

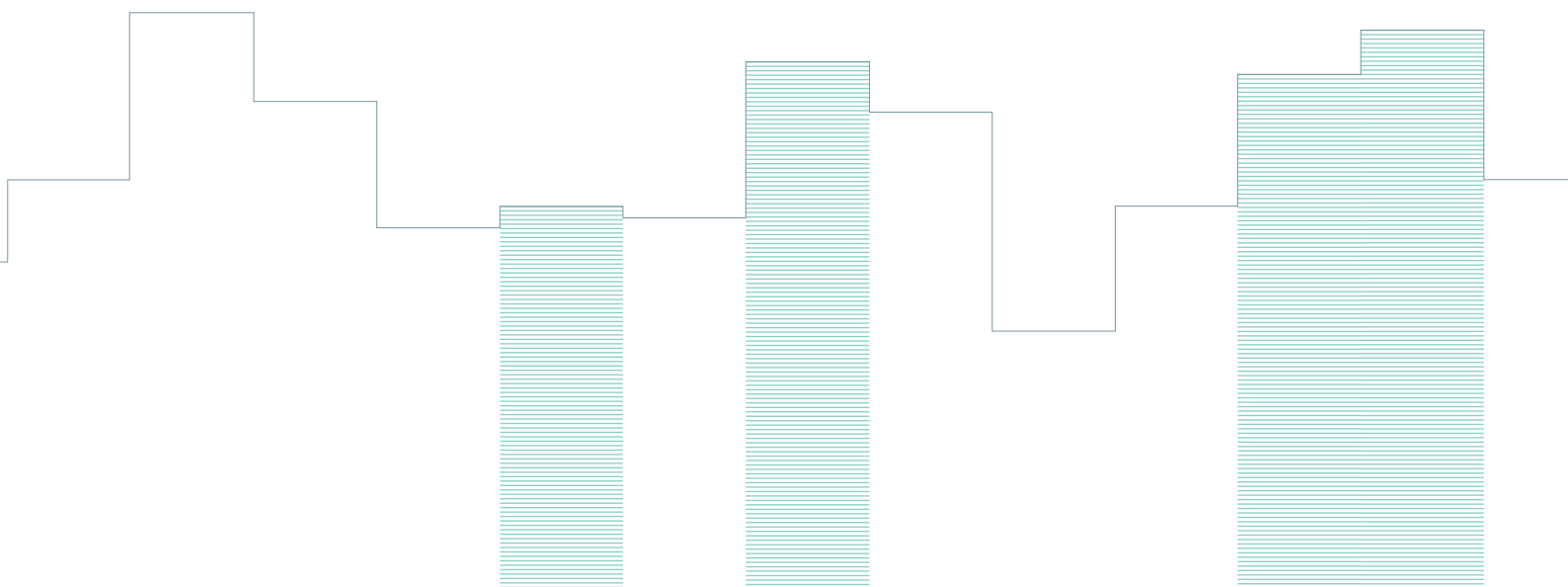


SIRIS

**ATCHISON
CONSULTANTS**

Building Value—Responsible Property Investment Performance

Summary Report—September 2008



Overview

It is being increasingly recognised that environmental, social and corporate governance ("ESG") factors have an impact upon the financial performance of companies. An examination of the effects of these factors on performance of Australian Real Estate Investment Trusts ("A-REITs") as representative of the property asset class has demonstrated that management of ESG risks and opportunities can contribute positively.

The specific objectives of the research conducted included:

- Examine the correlation between ESG factors and A-REIT performance.
- Quantifying the ESG relationship through performance analysis
- Identifying a potential investment product solution for signatories of United Nations Principles for Responsible Investment ("UN PRI") to implement ESG in listed property.
- Communicating the readiness for a Responsible Property Investment ("RPI") Index

These objectives have been tested through the application of tailored ESG rating criteria to the A-REIT sector from which a series of ranked Responsible Property Investment portfolios have been produced and performance outcomes compared.

"An examination of the effects of ESG factors on performance of Australian Real Estate Investment Trusts ("A-REITs"), has demonstrated that they contribute positively."

Responsible Property Investing

The value proposition behind responsible property investing is gaining relevance as the effect of widespread change in environmental, social and economic conditions globally begins to affect the manner of acquiring, developing, managing and disposing of real estate assets.

› *What is RPI?*

Responsible Property Investment (RPI) is an approach to property investing that recognizes environmental and social considerations along with more conventional financial objectives¹.

RPI is being driven by a view that there are benefits accruing to investors through effectively responding to ESG issues affecting the development and management of property, including climate change, employee safety and resource scarcity and security.

› *Niche or emerging market?*

Whilst sustainable property practices in Australia are only now beginning to achieve mainstream recognition, the application of sustainability principles in direct and indirect property investment has been practiced in some form by a limited number of institutional and engaged investors.

The 2007 Responsible Investment Association of Australasia (RIAA) Benchmarking Report² classified RPI as a Thematic Investment, a category which also includes carbon, water and cleantech investment, which it estimated to be worth a combined \$3.2 billion.

The recent PRI for Property initiative involved investors with more than \$300 billion in assets³ that specifically seek and take ESG concerns into account.

› *How can RPI work to enhance value?*

The link between sustainable property and enhanced investment returns has often been based on anecdotal evidence in areas such as tenant attraction and rental premiums. There is a need for more extensive analysis of the affect on asset value. However, recent studies have provided some clarification and quantification of the value proposition through increased income and risk reduction.

¹ http://www.unepfi.org/work_streams/property/responsible_property_investment/index.html

² <http://www.responsibleinvestment.org/files/78RUBP9VVA/RIAA%20Benchmark%20Report%202007%20FINAL.pdf>

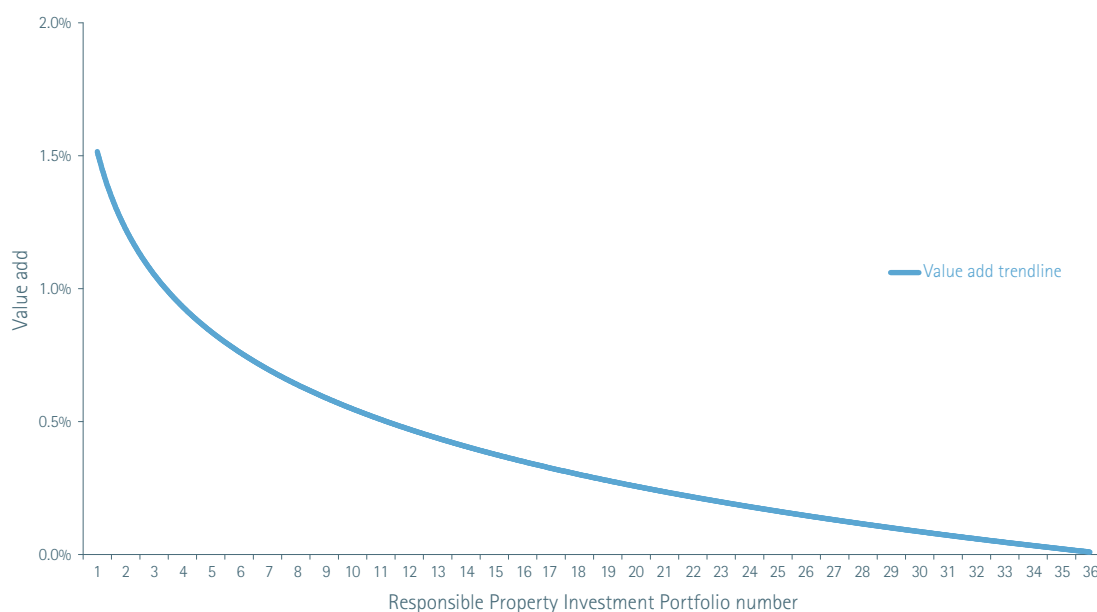
³ <http://intranet.unpri.org/wp-content/uploads/2008/08/building-responsible-property-portfolios.pdf>

Value Add from ESG

Portfolios of A-REITs were constructed with portfolio 1 the single highest ESG ranked AREIT in each rating period through to portfolio 36 consisting of all 36 A-REITs.

Chart 1 below highlights that highly ranked A-REITs have achieved value add over the benchmark index⁴, as illustrated in Chart 1.

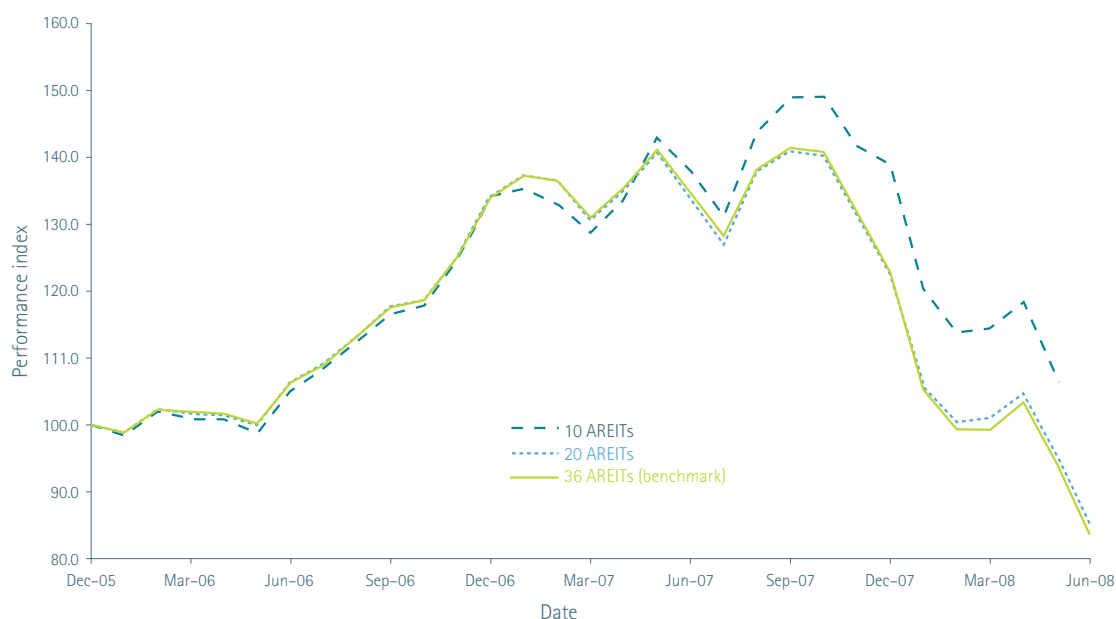
Chart 1: Value Add Over Benchmark Index—31 Dec 2005 to 30 Jun 2008



Portfolios of A-REITs were constructed from the highest 10 and 20 ESG ranked securities and measured over time against a benchmark portfolio of all A-REITs.

Chart 2 below highlights that portfolios of highly ranked A-REITs based on ESG scores have outperformed the broader benchmark index. This indicates that ESG tends to have a positive correlation with performance.

Chart 2: Cumulative Returns—31 Dec 2005 to 30 Jun 2008



⁴market cap weighted index of all 36 A-REITs specifically created by Atchinson Consultants

Research Methodology

SIRIS has developed a specific and comprehensive research process for analysing the broad range of sustainability strategies and performance profiles of A-REITs across a set of objective factors. The focus is on key drivers of sustainable value in the property sector and the systems and processes required to respond to sustainable risks and opportunities in a value enhancing way.

ESG 'scores' have been developed as part of the A-REITs analysis. These were based on specific criteria grouped under the following sub-categories:

- Compliance & Leadership;
- Corporate Governance;
- Communities & Product Stewardship;
- Environment;
- Human capital;

The ESG scores, evaluated on a 6 monthly frequency from 31 December 2005 to 30 June 2008 were applied to daily performance history of A-REITs over the same period. A ranking of each A-REIT was developed based on ESG score.

Where two or more constituents achieved the same ESG ranking a secondary ranking of those constituents was conducted based on adjusted market capitalisation.

Performance has been adjusted to reflect changes in capital structure of the securities. This has ensured that the indices have tracked the actual performance of the constituent without the influence of such activities.

Long Term Analysis

The obvious limitation of this analysis is the relatively short time period of 2.5 years.

Further analysis has been conducted over periods up to 16 years examining long-term performance of ESG ranked A-REITs.

While this analysis has perhaps even more significant limitations such as using a static score and only looking at and comparing current constituents, it also indicates that A-REITs that have a comparatively high ESG score were often first or second quartile performers.

Future opportunities

The property investment community continues to grapple with the application of sustainability principles and practices. This is particularly obvious for signatories of the UN PRI who are seeking processes to enable them to fulfil their commitments. In addition, the fragmentation of relevant property rating benchmarks and uncertainty over the financial benefit has resulted in a cautious approach being adopted.

However this research suggests the benefits from adopting sustainability principles can provide significant long term value and most importantly, a license to operate as expectations and implications of operation in the built environment evolve. Property assets provide great potential going forward as the existing stock and ageing assets present an ongoing opportunity to add value through ESG principles.

While the determination of the framework for the Australian Governments' Carbon Pollution Reduction Scheme results in some current regulatory uncertainty, stringent environmental legislation is anticipated to be implemented at international, national, and local levels and regulatory preparedness for this will reduce financial risk.

There are barriers to RPI participation such as a shortage of the products, technologies, services and expertise being applied. Analysis in this report provides support for further examination and provision of the environmental, social and financial value in responsible property investment.

A more comprehensive report has been prepared on Responsible Property Investment Performance and a copy can be obtained by contacting:

Ben Spruzen	or	Grant Atchison
Associate Director		Senior Consultant
SIRIS		Atchison Consultants
ben.spruzen@siris.com.au		grant@atchison.com.au

Report Authors

Sustainable Investment Research Institute Limited (SIRIS) is a dedicated, specialist research group, providing sustainability and governance investment research and investment product manufacture.

SIRIS was established in 2000 with the aim of providing sustainability analysis of critical aspects of operational and brand risk and emerging investment themes and opportunities to investors.

Whilst SIRIS' research focuses on the Asia-Pacific Region with a team that includes dedicated Asian speaking analysts, through our international research partnerships in Europe and the United States, SIRIS has access to leading research and analytics and is able to provide seamless global research solutions.

Atchison Consultants was established in 2001 by Ken Atchison, drawing upon a team of investment professionals with extensive experience in all aspects of the financial markets.

The principal focus of the firm is the provision of advice and analysis regarding all components of the management of investment portfolios by financial institutions, superannuation and insurance funds, and investment managers. Primarily this involves property investments and related mortgage markets.

Atchison Consultants services and capabilities cover two distinct primary areas being asset consulting and investment management consulting with a focus on the property asset class.



Disclaimer and Disclosure

This report is issued by Sustainable Investment Research Institute Limited (SIRIS) for information purposes only and no part of this report is to be construed as a recommendation to buy or sell any security. Whilst SIRIS believe that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations contained in this document are reasonably held or made as at the time of compilation, SIRIS does not provide any warranty over the accuracy or reliability of any statements, opinions, conclusions, recommendations or other information contained in this document and, to the maximum extent permitted by law, SIRIS disclaims all liability and responsibility for any direct or indirect loss or damage which may be suffered by any person through relying on anything contained in or omitted from this document. No part of this document can be reproduced or distributed without permission of SIRIS. Copyright in this document is owned by SIRIS.

© Sustainable Investment Research Institute Limited
(ABN 11 092 364 504).

September 2008

