PROPERTY INDUSTRY ALLIANCE

A best practice framework for a responsible real estate industry

"Now more than ever any business that does not recognise the crucial importance of behaving in a socially and environmentally responsible manner will not be sustainable over the long term.

Those involved with the built environment have a huge collective responsibility and opportunity to drive real change. While many in our sector are making significant strides forward and having a really positive impact with their ESG policies, there remains a lot of debate and a lack of clear direction as to what best practice looks like, particularly for those who are less well resourced, which leads to fragmented efforts. This framework will support real estate market participants of all sizes in aligning their decisions with a high ESG standard and help them assess their businesses and progress.

We have a duty to our communities, our people and our shareholders to self-reflect, to ask ourselves the tough questions and to behave in the right manner in recognition of the fundamental role that we play in society, as well as to ensure our future relevance."

Bill Hughes,
Chair of the Property Industry Alliance
& Head of Real Assets at Legal & General Investment Management

PROPERTY INDUSTRY ALLIANCE

A best practice framework for a responsible real estate industry

Background to this initiative

The PIA.

The Property Industry Alliance (**PIA**) was formed in 2006 to facilitate closer working between the leading representative and professional bodies in the commercial real estate industry. Today, it has eight member organisations: the Association of Real Estate Funds (**AREF**); the British Council for Offices (**BCO**); the British Property Federation (**BPF**); the Commercial Real Estate Finance Council (**CREFC**) Europe; the Investment Property Forum (**IPF**), Revo, the Royal Institution of Chartered Surveyors (**RICS**) and the Urban Land Institute (**ULI UK**). Each of these organisations has its own mission, but they serve overlapping constituencies with interests that sometimes align sufficiently to warrant a coordinated approach.

A best practice framework...

More and more real estate industry participants have increased their focus on environmental, social and governance (**ESG**) considerations in recent years. The PIA supports this and encourages others to move in the same direction. To help that happen, the PIA's member organisations have agreed a set of core principles which are intended to assist their respective memberships in adopting ever improving practices, whether as direct custodians of the built environment, or as providers of capital, expertise or other services with some influence over it.

...for a complex and multi-faceted industry...

Given the broad range of firms represented by PIA member associations, these principles are not intended to be narrowly prescriptive. Instead, they seek to provide a best practice framework within which real estate market participants can operate and make decisions, and against which they can assess themselves, and their progress.

...and a flourishing industry.

This is an important endeavour. As custodians of our built environment, industry participants should deliver and manage buildings and places that meet the needs of the communities they serve. But there are also commercial reasons for a more responsible, holistic and long-term perspective. A stronger, more consistent focus on ESG, for example, can help attract both capital and talent, and allow better management of regulatory and political risk. The built environment that we pass on to the next generation should be in a better state than when it was entrusted to us. We want our industry to be proud of creating and managing buildings and places that respect the environment and meet the evolving needs of those using them and society at large, as well as those of their investors and customers.

Introduction

A multi-dimensional industry...

Real estate industry participants undertake myriad activities for a variety of reasons. Buildings have long and complex lifecycles, including procurement and construction, purchase, financing and disposal, operation and management, refurbishment, redevelopment and adaptation for different uses, and demolition. Different firms might specialise in particular types of building, or in particular stages of the building lifecycle, or in particular specialist areas of advisory expertise. They may own or lend against real estate in order to generate income for the benefit of savers, pensioners and insurance policy holders, or for other investment purposes; or they may focus on the often riskier - but no less important - areas of developing new buildings, types of building or places, or changing the way buildings or places can be used.

...responsible for our built environment, and for investing our savings.

Real estate firms are the custodians of our built environment - but real estate being a capital intensive business, these firms are also custodians of our savings. Whatever their reasons for participating in the real estate sector, whether as owners, developers, managers, financiers or advisers, they have, collectively and individually, a genuine and substantial responsibility for how they shape the places (both buildings and the open spaces between them) where we all live, work and play.

Financial constraints.

Like all businesses, firms in the real estate industry operate within financial constraints, setting profit targets that justify the risks they take. Their decisions and choices will often have to strike a balance between achieving (or exceeding) the returns that keep them in business, on the one hand, and creating (or increasing) positive impact from a project or transaction, on the other. It is not always easy to prioritise the longer-term considerations that can make a building or place a success over the considerations likely to deliver a profit in the shorter term.

Regulatory requirements.

Real estate firms are often also subject to regulatory requirements, for example under planning, safety or environmental rules. The aim of such rules is usually to protect the interests of important stakeholders such as the local community, workers or the environment. Transparent and proportionate regulation can ensure and safeguard the public interest in such critical areas. However, their effect should not be to drive firms towards a minimum compliance mindset, but rather to encourage them to find the best ways to take care of such external stakeholders.

A long-term perspective.

Buildings and urban centres take a long time to build, and require management over a long operating lifetime, evolving alongside society, technology and the economy. Real estate as an industry prides itself on its long-term perspective, and as such it should aim to avoid sacrificing positive socioeconomic impact and community relationships in the interests of short-term profits. Equally, real estate businesses must acknowledge the physical environmental constraints within which they operate; to enable long-term returns, the real estate industry must work within and nurture the carrying capacity of the environment.

Far-reaching impacts.

Real estate firms should be encouraged to recognise all the impacts of their activities –on their own investors and direct customers, certainly, but also on the end users of their buildings or services, local communities and the environment. Real estate activities are likely to have both positive impacts (such as the sustainability characteristics of a new commercial building, or new jobs created), and negative impacts (the climate change implications of a demolition that might have been avoided, or the displacement of an existing local community by a new development).

The triple bottom line approach.

For these reasons, industry participants should consider the impacts of real estate development and investment activities through a triple bottom line (**TBL**) lens, i.e. to focus on the financial bottom line associated with their activities alongside social and environmental impacts.[1] That would help to ensure not only the financial success of the industry, but also that the buildings, spaces and amenities it provides improve the local and wider environment, and are valued by end users, local communities and other stakeholders.

Employees and suppliers.

The real estate industry's most important contributions are probably investing our savings and managing our built environment, enabling productivity and employment growth in the wider economy. However, we should not forget that it also trains and directly employs over a million people in the UK[2], and has an influence over (as well as being influenced by) its customers and supply chains. Real estate owners, lenders and advisory firms can all promote good practice and a longer-term perspective that values the local, social, user experience and environmental considerations, as well as diversity and inclusion for their own people.

Common principles to drive positive impact.

The real estate industry has immense potential to influence its many environmental, social and governance factors. A shared acceptance of key principles for exercising that influence in a positive way can help it fulfil that potential. Given the enormous diversity of businesses and activities in the real estate industry, these principles are intentionally broad and qualitative, inviting firms that apply them to do so in a way that is both stretching and appropriate to their specific circumstances. In general, the intention is that these principles should encourage firms to go above and beyond applicable legal and regulatory requirements.

[1]Further information is available at https://www.investopedia.com/terms/t/triple-bottom-line.asp

[2]The PIA Property Data Report 2017 reports UK real estate industry employment as 1.1m or one in 32 jobs.

Best practice principles

1. Climate change and the environment.

At every phase of a building's lifecycle, market participants should minimise both the use of natural resources and their impact on the environment.

a. How have you sought to reduce natural resource use through appropriate specification, reuse of previously used resources, and/or reduced wastage of materials?

b. How does the relevant building make a net positive contribution to the local and global environments, particularly the climate, over its life?

c. To what extent have you driven positive environmental action throughout the supply chain at each relevant phase of the life of the relevant building?

2. Environmental and social impacts.

At every phase of a building's lifecycle, market participants should understand and take account of the environmental, socioeconomic and community impacts – both positive and negative – of their activities and decisions.

a. How have the environmental effects been assessed so that global and local implications are appropriately accounted for?

b. How have the views of the local community and other external stakeholders been sought and taken into consideration?

c. What are the likely negative and positive impacts on:

- the climate and wider environment
- the local community, local amenity and infrastructure
- those working in or otherwise using the relevant building?

d. How are negative impacts proposed to be mitigated so that the net impact is positive?

e. If any affected constituency is still unhappy, what steps have been taken to understand its concerns and either address them or explain why they could not be addressed?

3. Balancing profit and wider impacts.

At every phase of a building's lifecycle, market participants should strike a fair and reasonable balance between the profits they seek to take out, on the one hand, and the lasting value they leave behind for those working in, using or otherwise affected by the relevant building, on the other.

a. How and to what extent are financial returns reinvested for the benefit of the environment, local community and those working in or using the relevant building in the interests of its longer-term success?

b. How do you encourage your investors, customers and suppliers to operate in a way which attaches value to environmental, socioeconomic and community considerations?

4. Health and wellbeing.

At every phase of a building's lifecycle, market participants should measure and improve health and wellbeing within their own organisation and for those working in or using relevant buildings.

a. What information and key performance indicators (KPIs) are collected and used to monitor health and wellbeing and assess the effectiveness of improvement measures?

b. How is consideration given to improving the internal environmental qualities of relevant buildings?

c. What further knowledge or actions could lead to health and wellbeing improvements for those working in or using relevant buildings, including those with visible and/or hidden disabilities?

d. What are the principal barriers and interventions to adopting improvements in health and wellbeing and what steps are you taking to tackle them?

5. Diversity and inclusion.

Market participants should encourage diversity and inclusion, using the influence they can exert through their own people and over their investors, customers and suppliers in a way that balances those different, and sometimes competing, interests.

a. How do you ensure that your people suitably reflect the diversity of the communities in which you operate?

b. How do you promote an inclusive culture that allows everyone to feel that their voices are heard and needs recognised?

c. What steps do you take to ensure that relevant buildings are accessible and user-friendly for people with visible and/or hidden disabilities?

d. How do you encourage your whole supply chain to operate in a way which fosters diversity and inclusion?

6. Accountability and transparency.

Market participants should uphold high standards of governance and always seek to be accountable and transparent to the extent compatible with data protection and privacy rules and the reasonable requirements of commercial confidentiality.

a. How does the organisation ensure and demonstrate accountability for its actions?

b. How transparent are the organisation's activities and how does the business subject itself to external, independent scrutiny?

c. How does the organisation ensure that potential conflicts of interest are avoided or appropriately managed?

7. Data.

Market participants should take responsibility for the data they collect and use, collecting and storing it appropriately and securely.

a. Does each building have a general data policy covering what is collected and why?

b. Is data collection proportionate to the benefit and expectations of the data subjects and associated stakeholders?

c. Are data security provisions built in to all data collection and use activities, such that confidentiality and privacy expectations can be met?

d. How does the organisation protect itself against the threat of cybercrime and ensure the security of stakeholders' information?

Get in touch...

propertyindustryalliance@gmail.com

www.propertyindustryalliance.org

Member organisations

AREF The Association of Real Estate Funds

BCO

BPF British Property Federation

CREFC Europe

IPF Investment Property Forum

Revo Retail. Property. Community.

RICS

ULI Urban Land Institute