ENVIRONMENTAL PRACTICES

novethic | Caisse desDépôts GROUP

OF FRENCH REAL ESTATE FUNDS

When investing directly in real estate, investors can analyse the mandatory energy performance certificates of buildings to assess how the data relate to their investment. Investors willing to invest indirectly in real estate do not have this information. While open-ended real estate funds continue to attract private investors, with inflows averaging 2.5 billion euros each year, disclosure on sustainability policies and environmental metrics remains scarce. Yet, poor energy performance has become a risk of obsolescence for the assets value.
For the third consecutive year, Novethic has analysed the environmental practices of unlisted real estate fund managers, with a survey covering around 80% of total assets under management. The study monitors the increased use of measurement tools among the sample but regrets that little information is passed on to investors.

How do fund managers incorporate ESG issues?

Driven by more stringent environmental regulations, fund managers integrate energy issues more and more frequently. As a rule, energy performance and certification schemes are taken into account for new acquisitions and heavy retrofits. Yet, in most cases, these are only one-off actions that are not part of a broader environmental policy. Only a sixth of the sample systematically incorporates environmental, social and governance (ESG) issues into their investment and management processes.

More than half of the sample integrates energy issues for new investments and for heavy refurbishments

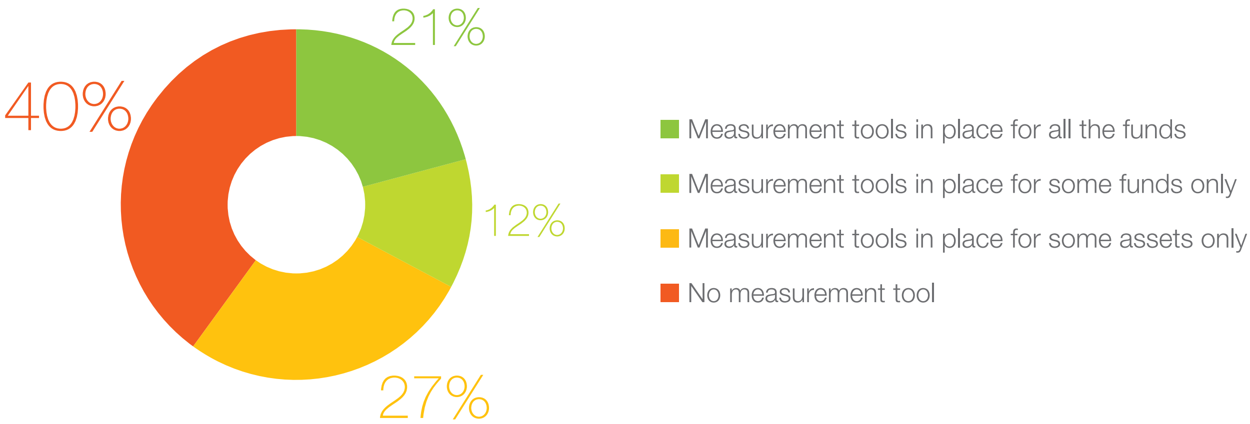
A third uses energy measurement tools for investment and management process

A sixth uses ESG matrices for investment and management process

On the whole, fund managers focus their environmental initiatives on commercial buildings in the Paris region. Here, existing buildings are competing with an expanding supply of certified buildings (three quarters of new office buildings over 2,000m² were certified in 2012) and face the risk of becoming rapidly obsolete.

How do they measure the environmental impacts of their portfolios?

Assessing environmental performance is the first step towards organizing an environmental policy. Fund managers have focused on buildings' energy consumption. In all, 60% of managers have deployed energy measurement tools for their portfolios. A third of them are mapping the energy performance for their entire portfolio. Other sustainability issues such as water and waste are seldom monitored.

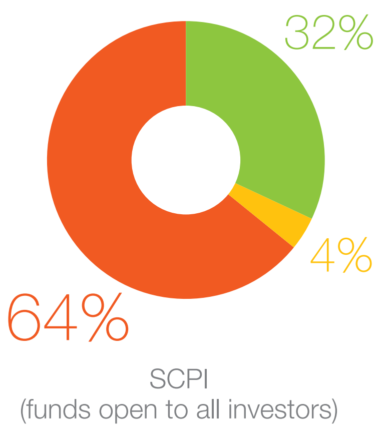


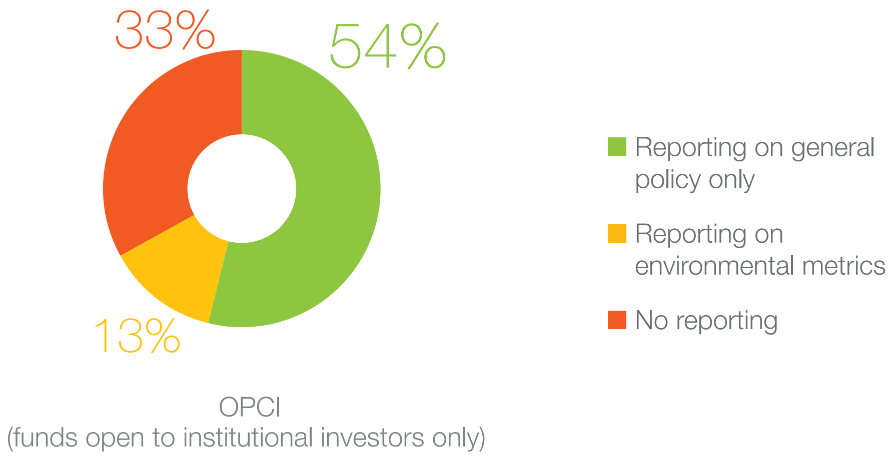
Two strategies have to be distinguished. On the one hand, most fund managers use mandatory energy performance certificates (EPCs) and energy audits on a selection of representative assets to draw a picture of the energy performance of their entire portfolio. Although simple to implement, this method cannot be used to monitor action plans or to identify potential technical or management shortcomings. On the other hand, some fund managers try to monitor actual energy performance through invoices and meters. To be fully exploitable, the latter methodology requires good knowledge of occupants' activity and behaviours. By and large, the energy consumption of half of the total office area is known. Figures are much lower for commercial and residential properties.

What do they report to investors?

Fund managers disclose little information on the environmental performance of their portfolio. Environmental information is provided to private investors in only a third of open funds. Disclosure consists chiefly of a broad overview of their environmental policy. Metrics on energy and water consumption are scarce. Only one open-ended fund has an environmental report comparable to those of listed real estate companies, for which transparency on sustainability issues is mandatory.

On this issue, the situation varies greatly from that involving funds dedicated to institutional investors. Two thirds of those funds disclose environmental information, usually on the initiative of the investors, who have demanded that fund managers give them a brief overview of sustainability policies as well as metrics to monitor the results of the action plans.





Evidence that environmental issues can impact the long-term financial performance of real estate is increasing. From this perspective, private investors are entitled to demand that their fund managers publish the results of the energy performance mapping exercises they have undertaken, and disclose their environmental strategy to counter the obsolescence risk arising from new regulatory constraints and the increasing number of certified buildings.

More about Novethic survey

For the third consecutive year, Novethic surveyed French property funds managers about their environmental practices, in particular their knowledge of the energy performance of their portfolio. The 2013 survey was answered by 33 fund management companies, representing more than 80% of the total assets under management. The study analyses how fund managers are integrating sustainability issues into investment decisions as well as asset management and what types of tools are used to assess sustainability performance. Along with a study on real estate listed companies, this study contributes to Novethic expertise on the French real estate sector.