



# The Real Estate Industry: An ESG Perspective

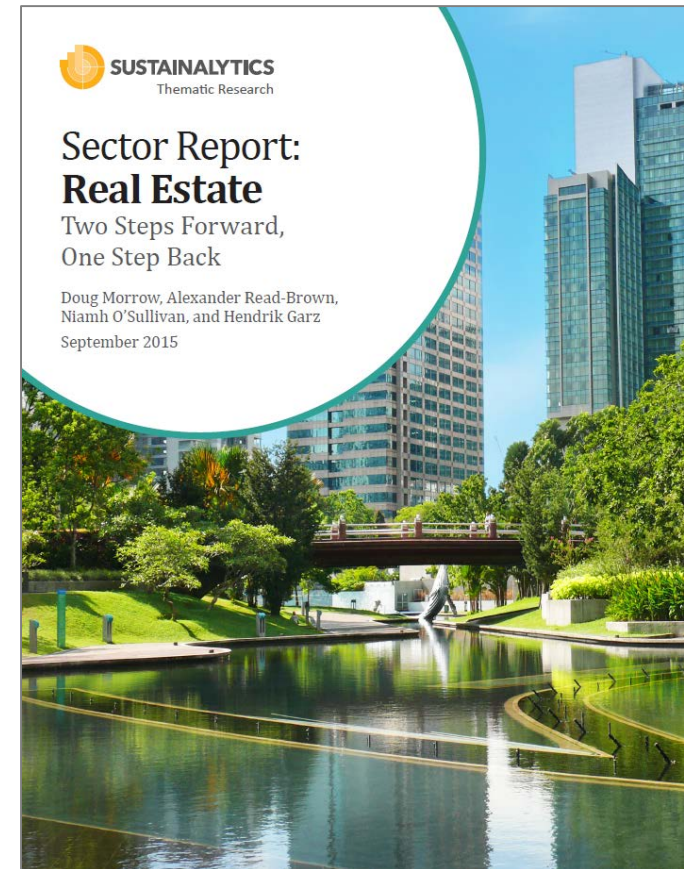
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# Agenda

- **About Sustainalytics**
- **The Real Estate Industry**
- **Key ESG Issues**
  - Energy Use & GHG Emissions
  - Product Sustainability
  - Business Ethics
- **Q&A**



Sustainalytics is the world's largest independent research firm dedicated to RI and ESG



- **Innovative and client focused**
- **200 staff with over 100 dedicated ESG analysts**
- **Clients include over 200 institutional investors worldwide**
- **Named Best Independent SRI Research Firm in 2012, 2013 and 2014 in the IRRI survey**

# What We Do

We help clients turn environmental, social and governance (ESG) data and information into actionable insights and analysis, which they use to make more informed investment decisions

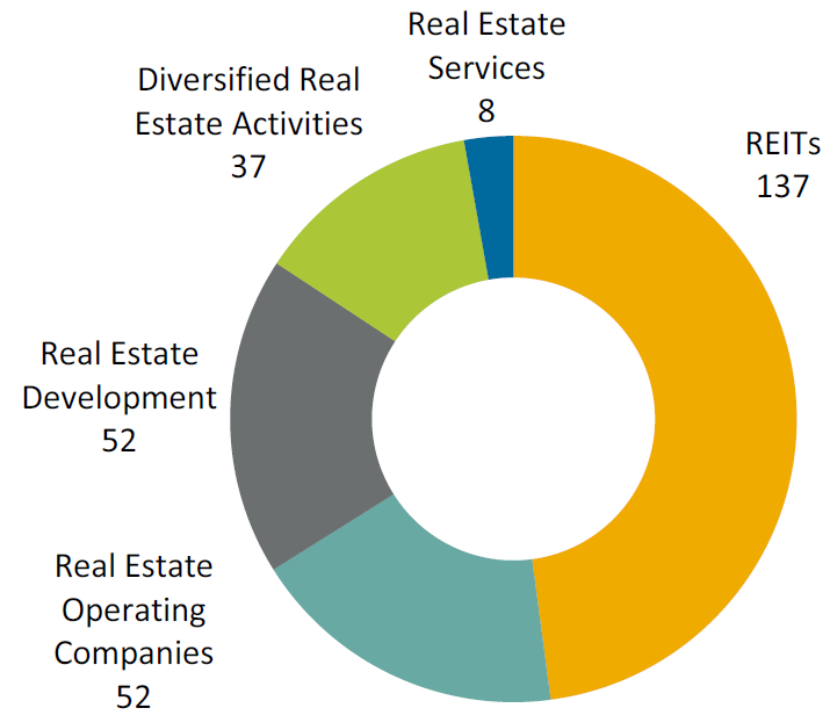


- Sustainalytics supports investors around the world with the development and implementation of RI/ESG strategies **across investment strategies and asset classes**.
- Sustainalytics' **experienced global team of over 100 analysts** provides leading-edge ESG analysis which is strengthened by our comprehensive research process.
- We offer broad coverage of major global markets, with ESG reports **on over 4,000 companies** and controversy coverage of over 15,000 companies.

# Real Estate Sector Universe: 286 companies across 5 sub-industries

- We analyse **286 global listed & non-listed real estate companies** in our report
- From a **range of geographical regions**:
  - Asia-Pacific (127);
  - North America (72);
  - Europe (67);
  - Latin America (7);
  - Rest of World (13)
- Across a **diversity of Global Industry Classification Standard (GICS) sub-industries**
  - Including 9 varieties of Real Estate Investment Trusts (REITs)

## Real Estate (GICS) sub-industries



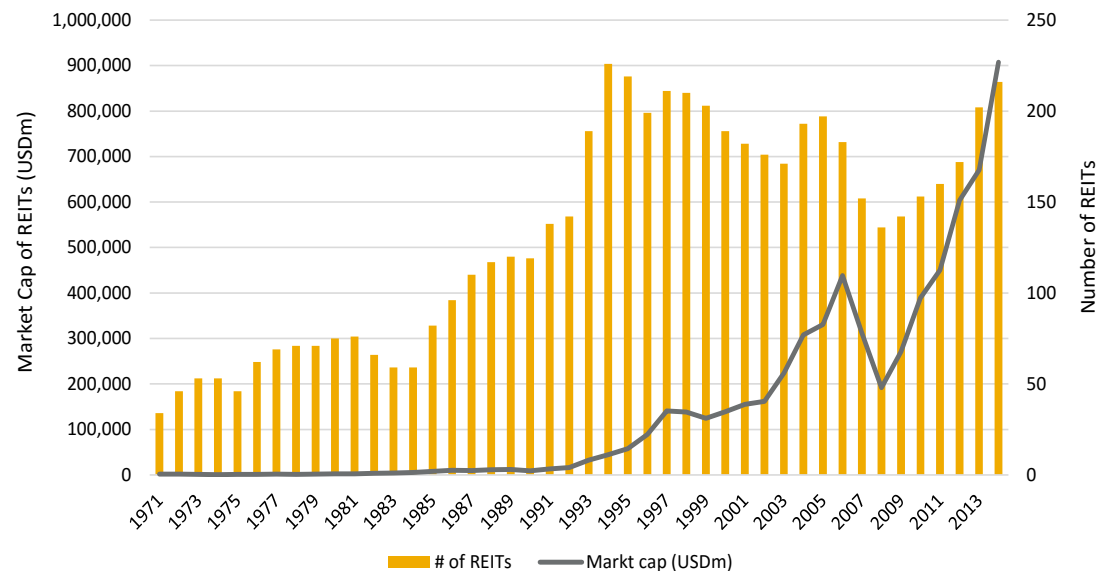
Source: Sustainalytics

# Institutional investors are steadily increasing their allocation to real estate



- “Average” allocation moves from 5% in 2000s to 9% (2014)
- Low interest rates, stable cash flows, inflation hedge, low correlation with other asset classes
- Preferred vehicle is private real estate funds, despite advantages of REITs
- US REITs increased from 34 in 1971 to 216 in 2014, with a total market capitalization in excess of USD 900bn

## Number & market capitalisation of US REITs, 1971-2013

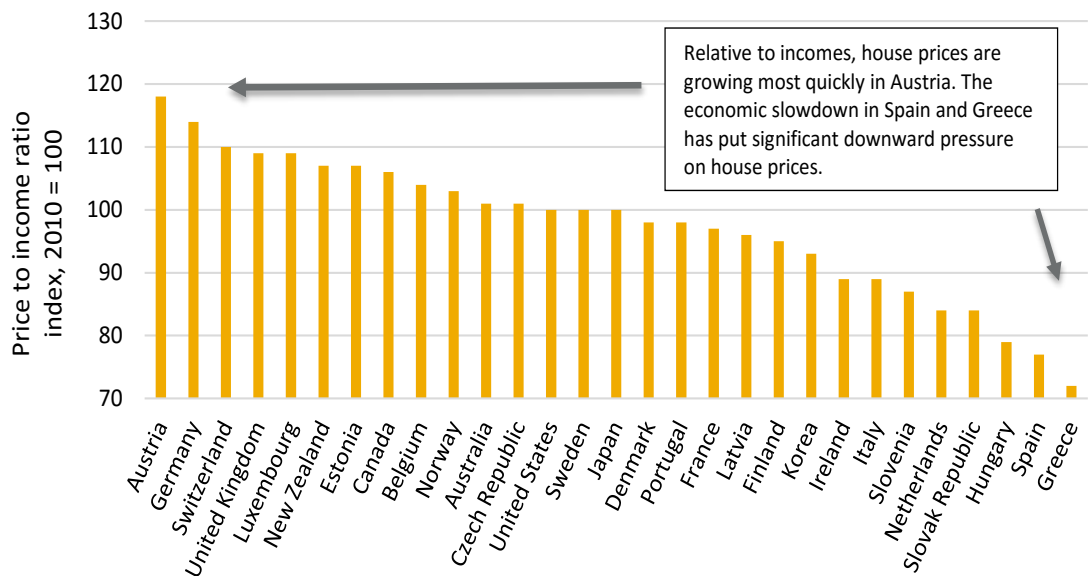


Source: NAREIT, 2015

# Influx of capital has been mirrored by an increase in housing and rental prices

- Housing prices have strongly rebounded from the lows of 2012
- Prices are growing more quickly than household income in many major economies
- Prospect of millennials as a generation of life-long renters is increasing
- Surge in demand for multi-residential properties & mixed-use developments

## House Price to Income Ratio Around the World, Q1 2015



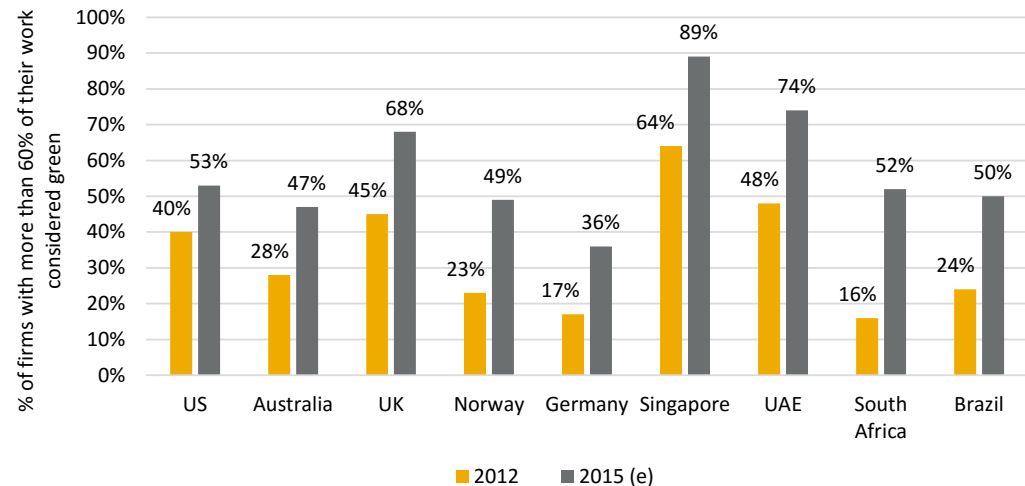
Source: IMF, 2015

# The Green Building trend continues to accelerate, driven by policy and fundamentals



- Market recently valued at USD 260bn with 325 million square metres of new floor space added in 2013
- In many key markets, most new construction is “green”
- Slow shift from green to “sustainable” building; focusing on occupant productivity, health & well-being
- WELL Building Standard (administered by the IWBI and third-party certified through GBCI, which also administers LEED)

Firms with more than 60% of work in green building



Source: McGraw-Hill Construction, 2013



# Three Key ESG Issues: For real estate industry investors

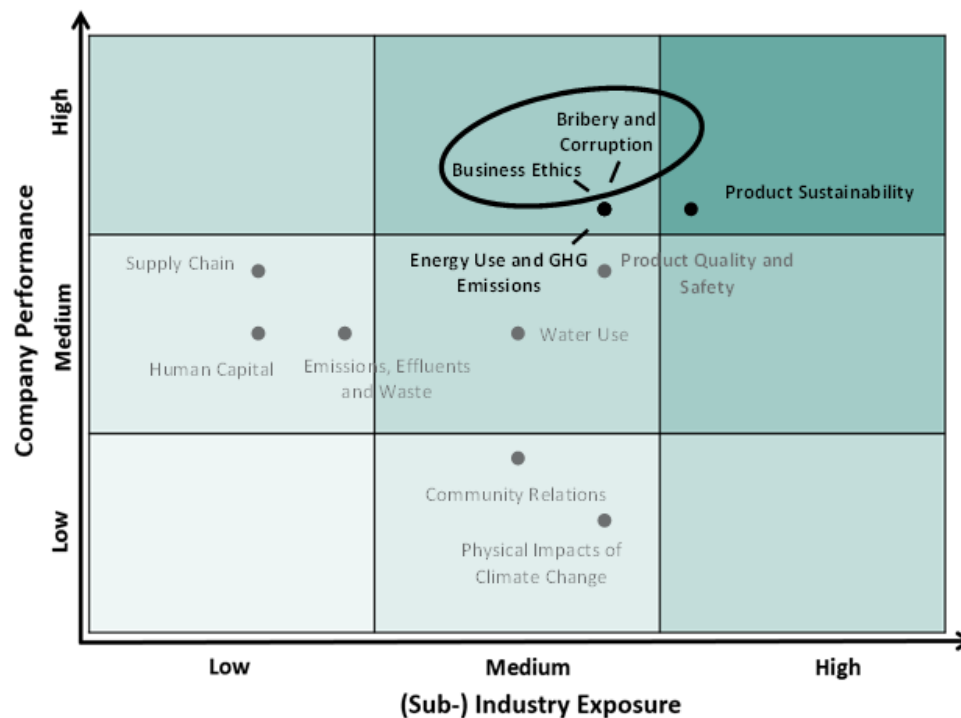
- Materiality matrices use a **two-dimensional plot** to help investors identify key ESG issues

- Issues are **reviewed & updated constantly** so that most salient impacts are covered

- Of the eleven ESG issues we find relevant for real estate industry investors, **three are of primary significance:**

- Energy Use & GHG Emissions
- Product Sustainability
- Business Ethics

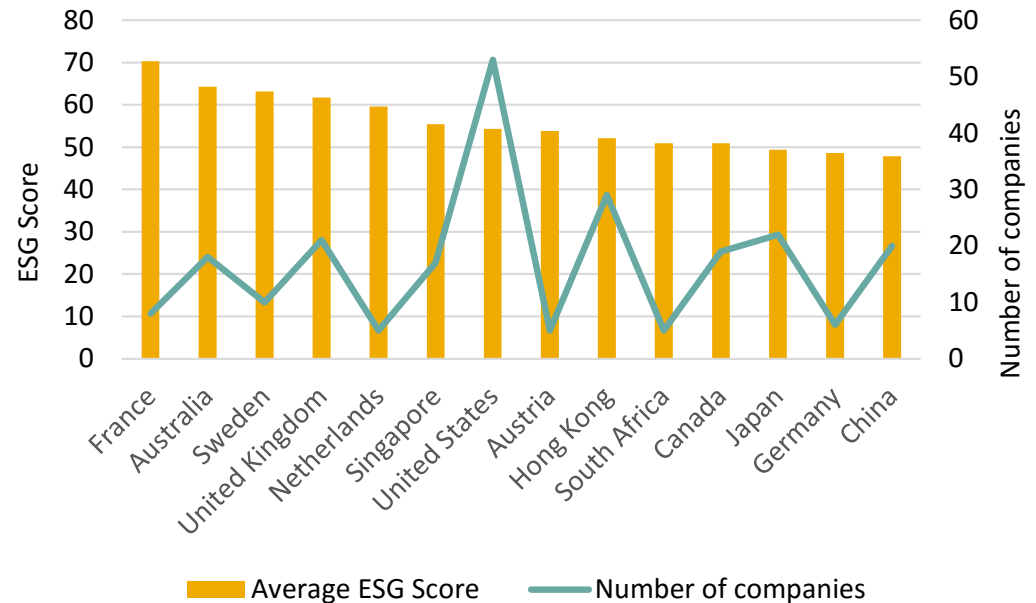
### Materiality Matrix – Real Estate



Source: Sustainalytics

# A US Perspective

- There are 53 US real estate companies in our universe, almost all of which are REITs (Retail and Office are largest segments)
- Relative to their global peers, US REITS are average ESG performers
- Some of this is a disclosure issue, some of it is a performance issue.



Source: Sustainalytics

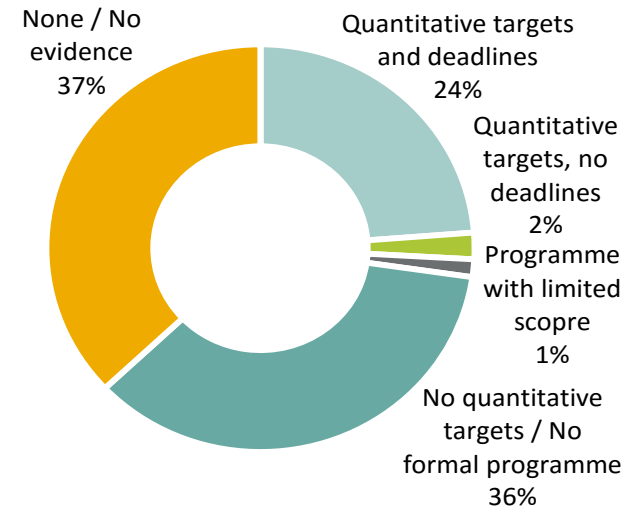
# Energy Use & GHG Emissions is relevant due to the industry's large energy footprint



## Key Ideas

- Buildings account for 40% of global primary energy consumption and 30% of CO2 emissions
- Tightening regulations, even for existing building stock
- Market failure worth USD 130bn per year in the US alone
- Conflicting interest of owners and occupants
- Energy efficiency projects: NPV positive and short payback periods (1-2 years)
- Over one-third of Real Estate companies do not have a GHG reduction programme

## E.1.7 GHG Reduction Programmes



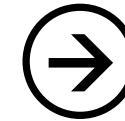
Source: Sustainalytics

# Leaders demonstrate comparatively high awareness of energy and GHG issues

## Industry Leaders

Company	Ticker	Country
Mahindra Lifespace Developers	BSE:532313	India
Land Securities Group	LSE:LAND	UK
Mirvac Group	ASX:MGR	Australia
Dexus Property Group	ASX:DXS	Australia
City Developments Ltd	SGX:C09	Singapore

## Industry Outlook



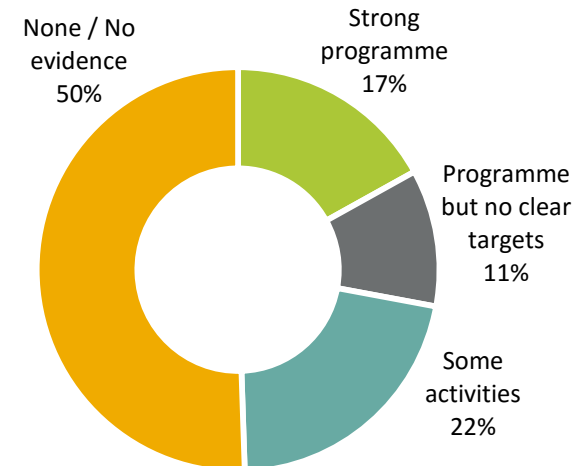
Baseline: Weak  
Outlook: Neutral

# Green Building is being driven not only by policy, but by attractive economics

## Key Ideas

- Green Building market valued at USD 260bn, growing at 13% per year
- Standards: LEED, BREEAM
- Cost premiums range from 8% (LEED Platinum) to 2% (LEED Certified)
- REITs with higher GRESB scores deliver higher returns?
- Fully 50% of Real Estate companies disclose a Green Building programme
- Future is sustainable building as opposed to merely green

## E.3.1.13 Green Buildings Investments

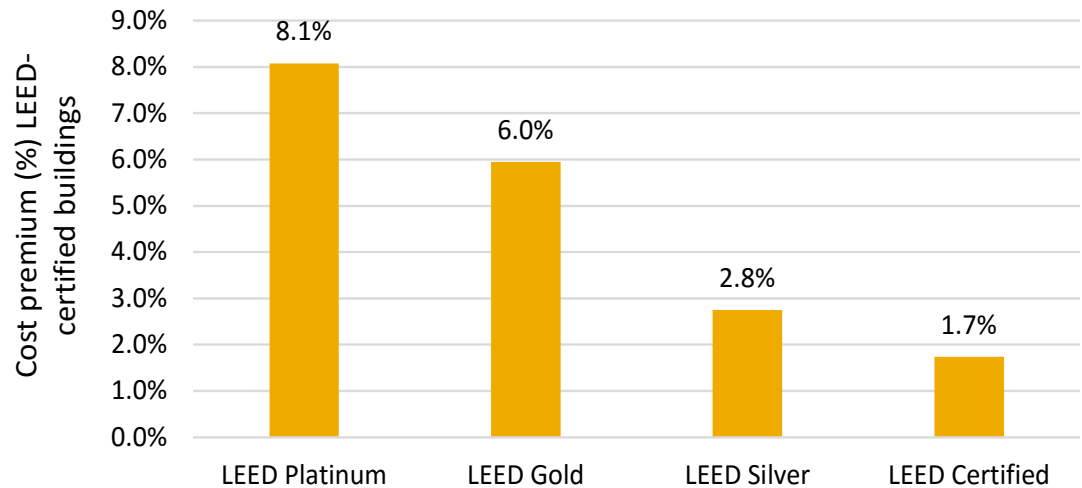


Source: Sustainalytics

# Does Green Building pay off?

- Cost premiums stem from more expensive equipment and materials relative to traditional “to code” structures
- Range from a high average value of 8.1% for LEED Platinum to 1.7% for LEED Certified
- A 2011 federal survey of LEED-certified government buildings found that certified buildings can save 19% per year in operating costs, such as maintenance and utilities costs, compared to the national average

### Average Cost Premium of Green Building in the US\*



\* based over time (2000 – 2011) and across various sources

Source: World Green Building Council, 2013

# Product Sustainability leaders are leading the Green Building charge



## Industry Leaders

Company	Ticker	Country
City Developments Ltd	SGX:C09	Singapore
Mirvac Group	ASX:MGR	Australia
Unibail-Rodamco	ENXTAM:UL	France
Gecina SA	ENXTPA:GFC	France
Hammerson	LSE:HMSO	UK

## Industry Outlook



Baseline: Moderate

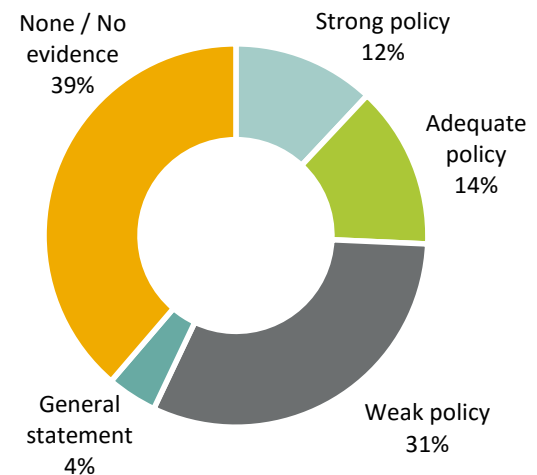
Outlook: Positive

# Business Ethics is material due to potential impacts of bribery cases

## Key Ideas

- Real estate companies face pressure to engage in unethical practices to secure land contracts
- High profile examples: Chinese Estates Holdings (China); Sun Hung Kai Properties (Hong Kong); and Agile Property Holdings (China)
- Scope for ethical misconduct is increasing: more capital, rising valuations
- Only 12% of the companies in our universe have a comprehensive Bribery and Corruption Policy
- Roughly 80% lack even a general statement on money laundering

## G.1.1 Bribery & Corruption Policy



Source: Sustainalytics



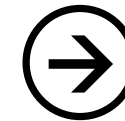
# Leaders have developed policies in key areas and avoided major ethical lapses



## Industry Leaders

Company	Ticker	Country
China Vanke	SZSE:000002	China
Unibail-Rodamco	ENXTAM:UL	France
KLCC	KLSE:KLCC	Malaysia
Mahindra Lifespace Developers	BSE:532313	India
Ventas	NYSE:VTR	US

## Industry Outlook



Baseline: Weak  
Outlook: Neutral

# Our top overall performers include many key issue leaders



## Industry Leaders, Developed Markets

Company	Country	ESG Score (0-100)
Unibail-Rodamco	France	87.6
City Developments Ltd	Singapore	85.0
Atrium Ljungberg	Sweden	84.1
Gecina	France	84.1
British Land Co	UK	83.3

## Industry Leaders, Emerging Markets

Company	Country	ESG Score (0-100)
Mahindra Lifespace Developers	India	73.6
Shui On Land	China	69.1
China Vanke	China	66.3
Ayala Land	Philippines	64.4
Growthpoint Properties	South Africa	58.4

# Top 10 US Performers

## Industry Leaders, US

Company	ESG Score (0-100)	Global Rank
Prologis, Inc.	77	13th
CBRE Group, Inc	70	28th
Host Hotels & Resorts Inc.	69	30th
HCP, Inc.	69	31st
Jones Lang Lasalle Inc.	68	35th

Company	ESG Score (0-100)	Global Rank
Chimera Investment Corporation	67	40th
Corporate Office Properties Trust	65	50th
Boston Properties Inc.	64	55th
Welltower	63	58th
Vornado Realty Trust	62	59th



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