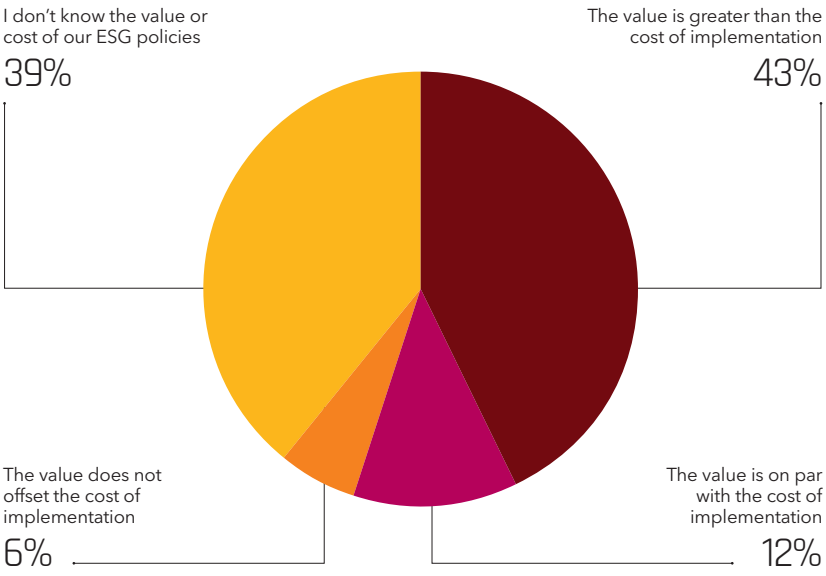


that the social element of ESG will only gain in significance as the industry works out how to deliver not just returns, but also purposeful societal dividends. The industry will do this because it's the right thing to do, but also because it makes good business sense."

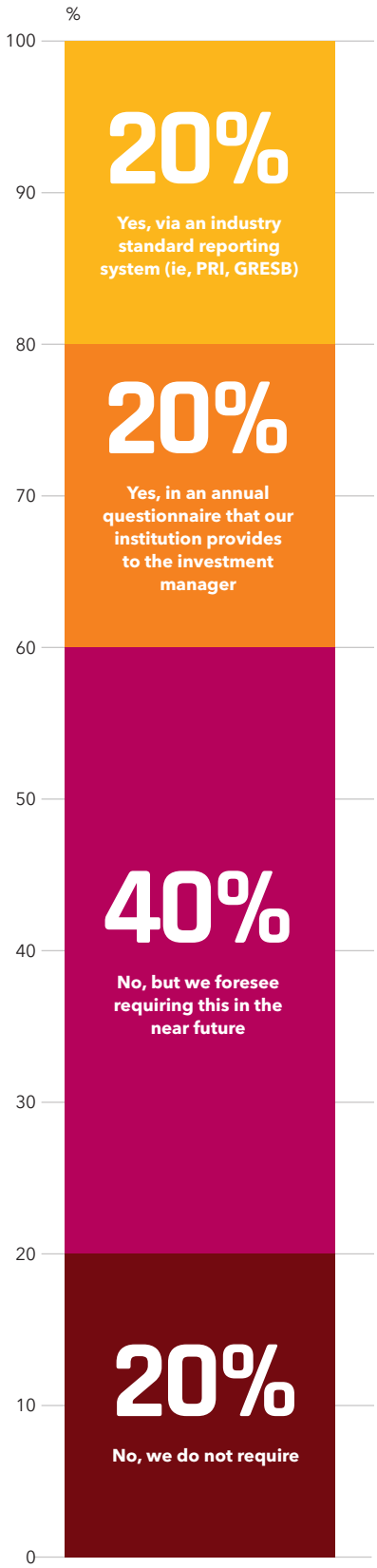
Overall, investors are optimistic that ESG policy implementation is good value, with 43 percent concurring, while 12 percent believe the value is on par with the cost of implementation. Only 6 percent of investors consider the cost of implementation to outweigh the value. This shows that 39 percent of investors do not know whether the measures undertaken by their managers offer good value.

Only 40 percent of investors require ESG reporting from their investment managers, whether via an industry standard reporting

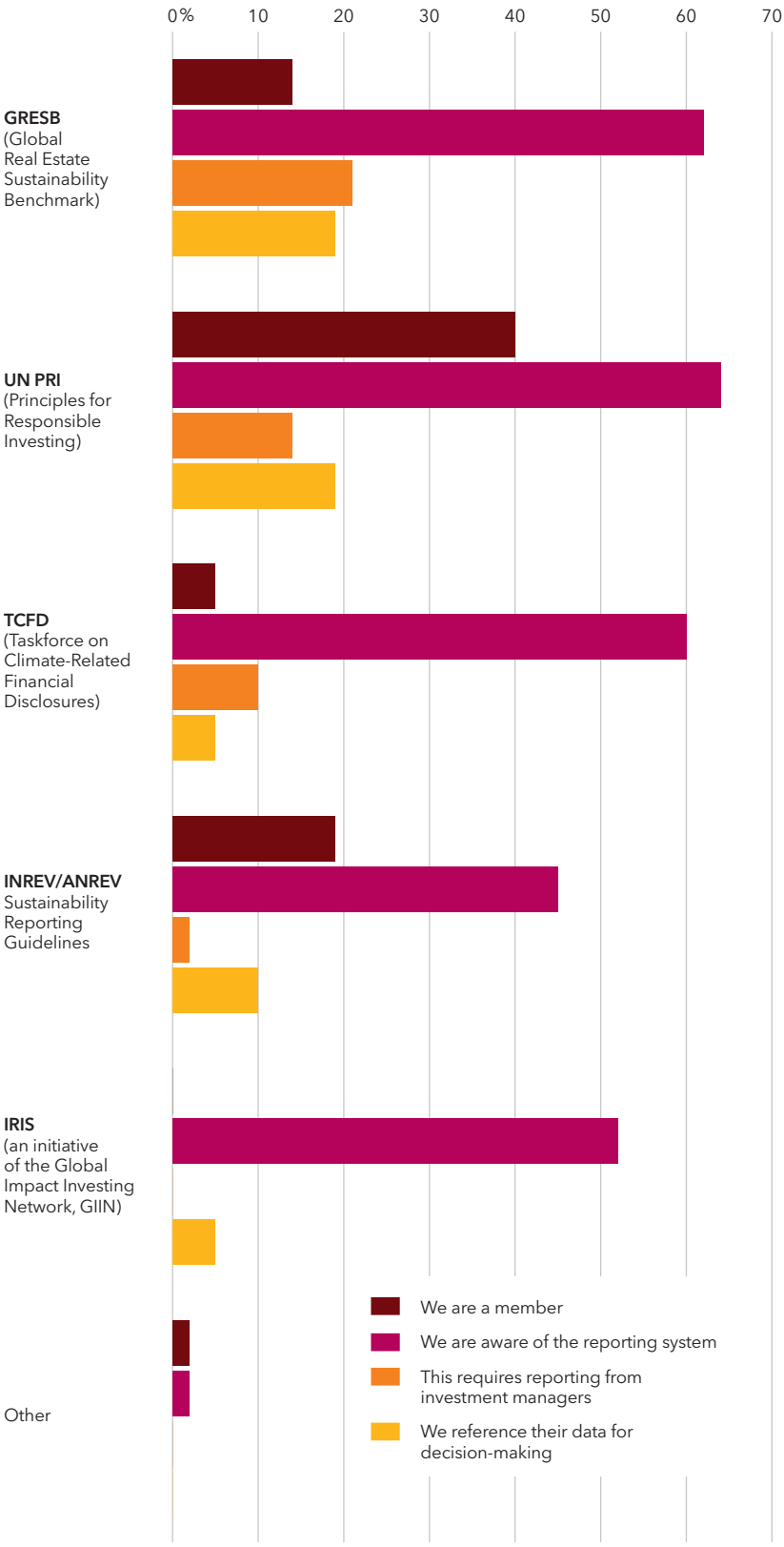
Which of the following statements best describes your experience in terms of the value that a manager's ESG policy generates:



Do you require annual reporting from investment managers on ESG?



Which of the following best describes your relationship with the following industry reporting systems?



system or a questionnaire provided by the investor. Another 40 percent of respondents who do not require this reporting foresee it becoming a requirement in the near future.

Sorlescu says: "Investors are increasingly asking managers to formally report on ESG and organizations focused on sustainability performance evaluation such as GRESB have helped the industry become more transparent in the ESG arena.

"For INREV, sustainability reporting is an important part of our reporting standards framework. Managers are required to disclose their ESG strategy, objectives and activity annually, as a minimum. Given the present overall environment, it seems inevitable that annual reporting will become the norm."

Formalizing reporting

There is a growing range of ESG reporting systems for real estate, with the most popular being the UN Principles for Responsible Investing (40 percent of respondents are a member), the INREV/ANREV Sustainability Reporting Guidelines (19 percent) and the Global Real Estate Sustainability Benchmark (14 percent). Investors that are not members tend to be aware of these systems.

Billy Grayson, executive director at the Urban Land Institute's Centre for Sustainability and Economic Performance, says: "Currently GRESB has the most traction but there is a lot of interest in the TCFD (Taskforce on Climate-Related Financial Disclosures) in real estate – many think that this standard will only become more important in coming years."

Mathieu Elshout, senior investment manager, private real estate at PGGM, says: "The great thing about GRESB is that performance is benchmarked against a relevant peer group, which enables us to compare offices with offices, and retail with retail."

There has been a considerable proliferation of reporting systems and certification systems in real estate, but Derk Welling, senior responsible investment and governance specialist at APG, cautions against this. "We are not in favor of having a separate certificate for each single issue, such as wellness or energy performance," he says. "Future proof ESG rating schemes should cover all these issues. We will put more emphasis on a limited number of holistic building certifications, which should include long-term climate risk metrics." ■

Office sector leads the way

Investors want all buildings to be sustainable, but some property sectors are more difficult than others, writes Mark Cooper

Investors see wide variance in the ESG credentials of different property types, but managers argue there are practical limits applying to each sector.

The *ESG Investor Survey 2019* shows investors consider the office sector to have made the most progress in terms of commitment to ESG, with 29 percent saying they see significant progress and 51 percent seeing moderate progress.

In sharp contrast, only 7 percent of investors see significant progress in the retail sector and 47 percent see little or no progress. Other sectors showing little progress are healthcare and hospitality. Investors were divided on progress in the multi-family sector, with 21 percent seeing significant progress but 28 percent seeing little or no progress.

Billy Grayson, executive director at the Urban Land Institute's Centre for Sustainability and Economic Performance, says: "Different real estate sectors have different challenges in driving ESG. For multi-family, the nature of leases and tenant attitudes toward sustainability make it tougher to make deep investments in sustainability that will pay off. Similar challenges exist in retail and industrial spaces, where tenants pay utility bills directly, and may not have an easy way to partner with their building owners to drive improvements in sustainability."

For managers of real estate assets, improving sustainability is often a matter of control. Sophie Carruth, head of sustainability, Europe, at LaSalle Investment Management, says: "With multi-let offices, where we have operational control of the assets, it is clear cut and easy for us to make sure we are managing the building so that it is operationally very energy and water efficient.

"However, with a shopping center, the landlord has control of shared spaces, but retail units tend to operate quite independently. They often have their own heating and cooling systems, and are independent units within a bigger building. From an environmental point of view, that can be a little bit more challenging."

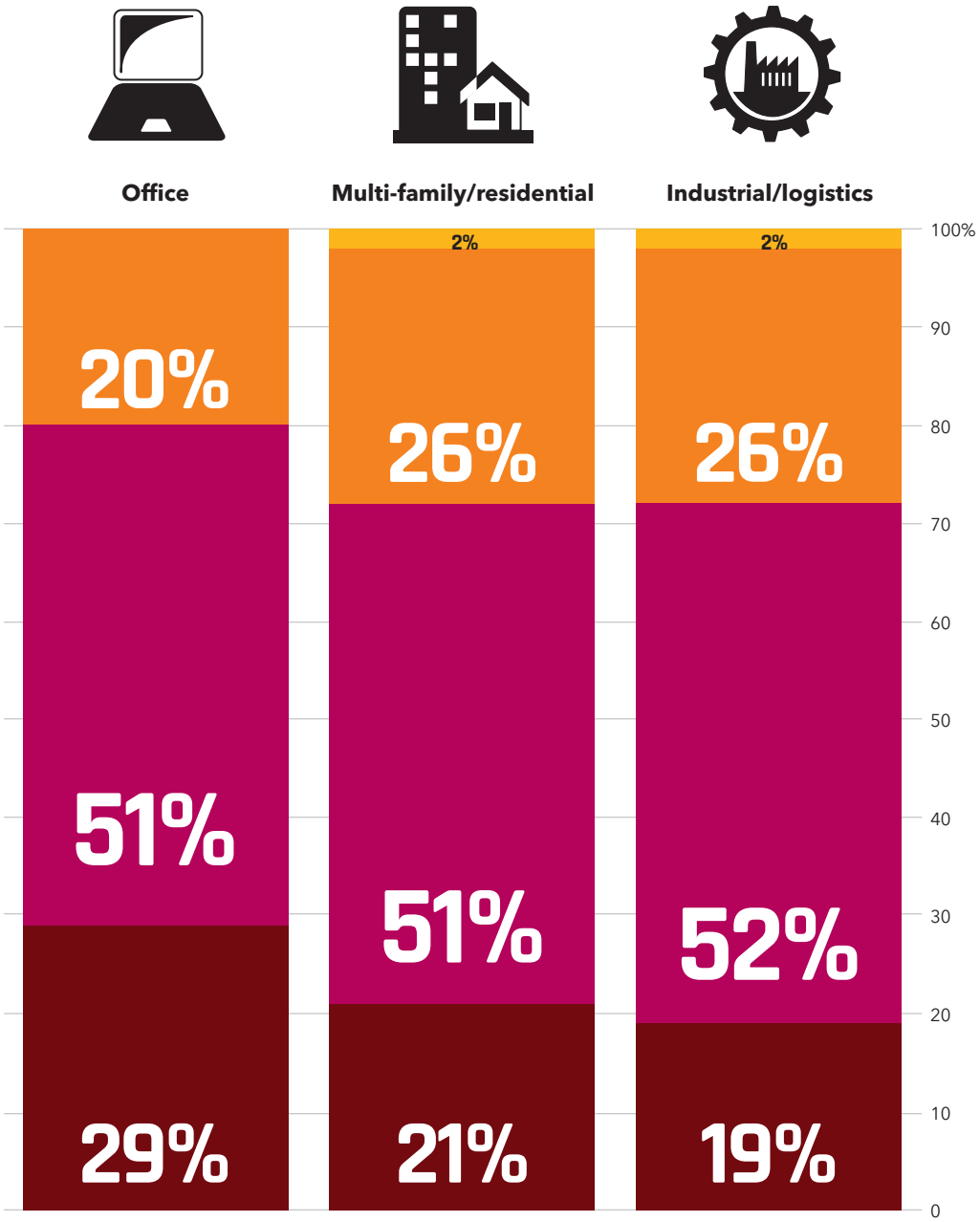
Carruth also notes that, while office tenants are increasingly concerned about ESG factors related to sustainability and employee experience, in retail there is "a very mixed bag of attitudes towards ESG."

She says: "Retailers are incredibly cost sensitive, and there's a lot of scrutiny of, for example, service charges within shopping centers. However, I think these attitudes will change because of changes in the way society views sustainability."

While retail might be less energy efficient than office, the position of shopping centers as community assets may help them to make up environmental shortcomings with social sustainability.

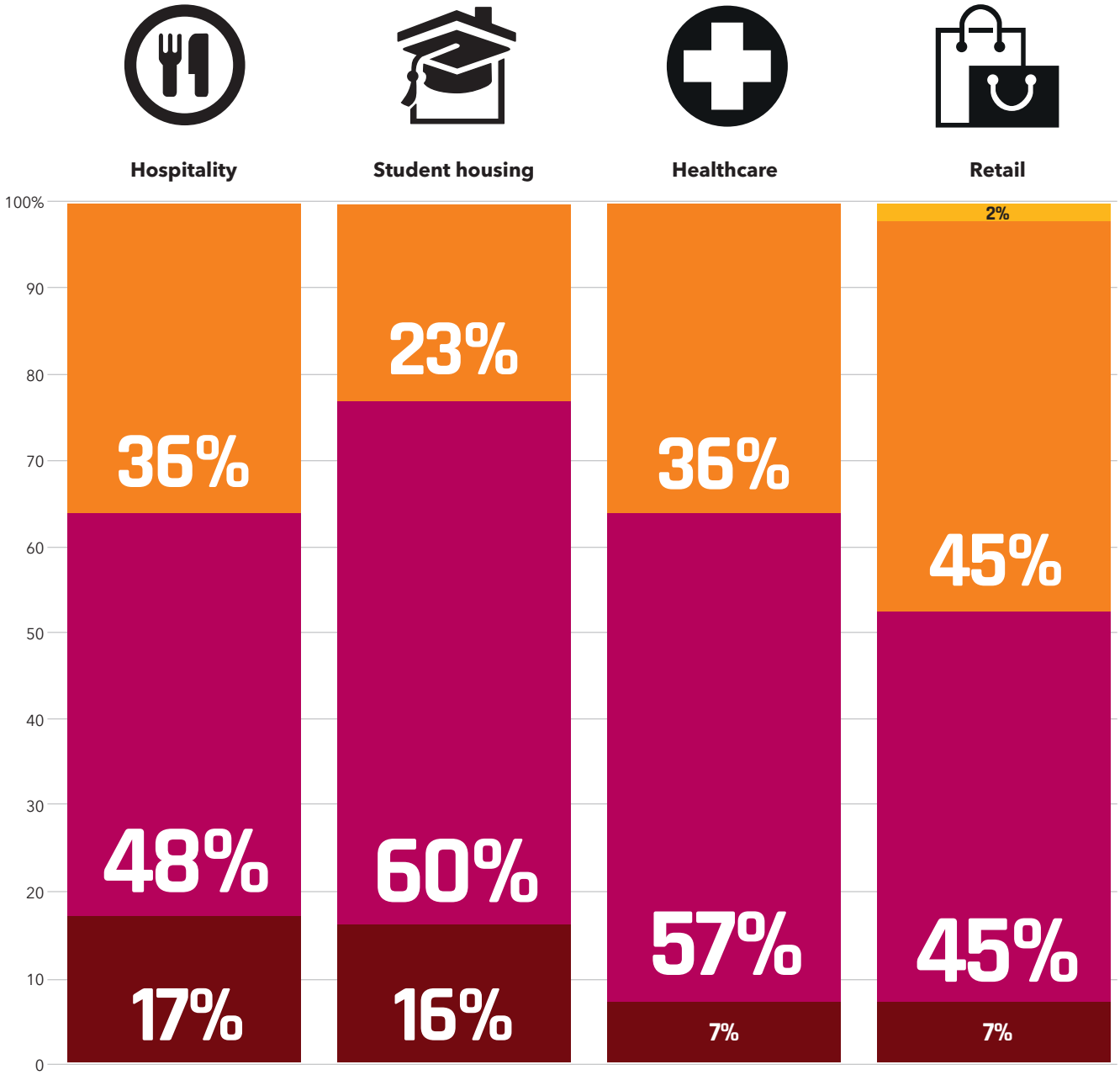
Mathieu Elshout, senior investment manager, private real estate, at PGGM, says: "The more control a landlord has over its properties, the more control they have over sustainability. We would however argue that a building can only be run in the most sustainable way when landlord and tenant(s) work closely together." ■

What level of progress do you see in the following private real estate sectors in terms of commitment to ESG?



"For multi-family, the nature of leases and tenant attitudes toward sustainability make it tougher to make deep investments in sustainability that will pay off"

BILLY GRAYSON
Urban Land Institute's Centre for Sustainability and Economic Performance



"Retailers are incredibly cost sensitive, and there's a lot of scrutiny of, for example, service charges within shopping centers"

SOPHIE CARRUTH
LaSalle Investment Management

"The more control a landlord has over its properties, the more control they have over sustainability"

MATHIEU ELSHOUT
PGGM

Points of view

E

"Climate change is important for us to future-proof our assets and the built environment fits naturally into that space"

Nicole Bradford, Cbus Superannuation Fund

"Incorporating a focus on resiliency – physical, locational or environmental – is a key component of investing with a sustainability lens"

Bentall Kennedy's **Dara Friedman** urges a holistic approach

"Over 90 percent of respondents to the PRI module report they take ESG into account when selecting investments. Energy efficiency is the most frequently cited consideration"

Simon Whistler of the Principles for Responsible Investment says standards are rising

S

"Satisfied tenants are 2.8 times more likely to renew than those who are unsatisfied"

Tsilah Burman, CBRE Global Investors

"We are seeing more push from investors all over the world. They are asking new and deeper questions demonstrating their increasing knowledge of this subject and their growing involvement in industry ESG initiatives"

Eric Duchon, LaSalle Investment Management

"As investors, we have a responsibility to ensure we capitalize and build projects that meaningfully contribute to the wellbeing of occupants"

Ivanhoé Cambridge's **Michèle Meier** says the private real estate market is in pole position to make a difference

G

"Buy-in at the top permeates through to the investment professionals below that are transacting deals and performing diligence"

Alan Gauld, the investment director of Aberdeen Standard Investments, on the need for support at a senior level

"The impact investing brand is definitely appealing right now. And it is tempting for fund managers to do a pretty paint job around it"

Amit Bouri, CEO of the Global Impact Investing Network, on the practice of 'greenwashing'

"We have integrated ESG in our investment process and in the way we select and monitor our investment process"

Arjan van Wieren of Dutch pension group MN is setting clear ESG goals



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