Sustainability rising

More Asian institutional property investors are gravitating toward sustainable investment

by Benjamin Cole

Perhaps lagging their European brethren and some sectors in the US real estate scene, Asian institutional property investors increasingly are eying green measures and throwing around acronyms such as CSR (Corporate Social Responsibility), ESG (Environmental Social Governance) and GRESB (Global Real Estate Sustainability Benchmark).

The new alphabet soup spells big news. The green movement in Asia arguably carries even more import than those in Europe or North America; Asia is developing economically, building much more new product, dwarfs the developed world in population, and some Asian property developers are perhaps more powerful — politically and economically — than those in the West. If green prevails in the developing Asia mainland, it may be because it has won acceptance in the corporate suite, more than at sometimes ineffectual city halls or national government offices.

In those corporate suites, there appears to be growing consensus that sustainable or green measures can make sense from financial perspectives, but developers and investors need to broaden their perspectives and time horizons. The meshing of needs between greying investors and secure, sustainable properties also is drawing interest.

Large parts of Asia are behind the green curve, lacking even relevant, immediate green metrics or information that could enable environmentally-sound decision making.

"Asian property investors today are asking more about transparency, stakeholder engagement, ESG considerations and the GRESB. Interestingly, the rate of interest in CSR and ESG seems to be growing faster in Asia Pacific than other regions," says David DeVos, global director of sustainability at Pramerica Real Estate Investors, which operates as Prudential Real Estate Investors in the Americas, South Korea and Japan.

Asia is not a monolith, notes DeVos. An Australia, Japan, South Korea or Singapore operates on a different spectrum than an India, China, Thailand or Philippines, each with different cultures and levels of economic development, and varying environmental challenges in terms of cold, heat, and water or lack thereof.

And large parts of Asia are behind the green curve, lacking even relevant, immediate green metrics or information that could enable environmentally-sound decision making.

"The main obstacle in parts of Asia for getting sustainable guidelines implemented … is often the lack of data available or inadequacy of systems in place to properly measure and monitor properties, such as no energy management systems in place," explains Vincent Felteau, Asia Pacific portfolio manager with Presima, the Montreal-based listed-securities investment company.

The lack of green information can beget the lack of green information, a type of chicken-and-egg vicious circle. Without sustainable track records of nearby and similar properties to review, investors may determine there is "not enough historical data to validate the value of a green capital improvement. The longer a region has been tracking the value of sustainable real estate, it seems, the greater the acceptance," observes DeVos.

Still, the important first steps of Asian institutional real estate denizens toward CSR and ESG have been taken, the changing attitudes sometimes nudged by media, and sometimes by government or industry groups, such as Singapore's "Green Mark" accreditation or Thailand's Rating of Energy and Environmental Sustainability (TREES).

Multinational corporations — with their global perspectives, established CSR or ESG guidelines, and perhaps public-relations concerns — manifest another element of the Asian green movement. In Thailand, for example, the automaker Toyota Motor Corp is certifying more than 370 dealerships along environmental lines, while quick-eats franchiser KFC Corp is targeting LEED certificates for its 400-plus outlets in the nation.

But for most Asian property development and refurbishment, a greater flow of actionable information is needed; useful metrics about real-world experiences with sustainable measures in local regions and structures, will, in turn, allow the even wider adoption of green practices.

Developing information: sustainability, better metrics and paybacks

To be sure, more Asian building owners and managers are coming to view some green gauges — such as water or electricity consumption, or proximity to mass transit — as sensible business metrics, as well. If such sustainable metrics are unknown or uncontrolled, investors may face future risks or costs, or a dearth of metrics could indicate a poorly-conceived or -managed structure. And connections to mass transit somewhat ensure accessibility and foot traffic for years to come, which should fundamentally enhance building values, especially for retail and office assets.

Still, barriers exist even if investors are enlightened and aware of green options. Some sustainable measures take too long in paybacks for the gimlet-eyed.

"If a higher upfront green cost exists but we are within the financial-performance guidelines agreed upon, then we've met our fiduciary responsibilities and will likely proceed," notes

PREI's DeVos. If the investor in actuality is a closed-end fund with a short investment horizon, however, then only careful analysis and discussion with the parties involved will determine a green light, he says.

Recently, builders in Asia expressed willingness to construct green properties in which the return on investment occurs within a seven-year period, according to Solidiance, a corporate strategy consulting company focused on the Asia Pacific region.

Some green proponents assert sustainable construction costs are minor and further reduced if green measures are factored in early enough in the design process. Indeed, LEED Platinum–certified buildings, the highest rating of the US Green Building Council, "generally can be built at a premium of less than 10 percent when compared to uncertified construction," says Presima's Felteau, while lesser LEED ratings are correspondingly less expensive. Studies suggest developers can avoid these premiums with proper planning and integrated design, affirms Felteau.

Financing green: The money is there

While financial imperatives may have blocked green options in the past, Asia now has the financial resources to fulfil CSR or ESG mandates, even though the needs are large — unlike the situation in previous Asian epochs, often defined by poverty and in which the need for economic development trumped all else.

The dollar signs are huge, almost unimaginable. Asia will require US$2.5 trillion in annual investment for sustainable development "to close gaps in basic services and infrastructure and to protect the environment, enhance energy efficiency and respond to climate change," surmised the United Nations Environment Programme in an April 2015 report.

Singapore's Nex Shopping Mall

"The Nex Shopping Mall in Singapore is a green success story because it stresses community engagement," explains David DeVos, global director of sustainability at Pramerica Real Estate Investors, which operates as Prudential Real Estate Investors in the Americas, South Korea and Japan.

The Nex is a super-regional suburban shopping mall in Serangoon, in northeast Singapore. The seven-storey, 87,000-square-metre Nex has won recognition in both investor and green circles for its commercial success and sustainable features.

Most oft noticed is the mall is built over a 16-bay bus interchange, the nexus of major regional bus lines. In this sense, the city's infrastructure funnels a constant stream of customers to the shopping mecca, while simultaneously reducing transportation energy consumption.

The most visible green attribute of the Nex is literally green — exterior walls covered in sun-blocking foliage. The shopping centre also features a sky terrace with children's water-park playground, a community library, and garden walks at different levels. The property is water-efficient, with low-flush toilets, a low-flow irrigation system with rain sensors, and a thick-walled drip line (a type of water pipe that slowly releases water).

The Nex won a Green Mark Gold Award from Singapore's Building and Construction Authority in 2010.

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But Asians are becoming wealthier and are savers, as well, having set aside US$8.4 trillion in 2012 alone, reports UNEP. As widely noted, Asia often has exported capital, as when first the Japanese, and then the Chinese, became major investors in US Treasuries and real estate assets.

UNEP notes while the region is migrating toward sustainable development, a yawning abyss remains between intent and reality. "Yet today only 0.8 percent of assets under management in the region are invested according to sustainability criteria," states the UNEP, although it should be noted the UNEP reckoning goes well beyond commercial property, and includes everything from infrastructure to government warehouses.

Moreover, sustainable investing is actually less risky, claims the UNEP, because of the greater and inherently-revealing material disclosures made to investors and managers when sustainability guidelines are monitored; even entire financial systems benefit. "By increasing the flow of finance into the enablers of a healthy, dynamic, inclusive and sustainable economy, it secures higher, long-term, risk-adjusted returns and improves the resilience of the financial system itself," posited the UNEP report.

When green is grey?

A fascinating synergy may be developing between the demographically-based needs of Asian investors and sustainable real estate development or operation. Like so much of the globe, Asian investors are turning grey, led by China and Japan. "As populations get older, they become concerned about their savings and pension benefits. More specifically to real estate, people want sustainability of their real estate cash flows," states Felteau.

Sustainable real estate by its nature limits exposure to possible energy and water bill hikes — and if a development is placed near mass transit and woven into the community, such as the Nex Shopping Mall in Singapore (see sidebar, page 20), it is more likely the business base will not shift away, as might happen to a single-tenant office tower on city outskirts, or an island resort. A building connected to a subway or built bus interchange suggests a permanent "captive" audience.

In this regard, there is a clear benefit to developing sustainable real estate considering ageing Asian investors also are looking for "sustainability-related characteristics" with regards to their portfolio holdings, particularly real estate investments (ie, stability and visibility of future cash flows, low GHG emissions/energy consumption/waste/water, etc), asserts Felteau.

Going green

As institutional real estate investors and large multinational firms embrace CSR and ESG, implement green strategies, and develop related metrics and monitoring systems, the sustainability movement in Asia will expand. It seems inevitable the resulting information will validate future appropriate sustainable investment and provide the data necessary to justify further green capital outlays.

It may be hoped Asian demand for green products and services will foment efficiencies and productivity gains in those industries, too, lowering the costs of going green.

2014 ANREV survey

Each year the 200-member Asian Association for Investors in Non-listed Real Estate Vehicles surveys members on sustainability issues. ANREV is a partner of the Global Real Estate Sustainability Benchmark (GRESB), a consortium of institutional property organisations committed to assessing the sustainability performance of real estate portfolios.

While ANREV members scored a little below other global investors, the acceptance of sustainability measures has been seen in the annual surveys. In 2014, for example, nearly 70 percent of ANREV members had a "dedicated employee(s) for whom sustainability is the core responsibility". And 80 percent of asset managers and property managers had "sustainability as a performance target".

In addition, ANREV members reported they are able to achieve real-world results, such as a nearly 4 percent annual reduction in 2014 energy consumption (year-over-year), which is a larger reduction than the less than 1 percent decline in 2014 reported by global property institutions — though perhaps it should be noted Asian property concerns could be implementing energy cuts that are old news in the developed world.

While ANREV membership is not the universe of Asian property owners, or even Asian institutional real estate investors, the acceptance of sustainability and the GRESB among ANREV participants suggests an industry that is gravitating toward incorporating sustainability into decision-making processes.

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Certainly, Asia has the capital to finance green development. Moreover, the potential for a long-term symbiotic connection between growing legions of risk-averse Asian pensioners and well-built, green-certified, institutional-quality real estate across Asia — of the type that can best promise steady income for decades ahead — is compelling. Especially so if Asia's ageing population can finance a better and cleaner-built world for themselves, their children and grandchildren, in part through sustainably-developed and -managed Asian institutional real estate. ❖

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