



# Committing and Engaging

First in a Series of Toolkits on Responsible Property Investing



## Responsible Property Investing Center

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# Introduction

The purpose of this toolkit is to provide guidance for interested investors and property fund and asset managers on how to commit to Responsible Property Investing (RPI) as an investment strategy, how to put into place governance and management structures that integrate RPI into corporate culture and practice and how to engage with other stakeholders in developing the field.

It is the first in a series of toolkits to be published by the United Nations Environment Programme Finance Initiative Property Working Group, in conjunction with the Responsible Property Investing Center, to support the development of RPI.

This brief toolkit is drawn from the experiences of various investors who have chosen to make RPI central to their business practice. We hope that the toolkit will help investors who are interested in RPI to develop the systems and processes to translate that interest into tangible results.

In what follows we highlight a number of steps to help investors identify how their institutions can make a commitment to RPI. The toolkit is not meant to be prescriptive. We firmly believe that the successful implementation of RPI depends on the adoption of principles appropriate to the specific circumstances of each investment company.

## Engaging and Committing



# I. Relating and defining RPI for your organization

A key first step in making an organizational commitment to RPI is defining what that term means for your company.

The UNEP FI Property Working Group defines RPI as:

*“an approach to property investing that recognizes environmental, social and governance considerations along with more conventional financial objectives. It goes beyond minimum legal requirements, to improving the environmental or social performance of property, through strategies such as urban revitalization, or the conservation of natural resources. RPI can be implemented throughout the property life cycle, through the following examples:*

- *Developing or acquiring properties designed with environmentally and socially positive attributes (e.g., low-income housing or green buildings)*
- *Refurbishing properties to improve their performance (e.g., energy efficiency or disability upgrades)*
- *Managing properties in beneficial ways (e.g., fair labor practices for service workers or using environmentally friendly cleaning products)*
- *Demolishing properties in a conscientious manner (e.g., reusing recovered materials on-site for new development)”*

For many investors, this sort of language is unfamiliar but, clearly, the practices referred

to, such as urban regeneration, community engagement, energy efficiency, recycling, smart growth, work force housing and health and safety are all recognized elements of the property investment discipline.

**For more on UNEP FI’s description of RPI see [Responsible Property Investing: What the Leaders are Doing](#)**

Common terms used which relate to RPI investing include: environmental, social, and governance (ESG) analysis, sustainable investing, triple-bottom-line investing, and so on. Although each of these terms has a specific meaning and history, there is considerable overlap in application. They all refer to investment practices that maximize financial, social, and environmental value, and minimize risk, as an integrated approach to long-term value creation.

When defining RPI in a meaningful way for your own organization, it will help to have clear ideas about those aspects of RPI most relevant to your day-to-day operations and your corporate strategic direction.

**The key to defining RPI is not the specific language adopted, but rather the creation of a coherent and consistent vocabulary that all members of an organization can understand and be comfortable in adopting.**

## II. The value of RPI for your organization

When considering whether to adopt an RPI strategy, it is helpful to identify what you think the potential benefits of adoption are. Practitioners who have adopted such strategies point to various benefits that arise from enhancing investment analysis to more fully include environmental, social and governance issues.

An organizational “materiality” review, that identifies risks and opportunities associated with environmental, social and governance factors, can be a key step in formulating a commitment to an RPI strategy.

The potential benefits of such a strategy include:

### 1) Improved performance management:

A coherent RPI strategy helps organizations identify opportunities to:

- Reduce operating costs
- Enhance corporate reputation
- Facilitate permitting
- Target exceptional opportunities for acquisition and development

As examples, practitioners point to how efforts in community outreach at shopping malls improve consumer demand and rental performance, or how efforts to benchmark and improve energy efficiency reduce costs.

### 2) Improved risk analysis:

As a portfolio analysis tool, RPI may help organizations manage long-term risks by identifying trends in:

- Regulatory environments
- Energy and other costs
- Consumer demand

Practitioners point to the risk of stricter regulations on buildings related to carbon and other emissions, demographic and consumer trends toward energy efficient and transit-oriented development, and rising energy prices affecting future operating costs or accelerating functional obsolescence.

### 3) Improved investor and stakeholder relationships:

For some real estate investors, RPI helps build relationships with tenants, other investors and community groups, or with city and regional political bodies. RPI may offer:

- Clear market differentiation in products and services
- Strengthened investor relationships
- Enhanced institutional focus
- Meet the expectations of investors focused on RPI

Practitioners acting in this way may be, for instance, private equity funds and developers that focus on fair labor and responsible

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contracting policies, invest in specifically defined urban regeneration areas, or aim to achieve green building standards in property management and development.

#### 4) Enhanced organizational self-definition:

Closely tied to the above, a number of real estate investors point to RPI as a tool to express and maintain corporate values internally and to develop sound relationships with other stakeholders. In this case, RPI becomes a language that helps to:

- Define a corporate culture
- Engage employees
- Maintain a clear corporate identity

Not all of these benefits are equally applicable to all investors. For instance, owners of large portfolios may emphasize RPI as a performance management and risk analysis tool, while private equity funds and developers may choose specific RPI strategies as a way to create a specific identity and differentiate themselves from their competitors.

The language used to describe RPI is less important than having a clear understanding of what RPI (or whatever you choose to call it) means in particular institutional contexts. The factors influencing such a context include but are not limited to:

- Investor role (i.e. property owner, fund manager, asset/portfolio manager, property manager, developer)
- Property asset class (i.e. residential, commercial, industrial)
- Regulatory regime
- Geographic area
- Stakeholder environment

**A key factor in successfully adopting an RPI strategy lies in the clear identification of expected benefits. Benefits that are quantified are easiest to measure and manage, and practitioners point to quantification as a key tool in the RPI management process. However, the fact that some benefits are not easily quantified does not mean they do not exist.**

## III. The path to RPI commitment

There are a variety of paths by which an organization can make its commitment to an institutionalized RPI strategy. Support for such a strategy tends to grow from one area or one form of engagement and then develops into a more fully elaborated set of policies and procedures. Among the agents that can lead to commitment, practitioners cite:

- **Inside advocacy:**

An employee or group of employees who take a specific interest in some aspect of RPI, and who carry and evangelize that interest to other parts of the organization. This is a frequently told story. When practitioners are asked how RPI grew to assume an important role at a specific company, many respondents note that an internal champion made it his or her mandate to promote RPI.

- **External engagement:**

Some practitioners note that it was engagement with external consultants or other stakeholders who raised specific RPI issues that resonated with management or employees. Examples of this type of external influence might include an energy

consultant examining efficiency practices, a community group raising concerns about property management practices, or an environmental advocacy group seeking to partner with industry. They may also include exposure to issues at industry conferences or from collaborations, such as the UNEP FI Property Working Group, that bring RPI issues onto a company's radar screen.

- **Strategic review:**

Finally, RPI may enter the institutional landscape via a strategic assessment of the risks and opportunities facing an organization going forward. Major issues might include climate risk management, increasing investor incorporation of ESG issues in requests for proposals, or an institutional review of trends in consumer demand.

In each of these cases, an acknowledgement of the issue raised has the potential to lead to a broader effort to systematically approach the whole range of RPI issues that may be related to a company's strategic management.

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**There are a number of elements that support the successful implementation of a commitment to RPI. Interviews with institutions suggest the following as being crucial:**

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**For examples of how property investors have adapted the UN Principles of Responsible Investment to their institution, see [UNEP FI's Building Responsible Property Portfolios](#)**

### **Ensure senior management buy-in**

An RPI strategy is unlikely to succeed without public support from senior managers or partners. As a relatively new type of institutional strategy, RPI will no doubt run into skeptics, or others who see it as an extra burden on an already busy schedule. In such instances, high-level support and understanding and awareness is necessary to signal the strategy's importance to the whole institution.

### **Develop a clear communications strategy**

Various RPI practitioners insist that a company needs a clear statement of its RPI strategy and a clear mechanism for communicating that strategy to all employees, and educating employees on the ways in which they can incorporate RPI into their day-to-day work streams.

### **Draw strength from current corporate practices**

For many practitioners, an RPI strategy is an elaboration of already existing corporate practices. Companies with explicit fair labor strategies, urban regeneration targets or environmental sustainability policies may use an RPI strategy to build on current strengths, adopting new issue areas where appropriate, and systematizing nascent RPI management processes. Most importantly, RPI does not have to be seen as a wholesale change in corporate practice.

## IV. Drafting a mission statement

For many organizations, once the commitment to creating an institutional RPI strategy is made, the next step in the process is to formalize an institutional mission statement on RPI as well as a set of policies and procedures to govern RPI practice.

### To design such a strategy, practitioners point to three commonsense approaches:

- Conducting a review of the RPI landscape, to determine what policies and practices have been adopted by acknowledged industry leaders;
- Engaging external consultants with specific expertise in RPI-related areas – for instance, sustainable portfolio management and design – that the company has identified as most crucial going forward;
- Identifying business partners, such as fund managers, who already have experience implementing RPI, and can share that knowledge.

The resulting mission statement must strike a balance between specificity and flexibility.

Once crafted, the statement can help signal two things to internal and external stakeholders alike:

- The corporate commitment to integrating and managing RPI in the investment process
- The specific RPI issues that will receive priority attention within the organization

In interviews, however, companies related that the relatively easy process of designing a mission statement rapidly gave way to the more complex issue of how to effectively manage RPI within the organizational and resource constraints of a given institution.

## V. Managing an RPI strategy in your organization

The transition from commitment to management of RPI requires the development of governance systems, information management tools and the willingness of employees to take on a new or expanded role in RPI analysis and implementation.

### Internal Governance

In terms of human resources, practitioners tend to highlight two paths to managing RPI.

#### **Creating a specific department, or tasking a specific employee or group of employees, with managing RPI in its various guises across the entire business:**

In this case, companies create a repository of information and expertise that works with various departments on integrating RPI into their work. The advantages of this approach include the fact that a specialized group can perhaps keep better track of the fast-moving world of RPI practices outside the corporation's specific operations, and better integrate and champion new ideas into company practice. The disadvantages include the potential marginalization of RPI within a single department.

#### **Forming cross-functional teams to support RPI:**

In this case, the company forms a team from different departments that determines collectively where opportunities exist

for enhanced investment analysis and risk management. Advantages for this approach include the ability to encourage RPI innovations from people with a variety of experiences and expertise within the company. Disadvantages include the difficulties of creating focus in a disparate group with competing "day-job" obligations.

**A key point: Active, personal engagement from internal RPI advocates may be as effective as more formal announcements of policies and procedures. As a relatively new discipline, RPI may need introduction to employees unfamiliar with, and potentially skeptical of, new demands on their time.**

These strategies are not mutually exclusive. Whatever the path chosen, managing RPI requires defined responsibilities for gathering relevant environmental, social and governance information, and for distributing the findings and recommendations gleaned from that information to the relevant internal stakeholders in a clear and consistent manner.

A clear definition of RPI, and the information necessary for integrating RPI into investment practice, may be the most important governance mechanism for successful management.

### **External engagement**

Practitioners also highlight there are perhaps even more complicated challenges when integrating RPI into relationships with external partners.

An institutional commitment to RPI requires the communication of the new strategy to the many partners the company engages with in the ordinary course of business. Asset owners need to communicate with fund managers, fund managers with asset managers, asset managers with property managers, property managers with facility managers, equity investors with developers, and so on. Some specific solutions to these problems include:

#### **Incorporating RPI issues into requests for information/proposals:**

Asset owners who have committed to specific RPI issues may include requests for information on sustainability practices, fair labor policies, and generally reporting on environmental, social and governance information as part of the process for selecting investment partners and suppliers.

#### **Integrating RPI into the investment reporting process:**

Fund and asset managers may wish to include RPI performance data and analysis in their reports to investors, with mutually agreed categories of analysis, encouraging consistent reporting on performance over time.

### **Engaging property managers and developers on information collection:**

In many cases, the relatively new nature of RPI as a discipline will require active engagement with partners in order to collect the appropriate information and encourage relevant practices that enable investors to effectively manage their RPI strategies. Patient engagement over time may allow for these relationships to develop organically, so that RPI is not seen as an imposition from one party onto another, but rather a point of collaboration.

#### **Crafting an overarching RPI narrative:**

As noted earlier, a crucial factor in successfully committing to RPI is identifying where the expected value from such a strategy is expected to come. In many cases, the immediate returns from specific RPI practices are not necessarily quantifiable, nor do they necessarily fit into traditional financial analysis. Companies should therefore communicate to their investors, partners and other stakeholders a clear narrative explaining why the company views RPI as an important discipline to adopt.

## VI. Collaborating with other stakeholders on RPI

RPI is both an emerging investment discipline and an emerging movement within the real estate investment industry. It has developed in large part because investors, fund managers and related stakeholders have been willing to communicate their strategies, best practices and lessons learned along the way, in a collaborative fashion.

Engaging in collaborative networks has helped investors define themselves as leaders in the field, and facilitated integration of RPI within their organization.

**A key point: Practitioners who support collaborative action insist that a real balance must be struck between the work of communicating with the larger public and the need to manage RPI internally. A healthy balance begins with a focus on internal success.**

Key issues for developing the field include:

- **Identifying communications strategies:** Engagement with other stakeholders requires reporting on both RPI systems and performance. This requires transparency, and organizations must clearly identify information they are willing and able to share as part of their RPI communication strategy. At the same time, reporting for reporting's sake can drain institutional resources. A clear analysis of the audience for RPI communications is fundamental to determining how to report, and what should be reported.

- **Supporting collaborative networks:**

A variety of stakeholder groups – including the sponsors of this toolkit – have emerged to help shape RPI both as theory and as investment practice. Practitioners point to the benefits of peer-to-peer engagement, but also cite a general institutional desire to drive the field forward. Collaborative networks can help define RPI as a core corporate value internally – they are also meant to promote the market for RPI in the industry.

- **Encouraging RPI research and development:**

As an emerging discipline, RPI is still developing the research and pilot projects that help turn theory into effective action. RPI pioneers can support the field by participating in research projects that clarify RPI metrics, the financial returns associated with particular investment strategies, or the barriers to implementing RPI in practice. Investors also can participate in pilot projects – such as measuring energy efficiency across portfolios – to help the development of tools that will benefit the industry.

**For more on collaborative opportunities with stakeholders, visit the Responsible Property Investing Center at [www.responsibleproperty.net](http://www.responsibleproperty.net) and the UNEP FI Property Working Group web site at [www.unepfi.org/work\\_streams/property](http://www.unepfi.org/work_streams/property)**



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## UNEP FI Property Working Group

The United Nations Environment Programme Finance Initiative is a global partnership between UNEP and the financial sector. More than 170 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance.

The aim of UNEP FI's Property Working Group is to encourage property investment and management practices that achieve the best possible environmental, social and financial results. For more information see [www.unepfi.org/work\\_streams/property](http://www.unepfi.org/work_streams/property).

## RPIC

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