

Sustainability Day with the Fund's non-listed real-estate companies

In December 2016, the Second AP Fund arranged a joint meeting in London with the sustainability managers from its joint-owned real-estate companies: Cityhold Office Partnership, US Office Holdings and Vasakronan. The aim of the meeting was to create a forum where insights and expertise could be exchanged and sustainability issues discussed. This first meeting focused on metrics and goals.

Forum for discussing sustainability

The Second AP Fund invited its joint-owned real-estate companies, Cityhold Office Partnership, US Office Holdings and Vasakronan, to a meeting to share their expertise and discuss how the Fund should monitor the sustainability programmes of real-estate companies.

The day kicked off with a presentation by Helena Olin, head of real-estate investment at AP2, who provided a broad view of the Fund's real-estate portfolio, which focuses on centrally located, high-quality traditional real estate in markets featuring good liquidity. Christina Olivecrona, the Fund's sustainability analyst, then presented the Second AP Fund's work on sustainability in general, as well as the potential the real-estate sector has, in the Fund's opinion, for impacting the transition to a low-carbon society. The sustainability managers from the real-estate companies then talked about how they work with sustainability.

The presentations were followed by a discussion about comparable parameters and relevant goals for topics such as carbon footprints, energy consumption and social issues. There was an atmosphere of keen commitment, and the meeting generated a host of ideas. It is important to discuss broad issues such as overall objectives, but even details concerning the measuring techni-

ques must be addressed, to enable a comparison and evaluation of sustainability efforts that is as effective as possible.

Comparable data

To better enable the monitoring and assessment of progress on sustainability by its real-estate investments, the Fund has become a member of the Global Real Estate Sustainability Benchmark (GRESB) organization. Based on an annual questionnaire, the organization assesses various aspects of sustainability within real-estate companies and property funds. By evaluating the answers to this questionnaire, the Fund can monitor progress on sustainability in its listed Swedish real-estate companies as well as in non-listed companies and property funds.

In light of the fact that the Second AP Fund's non-listed real-estate companies operate on different geographical markets, subject to varying conditions and regulations, the GRESB questionnaire makes it easier for the Fund to compare companies' sustainability data. To further add to this data, the Fund also analyses the companies' quarterly and annual reports. The London meeting gave everyone a more complete picture of the way the various companies measure sustainability.



“I found it fascinating to hear about the application of sustainability in the different portfolios and the successes that have been achieved,” notes Abigail Dean, sustainability manager at TH Real Estate, which manages Cityhold Office Partnership. “It was also useful to discuss the different metrics as a group and to hear from AP2 about the data that they want to collect and why,” Abigail adds.

The meeting confirmed just how difficult it is to acquire comparable data. It turned out that an apparently simple measurable value such as ‘area’ could be calculated in many different ways.

“What was perhaps most surprising was that almost no key ratios could be compared directly, because of the differences in measuring and monitoring techniques,” reflected Anna Denell, sustainability manager at Vasakronan, following the meeting.

Market differences

An interesting topic of conversation was how the different international real-estate markets vary. Jonathan Flaherty, sustainability manager at Tishman Speyer, which manages US Office Holdings, says:

“Although a building in NYC and a building in London often look the same from the outside, they are often extremely different on the inside. Those differences range from: the types of mechanical systems and utility services, to the way leases are written. All of these issues have major impacts on what kind of sustainability efforts can be provided and how they can be best incorporated.”

A further difference in the way real-estate is managed from one country to another concerns the division of responsibilities between landlord and tenant. In some countries, the tenant is responsible

both for the maintenance and operational management of the property, which means that the landlord lacks any direct influence on determining the building’s energy consumption. In Sweden, Vasakronan has been something of a pioneer, with the introduction of ‘green leases’, whereby landlord and tenant develop joint action plans for the reduction of environmental impact.

All agreed on the value of this type of collaboration, and that the sustainability forum should be an annual event.

Vasakronan

Vasakronan, which is owned jointly by the First, Second, Third and Fourth AP Funds, is Sweden’s largest real-estate company with a portfolio of attractively located properties concentrated to the Stockholm, Gothenburg, Öresund and Uppsala regions. Vasakronan owns and manages some 180 properties with a total market worth in excess of SEK 115 billion.

Cityhold Office Partnership

Cityhold Office Partnership was formed in 2015, as a joint venture between the First and Second AP Funds and US pension fund TIAA, with a view to creating a leading European platform for investment in Europe. The office properties previously owned by TIAA General Account in Europe, and the First and Second AP Funds’ real-estate portfolios, managed by Cityhold Property AB, are now combined under the joint-owned company, Cityhold Office Partnership. The combined real-estate portfolio, which is valued at € 2.2 billion, comprises 15 office properties amounting to 250 000 square metres of office space at prime central locations in Great Britain, France and Germany. During the year, one property has been purchased and one sold in London. The company is managed by TH Real Estate, which also provides investment and asset-management services.

US Office Holdings

Together with South Korean state pension fund NPS and US commercial property developer Tishman Speyer, the Second AP Fund is joint owner of the American real-estate companies US Office Holdings and US Core Office. The companies own the properties both directly and jointly. The combined portfolio comprises 22 centrally located office properties, totalling some 1.4 million square metres. The combined market worth of the properties held by these two companies is about USD 4 billion. Almost 70 percent of the portfolio’s total market worth derives from properties on the east and west coast of the USA, in the cities of New York, Boston, San Francisco, Seattle and Los Angeles. 25 percent of the portfolio’s market worth derives from properties located in Chicago.

Change focused on two-degree limit

The Second AP Fund is determined to develop the portfolio in line with the two-degree climate goal. The real-estate sector has considerable potential for contributing to change, due to the construction industry’s significant climate impact, which is why the Fund believes collaboration between real-estate companies can promote positive change. The real-estate sector as a whole accounts for almost 30 percent of global carbon emissions and almost 40 percent of energy consumption. Traditional real estate accounts for eight percent of global energy consumption. To attain the two-degree goal, the IEA (International Energy Agency) has set up targets with policies and measures for the construction sector. The vision for EU countries is zero carbon emissions from new buildings and improved energy consumption in existing buildings, plus the introduction of standards for obligatory energy savings until 2020.