



# Responsible Property Investing: Metrics for Performance Measurement

## Second in a Series of Toolkits on Responsible Property Investing

UNITED NATIONS ENVIRONMENT PROGRAMME



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# I. Introduction

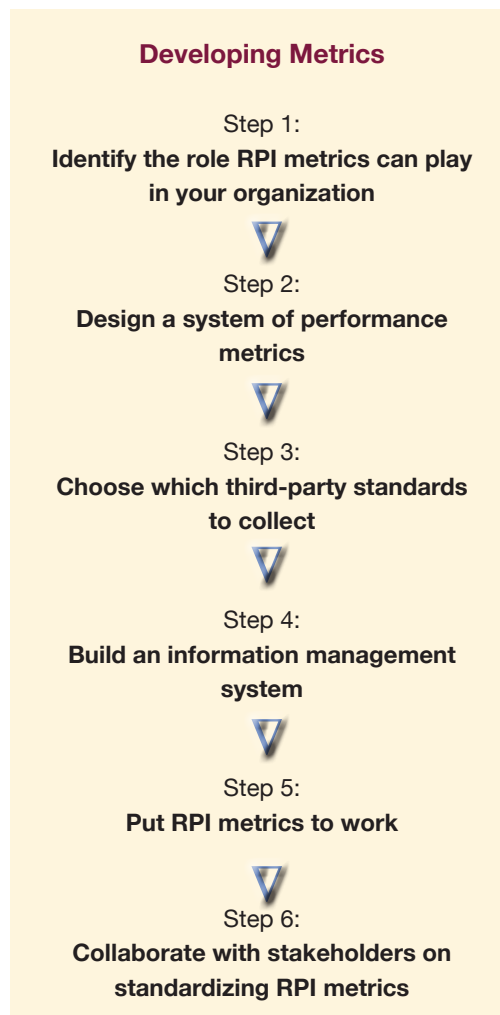
Responsible Property Investing covers a wide range of investment practices and styles that integrate environmental, social, and governance information into investment decision-making. Key to managing and monitoring progress on these issues are systems for measuring and benchmarking building and portfolio performance.

The purpose of this toolkit is to provide interested investors and property fund and asset managers guidance on how:

- Systems of metrics meant to measure RPI performance can be developed.
- Information on those metrics across property portfolios can be collected.
- The information collected can be integrated into portfolio management

This is the second in a series of toolkits to be published by the Property Working Group (PWG) coordinated by the United Nations Environment Programme Finance Initiative. The Toolkit series is being produced in conjunction with the Responsible Property Investing Center, to support and encourage the development of RPI.

We hope to catalyze the development of industry-wide consensus on common RPI metrics that facilitates their collection and use by investors, even as we recognize each individual company will need to tailor a common system to suit its own needs.



## II. Identifying the role RPI metrics can play in your organization

The UNEP FI Property Working Group's first Toolkit, "Engaging and Committing", laid out a process for identifying organizational strategies and goals in RPI. It focused on governance: how organizations might commit to an RPI strategy, and put into place institutional structures to integrate RPI practices into corporate culture. It also argued that those strategies will necessarily be organization-specific, influenced by a mix of corporate culture, geographical location, regulatory regime, investor interest, and portfolio makeup.

A system of metrics helps translate those strategies and goals into action and tangible deliverables. Metrics are the tools which allow investors to measure progress against benchmarks for performance, and they signal to internal and external stakeholders alike which categories of analysis an investor find it important to measure and manage.

The first step in creating a system of metrics is to develop strategic clarity on why RPI metrics will enhance corporate performance.

Practitioners point to a variety of reasons for creating RPI metrics, including:

### **Enhanced Building Performance:**

Establishing RPI metrics can help set a baseline for building performance, and identify opportunities for more efficient operations in both existing buildings and in new construction.

Building performance metrics are most frequently associated with the key impact areas of energy and water use, and waste management. These metrics may be used to design systems to monitor and reduce operating costs, and to mitigate against political and regulatory risk associated with, for instance, potential climate change regulations affecting buildings. Similarly, health and safety metrics can help improve workforce performance and minimize harm to employees and others.

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For energy performance, Hermes Real Estate, a United Kingdom based fund manager, tracks absolute energy use and carbon emissions across its portfolio and reports on them annually. These absolute numbers are then further analyzed on a like-for-like portfolio basis, allowing the company to better track performance improvements in buildings, in addition to changes in portfolio composition.

[http://www.hermes.co.uk/rpi\\_report\\_09/performance.htm](http://www.hermes.co.uk/rpi_report_09/performance.htm)

For workforce health and safety, Lend Lease, an Australian based international property company, tracks both quantitative data on issues such as lost time to injuries per hours worked, reported incidents, and major incidents by circumstance (e.g. fall of materials, property damage, or electrical shock) and fatalities. These data can be analyzed to identify areas of performance improvement by region, type of incident, type of building or job, and so on.

<http://www.lendlease.com.au/sustainability/ourPeopleDetail.html?search=metrics#/health-and-safety-detail>

### Distinguishing RPI Portfolios:

A metrics system can provide rigor and coherence for the development of RPI specific portfolios. The metrics can be used to identify targets for acquisition, disposition, and development; they can also be used as portfolio-wide measures. For instance:

- Green funds need to measure the improved resource efficiency or reduced greenhouse gas emissions in comparison to their peer group.
- Urban regeneration funds need to demonstrate that they have targeted their investments to underserved areas, and created economic development and good job opportunities in those areas.

- Land conservation, ecosystem support services, or brownfield remediation funds must demonstrate the number of acres of land they have preserved or rehabilitated, or the carbon emission offsets or wetlands restoration they have achieved.

The Igloo Regeneration Fund, a private equity fund from Aviva Investors in the United Kingdom, defines its commitment to sustainable investment by identifying key areas of performance across issues of Health, Happiness and Well-Being, Regeneration, Environmental Sustainability, and Urban Design. The performance measurements associated with these themes include gathering data as varied as the safety of street design, public space provision, formal designation as regeneration district, energy consumption, and density and mix of uses.

<http://www.igloo.uk.net/media/dContent/mediaCentre/footprint-secure-080926.pdf>

Similarly, the Rose Smart Growth Fund, a United States-based private equity fund, identifies acquisition targets by gathering data on proximity to transit, energy use, and the allocation of mixed-income units and affordable housing in a given building. These criteria form the basis for differentiating the Fund's portfolio.

<http://rosecompanies.com/what-we-do/investment>



**Engagement with Stakeholders:**

The value proposition for RPI includes the advantages it brings to building relationships with investors, public officials, local communities, and non-profit organizations, among other stakeholders. A clear and relevant set of performance measurements allows for more transparent stakeholder engagement.

For instance, asset managers who work with asset owners that favor fair labor practices need to demonstrate how they manage their hiring processes. Affordable and workforce housing related investors need clear and comparable data on who will rent or buy their products. Companies that promote their community relations work will want to measure the outputs, and impacts, of community engagement.

These are not mutually exclusive: the strategic reasons for RPI metrics often overlap.

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The strategic justification for RPI metrics should focus on identifying the relative exposure to material risks – regulatory, physical, reputational – and opportunities, from improved environmental and social performance to enhanced investor relationships.

Few investors will want to measure and manage performance across every potential RPI metric. Creating, and institutionalizing, new standards of performance requires a commitment of resources, and the goals behind such a commitment should be clear from the outset.

It is worth reiterating the fundamental function that metrics serve. Metrics allow investors and fund managers to measure and benchmark performance, providing support to their RPI credentials that can stand scrutiny from their partners and stakeholders. Without some sort of evaluation and measurement, RPI potentially remains rhetoric rather than practice.



## III. Designing a system of performance metrics

Corporate strategy will dictate key issues for which metrics are necessary, and in turn determine the strategies for collecting given information. The next step is to convert these strategies into a clear measurement framework.

A meaningful set of metrics will exhibit four key characteristics. It will be:

- Clear – all stakeholders should readily understand the information they represent.
- Comparable – the data collected should allow for measuring relative performance across investments and over time.
- Usable – a system of metrics must not put undue strain on those providing the information or those analyzing it.
- Accurate – the system for measuring performance should include steps to ensure reliability and integrity.

Balancing these attributes requires careful attention to levels of detail, quantification, and the idiosyncrasies of specific buildings, geographies, and cultural contexts.

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Practitioners converge on a common piece of advice: Keep the system of metrics as simple as possible. Data collection and analysis will be complicated enough even with a basic, easily understandable set of metrics.

To break down the system into component parts, organizations may wish to break their metrics out by specific issue areas.

Here, for demonstration purposes, we have divided RPI metrics into three categories:

- Environmental – energy and resource efficiency, pollution mitigation, preservation
- Social – targeted impact on internal and external stakeholders
- Community Impact -- contributions to local and regional economic development

Note: what follows is not a comprehensive review of potential metrics, but a set of examples that represent a range of considerations available to investors and fund managers.

### Environmental Metrics

The most commonly used environmental metrics today are those for resource use: energy, water, and waste management in particular. Property managers can use this information to identify areas for improvement in individual buildings. Developers can use these metrics to integrate design strategies to reduce consumption. At the portfolio level, investors and fund managers can track year over year performance improvements, identify buildings most suitable for retrofitting, and may aid analysis of acquisition or disposition opportunities.

Common resource use metrics include:

- Greenhouse gas emissions:**  
metric tons of carbon equivalents per square meter
- Energy use:**  
kilowatts/hr consumed per square meter of floor space
- Water use:**  
cubic meters per square meter of floor space
- Water recycling:**  
cubic meters per square meter of recovered water
- Waste management:**  
tons of waste per unit of time
- Recycled Waste:**  
tons of waste diverted from landfill
- Recycled Construction Material:**  
% in volume or weight of Recyclables used in Construction

It is important to note the various issues that affect the collection and interpretation of data. To measure carbon emissions, an increasingly important goal for many investors, practitioners must collect information about the relative composition of the energy sources used by a building – whether alternative energy sources such as wind or solar power are used, and whether energy is sourced from coal, natural gas, nuclear power, etc. They may also collect additional information about the carbon emissions associated with occupant travel to and from a particular building.

Standardization of reporting is a fundamental issue for enabling investors to make apples to apples comparisons of investment risks and opportunities. To that end, the UNEP Sustainable Buildings and Climate Initiative (SBCI) has developed a Common Carbon Metric, a tool for that allows for common, comparable measurements of use to all stakeholders when analyzing building performance.

The metric chosen for energy:  
kWh/m<sup>2</sup>/year  
(kilo Watt hours per square meter per year)

and, to measure intensity per occupant:  
kWh/o/year  
(Kilo Watt hours per occupant per year)

The metric chosen for greenhouse gas emission is:  
kgCO<sub>2</sub>e/m<sup>2</sup>/year or kgCO<sub>2</sub>e/o/year  
(kilograms of carbon dioxide equivalent per square meter or per occupant per year)

The hope of the UNEP SBCI is that this emerges as a global standard that enables more efficient regulatory and investment decision-making. The purpose of the proposal for a Common Carbon Metric is to support greenhouse gas (GHG) emissions reductions through accurate measurement of energy efficiency improvements in building operations. UNEP SBCI also offers guidance on collecting information from private and public sources for accurate measurement.

[http://www.unepsbci.org/newSite/COP15/Common%20Carbon%20Metric%202009\(1\).pdf](http://www.unepsbci.org/newSite/COP15/Common%20Carbon%20Metric%202009(1).pdf)

As part of its sustainability practice, Investa Property Group, based in Australia, measures environmental indicators including carbon dioxide emission intensity, electricity use intensity, water use intensity, waste generated, and waste diverted. The measurements allow the company to measure performance against targets. They also form the basis of analysis to determine environmental performance by building type, and the portfolio-wide measurement are analyzed to determine trends that result from sustainability practices or acquisition and sales activity.

<http://www.investa.com.au/Reports/2008/sustainability/Environment/>

Similarly, key information about property type, number and activity of occupants, geographical region, and so on, are fundamental to understanding the metrics as they relate to a building's relative performance. Clearly, an office building in Sydney will perform differently than one in Copenhagen. Buildings with more occupants per square meter may use more energy than their counterparts; different types of business activities carry different energy intensities; and so on. . The design and age of a building will help determine whether it is suitable for a retrofit.

Some investors and fund managers expand their environmental metrics to identify the environmental performance issues associated with a building's location in a neighborhood context, or its impact on surrounding land. Many of these metrics are associated with "smart growth" goals of compact, mixed-use, less auto-dependent communities. Others are associated with land and ecosystem conservation.

Location-specific metrics may include:

- ❑ **Transit-orientation:** distance to subway, bus, or train stop.
- ❑ **Urban infill:** density as expressed by floor-area ratio
- ❑ **Walkability:** proximity to an array of goods and services; infrastructure and neighborhood design that supports pedestrian traffic
- ❑ **Land conservation:** acres preserved through minimal or dense development

These can be used to describe whole portfolios or individual buildings and projects. Year over year data can determine the rate and scale of conservation goals achieved; it can also offer directional information on the nature of a portfolio in relation to smart growth characteristics.

### Social Metrics

Social metrics refer to targeted social issues or benefits linked to specific groups of stakeholders associated with the operation and development of buildings. Other than owners, key stakeholders include employees, tenants and customers, and communities who have an immediate relationship to a building and its operations.

#### Employees

Fund and property managers can use information about their employees to improve operational efficiency and employee recruitment and retention. Investors may use information about employees to identify well-managed

companies with diverse, well-trained and committed employees. Public agencies may review workforce information for commitment to public goals such as health and diversity.

Metrics for RPI issues related to employees range from health and safety information, to longevity and quality of employment, to employee productivity.

These metrics may include:

- ❑ **Accident rate:** number of accidents per employee per year
- ❑ **Health and safety costs:** medical expenses or worker's compensation per employee per year
- ❑ **Employee turnover:** percentage of employee workforce turned over per year
- ❑ **Job quality:** percentage of workforce with full-time jobs with benefits
- ❑ **Labor standards:** percentage of workforce represented by collective bargaining agreements.
- ❑ **Workforce diversity:** percentage of employees who are women or minorities
- ❑ **Management diversity:** number of upper management (and board members) who are women or minorities

#### Tenants, Consumers and Communities

Tenant and customer satisfaction is a long-standing way to measure the benefits of management and development choices. In the context of RPI, investors have pointed

to increased tenant satisfaction, and worker productivity, associated with increased day lighting, more comfortable heating and cooling systems, the signaling effect of environmentally efficient buildings, the reputational benefits of community outreach programs, and so on.

Investors and public officials may also wish to know to what extent residential investments create affordable options, or how investments serve underserved communities, or create opportunities for organizations that create public benefits. In many cases this information is used to define tailored RPI investment funds focused on issues such as urban regeneration or affordable and workforce housing.

Examples of such metrics might include:

- ❑ Tenant satisfaction: Surveys of tenant satisfaction, including their satisfaction with RPI dimensions of their building.
- ❑ Affordable housing: Percentage of units for rent or purchase affordable to people with 30-80% of Area Median Income.
- ❑ Workforce housing: Percentage of units for rent or purchase affordable to people with 80-120% of area media income.
- ❑ Urban regeneration: Percentage of properties located in neighborhoods with Area Median Incomes at 80% of regional average.
- ❑ Support for non-profits: Number or percentage of non-profit or public purpose tenants.

### Community Impact Metrics

Community impact metrics measure general contributions to economic stability and growth in a given area. These may include direct contributions through taxes and fees, indirect creation of employment opportunities, or philanthropic activities undertaken by a company and its employees and/or tenants.

The Multi-Employer Property Trust (MEPT), a US-based real estate equity fund, tracks job creation as part of its effort measure the social and economic impacts of its investment activity. Metrics used included job hours created, jobs created, and local and state tax revenues generated. As part of the fund's green investing strategy, the MEPT has begun tracking "green jobs" created across employment sectors through its adoption of green building construction and management practices.

[www.mept.com/news](http://www.mept.com/news)

For some of these metrics, industry standard calculations provide accepted estimates of economic development impacts that are not easily measured with precision.

Community Impact metrics might include:

- Taxes and fees paid: total amount of annual payments
- Jobs created (direct): number of employees used for development, or ongoing opportunities created by building operations and maintenance
- Jobs created (indirect): number of jobs created in a given area associated with investment in property development or management
- Employee and Tenant volunteering: number of hours per year in philanthropic activity encouraged and coordinated by a given company and its partners.

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For each set of metrics: environmental, social, and economic – there will be times when narrative accounts of activity may be preferable to quantifiable metrics. But the goals of usability and comparability point towards simple, quantifiable metrics whenever possible.

## IV. Building an Information Management System

The strategic work of defining priorities and establishing key metrics can be difficult, but practitioners often point to the process of collection of data as the most complicated aspect of the process. Here we identify key steps that practitioners link to successful integration of RPI metrics into their day-to-day practice.

### Identify who “owns” the process

This is crucial to proper data collection. Gathering data is a complex and often long process, as early efforts run into problems of standardization and reliability. An internal manager or champion, who has this work attached to their mandate, is important to ensuring that a useful system is put into place. A key initial task will be outreach to convince colleagues, partners, and clients of the importance of collecting and reporting data.

The “owner” of the process may build an internal RPI team, or may work with experienced external consultants, to help create relevant information management systems. A key element for success will in any case likely be a strong central manager for the process.

### Create a Sustainability Scorecard

A “sustainability scorecard” is a simple format that standardizes the information collection process, and can be easily used by internal stakeholders to communicate building level information. The issues the scorecard covers will of course differ from organization to organization, but key to its success will be a set of comparable data that can be aggregated and analyzed by the owner of the process. The scorecard itself can serve as an outreach tool that makes clear exactly what is expected from each party in terms of information they are required to provide.

### Engage property managers, developers and other external stakeholders

Internal stakeholders may see RPI metrics as an additional burden on time and resources, something not part of their daily routine. Practitioners point to the need for manager, agent, and tenant education, and clear standard setting, in order to integrate the collection of RPI metrics into the ordinary course of business.

Among the tools companies have chosen to adopt are written guides explaining the application of metrics systems, seminars (online and in person), and case studies of metrics in action.



## Sustainability Scorecard

The goal of a “sustainability scorecard” is to integrate RPI metrics into standardized building record keeping. The scorecard has several virtues, prominent among them: clarity in the relationships between investors, fund managers, and property managers over the metrics under consideration; and a systematic method to allow for building to building comparison, controlling for vital building characteristics.

Here we draw from a article written for the ULI Responsible Property Investing Council of Fall 2009 to offer a limited sample scorecard based on several environmental and urban regeneration RPI metrics for demonstration purposes.

As always, it is worth noting that investors will need to choose for themselves those metrics relevant to their long-term investment performance based on the particular characteristics of their portfolios and stakeholder relationships.

Link to ULI Fall Council Article:  
[http://www.galleyecocapital.com/wp-content/uploads/2009/11/uli\\_fallcouncil2009\\_draft.pdf](http://www.galleyecocapital.com/wp-content/uploads/2009/11/uli_fallcouncil2009_draft.pdf)

If each building in a portfolio were measured according to these categories, investors could better describe their whole portfolio, target opportunities for efficiency improvements, and weigh acquisition and sale decisions in light of the portfolio-wide measurements.

### Asset Characteristics:

- Asset Type (*commercial, residential, industrial, etc.*)
- Size
- Floor-Area Ratio
- Age
- Occupancy Rate
- Total Occupants
- Property Manager
- Ownership structure

### Energy and Resource Use:

- Energy Consumption
- Carbon Emissions
- Water Use
- Waste Generation
- Diversion Rate
- Third-Party Rating

### Asset Location Characteristics:

- Climate Zone (specify)
- Regeneration Zone (*public designation*)
- Proximity to Transit (*specify transit type*)
- Brownfield site
- Urban Infill Site
- Walkscore rating

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The development of the working relationships necessary for reliable and timely information is a complicated, ongoing process. Practitioners frequently relate how systems must develop over time, with honest feedback both from managers, developers and tenants on the difficulties of gathering information, and from fund managers and asset owners on their specific needs and expectations. The quality of information should improve as stakeholders gain experience collecting and transmitting data.

### **Automate data collection**

Technological upgrades can facilitate information gathering. Sub-metering for energy and water usage, for instance, can offer a rich source of information on resource consumption that allows for significant operational improvements. By installing sub-meters, managers can bypass the need to engage directly with tenants to gather information.

For some practitioners, the goal for collecting metrics is an automated system that allows them to gather information from metering directly into an information management system, enhancing both the timeliness and reliability of data. More generally, automated data aggregation across the spectrum of RPI issues – for instance, through an online data entry system -- can make metrics more useful to business decision-making.

### **Determine Publicly Available Sources**

Many RPI metrics can be gathered through publicly available sources, whether through government sponsored data collection or private research firms who gather such data.

Data on economic development, for instance, often relates to underserved geographic areas. Publicly available information on area incomes or other economic indicators can be used to measure the relationship of a specific building to issues such as urban regeneration or brown field redevelopment. For instance, in some jurisdictions, public agencies label neighborhoods as regeneration zones.

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For a comprehensive look at one potential set of information sources to measure RPI performance in the United States context, see Gary Pivo's article "Social and Environmental Metrics for US Real Estate Portfolios: Sources of Data and Aggregation Methods," found at [www.u.arizona.edu/~gpivo/Metrics\\_Paper\\_Pivo\\_June08\\_v1.0.pdf](http://www.u.arizona.edu/~gpivo/Metrics_Paper_Pivo_June08_v1.0.pdf)

Similarly, questions of smart growth – relative density of neighborhoods, proximity to transit, or walkability – can occasionally be gathered through publicly available data sources. For instance, WalkScore, a US-based service that ranks neighborhoods on their walkability, ([www.walkscore.com](http://www.walkscore.com)) offers a publicly available internet-based tool which measures proximity to services and public transit by building address in the United States, Canada, the United Kingdom, Australia, and New Zealand.

### **Evaluate Research Firms**

A number of responsible investment research firms and consultants exist. While their focus has not primarily been on property investment, they may offer resources both for designing information collection, verifying the information that has been gathered, or even conducting the process themselves. These firms might cover responsible investment issues broadly, or focus on key environmental or social issues – such as measuring portfolio-wide carbon emissions, of particular interest to investors and fund managers.

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Practitioners will want to weigh the most effective means for assuring data quality. Internal review, external audits, third party evaluation – each offers a particular set of costs and benefits and merits careful consideration. More than any particular method, practitioners should be sure to include consideration of data quality as a fundamental part of their information management system.

## V. Putting Metrics to Work

Once gathered, metrics can be put to work in a wide variety of ways, both for individual buildings and for whole portfolios. A key issue for practitioners is to determine at what scale metrics are most useful for their strategic needs.

The uses for RPI metrics include but are not limited to:

### **Benchmarking performance**

At the individual building level, practitioners can use metrics to benchmark issues such as resource use, tenant satisfaction, or employee health and safety. At the portfolio level, practitioners can aggregate data on issues such as total greenhouse gas emissions, affordable housing created or maintained, acres of greenfield preserved, or jobs created and maintained.

### **Setting performance targets**

At the portfolio level, investors may wish to set comprehensive targets for improvement, and use their benchmarks to measure progress. In recent years, for instance, a number of investors have set portfolio-wide greenhouse gas emission reduction targets of, for example, 10-30% over a number of years. Metrics can also be used to set minimum standards – for the percentage of unionized labor, or the diversity of the workforce, or the energy efficiency of a building, for inclusion in portfolios.

Prupim, a UK-based global real estate investment manager, uses metrics for energy performance to set clear corporate goals on performance. The organization is working on developing a related set of indicators for additional categories such as health and well-being, jobs and skills, community, and biodiversity.

[http://www.prupim.com/site/media/documents/3414\\_Our\\_Future\\_Targets.pdf](http://www.prupim.com/site/media/documents/3414_Our_Future_Targets.pdf)

Similarly, Hammerson, a European real estate fund manager, sets performance targets with metrics for climate change, energy, and resource use, including annual and rolling targets.

[http://media.corporate-ir.net/media\\_files/irol/13/133289/crreport/Full\\_report.pdf](http://media.corporate-ir.net/media_files/irol/13/133289/crreport/Full_report.pdf)

**Acquisition, disposition, and improvement guidance**

RPI metrics can help practitioners determine whether a building is suitable for a portfolio, or whether it offers the opportunity for operational efficiency gains or market repositioning. For instance, RPI metrics might help identify energy inefficient buildings that can be retrofitted or brought up to third party standards. Similarly, metrics on transit-orientation can inform a repositioning of portfolios away from urban sprawl. Tenant dissatisfaction may urge disposition of buildings that cannot be repositioned.

**Disclosure and transparency**

Metrics offer the baseline data which organization can use to report their RPI performance to employees, contractors, investors, regulators, communities, and NGOs. Metrics themselves do not always fit the needs of such disclosure. Rather, they must be placed in broader organizational and social contexts to be meaningful to a broad group of stakeholders. Disclosure will be the subject of Toolkit 3 in this series.

## VI. Third Party Standards

Investors should identify those third party standards relevant to their activities, and decide whether those standards help them achieve their investment goals.

Recent years have seen the development of a number of robust third party standards for rating buildings on RPI issues, particularly on environmental issues, across the globe. These ratings systems analyze buildings across a specific set of performance issues such as energy, climate emissions, water, waste, indoor air quality, and sustainable location. They include the:

- United States Green Building Council's LEED standards, which cover environmental performance of new and existing buildings of multiple property types, with newer ratings for neighborhood impact and environmental performance across whole portfolios.  
*www.usgbc.org*
- United Kingdom's BREEAM standards, which offer environmental performance measurement for multiple property types, including residential, commercial, industrial, and more specific types including ecohomes, health care, educational, prisons, and also can be used for whole community environmental ratings.  
*www.breeam.org*
- CASBEE system in Japan includes environmental assessments of multiple property types and across four building life cycle stages – pre-design, new construction,

existing building, and renovation. CASBEE is also designed to take into account issues particular to Japan and Asia.

*http://www.ibec.or.jp/CASBEE/english/overviewE.htm*

- Green Building Council of Australia's Green Star system, which currently has tools to rate multi-unit residential, health care, retail, office, and educational buildings, with pilot projects for other property types such as mixed-use. Green Star includes specific consideration of the varied geographic influences on building performance in Australia's diverse contexts.

*http://www.gbca.org.au/green-star*

These are among the most prominent examples, and they work with similar issues to create wide-ranging evaluations of environmental performance. There are other, similar ratings systems under design, from the public, private, and non-profit sectors, as well as regulatory efforts to concretely measure energy use. The proliferation of multiple ratings systems has led to calls for a more universal standard.

In general, ratings systems have found more uptake from investors, fund managers, and other stakeholders on new construction than on existing buildings, and portfolio analysis through third party ratings remains very difficult.

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For a comparison of a number of the world's third party building standards, see the UNEP FI/SBCI's (Sustainable Building and Climate Initiative) Financial and Sustainability Metrics Report: an international review of sustainable building performance indicators and measurements, found at [http://www.unepfi.org/fileadmin/documents/metrics\\_report\\_01.pdf](http://www.unepfi.org/fileadmin/documents/metrics_report_01.pdf)

In theory, these standards offer the advantage of clarity and comparability, though in practice thorny issues of sub-asset class, geography, building purpose, occupancy rate, etc. remain.

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Kennedy Associates Real Estate Counsel, a US-based investment advisor, reports on the buildings in its portfolio that have been certified, pre-certified, and are pending certification (and the level of certification for each) from the US Green Building Council's LEED system. The company also uses the Energy Star benchmarking system on its existing building portfolio to benchmark energy performance. Finally, Kennedy is engaged with the USGBC's pilot program for LEED-EBOM (Existing Building Office and Maintenance), which seeks to set standards for existing building environmental performance, and offer portfolio managers the ability to streamline certification across large portfolios, a common difficulty with third party standards for existing buildings. <http://kennedyusa.com/PDFs/RPI%20Report%202009.pdf>

Third party standards can serve as rules of thumb, and save time and resources. This is especially true at the portfolio level: Practitioners can easily identify how many buildings within a portfolio have achieved a certain rating. The standards may also serve as useful templates for those practitioners who are developing their own system of metrics. For many stakeholders, third party standards have become de facto meta metrics, and they are increasingly recognized in the real estate marketplace. Investors may wish to adapt their own metrics systems to facilitate evaluation by third party standards.

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Practitioners must carefully consider two issues when evaluating third party standards:

- Are the standards recognized and considered relevant by important stakeholders?
- Does the cost of achieving a certain rating outweigh its benefits as a signal to stakeholders?

The answers to these questions are likely to change over time, as market dynamics, consumer preferences, and public policy considerations change. The emergence of industry standard RPI metrics, and ratings, is an important topic for investors both to study, and on which to collaborate.



## VII. Collaborating with stakeholders on standardizing RPI metrics

Responsible Property Investing is an emerging discipline, and the field is taking shape through collaborative action among industry peers and related stakeholders. Collaborative action to define industry standards for metrics, and to share best practices on their collection and use, have the potential to play a vital role in defining and disseminating RPI in practice.

Third-party standard setting bodies also organize stakeholders to contribute to the generation and modification of standards, and the presence of investors can play a valuable role in reviewing standards for usefulness and practicability.

The issue of metrics in particular is one where collaborative action, in the form of creating industry norms for metrics and their reporting, could have widely beneficial consequences for integrating RPI into investment practice.

A number of forums exist for such collaboration.

**The UNEP FI Property Working Group** and the **Responsible Property Investing Center**, the sponsors of this toolkit, offer investors and stakeholders the opportunity to share experiences and set norms for the field. The **Urban Land Institute** has created a Responsible Property Investing Council for developers and investors. More and more, industry trade organizations, responsible investment networks, and other advocacy organizations, are making RPI a part of their work, and can provide forums for the exchange of information and best practices. On RPI metrics, the **Global Reporting Initiative** has established a Working Group on sector-specific reporting guidelines for the construction and property sector.

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## United Nations Environment Programme Finance Initiative (UNEP FI)

The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership between the United Nations Environment Programme and the private financial sector. UNEP FI works closely with the more than 180 financial institutions that are signatories to the UNEP FI Statements, and a range of partner organizations, to develop and promote links between the environment, sustainability and financial performance. Through regional activities, a comprehensive work programme, training activities and research, UNEP FI carries out its mission to identify, promote, and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations.

### RPIC

The Responsible Property Investing Center, a joint project of the University of Arizona and the Initiative for Responsible Investment at Harvard University, fills a void in the real estate landscape by bringing together leading real estate practitioners, from developers and lenders to fund managers, asset owners and institutional investors, in order to coordinate and disseminate their best practices, conduct crucial research, and to create networks of investment opportunities that take advantage of the changing landscape of property investment. For more information see [www.responsibleproperty.net](http://www.responsibleproperty.net).



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