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# Responsible property management within the HBOS group

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## Insight Investment

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## Context



- **Insight Investment is the asset manager of HBOS**
- **HBOS**
  - £540 billion in assets
  - 70,000 staff throughout the UK; large environmental footprint due to large number of offices
  - UK's largest mortgage and savings provider
  - Major player in the provision of new current accounts and credit cards in the UK
- **Insight**
  - Wholly owned by HBOS
  - Manages over £92 billion / €136 billion of equities, bonds and cash for HBOS and external clients
- **Insight spun-off its Property Asset Management business this year: Invista Real Estate**
  - 55% owned by HBOS
  - Manages £8.6 billion / € 12.7 billion assets

# 1. HBOS: managing our own energy efficiency

## ○ HBOS offices

- First energy efficiency targets set in 1999
- Significant energy and cost savings achieved
  - Energy use:
    - » 2001: 8,335 kWh/FTE
    - » 2005: 7,425 kWh/FTE
  - CO2 emissions
    - » 2001: 2,972 kg/FTE
    - » 2005: 2,620 kg/FTE
- Total expenditure between 1999 and 2005 was around £4m
  - Cost savings: £16.5m
  - CO2 emissions reductions: 133,000 tonnes
- November 2004: new electricity supply contracts 89.7% of electricity to be provided from sources exempt from the UK climate change levy
- October 2005: 100% electricity generated that way
- Current targets: to reduce energy consumption by 17.5% per FTE for the period 1st January 2002 – 31st December 2007
- New group set up to develop a broader climate change policy, and to set objectives (carbon neutral?) and strategies for achieving them.

## 2. Insight's property asset management - Invista

- **Insight adopted a sustainability policy for its property portfolio in July 2006**
- **Appointed Upstream as consultants to develop management systems etc in July 2006.**
  - 'Work in progress'
  - Set up Responsible Investment Committee
  - Focus on largest properties in each fund, with biggest environmental footprint
  - Focus on key environmental impacts: energy, water, waste, transport, pollution
  - In the process of developing key performance indicators (KPIs), working out how to generate necessary data, in partnership with managing agents
- **Additional initiatives**
  - Member of The Third Dimension project, run by Upstream
  - Take part in Upstream's Shopping Centre benchmarking programme



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## Invista's sustainability policy

Invista manages and develops **all** property assets in line with its Sustainable Property Investment Policy. Invista primarily manages existing property portfolios, but also develops new sites and redevelops existing properties according to individual clients' mandates.

Invista recognises that how buildings are designed, built, managed and occupied significantly influences their impact on the environment and affected communities.

Invista is committed to delivering strong financial returns to our clients **while at the same time delivering positive environmental, social and economic benefits**. We believe it is important to effectively manage sustainability-related risks, associated with, for example, climate change (more severe and regular floods, increasing storm damage costs and energy costs), site contamination and remediation, use of hazardous materials, waste management (rising landfill and disposal costs), employee and contractor health and safety, and local community relations.

Our standard business processes ensure that we obtain an environment report as part of the due diligence process for property acquisitions. In addition, we ensure that our Fund Managers and appointed Managing Agents **comply** with all relevant laws and regulation relating to our business. We also **aim to operate according to established best practice** within the industry on all relevant environmental and social aspects of property management and development.

We are committed to **working with** our clients, business partners, suppliers, local communities, tenants, government agencies, and planning and regulatory bodies constructively to achieve greater sustainability in property development and management.

We are in the process of establishing implementation systems to gather evidence so as to be able to demonstrate compliance with this policy by the end of 2006.

# Why are sustainability issues relevant to property investment?



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## ○ Compliance & Risk Management

- Increasing environmental and social legislation
- Sustainability planning requirements
- Corporate governance requirements

## ○ Operational Efficiency & Competitiveness

- Natural resource efficiency
- Construction risks and life cycle costing

## ○ Reputation Management

- Contribution to Governmental objectives
- External stakeholder enquiries

## ○ Market Differentiation

- Attracting and retaining socially responsible clients
- Creating new business opportunities



# Link between environmental issues and financial performance

## ○ How could environmental issues affect investment performance?

- Rental Growth e.g. changes in occupier demand
- Capital Growth e.g. valuation, liabilities
- Depreciation e.g. location, physical depreciation
- Management Costs e.g. running, maintenance, insurance
- Development Profits e.g. construction productivity, delays

### 3. Insight's engagement as an equity investment manager

- **Involved in built environment issues since 2002 at Insight (and since 2000 at ISIS – now F&C)**
- **Recent focus has been on listed UK housebuilders' performance and reporting on sustainability, with WWF**
  - Housing development has significant environmental impacts
  - Sector known to be slow in embracing better standards and new technologies
- **WWF & Insight designed criteria against which the companies were assessed**
- **Focused on three aspects of management of sustainability issues**
  - Governance, strategy and risk management
  - Impacts on the environment
  - Impacts on society
- **Evaluated companies' reporting and performance based on actual practice and assigned a percentage score**
- **Specialist consultants (Upstream) carried out research**
- **Published two comparative analyses (benchmarks): January 2004, September 2005**



## Benchmarking results



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Company	2005 scores based on engagement	2003 scores based on engagement	Improvement
Crest Nicholson	84%	68%	16%
The Berkeley Group	84%	72%	12%
George Wimpey	83%	54%	29%
Taylor Woodrow	74%	68%	6%
McCarthy & Stone	73%	32%	41%
Bellway	70%	35%	35%
Barratt Developments	69%	31%	38%
Wilson Bowden	67%	-	67%
Bovis Homes	61%	46%	15%
Persimmon	60%	47%	13%
Redrow	50%	38%	12%
Westbury	45%	38%	7%

## Continuing engagement

### ○ Housebuilders

- Third benchmark during 2007
- Expanding to cover Top 20 UK housebuilders; 70% of all new build
- New approach: funded by broad stakeholders. Insight / WWF/ the Housing Corporation / Government

### ○ Property sector

- We find benchmarking to be a very effective tool; involves extensive discussion with developers – not just desk-based – therefore helps to understand what companies are doing in-depth, using a rigorous analytical framework. Clearly drives improvements in performance and reporting
- The approach could easily be adapted for listed commercial property developers
- Upstream already runs a benchmarking group for UK property asset managers, managing agents and developers .... could be extended Europe-wide?

# Useful information / initiatives on commercial property sector and sustainability



## ○ The business case for the property sector to address sustainability

### – ‘Risk, reputation and reward’

- <http://projects.bre.co.uk/rrr/RRR.pdf>

## ○ Upstream

### – Property Environment Group – PEG

### – The Third Dimension project

- Developed an outline methodology to add a sustainability dimension to standard investment analysis, i.e. risk and total return

## ○ Kingston University Sustainable Property Project

### – With various property management and government partners

### – <http://www.sustainableproperty.ac.uk/>

## ○ British Council of Offices

### – Various sustainability publications

### – <http://www.bco.org.uk/research/researchreports/detail.cfm?rid=82&cid=0>

# Annex 1: Impacts and views re. sustainability in the property sector



## Impacts

- Buildings of the world consume 40% of the world's energy & materials; 25% of the wood harvested and 17% of our water.
- In 2004 CO2 emissions from non domestic buildings accounted for 13.3% of total UK carbon emissions, rising to 39.8% if domestic buildings are included.
- Around five million people in two million properties, and over 185,000 businesses, are in flood risk areas in England and Wales.
- Insurance claims for storm and flood damages in the UK have doubled to over £6billion over the period 1998 -2003, compared to the previous 5 years, with the prospect of a further tripling by 2050.
- The UK construction industry produces over 94 million tonnes of waste per year.

## Views are changing

- 75% of property developers believe that the EPB Directive will have a negative impact on UK investment portfolios.
- 90% of UK businesses would be more willing to pay for energy-efficient buildings than for iconic ones.
- 65% of property directors regard energy efficiency as a cost-control issue (compared with 20% seeing it as a corporate responsibility).
- 87% of commercial occupiers rated 'efficient energy use' as the most important feature for sustainable buildings.



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Thank you

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