

Moving sustainable property investment forward

The Sustainable Property Investment Index has arrived

On 12 November 2010, the property industry gained a new tool to help us begin to understand how sustainability might affect the investment performance of investment assets. The Sustainable Property Investment Index, launched by IPD and sponsored by K & L Gates and the IPF, provides a means of determining at a basic level the sustainability of existing assets in property investment portfolios and monitoring the investment performance of a subset of more sustainable assets.

The determination of which assets form the more sustainable subset is based on a simple set of metrics (see box below) developed through research funded by the IPF Research Programme and published in October 2009¹. IPD has used these metrics to analyse some 978 properties within 90 portfolios from 24 different fund managers.

This strong engagement from fund managers is encouraging but it is worth noting that the provision of this fairly basic data was a painful process and none of the fund managers could provide data on a complete portfolio. As an industry we still have a long way to go in terms of collating even basic sustainability data on our buildings.

The significance of this development is not in the performance number it produces. The significance is in the availability of a simple, industry recognised measurement system that will allow fund managers to better understand the extent to which their assets conform to a common standard. As time progresses, the sample size increases and the market begins to price sustainability into rents and capital values, we may be able to identify common sustainability features in assets whose investment performance is different from others in their asset class.

This is a starting point, not an end point and must be seen as such. We would urge fund managers who are yet to participate in this project to contact IPD with a view to submitting data on as many assets as possible. We would further urge those who are participating to work on increasing the number of assets within each portfolio for which they can contribute data. Those who are participating also need to use the outputs within their asset management processes; 7% is a very small proportion of assets to qualify as sustainable and one as an industry we surely need to improve.



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¹ See IPF 2009 ISPI (UK) The development of a sustainability property investment index, IPF: London

Figure 1: Index criteria

QUALITY	Pass if BREEAM rated Very Good or above
ACCESSIBILITY	Pass if 5 minutes' walk max) to nearest public transport node OR cycling storage + cycling facilities + green travel plans
ENERGY	Pass if EPC is A-C OR >5% renewable energy + EPC is A-E OR naturally ventilated + EPC is A-E OR built later than 2005 + EPC is A-E
FLOODING	Pass if not in a flooding area OR if flooding risk is low + flooding defences in place
WASTE	Pass if waste recycling occurs
WATER	Pass if water recycling in place OR water efficient fittings in place + water metering in place.

Of the 978 properties assessed, 69 or 7% were judged to be 'more sustainable' and these formed the sub-sample for performance tracking. This is perhaps one of the most revealing statistics of the exercise. Even on the relatively basic metrics applied, the vast majority of existing stock does not measure up in terms of sustainability.

These 69 properties form a tiny sample of properties within which investment performance will be determined by a range of factors completely unrelated to their sustainability. Given that sustainability has not been priced into rental or capital values thus far there can be no rationale for expecting the performance of this subset, be it good or bad, to be related to their sustainability credentials.

Getting this far has been a major challenge. Now we have reached this point we have a system in place that can help us move forward, hopefully more efficiently and more quickly. But please do not look for the Sustainable Property Investment Index to say anything useful about the performance of sustainable assets yet – 69 assets can tell us a lot, but not that.