

The Fundamentals of sustainable real estate – towards responsible property investment

MISTRA Workshop

Stockholm, 12th June 2008

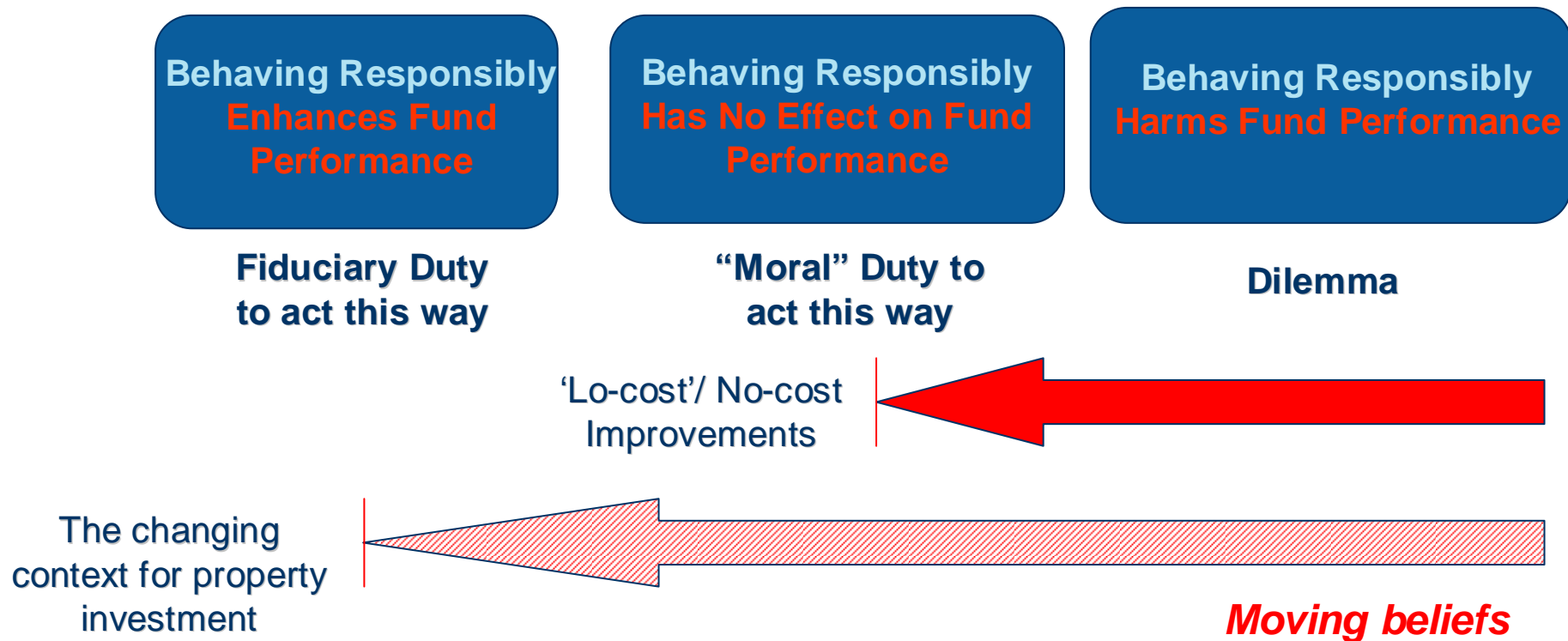
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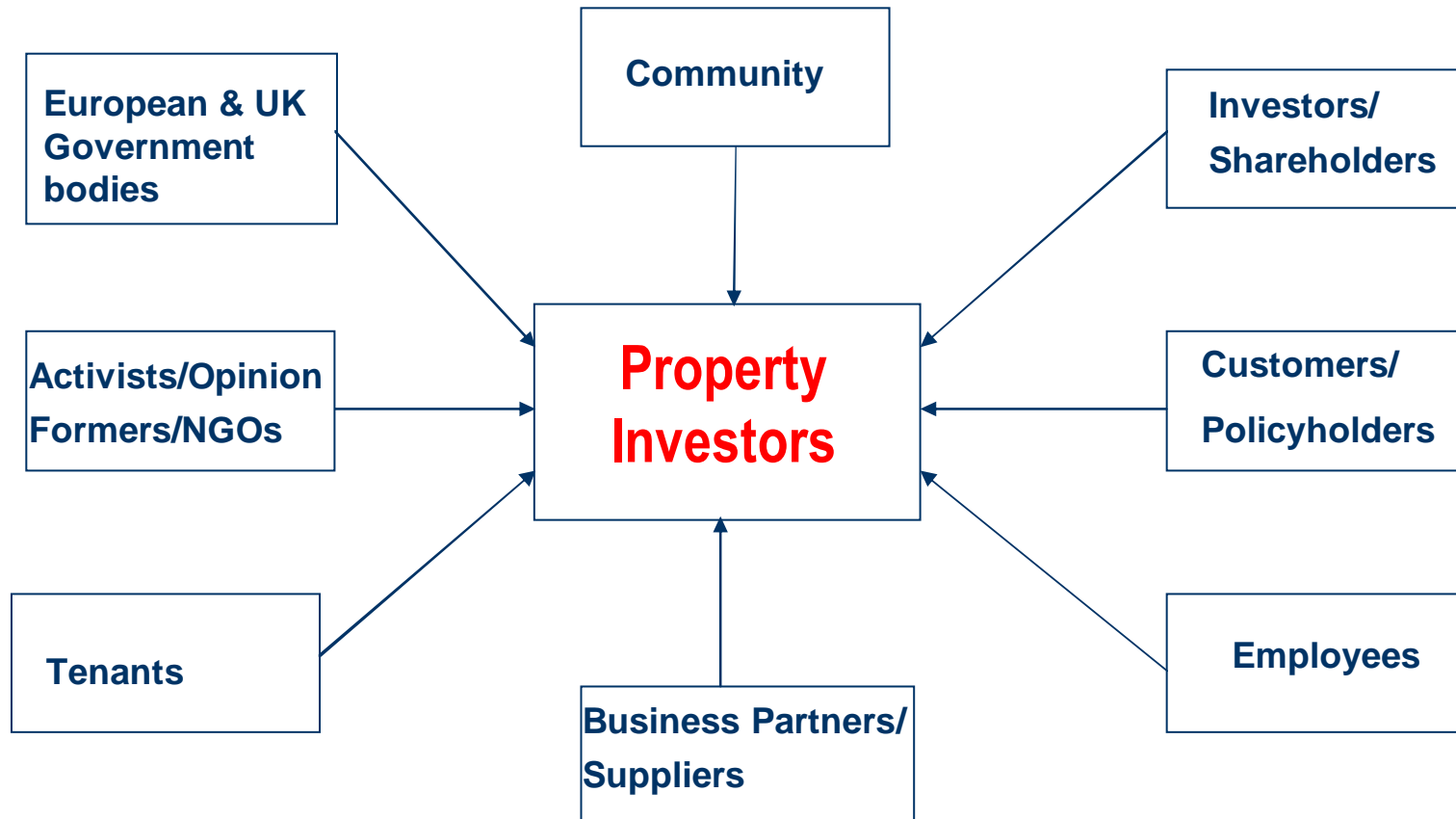
Impact through moving the debate along the spectrum

REAL ESTATE
INVESTMENT
MANAGEMENT



The changing context for property....

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...has implications for property values

Factor	Investment Implications	Impact on 'non-green' buildings
Tenants prefer green to non-green buildings	Over time rental differentials emerge between green and non-green buildings	Rental growth lower, depreciation higher
	Non-green assets take longer to re-lease at lease end	Longer interruptions to cash-flow, higher risk premium
Non-green buildings are more costly to run (energy costs)	Less money available for rent in non-green buildings	Rental growth slower
Other investors prefer 'green' buildings over 'non-green buildings'	Non-green properties take longer to transact	Greater illiquidity and opportunity cost, high risk premium required

- Lower rental growth, faster depreciation, higher risk premia all lead to higher yields and lower values over time for non-green assets
- As differences in value emerge, non-green assets underperform

Working within current boundaries: PRUPIM's Improver Portfolio

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- **What can we achieve without any threat to fiduciary responsibilities - through low and no cost actions, in the normal course of property management?**
- Mixed portfolio of c£500 million of typical (life fund) assets taken, and low and no cost measures used to lower their environmental footprint
- Binary 'benchmark'
 - Provide competitive returns with the relevant IPD benchmarks
 - Exhibit diminishing environmental impacts against a Day 1 benchmark
- Use learning to inform property and asset management across the other £20billion of property we manage

Looking for low cost-high impact actions (Shopping Centre example)

	Low Cost	Medium Cost	High Cost
High Impact	<ul style="list-style-type: none"> Waste management for landlord Apply an Energy Management System Water conservation for landlord OPR for landlord Energy management M&T for landlord Apply ISO 14001 	<ul style="list-style-type: none"> Waste Management scheme for tenant OPR tenants area Water conservation for the tenant 	<ul style="list-style-type: none"> Energy management M&T for tenant Fully inclusive leases Renewable on-site energy generation
Medium Impact		<ul style="list-style-type: none"> Renewable energy bought in for landlord Tenant selection and use Tenant security and safety Alienation provisions reviewed – bar on assignment to unwanted tenant types Green travel plan Standard traditional lease 	<ul style="list-style-type: none"> Renewable energy bought in for tenant Tenant education Catering Suppliers
Low Impact	<ul style="list-style-type: none"> Landscaping materials Cleaning materials Hardstanding 	<ul style="list-style-type: none"> Cycling facilities Engage with local community 	<ul style="list-style-type: none"> Tenant morale and welfare Business travel data

- **The social and policy context for property investment in property is changing rapidly**
 - Property fund managers need to understand these changes and their likely impact on value
 - (DCF tells us these influences should be being priced now)
- **‘Responsible’ property fund managers should be active - ‘doing well by doing good’**
 - A lot can be done within the confines of existing property management – improving existing portfolios
 - Active management can better ‘future-proof assets’ – though both mitigation and adaptation
 - As technology costs fall and energy costs rise, more actions will become economic