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The Environment and Real-Estate Investment: Responsible property investing*

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The Environment and Real-Estate Investment: Responsible property investing

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1. Introduction

After a brief panic, the current worldwide financial crisis, which originated with the collapse of the housing bubble in the United States, appears to have finally bottomed out. Nevertheless, the path ahead remains unclear, and prospects for a future economic recovery remain difficult to forecast.[1)]

Given these conditions, it would appear beyond dispute that the environment is one of the new themes expected to drive economic growth worldwide.

To give one example symbolic of this new eco business, in May 2009, some 10 years since its introduction in 1997, the Toyota Prius, a forerunner of the next generation of motor vehicles, holds the lead position in new vehicle shipments.[2)] While the auto industry is one of the industries most affected by the economic crisis, competition to develop next-generation "eco-vehicles" such as fuel-cell vehicles and electric vehicles is already underway. The auto industry may prove to be among the leaders in pioneering the development of businesses targeting the environment.

In the real-estate industry, the number of examples of business efforts based on the environmental theme is too numerous to count. These include energy-conservation efforts, the emergence of the green building concept, the spread of buildings certified for environmental performance, and the concept of homes built to last 200 years. Traditionally, the environment in the real-estate industry has been a key risk factor to be controlled, a development easily grasped based on the major impact past issues such as soil pollution and asbestos have had on investment decision-making and cost assessments in real-estate investment. The real-estate industry also cannot

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[1] According to the OECD's Economic Outlook released in June 2009, the rate of growth in GDP in the leading nations will be -2.2% in 2009 and 2.3% in 2010, indicating prospects for a weak, slow recovery. The rate of growth in Japanese GDP is projected to be -6.8% in 2009 and 0.7% in 2010.

[2] Source: Japan Automobile Dealers Association ranking of new vehicle sales in Japan

ignore the trend toward environmental businesses now enveloping various industries.

In connection with these industrial trends, governments in various countries are proposing measures intended to ensure that concern for the environment helps fuel the next generation of economic growth. Most notably, in the United States, which to date had taken a somewhat passive approach under its energy-industry policies, the new Obama administration has proposed a Green New Deal policy,[3)] a change in its policy posture with potentially major repercussions not just for future international efforts to address environmental issues but fore trends in economic dynamism toward a low-carbon society.

The purpose of this paper is to summarize issues related to environmental risks that need to be considered when investing in real estate, focusing on the theme captured in the phrase *the environment and real-estate investment*. Specifically, we will examine the relevance of the environmental theme for the real-estate industry, especially the real-estate investment, in light of real-world trends and their likely future impact. Within the broad scope of this theme, we will address a primary topic—the relationship between environmental issues and real-estate investment—from three perspectives: investment activities, physical and economic assessments, and regulations and systems and outline each perspective over multiple reports.

Under the direct-capitalization method, a typical formula for appraising the value of real estate, a property's value is expressed as (revenue - costs) / discount rare (capital rate). As shown in the diagram below, environmental issues affect the overall value of real estate by affecting each of the elements that make up real-estate value (revenue, costs, and cap rate).

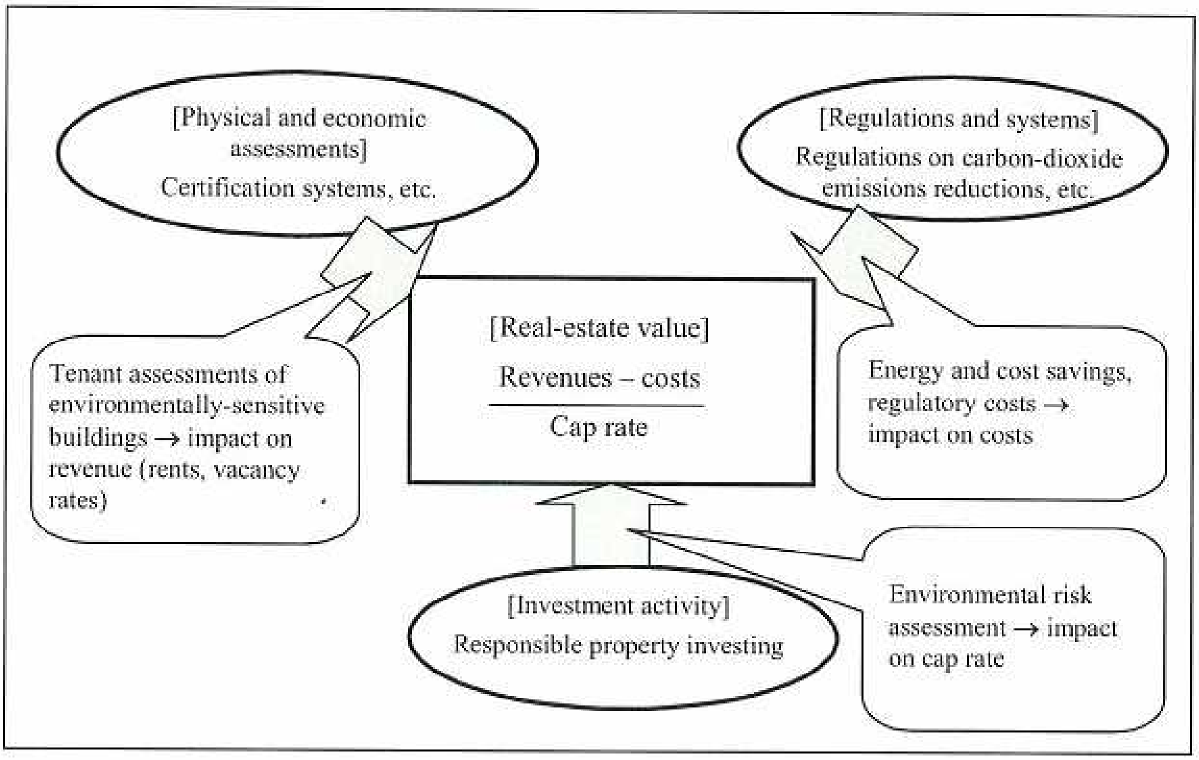
In terms of revenue, it is conceivable that rents on environmentally-sensitive properties will increase as tenants proactively place a higher value on such properties than other properties (or rents could fall for environmentally-insensitive properties due to tenant dissatisfaction, resulting in

[3] While the Green New Deal policy has rapidly gained a high profile thanks to President Obama, the concept is said to have originated with the proposal for a Green New Deal proposed in July 2008 by the Green New Deal Group, based in the United Kingdom. One characteristic policy proposal under the Obama administration calls for investing $150 billion in the green energy sector to create 5 million jobs; besides, this initiative is also projected to have significant impact in the areas of environmental measures, economic measures, and energy security.

relatively higher rents for environmentally-sensitive properties). In terms of costs, energy savings may lead to reduced costs, or restrictions on buildings with worse environmental impact could result in environmental cost levies. Cap rates on environmentally-sensitive properties may be affected by lower environmental risk premiums (or risk premiums could increase on environmentally-insensitive buildings).

In hypothesizing in this way the effects of environmental factors on each of the elements making up real-estate value, it becomes clear that investment activities (investor outlook), physical and economic assessments (valuations of environmentally-sensitive properties), and regulations and systems (environmental regulations) are key constituents of real-estate value.

The framework of Pricing



In this paper, we will introduce trends in recent years in behavioral principles related to environmental issues in the investment industry and provide examples of some forward-looking efforts, shining the spotlight on investors.

This paper is organized as follows. Section 2 summarizes issues related to environmental risks affecting real-estate investment, addressing trends in environmental policies and the principles of responsible investing. Section 3 uses specific examples to introduce the concept of responsible property investing. Finally, Section 4 provides a summary of this paper.

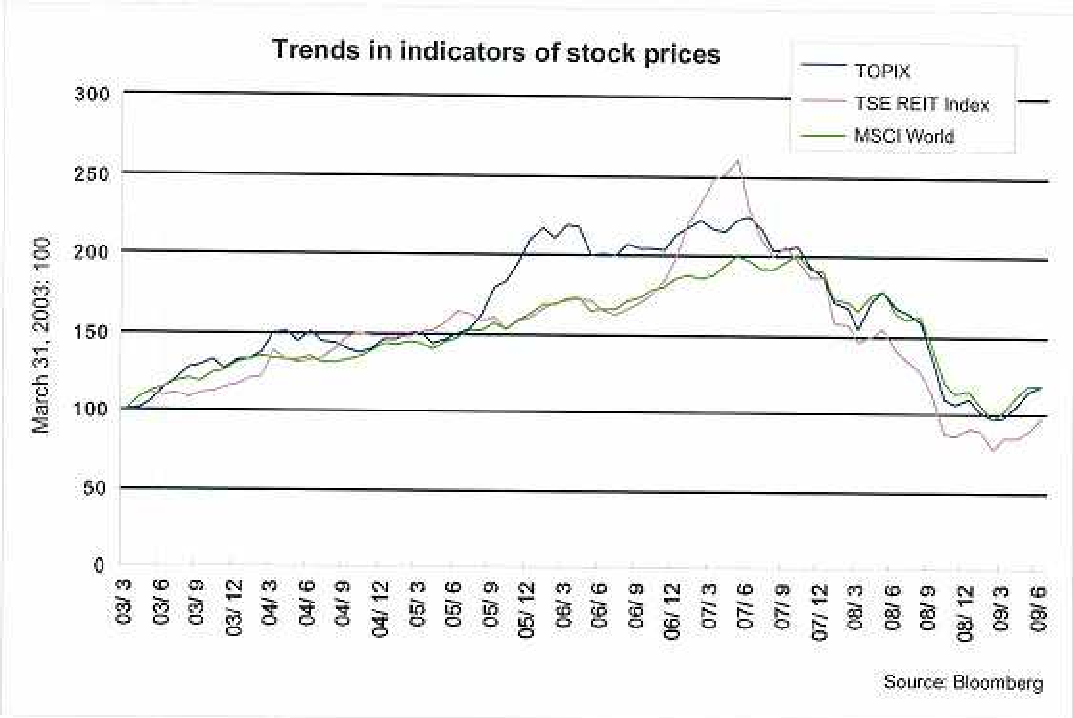
2. Real-estate investment and environmental risks

2.1. Changes affecting environmental policies

The financial crisis that emerged in the previous year in the U.S. has had significant repercussions in Japanese financial markets. The impact has been especially notable in equity markets, including those for real-estate investment trusts (REITs), resulting in massive declines in asset values in both the TOPIX and the Tokyo Stock Exchange's REIT index from the summer of 2007 (Fig. 1).

A look at environmental policies shows that the first (five-year) commitment period (beginning in fiscal 2008) of the Kyoto mechanism, an international framework on environmental issues, finally reached the stage at which results can be measured and assessed. Under the Kyoto Protocol, Japan is required to reduce carbon-dioxide emissions by 6% from levels in the base year of 1990. However, recently announced fiscal 2007 results show an increase of 9% vs. the base year, again throwing into sharp relief the difficulty of achieving this target.

Fig. 1: Trends in key financial indicators



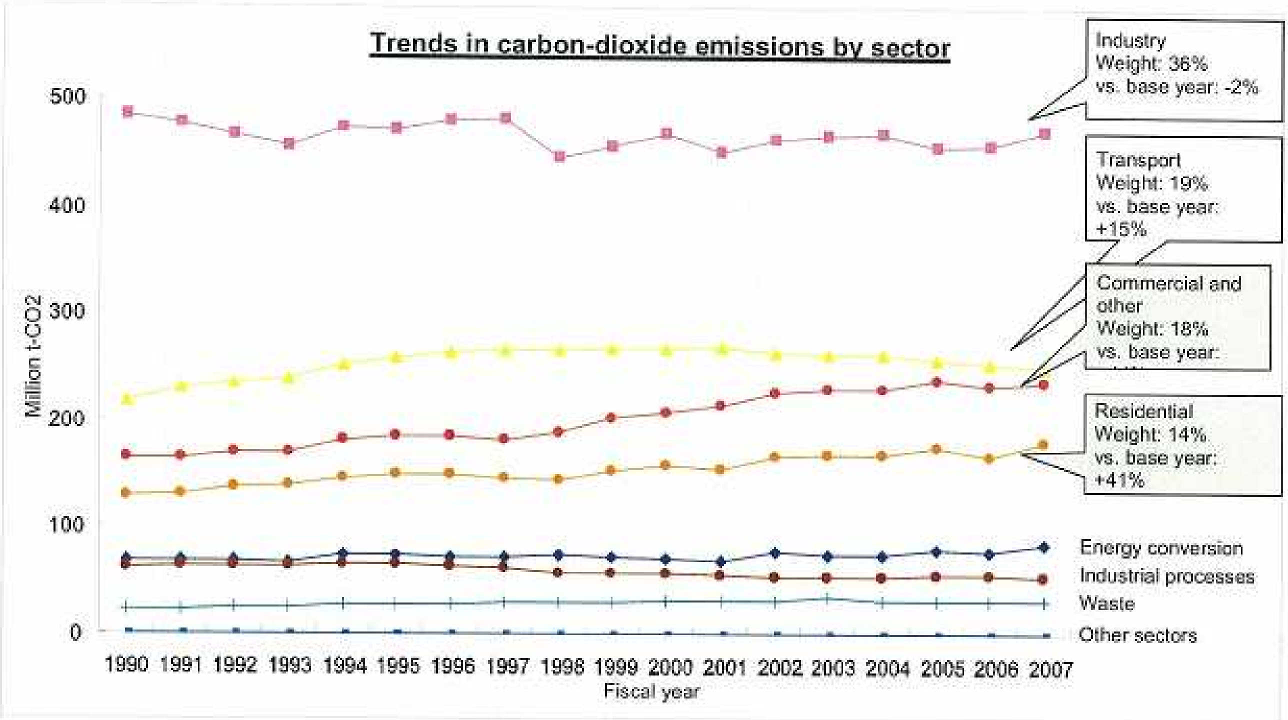
Within this result, the category "commercial and other sectors" (which includes the office) and the "residential sector" (which includes residences) account for roughly one-third of all emissions. In each of these sectors, the fiscal 2007 results show an increase of more than 40% vs. the base year (Fig. 2). As a result, these sectors are under a spotlight as areas in which further reductions will be required, with steps being taken to strengthen legal and regulatory restrictions on office carbon-dioxide emissions.

Plans call for discussions on a post-Kyoto Protocol international framework for the years 2013 and beyond at the United Nations Climate Change Conference (COP15)[4)] scheduled for the end of this year. Already, one hears daily reports on the clashing interests of developed and developing nations. As various developments make clear, including the G8 Hokkaido Toyako Summit Leaders' Declaration, which calls for 50% reductions from current emission levels by 2050, the targets set for each country will at the very least require further reductions from the current targets under the

[4] Stands for the Conference of Parties, which meets annually. This year's meeting, the 15th, is scheduled for December in Copenhagen. The Kyoto Protocol, the current framework, was adopted at COP3, held in 1997 in Kyoto.

Kyoto Protocol.[5] It is reasonable to assume that environmental restrictions on office buildings and other real estate, which have already become remarkably more stringent, will grow increasingly rigorous in the future.

Fig. 2: Trends in carbon-dioxide emissions by sector



Source: Center for Global Environmental Research National Institute for Environmental Studies

In the area of real-estate investment, in the interests of risk management, this trend in environmental regulation is generally regarded to merit even closer monitoring.

Leaving the specifics of environmental regulations to subsequent parts of this series, we will now address the theme of this paper: the stance adopted by investors in their investments given this emphasis on environmental conditions.

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[5] While Japan has announced a target of a 15% reduction in emissions vs. 2005 levels, this corresponds to an 8% reduction vs. the base year of 1990. This figure represents net reductions (pure reductions excluding the purchase of carbon emission credits and absorption of carbon dioxide by forestry), a significantly higher target than the 0.6% net reduction in the current Kyoto Protocol target (which also includes a 3.8% reduction from forestry absorption and a 1.6% reduction from carbon emission credits, for a total reduction of 6%).

2.2. Principles for Responsible Investment

In 2006, in response to a call from then-United Nations Secretary General Kofi Annan, a group of the world's largest institutional investors, coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI)[6], announced the Principles for Responsible Investment (PRI).

Before introducing the content of these Principles for Responsible Investment, we will discuss the United Nations Global Compact, one of the initiatives on which the Principles for Responsible Investment is based. Like the PRI, the Global Compact is an initiative proposed by Secretary General Annan at the 1999 World Economic Forum (the Davos Forum). It was given an office at the United Nations in 2000. As of June 2009, some 130 countries and more than 5,000 companies (89 companies in Japan) had signed the Global Compact.

The concept behind the Global Compact is to prioritize contributions to the sustainable development of a globalized economy through corporate declarations of support for and corporate incorporation into their business activities of ten principles in the areas of human rights, labour standards, the environment, and anti-corruption. These ten principles are given below. Each principle calls for a keen awareness of social responsibilities, even in business activities whose primary purpose is economic gain.

[6] The United Nations Environment Programme (UNEP) is an auxiliary organization of the United Nations established in 1972. The UNEP Finance Initiative (UNEP FI) was established in 1992 as a partnership between UNEP and financial institutions around the world. 18 companies from Japan (Tokio Marine & Nichido Fire Insurance Co., Ltd., Mitsui Sumitomo Insurance, Co., Ltd., Sompo Japan Insurance Inc., Nikko Citi Holdings Inc., Nikko Asset Management Co., Ltd., the Good Bankers Co., Ltd., Development Bank of Japan Inc., Shiga Bank, Ltd., Sumitomo Mitsui Financial Group, Inc., Nipponkoa Insurance Co., Ltd., the Sumitomo Trust and Banking Co., Ltd., Japan Bank for International Cooperation [Japan Finance Corporation], the Bank of Tokyo-Mitsubishi UFJ, Ltd., Mitsubishi UFJ Trust and Banking Corp., Daiwa Securities Group Inc., Aioi Insurance Co., Ltd., Chuo Mitsui Trust Holdings, Inc., and Mizuho Financial Group, Inc.) participate in this program.

The Ten Principles of the UN Global Compact

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

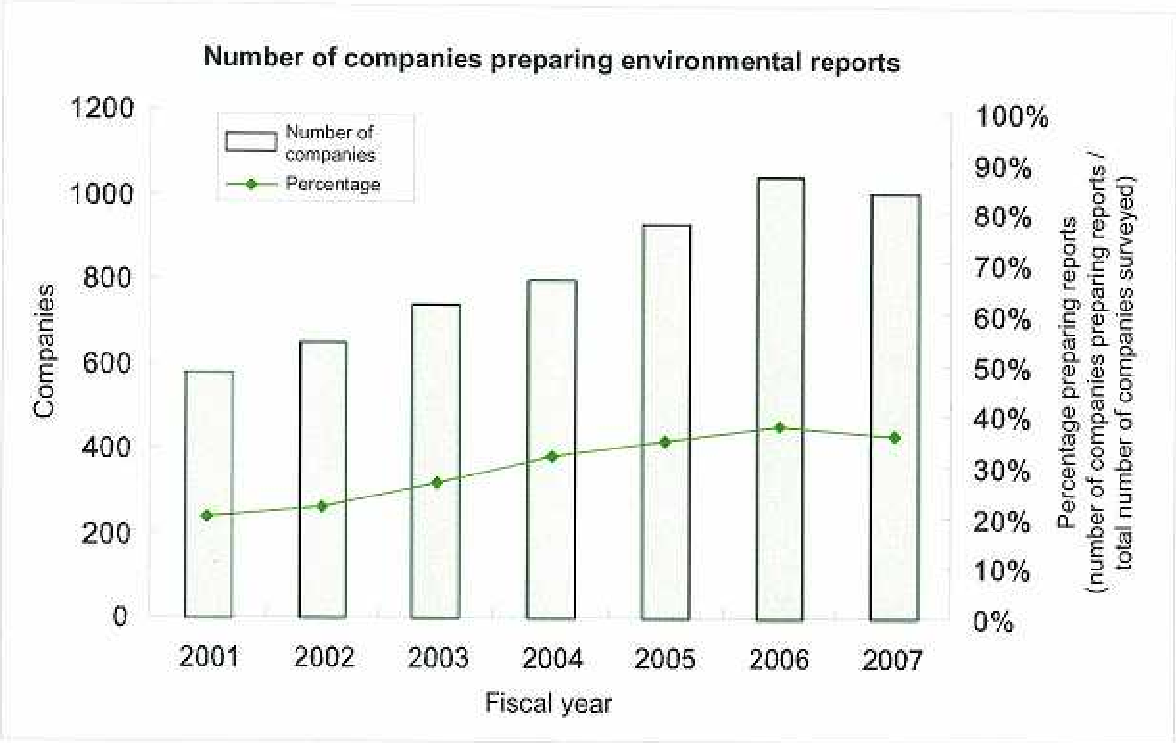
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

While it is difficult to assess quantitatively how business activities based on this concept of the Global Compact are actually implemented, for reference purposes, trends in the number of companies in Japan preparing environmental reports[7)] are given below (Fig. 3). In recent years, the mainstream has shifted from environmental reports to CSR reports, which cover a broader range of categories.

This steady growth in reports addressing performance in the area of corporate social responsibility may be interpreted as indicating expanding corporate activity in the area of social responsibility. The Principles for Responsible Investment mentioned at the start of this section are grounded in efforts to encourage proactive recognition and evaluation of this idea of responsible company activities and related efforts, particularly from the perspective of asset managers (investors), who constitute major corporate stakeholders.

[7] Source: Results of a survey of approximately 2,800 listed and unlisted firms from the report *Kankyo Ni yasashii kigyo kodo chosa heisei jukyu nendo* ("Fiscal 2007 Survey of Environmentally Sensitive Business Activities") issued by the Ministry of the Environment of Japan

Fig. 3: Trends in number of companies preparing environmental reports



Source: Ministry of the Environment

These Principles for Responsible Investment call for efforts on the part of investors to contribute to sustainable development by incorporating environmental, social, and corporate governance (collectively, ESG) issues into processes related to various investment activities ranging from investment decision-making to monitoring. As shown below, the Principles for Responsible Investment comprise six principles. The content clearly extends beyond principles of investor behavior to address education of and application of standards to companies invested in. Asset managers, who, like companies, are in a position to manage investor assets, are also required to act based on a full understanding of these Principles.

The Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognize that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.

A total of 564 institutions from around the world and 13 financial institutions and institutional investors from Japan[8)] have signed off on these Principles. Most believe these Principles will expand throughout the investment industry as a universal concept forming what could even be called an investment philosophy.

While not directly related to the Principles for Responsible Investment, market trends in social responsibility investment (SRI)[9)] show signs of steady growth (Fig. 4).[10)] While SRI still accounts for less than 1% of all publicly offered investment trusts in Japan, in the U.S. such investment has already established a secure foothold, accounting for more than 10% of the market. Overseas, then,

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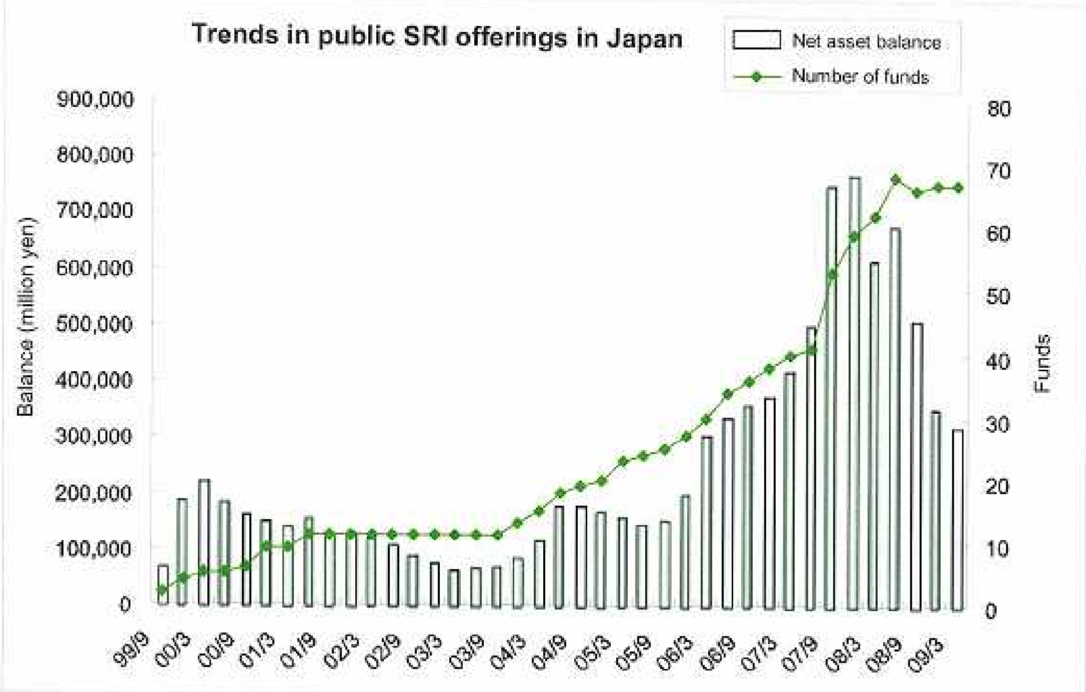
[8] As of June 2009. The 13 institutions that have signed off on the Principles in Japan are Mitsubishi UFJ Trust and Banking Corp., the Sumitomo Trust and Banking Co., Ltd., Mizuho Trust & Banking Co., Ltd., Chuo Mitsui Asset Trust and Banking Co., Ltd., Resona Bank, Ltd., Nikko Asset Management Co., Ltd., Nissay Asset Management Corp., Daiwa Asset Management Co. Ltd., Taiyo Life Insurance Co., Sompo Japan Insurance Inc., Fuji pension fund, the Kikkoman pension scheme, and the Good Bankers Co., Ltd.

[9] The principle of social responsibility investment has a long history, beginning in the 1920s in the U.S., with Christian asset management that screened out companies involved in activities that violated religious doctrine, such as the tobacco and gambling industries. SRI is attracting considerable attention in Japan as well. Although the PRI are said to incorporate SRI principles, it may be more useful to consider the PRI as a set of behavioral principles covering all investment decision-making processes, while SRI represents specific investment practices.

[10] Source: Social Investment Forum Japan

the principles of responsible investing appear to have spread even more rapidly than expected in Japan.

Fig. 4: Trends in public SRI offerings



Source: Social Investment Forum Japan

In response to these Principles for Responsible Investment, the UNEP FI Property Working Group[11] was established as a subordinate organization under the UNEP FI. Attempts are now underway to adapt the Principles for Responsible Investment to real-estate investment. The results were made public in a report entitled *Building Responsible Property Portfolios* in June 2008, followed the next month by *Responsible Property Investment: What the leaders are doing* (hereafter referred to as the "RPI report"). This RPI report introduces numerous practical examples of responsible property investing, building on the spirit of the Principles for Responsible Investment.

Given the potential difficulty of grasping the Principles for Responsible Investment discussed above based solely on the original text, which addresses concepts only, we introduce below a

[11] The working group consists of 13 members, including Aviva and PRUPIM, and six observers, including CalPERS. Mitsubishi UFJ Trust and Banking Corp. and the Sumitomo Trust and Banking Co., Ltd. are members from Japan.

number of typical practical examples of responsible property investing, drawing from the numerous examples provided in the RPI report.

3. Responsible property investing

To realize responsible property investing, the perspectives of the environment, society, and corporate governance, which are the three issues addressed in the Principles for Responsible Investment, are essential. We introduce below examples from the RPI report of specific efforts that help clarify the Principles for Responsible Investment and responsible property investing, examined along four axes, including energy conservation.

(1) Environment: Energy conservation

Energy conservation tends to be the first thing that comes to mind when people address environmental issues in real estate. Typical ways to conserve energy in offices and homes include structural considerations, including use of thermal insulating materials and upgrading equipment such as air-conditioning systems and lighting fixtures to energy-saving models. Since energy-conservation effects are directly related to revenues from real-estate management in the form of energy-cost reductions, this is also an area in which efforts have advanced separately from their relationship to purely environmental issues.

In addition to potential cost savings, energy conservation may also draw the attention of tenants as environmental awareness grows. Results from research done in Switzerland show that tenants of rental residential properties are prepared to pay rents up to 13% higher for buildings that implement energy-conservation measures.[12)]

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[12] S. Banfi et al (2005). *Willingness to Pay for Energy-Saving Measures in Residential Buildings*

The RPI report introduces the case of a solar-powered condominium in Japan[13] as one example of environmental measures involving energy conservation increasing property value. This example shows that despite higher investment amounts than are typical for a condominium, this property realizes improved profitability and higher returns on investment, with rents approximately 10% higher than rents for comparable properties in the vicinity and lower operating costs.

The PRI report has pointed to the example of bulk green electricity purchase contracts concluded for 240 properties Prudential Property Investment Managers Ltd. (PRUPIM) of the U.K. manages through energy procurement services subsidiary Buying Force Ltd. In contrast to initiatives implemented for individual properties, this meta-level management approach toward an initiative implemented throughout a real-estate portfolio is a leading example of addressing environmental issues as part of property management. PRUPIM is known as one of the most forward-looking property investors in the U.K. In our discussions with PRUPIM staff during our research in Europe, PRUPIM staff stated they regard as essential that prospective partners share the philosophy of the Principles for Responsible Investment in real-estate investment,[14] and this is an indication of the spread of these Principles in Europe.

In addition, from the perspective of environmental protection, the report introduces initiatives focused on cost reduction through techniques such as recycling and water conservation as energy-conservation examples.

Around the world, certification systems such as BREEAM in the U.K. and LEED in the U.S. are being designed as objective criteria for evaluating green buildings, incorporating environmental considerations in ways that include energy conservation. Japan has its CASBEE evaluation system, which is in the process of evolving into a *de facto* standard in the new construction. Some local governments, for example, incorporate the CASBEE system into standards of development permission.

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13 Series of condominium properties from New Gaea Co., Ltd.

14 Interview with Paul McNamara and others at PRUPIM's office in London, June 10, 2009

While the various certification standards applying to green buildings are restricted to physical evaluations of properties, a number of studies reporting on the performance of investing in green building have also been released recently and are attracting attention.

(2) Environment: Urban development

Urban-development and other development projects represent the most promising opportunities for increasing the value of real-estate investment. The RPI report introduces examples of projects that take into account their surrounding environments through various means, including park development and greening efforts, as real-estate development initiatives that address environmental issues.

Numerous studies have reported on what is called the "proximate principle", whereby property values increase with the installation of nearby recreation facilities and open spaces such as parks, squares, and green zones. K.L. Wolf (2007)[15)] has collected examples of research on increasing property values attributable to the presence of such green zones or parks, pointing to the validity of such studies. (For example, it has been shown that the presence of mature trees in a high-income residential area increases residential property values by 10 to 15%. The property value of residences adjacent to or fronting a passive parks area increases by 20%.)

As an example of a specific initiative, the RPI report describes a tree-planting project undertaken by the French apartment building operator Icade Patrimoine, involving the planting of one tree per apartment, for a total of 35,000 trees. Similar efforts are underway in Japan.[16)]

While local government regulations in Japan often call for fixed percentages of green zones and open space during real-estate development, such environmental considerations may be adopted proactively in the years ahead, as means of increasing property values instead of simply meeting

[15] Kathleen L. Wolf (2007) "City Trees and Property Values" *Arborist News*

[16] Home builder Sekisui House, Ltd. has planted 850,000 trees to date as part of its *Gohon no shokuju* ("planting five trees") project to preserve biodiversity and ecosystems in each locale.

regulations.

(3) Social issues

In addition to addressing environmental issues, addressing social issues is a key theme of the Principles for Responsible Investment.

Learning Links Centers LLC of the U.S. is a socially responsible investment company founded to offer educational services in low- to moderate-income neighborhoods. Under its basic model, apartment buildings purchased adopt various structures intended to provide places for learning. In addition to the installation of study rooms and equipment to provide Internet access inside buildings, perhaps the most characteristic of these efforts is a system whereby a certain percentage of units is set aside for teachers; teachers then receive rent discounts by tutoring the children that reside in the building. This is intended to help increase property values not just by having the apartment building serve as a place for learning, but by promoting the formation of an organic community. Surveys of current market conditions in the neighborhoods surrounding LLC properties indicates these properties have achieved highly stable occupancy rates, with vacancy rates of about 1 to 2%, as opposed to rates of 5 to10% in nearby areas (and as high as 40% in some nearby buildings due to heavy gang activity). Such properties provide higher rates of return than ordinary properties. The findings suggest that incorporating solutions to the surrounding community's social issues, such as public hygiene, crime prevention, and education initiatives, positively affects properties and helps increase property values.

The Igloo Fund, managed by Morley Fund Management Ltd. (now Aviva Investors Global Services Ltd.) of the U.K., is the nation's first urban regeneration fund. With clearly defined SRI policies on building design quality, environmental initiatives, and support for local communities (incorporating the Principles for Responsible Investment into the decision-making process), it manages properties with the goal of increasing value over the long term of properties in good locations but with low valuations, due to reasons such as poor physical environments or stigma.

Another characteristic fund is administered by the National Trust Community Investment Co. of the U.S. Seeking to preserve cultural assets; this fund invests in real-estate projects eligible for federal and state historic rehabilitation tax credits for the restoration of historic structures. Including tax effects, these projects yield returns of 8 to 15%.

The concept of social issues is broad-ranging. The RPI report introduces a number of different approaches: improving the work environment (improving the environment for workers in the property-management field improves property-management services, which in turn leads to higher property values); promoting building health and safety (reducing the risk of deteriorating property values, broadly defined, by reducing the risk of losses from damage due to accidents or crime); and improving building design quality (results of research not just on the social landscape, but on increasing property values).

(4) Corporate governance

To conclude, in the area of corporate-governance issues, we would like to introduce the example of the U.K. property fund manager Hermes. In 2006, tHermes announced a responsible property investing (RPI) initiative, adopting a program of responsible property management. In this way, in a series of management processes ranging from identification of RPI-related issues through monitoring of RPI activities in real estate and property management and resulting RPI evaluations and compensation, the company incorporates the Principles for Responsible Investment into actual practice involving the contractors who undertake actual property management. While the case of Hermes may be considered a fairly advanced experiment in the global real estate industry, it truly embodies the concept of investors raising the awareness of asset managers in accordance with the Principles for Responsible Investment.

We see, then, that the RPI report from the UNEP FI Property Working Group introduces various specific practical examples of responsible property investing among advanced real-estate investors and asset managers overseas, and that the scope of such examples covers efforts across a broad range of categories, encompassing not just environmental issues but social and corporate governance issues as indicated in the Principles for Responsible Investment.

The RPI report omits numerous examples of similar efforts, whether undertaken in full deliberation or not on the concept of RPI. From the standpoint of corporate governance, the key issue is that investors demand responsible (real estate) investment undertaken deliberately. It is worth noting that such efforts seek not simply to solve social problems, but to help increase property values as well.

Each initiatives is highly discrete, and many remain at the stage of trial and error. More time will need to pass before standardized and systematic methodologies emerge. It seems likely, however, that development of such systematic methodologies will occur sooner rather than later, as investors begin demanding evaluations to assess the extent to which investments are managed in accordance with the Principles for Responsible Investment. In fact, in the U.K. a movement has begun to develop new standards employing the environment as a judgment criterion.

Real estate investment is in the process of globalizing. It is only a matter of time until these norms and behavioral principles from overseas spread throughout Japan as well. We believe environmental considerations in real estate investment will play a key and growing role in investment decision-making.

4. Conclusion

Environmental issues are both an old and a new problem. One characteristic of global trends in this area today is the shift in emphasis from social responsibility to environmental businesses. In the real estate industry, the times call for a proactive stance that tackles environmental issues as business opportunities, rather than mere compliance with regulatory obligations, as typified by efforts to reduce office carbon-dioxide emissions. Like the case of the Prius introduced at the start of this paper, firms that take the lead in initiatives to address environmental issues may well account for the ranks of the next generation of industry leaders.

Amid international initiatives such as the Kyoto Mechanism and trends to achieve a low-carbon society, environmental issues will clearly have a dramatic effect on the real estate. In Japan, various efforts are being advanced each day, in light of the future prospects of the real estate industry, as society moves toward a low-carbon infrastructure. Advisory Committee of National Land Policy to Minister of Land, Infrastructure, Transport and Tourism has pointed to efforts targeting real estate with new value in areas such as the environment, while the Ministry of Economy, Trade and Industry has launched a study group to review zero-emissions buildings. Real-estate properties late to respond to such changes may face the risk of negative social assessments resulting from deteriorating relative values, similar to existing cases of properties having issues such as soil pollution, asbestos, and lack of earthquake resistance.

The outlook among investors, as typified by the Principles for Responsible Investment introduced in this paper, will likely further encourage activities that emphasize environmental consideration with respect to properties invested in and their managers, based on investor evaluations of real estate based on environmental performance.

Earlier we touched on the fact that certification systems such as CASBEE are being developed to enable environmental evaluations of properties. However, these involve merely physical evaluations of real estate. Apart from these systems, investors demand environmental evaluations undertaken in terms of investment value. These represent the first stirrings of a movement to establish evaluation systems that focus on real estate investment value, and future developments in this area will draw much attention.

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