

RPI Quarterly

Responsible Property Investing: Defining the Field

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What is in the RPI Quarterly? The RPI Quarterly will provide up-to-date information on how the real estate industry is approaching Responsible Property Investing. It will provide details on what is happening in the field and summaries of new research.

The information in this report is drawn from the ongoing work on the RPIC and its members. For more information, please go to our website: www.responsibleproperty.net.

Welcome to the first RPI Quarterly, a publication of the Responsible Property Investing Center (RPIC).

The purpose of this first report is to introduce the field of Responsible Property Investing to a broad audience.

What is Responsible Property Investing (RPI)?

Responsible Property Investing (RPI) can be defined as portfolio, asset, or property management activities that go beyond compliance with minimum legal requirements to address the risks and opportunities associated with environmental, social, and governance issues in property investing.

RPI is not philanthropy or altruism. Today there are a variety of financially successful investment funds that meet the definition of RPI by focusing on energy conservation, brownfield development, green building, affordable and workforce housing, urban revitalization, transit oriented development, historic preservation, land conservation, and other opportunities. In addition, asset managers with more conventional portfolios, are demonstrating the potential for RPI by employing eco-efficiency strategies, fair labor practices, and stakeholder engagement programs that are economically viable and enhance the public good.

Everyone in the property investment community – from developers and lenders to fund managers, asset owners, and institutional investors – can use RPI to create value for both their companies and our broader society.

As a recognized field, RPI is still in its infancy. But it has already gained support from a wide array of real estate industry participants. This reflects the fact that investors are looking for opportunities for “doing well by doing good.” Through RPI, real estate professionals can improve their ability to simultaneously create financial, social, and environmental value.

The formation of the RPIC is being overseen by a Steering Committee of real estate, academic and investment professionals. They are:

- ⇒ **Stephen Blank**, *Senior Resident Fellow, ULI*
- ⇒ **Geoffrey Dohrmann**, *CEO, Institutional Real Estate, Inc.*
- ⇒ **Ed Lipkin**, *President and CEO, EBL&S Development*
- ⇒ **Steven Lydenberg**, *CIO, Domini Social Investments*
- ⇒ **Gary Pivo**, *Professor, University of Arizona*
- ⇒ **Ron Roberts**, *Executive Vice President, Kennedy Associates Real Estate Counsel*
- ⇒ **Kirk Sykes**, *President, New Boston-Urban Strategy America Fund*
- ⇒ **David Wood**, *Director, Boston College Institute for Responsible Investment*

SUPPORT THE RPIC:

For more information about the RPIC, or to become a supporter, see our website at www.responsibleproperty.net or contact David Wood at 617-552-1140 or wooddl@bc.edu.

Who We Are

The RPI Center fills a void in the real estate landscape by bringing together leading real estate developers, lenders, fund managers, and investors in order to share best practices, conduct crucial research, and promote professional networking within the field of Responsible Property Investing.

The RPIC originated as a project jointly sponsored by the Boston College Institute for Responsible Investment and Professor Gary Pivo of the University of Arizona. In March 2006, 35 institutional investors, real estate developers and trade associations gathered in Tucson, Arizona, for a two day conference to discuss various aspects of responsible property investing. A second convening was held in New Orleans, in February 2007, at which time it was decided to formally create the RPIC.

OUR SUPPORTERS INCLUDE:

- BOMA International
- British Columbia Investment Management Corporation
- Calvert
- Domini Social Investments
- EBL&S Development
- First Affirmative Financial Network
- Institutional Real Estate, Inc.
- Kennedy Associates Real Estate Counsel
- Melaver, Inc.
- New Boston—USA Fund
- Real Estate Roundtable
- Revival Funds
- Urban Land Institute

TEN DIMENSIONS OF RESPONSIBLE PROPERTY INVESTING

- ⇒ **Energy Conservation** (e.g. conservation retrofiting, green power generation and purchasing, energy efficient design)
- ⇒ **Smart Growth** (e.g., walkable urbanity, transit-oriented development, walkable communities, mixed-use development)
- ⇒ **Urban Revitalization and Adaptability** (e.g. infill development, flexible interiors, brownfield redevelopment)
- ⇒ **Corporate Citizenship** (e.g., regulatory compliance, sustainability disclosure and reporting, independent boards, adoption of voluntary codes of ethical conduct, stakeholder engagement)
- ⇒ **Environmental Protection** (e.g., water conservation, solid waste recycling, habitat protection)

- ⇒ **Local Citizenship** (e.g. quality design, minimum neighborhood impacts, considerate construction, community outreach, historic preservation, no undue influence on local governments)
- ⇒ **Social Equity and Community Development** (e.g., affordable/social housing, community hiring and training, fair labor practices)
- ⇒ **Voluntary Certifications** (e.g., green building certification, certified sustainable wood finishes)
- ⇒ **Worker Well-Being** (e.g., childcare on premises, plazas, indoor environmental quality, barrier-free design)
- ⇒ **Health and Safety** (e.g., site security, avoidance of natural hazards, first aid readiness)

Defining the Field

One of our goals is to bring the many different activities related to RPI into a common framework. We believe that economically viable methods to improve the social and environmental performance of real estate investments are the future of the industry, and that all constituents working together can make daily progress towards that goal.

THE RANGE OF RPI:

Because so many elements contribute to the social and environmental performance of buildings, RPI touches upon literally dozens of property location, design, management, and investment characteristics. To simplify the topic, we offer Ten Dimensions of RPI along with several examples of related

strategies (see box). In our view, property portfolios or asset management plans that use these or similar strategies are more socially or environmentally responsible than those that do not.

RPI OPPORTUNITIES THROUGHOUT THE PROPERTY LIFECYCLE:

Improvements in these dimensions can be implemented throughout the property lifecycle, as illustrated by the following examples:

- Developing or acquiring properties designed with environmentally and socially positive attributes (e.g., low-income housing or green buildings).

- Refurbishing properties to improve their performance (e.g., energy efficiency or disability upgrades).
- Managing properties in beneficial ways (e.g., fair labour practices for service workers or using environmentally friendly cleaning products).
- Demolishing properties in a conscientious manner (e.g., reusing recovered materials on-site for new development).

The RPIC is committed to a program of research that will:

- *define the field,*
- *identify best practices,*
- *measure performance,*
- *profile leaders, and*
- *encourage continuous improvement*

How do you measure RPI performance?

RPI covers a lot of ground, and the elements of RPI are not necessarily easy to measure.

To get a better sense of what are the most important RPI criteria, we asked an international panel of experts from the real estate and social investing sectors to evaluate 66 possible criteria. We used the Delphi Method, which is a process of gathering and refining the opinions of experts in order to achieve consensus. Through multiple rounds of surveys, they rated 66 different variables – from transit access and energy efficiency, to urban infill, brownfield development, and affordability.

PROFILE OF THE RESPONDENTS:

- From Real Estate, Responsible Investing, Government, Banking, Professions, Foundations, and Labor
- From the US, Canada, UK, Australia, Germany
- 19 years of experience on average
- Titles included President, Chairman, Director, COO, CFO, VP, Professor, & Principal
- 75% with master's degrees or above
- Gender balanced

Each panelist was asked to rate property or property management characteristics in terms of:

- materiality or their potential importance for the financial performance of real estate investments, and
- the public interest or their importance to broader social or environmental values.

Our goal was to obtain a consensus on the most important issues in RPI. Full results are found in the following table.

The criteria are grouped into RPI Dimensions which include criteria with common purposes. The average

score for the criteria in each dimension is given in the last column. These averages are used to rank the dimensions in order of importance. Walkable Urbanity and Energy Conservation were the two highest ranked dimensions. However, even the lowest ranked dimension, Health and Safety, scored nearly 3 on a 5 point scale, indicating that the panel did not consider it unimportant.

Within each Dimension, individual criteria are grouped into quartiles depending on their individual ratings. The criteria in the top two quartiles received the highest individual ratings. Notice that in every Dimension at least one criterion received an average rating of at least 3.4 out of 5.0, placing it in the first or second quartile.

What can we do with these criteria? There are several practical uses for the findings:

- Property investors, fund managers and asset managers can use them to guide a review of their funds and portfolios.
- Existing SRI research organizations can use the findings to design their next generation property sector evaluation criteria.
- The findings can contribute to a global consensus on the elements of sustainability reports for property companies.
- Existing green building rating systems might assess their criteria in light of these findings with an eye toward addressing social concerns.
- It may be possible to use the findings to inform the creation of an RPI certification process for property funds and fund managers.

These early findings support the need to build a research agenda on RPI, particularly studies on the financial costs and benefits associated with investments that promote energy conservation, transit oriented development, open space, urban revitalization and other highly rated RPI criteria.

Dimension	Criteria Sorted by Panel Rating (ratings based on importance to both investment returns and the public interest, with 5 equal to most and 1 equal to least important)				Mean for Criteria in the Dimension
	4th Quartile (>3.70 out of 5)	3rd Quartile 3.42-3.70 out of 5)	2nd Quartile (3.07-3.41 out of 5)	1st Quartile 2.41-3.06 out of 5	
Walkable Urbanity	Transit Oriented Development, Transit Level of Service, Central Location, Dense Mixed Use & Walkable			Carpooling, Bike Trails & Facilities	4.30
Energy Conservation	Energy Efficiency, Daylight & Ventilation, Renewable Energy			Locally Sourced Materials	4.00
Worker Well-Being	Open Space, Parks & Plazas Nearby	Sense of Community & Place, Childcare, Accommodations for Disabled, Amenities for Working Parents			3.64
Urban Revitalization	Benefits Urban Revitalization, Flexibility to Adapt to Changing Uses	Catalyzes Positive Suburban or Peripheral Development, Brownfield & Infill		Not on Prime Farmland	3.63
Corporate Citizenship	Regulatory Compliance	Disclosure & Reporting	Engagement w/ Suppliers		3.48
Environmental Protection	Water Conservation, Recycling	Low Contributions to Global Warming , Use of Sustainable Bldg. Materials, Wildlife Habitat	Trees, Wetlands, Ozone, Historic/ Cultural, Native Plants, Runoff, Ridges & Views, Eco-Restoration	Public Art	3.38
Local Citizenship	Aesthetics, Fit, Visual Blending & Quality Public Realm		Minimum Local Impacts, No Involuntary Displacement, Considerate Construction, No Undue Influence w/ Local Govt		3.29
Social Equity and Community Development		Community Relations & Development, Stakeholder Engagement, Solicits Community Input During Development, Affordability	Fair Labor Practices, Responsible Contractors	Local Low-Income Hiring & Training, Promotes Multi-racial Respect, Respect for Indigenous People, Philanthropy & Volunteering	3.28
Voluntary Certifications		EPA (Govt.) Partner, Green Certified Bldg		No SRI Pariah Tenants, SRI Mortgagee	3.05
Health and Safety		Property & Visitor Security	Low Risk of Injury, Low Risk from Natural Hazards	Gyms>Showers, Evac. & Aid Training, First Aid Equipment, H&S Signage, Visitor Insurance	2.89

What are Real Estate Professionals Doing Right Now?

In this section we take a look at a few concrete examples of RPI activity in the real estate community. Our research report will feature a few briefs each quarter – for a fuller listing of RPI activity visit our website at www.responsibleproperty.net

TIAA-CREF: CONSTRUCTING A RESPONSIBLE REAL ESTATE PORTFOLIO

TIAA-CREF has recently incorporated its **Corporate Social Real Estate Portfolio** into its Socially Responsible Investment (SRI) division as a way to broaden its investment opportunities that address the needs and values of its investors. The Portfolio currently totals approximately \$500 million in commitments, comprising a variety of tax credit funds, hybrid debt/equity instruments, and private placements in real estate. TIAA's earliest responsible real estate investments were initially focused on financing for-sale, affordable housing development, primarily in the form of tax credit investments and revolving loans for construction of low-income housing. The portfolio strategy has since expanded to include equity investments focused on a variety of affordable housing developments, transit-oriented urban infill and sustainable development projects.

The genesis of this shift occurred in 2006, when TIAA-CREF conducted a comprehensive survey of its clients on issues related to socially responsible investing. Respondents identified three top priorities: 1) human rights; 2) community investment; and 3) the environment.

To address these priorities, the Social Real Estate Portfolio has focused on three key areas of Responsible Property Investment:

- **Workforce Housing**—investments that target middle income workers (often public sector workers such as teachers, firefighters, and police officers) who do not qualify for public housing but are priced out of the markets where they work.
- **Urban Development**—commercial and retail development that brings needed goods and services

to low-to-moderate urban income areas. These developments also serve as catalysts for economic growth in urban communities, and, by increasing density and frequently being linked to public transit, help reduce the social and environmental costs of sprawl.

- **“Green” or Sustainable Development**—a focus on high performance buildings that meet LEED certification standards and brownfield redevelopment projects.

The majority of TIAA's investments today are in fund or joint venture equity vehicles, with the goal of producing positive social and environmental impacts and market rates of return. Many of these investments touch on various areas of Responsible Property Investment, such as urban infill projects that combine environmental benefits such as more transit use or brownfield redevelopment with social benefits such as targeted investment in low-to-moderate income areas. Return targets match those of the value-added real estate benchmarks.

KENNEDY ASSOCIATES: MEASURING PORTFOLIO PERFORMANCE

A crucial element in Responsible Property Investment is the measurement of portfolio performance across a range of social and environmental factors. As part of its effort to integrate RPI into its practice, Kennedy Associates Real Estate Counsel, the Seattle-based asset manager, has undertaken a review of the energy profile of its portfolio.

In an effort to improve the sustainability of its operating portfolio, Kennedy is currently utilizing EPA's Energy Star Portfolio Manager to benchmark 75 office buildings, 65 of which will be benchmarked by 3Q07. The benchmarking effort has resulted in 20 Energy Star building certifications to date, and continues to be used as an evaluation tool to improve energy efficiency and building operations through cost-effective energy efficiency strategies and systems upgrades.

Kennedy has also engaged a consulting firm to pursue LEED certification for a portion of its operating

portfolio in partnership with the USGBC, through a pilot program for existing buildings. In advance of the pilot program, Kennedy continues to work under the RPI banner, and to expand and replicate operational “best practices” aimed at increasing the sustainability of its portfolio in areas of water conservation, energy efficiency, tenant education, materials use, and so on.

To ensure its employees are effective in evaluating and managing its portfolio within the RPI framework, Kennedy has promoted multiple forms of technical education for asset managers and analysts through numerous national professional associations. This includes encouraging multiple employees from its asset management and acquisition teams to achieve LEED professional accreditation, while concurrently developing a LEED education and test preparation framework for its employees and select clients.

Additionally, Kennedy continues to diligently push its third-party property management providers to work proactively to improve the energy efficiency and sustainability of the assets they manage. This includes efforts ranging from using approved green cleaning products and recycled materials, to seeking out the latest technology to maximize HVAC systems efficiency.

PROLOGIS: SUSTAINABILITY REPORTING

This year ProLogis, a Real Estate Investment Trust (REIT) that owns over 445 million square feet of industrial property globally, issued its first “sustainability” report. The report is the first by a US real estate company that follows the guidelines of the Global Reporting Initiative (GRI).

The initiative to undertake such a report came originally from the United Kingdom, where ProLogis particularly found the entitlement process to increasingly favor the incorporation of sustainability criteria. As a result, the company began to gather data globally on its sustainability performance and specific initiatives. Over time, the original focus on environmental issues, particularly energy efficiency, became a broader effort to gather information on environmental, social, and governance performance.

ProLogis’ 2006 Sustainability report highlights ProLogis’ efforts in:

- Community Engagement
- Energy Efficiency
- Corporate Governance, and
- Green Building

According to Melissa Marsden, SVP of Investor Relations and Corporate Communications, the report has led to increased communication with socially responsible investors in the US, and has helped consolidate the company’s efforts to create a first mover advantage in the growing field of sustainable real estate development and management.

The first report required ProLogis to create management systems to gather hard data to report. In the industrial sector, where tenants tend to pay for their own energy usage, energy efficiency data for the buildings owned by the company was harder to come by than, for instance, information on recycling, waste management, resource sourcing, and the company’s own carbon footprint for its business operations. The institutionalization of the information gathering process will make the production of subsequent reports easier. According to Marsden, the reporting process, along with the creation of a Sustainability Department at the company, has helped ProLogis integrate sustainability into its business practice more fully.

RPI CONVENINGS AND CONFERENCES

The RPIC is committed to sponsoring a regular series of convenings and conferences where investors and practitioners can come together to share the latest developments in the field, discuss best practices, learn from each others’ diverse approaches, and create a unified dialogue that will shape the future of this field. Currently an RPIC convening is planned for February 2008 in Tucson, Arizona.

For details on past and upcoming convenings, see our website www.responsibleproperty.net.

Where do real estate professionals expect RPI to go?

As a distinct field, RPI is still emerging – despite the fact that many of its components have been around for years.

To get a better sense of just how dynamic the field has already become, we conducted a survey of industry leaders, sponsored by BOMA Intl., The National Association of Real Estate Investment Trusts, The Real Estate Roundtable, The Urban Land Institute and Institutional Real Estate, Inc.

Respondents to the survey were chief executive or real estate investment officers at US pension funds, foundations, and endowments with real estate assets, REITs, REOCs, fund management firms, and development companies. They were asked to report on their RPI activities, drivers and impediments, and their interest in RPI related services.

Most of the executives reported that they are indeed going beyond minimum legal requirements to address social or environmental issues. Many are promoting the conservation of energy and other natural resources, engaging with their stakeholders affected by their work, and recognizing sustainability and social responsibility in their strategies and value

statements. A third or more say they're invested in socially and environmentally beneficial properties like urban infill, green buildings, brownfields, and transit oriented development. More than a third say their organization recognizes the efficiencies associated with RPI. Another 30% go farther, saying it's in their self-interest to make it part of their business strategy. And 10% report being Sustaining Organizations that are fundamentally committed to RPI and actively promoting it in business and society.

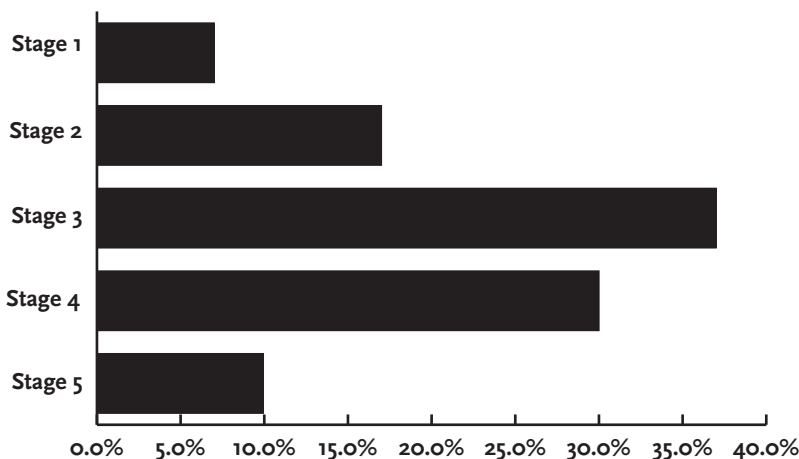
What's driving this apparent transformation? According to our nation's top executives the primary drivers are business concerns: avoiding risks associated with environmental or social problems and seeking opportunities associated with growing consumer interest in health, community, equity, and ecology.

Although ethics and volunteerism are also at play, the importance of business motivation in the process bodes well for the future of RPI. The executives are saying that the business case for RPI is growing.

For the full study, see the Research section of our website at www.responsibleproperty.net.

BENCHMARKING RPI ENGAGEMENT:

Where Would You Place Your Organization According to these Stages of RPI? The chart below summarizes executive survey responses when asked to place their own organizations along these stages of RPI.



Stage 1: Non-responsiveness—Focus is on conventional business as usual without any effort to incorporate sustainability into decision-making. Community issues are ignored where possible and environmental consequences of activities are taken for granted or disregarded.

Stage 2: Compliance—Focus is on reducing the risk of sanctions for failing to meet minimum standards as an employer or producer. Emphasis is on being a decent corporate citizen by avoiding worker or environmental abuses that could lead to litigation or strong community reaction.

Stage 3: Efficiency—Growing awareness there are real advantages to be gained by proactively instituting sustainable and responsible practices. Workforce development and environmental policies are used to reduce costs and increase efficiency.

Stage 4: Strategic Proactivity—Concern for employees, community development and environmental protection are part of the business strategy. It's viewed as a potential competitive advantage and the firm is positioning to lead in sustainable business practices. The motivation, however, remains intelligent corporate self-interest.

Stage 5: Sustaining Organization—Leaders have strongly internalized the ideology of working for a sustainable world. Excellent returns are pursued together with actively promoting ecological sustainable values and practices in business and society and there's a fundamental commitment to ecological viability, social equity, social justice and human fulfillment.