

# HOT UNDER FOOT

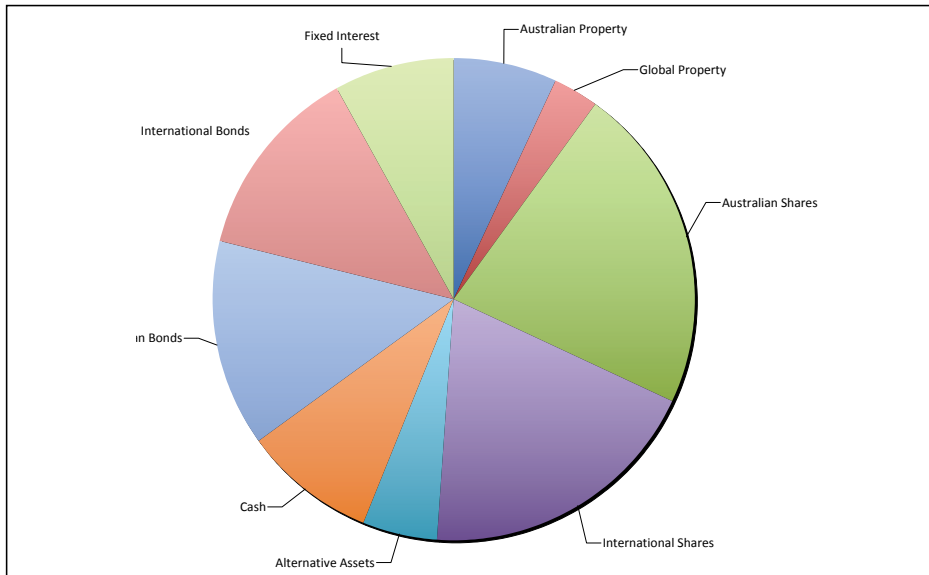
There's no escaping the risk inherent in owning property, so manage it.

Story by NICHOLAS TAYLOR

The average Australian has around \$50,000 in superannuation, locked away for retirement and invested in everything from shares and infrastructure to government bonds and cash. Of that \$50,000, about 10 per cent is invested in property - either directly or as part of unlisted and listed trusts (see Figure 1).

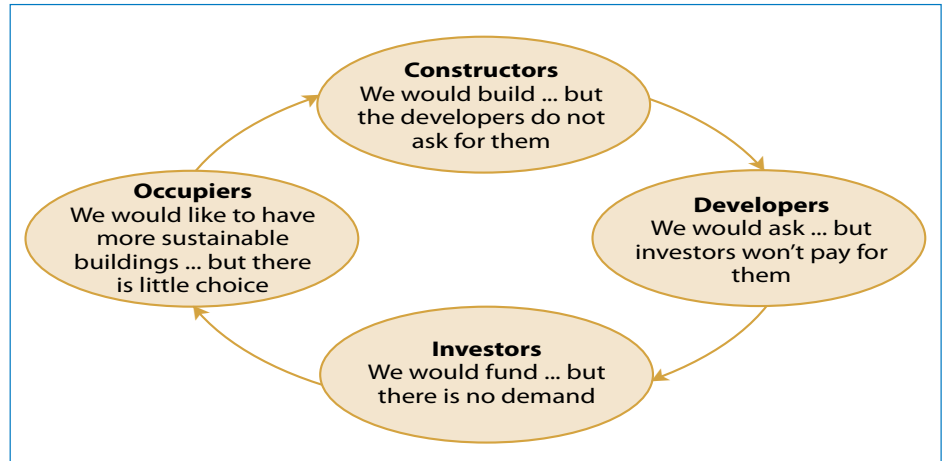
However, the property exposure of an investor goes far beyond what they have explicitly invested in property assets – all businesses either rent or own property as part of their operations and facilities and some of the largest companies in Australia are in fact property trusts. Thus, property might be viewed at the centre of an interrelated web of climate risks that affects most assets either directly or indirectly. Regardless of where the exposure comes from, property presents an investor with a significant problem, since it consumes about 30 per cent of the world's natural resources and accounts for 40 per cent of total greenhouse emissions.

Figure 1: An indicative asset allocation of Australian superannuation funds



Source: Chant West (2008), *Strategic Asset Allocation Survey: Balanced Fund*, June 2008.

Figure 2: The "circle of blame"



Source: Sustainable Construction Focus Group (2000), *SCFG Towards Sustainability: a Strategy for the Construction Industry*, Construction Confederation.

Quite simply, there's no escaping the risks of property to climate change, so it is important that investors ensure their superannuation fund is adequately managing those risks as best they can.

## The unique nature of property

Property is one of the most heavily 'institutionalised' investible assets – and Australia has one of the most institutionalised

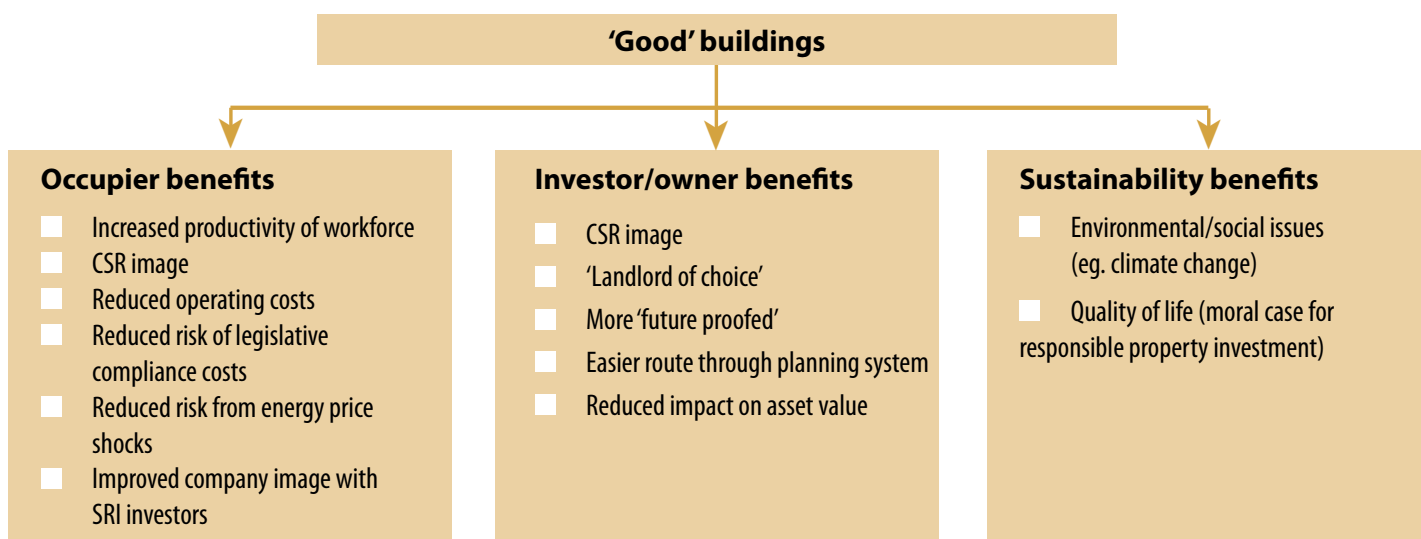
markets in the world – with 40 per cent held by institutional investors, such as superannuation funds.

Such institutionalisation brings many issues unique to the property industry. First, independent property managers usually control the day-to-day site operations. Second, tenanted properties can often use the building contrary to the wishes of both the owner and manager. Third, investors commonly invest in trusts listed on the stock exchange, thereby further diluting their influence. Finally, there is an 'eco-efficiency principal-agent' conflict, whereby a property's fit-out is controlled by the landlord, whereas the ongoing liability for the utility bills usually rests with the tenant.

As such there is a 'circle of blame' among occupiers, constructors, developers and investors that is not easily addressed (see Figure 2). Overcoming this is especially difficult for investors, who generally have broader interests than do the other actors. Evidence from the UK suggests that many investment managers who are leaders in considering the environmental, social and governance (ESG) issues of companies do not necessarily demonstrate the same level of sophistication when it comes to their property investments.

However, there are signs that this is

Figure 3: Benefits of socially responsible buildings



Source: Rapson D., Shiers D., Roberts C. & Keeping M. (2007), Socially responsible property investment (SRPI):

starting to change. In a survey of Australia's largest listed companies this time last year by the Carbon Disclosure Project, respondents identified property and infrastructure as the two key physical impacts of climate change. Naturally some industries are more exposed than others. For example, David Higgins in a 2007 UTS research paper *Placing commercial property in the Australian capital market*, found that more than 80 per cent of the environmental impact per employee of service sector companies is associated with the location, design and operation of their premises.

However it's not all doom and gloom. Opportunities exist for those able to navigate the 'circle of blame'. According to a recent report by Jones Lang LaSalle.

Interestingly it has been Queensland, riding the wave of the property boom there, that has rapidly moved to establish a leadership position in this area. The number of certified buildings in Queensland has increased from one to 90 in the four years to 2008, according the Green Building Council of Australia.

### What the responsible property investors are doing?

Of all nations, Australia enjoys one of the highest rates of signatories to the United Nations Principles for Responsible Investment (UNPRI) – a voluntary, aspirational set of principles that promote the consideration of broader ESG issues into investment decision-making. And while much of the paradigm shift remains confined to investment managers in companies listed on the stock market, Australia is also among the leaders in responsible property investment.

For instance, Drapac was the first specialist property investment manager to sign the UNPRI after it was formed in 2006. Drapac now offers one of the only 'pure sustainable' property investment funds, mandated to invest and develop properties with a 5-star rating or higher.

***If all the commercial offices in Sydney, North Sydney and Parramatta CBD increased their energy star rating by one star, assuming an average of 2.5, they would save \$21 million in energy costs, or 189,000 tonnes in greenhouse gases.***

Similarly, the Investa Property Group's Diversified Office Fund and Commercial Property Fund were the first property-specific funds to fulfil the requirements of the Responsible Investment Certification Program in Australia. In order to obtain accreditation, all funds must undergo a thorough assessment by the Responsible Investment Association of Australasia (RIAA), which places an emphasis on adequate disclosure.

One example of how Investa met the criteria is that both funds have disclosed the energy, water and safety performance of their holdings to investors since 2003. Investa believes that by collecting and monitoring this data, they are able to better establish operational performance targets for the buildings in which they invest.


While there are some clear leaders, the mainstream property investment community

are still trying to ascertain the benefits of socially responsible buildings (as summarised in Figure 3) and how such issues may be incorporated into valuations and investment decision-making. Partly in response, property was the first asset class to get specific attention by the UNPRI back in 2007, and has since evolved into an ongoing working group in which three Australian diversified property groups – **GPT Group (ASX: GPT)**, **Investa** and **Lend Lease (ASX: LLC)** – are observers.

### But it could be better: super funds unite

Superannuation funds, and the investment managers to whom they often delegate their duties, ultimately exist to safeguard the retirement savings of millions of Australians. Remember, it's your \$50,000.

While many leading superannuation funds have begun to make their policies regarding ESG issues publicly available as part of their UNPRI, there remains very little explicit reference to asset classes outside of listed equities. Thankfully, the Australian Council of Super Investors (ACSI), an organisation that offers research and education to industry (non-profit) superannuation funds, has ensured that its policy advice includes assets outside of listed equities such as infrastructure and property.

Given the significant contribution of property to the climate-change problem, as well as its near universal exposure across all asset classes, this is a welcome development. Let's just hope the trend continues so it doesn't get any hotter under foot. 

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