

Dear Readers,

European property companies are giving ever greater consideration to aspects of sustainability. The number of corporations that employ sustainability strategies has risen steadily over recent years. Between 2006 and the middle of 2011 alone, the number of property companies that claimed to have added a sustainability strategy to their corporate policies quadrupled. This growth will continue in future as well and the concept of sustainability will become more important in strategy. Firstly because sustainability means long-term, economic stability and responsibility. Secondly, companies without a sustainability concept will increasingly find themselves at a competitive disadvantage moving forwards.

Summary

- As part of our pan-European survey of 85 listed property companies that are members of the European Public Real Estate Association (EPRA), we are currently seeing big differences between individual countries and regions. While **Scandinavian property companies** are very advanced in terms of sustainability, Polish and Southern European companies in particular are highly reserved.
- This distance will probably grow less in the coming years as the benefits of sustainability are also being noticed more in these regions. Furthermore, **market and public requirements** will continue to rise, heightening the pressure on these companies.
- Companies usually give **reducing economic risk** as a goal of their sustainability work. **Improving their image** and **raising productivity** were also mentioned relatively frequently. By contrast, sustainability strategies such as market development or research, which have no direct economic benefit, came up more rarely.
- All companies asked stated that they had noticed interest on the part of their stakeholders in sustainability. At more than 90% of companies investors are interested in a **sustainability concept**. Almost 65% of companies asked have noticed demand **on the part of tenants**.
- In order to react better to the greater interest in sustainability, more and more companies are creating **sustainability departments**. In around 22% of companies asked, a **separate corporate sustainability department** has already been set up. However, there are also substantial regional differences in this respect.
- The number of certified properties is also continuing to rise. In particular, the companies asked regularly use the UK **BREEAM certificate**. We are anticipating better comparability of the different certificates in future.
- More than half of the companies asked either publish a **separate CS report** to communicate their sustainability activities or cover the subject in their **annual report**. Western European and Scandinavian property companies are most likely to publish such information.
- In addition to the printed form, 60% of European property companies talk about sustainability on their **web site**. Here, Central European and Scandinavian companies are leading the field.

Corporate Sustainability

Corporate Sustainability aims for the **sustainable development** of a company. For that, it is necessary to consider the **economical, ecological** and **social** consequences of decisions.

CS strives the systematic administration and coordination of all company processes.

The positive effects are supposed to affect the whole society and national economy, too.

Source: IVG Research (2011)

Observed countries and division in regions (number of observed companies)

- Scandinavia (SK)**
 - Finland (3)
 - Sweden (7)
- Western Europe (WE)**
 - Belgium (5)
 - France (9)
 - Netherlands (5)
- Central Europe (CE)**
 - Germany (14)
 - Austria (2)
 - Switzerland (4)
- United Kingdom (UK) (29)**
- Southern Europe (SE)**
 - Greece (2)
 - Italy (2)
 - Spain (1)
- Poland (PL) (2)**

Source: IVG Research (2011)

Methodology of IVG survey

- Online questionnaire** among 85 EPRA-listed property companies
- Evaluable answers: 18
- Response rate: 21%
- Additionally **analysis** of the companies' **homepage**
- Timeframe: 28th of September - 1st of October 2011

Source: IVG Research (2011)

- To date, around a third of the companies asked have set up a **CS fund**. Most of the companies that have not yet established such a fund do not intend to do so in future as this is not part of their business model.
- 53% of companies asked indicated that they would be striving for **green leases** in the next 24 months.

The results for individual questions can be found below.

Rising relevance of sustainability aspects in politics and business

The public discourse over rising energy and fuel prices, combined with recurrent reports of extreme weather events, exemplifies the fact that climate change and the growing scarcity of resources are not some far-off scenario. They are challenges that society is already facing. Demographic change and globalisation also command attention from politics and business. In future, the property industry will be greatly influenced by these developments as our expectations of buildings will change greatly in some respects.

Climate change in particular is a major challenge to the property industry. Accounting for up to 40% of total energy consumption, real estate contributes substantially to global climate change. Moreover, around 30% of global consumption of raw materials and 40% of greenhouse gas emissions can be traced back to buildings (HU Berlin, 2008). It has become a stated aim to reduce this influence in future.

Buildings responsible for significant portion of greenhouse gases – need for action

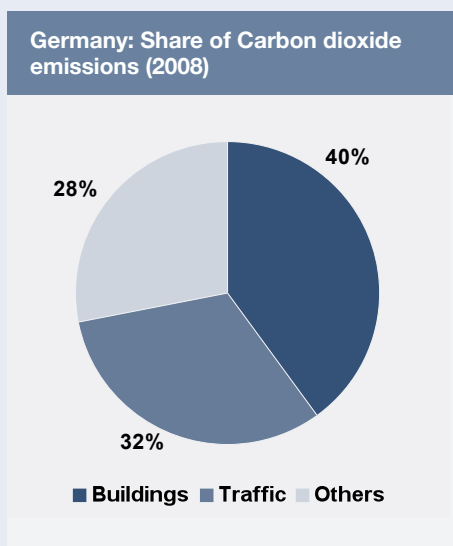
The property industry plays a special role in the discussion of global climate change. It has to find solutions in order to first cut consumption of materials and energy in addition to curbing greenhouse gas emissions. This is because investing in and planning new properties do not just have a considerable influence on the quality of living in cities. At the same time, with new concepts they offer solutions for the energy question and the repercussions of demographic trends. Architecture and building design also greatly influence the health, safety and well-being of residents and users. Nonetheless, the phase of energy reduction will be over relatively quickly. Energy production and energy storage by and in buildings will be the mantra of the next stage in evolution. Zero-energy houses or even energy-plus houses are the first precursors to this development.

The substantial effects of buildings on people and nature reveal the special responsibility of the property industry towards the environment. This responsibility clearly shows the need for sustainable operations by property companies. They do not just have a moral duty to protect the general good of the earth and its climate. Environmental protection is also being demanded of the property industry by rising market interest and stricter government regulations. In order to be able to meet these requirements, a growing number of companies are operating in line with the principles of sustainability.

Origin of answering EPRA-listed companies by country	
Germany	27.8 %
United Kingdom	16.6 %
France	11.0 %
Sweden	5.6 %
Italy	5.6 %
Spain	5.6 %
Netherlands	5.6 %
Austria	5.6 %
Switzerland	5.6 %
N/A	11.0 %

%-value: Fraction of answers

Source: IVG Research (2011)



Source: HU Berlin (2008)

What is sustainability?

The term sustainability originally stems from forestry, where it was first used in the 18th century. The development of this concept was triggered at the time by the overexploitation of woods in the wake of rapid growth in industrial wood requirements. Sustainable wood management was the notion of using a wood’s tree population sparingly – no more trees should be cut down than are replanted. This combines the ecologically responsible side of forestry, maintaining the tree population, with the economic interests of industrial wood exploitation, a secure future supply of wood. A balance between economic and ecological benefits can therefore be achieved. Although the concept was transferred to some other branches of industry, humanity’s consumption of raw materials increased at such a rate that serious, large-scale environmental damage threatened.

The 1972 report “The Limits to Growth” by the Club of Rome described for the first time the negative impact of human economic activity: extreme population growth, malnutrition, exploitation of raw materials and the destruction of the environment. The Club called for an economic and ecological state of balance to ease the effects of economic growth.

However, it took another 15 years for the Brundtland Report to deliver the first definition of sustainability, namely “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland Commission 1987:5).

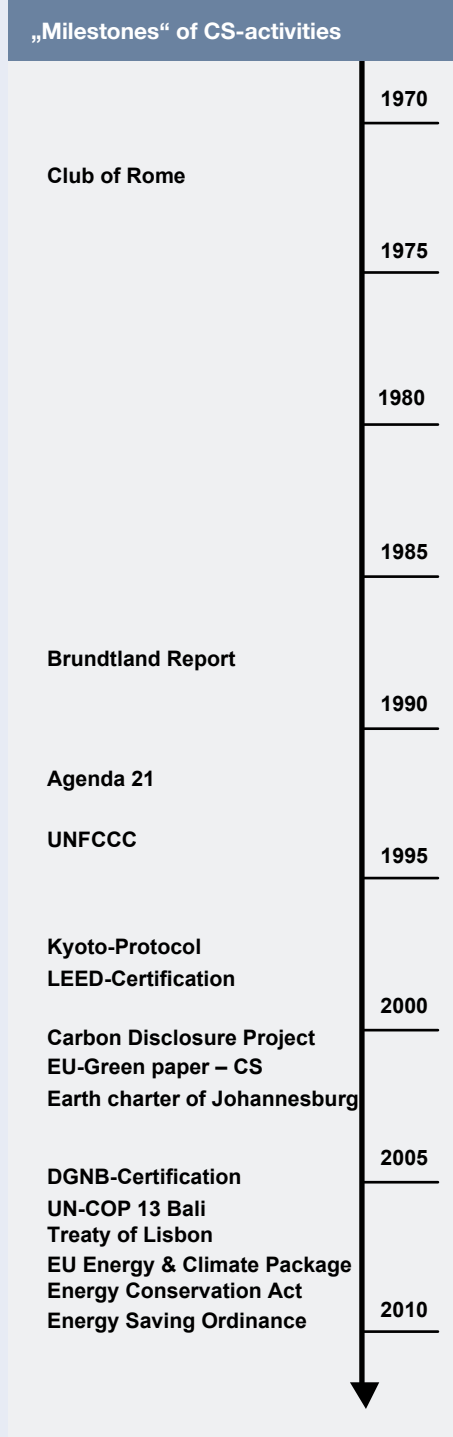
A further milestone in the development of sustainability was the Rio Earth Summit of 1992, the first UN Conference on Environment and Development (UNCED). In addition to the Convention on Biological Diversity, this also authored Forest Principles, Agenda 21 and the Framework Convention on Climate Change. Building on the Framework Convention, Kyoto Protocol was devised at the Kyoto Conference in 1997. With the drafting of a Green Paper on corporate sustainability by the European Commission, the topic of sustainability was finally passed back to the private sector in 2001.

Meanwhile, the discussion of the matter of sustainability moved away from the largely academic and is now a hot topic on the property market as well – for example in the form of green buildings and sustainability certificates.

Although sustainable property business is seen as a future market, a sense of cautious restraint still predominates. Many companies are baulking at the higher investment costs and the risk of making bad investments as early movers and not being able to compensate for the greater costs of green buildings.

Sustainability in the property industry partially legally prescribed

The development of sustainability methods in the property industry is the logical consequence of the general development towards sustainability on the one hand and the awareness of environmental pollution and the influence of buildings on society specifically on the other. Parallel



Source: IVG Research (2011)

to rising energy and raw materials prices, tenant demand for buildings with low utilities costs is also growing. This, combined with more stringent government regulations, is increasing pressure on the property industry to move towards sustainable buildings and services.

At a European level, the European Commission's 2007 energy and climate change package provided the main launch pad for rapid development in sustainability. However, there were also developments in the subject of sustainability in the years before. Building certificates were developed in the 1990s to simplify distinctions between conventional and sustainable buildings and thereby facilitate decisions for tenants and investors.

We predict that sustainable buildings will become more important in future. Green buildings could become established as a market standard and conventional buildings could experience price drawbacks.

Sustainability in the property industry defined by the three-pillar model

Sustainability in the property industry is defined by the classic three-pillar model below. This consists of the three dimensions of ecology, economy and social concerns. These three pillars form the foundation for developing a sustainability strategy for property companies. This multi-dimensional understanding of sustainability goes far beyond climate and environmental protection and reflects the prominent role of the property industry in the development towards a sustainable society.

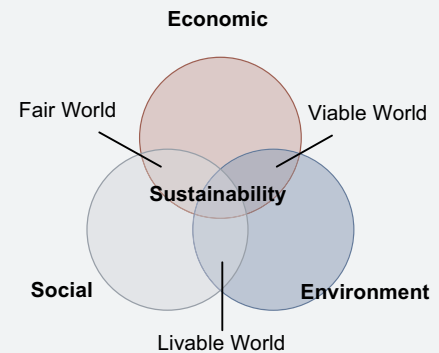
The **ecological dimension** strives to maintain nature and a functional environment. The standard is that our industry and habitat have to suffice not just for those living now but must also afford future generations the opportunity to develop their full potential as well. Above all, the effects of properties on the environment, especially with regard to the emissions and the consumption of resources, must be minimised.

The **economic dimension** builds on the pursuit of maximum profits and thereby an increase in well-being for all. The link between ecological and economic sustainability lies in the consumption of resources that precedes every attempt to maximise profits.

A sustainable and secure investment still plays a major role in the economic dimension, a role that is of particular significance to the property industry in the wake of the recent financial market crisis especially. A movement in the category of responsible property investment can already be seen in the individual green building funds being set up.

The **social dimension** is based on maintaining or improving the standard of living for current and future generations. This focuses on the fair provision of essential commodities, such as appropriate living space. As a place to live is one of the basic requirements of humankind, the special role in the development of sustainability of the property industry that provides these places is clear. Living and working conditions can also be influenced by the design of residential and office properties.

Dimensions of sustainability



Source: IVG Research (2011)

The companies we questioned rated the relevance of all three pillars almost evenly. However, the ecological and the economic pillars were mentioned a little more frequently than the social pillar. This is due to the importance of environmental protection measures for the property sector as many of these are legally prescribed.

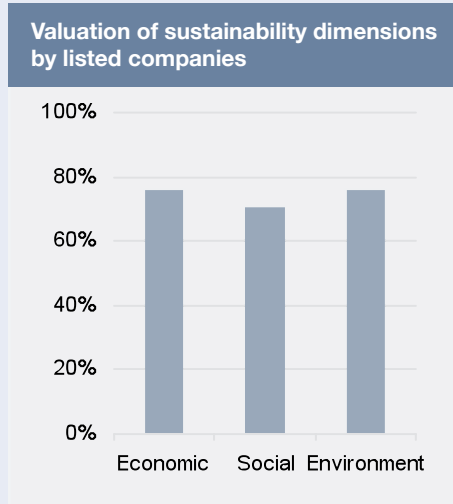
Sharp increase in sustainable investments in the property industry since 2007

Based on the survey and web site assessment, there have been four phases to date in the development of the introduction of sustainable business activities in the property industry:

The analysis begins with the **initial phase**, which saw a more pronounced increase around 2001/2002. Among other things, this was based on the great political and social interest in the subject of sustainability. The repercussions of global warming and climate change were well known to the public at large. Political reactions included the Kyoto Protocol to reduce greenhouse gas emissions and the EU’s Green Paper. Certification became possible on the property market for the first time, an opportunity that was taken by several companies. Generally, however, sustainable action was still relatively unpopular in the property industry.

There then followed a **coordination phase** between 2003 and 2006. Only a handful of companies introduced new CS strategies in this period. These years were dominated by different regional economic trends in Europe. There was a boom in the property industry in the south of Europe. For this reason, sustainability played only a subordinate role for most companies there. Meanwhile the German economy was in crisis, even being referred to as the “sick man of Europe”. Many companies hence preferred mostly purely economic measures to ensure their survival in the crisis. Between 2003 and 2006, many companies therefore did not implement a sustainability strategy as they either saw no reason to change their position because they were economically successful or because they were hit by economic difficulties and had no capacity available for sustainability.

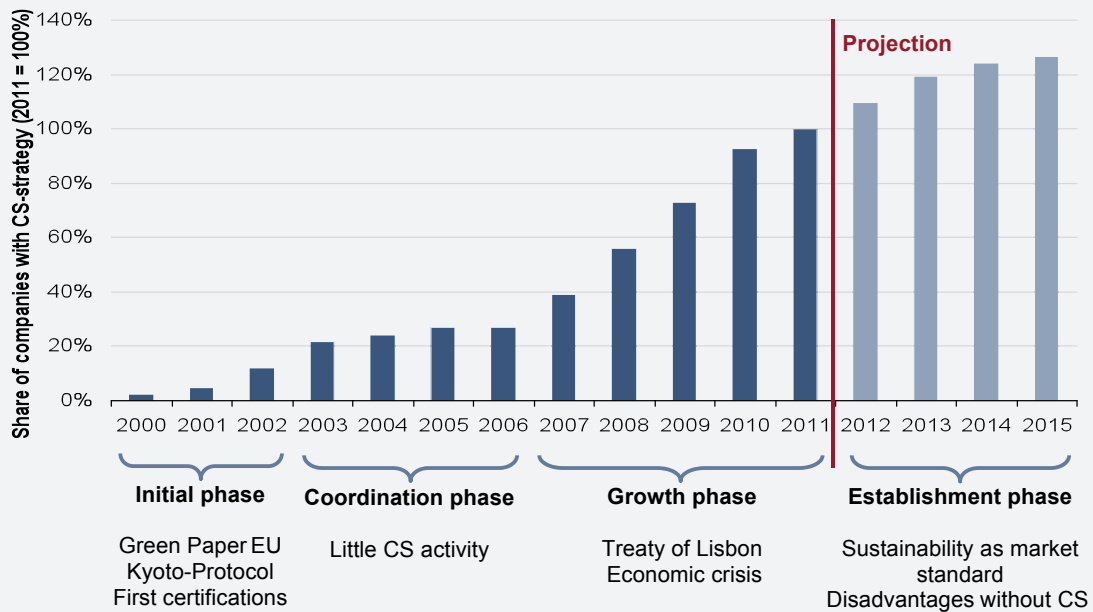
There has been steady **growth** in interest in CS activities since 2007. The Lisbon Treaty of 2007 brought climate change and energy solidarity under the purview of the EU, which went on to resolve a climate change and energy package worked out in national regulations. As properties have a considerable influence on climate change due to their greenhouse gas emissions and utilisation of resources, these regulations affected the requirements placed on the property industry. Among other things, these regulations defined limits that serve as a basis for construction and renovation work on buildings. These ordinances were therefore one reason for the re-emergence of the sustainability concept in 2007. In addition there was the economic crisis that began in 2008, triggering a rethink within the property sector. This is because economically weakened companies are attempting to change their processes and structures so as to outlast the crisis. Sustainability was seen as a possible solution that would allow economic success in the long term. Protecting the environment and social activities aided not just the motivation of employees but their



Source: IVG Research (2011)

productivity as well. Moreover, sustainable corporate activities provided a tool with which to help improve a business' image with its customers. The economic crisis was therefore a key push factor for the strong increase in corporate sustainability activities within the industry.

Progress of implementation of sustainability strategies in EPRA-listed property companies



The strong momentum of recent years and the activities this has entailed give rise to expectations that sustainability strategies could be comprehensively pursued by real estate companies by the middle of this decade. This will mark the establishment phase in which CS measures are common practice in most companies.

Almost 70% of property companies have a sustainability strategy

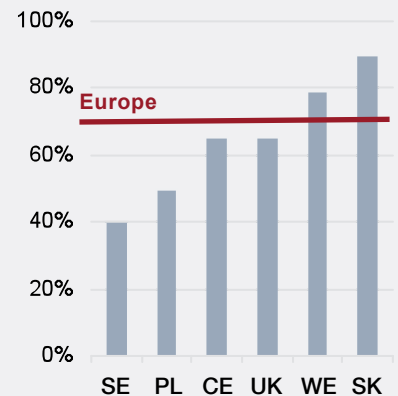
The trend towards sustainability therefore seems to have arrived in the property industry. 70% of the companies asked already reported CS activities. However, there are significant regional differences that have been confirmed by our research. Scandinavia is a clear front-runner in sustainability matters. Here, 90% of companies have already integrated a sustainability strategy into their processes. Western European companies are also well above the European average at 79%. Central Europe and the UK are slightly below average. Last is Southern Europe, where only 40% of companies have integrated sustainability into their company processes. One company in Poland is already pursuing a sustainability strategy.

Economically-oriented strategy types dominate

Corporate strategies can vary greatly. While critics often complain that companies practice sustainability for image reasons only, this is not the only factor worth looking at in the property industry. In addition to cost and

Source: IVG Research (2011)

Share of listed (EPRA) companies with CS strategy



Source: IVG Research (2011)

price, there is also a focus on risk and returns. The scientific discourse goes much deeper and identifies a total of five strategies that encourage companies to introduce CS activities:

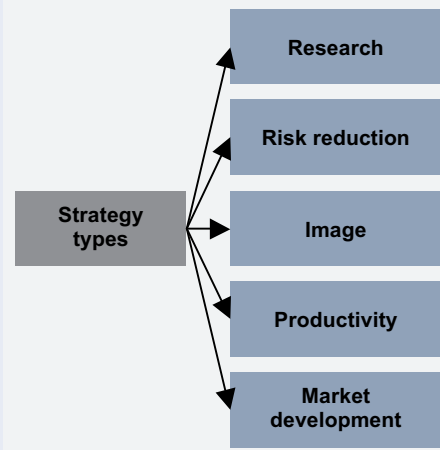
- **Risk reduction:** The attempt to reduce risk based on sustainable business. This includes not just project risks such as construction halts but also economic uncertainties. Companies that pursue a sustainability strategy are attempting to safeguard their continued existence through long-term investments.
- **Image:** Sustainability is good publicity. This can have a positive influence not just on the corporation as a whole but on its individual brands as well. The inclusion of sustainable activities in marketing is a sign that a company is using sustainability to boost its image.
- **Productivity:** Sustainable business means using resources sparingly. Saving energy and commodities has financial benefits in addition to ecological ones. Companies can increase their efficiency and productivity by using the resources available sustainably and sparingly.
- **Research:** Innovation is a market driver because innovative products open up new sales opportunities. Sustainability through innovation can occur through the evolution of a company's products into ecologically or socially more acceptable forms. Corporations that pursue this goal are increasingly using sustainable products to stand out from the competition on the market.
- **Market development:** The market is in permanent flux. There are companies and organisations that advance and support this development. Companies can promote sustainable market development with their CS strategy, for example by implementing standards or labels.

The responses from the companies questioned show that the strategies being employed are geared mainly to economic benefits. This is partly a logical consequence of past and current fluctuations on the financial markets. The economic crisis of 2008 caused severe upset among companies. As a result, high investment risks were ignored more and instead supposedly safe options were preferred. In keeping with this, **86%** of those surveyed named **risk reduction** as their key sustainability strategy. However, risk minimisation to increase security on the market is not the only strategy with an economic background.

84% of companies state improving their popularity as a reason for their CS strategy. **Image** can be taken as an opportunity to improve sales of goods and services. Most companies therefore regularly publish their sustainability activities. Hence, it is hardly surprising that image is considered the second most important sustainability strategy.

82% of companies in the survey gave **productivity enhancement** as the third most important CS strategy. Clear financial benefits can also be achieved with this strategy. Energy savings, certificates and sustainable building can have a strong influence on a property's value. **82%** of

The five strategy types of Sustainability



Source: IVG Research (2011)

Applied strategy types of listed (EPRA) property companies (Multiple answering possible)



Source: IVG Research (2011)

the companies asked are pursuing sustainability strategies to increase the productivity of their buildings and processes.

The market development and research strategies are pursued least of all

Market development came in light as a CS strategy goal at just over **77%**. However, there are economic benefits to this type of strategy. Some companies feel that sustainability is still in its development phase and that it is not yet clear where this development is leading. They therefore fear that as early movers they could invest large sums in this development only to later find that they have backed the wrong horse in terms of trends. So there is still uncertainty as to the further development of sustainability. However, market development usually occurs in cooperation with other companies, which means that the risk can be spread out. It is therefore still possible that market development will step up as a sustainability strategy in future.

The single strategy pursued least of all by European property companies is that of research. It helps companies to differentiate themselves from the competition and identify future trends early on – or to play a role in shaping them. This gives companies an edge on the market as competitors do not offer products and services similar to those sought after by the market until a later stage. However, as the property industry rarely centres on innovative products, apart from new energy or work concepts, the relatively low rating of **72%** for a **research strategy** – which is still mentioned quite often – is not very surprising.

Investors show great interest in sustainable returns on investments

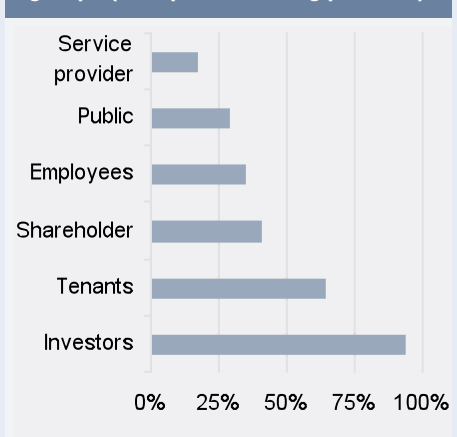
In our survey, all companies indicated that they had noted increased demand for sustainability from their stakeholders. However, there were also big differences between the individual interest groups. While all participants are interested in sustainability, this was most common among investors and tenants. There was also interest among shareholders, employees, service providers and from the public, albeit to a lesser extent.

More than 90% of companies noted strong demand from their investors. It is hoped that investments in buildings will generate profits for this interest group in the longer term. Investors therefore have their own interest in sustainable business. Energy-efficient buildings and/or certified properties also usually command higher prices on the market. Subsequent costs can be prevented by creating sustainable buildings. Legal ordinances, for example, stipulate ever stricter limits for building emissions, which then have to be implemented through redevelopment work. A building that has already been built to this standard will have lower subsequent costs for energy renovation. It should also be noted that the value of conventional buildings will decline in future. Investors’ interest in sustainable buildings is therefore understandable.

Tenants and shareholders key in demanding CS activities

Almost 65% of the property companies asked registered interest in efforts to achieve sustainability among tenants. Tenants can usually expect lower

CS interest by Stakeholder groups (multiple answering possible)



Source: IVG Research (2011)

utility bills in energy-efficient and therefore sustainable buildings as spending on heating and energy is normally greatly reduced.

Shareholders, who have a particular interest in the economic success of a company, believe that sustainability can ensure the long-term prospects of that company. CS activities are therefore also in demand among shareholders. 41% of the property companies asked have already received questions from shareholders on their sustainability strategy or calls to switch to sustainable business.

The most important market partners for listed property companies, investors, tenants and shareholders are therefore demanding sustainability. In future, the pressure from investors on companies to create and operate buildings sustainably will remain at this high level or even increase further. Sustainably designed and managed properties are increasingly becoming a market standard, thereby also driving up investor interest in this type of building. Companies that react to this development early on can secure a competitive edge with innovative products or buildings.

Share of companies with CS department rising, currently particularly high in Scandinavia

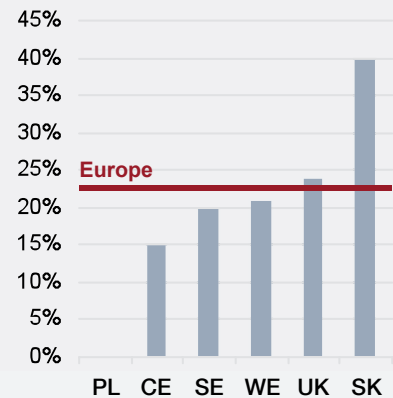
In order to satisfy the growing interest among stakeholders in CS activities and to adequately react to the needs of sustainable action, more and more companies are opting to form a sustainability department. The formation of a CS department shows that sustainability as an issue is not just thought of as an unimportant part of the business.

The survey and web site analysis show that a growing number of companies are tending to establish their own CS departments. In Europe, the Scandinavian property companies are again leading the way. According to our investigation, 40% of the companies based there have a separate department for CS matters. UK companies are also slightly ahead of the European average of 22% at almost 24%. Property companies in the west and south of Europe are just below the European average. Here, 21% and 20% respectively already have their own CS department. By contrast, companies in Central Europe are a long way from the average value. There were no separate sustainability departments to be found at any Polish companies. Moreover, many property companies are increasingly using employees trained for sustainability. The certification of buildings and the creation of realistic environmental plans require expert knowledge that can be expected from specially trained staff only.

The role of CS officer is frequently found in Scandinavia and the UK in particular

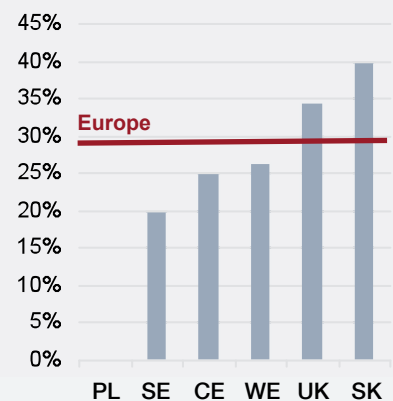
In addition, many companies appoint employees as officers or points of contact for sustainability. Stakeholders can speak to these people directly and they are usually exclusively responsible for sustainability concerns. There were a number of companies that do not have a separate sustainability department but do have someone in charge of CS matters. The Scandinavian companies are again Europe’s front-runners. 40% of the property companies questioned there have a separate officer for sustainability issues. The UK also has an above-average share of companies

Share of EPRA-listed companies with CS department



Source: IVG Research (2011)

Share of EPRA-listed companies with personal CS contact



Source: IVG Research (2011)

with CS officers of around 34%. Meanwhile, property companies in Western and Central Europe are below the European average at around 25%. Every company asked in Southern Europe that has a sustainability department also has a sustainability officer – therefore 20% of the companies looked at there. However, none of the property companies examined in Poland so far have an explicit point of contact for sustainability.

Certificates with rising comparability aiding standardisation

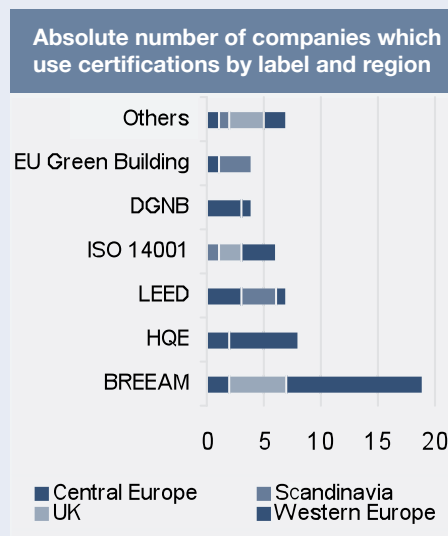
Companies have many options for signalling sustainability to their investors and tenants. One way is the certification of sustainable buildings. Properties are appraised by third-party experts according to various criteria and then rated. Examples of the factors looked at include consumption of energy and raw materials, the construction process itself and water management. The costs of certifying a building can run to six figures. On the other hand, a property company benefits from declining utilities costs and potentially greater rents and sales proceeds.

As certificates have so far been dominated more by national than international labels, as yet no one certificate has established itself as the standard in Europe. However, there are trends towards some labels being in greater demand than others. So there are signs of standardisation in the field of certificates, though this is not yet very advanced. Furthermore, those responsible for the BREEAM certificate, the US LEED programme and the French HQE seal have announced that they will be synching their standards further in future.

BREEAM certificate used most widely in Europe, particularly popular in Western Europe and UK

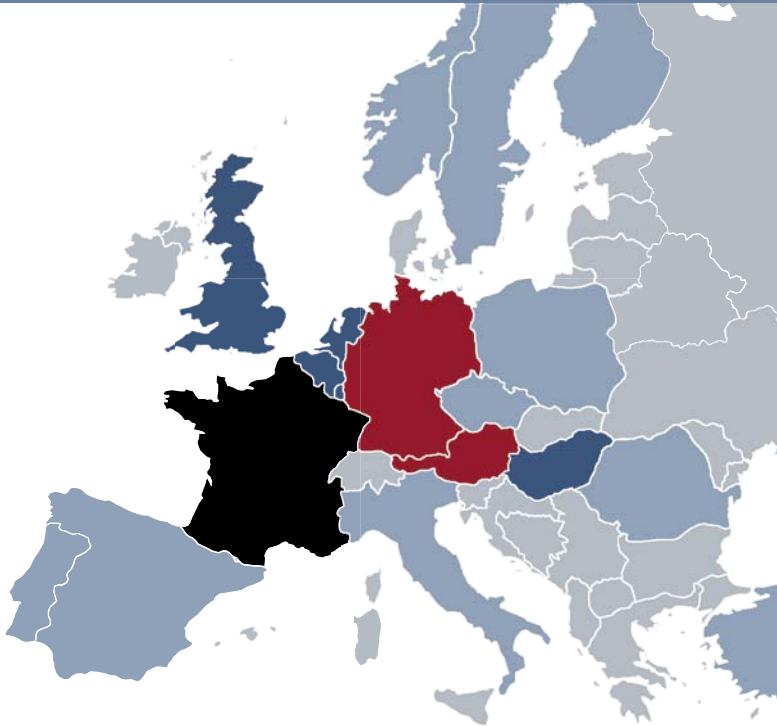
The survey showed that the British BREEAM certificate is the one currently used most often. Our research found clear interest in BREEAM certificates among French and British companies in particular. The largely equivalent LEED and HQE seals are also used comparatively frequently. While the companies that responded that they work with the HQE seal came exclusively from Western Europe, the LEED certificate is also regularly used in Central Europe and Scandinavia. The international ISO 14001 certificate, the German DGNB (German Sustainable Building Seal) and the European EU Green Building certificate are currently used less frequently.

The requirements for awarding such a seal will become more consistent in future and the differences between the labels will become less. This will also increase the comparability of the different certificates and create more transparency on the market. This can create new impetus on both national and international markets. The choice of label could therefore soon depend more on a company’s national origins. The number of certified buildings will rise further in future.



Source: IVG Research (2011)

Primarily used certificates by country Number of certificates by country



	LEED	BREEAM	DGNB	HQE
United Kingdom	13	661	-	-
Sweden	8	1	-	-
Finland	12	-	-	-
Portugal	1	-	-	-
Spain	13	5	-	-
France	2	21	-	579
Belgium	1	10	-	4
Luxembourg	-	4	1	3
Netherlands	2	-	-	-
Germany	16	1	58	-
Switzerland	-	-	-	-
Italy	6	2	-	-
Austria	-	1	2	-
Poland	5	5	-	-
Czech. Rep.	2	1	-	-
Hungary	2	4	-	-
Russia	1	1	-	-
Turkey	13	3	-	-
Romania	1	4	-	-
Norway	1	-	-	-

Do good things and speak of them – communication a key factor

Almost every company involved in sustainability publicises its efforts in this area as well. Almost nobody wants to ignore the image impact of sustainable business, though there are different strategies for tackling this. Communication, both on the market and with the public, is a crucial factor in the field of sustainability.

There are also large regional variations in the communication of sustainability work. In addition to publishing a sustainability report, external communications also include virtual media, such as the CS section of a company’s web site. For publications the spectrum ranges from the separate sustainability report to sections or paragraphs in the annual report (integrated reporting) or solely internal publication of such reports. The latter applies almost exclusively to companies with a sustainability strategy.

Large numbers of reports from Western European and Scandinavian companies

According to our survey, on average, companies from Western Europe most commonly publish a CS report or include sustainability in their annual report. The figure for Scandinavian property companies was marginally behind at 70%. UK companies match the European average of 52% according to the survey and web site analysis. However, Central European companies publish proportionately fewer reports on sustainability than average European companies. In Southern Europe and

Status: 5th of September 2011

Sources: www.dgnb.de; www.usbgc.org
www.greenbooklive.com
www.joinricsineurope.eu

Poland relatively few companies publish information on their activities. Our investigation found that only one in five companies in Southern Europe publishes reports on their sustainability work – if any. The survey did not find any Polish companies that publish such reports or include sustainability in their annual report. This is mainly due to the fact that fewer companies practice CS in these countries.

Distinction between reporting on principles and progress needed – Scandinavia and Western Europe lead the way in reporting

Regional differences were also seen not just in the number of publications but in their form as well. There is a trend towards independent sustainability reports throughout Europe, though their share varies considerably from region to region. The publications by the Southern European representatives looked at in the study, for example, were exclusively independent reports. Meanwhile, Scandinavian companies, considered the pioneers in matters of sustainability, publish the results of their CS work mostly in their annual reports. Scandinavian companies often began practicing CS strategies earlier than other EU states and here they are often already firmly anchored in corporate culture. Their reporting on principles has therefore often already been completed and now they focus on reporting on progress. Hence, a separate CS report is usually unnecessary and progress is instead reported in the annual report. This procedure is also favoured by the EPRA. It is assumed that this form of CS reporting will also make its way to other regions.

Rising standardisation also affects sustainability reports

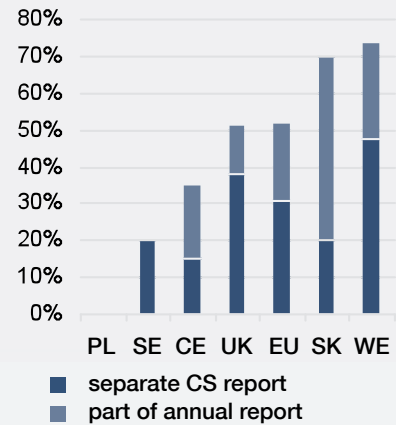
International standards are increasingly being used when creating CS reports to allow comparability of results and statements. Growing standardisation was already observed in certification. However, the trend towards a pan-European reporting standard is more advanced than for certificates. The GRI standard (Global Reporting Initiative) is the one most frequently referenced in Europe. It is used by more than 75% of the companies asked when designing CS reports. EPRA’s Best Practice Recommendations on sustainability had not yet been released at the time of the survey and therefore were not taken into account.

As with certification, the standardisation of reports points to a greater professionalism in CS activities. Those responsible are attempting to make the results of their work more comparable. This will greatly increase transparency in this comparatively young field. This can help to reduce uncertainty and ignorance regarding sustainable forms of business.

Web site sustainability communication very popular

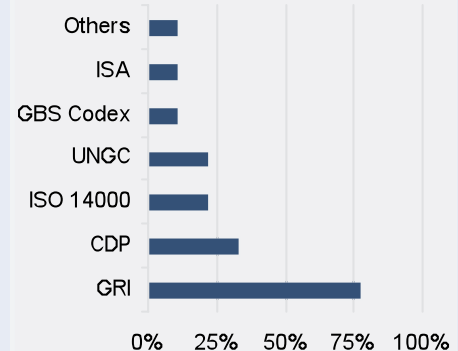
The companies that publish a CS report or that dedicate a part of their annual report to sustainability tend to also have a separate CS section in their web sites. Such sections are relatively common among Central European companies compared to the publication of a printed report. 70% of companies in this area inform the public of their sustainability activities on their web sites. This value is exceeded only by the Scandinavian companies. 80% of Swedish and Finnish property companies reported separate CS sections on the Internet. According to our information, companies from the UK, Western Europe and Poland are slightly below the European

Publication of CS reports



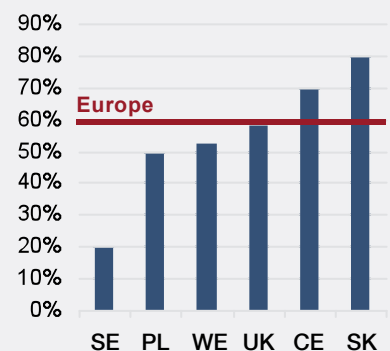
Source: IVG Research (2011)

Used reporting standards



Source: IVG Research (2011)

Share of investigated companies with CS section on homepage



Source: IVG Research (2011)

average of 60% at between 50% and 58%. At 20%, Southern European companies are much less likely to publish CS information on their web site.

Major differences in Internet design

Nearly all companies that pursue CS activities in any form communicate this on their Internet site. Most property companies use the Internet as a communication medium and as a simple and effective way of tending their image. However, there are clear differences in the design of the CS area. While some companies publish their entire CS strategy and all certifications, other companies merely reference their sustainability activities without describing them in more detail.

Sustainable investments possible at a third of companies

One example of implementing sustainability in practical operations is launching sustainable funds. This means firstly that the fund property should have a sustainable background (e.g. green buildings), and secondly that the fund should generate profits sustainably, and therefore has a comparatively long-term basis. The theory is that, with responsible investments, property investors can generate higher returns and safeguard their success in the long term. Looking at the US, where the trend towards sustainability began earlier, we observed a more intensive development towards sustainable investments. This rising significance of sustainable investments in future can therefore at least be assumed. However, the timeframe over which this will occur is not yet known. In Europe the investment volume for such properties is currently on the rise.

Almost a third of the listed property companies asked have already launched a sustainable or green fund. At almost 59%, the majority of companies has not yet initiated such funds. The remaining 12% of companies did not wish to provide any information on this.

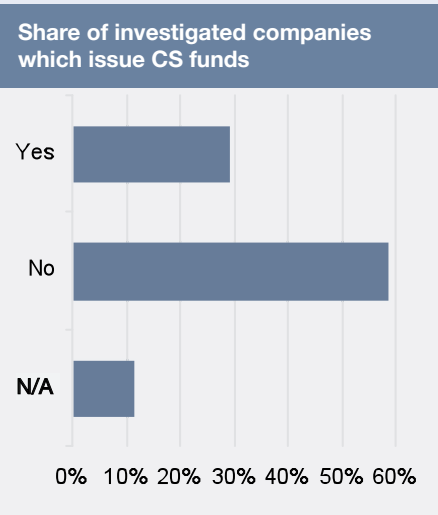
Few funds planned for the future, often not a business area

In order to assess the future development of such green funds we asked all the companies who responded “No” whether they planned such investment opportunities for the future. The overwhelming majority, almost 80%, of those companies asked again are not planning to float such a fund in future. The other companies are still uncertain at this time and answered with “Perhaps”. No companies said that they were actually initiating a sustainable fund. This result is not very surprising. Issuing funds is not a business activity for many of the property companies listed with EPRA.

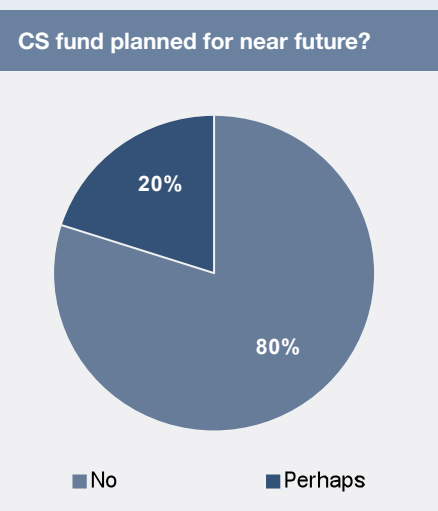
This type of fund is still relatively new and unknown. Nonetheless, we expect that more sustainability funds will be launched in future.

Scandinavian companies lead sustainability ranking, Central Europe below average

Overall, our analysis has shown a highly heterogeneous picture of CS efforts in the European property sector. The sustainability activities in the individual regions vary considerably from each other. This is particularly clear in relation to the integration of sustainability in corporate processes.



Source: IVG Research (2011)



Source: IVG Research (2011)

The results of the IVG survey can be mapped in a simple ranking. The ranking system is based on awarding points for companies' involvement in sustainability issues. The number of points awarded depends on the extent of involvement (see box). Regional averages were determined using the data from the individual companies to allow a rough classification of the regional sustainability situation. A maximum of twelve points are possible in this ranking. All criteria must be met in full to achieve this score.

Generally, Scandinavian companies play an advanced role in Europe, as shown by the maturity of sustainability in the property industry in these countries. Alongside Scandinavia, Western Europe – especially France – scored very good results in both designing and implementing CS strategies. In terms of implementing sustainability, British firms match the European average exactly. They are therefore well ahead of Central European property companies, whose CS activities are still less advanced overall. Poland and Southern Europe fare substantially less well. Only a handful of companies here provided any indications of CS activities. Sustainability efforts began here much later and are therefore less developed than in other European states.

Reasons for regional differences due to market and government

The differences between the individual regions can arise from government measures, for example in the form of legislation, and from the markets themselves.

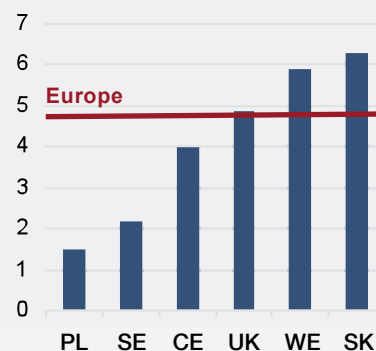
The EU states have different political approaches in the realm of sustainability. While there are some overlaps in European law, there are usually differences in the implementation of such regulations. The Scandinavian nations, above all Sweden, lead the way in Europe in terms of climate protection coverage and efforts. The opposite is true of Poland and Southern Europe: They bring up the rear in Europe both in respect of climate policy and current coverage. It should be noted that sustainability has different traditions in the individual countries. The concept was familiar in Scandinavia and the UK, for example, before Southern Europe or Poland.

Legislation has key influence on sustainable conduct of companies

In addition to government, the market itself can also be seen as a key driving factor for the regional differences in development as this influences the way companies act. If stakeholders and shareholders show interest in the greater integration of sustainable thinking at a company, a lot of companies will bow to this comparatively quickly. This pressure appears to have been applied to Scandinavian companies. Companies without sustainability strategies can therefore find themselves at a competitive disadvantage. In Southern Europe, however, where there is the smallest proportion of companies with sustainability strategies according to the survey, a lack of sustainability work is not yet considered a shortcoming.

In Scandinavia the practical implementation of sustainability is therefore a key factor in competition. The topics of environmental protection as well as social and economic responsibility also have deep roots in companies here. Their relative affluence also allows them to be more committed to

Ranking scores of regions



Maximum points: 12

Source: IVG Research (2011)

Used ranking criteria

- CS strategy
- Autonomous CS department
- Personal contact
- CS report
- Certifications
- Membership in CS association
- CS section on homepage

In the category „CS strategy“ and autonomous „CS department“ 0 or 1 point were given, depending on whether the criterion was met or not.

In the other categories, between 0 and 2 points could be achieved. 0 points for not meeting the criterion, 1 point for average implementation and 2 points for commendable engagement.

Source: IVG Research (2011)

sustainability. By contrast, such market urging is not as prevalent in Southern Europe, though interest in sustainability is continuing to rise there.

Growing significance of sustainability at European property companies in future

It is comparatively difficult to give an exact forecast for the future on account of the many trends and directions developments could take. However, we wish for this analysis to show not just the current status of sustainability at European property companies but also to provide an insight into the sustainability strategies of companies in the coming years. In order to roughly assess future market developments, a survey was conducted of specific sustainability planning for the next 24 months and the next five years in which multiple responses were possible.

CO₂ reduction and certification in particular planned for next 24 months

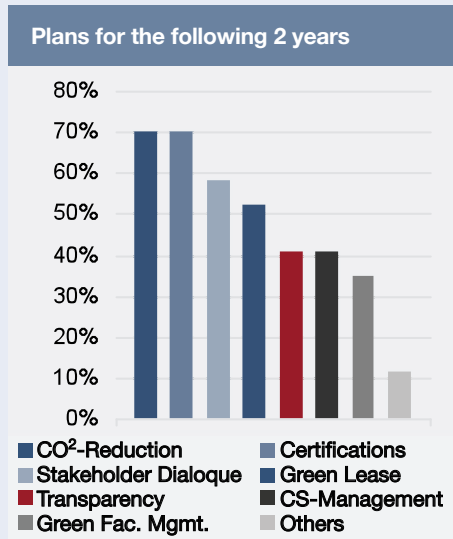
We found that most companies are anticipating more standardisation in the next two years. Many companies currently operating without a sustainability concept announced that they would be moving into sustainable developments so as not to be at a possible competitive disadvantage.

Two particularly strong trends were noticed for the next 24 months: Firstly, 70% of those asked stated that they would attempt to obtain certification for their properties. This can be interpreted as proof for the ongoing process of standardisation on the markets. In future, green buildings could become the market standard for internationally placeable properties. There is the possibility that the value of conventional, uncertified properties will diminish. This development is prompting many companies to have their properties certified in order to stabilise their value. Secondly, more than 70% of companies also want to reduce their greenhouse gas emissions. This trend emphasises the importance of the ecological pillar of sustainability. This acknowledgement of climate protection is at least partially due to legal stipulations. Many companies are under pressure from legislation to reduce their emissions.

Improved sustainability communications often a goal

Almost 60% of the companies surveyed wish to improve their dialogue with stakeholders in the next two years. This dialogue means the communication of sustainability measures. A majority of companies therefore wants to raise public awareness of their commitment to sustainability. Increasing transparency, planned by more than 40% of companies in the next two years, is also in line with this. Many property companies do not just want to pursue sustainable strategies but also want to make their successes publicly known. The intention behind this is to enhance the company's image and thereby ultimately to glean a competitive edge.

The introduction of green leases is also being planned by most German property companies for the next two years. Green leases, also known as green clauses, describe a part of the agreement between the lessee and lessor that obliges the lessee to use the property in an environmentally friendly way. This environmentally friendly use can be defined as the avoidance of greenhouse gases and waste or other environmental



Source: IVG Research (2011)

protection measures. As most energy saving concepts lead to a reduction in utility bills, some tenants are interested in such offers. Several property companies are therefore reacting to the increased demand for sustainable properties. 53% of the companies asked are therefore striving for green leases in the next 24 months.

Around 35% of the companies questioned intend to introduce green facility management over the next two years. Here, too, there is greater demand coming from investors and tenants. Property companies therefore have to steer their offerings in this direction to remain competitive on the market.

In addition to a general extension of CS activities, some companies also indicated plans to establish a separate sustainability department in future. However, no further information was provided on the size or powers of such departments. Nevertheless, this trend shows that the market is aware of the sustainability issue. Many companies are assuming that sustainable operations will become a market standard moving forwards. By forming a CS department they hope to prepare themselves for the requirements of this new standard. This measure is planned for the next 24 months at some European property companies but only for the next five years at others.

Energy saving, portfolio-screening or wait-and-see – plans for the next five years vary substantially

Several companies are planning to carry out portfolio screening over the next five years. This means testing their properties for sustainability aspects. Building on this, they can derive specific measures to enhance the sustainability of their property portfolios. Such screenings allow for targeted sustainability planning on the one hand while increasing a portfolio's transparency on the other. This not only affords internal benefits but can also be used externally. At the same time, the rise in portfolio screening reinforces the trend towards sustainable buildings. Such screening makes sense only when it serves the ongoing development of a portfolio.

However, the property companies questioned wish to do more than just make their current portfolio more sustainable. Some companies are planning to specifically acquire buildings that are already certified in the next five years. The standardised certification of properties is therefore apparently being accepted by the market. Moreover, the acquisition of such buildings in turn points to the general trend towards sustainable properties.

A further project for the next five years is reducing consumption of resources and energy. In general, the planned decrease in the consumption of resources in turn shows the importance of the ecological pillar of sustainability to the property industry.

Among other things, one intended aspect of the sustainability strategies for the next five years frequently mentioned was to wait and see which clear trends emerge. Some companies find the current transparency in sustainability insufficient and prefer to wait for more reliable trends. These companies are concerned that the sustainability measures to date are not yet fully mature. They see the risk of a change in direction in the sustainability movement and wish to first monitor developments and derive their initial steps from their observations.

Authors:

Franziska Haucke
Niklas Völkening
IVG Research
Zanderstraße 5
53177 Bonn
Phone: +49 (0) 228 - 844 418
Fax: +49 (0) 228 - 844 6454
e-mail: Research@ivg.de