

# SUSTAINABLE REAL ESTATE INVESTMENT

IMPLEMENTING  
THE PARIS CLIMATE  
AGREEMENT:  
AN ACTION  
FRAMEWORK

## EXECUTIVE SUMMARY

February 2016



# EXECUTIVE SUMMARY

## Sustainable real estate investment Implementing the Paris climate agreement: An action framework

This framework is designed to help real estate investment stakeholders identify key drivers and overcome the most common barriers for action to integrate ESG and climate change risks into their decision making processes. It has been carefully prepared with input from many knowledgeable industry experts and resources produced over the past five years.

### After Paris, time for action.

#### Climate

On 12th December 2015 history was made in Paris when 195 countries agreed to work together to substantially curb global warming<sup>①</sup>. As investment buildings consume around 40% of the world's energy and contribute up to 30% of its annual GHG emissions, the people who manage global real estate assets - valued at around US\$50 trillion<sup>②</sup> - are therefore one of the most important decision making groups on earth to hear this clarion call.

#### Fiduciary duty

As part of wider efforts to implement the Paris Agreement, every real estate asset owner, investor and stakeholder must now recognise they have a clear fiduciary duty to understand and actively manage environmental, social, governance (ESG) and climate-related risks as a routine component of their business thinking, practices and management processes.

#### Long term

Failure to actively address these risks will not only hinder global efforts to address the climate challenge, but will also hurt long-term returns, undermine economic sustainability and reduce the calibre of the infrastructure passed to future generations.

#### Time to act

The importance that investors, regulators, other stakeholders and occupiers place on strategies to curb energy consumption and carbon pollution can only increase from here. So no matter where each organisation is on the journey to address these risks, now is the time to review investment programmes and benchmark current practices.



① Paris Climate Agreement, at COP 21, where 195 nations agreed to limit global average temperature rise to well below 2.0 degrees Celsius (3.6 degrees Fahrenheit), with an aspiration to limit it to 1.5 degrees Celsius above pre-industrial levels, and phase out fossil fuels by the end of the 21st century.

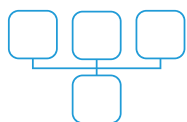
② La Salle Investment Management (2015). Research & Strategy. Available here

## Why use this guide?



**Explains how informed and active asset management around these issues represents a clear business opportunity** to improve returns and future-proof the value of real estate investments. Evidence shows that more efficient “greener” properties incur lower operating expenses, support efforts to achieve

top of market rents, have fewer vacancy and void periods, are at lower risk of mortgage default and meet the increasing needs of occupiers to provide living and working space that helps to improve employee engagement, health, and productivity.



**Offers a Framework for all enabling alignment and interaction along often complex supply chains as there is no size barrier for organisations to addressing ESG and climate risk.** Because it drives enhanced risk adjusted returns at both the asset and portfolio level. Moreover, rather

like low carbon technologies, the cost of integrating ESG and climate change risks, is falling all the time. This framework addresses what can be done within each component of the often complex supply chains that support property development and management in order to set clear expectations and incentives which will align the actions of consultants, managers and service providers.



**Distils material from many sources into one guide that is easy to use and helps every type of real estate investor make sense of available resources.** Dozens of detailed publications and potential practices have been reviewed so this guide highlights a common set of requests likely to have greatest impact. Different sections are directed at specific

audiences and of all levels of experience including: Asset Owners and Trustees and their Investment Advisors; Direct Real Estate Investment Managers and Property Companies and their Real Estate Consultants, and Real Estate Equity and REITS, Bond and Debt Investors and their Financial Advisors.



**Emphasises the physical impacts of climate change and highlights the potential socio-economic benefits of integrating climate and ESG** :By the year

2070, 150 million people will live in large coastal cities at risk of coastal flooding which have \$35 trillion worth of property— likely to be worth around 9 percent of the global GDP. Moreover, as more people migrate toward these densely populated and predominantly low-lying

areas, city governments will be working with the property industry to make good on their own COP21 pledges to mitigate climate risk and reduce the impact that buildings have on the environment. How investors choose to manage the built environment can also deliver socio-economic benefits given its materiality in terms of share of global wealth, energy use, green house gas emissions, and its climate, health or productivity impacts.



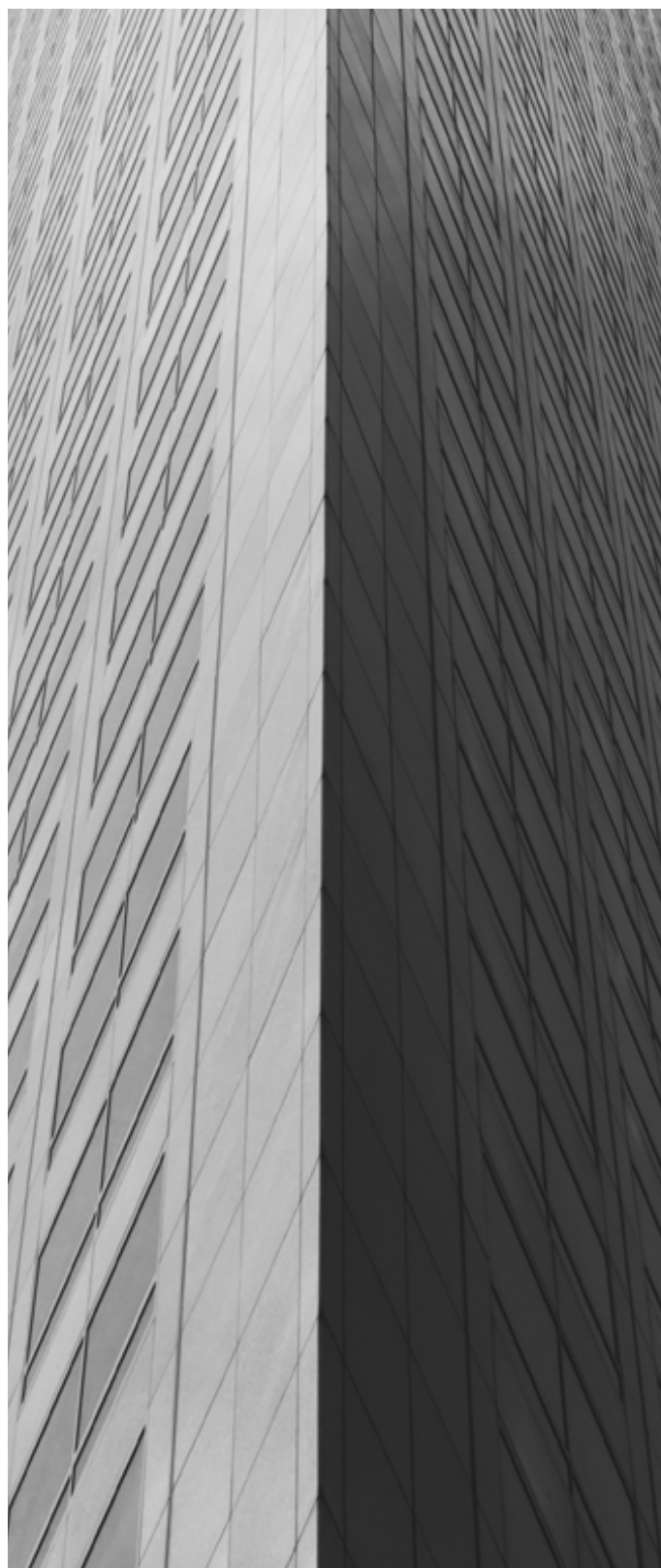
**Provides investors and their advisors/ consultants with guidance on how to move from inquiry and requests for disclosure, to prescriptive requests focused on results:** this includes giving investment managers and consultants more

direct and prescriptive guidance, providing direct feedback on both programmes and performance and engaging directly with real estate investment managers and consultants.

## Framework for action: A step by step guide for property investors

This framework sets out the measures and actions needed to support the integration of ESG and climate risks into the business of real estate investment and management. The approach taken is designed to transform aspirational measures into default practices for all stakeholders in the property sector.

The info-graphic hereafter provides a summary of the key steps in the investment process, must do actions within this framework and recommended resources to guide real estate investors and their advisers throughout the entire lifecycle of a real estate investment portfolio.





# Sustainable Real Estate Investment

Implementing the Paris Climate Agreement: An Action Framework

## Audiences

Real Estate Investors



Owners & Advisers



Direct Investor



Equity, Bonds, Debt



All

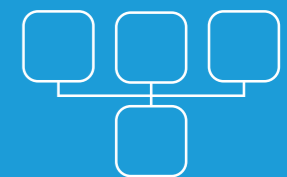
# WHY USE THIS GUIDE ?



Explains how informed and active asset management around climate and ESG represents a clear business opportunity.



Emphasises the physical impacts of climate change and highlights the potential socio-economic benefits of integrating climate and ESG.



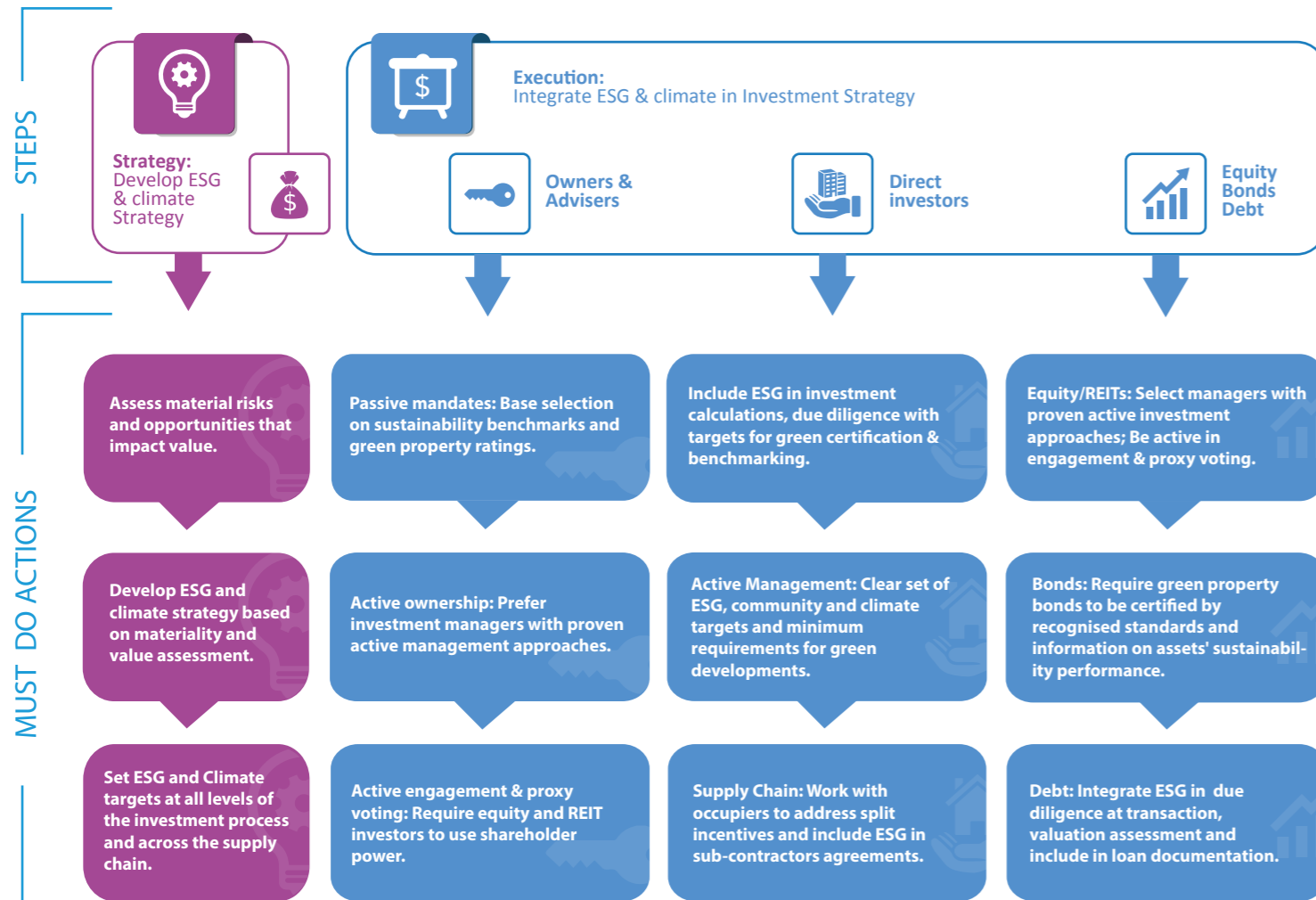
Offers a Framework for all enabling alignment along often complex supply chains, as there is no size barrier for organisations addressing ESG and climate risks.



Provides investors with guidance for managers and advisors to move from inquiry and disclosure to prescriptive requests focusing on performance.



Distils material from many sources into one guide that is easy to use and helps every type of real estate investor make sense of available resources.



**RECOMMENDED RESOURCES**

'Investing in a time of climate change' Mercer 2015	'The-21st-century-investor-ceres-blueprint-for-sustainable-investing' Ceres 2013	'Advancing Responsible Business in Land, Construction and Real Estate Use and Investment', RICS / UN Global Compact, 2015	'Developing an asset owner climate change strategy', PRI 2015	ICGN model mandate initiative ICGN 2012	'G4 Sustainability Reporting Guidelines: Construction and Real Estate Sector Disclosures' GRI 2015, Global.	'PRI Policy Frameworks for Long-Term Responsible Investment: The Case for Investor Engagement in Public Policy', PRI 2015, Global
'Developing an asset owner climate change strategy', PRI 2015	'Advancing Responsible Business in Land, Construction and Real Estate Use and Investment', RICS / UN Global Compact, 2015	'Trustee's Guide: Protecting value in real estate through better climate risk management' IIGCC 2014	'Climate Change Investment Solutions Guide', IIGCC 2015	'Aligning expectations: guidance for asset owners on incorporating ESG factors into manager selection, appointment and monitoring', PRI 201	'PRI reporting framework – Asset Owners, Direct, Equity and Debt investments', PRI, Global	
'Climate Change Investment Solutions Guide', IIGCC 2015	'Trustee's Guide: Protecting value in real estate through better climate risk management' IIGCC 2014	'Assessing climate change risks and opportunities for investors - Property and Construction Sector' IGCC 2013	'The-21st-century-investor-ceres-blueprint-for-sustainable-investing', Ceres 2013	'Sustainability metrics: translation and impact on property investment and management' UNEP FI et al 2014	'Global Real Estate Sustainability Benchmark' GRESB 2015 (annually)	
'The-21st-century-investor-ceres-blueprint-for-sustainable-investing' Ceres 2013	'Investing through an adaptation lens' IGCC 2015	'Unlocking the energy efficiency retrofit investment opportunity' UNEP FI 2014	Green Property Bonds Standards, Climate Bonds Initiative 2015	'Greening the building supply chain' UNEP SBCI 2014, Global	'Sector led operational benchmark and indexes for Direct Investors, Real Estate Companies and their Advisers	
'Investing through an adaptation lens', IGCC 2015		'Sustainability and commercial property valuation - Professional Guidance Note, Global', RICS 2013	'Green bond guidance for real estate sector' GRESB	'Global Real Estate Sustainability Benchmark' GRESB 2015 (annually), Global		

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## Our project partners

Investor Network on Climate Risk (CERES – INCR)  
Institutional Investors Group on Climate Change (IIGCC)  
Investor Group on Climate Change (IGCC)  
Principles for Responsible Investment (PRI)  
Royal Institution of Chartered Surveyors (RICS)  
United Nations Environment Programme Finance Initiative (UNEP FI)

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