

Measuring the Sustainability of Real Estate Funds: A New Tool with Teeth

By Ellen Sinreich, Green Edge, LLC

As real estate investors around the world increasingly evaluate their prospective investments based, among other things, on environmental stewardship, a **science-based sustainability benchmark tool** has been designed to help them and also reduce the carbon footprint of those investments by introducing transparency and competition.

The **Global Real Estate Sustainability Benchmark** (GRESB)¹ was launched in 2009 and in the two years since its inception it has gained significant traction. Sponsoring organizations now hold over \$1.7 trillion in assets and the number of real estate organizations

that elect to be evaluated by GRESB has increased by 72% since 2009.

Given the impact of the built environment on worldwide greenhouse gas emissions—contributing roughly 40%—and the potential that GRESB has to hasten the fundamental transformation of the commercial real estate sector into one in which responsible resource and carbon management is the norm rather than the exception, Green Edge focused its sustainability lens on this important new tool and here is what we found.

The GRESB Foundation

GRESB was created as the result of a joint effort by the University of Maastricht and the University of California, Berkeley, and 11 of the world's largest pension asset managers, together holding over \$1.4 trillion in assets under management. This consortium of institutional investors, academic institutions and industry organizations, known as the GRESB Foundation, ad-



ministers GRESB and publishes the salient results of each benchmarking survey they conduct, of which there have been two thus far. The first survey, commonly referred to as the 2009 Survey, was actually conducted in 2008. The second survey, conducted in 2010, was the subject of the Foundation’s recent 2011 Research Report, just published this past August.

How GRESB Works

Real estate funds throughout the world that choose to participate in a GRESB analysis of their environmental performance must complete a questionnaire that asks for detailed information on energy and water consumption, waste collection and recycling, greenhouse gas emissions, and tenant engagement and employment programs. The first half of the questionnaire focuses on policies and the place that environmental issues have in management decisions, while the second half investigates the actual measurement and impact of these policies.

Each response is assigned either a zero or a one, and from these the responding organization is given a total score ranging from 0-100. The top score of 100 reflects the optimal performance on environmental factors that can often be achieved through steps that

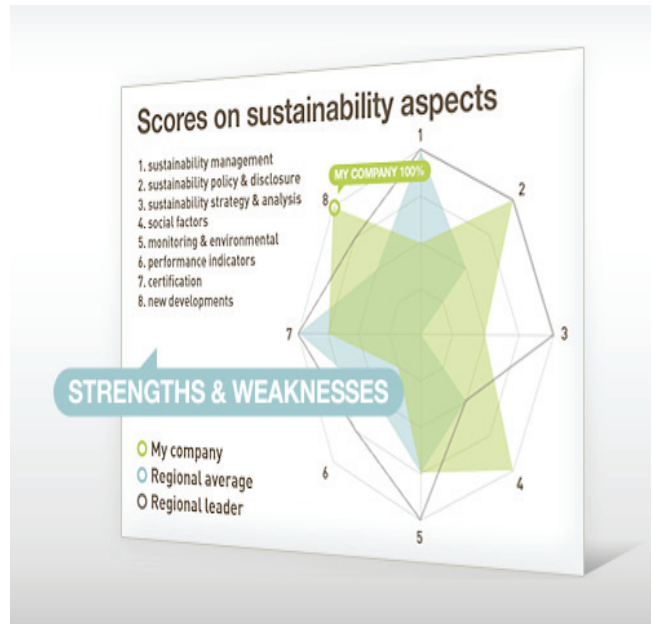


Image: Courtesy of GRESB Foundation

The GRESB score is based on multiple criteria and is compared to each region’s average and leader scores.

can simultaneously improve bottom line results. Once a response has been submitted, respondents have access to an online scorecard, which includes information about their results and compares their results to those of the other respondents.

The First Survey Results

In response to the 2009 survey, many respondents performed adequately on the first part (which the survey refers to as the “green talk”), but they were across the board less successful on the second (the “green walk”). Of the 198 property funds and companies that used the 2009 tool, only 19% of the respondents were actually able to offer the requested information for energy consumption, 16% for water consumption, 11% for waste recycling, and 14% for carbon emissions.

The funds that were able to provide the requested information and that had already taken steps to become more responsible with their energy consumption, waste production, and the like were almost exclusively found in Europe and Australia. The top scorers on the 2009 GRESB survey out of U.S.-based funds only found themselves in the middle of the pack when compared with their foreign counterparts. While



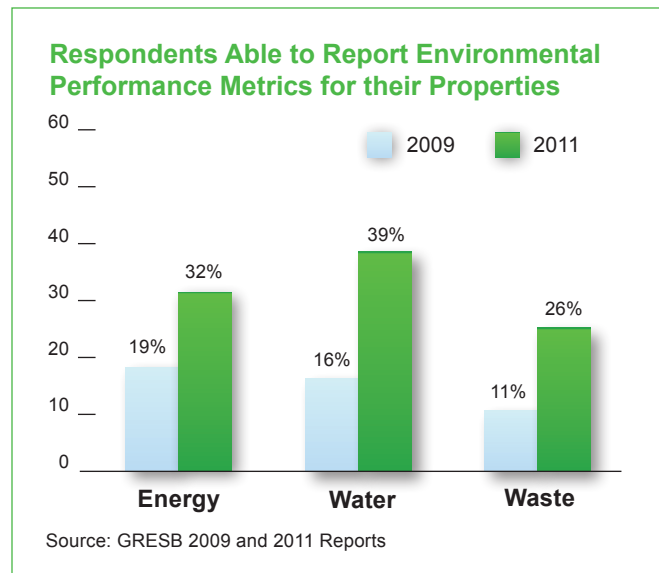
Image: Courtesy of GRESB Foundation

GRESB provides an overall score comprised of management & policy and implementation & measurement components.

there are exceptions to every rule, the 2009 GRESB results reflected that U.S. funds were not systematically implementing fund-wide policies and practices for carbon footprint management and reduction. The implication of that lapse is that they were not seriously examining their holdings for opportunities that carbon footprint reduction policies, processes and technologies present to improve the financial performance of their funds.

The Second Survey Results

According to the 2011 GRESB results, the number of respondents that were characterized as “Green Stars”—those organizations that, as the name suggests, have achieved resource and carbon reductions as a result of an integrated organizational focus on environmental measurement and management—increased significantly. In 2009 10% of total respondents were designated Green Stars, in 2011 Green Stars rose to 19% of the total. Similarly there were significant increases in the number of 2011 respondents that were able to report on energy costs, water consumption,



waste generation and greenhouse gas emissions.

The 2011 GRESB results also reflect that funds based in the Americas are making strides in catching up to their Australian and European counterparts.² Two of the Americas-based funds achieved Green Star status and overall the Americas respondents as a group enjoyed a significant year-on-year reduc-

GRESB Scores by Region (2011 Report)

The Americas

Top 5 Listed Companies
15 Respondents

Score*	MP**	IM***
65	55	70
54	72	46
54	61	50
51	86	34
47	60	41

Regional Averages		
33	48	26

Top 5 Private Funds
49 Respondents

Score	MP	IM
83	95	78
83	97	77
78	90	73
75	86	70
61	65	60

Regional Averages		
34	44	29

37% of the market with \$133B gross asset value listed and \$134B private

Europe

Top 5 Listed Companies
32 Respondents

Score	MP	IM
83	92	78
75	81	72
73	88	66
71	87	63
69	88	60

Regional Averages		
42	56	36

Top 5 Private Funds
162 Respondents

Score	MP	IM
86	92	83
80	92	74
75	77	74
75	62	80
74	78	72

Regional Averages		
30	44	23

75% of the market with \$168B gross asset value listed and \$204B private

Australia

Top 5 Listed Companies
10 Respondents

Score	MP	IM
88	82	91
85	95	80
78	97	68
75	88	68
69	77	66

Regional Averages		
66	76	61

Top 5 Private Funds
23 Respondents

Score	MP	IM
86	88	85
83	92	78
80	83	79
80	77	82
79	83	77

Regional Averages		
58	74	50

80% of the market with \$141B gross asset value listed and \$57B private

Asia

Top 5 Listed Companies
12 Respondents

Score	MP	IM
59	61	57
51	81	38
43	36	46
39	13	51
35	71	18

Regional Averages		
29	32	28

Top 5 Private Funds
37 Respondents

Score	MP	IM
72	90	63
66	92	54
56	49	59
35	35	35
31	34	29

Regional Averages		
21	29	17

12% of the market with \$40B gross asset value listed and \$51B private

*Score: Weighted combination of MP and IM subscores **MP: Management & Policy ***IM: Implementation & Measurement Source: GRESB 2011 Report

tion in energy consumption. However, in spite of the good news, this group has a lot left to accomplish as evidenced by the fact that only 38% of the Americas respondents were able to report on their actual energy consumption. Thus, significant opportunities for energy, water, carbon and cost savings are still not being taken advantage of.

Why GRESB And Environmental Stewardship Matter

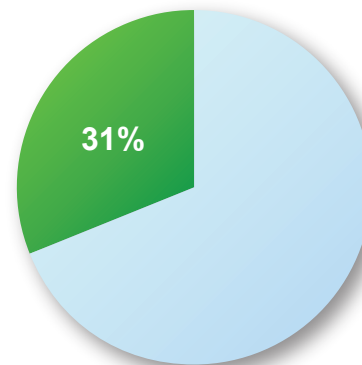
The benefits from starting down this path are immense. According to the U.S. Environmental Protection Agency, there is a 400% variation in energy use intensity between buildings in the United States even when controlling for age, technology, hours, size, and climate.³ One global commercial real estate firm with \$22.9 billion in assets under management has stated that the difference in energy costs between its most and least efficient buildings is more than \$13 million.⁴ Another real estate company, with more than \$6 billion in assets, has eliminated 38% of its energy usage since 2000, saving nearly \$2 million in 2010 alone.⁵

The benefits of greening the built environment extend beyond energy efficiency cost savings. As a result of both regulatory and market forces throughout the world, the risks of not greening existing and new real estate are rising as the demand for green real estate is increasing, especially among corporate and governmental occupants. According to a European Centre for Corporate Engagement study using over 10,000 subject and control buildings, rents in green buildings are on average 6% above those in non-green buildings and transaction prices are 16% higher, while controlling for quality and location.⁶ The study also found that the premium a green building commands cannot simply be accounted for by its energy efficiency—there is demand for sustainability beyond the cost savings component.

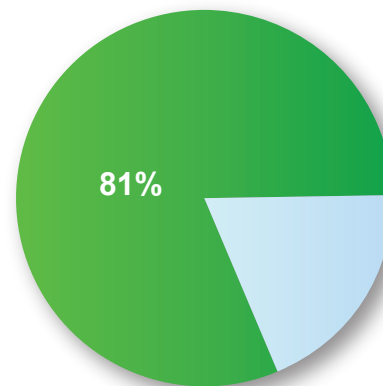
In fact, this trend of demand for environmental responsibility extends beyond real estate. In the 2010 UN Global Compact-Accenture CEO Study, 81% of the hundreds of CEOs surveyed, covering a world-

Private Sector Sustainability Leadership

■ Percentage of CEOs that said sustainability is part of their company's strategy and operations



2007



2010

Source: UN Global Compact-Accenture CEO Study 2010⁷

wide swath of businesses, said that sustainability issues had become part of their company's strategy and operations, up 31% from just three years earlier.⁷ Respondents to the 2009 GRESB survey demonstrated their belief in the long-term importance of sustainability to investors, with 88% either agreeing or strongly agreeing that "drivers for environmental issues"—the influence of environmental issues on business decisions—will be even stronger in five years. A robust energy and environmental policy creates value beyond the four walls of the resulting cost savings as a microcosm of strong overall organizational management.

Data is building, too, that funds with robust and transparent environmental management practices are

more profitable funds. An Innovest Strategic Value Advisors report has found those funds with the most robust energy management programs to have outperformed funds on the opposite end of the spectrum by over 34% in the real estate investment sector.⁸

In Conclusion

With the GRESB survey, institutional investors now have a simple solution for determining which of many potential investments have an underpinning of strong environmental stewardship in addition to meeting their financial prerequisites. At this juncture in time, funds have to make the decision to either adopt sustainable practices to remain at the cutting edge or risk ignoring growing environmental sentiments and the likely consequences of being labeled an environmental laggard.

Sources

¹<http://www.gresb.com>

²The 2009 GRESB U.S. regional results were replaced in 2011 with regional results for the Americas. Although this region is defined to include North, Central and South America, the 2011 results did not include any funds based in Central or South America.

³http://www.energystar.gov/index.cfm?c=business.bus_good_business

⁴http://www.energystar.gov/index.cfm?c=business.bus_good_business

⁵http://www.energystar.gov/index.cfm?fuseaction=pt_awards.showAwardDetails&esa_id=4112

⁶http://www.ucei.berkeley.edu/PDF/EPE_024.pdf (p. 6)

⁷http://www.unglobalcompact.org/docs/news_events/8.1/UNGC_Accenture_CEO_Study_2010.pdf (p. 33)

⁸http://www.energystar.gov/index.cfm?c=business.bus_good_business



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Author Ellen Sinreich is President and Founder of Green Edge, LLC, which helps organizations develop and leverage their Green Edge Advantage with Green Edge Workshops® and Consulting Services. Contributor Oliver Schreiner was a 2011 Green Edge Summer Intern and is a full-time student at Dartmouth College.

Green Edge, LLC, 345 East 93rd Street, NYC 10128 • 212 828 3840 • info@greenedgellc.com • greenedgellc.com

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