

Responsible investing in real estate

March 2019



Abigail Dean

Head of Sustainability

As head of sustainability, Abigail Dean oversees Nuveen Real Estate's global sustainability strategy which positions us as a global leader on environmental, social and governance (ESG) issues. Here, Abigail provides insights on our approach to responsible investing and how we implement sustainability into our real estate investment lifecycle.

WHY IS RESPONSIBLE INVESTING CRITICAL IN THE REAL ESTATE MARKET?

The past decade has seen a significant shift toward the mainstreaming of ESG issues into investment decision-making. Milestones such as the global ratification of the Paris Accord, the widespread take up of the UN Principles for Responsible Investment and the integration of the UN Sustainable Development Goals into business thinking have all played a key part in embedding responsible investing into global investment activity.

We align our approach with the recommendations set out by the Taskforce on Climate Related Financial Disclosure (TCFD), recognising that the physical impacts of climate change and the transition to the low-carbon economy, represent significant risks to and opportunities for the real estate industry. These factors will have a major impact on value in the future. We are witnessing growing investor interest in sustainability and it is increasingly becoming a 'must have' in their investment criteria. It is already influencing real estate market fundamentals, including void lengths, obsolescence, rate of depreciation, operational costs and liquidity.

HOW IS NUVEEN REAL ESTATE APPROACHING RESPONSIBLE INVESTING?

Our priority is to deliver outperformance for our clients and protect tomorrow's world. This tomorrow's world approach focuses on bigger picture trends and insights which we believe will impact the future use and demand for our investments. Our responsible property investment strategy addresses a wide range of environmental, social and governance issues. This helps us anticipate and respond to changes in the investment market, occupier demand, legislative and fiscal regimes, client expectations, energy supply, cost and resource availability – identifying opportunities to mitigate risk, protect and create long-term value.

We have committed to reducing the energy intensity of our global equity portfolio by 30% by the year 2030. This responds to and supports the goals for sustainable real estate established at the Paris Accord in 2015 and puts us at the forefront of the transition to the low-carbon economy. We have bucketed our property portfolio into three tiers based on the energy consumed and the relative efficiency of each property compared to the local market. There are different annual energy reduction targets applied to the assets within the three different tiers. Asset level categorisation enables our tomorrow's world programme to maximise energy efficiency gains across the portfolio and facilitates a house-level target-setting framework.

We also take account of the physical climate change risk in our investment process. We assess the vulnerability of assets to climate change at the point of acquisition and look for opportunities to ensure that our buildings are resilient to weather events.

Whilst the environmental impact of our portfolio is a key area for us, we also address a wide range of social and governance factors, such as local employment, youth employment, fair wages, health and wellbeing, the social value and continuation of our buildings and community engagement.



As occupier demand, investors' requirements, legislation, global climate and resource challenges evolve, our approach to sustainability continues to develop.

HOW HAS NUVEEN REAL ESTATE INTEGRATED RESPONSIBLE INVESTING INTO ITS INVESTMENT PROCESS?

In order for our reduction commitment to be meaningful, it is imperative that it is fully integrated into our investment process. This is particularly evident in our Global Cities Series, where sustainability factors such as climate change vulnerability, air quality and electricity grid carbon intensity are used as part of the screening process to identify investable cities. These factors are used alongside an assessment of the scale, growth and liveability of a city. Scoring the sustainability of cities in this way helps us to incorporate resilience into our strategy. When undertaking due diligence on building acquisitions, we perform a sustainability assessment which looks at energy efficiency, environmental risk and climate change risk. We also integrate sustainability considerations into our annual business planning process, identifying opportunities to improve the sustainability performance of our buildings by investing in energy efficient technologies and building upgrades.

HOW WILL THE TRANSITION TO A LOW-CARBON ECONOMY IMPACT REAL ESTATE?

Real estate represents roughly 40% of global carbon emissions¹, so it is a significant part of the current problem but also part of the potential solution. The World Green Building Council states that all buildings must be ‘net zero carbon’ by 2050 if the Paris Agreement is to be fulfilled. Although the definition of ‘net zero carbon’ is not formally defined, it is generally accepted to mean one which is highly energy efficient with all remaining operational energy use only from renewables. We believe net-zero carbon buildings are a good investment as evidence continues to mount that they are easier to sell, more attractive to tenants and less vulnerable to obsolescence. Therefore, it is obvious that we should consider investing our clients’ money in the buildings that are properly future-proof and we are committed to striving to ensure our assets are well placed to retain their value as we see this low-carbon shift. We are also seeing plenty of evidence that the real estate investment community is embracing this concept, with GRESB being a real driver of investor interest in the sustainability performance of real estate funds.

WHAT SUSTAINABLE INNOVATIONS AND TECHNOLOGIES HAS NUVEEN REAL ESTATE IMPLEMENTED?

Although it is important that sustainability is considered in investment decisions before acquisitions are made, we must also invest in the latest technology to improve the efficiency of our existing buildings. We are keen to ensure our buildings provide the best indoor environments for our tenants, so we have invested in innovative health and wellbeing technologies. For example, we worked closely with Arbnco to create a solution which helps to monitor indoor pollutants, natural light and temperature. Following a successful trial, our intention is to roll this technology out to suitable buildings in our portfolio.

We have also partnered with and utilised smart building technologies, such as Demand Logic, 4D and EP&T, in order to increase the efficiency of our assets where energy data drives energy performance. Advances in technology mean it is now possible to use sensors, advanced metering and specialist software to monitor tens of thousands of data points on a real time basis, to ensure that buildings are ‘optimised’ to deliver the best environment to tenants, whilst not using any more energy than necessary. We typically find that the use of this technology in offices or shopping malls results in 10% - 20% of energy savings.

Another area of focus for us is renewable energy. The cost of onsite solar PV has also reduced dramatically in recent years and we now routinely assess our properties for their suitability for onsite renewables. Technologies such as these will be a key feature of our programme to achieve our 30% energy reduction target and transition to a low-carbon economy.

¹ Environmental and Energy Study Institute, Buildings and Climate Change, 2014.

For more information, please visit us at [nuveen.com](https://www.nuveen.com)

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on factors such as market conditions or legal and regulatory developments. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This material may contain “forward-looking” information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition.

Any changes to assumptions made in preparing this material could have a material impact on the information presented herein. Past performance is no guarantee of future results. Investing involves risk; principal loss is possible. This information does not constitute investment research as defined under MiFID.

nuveen
REAL ESTATE