



Owner-Tenant Engagement in Responsible Property Investing

A report by the UNEP Finance Initiative
Property Working Group

UNITED NATIONS ENVIRONMENT PROGRAMME



UNEP **Finance Initiative**
Innovative financing for sustainability

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Owner-Tenant Engagement: An Introduction

This report presents leading examples of property owner-tenant engagement activities aimed at furthering Responsible Property Investing (RPI). RPI includes property investment, development and management strategies that go beyond compliance with minimum legal requirements in order to address environmental, social and governance issues. This report supplements other material already published by the UNEP FI Property Working Group (PWG) on what leaders are doing in energy conservation, green building, fair labour practices and many other aspects of RPI.¹ It also supplements prior efforts to document what signatories to the Principles for Responsible Investment are doing to apply those principles to property assets².

One of the best ways for investors to implement RPI is to work on improving the social and environmental performance or outcomes associated with their portfolios. Whether it's reducing safety hazards in a shopping mall or increasing recycling in an office or apartment building, efforts to continuously improve the social, environmental and financial performance of properties is a hallmark of RPI. Making improvements to existing building performance is arguably more important than efforts to acquire or develop new high performance or "green" properties. This is because existing buildings make up the bulk of the market, "... therefore, this vast stock of older buildings (developed decades ago when sustainability was not a consideration) needs to be retrofitted. Unfortunately, retrofitting existing buildings is significantly more difficult than creating a new green building from scratch. For example, in existing multi-tenant commercial buildings, any sustainability retrofit or technology upgrades require the cooperation and participation of a wide range of stakeholders (i.e. owners, managers, occupants and contractors)..."³

One reason why investors face such difficulties and require cooperation is they do not fully control the properties they own. They share control with a tenant or tenants. In a preceding report, Dr. Paul McNamara, Co-Chair of the PWG and Head of Research for PRUPIM, explains that in direct property investments, when owners do not occupy the property, they "sell the right" to occupancy to a tenant through some type of leasing arrangement.⁴ Through the lease, owners give up most of the control during the lease period over how the property is used and managed.

Another difficulty that can be addressed with cooperation is what's variously known as the misplaced incentive, split-incentive, or principal-agent problem.⁵ This is where the economic benefits of energy conservation or other progressive actions do not accrue to the person or organization trying to conserve. "For example, in an apartment building, where the tenant pays the utility bill, the landlord has little incentive to make energy conserving improvements; if the landlord pays the bill, the tenant has little incentive to be frugal in his use of energy"⁶, or to make capital efficiency improvements that revert back to the landlord when they vacate the property. However, "if all parties are committed to improving the green credentials of the building, many of the problems around equipment upgrades and so on can be sorted out by negotiation. This

1 See *Responsible Property Investing: what the leaders are doing*. Available at http://www.unepfi.org/work_streams/property/index.html

2 See *Building Responsible Property Portfolios: a review of current practice by UNEP FI and PRI signatories*. Available at http://www.unepfi.org/work_streams/property/index.html

3 Evonne Miller and Laurie Buys, "Retrofitting commercial office buildings for sustainability: tenants' perspectives." *Journal of Property Investment and Finance*, Vol. 26, No. 6, pp. 552-561, 2008.

4 See *Responsible Property Investment – similar aims, different manifestations*. Available at http://www.unepfi.org/fileadmin/documents/article_resp_property_investment.pdf

5 International Energy Agency (IEA), *Mind the Gap: quantifying the principal-agent problem in energy efficiency*. IEA, Paris, 2007.

6 Carl Blumstein et al., Overcoming social and institutional barriers to energy conservation. *Energy*, Vol. 5, pp. 355-371, 1980.

is even true during the life of a lease; with consent the parties can always agree to depart from the strict wording of a lease.”⁷

What this means in practical terms is that the successful RPI strategies often depend on owner-tenant cooperation. Cooperation may be required if physical improvements are to be made while a property is occupied. It may also be important for gathering baseline information on carbon footprints, transit use or other performance indicators. And perhaps most importantly, the success of these strategies greatly depends on the behaviour of those occupying a property. Cooperation is crucial because the choices made by people living, shopping or working in properties about the appliances they install, the resources they consume, and the way they use building technologies can do more to explain property performance than the design and engineering of buildings themselves.

Thus, owner-tenant collaboration is essential to successful RPI. In other words, “an active partnership . . . must be forged, a shift in social relations from adversaries to partners (which recognizes) the mutual cultural and economic benefits of concern with the efficient use of resources in the built environment”.⁸ And that is probably why many leading property organizations that are committed to sustainability and responsible investing have been finding innovative ways to promote better cooperation between owners and tenants. In the following pages, we are pleased to present several of their stories. We sincerely hope that their efforts will inspire other owner-tenant engagement activities all around the world.

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- 7 Mark Hinnells et al., The greening of commercial leases. *Journal of Property Investment and Finance*, Vol. 26, No. 6, pp. 541-551, 2008. For an excellent review of green leasing, see Sarah Sayce et al., *Greening Leases: the landlord tenant relationship as a driver for sustainability*, Investment Property Forum, London, August 2009.
- 8 Simon Guy, Developing alternatives: energy, offices and the environment. *International Journal of Urban and Regional Research*, Vol. 22, Issue 2, pp 264-282, 1998.

What investors are doing

Land Securities: Sustainable Leasing



Land Securities is a FTSE100 company and the largest real estate investment trust in the UK with a commercial property portfolio worth just under US\$16.4 billion. The firm recognizes that its property activities have an enormous influence on the day to day lives of thousands of people across the UK. Through good design, community engagement and customer service they are creating places where people choose to shop, are proud to work and want to live. “bringing property to life”.

Sustainable Leasing MOU

Land Securities has recently obtained agreement on a “Sustainable Leasing Memorandum of Understanding”, based on the Better Building Partnership toolkit, from tenants in one of its office buildings and is in the process of adding other buildings as well. Future plans include rolling this approach out across the company’s entire managed London office portfolio of 40 locations. A similar approach is being taken in retail.

As an incentive for occupiers to participate, Land Securities is offering free energy audits, training, awareness materials, and other services through its in-house environmental team.

The key elements of the MOU are as follows:

- 1) The Parties agree to work together collaboratively to improve the environmental performance of the Building and the Premises.
- 2) The Parties agree to share with each other all data and relevant information they have in relation to the Building and the Premises in respect of:
 - Electricity consumption
 - Gas consumption
 - Other fuel consumption
 - Water consumption
 - Waste generation, management and recycling
 - Maintenance of plant and equipment used in connection with the above
- 3) The Parties will set up a Building Management Committee which will meet regularly, comprised of representatives of the Landlord, the Tenant, any managing agents, and other persons involved from time to time in the operation or management of the Building and the Premises. The Committee will:
 - Review the environmental performance of the Building
 - Agree to an environmental management plan for the Building and annual targets for reduction of energy, water, carbon and waste; increased use of renewables and recyclables, and
 - Produce an annual statement on progress toward targets.
- 4) The Tenant will share information with the Landlord on hours of occupancy and lighting, heating and cooling needs. The Landlord will share information with the Tenant on the building environmental management system and minimize the unnecessary provision of lighting, heating and cooling.
- 5) The Landlord will not require reinstatement of alterations made by the Tenant which improve environmental performance of the building.
- 6) The Parties will work together to implement other specifically listed measures pertaining to waste, water, energy, auditing, alterations, cleaning, transportation, and educational programs.

- 7) The Parties will have their managing agents implement this agreement.
- 8) The Parties will encourage new owners or sublet tenants to implement this agreement.

Justification for Leadership

The brief from the CEO that drives this work is simple, “to be universally acknowledged as sector-leader in terms of sustainability”. So, quite simply, the firm is seeking to accomplish sustainability measures that are most important and/or cost-effective.

In one sense the MOU programme has no cost, as it does not use consultants and the team to achieve it is already in place. However, Land Securities does not have internal processes for cross-charging the costs of the time of the environment team, or the energy team or the estates managers who liaise with tenants to get the MOUs signed and implemented.

The wider justification is that as landlords/property managers, Land Securities cannot make significant reductions in building energy consumption, or reduce waste or improve recycling, without a high level of cooperation from the tenants. Its own case studies show that on their own, they can reduce energy usage in a building by maybe up to 10 per cent over 3 years through improved management, but with tenant buy-in they can achieve 15-20 per cent reductions in one year. With waste, in just over a year, they have cut deposits to landfills from their London portfolio to just 7 per cent, from a starting point of over 80 per cent.

Of course, in the UK owners and tenants face the Carbon Reduction Commitment (CRC) in 2010 (mandatory emissions trading) and this will affect larger property companies like Land Securities. They need to be able to reduce energy/carbon in order to meet targets in the CRC and avoid large costs for the carbon allowances. So this is further justification for the MOU work, which is expected to help with the CRC obligations.

So far the MOUs have been voluntary.

The question of whether new occupiers will actually agree to similar clauses in new leases, making them legally binding on both parties, is so far unanswered.

The Better Building Partnership and Green500

Green Lease Toolkit
Working together to improve sustainability



The Better Buildings Partnership (BBP) is an initiative led by the London Development Agency (LDA). It was established as the primary delivery vehicle for reducing London's carbon dioxide emissions. The aim is to bring together large commercial and public property owners to improve the sustainability of London's existing building stock and accelerate the reduction in CO₂ emissions from those buildings. The partnership develops commercial solutions to make building retrofit projects achievable and demonstrate the returns from reduced energy consumption and cash savings. One of its specific aims is to bring together owners and occupiers to stimulate the development of partnership initiatives between them. The BBP includes a Green Lease Working Group which produced the Green Lease Toolkit in order to help owners and occupiers work together collaboratively to improve the environmental performance of their building and premises. It offers best practice recommendations, a model memorandum of understanding, and model green lease clauses.

Another LDA initiative is Green500. Designed to target the 500 largest organizations in London, its primary focus is to work with organizations with the greatest carbon saving potential and therefore it is targeting large businesses and public sector organizations in London. The programme includes a number of services, namely a structured carbon mentoring scheme providing expert help and advice on reducing participants' London carbon footprint. It also includes a certification element. This takes the form of an annual Green500 awards ceremony hosted by the Mayor of London, which publicly rewards the efforts of member organizations. Members of Green500 will each receive an assessment of their London carbon footprint by a designated carbon mentor.

Subsequently an individual "Action Plan" is tailored to address each company's specific carbon needs. This offers estimated monetary and carbon savings for energy, waste, water, and transport, as well as information on an expected payback period for each action successfully implemented. Members will also gain access to a comprehensive list of suppliers to guide participant organizations in successfully implementing their Action Plan. Members also receive invitations to a host of networking and idea-sharing events hosted by the Green500 team and attended by members of the scheme.

GPT: Tenant Ecological Footprinting



Listed on the Australian Stock Exchange since 1971, the GPT Group is today one of Australia's largest diversified listed property groups. The Group's model is focused on active ownership of high quality Australian real estate in the Retail, Office and Industrial/Business Park sectors. Funds Management and selective development complement this focus.

As a responsible entity, GPT is concerned with acting in the long-term interests of all of its stakeholders. The diversified nature of GPT's business means it has a broad range of stakeholders.

Tenants are those businesses who lease or occupy space within GPT's assets. This includes the staff and employees of those businesses and groups. GPT aims to build tenants' knowledge of sustainability and capacity to act to enable tenants' interactions with GPT to be in a manner consistent with the assets' sustainable investment principles and objectives. GPT aims to create stronger relationships through this shared vision and provide a means by which input and suggestions from tenants can be regularly integrated into sustainability decision-making.

GPT utilizes the following forms of engagement with its tenants:

- Direct Engagement – Two-way face-to-face dialogue.
- Surveys – One-way surveys where GPT seeks information/views from stakeholders (e.g. Tenant Surveys).
- Partnerships - Formalized engagement agreements between GPT and external parties where two-way dialogue occurs.
- Regular Communications - Written communication, reporting to stakeholders, corporate responsibility website, and an Annual General Meeting.
- Online Feedback - GPT's open invitation to all stakeholders to submit views or concerns. GPT has a practice of responding within 10 days.

Tenants are engaged in sustainability across the Office, Retail and Industrial/Business Park portfolios. Engagement methods vary. However, the objectives remain the same, namely, to support tenants with similar corporate responsibility goals to achieve their objectives and to increase awareness of other tenants.

Since 2004, GPT has been investing in the development of property specific "ecological footprint calculators" with the Environmental Protection Authority of Victoria and the Global Footprint Network (GFN). These calculators are given to tenants and have been a key component of the GPT engagement programme.

All new and renewing retail tenants are required to sign a "green-lease" which requires them to go through the footprint assessment and meet certain minimum eco-efficiency measures. Since adopting this policy in 2007, a total of 625 such leases have been entered into, which represents 16 per cent of all retail leases in GPT owned and managed retail assets. GPT has a target to see this increase to 27 per cent by the end of 2010.



As an owner, manager and developer, GPT is committed to improving the social, economic and environmental capital of our stakeholders and the communities we touch.





GPT's innovative application of ecological footprinting has enabled communication about sustainability issues with retail tenants which has the capacity to influence the property sector to much larger outcomes.



Terry A'Hearn,
EPA VIC Director
of Sustainable
Development 2008

Use of the ecological footprint calculators has resulted in an average energy reduction of 29 per cent for eco-certified tenancies. In requiring tenants to engage in calculating the ecological footprint of their stores and achieving a variety of minimum water and energy efficiency standards, GPT hopes it will support the transformation of the retail sector to a more sustainable level. GPT, in partnership with EPA Victoria and the Global Footprint Network, has committed to expanding footprint calculators to cover all assets classes and aspires to achieve the same level of engagement in the Office and Industrial portfolios by 2012.

GPT has seen its investment in the development of footprint calculators translated to economic outcomes and benefits for all stakeholders through reduced tenant occupancy costs. To date, national retail chains, including Woolworths (supermarkets), Westpac Bank Corporation and Telstra Corporation have used this approach to adopt new “national fitout” standards informed by the eco-efficiency design reviews sponsored by the GPT group. The GPT Group is proud of the way in which this engagement programme has translated into real action for the real estate sector and environment more broadly.

The table below outlines some of the ecological footprint activities and engagement undertaken by GPT to date.

Treadslightly Ecological Footprint Initiatives							
	Office	Retail	Industrial	Tenants	Customers	Employees	External Stakeholders [^]
Engage and Educate	○	●	○	⊕	⊕	●	●
Calculators Complete	○	●	○	⊕	⊕	●	○
Baseline Standard Practice	●	○	●	●	na	○	na
Identify Improvement Scenarios	●	●	●	○	○	○	○
Set Targets for Improvements	○	●	●	○	na	●	○
Measure	●	○	●	●	●	○	○

● Extensive (Extensive is consistent over last 4 years with targets still to achieve to 2012.)
 ○ Partial (Partial is some structured engagement and expanding in line with CR goals to 2012.)
 ● To do
 ⊕ Refers to Retail only at this time, plans for Office are in place for 2009

[^] External Stakeholders include EPA, Global Footprint Network, Bovis Lend Lease, ARUP, Property Council of Australia, Landcom

Hermes Real Estate: Cooperation at the core



Hermes Real Estate offers property investment through segregated and pooled vehicles. It is one of the largest real estate managers in the UK, operating across all the primary markets of the retail, office and industrial sectors, with in excess of US\$13.3 billion of gross assets under management (at 31 March 2009).

Occupier attitudes

Hermes works closely with its property managers to develop greater co-operation with its occupiers. In February 2008, Jones Lang LaSalle and Corenet carried out a global survey of over 400 occupiers, asking for their views on sustainability, published as 'Global Trends in Sustainable Real Estate: An Occupier's perspective'. GVA Grimley also commissioned a research report in the spring of 2007 entitled 'Towards Sustainable Offices' also assessing this link. The findings of both reports indicate that:

- Global occupiers believe sustainability is a major issue for their business
- There is a growing awareness of sustainability issues among occupiers
- Many occupiers are willing to make financial commitments in order to become more sustainable.

These findings suggest that we are moving into a new market with new rules. Property owners have to be more active in working together with their occupiers and developing sustainable initiatives to meet their increasing demands.

Many occupiers and owners share the same goals when it comes to sustainability/corporate responsibility and both have to realize that working in partnership achieves far more than working in isolation.

Putting co-operation at the core of our contracts

Hermes recognizes that building owners are responsible for the impacts that their buildings have on the environment and local communities. They also recognize, however, that in order to reduce the overall environmental and social footprint of buildings they must actively engage with the occupiers who lease them and with whom they have a shared responsibility.

In taking the first steps towards addressing the issue of occupier engagement, Hermes has amended its standard form lease, adding "green" clauses which reflect obligations on both parties to cooperate and ensure the property is managed in the most efficient and sustainable manner possible.

The green lease clauses are intended to encourage closer engagement between owner and occupier rather than being overly prescriptive or target based. The new standard form green lease came into effect in April 2008, making Hermes one of the first major property organizations to launch such a document. To date more than 50 occupiers have agreed to the new clauses, many embracing the initiative very positively. There has, however been a significant amount of concern from some occupiers which has resulted in extensive dialogue and negotiation to find an acceptable, positive way forward.

Active Occupier Engagement

Only if owners and occupiers work together can the full potential of RPI be realized. To this end, Hermes has been actively pursuing occupier engagement as part of its comprehensive Responsible Property Investment strategy for the past few years.

In order to fully understand occupiers' needs and ambitions Hermes commissioned a comprehensive occupier survey with Kingsley Lipsey Morgan. The survey covered a sample of offices, business parks,



Engagement is certainly a key area of RPI and one which I believe will grow in importance as governments seek to introduce more and more measures, of both both 'carrot' and 'stick' variety, to encourage CO2 savings. Such measures are increasingly aimed at both owner and occupier and quite rightly so as either rarely has full control over emissions from their building. Our work on green leases has been valuable, with initial strong resistance from a number of occupiers. They are starting to become commonplace in the sector now – lawyers are more comfortable with the concept and are consequently able to advise their clients that they can sign up without risk. We certainly have a long way to go to eradicate the traditional adversarial relationship between owner and occupier, but I sense a small step change which is very encouraging.



Keith Bugden,
Consultant, Hermes
Real Estate

industrial assets and shopping centres valued at nearly US\$500 million with over 50 occupiers. They received a very positive response rate of 60 per cent.

The results are being used to review and set clear objectives to govern their Occupier Engagement Programme.

- Office occupiers requested prioritization of recycling; promotion of green fuels and energy efficiency and more communication on sustainability issues.
- Industrial occupiers were particularly concerned with rising energy costs and want more owner engagement to prioritize recycling.
- Over 70 per cent, of shopping center interviewees said that sustainability is either “important” or “very important” to their organization and 50 per cent were “very interested” in talking to Hermes about energy saving and carbon reduction initiatives.

Building partnerships

Through its active participation in initiatives such as the Better Buildings Partnership and the Green500, Hermes is engaging with key occupiers, both at the board level and at individual properties, which it believes will ensure a consistent approach to sustainable building performance. These partnerships provide an excellent forum to meet with like-minded occupiers and discuss opportunities that will be of mutual benefit.

Sharing information

Hermes has a significant amount of environmental and community data and information relating to its portfolio, some of which relates directly to occupied space. Hermes is willing to share this information with its occupiers, which no doubt will be helpful to many of them in addressing their corporate responsibility objectives. In return, Hermes is looking to its occupiers to share any data and information they may have relating to its assets, so it can accurately measure and monitor the environmental impact of its buildings. With forthcoming government regulation, such as the UK Carbon Reduction Commitment (CRC – a corporate level “cap and trade system” in the UK), it will be necessary for occupiers to have far more detailed knowledge relating to their occupied space.

As an example, those occupiers who qualify for inclusion in the CRC will need to declare their energy consumption on an annual basis. Hermes currently holds this information for many of its occupiers and is working to comprehensively record all metering and billing arrangements across its portfolio, so that when its occupiers request this information, Hermes will be able to provide them with the necessary data.

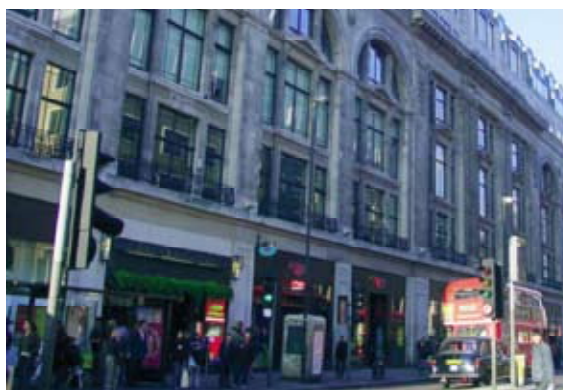


Joint Carbon Programmes

Hermes knows that most of its occupiers want to reduce the environmental impact of their operations. The challenge is how to do it. Since the introduction of Hermes’ energy awareness initiatives in 2006 and its green lease clauses in 2008, with the support of the Better Buildings Partnership (BBP) and the Green500, Hermes has been able to actively engage with a number of willing occupiers.

Across its London office portfolio with the support of their property manager, Jones Lang LaSalle (JLL), Hermes is working to develop joint carbon programs with a number of occupiers. These programmes establish joint action plans to deliver respective sustainability targets and objectives.

One example of this is the programme adopted for Prospect House, a London office property. Working in partnership with occupier NBC Universal, in 2008 Hermes reduced carbon emissions by





almost 15 per cent, water use by 18 per cent and ensured that nothing is sent direct to landfill. This has saved over US\$80,000 in energy costs and over US\$3,000 in direct landfill tax costs.

Another case involved the Freeport Braintree Outlet Shopping Village, an 80-store shopping center in Braintree, Essex. In this case, the introduction by manager REALM of a tenants' energy league table, showing the performance of each shop against the centre's energy targets, helped deliver a yearly decrease in landlord energy usage of 13 per cent.

British Columbia Investment Management Corporation: Tenant engagement in the development process



British Columbia Investment Management Corporation (bcIMC) provides funds management services for Canadian public bodies and publicly administered trust funds. It is one of the largest institutional investors within Canada.

bcIMC's real estate investment programme has always incorporated Responsible Property Investing (RPI) guidelines within its real estate investment policies, including, for example, policies on accessible real estate and consideration of community interests. bcIMC strives to incorporate RPI initiatives to lessen the impact on the environment, provide for the betterment of communities and tenants and enhance the value of the underlying real estate investments.

In 2005, bcIMC formalized its underlying RPI philosophy which helped to integrate RPI practices into its operational framework. This included expanding into responsible building design and retro-fitting projects. bcIMC assesses responsible property investing opportunities prior to the purchase or development of new properties. Once within the portfolio, bcIMC ensures individual property business plans consider responsible property investing initiatives for implementation. In addition, analysis is conducted on the sustainable components of all major capital budgets.

One development project bcIMC has been strategically working on is Westmount Corporate Campus, located in Calgary, Alberta. Together with bcIMC's external manager, Great West Life Realty Advisors (GWLRA), a sustainable business park development strategy was designed and implemented.



Owner & occupier engagement



In 2007, bcIMC and GWLRA entered into discussions with Carma Developers, a potential tenant, about the idea of developing a new head office in Calgary, Alberta. Carma is a Canadian real estate development company that has been in operation since 1958. It was seeking a new office location and was interested in the Westmount Corporate Campus setting.



In 2007, bcIMC started developing a 6,200m² office building for Carma, which was completed in early 2009. In conjunction with Carma, bcIMC focused on incorporating several environmentally sustainable elements into the building during its design and development process.

The result of Carma and bcIMC joining together is a highly unusual partnership between landlord and tenant, where each contributed equally to an extra menu of sustainable building elements. Examples of the elements include:



When we started the site selection process we got it down to a short list and we wanted to work with the landlord in imparting some sustainable aspects to the building. When we first spoke with GWLRA, who manages properties on bcIMC's behalf, we had a very open and candid conversation about sustainable initiatives and the process was interesting, we were both on the same page. They wanted to do something and we wanted to do something. Quite frankly it fit really well... and we moved from there.



Warren Paulsen, VP Commercial Real Estate, Carma

Construction and waste management plan – A comprehensive construction and waste management plan was developed to divert materials from the landfill and recycle as much construction material as possible. To date, approximately one-third of the materials that would usually be sent to the landfill have been diverted and recycled.

Alternative transportation – In an effort to promote alternative modes of transportation additional bicycle racks and storage facilities were incorporated into the building design.

Efficient lighting – More efficient outdoor lighting fixtures was installed to contain the spread of light rays. These more efficient lights also help to reduce the amount of heat generated from lighting and as such, lessen the 'heat island effect'.

Water reduction – All toilets within the building are either low flow or dual flush which reduces the amount of waste water consumed. In addition, all urinals are waterless which completely eliminates water consumption.

Recycling facilities – A conveniently located recycling facility encourages employees to divert waste from the landfill and increase recycling efforts.

Indoor air quality – Maintaining better quality indoor air creates a healthier working environment and improves employee productivity and performance. As such, monitoring devices have been installed to accurately assess indoor air quality performance and provide accurate baseline level data which will be continuously assessed.

In addition to Carma being engaged throughout this development process, all other providers to the project were integrated in the design process. For example, Carma's design firm worked closely with both the landlord and tenant to ensure the most sustainable features and initiatives were incorporated into the development project.

This integrated design concept also flowed down to the individual employees at Carma. Most recently, Carma's corporate head office at Westmount Corporate Campus was selected as one of Avenue Magazine's 2009 Best Places to Work. In planning its new Calgary headquarters, employees were invited to contribute design ideas and were able to select from a list of design options and materials for their own workspaces. Kevin McCubbin, a Carma employee, says the company provides great leadership with long term vision, treating employees with respect and providing a variety of benefits and support. McCubbin says he appreciates the company for its high ethical standards.

Carma Developers has been in business for over 50 years and is well established and integrated within the community. Carma views sustainability as a community focused effort and its corporate philosophy includes passion, integrity and community.

Together, bcIMC and its integrated stakeholders are promoting and engaging in responsible property investing which encompasses environmental stewardship, social responsibility and economic accountability.

Investa: Tenant sustainable services



Investa Property Group is a fully integrated real estate company and one of the largest, unlisted owners of commercial real estate in Australia. Since its inception in 2000, Investa has grown to control real estate assets of approximately AU\$ 8.1 billion (approx. US\$ 7.5 billion) Investa owns and manages 47 office buildings in premier locations throughout Australia and controls approximately 10 per cent of all Premium and A-grade office space in the Sydney CBD.

Investa recognizes that the fundamental purpose of managing office buildings is to provide a productive and effective place for people to work. They believe this goes beyond the obvious provisions such as air conditioning, cleaning and elevators to include enhanced amenities and better environmental performance.



When I think about Carma and working closely with them on sustainable aspects a number of examples come to mind. [One example in particular is] the light in the space is amazing...we worked hard on using lots of translucent materials in order to bring the natural light as deep into the space as possible.



Ashlen Woolnough,
Sizeland Evans,
Carma's Design Firm



Investa believes the best outcomes for Investa, its tenants and the environment are achieved through a cooperative approach. Investa has developed a number of innovative environmental initiatives to facilitate this which include:

EcoSpace

Investa's standard offering for newly refurbished office space includes a number of sustainability initiatives which aim to create a healthier workplace, smarter business and a better environment.

The EcoSpace offering is designed to help tenants:

- Reduce their energy bills. For example, improving a tenancy NABERS Energy rating (Australia's energy rating system) from 0 to 5 Stars could reduce energy bills from over AU\$30/m² (approx. US\$ 20.0/m²) to around AU\$12/m² (approx. US\$ 11.2/m²) per annum.
- Improve employee health and well-being and therefore productivity.
- Enhance their brand and company reputation with staff and clients.

All Investa EcoSpace tenancies include energy efficient lighting and controls, low emission paints, low emission carpet tiles, waterless urinals, and other environmental commitments agreed to in the leasing process.

Green Lease Guide

The *Green Lease Guide* accompanies the Investa precedent lease. It provides an opportunity to identify, discuss and commit to objectives that will save tenants money over time, provide an excellent working environment for employees, and enhance tenant organizations' reputations. The *Green Lease Guide* provides tenants with a useful framework to design an environmentally-friendly and energy efficient tenancy.

Greenhouse Guarantee

Investa recognizes that many of their office building tenants want to minimize their greenhouse emissions through better energy management. The Investa Greenhouse Guarantee helps make the transition to energy-efficient offices as painless, cost-effective and risk-free for government and private sector tenants as possible. By introducing the latest energy-saving technologies and challenging management practices, the Guarantee provides strong rates of return on investment, slashes energy costs and helps demonstrate corporate social responsibility – all within a risk-free framework. Tenants can enter into the Guarantee at any point during their tenancy. For existing tenants, this might mean a 'tune-up' through the introduction of energy efficient devices. For new tenants, the Guarantee is introduced as an integral part of design and fitout.

To achieve this, Investa has teamed up with Energy Conservation Systems (ECS), one of Australia's leading energy solutions companies and a specialist in office lighting systems, to provide tenants access to proven products and expertise at competitive rates that reflect the scale of its portfolio. After conducting a review of an interested tenancy (either at design, or in operation), ECS provide a firm quote with a guaranteed cap on office energy bills and greenhouse gas emissions. Once the upgrade work is done, if energy consumption exceeds the guaranteed cap, the cost of any excess energy consumed is refunded and green power credits are purchased from a green power provider to deliver the reduction in greenhouse emissions. If a tenancy performs better than the Guarantee, the tenant keeps the savings! The energy-saving technologies delivered as part of the Guarantee can be financed in a number of ways. For example, in Melbourne tenants can access funding from the City of Melbourne's Sustainable Melbourne Fund and use savings to progressively acquire the equipment, and in NSW the State Government has made a grant available to subsidize projects delivered under the Guarantee. In many instances tenants elect to self-fund due to the appealing returns on investment.



Tenants representing more than 50,000m² of office space have taken up the Guarantee service since it was launched in late 2004. One of them was Investa's new 2,880m² head office at Deutsche Bank Place in Sydney. The new office incorporates highly efficient light fittings and the latest lighting control technology which all together cost an additional AU\$60,000 (approx. US\$ 56,000) up-front but was guaranteed to deliver a AU\$24,000 (approx. US\$ 22,500) per annum saving in energy bills compared to the initial design. After two years of operation the tenancy is performing more efficiently than projected and is saving in excess of AU\$30,000 (approx. US\$ 28,000) per annum. According to the New South Wales Department of Environment and Climate Change, in 2007/08 it was the most efficient NABERS Energy rated tenancy in NSW.

Any existing or prospective tenant in an Investa building that accepts the Investa Greenhouse Guarantee, can expect to receive:

- A NABERS Energy Commitment Rating certificate;
- A guaranteed cap on energy bills;
- A guaranteed cap on greenhouse emissions;
- Guaranteed NABERS Energy Performance Ratings;
- The highest quality energy-saving systems and equipment;
- Regular performance reports to assist in marketing to staff, clients and other key stakeholders; and
- Lower operating costs post guarantee.

Green Leasing

Every lease entered into by Investa could be described as a green lease because they all include a schedule of environmental objectives and clauses that require collaboration. One recent advance is the inclusion of clauses that overcome (tenant-landlord) split incentives in net leases by allowing the landlord to recoup capital investment in buildings from tenants where the tenant is the financial beneficiary, so long as the cost does not exceed the benefit. Investa does not require tenants to adopt green measures and does not discriminate between tenants on the basis of their sustainability commitment, or line of business. Rather their focus is on education. They rely on enlightened self-interest to motivate their staff and tenants. Their motivation can be summed up as follows:

“Investa believes there is a direct connection between the success of our tenants and our long-term investment returns.”

Tenant request data analyzed recently through the Investa Sustainability Institute supports this proposition. It appears that in some buildings the root cause of almost 50 percent of complaints recorded via Investa's independently operated tenant “helpdesk” can be traced to factors outside the landlord's (i.e. Investa's) direct control, in particular, tenant fitout, tenant supplementary air-conditioning and tenant equipment.

Investa meets with every tenant in every building every month. During these meetings Investa representatives discuss the performance of the building (and provide statistics), inform the tenants about new initiatives and get their feedback. There is also an Investa-employed property supervisor on site at all of its buildings full-time. Investa doesn't think the value of having a direct relationship with tenants at multiple levels can be overstated.

PRUPIM: Proving the worth of Green Leasing

Part of the M&G Group

PRUPIM

PRUPIM is a top 20 global real estate investment manager. It forms part of the M&G Group of Companies which is the asset management arm of Prudential plc in the UK and Europe.

Through its membership of the Better Building Partnership, PRUPIM worked with the Office of Government Commerce (OGC), a major occupier in the UK, to agree on a standard memorandum of understanding useful for guiding owner/occupier relations in reducing carbon emissions through better management of resources. PRUPIM is now engaged in encouraging other tenants in the buildings occupied by OGC to sign up to the MoU, extending use of the MoU to other, major managed office buildings in PRUPIM's management, and investigating whether the MoU can be extended into a Green Lease.

According to PRUPIM the major benefits of collaboration include:

- Better owner and occupier relations;
- More efficient management of resources (e.g., energy, water and re-cycling);
- Efficiencies that could potentially lead to lower service charges for occupiers;
- Improved building ratings (e.g., energy ratings and environmental certification);
- Strengthening PRUPIM's credentials as "Landlord of Choice"; and
- Maintaining and improving investment returns.

The potential benefits of owner/tenant collaboration have been demonstrated in four specific buildings:

Minster Court, London



An Environmental Performance Review was conducted for an occupier of Minster Court. A "Carbon Footprint" was identified from an analysis of:

- Building operations (including electricity, gas and water consumption);
- Waste disposal covering various waste streams (and identification of recycling percentages);
- Business travel;
- Use of couriers; and
- Materials use (covering office consumables such as paper).

Opportunities were identified for improvement to reduce environmental impacts in each of these areas. The analysis also enabled the occupier to establish a baseline of current performance and the capacity to measure improvements over time.

Atlantic Quay, Glasgow



Work to raise tenant awareness and increase recycling rates across the PRUPIM portfolio has resulted in a notable success story at Atlantic Quay, a mixed use complex offering over 28,000m² of high class office accommodation. The Facilities Management team, the cleaning contractors and the occupiers all agreed to adopt a single central recycling facility in favor of individual contracts previously held by tenants. The FM team coordinated the installation of facilities and maintained communication with occupiers throughout the transition and beyond. The result of this collaborative approach saw recycling rates increase from an impressive 40 per cent to an outstanding 70 per cent in one year and reduced costs for all those involved.

Green Park, Reading



A further project is the Ultra Challenge at Green Park, a major business park on the outskirts of Reading. The Facilities Management team requested tenants to switch off all non-essential equipment over the weekend, such as screens, printers and photocopiers. Electricity consumption was measured over a "control" weekend and the initiative weekend. In the initiative weekend,



one-third of tenants inspected switched-off all equipment, one-third switched off the majority of their equipment and one-third did nothing. Using meter readings, the initiative successfully reduced electricity of 39 per cent compared to the control weekend.

Hollywood House, Woking

With three lease renewals approaching PRUPIM took a different approach to the usual financial incentives to induce the tenants to renew. In this instance they agreed with two of the tenants to replace the obsolete building air conditioning system with a modern, more efficient alternative. This would potentially cut the tenant's energy costs by a quarter. On the basis that longer income streams were thus secured, the landlord saw a yield improvement by 0.5 per cent (after costs deducted).

Planet Building: CBRE helps modify behaviour to make a sustainable impact



CB Richard Ellis is the world's largest commercial real estate services firm (in terms of 2008 revenue). With more than 300 offices in 50 countries, they offer strategic advice and execution for property sales and leasing; corporate services; property, facilities and project management; mortgage banking; appraisal and valuation; development services; investment management; and research and consulting.



In 2007, CB Richard Ellis announced a commitment to achieve carbon neutrality by 2010 in its own business activities. Perhaps the most significant aspect of their commitment is in helping their clients achieve a greater degree of environmental sustainability. As the world's largest manager of commercial real estate responsible for over 200 million square metres of property worldwide, CBRE has an opportunity—some may even suggest, responsibility—to make a positive impact on the way buildings are operated and occupied. In the United States alone, they estimate that two per cent of the working population goes to work every

day in buildings managed by CB Richard Ellis. Given their size and the widely acknowledged negative environmental impact that commercial buildings present, their ability to introduce, implement, and promote building management practices that have lasting environmental benefits is unsurpassed. Perhaps even more important and far reaching may be their ability to affect occupant behaviour beyond the work environment. Based on the generally accepted principle that people behaving differently in one place will carry that behaviour into other areas of their lives, CBRE has the opportunity to influence the broader communities that their tenants inhabit. From this idea, Planet Building—a concept that demonstrates the interconnectedness of home and work environments—was born.

Planet Building provides the vision and framework that guides CBRE in implementing building management practices and policies. Concepts were first introduced through *101 Tips Toward a Greener Tomorrow*, a comprehensive guide designed to assist managers and engineers in establishing sustainable practices and policies in their office buildings. Subsequently, *101 Tips for the Office*, an occupant version directed at their tenant population, was created and made available to every tenant in each building they manage. They then developed the next in the series, *101 Tips for the Home*, as part of their participation in the World Wildlife Fund's (WWF) Earth Hour campaign in March of 2009. *101 Tips for the Home* was made available on both CBRE's and WWF's Web sites for public download. The popularity of these guides prompted the latest version, *101 Tips for Travel*, which was distributed during the summer of 2009. 101 Tips for the Office, Home and Travel are all aimed exclusively at building occupants, with Home

and Travel entirely focused on activities outside of the office. CBRE firmly believes that good behaviour anywhere can help improve the planet everywhere.

Also critical to engaging the building population are specific campaigns, which allow managers to keep the conversation fresh and relevant while reinforcing desired outcomes. Both Earth Day and the US Environmental Protection Agency's "Change the World, Start with ENERGY STAR"



programme provide these kinds of opportunities. The Change the World Campaign was especially successful, largely because it offered the opportunity for occupants to measure their impact. Through the generosity of CBRE clients, each occupant was given one compact fluorescent light (CFL) to replace at home. Over the past 18 months, CBRE has distributed nearly 30,000 CFLs to tenants and has garnered over 200,000 pledges to replace additional bulbs – the most for any corporate participant.

Effective communications are crucial in establishing and maintaining occupant engagement. CBRE has pursued various communication channels and approaches, including monthly building newsletters detailing the progress of sustainability

programmes and providing carbon reductions, kWh or water savings, and recycling statistics. Presenting the outcomes in a



fashion that allows occupants to see and understand their personal contributions helps encourage continued participation. Targeted communication programmes are also launched for each initiative of the building management team, ranging from reducing weekend building hours to daylight janitorial to recycling or water conservation. All communications programs are thematic, unified, and aimed at familiarizing occupants with the programme, helping them understand the concept and promoting individual participation. Every programme, whether it appeals to the masses or takes a more sophisticated business approach, delivers the message in a manner aligned with intended outcomes.

CBRE is constantly in search of new and innovative ways to take Planet Building outside the confines of the building structure. For the second year in a row, they partnered with a national landscaping company in 10 U.S. cities for Park(ing) Day, a global event that brings green spaces into the urban environment by transforming sections of street parking into public parks for the day. Originally initiated in San Francisco by REBAR, Park(ing) Day promotes the need for more



parks and open spaces. They have also taken their messaging into a local school district in the form of sustainability "superhero" characters developed as part of their communications programme. Working with at-risk middle school children, they created a contest to help them "Design the Next Superhero."

These are a few of the many things that CBRE and their dedicated sustainability team employ every day to help improve the performance of the buildings in their care. CBRE recognizes that the success of these efforts hinges on the support and active participation of their occupiers. But to be truly transformational, they use their voice to educate and motivate people to see beyond their leased space, beyond their office building and into their community. It is there that CBRE feels it can make the biggest impact, and that is its goal with Planet Building.

Kennedy Associates: Promoting responsible property investing through tenant engagement

KENNEDY ASSOCIATES
Real Estate Investment Advisors
A National Leader in Responsible Property Investing



Kennedy Associates Real Estate Counsel LP (Kennedy), a full-service registered investment advisor, brings more than 30 years of real estate investment expertise to a select number of public, corporate, and Taft-Hartley (labour union) retirement systems including the Multi-Employer Property Trust, as well as major university endowments. A U.S. leader in Responsible Property Investing (RPI), Kennedy has approximately US\$8 billion in commercial real estate assets under management, including US\$1 billion in Leadership in Energy and Environmental Design (“LEED”) certified properties, and greater than US\$1.5 billion in assets having received the ENERGY STAR label from the United States Environmental Protection Agency for exemplary performance.



Kennedy strongly believes that there are numerous benefits to landlord/tenant collaboration as it relates to RPI. Across the Kennedy portfolio, Kennedy’s asset managers and third-party property management and leasing teams promote tenant engagement through continuous and active dialogue, ongoing lease negotiations and communications for property operations, as well as through specific programmes and initiatives aimed at increasing the sustainability of the Kennedy portfolio on behalf of its clients.

Tenant Outreach: One successful example of active tenant outreach is the ongoing waste management programme at Pacific Place in Seattle, Washington. Pacific Place is a five-story, 300,000 square metre upscale shopping center in Seattle’s central business district. The “Erasing Waste at Pacific Place” project has three components: shopper awareness, tenant employee training, and installation of recycling containers. To make recycling easier for shoppers and tenants, recyclable material is

collected in public areas and stores, and organic material is collected at restaurants and coffee service areas. The programme has consistently diverted significant amounts of solid and food waste (almost 1,400 tonnes in 2008), while reducing the Pacific Place carbon footprint by an estimated 2,300 tonnes.

Other ongoing methods of tenant engagement include:

Green Lease: Since the start of 2009, Kennedy has been using a “green lease” which promotes sustainable property operations, by providing specific landlord and tenant recommendations and requirements for Class A office space. The lease, used as the starting point for all office lease negotiations, incorporates guidelines intended to promote energy and water efficiency, environmental reporting and disclosure, sound indoor environmental quality, and waste management and recycling, while protecting the asset’s environmental rating if applicable. Kennedy has also created specific lease language for its industrial portfolio to assist with its energy management activities and the acquisition of utility information from tenants with triple-net leases.

Sustainable Tenant Improvement Guide: In concert with the use of its green lease, Kennedy has partnered with BetterBricks, the commercial initiative of the Northwest Energy Efficiency Alliance, to create a Sustainable Tenant Improvement Guide for Class A office space. The guide provides various audiences (including tenants) with the technical framework needed to build-out sustainable space in areas such as energy and water, while also creating an environment that meets current tenant demands related to air quality through the use of recycled and low-emitting materials, day-lighting, and occupant temperature controls among others. The Guide will assist the growing number of tenants interested in pursuing LEED Commercial Interior certification, and ensure the tenant's occupancy supports the asset's ongoing sustainable property operations.

Energy Use Reduction Initiatives: In March 31 2009, Kennedy Associates was named ENERGY STAR Partner of the Year for its exemplary energy performance, monthly benchmarking and portfolio-wide reductions in greenhouse gas emissions. One very important component of the Partner of the Year Award is the external promotion of ENERGY STAR energy management best practices and programmes, such as the "Change a Light Campaign" to tenants, clients and the general marketplace. Every year, Kennedy's property teams use various outreach strategies, such as education materials, sustainable tenant events and monthly outreach e-mails and newsletters to improve tenant energy conservation awareness. A concrete by-product of this outreach has been multiple landlord-tenant lighting retrofit projects resulting in substantial reductions in energy use and corresponding operating expenses.

LEED for Existing Buildings: Operations & Maintenance: As the first institutional investment advisor in the U.S to achieve LEED Existing Building Operations & Maintenance (EB O&M) programme volume pre-certification, Kennedy is utilizing its LEED EB O&M program to strengthen tenant engagement which will assist in achieving building certification for over 5.5 million square metres of office space. Through its LEED EB O&M programme, Kennedy has standardized sustainable practices and implemented corresponding training and education which aid in tenant engagement, while reducing operating expenses and promoting a healthy indoor environment for building occupants.



Tenant Satisfaction: Finally, Kennedy employs the ongoing use of a proprietary tenant survey to assess tenants' satisfaction related to its RPI efforts and sustainable property operations. From the survey results, Kennedy is able to discern what areas tenants are most concerned about. Selected RPI highlights from the most recent tenant survey include:

- 54 per cent of multi-family tenants indicated their community's "green" features were important factors influencing their housing selection.
- 87 per cent of office tenants and 75 per cent of industrial tenants indicated that implementing an indoor air quality programme at their building was important to them.
- 85 per cent of office tenants and 67 per cent of industrial tenants stated that implementing a recycling programme at their property was important.
- 84 per cent of office tenants and 79 per cent of industrial tenants responded it was important for their building to utilize energy efficiency practices.

Summary and conclusion

This report has described eight examples of owner-tenant collaboration activities by some of the world's leading property investors. All of them are finding special ways to work with tenants to improve the social or environmental performance of buildings:

Land Securities, the largest real estate investment trust in the UK, uses a Sustainable Leasing MOU with existing tenants. They offer free energy audits and other services to tenants willing to join the agreement which provides for collaborative efforts to improve the environmental performance of the building and premises.

GPT, a large listed Australian property group, uses a variety of techniques to engage with its tenants. Most notably, it requires retail tenants to sign a “green lease” and use an “ecological footprint calculator” which help them move toward reducing their environmental impacts.

Hermes, one of the UK's largest real estate managers, has also added green lease clauses to its standard lease, stating the obligations of both parties toward sustainability. It has conducted a comprehensive occupier survey, offered to share energy consumption and other data with tenants, and is working with several tenants on “joint carbon programmes” to deliver carbon reduction targets.

bcIMC, one of the largest institutional investors in Canada, worked directly with a tenant planning to occupy a new office project on ways to incorporate better environmental features into the building. The effort produced an agreement to contribute equally to a menu of sustainable building elements.

Investa, one of the largest unlisted commercial real estate owners in Australia, offers a number of innovative initiatives to promote owner-tenant cooperation including EcoSpace, a greener offering for newly refurbished office space, a Green Lease Guide that helps new tenants select green options for their tenancy, and the Greenhouse Guarantee that gives tenants a risk-free and cost-effective way to lower their energy consumption.

PRUPIM, another leading investor in the UK and worldwide, also uses a Memorandum of Understanding between itself and major occupiers to guide carbon reduction efforts.

CB Richard Ellis, the world's largest commercial real estate services firm, through their Planet Building programme, offers tips on sustainability practices that can be implemented by their tenants, free light bulbs, and special communications devices targeted to property occupants.

Kennedy Real Estate Council, a US leader in responsible property investing, reaches out to its shopping center tenants to promote recycling, uses green leases in its office and industrial portfolios, offers a sustainable tenant improvement guide, promotes energy conservation through outreach activities, involves tenants in achieving LEED certification for existing building operations and maintenance, and uses ongoing surveys to assess tenant satisfaction with its RPI programs and activities.

All of these examples demonstrate how real estate firms can work with both new and existing tenants to move toward greater cooperation in responsible property investing. Clearly, these efforts take considerable commitment and effort on both sides, but just as clearly, they can produce very significant business and sustainability benefits, which make them worth pursuing. More fundamental, however, is that it seems impossible for a fully successful programme of sustainable and responsible property investing to succeed without initiatives like these in owner-tenant cooperation.

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UNEP FI Property Working Group

The aim of the UNEP FI Property Working Group is to encourage property investment and management practices that achieve the best possible environmental, social and financial results. The members of the group are:

AVIVA Investors (UK)
AXA Real Estate Investment Managers (France)
British Columbia Investment Management Corporation (Canada)
Caisse des Dépôts (France), co-chair
CalPERS (USA)
Colonial First State (Australia)
La Compagnie Benjamin de Rothschild S.A. (Switzerland)
F&C REIT Asset Management (UK)
Hermes Real Estate (UK)
Infrastructure Leasing & Financial Services (India)
Investa Property Group (Australia)
Kennedy Associates (USA)
Mitsubishi UFJ Trust and Banking Corporation (Japan)
Mn Services (NL)
PRUPIM (UK), co-chair
RiskMetrics (USA)
Sumitomo Trust & Banking Corporation, Ltd. (Japan)
UBS (Switzerland)
WestLB AG (Germany)

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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.

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