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Sustainability, A-REITs and the global financial crisis

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While environmental sustainability has grown in importance to governments and the community, the purpose of this paper is to examine the environmental sustainability activities of A-REITs over the period of the global financial crisis. Using a content analysis methodology similar to Newell, annual reports and home websites for 24 of the largest A-REITs (which have also been a constituent of the ASX 300 index) are analysed to determine the extent of their sustainable investment activities. The Green Building Council of Australia and NABERS websites are also explored. Given the increasing focus on sustainable commercial property, the study finds that A-REIT investment into these properties has been rather conservative and slow. There are, however, some A-REITs that have tried to lead in the field even during the period of the global financial crisis. Relatively solid and stable returns on equity and assets appear to be achieved by such A-REITs in the years during and following this crisis.

Keywords: Australian Real Estate Investment Trusts (A-REITs); sustainability; corporate social responsibility

Introduction

There has been an emerging argument in the academic literature that business entities need to more carefully consider their wider corporate social responsibilities (Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003). This has lead to a greater recognition of the importance of firms understanding "sustainability" as it relates to their organisation. The UN Global Compact – Accenture (2010) study of 766 Chief Executive Officers (CEOs) of major organisations around the world, including Alcoa, Nestle, Glaxo Smith Kline and Unilever, suggested 93% regarded sustainability as an "important" or "very important" factor in their company's future success. Interestingly, 81% reported that sustainability issues are embedded into the strategy and operations of their firms.

This report covered a broad range of industries but not the property sector. CoreNet (2009) confirmed similar sentiment, with recent surveys amongst property professionals finding that sustainability is critical to 70% of corporate real estate executives with 89% considering sustainability matters in their property location decisions. While these are survey responses, this paper seeks to investigate actual sustainability activities amongst the largest of all property investors in Australia, Australian Real Estate Investment Trusts (A-REITs), during the financially difficult period of the global financial crisis.

The A-REIT sector was capitalised at over A$70 billion at November 2010 and owned around A$150 billion in property assets. Major institutions and pension or superannuation funds are significant unit holders in A-REITs. If environmentally

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sustainable procedures and strategies were important to A-REITs and their investors, it could be expected to see increased discussion and evidence of these procedures and strategies even in financially difficult times.

Newell (2008) gave examples of A-REITs that were implementing environmental sustainability procedures into their strategies as at September 2007. Since September 2007, however, the financial markets have been subject to a global financial crisis that has particularly affected the property sector. A-REIT security prices (and their underlying property values) fell by 30% or more in many cases. Dividend distributions to investors stopped or reduced in most cases.

Federal and State governments have, however, actively encouraged higher minimum sustainability requirements for builders and insisted on higher sustainability requirements for their government departments as tenants. The purpose of this study is to update the literature on the active involvement of these large property investing and property owning A-REITs in environmental sustainability activities given the global financial crisis.

The structure of this paper is as follows. In the next section a brief summary of the property sustainability literature is provided. In the following section, the sector results are reported. The last section contains some concluding remarks.

Property sustainability literature overview

Academics like Boyd (2006) and later Bond (2010) point out that real-property sustainability is a major concern and challenge to a variety of property stakeholders including investors, builders, tenants, governments and the public at large. Reed and Wilkinson (2005) describe the importance of sustainability for building owners. They argue that energy efficient design and construction techniques have been easier to implement in new buildings rather than in the existing building stock but, because there is far greater existing building stock than new buildings, owners, tenants and other industry stakeholders need to consider the wider benefits of energy efficiency.

Kato, Too, and Rask (2008) discuss the perceptions of occupiers of green workplace environments. Using a survey approach they find that a green workplace offers greater psychological benefits to occupiers (pride in workplace) than physical improvements and that management perceived greater benefits than do employees in having a green workplace environment.

Sayce, Ellison, and Parnell (2007) argue that, while sustainability concerns are ingrained in many government and company policies, property investors are yet to move significantly in this direction. Sayce et al. (2007) also point out, however, that governments are beginning to take an active "top-down" role by legislating for the building of more energy efficient buildings. In Australia, some governments, such as Victoria and NSW, have introduced minimum (star system) sustainability requirements for government departments as tenants. The Australian Government has also introduced a minimum new commercial building and major renovation building code to improve energy efficiency requirements from 2010.

Newell (2008), in a study of A-REITs at September 2007, investigates these major commercial property investment entities as to their sustainability activities. Interestingly, the author reports that some major A-REITs are strategically implementing excellence and international best practice environmental sustainability standards in their commercial property portfolios.

Boyd (2006) argues that sustainability characteristics might be incorporated into a financial performance type analysis so that investors can better gauge the economic value of their investments. Mansfield (2009) concurs but argues there are theoretical and practical difficulties in identifying and evaluating objective and relevant sustainability criteria in the valuation of real estate assets. Recently, however, Fuerst and McAllister (2011) suggest that "green" buildings have a rent and sale price premium; Eichholtz, Kok, and Yonder (2012) suggest that "greener" REITs have higher returns on equity and Sah, Miller, and Ghosh (2013) report "greener" REITs have higher returns on assets and equity.

Data and discussion

The sample for analysis comprises 24 A-REITs that are listed on the Australian Stock Exchange as at October 2010 and are constituents of the *SNL Real Estate* database, a widely used academic and industry listed investment database. Generally these A-REITs have also been constituents of the ASX300 index and are, therefore, relatively large, liquid and have a depth of trading volume. Table 1 identifies the sample set and the real estate sector in which the A-REIT predominantly operates. The largest A-REIT by far is Westfield Group, a manager, owner and developer of retail property predominantly in Australia, the USA, the UK and New Zealand.

These are significant property owning entities indeed with substantial investment funds provided to them by institutions (including pension or superannuation funds) and

Table 1. Dataset of A-REITs and their property sector focus.

Company Name	Property Focus
Abacus Property Group	Diversified
APN European Retail Property	Retail: Other
Astro Japan Property Trust	Diversified
Australand Property Group	Diversified
Bunnings Warehouse Property Trust	Retail: Other
Centro Properties Group	Shopping Centre
Centro Retail Group	Shopping Centre
CFS Retail Property Trust	Shopping Centre
Charter Hall Office REIT	Office
Charter Hall Retail REIT	Retail: Other
Commonwealth Property Office Fund	Office
DEXUS Property Group	Diversified
Goodman Group	Industrial
GPT Group	Diversified
ING Industrial Fund	Industrial
ING Office Fund	Office
ING RE Community Living Group	Specialty
EDT Retail Trust	Shopping Centre
Mirvac Group	Diversified
Stockland	Diversified
Thakral Holdings Group	Diversified
Tishman Speyer Office Fund	Office
Valad Property Group	Diversified
Westfield Group	Shopping Centre

Source: Authors.

individuals. Amongst the list, there are eight A-REITs with a retail focus (five specifically in shopping centres), four with an office property focus and nine with a diversified focus, diversified meaning that their investments are in a mixture of industrial, residential, office and/or retail sectors.

Table 2 identifies the A-REITs that were members of the Green Building Council of Australia (GBCA), the date they joined, the number of accredited professionals that are employed by the entity and the number of green star projects the A-REIT is involved with at 25 October 2010. The Green Building Council of Australia (GBCA) was established in 2002, reinforcing the importance of a sustainability focus for the commercial property environment. This not-for-profit organisation acknowledges that the property industry can deliver significant and long-term environmental impacts and works to provide guidance through its voluntary Green Star rating scheme.

While only 14 of the 24 A-REITS are members of the GBCA, two of the data set invest primarily overseas. It is also noticeable, however, that no additional A-REITs joined after September 2007. The impact of the global financial crisis later in 2007 caused the risk profile for many A-REITs to move significantly higher (Dimovski, 2009). It appears the huge fall in property asset values and the subsequent profitability and liquidity pressures may have constrained some of the other A-REITs from joining. The likes of Centro Property Group, Centro Retail Group and Tishman Speyer Office Fund were particularly affected during the global financial crisis.

Mirvac, Stockland and Westfield employ the largest number of in-house accredited professionals while Charter Hall Office has the most certified green star projects. CFS Retail, Commonwealth Property, Mirvac and Stockland, however, are not far behind. These entities appear to have clear strategic reasons for their involvement in sustainability.

The GBCA website notes that there are nine categories for assessing the environmental impact of the building design, construction and maintenance of the selected site. Included, amongst others, are such categories as indoor environment quality, energy,

Table 2. A-REIT members of the Green Building Council of Australia.

	Date joined GBCA	No. of Accredited Professionals	Current certified green star projects
Australand Property Group	16.8.02	2	1
CFS Retail Property Trust*	7.9.04		4
Commonwealth Property Office*	7.9.04		4
DEXUS Property Group	12.12.03	1	
Goodman Group	30.03.07	1	
ING Industrial Fund**	9.8.02		1
ING Office Fund**	9.8.02		1
ING Real Estate Community Living**	9.8.02		1
Charter Hall Office REIT	30.3.06		7
Charter Hall Retail REIT	30.3.06		
Mirvac Group	8.4.03	10	3
Stockland	10.9.04	10	3
Valad Property Guide	10.9.07		
Westfield Group	20.10.05	8	1

*Membership listed under Colonial First State Global Asset Management.
**Membership listed under ING Real Estate.
Source: Authors.

water, materials and land use and ecology. Green Star certified ratings are available at the levels of 4 Star, signifying "Best Practice", 5 Star, "Australian Excellence" and 6 Star signifying "World Leadership" in environmentally sustainable design and construction. The Certification process requires the completion of comprehensive rating tools which are assessed by third-party Certified Assessors. Green Star Accredited Professionals are required to complete the Green Star Foundation Course, pass the Green Star Accredited Professional online exam and are also required to undertake continuing professional development. The Green Star Accredited Professionals are recognised as experts in the green building field and specifically Green Star.

While the GBCA rates the sustainability/green building rating for new buildings, the National Australian Built Environment Rating System (NABERS) rates existing buildings on their environmental impacts. Under the Government's National Strategy on Energy Efficiency, the design and construction of new commercial buildings together with major renovations will require greater energy efficiency requirements. This, together with updates to the Building Code of Australia, indicate that the Government considers the improvement of energy efficiency to be a very significant issue. From 1 November 2010, the Commercial Building Disclosure (CBD) project will require that most sellers or lessors of office space of 2000 sqm or more to disclose an up-to-date energy efficiency rating and provide a building energy efficiency certificate (BEEC). The NABERS Energy Star rating will form a major component of this.

NABERS, the National Australian Built Environment Rating System, is a national initiative of the NSW Department Environment, Climate Change and Water and measures the operational impacts of the building on the environment using categories such as energy, water and indoor environment. They provide separate ratings for commercial office, hotel and residential buildings. The NABERS website notes that greenhouse gas emissions from commercial buildings are growing by 3–4% each year and that these buildings account for 10% of urban water consumption. The energy rating benchmarks the building's greenhouse impact on a scale of 1 to 5, with 5 being the least polluting. With the water rating, 1 star equals poor water management systems and 5 stars equal best practice. It is noted that the current market average is 2.5 stars.

Table 3 identifies NABERS rated office buildings that are owned by the sample of A-REITs. GPT Group is a significant landlord in the office sector and appears to regard the NABERS rating system seriously, owning by far the most 5 stars energy and water rated offices in the country.

Newell (2008) reports examples of Listed Property Trusts (now called A-REITs) included in various global sustainability indices as at 2007. Table 4 specifically reports on the A-REITs discussed in that paper and notes their current performance and position on the world sustainability stage. When considering commitment to sustainability issues, we note that the same A-REITs are involved. Those identified in Table 4 appear to lead the A-REIT sector in terms of sustainability practices. The commitment of CFS Property Retail Trust, Commonwealth Property Office, DEXUS, GPT, ING Office and Stockland was reported by Newell (2008) but, most interestingly given all the government direction, only two others have become actively involved in the last three years, being Charter Hall Office and Westfield. These are large, conservatively geared A-REITs that have weathered the global financial crisis relatively well.

Table 5 reviews the average return on equity and return on asset performances for the nine A-REITs identified on the world sustainability stage in Table 4 compared to those not on the stage, over the 2008 to 2013 period. Average price to book ratios are

Table 3. Number of NABERS rated offices held by A-REITs.

NABERS Rated Office Buildings	Energy						Water				
	Star Rating						Star Rating				
	5	4.5	4	3.5	3	Less than 3	4.5	4	3.5	3	Less than 3
Aspen Group	1										
Australand Property Group		1		1		1	1		1		1
CFS Retail Property Trust	3	1	4	5	5	1	1	4	5	5	1
Challenger Diversified Property		2	1		2	2	2	1		2	2
Charter Hall Office REIT	3	10	2	1	1	0	10	2	1	1	0
DEXUS property Group	5	2	4	1	17	3	2	4	1	17	3
Goodman Group						1					1
GPT Group	14	3	1	2			3	1	2		
ING Industrial Fund						1					1
ING Office Fund			1					1			
ING Real Estate			1	5		6		1	5		6
Mirvac Group	2	1	2	1	5		1	2	1	5	
Stockland	3	3	9	1	5	4	3	9	1	5	4
Valad Property Group			1			1		1			1

Source: Authors.

Table 4. A-REITs identified on the world sustainability stage.

	Carbon Disclosure Project 2010 participant	Forbes 100 Most Sustainable CompaniesJan 2010	DJSI Asia Pacific as at 30.9.10	AuSSI The Australian SAM Sustainability Index – Review 2009	2010 Global 100 Index
CFS Retail Property Trust	Yes – Score 92		Yes	Yes	
Charter Hall Office REIT				Yes	
Commonwealth Property Office	Yes – Score 93		Yes	Yes	
DEXUS Property Group	Yes	Ranked 97	Yes	Yes	Yes
GPT Group	Yes	Ranked 47	Yes	Yes	Yes
ING Office Fund	Yes				
Mirvac Group	Yes		Yes		
Stockland	Yes	Ranked 24	Yes	Yes	Yes
Westfield Group	Yes				

Source: Authors.

also calculated. The nine A-REITs appear to outperform the others, on average, during the global financial crisis period and also in the years that follow. This supports the international evidence provided by Eichholtz et al. (2012) and Sah et al. (2013). In fact,

Table 5. A-REITs on world sustainability stage and return on equity, return on assets and price to book ratio.

A-REITs on world sustainability stage N = 9	2008	2009	2010	2011	2012	2013
ROE	6.6%	5.0%	6.7%	7.1%	7.2%	7.6%
ROA	5.3%	4.8%	5.3%	5.6%	5.9%	5.8
P/B	0.75	0.74	0.86	0.87	0.95	1.0
Other A-REITs						
ROE	0%	–47.8%	4.7%	11.8%	2.6%	7.0%
ROA	1.9%	–12.9%	4.9%	4.2%	3.8%	5.4%
P/B	0.56	0.38	0.52	0.62	0.85	1.0

Source: Authors.

six of the 15 A-REITs not on the world sustainability stage were delisted in 2011 and 2012, thus making 2014 year figures difficult to compare so they have not been included.

Conclusions

It appears that GPT, Mirvac and Stockland, three of the largest property asset holding entities in the country, are regarding sustainability issues extremely highly. All three have employed many GBCA professionals on their staff with GPT and Stockland both ranking highly in the “Forbes 100 Most Sustainable Companies - 2010” and Mirvac buying naming rights with Bond University in Queensland, Australia now calling it’s Property School the “Mirvac School of Sustainable Development.” There are others, such as Charter Hall Office, DEXUS and Westfield that, by holding significant numbers of NABERS highly rated office buildings, rank highly in the “Forbes 100 Most Sustainable Companies - 2010” or by number of GBCA professionals on their staff are regarding sustainability issues highly. All became members of the GCBA well before the global financial crisis of late 2007.

The A-REITs that were aspiring to excellence and best practice in environmental sustainability in their commercial properties and which were reported in Newell (2008) also appear in this paper. They are DBREEF (now DEXUS), Stockland, Mirvac, ING Office, CFS Retail, Commonwealth Property Office and GPT. Westfield and Charter Hall have also been identified in this paper as A-REITs seeking to seriously commit to sustainability practices. All of these A-REITs have billion dollar market capitalisations and many billions of dollars of assets under ownership.

Some of the corporate social responsibility (CSR) literature has tried to link sustainability to corporate financial performance (Margolis & Walsh, 2003; Rowley & Berman, 2000) and later work by Eichholtz et al. (2012) and Sah et al. (2013). This paper adds to the work of Eichholtz et al. (2012) and Sah et al. (2013) by finding, in an Australian context, a link between sustainability and performance even at the time of the global financial crisis and the years that followed.

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