

# The 17th Annual International Land Policy Forum

( Thursday, 28 October 2010    Izumi Garden Gallery )

"Sustainable Real Estate Investment"

Lecture record

**Takejiro Sueyoshi [Why "Green Finance" now? - Toward a Sustainable Society]**

Good afternoon everyone.

So this is a 17<sup>th</sup> International Land Policy Forum, it's my pleasure to be invited to this forum and thank you very much everyone.

For this community today we have Paul from England, Scott from the United States, and Jon from Australia, so three of us and I would be talking about this topic. Which will be great pleasure for me?

About the real-estate or property I'm almost a layperson but I worked for long years in bank in 1990ies 14 years I was in New York. Then Project Finance Officer was my position there and so about the American real-estate market I rented to very much money.

Mall of America, do you know this is person, back in those days the largest shopping mall in the world was built that time. The construction loan was done through my agency. For three years I had difficult time but as a result this shopping mall and this project of the loan was very successful at that time. If I remember correctly.

As a matter of fact, past 10 years in the UNEP Financial Initiative I'd be working and small activities. So this is 180 financial institutions, so an institution and UN working together to make finance institutions toward an environmental consciousness and so I spent about 10 years to support these efforts at UNEP.

So movement of finance I was looking toward the world in the 21 century. Now there are to be going be a great change on Earth.

It's not just a cyclical change in the economy, but rather sure economic and the civil life and the all the faucet society are going through some big changes, so another word big paradigm shift as I may call it.

So for sometime I like to discuss or share with you some finding I felt about the changes that I found about world through moving or the finance.

Also, I like to explain too why this will be important for you. And you will realize as you listening to my presentation. But let me tell you this, the society changes, the economy changes, or civil life or cautiousness changes and then the question is what

about the business is, particularly in the real-estate investment. You can not think about business without concerning these changes taking place today. Thus they can not miss background again I shall like to give my presentation.

Let's see, society changes, here is my opinion about this, 21 century what kind of century it is going to be is my thought that I have from time to time. So, when we think about this big change we have to have a right frame work for the time, period or era.

Next 10, 20, 30, 40 years or the some decades of the 21<sup>st</sup> century what time it is going to be, as compare to the second half of the 20<sup>th</sup> century but maybe there is a difference.

My answer is shown on this slide.

There are 4 major issues, which are the message writers, in another word, most important and serious issues. And without solving these issues there will be no future in the 21 century. And also, the global society is now going to take action to find the solutions to the problems.

And process of the solution catalyze or inform in the 21 century.

So about 20 century there is a big different. In the 20 century these problems are not apparent. And so people didn't identify the source of the problem and people just enjoy rampant economy or business inspiration.

I myself and, the so here are some important points about them, first, global warming, this autumn there was a torrent or raining among the islands this summer, there has been abnormal climate. We have series of abnormal climate in a so, global warming now have taking places or started. Now it has a lot of damage on us in terms of the life and health and national resources. So this is very important.

So we can not talk about preventing it. Because it has already started the global warming. How can we contain it? It has already started so we have to ease the problem and then because it has already taken place so we have to have adapted for measures. There is a two front so which we are fighting against the global warming.

Just recently WWF Japan it is a very important piece of information. Let me explain it.

So already in the audience today in Japanese having an economic life of consumption level and actually 2.3 earth are needed to support life everyday Japanese enjoying a high standard of consumption of life.

But if this standard of living is pursued by more than 6.8 billion people on earth, then it takes a 2.3 earth to support such a high standard of living for the population on the earth. Because many people are living on sub-standard level therefore we are enjoying. 4 earth is needed if everybody on the earth lives American life.

This can not be sustained. COP10 is going on in Nagoya and the day before yesterday I attended. So service from the ecology is now getting discontinued.

Under the circumstances high level economic activity can not be possibly sustained. And actually serious problems are already close in the world including poverty. Ratio of poverty as defined by the UN is 1.25 dollars a day. It's about 100 yen. Just 100 yen coin is all the money a person can have a day. 1.4 billion People out of a several billions of people on the earth living on this standard.

Perhaps a Japanese elementary school children wouldn't pick up the 100 coin when found on the street, because it is dirty. But 1.4 billion people on earth can survive with this money. If they get 100 yen or 2.5 billion people living on 200 yen level. And so can we enjoy prosperity in the 21 century on this level? I would say that's impossible.

We have to solve these problems is a duty for advanced countries including Japan.

You don't have any question? Today in the history of humanity it is a time we have the strongest scientific power. Medical technology is highest now, telecommunication, transportation technologies are highest today.

So humanity has obtained tremendous power but now as I say right now serious problems are taken place unsolved and due to why this is the case.

This is very ironic situation. When the science has progress most we have the serious problem. Why can this happen? Is this just a coincidence? I don't think so, so this I know this is hindsight but I would say economic has been wrong in the past. In a way economy was wrong, on the right hand we got the highest power on the other hand we are suffering tremendous problems.

Now this is my interpretation about present situation and I can go on in the half way of the 20 century economy was too much focus on growth. Economic growth is the best was the ideology. Because larger pie can be \_\_\_\_\_ and more people happy because of the what happened so the return was pursued and self-centeredness took place and people didn't care about distraction of a natural resource because economic growth was the most important. So that was the rampant theory.

But now 20<sup>th</sup> century economic growth rate could not, vary in the 21<sup>st</sup> century. Now the economic in the 21<sup>st</sup> century should depart from the 20<sup>th</sup> century we have to say good bye to the short profit orientation. We have to avoid a destruction of the nature. So we have to think a long range have to be inclusive of the people and conserve natural resources. So the economy change greatly or we have to change the economy greatly today. This is where we stand today.

So this something you can say easily but how can we change the economy in fact. So countries have to pass new laws and regulations and industrial rules should be made and social frame work should be changes and many other things.

But on this topic of today, I would say finance needs to change. When finance change

then behavior of the company can be changed. I feel this very strongly.

So I part of the UNEP Financing Institute in the past 20 years. The idea was to by changing finance then corporation and society can be encourage to change. I can say more than that. The financier can sense or the changes in corporation and their behavior so that the finance can change itself. That has been the 20 years history of FI.

Now green finance is the new concept that has the nourishing under the circumstances. So the question is why it is finance can play a major role.

As I look back upon 10 years activities, I can say this. Idea I thought about wellness finance should be involving the environment and most people didn't understand why banks should be involving encourage environment. Banks have beautiful offices in the cities. Why banks need to be involved in environment.

If you think this more deeply, perhaps you know this much better than I do, but the basic operation of finance is mediating the flow of money in society. In other words, investors and bank can make decision final decision where money can flow. If finance make misjudgment about where money should go.

This would be a big problem for society. So again this topic of my presentation today. If compressions are emitting CO<sub>2</sub> and destroying natural resources. If banks should flow money to those companies and real-estate fund and all.

That could at least my society. Rather financier should make an investment and loans backing help in betterment of society for the past few years. There has been a strong demand from society to finance. Now our recovery of the society and economy in this country finance played a major role. Of course industrialist worked very hard otherwise Japanese economy wouldn't have happen.

But if the finance was essential without it the economic recovery couldn't have taken place so rapidly. Japan has become No2 GDP economy after the devastating war. I believe that very great play by the finance.

Now this is the time for finance to come to the center of the stage. Toward 21 century, the world has to change in various ways.

Now finance has to realize what it is supposed to do. What it is their due to do. What to do. And execute. So finance is not for its own sake, finance is the very important infrastructure for society.

So for you to understand this is history. I like to share with you a very short history of UNEP FI. UNEP 1972 it was a born in may Stockholm for the first time humanity those international conferences beyond national boundary on environment then so called declaration was issued.

Here it says "the international committee should address as quickly as possible, the

international transporter is environmental program and then it was established accordingly.” So it’s kind of a ministry of environment that’s the role to be played by this UNEP for society.

In 1992 as you may remember in Rio de Janeiro the 1<sup>st</sup> Rio Summit was held based upon the Kyoto Protocol, where a biodiversity treaty and such things were developed.

UNEP has been active for 20 years so only industrial people have to \_\_\_\_ but no banks of people were represented. Was it a good thing?

Then UNEP realized this and then talk to European banks and industry then UNEP FI was born. So from the beginning, although having fallen behind the trend, they have worked on environmental issues and been involved in various activities.

And I can tell you one of them. 2006 the Principles for responsible investment, PRI was formulated and published by UNEP FI.

That is, pension funds or institutional investors with a lot of funds promised the world that in the future, they ought not to look think only in terms of money.

Equity investment is about making money. The stock price is going up so you buy the shares. But it’s not just about making money. But rather, it’s about fulfilling social responsibility and Governance. Earlier Mr. Muramatsu mentions ESG.

So ESG will be reflective in the equity investment process. So this was the PRI. More than 800 financial institutions around the world signed this principle and they are now ready to make investment in this matter.

So responsible investment is not just about making money. But it’s also about ESG. They regard it much more important than money and make it reflect in their investment decisions. And so it is my understanding or interpretation of PRI or responsible investment.

So investment is made by us contemporary people. But in responsible investment is not investment of yourself at all rather future generation should benefit from the investment you make today.

So we have to be responsible for the future generation as we make investment decision. It is the most important spirit of responsible of investment. So new spirit or new wind is blowing in the area of the finance, or investment community. So this is what I just said.

Now occasion of COP10 or financial initiative of UNEP and PRI, the principle of responsible investment got together and very unique report was published in the beginning of the October. Universal Ownership is the title.

So English speaking people are very good at using words. Universal Ownership when I saw this several years ago I was just impressed. It’s great idea particularly when you manage large sums of money.

It is not your own sake rather your investments are very large in terms of funds. And covering various industries and nationalities then through such investment. You are becoming the owners of this great earth. So that should be the way I'd like you to think as investors.

And you don't make decision just by looking at investment products. Your decision can make a global impact you are becoming the shareholder of the Earth. That's my thought the investor should have. This I think is the message hidden in this Universal Ownership.

So there is a subtitle in English and as it says, we believe those external matters or/and costs concerning environmental issues have become increasingly a larger impact on institutional investors. So this is something that we have to really understand. Investors have to be aware of. So this is a second thing or subtitle Under the Universal Ownership. This has a lot of imprecations.

And there is one description in this report and then about depth and birth of the environmental destruction back in the 2008 where the amount is 6.6 trillion dollars that was caused by Human activities economic activities par say. And then in short economic activities have been exhorting a large impact on the environment. So if we are to calculate the amount incurred 6.6 trillion dollars. It is exceeding Japan's GDP or China's GDP as well. What's so unique about this report is out of the 2.5 trillion dollars out of 6.6 exceeding 1/3 of that of the portfolio was that responsible or held responsible by those top 3000 companies in the world. So they are responsible for such a huge amount of that environmental destruction.

Well I was kind of shocked because top 3000 companies in the world should be deemed as one of the most attractive companies from the prospective investors. And then is it possible that such companies are targeted as that perpetrator? Are such negative impacts on the environment? And then on back side back scene or behind the scene of the generating benefit for human society and that there are imposing a lot of destruction destructive power on the environment. So that let's well staggering amazing that implication.

So more over, as we are today at the international forum there was a presentation I hear about the COP10 yesterday. There is a word that demystifying materiality that is the title of the report published by UNEP. So demystifying materiality means that you have to qualify you have to solve the meaning or identify the meaning of materiality.

Here according to this, and then so loss by diversity degradation of eco systems. so important and Risks and chances for financing. So you have to embed such eco service deterioration possible losses of biodiversity as part of the financing scheme.

So because that fact that such environmental service is worsening, might have a lot of risks for the financing world as well.

And the environment itself experiences a lot of damages. And in the agriculture, fishery, mining, and a lot of resources are damaged forestry as well.

So those business partners or business organization losses as a result of biodiversity losses. That would end up been risk factor, one of the risk factor for financing programs. That's something financial institution will be fully aware of for the purpose of risk management for their own business organization also for the company's organization. So if those financial institutions are wise enough to incorporate the idea into the financing programs that would be a great advantage for them.

So that is UNEP Financial Initiative has been emphasizing importance of such implication so biodiversity is one of the factor. And also global warming these the factors are intrinsically or inexcusably \_\_\_\_\_ associated each other. Such environmental damages are something in common that economic activities.

So all the belches and methodology and all the organization and world have been adopting and would be adopting the world by organization associated with the biodiversity. So that's exactly what COP10 is talking about at Nagoya.

And one of what's going on in the financial sector is called Carbon Disclosure Project. This is to inquire, make inquiry in order for other party to disclose information about carbon emission.

I was part of that in this year and just announced the latest results. Financial institutions sent out the questionnaire to 4000 companies in the world requesting information related to carbon emission and their answers have become open to the public. These kinds of things are going on more and more often these days.

Also past 2003 we established the idea of equator principles so this is project finances area and then if that the product finances have negative impact on the development project and that would have to be the incubator factor for financial institution to fund such projects.

So I have been involving, or the finance people are been involving project finance for long time. That is very lucrative and also honorable\_\_\_\_\_ business. So well financial institutions, banking institutions as well are beginning to say that without making a close investigation of their implications are that the project might exert on the environment.

They are not willing to lend, grant any loan to any projects. So that's a new message coming out of the financial sector. So last year that there was a committee held institution UNEP FI.

There should be some code of conduct of the principle should be apply to Japanese business, financial businesses. There working group has been initiated. I'm part of that serving as a chairperson of this working group. And sometime in the future that financial institution in Japan will be more and more serious about this behavior of principle. I expect a lot from that kind of trend.

Then, in an effort to make changes on corporate behavior. One of the strongest power would be the power of the investment business will be initiated offset was investor purchasing stocks, equities and companies. However, it is important for us to encourage investors to think about not only money but also other part of the information.

SEC of United States in the past and so all of sudden SEC says that there imposed on.

Listed companies now have to submit not only so called financial information but also climate change information, although partially. Special rated to CO<sub>2</sub> emissions have to be disclosed to public.

That is historical turning point.

So flow of such trend will continue and then, as part of the information disclosure, listed companies in not only in United States but also other part of the world they are requested. Companies are requested to submit more information about carbon emission and environmental concern.

And then, more specifically talking, you all know Bloomberg. The organization providing information especially to investors, which the current NY mayor started.

And then lot of investors are looking at been close attention to information brought by them. And then information provided by Bloomberg includes that climate change. So the 3000 top companies in the world are the information about global warming damages. And global warm.

Visible or available to those fund managers no matter where you are. Even fund managers operating in Tokyo. So MSCI is one company requesting important to investors. This company purchased or acquires Riskmetrics in the amount of 150 billion.

And then this has a lot of imprecation. Riskmetrics has grown so much by providing non financial information made available to public. So that growth drive has been disclosure of information. So the reason why that they are grown so much is very obvious because investor consider that type of information very viable for their investment decision.

And then, even greater organization acquires Riskmetrics. That was news because I used work in a business organization that is why I pay attention to that. Well like 150 billion and such kind of huge investment has to be made properly, intelligently.



This, I believe, will bring a huge change, including perhaps pension funds. Such things I just said are beginning to occur actually. And also, looking at overseas situation. Public funds organization including the Northern European, Scandinavian countries. They are focusing on the sustainability. And financial return will be so much closely laid at sustainability. So there was a commitment made by Scandinavian such organization or public funds operators that they believe that financial return expect from such company will be tied closely tied with their attitude toward sustainability.

So that kind of trend has been spreading and I myself have been part of the active involvement and emphasizing importance of responsible investment. With addition to sustainability.

One thing I like to emphasis that right now. We are experience the paradigm shift. And then, yard stick to thinking has been changing. And the new value system has emerged. And then, CO<sub>2</sub> emission is good thing for the society. For ourselves as well. It is about keeping emitting CO<sub>2</sub>. You have to protect the environment and you are not supposed to destroy by diversity. Eco system is something to be protected instead of destroys.

And so, you have to be part of the solution. Business organization must to be a part of the solution instead of part of the problem. So, with that in mind, that management of such company has to change must change. That type of the pressure would be applied on all the industry. So those CEOs, top executive of the company have to change as well. And then so no matter what happens in the monetary part of their business.

For example, increasing in sells, and profit making, and then while you have to pay attention to the biodiversity, eco friendliness, sustainability while making profit. And you have to consider how you can increase your sells and profit by paying attention to environment. That type of thinking has to be at work if you want to become the successful CEO or successful organization.

What is required for the management in the 21th century is an ESG management by CEOs who make ESG well into consideration. The days when you could look at things only from the perspective of finance have been over. Then in that term, in the perspective of social responsibility, what should you do in your real-estate business? As I said before, it is quite clear what the societies now value: what they are going to abandon and how they try to solve the huge problems on this planet.

And then real-estate business is not without exception to such trend. So property managers, property business operators must adopt themselves to the change. In various ways, your business activities will influence environmental issues, including global warming and ecological hazard.

One thing I like to say about the nature of the property business is that once property is

established, and then, well you are located yourself you survive you exist for long time. And you don't want to create the negative lock in effect just because your presence is there. Property is there for a seeable future. So you have to be looking at this new direction. Beyond that point that there should be value standard that not many people will ever imagine to exist.

So you have to provide you have to create and provide property that would be tested, and withstand the test of time or withstand the new value systems should be created as result of such a consideration to sustainability. So that kind of attitude will be conducive to the sustainability of Japanese society as well as global society. I hope that you subscribe to this idea of thinking what a future values require by the society is. So I encourage you to have getting to the discussion about this potential values created for society as well for the company.

And lastly, I'd like to say something that is something that I always say at the part of the speech and then, this is what American native Indians used to say.

I believe nobody here wants to damage what you borrowed and give it back. Rather than that, you want to make it even nicer before giving it back, I think. The idea should be applied to the earth. Why don't we pass this planet to the next generation based on that spirit? This is a main message treat the earth well. Thank you very much.