

Real Estate and Socially Responsible Investment: New Products, New Investments, New Value

January 30-February 1, 2007
Loews Hotel
New Orleans, Louisiana



Hosted by the Institute for Responsible Investment and
Professor Gary Pivo of the University of Arizona

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Socially responsible investors can promote their ideals and portfolio efficiency by making real estate investments.

On January 30- February 1 2007 the Boston College Institute for Responsible Investment, Boston College and Professor Gary Pivo of the University of Arizona brought together 57 representatives of the real estate and responsible investment business sectors for the Responsible Property Investment Project's second conference.

Responsible Property Investment (RPI) - a fast-growing field with activity across the spectrum of institutional investors, money managers, real estate funds, and property developers - can be understood as any real estate development, management or investment practice that goes beyond minimum legal requirements to achieve a positive environmental or social impact, at a market rate of financial return.

RPI can encompass many things:

- o The development of markets and public/private partnerships around the provision of affordable and workforce housing;
- o The increasing popularity of green buildings and transit-oriented development;
- o The creation of innovative projects that find value in brownfield redevelopment, urban infill, urban revitalization, and land conservation;
- o The emergence of responsible investment tools to track and create financial, social, and economic value; and
- o Engagement with property funds and managers on social and environmental practices.

All these projects and investment strategies share a number of characteristics - a focus on the creation of long-term value across the triple bottom line, the development of tools to measure and reduce social and environmental impacts, and innovative partnerships and financing strategies. Unfortunately, they have typically been developed independent of each other, making the sharing of best practices and the identification of like-minded investors and real estate professionals more difficult than it needs to be.

The first Responsible Property Investment Project (RPIP). Conference occurred February 28-March 1, 2006. Thirty-five leaders attended that meeting, which ended with a commitment by all to work together to develop the field. Since that meeting a number of activities have occurred under the auspices of the RPIP:

- o Together with Institutional Real Estate Inc., the RPIP administered a survey of executives at pension funds, REITs, REOCs, and development companies to uncover their activities and attitudes related to RPI. The survey was co-sponsored by the Urban Land Institute, Building Owners and Managers Association International, the Real Estate Roundtable, and the National Association of Real Estate Investment Trusts.
- o Over 50 SRI and real estate leaders were brought together through a Delphi process to prioritize the criteria that should be used for evaluating the sustainability and responsibility of property investments.
- o The RPIP collaborated with Calvert Funds and others to design a survey of homebuilders to learn more about their relevant policies and practices.
- o A database of investment products and organizations that illustrate contemporary RPI practice has been compiled and is being planned web-based open access.
- o RPIP representatives continue to engage leading institutional investors, asset managers and others in order to expand our knowledge of practice in the field.

Attendees at the New Orleans conference included institutional investors, real estate fund managers and consultants, socially responsible investors, real estate developers, academics, and others. They spent two days focused on how best to define, promote and enrich RPI. They left with a shared consensus that RPI is ready to become mainstream segment of the property investing asset class.

Summing up a day and a half of rich interactions among 57 enthusiastic RPI pioneers is a tricky task. Rather than trying to recapitulate the point of view of every participant, or to summarize chronologically the different topics discussed, it appears more meaningful to organize the main points around the two questions which were in fact the focus of most conversations, namely: “What is RPI?” and “What is the best way our group can promote RPI?”

1. What is RPI?

a. Diversity of RPI

Institutions around the table use a wide array of RPI criteria to determine where they invest: green buildings, union labor, low-income neighborhoods, community development, smart growth, transit oriented development, etc. This diversity and its implications for the group were often debated during the conference. The following consensus emerged from the participants' remarks:

- **The issues addressed by the various approaches are equally relevant to RPI:** whether the approach focuses on improving tenant's lives, contributing to more sustainable communities or fighting global warming, it belongs to the field of RPI because they all go beyond compliance to produce social or environmental benefits along with acceptable financial returns.
- **Nobody has it all:** the diversity of the focuses was humbling, with most participants tackling one or two issues, but certainly not all the issues that arise from real estate investments.
- **Money matters:** all participants prided themselves on achieving good returns, often above their respective benchmarks. RPI as a field is focused on market-rate investments, though these investments take place within a complex field of regulatory structures, tax incentives, and public-private partnerships that help determine the investment opportunities available.

“There are two separate movements: the green building one and the community development one. They have not yet met.”

“Each institutional investor has different concerns regarding these investments.”

“It is important to insist that you can make money, and that it makes sense to invest in RPI.”

– Quotes from participants

b. A growing demand for definitions

The participants widely agreed on the need of a common definition of RPI, as well as a common vocabulary describing its various approaches. Three different players drive this need:

- Industry groups such as PREA, ULI, BOMA, have all expressed their interest for RPI, and are considering scheduling RPI roundtables during their next annual meetings.
- Institutional Investors are interested in defining the market segment that encompasses the range of RPI investments.
- The Socially Responsible Investment community has also manifested a lot of interest in RPI, which has been presented in conferences like SRI in the Rockies and the Social Investment Research Analysts Network (check correct name w/ David).
- Public policy and non-governmental groups have increasingly focused on opportunities to improve the social and environmental profile of real estate investments.
- The participants themselves being at the forefront of RPI need common definitions to be able to sell RPI to their respective publics, and start creating a business case for RPI, including developing metrics to study its returns.

“There should be something definitive on what makes this investment responsible.”

“Other institutions are desperate to have some consensus on definitions of RPI”

“RPI needs to have meaning. We do not want any greenwashing”

“People do not agree on vocabulary. Green and sustainability are used interchangeably.”

– Quotes from participants

c. Striking a balance

Participants have explored ways to solve the tension between the necessity to find a common definition of RPI, demanding enough to be meaningful, while at the same time both recognizing the diversity of current RPI approaches and being flexible enough to allow further creativity. This will have to be done taking into account the fact that some global property investors have issued pioneering sustainability reports, various SRI research companies, such as TruCost, Innovest, SAM, and KLD all have their own procedures for evaluating property companies and the Global Reporting Initiative is beginning its own process to create a property supplement to its basic reporting framework.

The proposals raised at the meeting include:

- focusing on a small set of social and environmental criteria in the beginning and then increasing the number of criteria
- establishing from the start a strong set of criteria that can be used for self-assessments, reporting, or third-party evaluations,
- encouraging working groups that focus on specific aspects of property investment
- having some sort of a certification process

It is obvious that this question is far from being solved, and that solving it will one of the main tasks of this group, since it will determine how RPI is going to evolve.

2. What is the best way our group can promote RPI?

“This group can begin to shape what is going to be happening in the next 5 years.”

“We think this discussion can be made easier, that there are many misunderstandings, and our goal is to provide the language”

“One of the functions of this group is to pull together information on how to do RPI”

“Who are the innovators we should be turning to launch these new products?”

“We want to make the case for RPI, and want to be able to use case studies, so that people are convinced it is not only talk.”

“Outreach is obviously one of the main goals of this group.”

– Quotes from participants

Besides the crucial question of defining RPI, the following points were debated:

- **Networking:** all participants agreed on the fact that this group should not duplicate any existing structures, but should work in strong interaction with the players already in the field. The question of whether this group should be nested in a larger industry-wide group, such as ULI, was discussed.
- **Persuading:** all participants agreed on the need to create a business case for RPI, to demonstrate its social, environmental and financial returns through a developed and flexible set of metrics.
- **Educating:** all participants agreed on the need of business cases, examples of best practices, and other initiatives to transfer knowledge on RPI, so that ‘beginners’ can develop more RPI investment opportunities and increase the flow.
- **Going forward:** all participants agreed on the relevance of this group, with the diversity of players it involves and the need to move forward together. This is the challenge it has to face.

Conclusion:

There was general consensus at the end of the conference that the time was now ripe for a more structured organization capable of accelerating the mainstreaming of RPI, while ensuring that a sound balance be struck between the need for environmental and social performance and the need for a significant increase in the flow of RPI investment opportunities. A number of members have volunteered to explore further the avenues to create and fund such an organization in 2007.

The RPIP expect to form working groups to address several of the topics raised at the New Orleans convening, including:

- Assessing how institutional investors are approaching RPI
- Developing metrics for determining financial, social, and environmental returns
- Creating methods to identify and disseminate best practices
- Coordinating exchanges between the pipeline of RPI projects and investors
- Supporting outreach to the larger investment and real estate communities.

We expect work to continue and accelerate through 2007, and the RPIP to gain institutional strength over that period.

Appendix 1: Attendees List

Jan.31-Feb.1 Loews Hotel New Orleans

Emmanuel Arnaud, Harvard KSG

Eric Becker, Trillium Asset Management

Rob Berridge, CERES

Stuart Brodsky, US EPA Energy Star

Carlton Brown, Full Spectrum

Keith Butler, BCS Placements

Colin Coyne, Melaver

Peter Crawley, Satoria Investment

Tom Croft, Heartland Network of the Steel Valley Authority

Stu Dalheim, Calvert

Eric Fernald, KLD Research and Analytics

Dennis Fleming, Revival Fund

Melissa Floca, Urban Land Institute

Beth Galante, Global Green

Gui Goodreau, GE Real Estate

Amy Hall, Innovest

Dixon Harvey, Sustainable Land Fund

Mark Heisterkamp, USGBC

Yvonne Isaac, Full Spectrum

Mike Jett, Quadrant Real Estate Advisors

Joy V. Jones, Trustee, Calvert Social Investment Fund

David Keiran, New Boston-USA Fund

Joe Killinger, Learning Links

Michael Lent, Progressive Asset Management

Howard Levy, EBL&S Development, LLC

James Lincoln, Illuminated Funds Group

David Lindahl, Kennedy Associates
Edward Lipkin, EBL&S Development, LLC
Jeff MacDonagh, Domini Social Investments
Molly McCabe, Hayden Tanner
Brandon Mitchell, Full Spectrum
Debbie Nisson, Amalgamated Bank
Tom O'Malley, AFL-CIO Investment Trust Corporation
Noa Oren, Teamsters
George Pino, Learning Links
Gary Pivo, University of Arizona
Tracey Rembert, SEIU
Ron Roberts, Kennedy Associates
Keith Rosenthal, Phoenix Realty
Vijay Samtani, Dharma Capital
Cherie Santos-Wuest, TIAA-CREF
Daniel Schapiro, AFL-CIO ITC
Steve Schueth, First Affirmative Financial Network
Carey Shea, Rockefeller Foundation
Cheryl Smith, Trillium Asset Management
Laura Sparks, Opportunity Finance
Jay Stark, Phoenix Realty
Chuck Swanson, British Columbia Investment Management Corporation
Kirk Sykes, New Boston-USA Fund,
Nathan Taft, Jonathan Rose,
Christina Taylor, Greater Board of Pension and Health Benefits of the Methodist Church
Hemant Wadwhani, Dharma Capital
David Wood, Boston College Institute for Responsible Investment
Betsy Zeidman, Milken Institute

Boston College Center for Corporate Citizenship, a membership-based research organization, is committed to helping business leverage its social, economic and human assets to ensure both its success and a more just and sustainable world. As a leading resource on corporate citizenship, The Center works with global corporations to help them define, plan and operationalize their corporate citizenship. Through the power of research, executive education and the insights of its 350 corporate members, The Center creates knowledge, value and demand for corporate citizenship.

The Center offers publications including a newsletter, research reports, and white papers; executive education, including a Certificate program; events that include an annual conference, roundtables and regional meetings; and a corporate membership program.

The Institute for Responsible Investment, a project of the Center, works with investors, corporations, public sector organizations, research institutes, and related parties to coordinate thinking and action around issues of strategic importance to long-term wealth creation for shareholders and society.

The University of Arizona is a premier, student-centered research institution. Now in its second century of service, the UA has become one of the nation's top 20 public research institutions, and is one of only 62 members of the Association of American Universities, a body of exceptionally strong research and academic programs.