IIGCC
Institutional Investors Group on Climate Change

CLIMATE IMPACT REPORTING FOR PROPERTY INVESTMENT PORTFOLIOS:

A GUIDE FOR PENSION FUNDS AND THEIR TRUSTEES AND FUND MANAGERS

About IIGCC

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. The group's objective is to catalyse greater investment in a low carbon economy by bringing investors together to use their collective influence with companies, policymakers and investors. The group currently has around 60 members, including some of the largest pension funds and asset managers in Europe, and represents assets exceeding €5trillion. Contact: spfeifer@theclimategroup.org. Web: www.iigcc.org

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Executive Summary

Concern over climate change is encouraging ever more demanding legislation and regulation for landlords and occupiers of commercial buildings. In addition, rising energy prices are increasing occupation costs and the physical impacts of climate change pose substantial longer term risks to future property values.

Given these and other trends, the belief is growing that, over time, more environmentally conscious buildings will experience higher net income growth and be view as lower risk and thereby deliver higher returns. If environmental issues are set to affect the current and future value and performance of property assets, then the environmental performance of property assets must be seen as a fiduciary as well as a social responsibility for pension funds.

As such, pension fund trustees need to consider the degree to which carbon emissions and the other environmental impacts of their property assets are being adequately managed and reduced by their fund managers.

To adequately assess how the climate change related risks and opportunities for their property portfolios are being approached, pension funds should seek information on their property fund manager's strategies for reducing greenhouse gas emissions. They should also require to be provided with quantitative and qualitative information on the nature of portfolio CO_2 emissions, sustainability measures employed, and measures in place to achieve carbon reduction.

Consequently, to assist their pension fund clients, property fund managers should be prepared to:

- disclose information that will allow trustees to assess the likely impact of climate change policy on prospective portfolio returns; and
- describe the portfolio-wide actions they are taking to reduce the CO_2 emissions in the portfolios they manage, e.g. introducing energy, water and waste management plans, cleaner technologies, green leases, partnerships with property and facility managers, tenants and suppliers to deliver their aims.

However, faced with a potentially bewildering array of environmental standards, labelling schemes and measurement frameworks, many pension funds need assistance on the type of questions they should ask and how to interpret any information provided. Therefore, information provided to pension funds should be in the form of simple, meaningful metrics that are cheap and practical to gather across all properties.

This will need to be done with caution in the early years but, as the quality and level of data improves, it should become easier for pension funds and their trustees to evaluate a property fund manager's absolute and relative performance with respect to managing the environmental impacts of their portfolios.

Pension funds and their trustees should feel able to ask for information as it relates to the different types of property in their portfolio, concerning:

i. **Energy usage and energy efficiency:** The level of carbon dioxide emissions is a key metric relating to the environmental performance of a building. It could easily become a basis for future local and national property taxation systems and national and regional carbon trading schemes such as the recently introduced Carbon Reduction Commitment Energy Efficiency Scheme (CRC) in the UK.

ii. **Water usage and efficiency:** If tenants have to pay more for, or are at risk of being left without, water resources, the attraction of a relatively water inefficient building will be diminished. If a property can provide some of its own water needs, it can keep costs lower and be a lower risk.

iii. **Waste production and recycling:** If the costs of waste, such as taking materials to landfill, are high and likely to rise, then a property with a good waste recycling and management system should experience fewer deductions from net income flow.

iv. **Accessibility:** If the cost of travel by petrol and diesel powered vehicles is set to rise, out of town occupiers might need to offer higher wages to compensate. In turn, they may seek offsetting financial impacts in the form of lower rents. Proximity to or availability of public transport or site-related travel plans, and/ or the existence of facilities for bicycle users, should help alleviate these issues and improve asset value.

v. **Situational risks:** If a property is at risk from flood or coastal erosion, it could grossly affect the value of an asset, particularly if the risk becomes so great that insurance cover is withdrawn. Such circumstances would re-position the cost of subsequent remedial action back onto the fund or owners and result in a potentially dramatic reduction in asset value.

vi. **Land consumption:** It is important to understand what the balance in the fund has been between new development and asset refurbishments. When development or refurbishment is required, it is clear that it would have less of an environmental impact if the materials are sourced locally.

vii. **Tenant and supplier engagement:** The property fund manager has both the ability and the responsibility to engage with other key stakeholders in the fund and its properties, with respect to their environmental performance and credentials.

1 Introduction

This reporting guide is a follow up to a previous IIGCC Property Workstream Publication entitled *'A Changing Climate for Property Investment: A Trustee's Guide'* (IIGCC, 2008, see www.iigcc.org). It is aimed at providing concerned property investors and consultants with guidance on the strategies and data that they can ask their property fund managers to report upon so as to demonstrate how they are managing climate risks and opportunities in listed and unlisted real estate portfolios. Relating to this, it provides property fund managers with guidance on what they should report to existing or potential pension fund clients and consultants on how they manage climate risks and opportunities in the portfolios under their stewardship.

Given the complexities of properties as investments, and given the already manifold varieties of disclosure mechanisms being talked about in the sector, the aim of this document is not to recommend a new and distinct reporting framework, but rather to provide pension fund trustees and their managers with a general guide to the issues.

1.1 Climate change as a strategic issue for property investors and fund managers

Commercial property is a key part of both the problem of, and the solution to, growing carbon dioxide emissions and their mitigation.

The United Nations Environment Programme Finance Initiative, Sustainable Construction and Buildings Initiative (UNEP SBCI, 2006) has suggested that the 'built environment', through its construction and use, accounts for 40% of both global energy use and carbon dioxide emissions, 30% of raw materials usage and 20% of water usage. Commercial property represents just under half of these totals.

Meanwhile, the Intergovernmental Panel on Climate Change (IPCC, 2007) has identified buildings as having the greatest potential for carbon mitigation at lowest cost, at any given cost per ton of carbon dioxide and every level of economic and national development.

Climate change is encouraging ever more demanding legislation and regulation for both landlords and occupiers of buildings. In addition, rising energy prices are increasing occupation costs and the physical and geographic impacts of climate change pose substantial risks to future asset values. Not surprisingly, in this environment, occupier and investor preferences, as to what they rent and own, are changing. As described in Table 1, the expectation is growing that, over time, more environmentally conscious buildings will experience higher net income growth (through lower depreciation and lower operational costs), be seen as less risky and, as a result, deliver higher returns.

Table 1 The investment implications of increasing interest in environmental issues

If…	Investment implications	Underlying effects on 'green' assets
Tenants prefer to occupy green buildings	Rental differentials should emerge between green and non-green buildings	Either rental growth higher or asset depreciation lower
Tenants prefer to occupy green buildings	Green assets re-let more quickly	Shorter interruptions to cash-flow should attract lower risk premium
Green buildings are cheaper to run	More tenant money is available for rent	Rental growth should be higher for 'green' buildings
Impending government regulation and legislation	Greener assets become de-risked because they are more attractive to and retain tenants better	Risk premium is lower than for 'brown' buildings
Investors prefer 'green' buildings	Green properties prove quicker to transact	Green properties are more liquid and should, therefore, attract a lower risk premium

Although empirical evidence remains scarce, the scenarios shown in Table 1 suggest that more environmentally equipped property assets should increasingly be valued higher than their more rapidly depreciating, riskier, 'brown' competitors. Clearly, the more these issues matter to tenants and investors, the greater this differential in value and prospective performance will be. Add to this the potential impact of governmental action to enforce improvements in the environmental standards of buildings, and the potential impact on asset performance between 'green' and 'brown' buildings could be even more marked.

Once we see how environmental issues are affecting current and future asset values and performance, we can readily identify the environmental performance of property assets as both a fiduciary as well as a social responsibility for pension funds.

Therefore, from pension fund trustees' perspective, some of the key questions they need to consider in this regard include:

- Is my property portfolio well-placed to produce competitive returns in the face of more stringent government regulation and changing market attitudes towards climate change and wider sustainability issues?
- To what degree are the carbon emissions and other environmental impacts of my property portfolio being managed and reduced by my property fund manager?

This guide provides advice on how pension funds, their trustees and consultants and their property fund managers can best gain answers to such questions, and what data they should collect to assess the environmental performance of their property fund managers. It should also provide property fund managers with a parallel insight into what data they might plan to provide to their clients to demonstrate what they are doing to assess and manage the risks and opportunities for their portfolios arising as a result of climate change, climate policy and other related environmental issues.

1.2 Inadequate communication on property investment portfolios

Despite its complexities, the commercial property industry has actively been pursuing issues of environmental performance measurement for more than a decade. Indeed, if anything, there is now a growing issue of an 'over-proliferation' of environmental standards, labelling schemes and measures, which the property industry is now having to address.

However, in common with most of the thinking about environmental issues and commercial property, the focus on measuring and labelling environmental performance has been disproportionately focused on new construction. While such work is clearly of value, it misses a very major point, namely, that new development adds only two percent to the existing property stock each year in mature property markets like those in Western Europe. As such, even now, the environmental condition of the vast majority of the existing built stock remains unmeasured. This suggests that much of the potential impact of environmental quality of buildings on investment performance remains unexplored.

Over and above the potential for confusion about the multiplicity of measurement and labelling schemes, other factors that make it difficult for pension funds and their trustees to assess property fund managers' performance with respect to climate change and other environmental risks, include:

- the collection of relevant environmental data not yet being widespread or standardised amongst property fund managers;
- the level of knowledge about appropriate metrics remaining low amongst some property fund managers and many pension funds – pension funds are unsure about what to ask for or how best to interpret what they are given; and
- the value of some metrics being still under question.

1.3 Facilitating communication and analysis

Through this publication, the Institutional Investors Group on Climate Change (IIGCC) is attempting to provide a simple guide on what environmental data pension funds should ask for from those fund managers who manage the property investment funds and vehicles into which they invest. By association, it is hoped that the advice contained in this guide will also help pension funds and their trustees better assess the potential environmental and investment performance of their direct property portfolios and the listed and unlisted securitised entities into which they invest. From the plethora of available metrics which now exist, this guide provides a selection of metrics that should enable pension funds to better understand how their property fund managers are performing.

We have already noted that the empirical evidence to measure the links between environmental and investment performance is scarce and, in truth, will take time to emerge and be treated as robust. However, this should not deter pension funds and their trustees from asking for information. First, until such questions are asked, there will be little incentive for data to be provided and, second, the very act of asking for information will actively convey to property fund managers that pension funds believe these issues to be important. Asset owners like pension funds can prove a powerful influence on how property fund managers measure and report their performance.

2 What information do pension funds and their trustees require?

To adequately assess the climate change related risks and opportunities faced by commercial property investors and their portfolios, pension funds and other investors require two distinct types of regular information, namely:

a. An overview of strategy

Pension funds will increasingly expect their property fund managers, either as a 'house' or as a manager of their fund, to have a strategy for reducing the greenhouse gas emissions from their property investment portfolios and take other 'sustainable' actions. We set out in Section 2.1 the types of issues which property fund managers might be expected to address when providing such an overview.

b. A report on relevant information

Property fund managers are also likely to be asked to supplement their statements of strategy with the provision of quantitative and qualitative information on the nature of their portfolio (e.g. the mix of types and locations of properties) related CO_2 emissions and other sustainability measures, and their implementation of carbon reduction measures.

2.1 Reporting on climate change strategy

Given its strategic implications for pension funds and other investors, it is essential that their fund managers inform them as to how climate change and other environmental issues are likely to impact their investment portfolios in the foreseeable future. Specifically, property fund managers should organise themselves to disclose the following:

2.1.1 Assessment of the likely implications of climate change policy on prospective portfolio returns

Property fund managers should discuss the financial and strategic implications of current and planned national, regional, and international policies for reducing CO_2 emissions, for the property market in general and their client's fund in particular. This should include how these policies could affect portfolio structure through revised acquisition and disposal programmes as well as how asset and property management strategies will be adjusted to take account of these policy changes.

Specifically, property fund managers should disclose their views on how emerging climate change policy could impact them in terms of the value and prospective performance of their property investments. Property fund managers might also identify how other related environmental policies, such as regulations and standards relating to air quality, costs of travel and the energy efficiency of buildings could further impact their own businesses.

2.1.2 Strategy and targets for reducing emissions from commercial properties

Property fund managers should describe the portfolio-wide actions they are taking to reduce the CO_2 emissions of properties in the portfolios they manage. These may include, but are not limited to:

- their introduction of energy, water and waste management plans;

- their introduction of new, cleaner, technologies (e.g. photovoltaic panels, wind power, biomass systems);
- their use of new forms of leasing structure (e.g. green leases, memoranda of understanding, etc);
- the partnerships they are forming with property and facility managers, tenants and suppliers to deliver their aims; and
- their involvement in industry initiatives and collaborations to develop a wider understanding of these issues.

Where appropriate, property fund managers should clearly disclose any aspirations they have for CO_2 emissions reduction and what means they are intending to deploy to achieve them.

2.2 Reporting of relevant information

This section reviews the types of information that pension funds might expect their property fund managers to provide them with. We should be clear from the outset that, in the same way that property itself is a complex, multi-faceted asset, so are property environmental metrics. For example, metrics need to be able to compare the environmental impact of an energy inefficient office building near a public transport node with that of a low carbon 'green' building on an out-of-town business park, accessible only by car. There is also a question about whether it is the environmental credentials of the building, its owner, its occupier or the whole set together that is being measured. Add to this the complexities of whether to use the whole (gross) or just the occupied (net) square footage of a building, and many other issues besides, and property environmental metrics quickly becomes a specialist, technical, area.

Given this complexity, we believe there is a need to be pragmatic. We need metrics that are simple but meaningful, and cheap and practical enough to be gathered on every property in the portfolio. If such metrics can be found, pension funds and others should be able to assemble the information to assess both the absolute and relative performance of their property fund managers at any given point in time, and over time. This will need to be done with caution in the early years but, as the quality and level of data improves, it should become easier to evaluate a property fund manager's strategy and actions with respect to the environment.

Whilst there might be a growing number of environmental measurement frameworks and labelling systems now emerging in the property industry, in general (but not exhaustively) the areas they cover are relatively common and are listed in Table 2.

Table 2 Common areas for 'sustainability' reporting and labelling frameworks

General area	Typical sub-areas
Energy usage	Electricity used; gas used; other fuels used
Energy management and generation	Existence of energy management systems; the sources of energy used; the presence of on-site energy generation
Carbon dioxide emissions	
Water usage	Existence of water management systems; the presence of on-site water harvesting
Other materials usage	Consumption of relevant materials; location of materials sourced
Waste production and recycling	Level of waste generated; proportion of waste recycled; existence of waste management systems
Land consumption	Re-used or virgin land
Biodiversity	Presence and number of animal and plant species
Property accessibility	Proximity to public transport systems and nodes; dependence on petrol/diesel powered vehicles; cycling-related facilities
Property situational risks	Flood risk; coastal erosion risk

We recognise that the areas listed in Table 2 are very much focused on environmental issues and would advise that other metrics are emerging that consider the links between properties and the local communities in which they are located. We do not consider such metrics in this guide.

In the following section, we make some recommendations on the information that pension funds should request from their property fund managers. Given the growing proliferation of metrics, we have deliberately not sought to identify new metrics but, rather, have adopted the excellent work of the UK Green Property Alliance (2010) which has been actively engaged in identifying simple metrics to act as a common denominator for property environmental metrics.

Given that different types of property might experience different environmental challenges, pension funds and their trustees could ask for the sort of information listed below as it relates to the different property types invested in. Such disaggregation could throw further light on the aggregated environmental performance figures. In this regard, the main property types are those listed in Table 3. If there is a desire to monitor fund manager progress, there might also be a desire to compare this year's results with last year's.

Table 3 Main land use types for more disaggregated data requests

Land use types	Last Year	This Year
Shopping centres		
Retail warehouses		
Leisure parks		
High street shop units/ parades		
Town centre offices		
Out of town offices/ business parks		
Distribution warehouses		
Industrial units/parks		
'Other property types'		

For the biggest and most geographically dispersed portfolios, there may be a requirement to ask for this environmental information to be further broken down by national or continental 'regional' level. Similarly, once a data request has been established between a pension fund and its property fund manager, there might also be a desire to compare this year's performance with that of the previous year (or years).

In what follows, we have sought to identify the investment logic behind collecting such environmental information. We appreciate that it remains hard to assess the financial impact of these variables currently, but the more information that exists, the more possible it becomes to do so.

2.2.1 Energy usage, energy efficiency and carbon dioxide emissions

Investment Logic: We might expect the cost of energy to rise above the rate of inflation as oil and gas prices rise. This increase in the 'cost of carbon' is likely to be passed on to consumers, including property owners and occupiers. If we accept that property occupiers or tenants can afford a given level of accommodation costs, then tenants in energy inefficient properties should, in general, have less available to pay in rent for the property. Hence, knowing about the energy efficiency of properties in a portfolio might help either explain the current rental levels achieved by properties and/or their future rental growth prospects.

Energy usage	Electricity used – Kilowatt hours per square metre of net lettable space (or per occupant) over the course of a year; Gas used – Kilowatt hours per square metre of net lettable space (or per occupant) over the course of a year; What percentage of energy purchased for the portfolio is from renewable sources?
Energy management and generation	What percentage of floorspace in the portfolio is subject to an energy management system? What percentage of energy used in the portfolio is obtained from renewable sources? What percentage of properties in the portfolio has energy generation facilities on site?

2.2.2 Carbon dioxide emissions

Investment Logic: This is a key variable relating to the environmental performance of a building. It could also become a basis for future local and national property taxation systems and national and regional carbon trading schemes such as the recently introduced Carbon Reduction Commitment Energy Efficiency Scheme (CRC) in the UK.

Carbon dioxide emissions	Kilograms of carbon dioxide emitted per square metre net lettable space (or per occupant) over the course of a year
Carbon dioxide emissions saved	Kilograms of carbon dioxide emitted per square metre net lettable space (or per occupant) over the course of a year

Note: With respect to carbon trading schemes, it is important that pension funds in the UK ask their property fund managers about the financial implications of the CRC with respect to their property portfolios and how asset selection and asset management initiatives going forward are likely to affect the fund in this regard.

2.2.3 Water usage and efficiency

Investment Logic: In an environment of hotter drier summers, increasing attention is likely to be paid to the availability and cost of water. Again, as with energy usage and efficiency, if tenants have to pay more for, or are at risk of being left without, water resources, the attraction of a relatively water inefficient building will be diminished. If a property can provide some of its own water needs, it can keep costs lower and be a lower risk.

Water used	Cubic metres of water per net lettable space (or per occupant) over the course of a year
Water usage saved	Cubic metres of water per net lettable space (or per occupant) over the course of a year
Water management and harvesting	What percentage of properties in the portfolio has a water management system? What percentage of properties in the portfolio has on-site water harvesting present?

2.2.4 Waste production and waste recycling

Investment Logic: By definition, waste represents the inefficient use of resources and the carbon related to their production and transport. If a property is operated in a way that generates less waste, this probably means it is being run more efficiently. Also, if the costs of waste, such as taking materials to landfill, are high and likely to rise further, then a property with a good waste recycling and management system should experience fewer deductions from net income flow.

Waste production	Tonnes of waste generated per square metre of net lettable space (or per occupant) over the course of a year
Waste recycling	Tonnes of waste recycled per square metre of net lettable space (or per occupant) over the course of a year as a proportion of total waste produced
Waste management	What percentage of properties in the portfolio has a waste management system on site?

2.2.5 Property accessibility

Investment Logic: If, as a result of policies oriented to cutting both environmental and economic impact, the cost of travel by petrol and diesel powered vehicles is set to rise, then the 'friction' of travel will rise and properties more distant from public transport will need to subsidise these extra costs. Out of town office occupiers might have to pay higher wages (and commensurately lower rents) to maintain staff; out of town shops might similarly have to pay higher wages and offer goods at lower price (and, therefore, only be able to pay lower rents off thinner operating margins). Hence, proximity to or availability of public transport or site-related travel plans, and/ or the existence of facilities for bicycle users, should help alleviate these issues and improve asset value.

Property accessibility	What is the average distance in kilometres of properties in the portfolio from a public transport facility? What percentage of assets in the portfolio has cycling-related facilities? What percentage of assets in the portfolio has an associated 'green travel plan'?

2.2.6 Property situational risks

Investment Logic: Clearly, if a property is at risk from flood or coastal erosion, it could grossly affect the value of an asset. This effect is dramatically increased if the risk becomes so likely that insurance cover is withdrawn. Such circumstances would then push the cost of any subsequent remedial action back onto the fund or owners and result in a compensatory and potentially dramatic reduction in asset value.

Albeit increased by the effects of climate change, these sorts of situational risks have long been known and understood by property professionals and are a longstanding part of the due diligence and risk management carried out by managers. However, the comfort gained from being able to transfer or share risk through insurance schemes, is diminishing and the likelihood of loss is increasing.

Property situational risks	What percentage of the assets in the portfolio is located in a "1 in 100 year flood risk or worse" area? Do you have a policy on flood risk and flood risk assessment for property assets?

2.2.7 Land consumption

Investment Logic: Compact cities, where land uses are carefully juxtaposed to reduce or obviate the need for unnecessary travel are considered important for reducing CO_2 emissions. Similarly, at a smaller scale, property development should be seen as a major 'carbon event'. Hence, the ability to adapt or re-use existing structures for the same or a different economic activity is considered highly desirable from a climate change perspective. Clearly, we need to recognise there are times when development activity is both economic and necessary to create, regenerate or reposition assets in a property investment portfolio. However, when seeking to understand the environmental credentials of the property fund manager it is important to understand the extent to which virgin land is being taken up for new developments and what the balance has been between new development and asset refurbishments.

When development or refurbishment is required, it is clear that it would have less of an environmental impact if the materials are sourced locally. Hence, the fund manager should be questioned on this.

Land consumption	In how many cases was a decision taken to redevelop a building in the portfolio rather than refurbish it? In each case, please present the economic rationale for doing so.
Development and refurbishment materials	What proportion of materials used in the development and refurbishment process has been sourced from locations within 100 kilometres of the asset in which they were used?

2.2.8 Tenant and supplier engagement

Investment Logic: The property fund manager has both the ability and the responsibility to engage with other key stakeholders in the fund and its properties, with respect to their environmental performance and credentials. It is reasonable for a pension fund to expect its property fund manager to be using its influence to generate desirable behaviours from other agencies linked with the management and impact of the property portfolio.

Tenant engagement	Describe your plan for engaging with tenants of properties in the portfolio to identify means to reduce the overall environmental impact of the properties in the portfolio. What proportion of the leases in your portfolio is subject to a 'green lease' or related Memorandum of Understanding?
Supplier engagement	Describe how you evaluate the environmental credentials of the suppliers of other goods and services to the fund. What proportion of service contracts with suppliers makes reference to their needing to demonstrate best environmental practice with respect to their operations on behalf of the fund?

2.3 Existing labelling and reporting regimes

Readers should also be aware that there are some established building labelling schemes that assemble similar metrics to those listed in section 2.2 as a means to describing or classifying commercial properties with respect to their environmental credentials. Some of these schemes are government driven; others have been developed and promoted by environmental organisations. A description of several well known labelling schemes is given in Appendix B.

Albeit, at first glance, these labelling schemes might appear a good starting point for investigating a property fund manager's approach to climate change, some schemes have been subject to criticism from technical experts. As such, we would advise pension funds and their trustees to gather information on the extent of these labelling accreditations on their properties alongside, rather than instead of, the metrics presented earlier in this guide.

In this respect, pension funds and their trustees could ask their managers one or all of the questions listed below.

Accreditation by labelling schemes	What percentage of properties in each sector of the portfolio is Energy Performance Certificate (EPC) rated, and what was the average grade achieved in each of the main land sectors? *(and/or)* What percentage of properties in each sector of the portfolio is Display Energy Certificate (DEC) rated, and what was the average grade achieved in each of the main land sectors? *(and/or)* What percentage of properties in each sector of the portfolio is deemed 'sustainable' under the IPD Sustainability Property Index (ISPI) rating scheme in each of the main sectors? *(and/or)* What percentage of properties in each sector of the portfolio is Building Research Establishment Environmental Assessment Method (BREEAM) or BREEAM in Use* rated, and what was the average ranking achieved in each of the main sectors?

*For non-UK properties, the prevailing labelling regime should be referenced by the property fund manager. For example BREEAM might be replaced by LEED in North America, Green Star in Australia, HQE in France, CASBEE in Japan, etc.)

3 Conclusion

Property is a key part of both the problem of, and the solution to carbon emissions growth. The IIGCC Property Workstream firmly believes that, as owners of sizeable property portfolios assets, pension funds and their trustees can play an important part in ensuring that the commercial property sector and those who operate in it make their proper (and extensive) contribution to reducing carbon emissions.

One way in which they can assist in driving this forward is through demanding relevant information on the environmental impacts of their property portfolios and impressing upon their fund managers the need to use all forms of no, low and economic cost measures to drive them down. In so doing, they should focus on the environmental performance of the existing stock and not be drawn into focussing solely on new developments.

It would be of further, if somewhat vicarious, assistance if pension funds and their trustees were to ask for this information in some form of recognised standard format. By so doing, pressure can be exerted on property fund managers to proactively consider how to organise and report their information.

In this guide we have identified a range of straightforward and common sense metrics, in particular recommending those recently suggested by the UK Green Property Alliance (UKGPA). The proliferation of metrics, standards and labels is almost now at a point where it is becoming a barrier to progress in the fight against carbon emissions. We believe that pension funds should use their influence to push the multiple providers of environmental metrics to work more closely together and better ensure mutual compatibility. If this can be achieved, environmental performance measurement practices could evolve to sit alongside existing investment performance analysis. At this point, as with investment performance metrics, they could be used to compare the environmental performance of different fund managers and, who knows, perhaps even play a part in manager selection.

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Appendix A

Further information on property environmental measurement

Frameworks and regimes

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Appendix B

Main building labelling schemes

For information, we describe below some of the main labelling schemes about which pension funds and their trustees could request information.

In the UK and increasingly across Europe, the most commonly seen non-governmental labelling scheme for buildings is the Building Research Establishment Environmental Assessment Method (BREEAM). Historically, a rating system for new developments that graded new developments across 5 levels from 'Pass' to Outstanding', BREEAM is now being developed for already existing buildings (the so-called BREEAM in Use) and, as such, will become available on increasing numbers of properties. In a few years time, if this became the standard that the Building Research Establishment wants it to become, this would be a natural 'proxy' measure that pension funds and the wider property industry could obtain consolidated information on in a reasonably easy way. To this end, pension funds could urge their property fund managers to establish BREEAM in Use ratings on properties across their portfolios.

More recently, the property investment performance measurement company, Investment Property Databank (IPD), has launched the IPD Sustainable Property Index (ISPI). The reason for this was to identify 'sustainable buildings' as a 'meta-portfolio' in the IPD database and then compare the performance of that portfolio of sustainable buildings against that of the overall IPD index, to assess whether superior performance was emerging for 'greener' properties. As such, being in the ISPI is one definition of a property being considered sustainable. This would allow pension funds to ask how many of the properties in their funds are in the ISPI and are, therefore, deemed sustainable. Pension fund questioning of this type would certainly bolster ISPI as an industry tool and assist in the establishment of links between environment and investment performance. There is potential for the number of properties covered by ISPI to grow as fund managers supply more data.

JLL Upstream also has an environmental measurement service for certain types of properties, like shopping centres. Pension funds could ask whether there are any of the properties they are invested in, directly or indirectly, and how they compare with the universe of properties on the JLL Upstream database. The number of properties on this performance scheme is growing but remains small.

A government labelling scheme relating to energy efficiency is the Energy Performance Certificate (EPC). Buildings above a given threshold, when sold or let, are required to provide the forthcoming tenant or purchaser with an EPC, which also contains a statement of works that can be carried out to improve energy efficiency. So, EPCs describe the energy efficiency potential of a building. However, an accompanying label, the Display Energy Certificate (DEC), describes how efficiently a building is actually being run. As such, there is a general feeling that DECs are a superior measure for pension funds to gather information upon – but they are less prevalent than EPCs. Over time, as major buildings are re-let or transacted, the availability of EPC ratings will grow – but they are currently partial in both relating only to energy efficiency and only to the sub-set of properties that has been transacted.

IIGCC membership, July 2010

Alfred Berg	HSBC Investments
Amundi	Hudson Clean Energy
APG Asset Management	Impax Asset Management
ATP	Insight Investment
Aviva Investors	Invicta Capital
Baptist Union of Great Britain	Joseph Rowntree Charitable Trust
BBC Pension Trust	Kent County Council Pension Fund
Bedfordshire Pension Fund	London Borough of Hounslow Pension Fund
BlackRock	London Borough of Islington Pension Fund
BMS World Mission	London Borough of Newham Pension Fund
BNP Paribas Investment Partners	London Pensions Fund Authority
BTPS	Merseyside Pension Fund
CB Richard Ellis Investors	Northern Trust
CCLA Investment Management	Osmosis Investment Management
Central Finance Board of the Methodist Church	PGGM Investments
Church Commissioners for England	PKA
Climate Change Capital	PRUPIM
Co-operative Asset Management	Robeco
Corporation of London Pension Fund	Schroders
Earth Capital Partners	South Yorkshire Pensions Authority
Environment Agency Pension Fund	The Church in Wales
Environmental Technologies Fund	The Church of England Pensions Board
Ethos Foundation	The Roman Catholic Diocese of Plymouth
F&C Management Ltd	The Roman Catholic Diocese of Portsmouth
Generation Investment Management LLP	The Roman Catholic Diocese of Salford
Good Energies	United Reformed Church
Greater Manchester Pension Fund	Universities Superannuation Scheme
Grosvenor Fund Management	West Midlands Metropolitan Authorities Pension Fund
Henderson Global Investors	West Yorkshire Pension Fund
Hermes	William Leech Charitable Trust
HgCapital	

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