

# BUILDING SUSTAINABILITY

## A REVIEW OF COMPANY PERFORMANCE IN THE COMMERCIAL REAL ESTATE AND PROPERTY SECTOR



A CATALYST REPORT

**CATALYST >>**

## **ABOUT CATALYST**

Catalyst is a not for profit policy network established in 2007. We work closely with trade unions, non-Government organisations and academics to promote social and economic equality and improved standards of corporate social responsibility.

Our founding principle is to produce work that promotes good lives, good work and good communities.

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# 1. EXECUTIVE SUMMARY

The commercial real estate and property sector is a vital part of the Australian economy. Compared to global peers, property companies in Australia and New Zealand are considered to be at the front of the pack in terms of acknowledging, measuring and managing Environment, Social and Governance (ESG) risks (also referred to as sustainability risks). This research report looks at performance of the sector, utilising several sustainability indicators developed by Catalyst Australia in 2013 to rate company reporting and performance. These cover gender equality, environmental impact, labour standards, supply chains, community investment and sustainability engagement. The results of this review are presented visually in the Catalyst Property Sector Sustainability Dashboard and discussed in this report.

The 19 commercial real estate and property companies comprising the sample are listed on the Australian Securities Exchange (ASX) 200 index and are companies classified by the Global Industry Classification Standard as belonging to the 'real estate' industry group.

The sample companies operate across diverse portfolios including office, retail and industrial, and focus on property management, construction and development.

Combined the 19 companies have a total market capitalisation of AU\$ 97.5 billion, contributing 7.1% of the total market capitalisation of the ASX 200.<sup>1</sup> These figures illustrate the wealth of the commercial real estate and property sector in Australia. Property is a particularly important asset class for investors: in December 2012 the value of institutional grade commercial property stock in Australia was AU\$681 billion<sup>2</sup>. The sector continues to grow, raising more equity in the first half of 2013 than in either 2011 or 2012.<sup>3</sup>

This report reveals the overall ESG performance of the sector is lifted by a few key players, while most companies are failing to meet even modest sustainability benchmarks. There was great variation in how, and how well, companies reported against particular topics, and in many cases public information was not available. This lack of attention to ESG disclosures by all but a few companies is a cause for concern, particularly given the wealth and size of this sector, its significance to investors, substantial environmental impacts and the interaction of the built environment with communities. It underlines the need for investors who are looking for long term management of sustainability risks to actively engage with the sector to improve reporting, transparency, and ESG performance.

For simplicity, the commercial real estate and property companies are referred to as 'property companies' throughout the report.

'ESG' is shorthand for environmental, social and corporate governance. This is a broad term for the non-financial criteria used by investors and others to evaluate company performance.

# KEY FINDINGS

## **The good reputation of the Australian property sector reflects the leadership of a few standout companies, rather than the performance of the whole**

There is a clear distinction between leaders in the sector and others. Leaders such as Stockland, Dexus Property Group, GPT Group and Mirvac Group tended to score higher than peers across the range of different topics. This suggests that companies which perform well on ESG take a cohesive approach and have effectively integrated social and environmental issues into their business performance and evaluation. While the mixed nature of portfolios can make it difficult to point to a sub-sector that demonstrates the strongest performance, the leader group in this study has a high proportion of office assets in their portfolios. These findings fit with the recognised global trends showing that the uptake of sustainability initiatives in the office sub-sector is more advanced than in other property sub-sectors.<sup>4</sup>

## **Company size does not significantly impact on performance**

Smaller companies tended to lag behind their larger peers, but the size of a property company in terms of market capitalisation did not have a significant influence on sustainability reporting and performance. Rather performance seemed to align closely with company structure. In particular, Catalyst found subsidiaries reported poorly, with many simply relying on (or loosely referring to) disclosures made at the group-level. These unclear boundaries of corporate sustainability disclosures represent a remarkable lack of transparency, considering subsidiaries are ASX listed entities just like their parent companies and are important market players in their own right. Their lack of attention to reporting obscures their relative performance and creates a serious sustainability blind spot which should be addressed.

## **Mandatory reporting makes a difference**

The sustainability reporting and performance of property companies was stronger in areas where it is mandatory to disclose information. Conversely there was a lower level of transparency in non-mandatory topic areas. It is not unusual for compulsory disclosures to form the core element of sustainability reporting.<sup>5</sup> The research found there was a clear divide between areas of reporting which were underpinned by strong external guidance, codes with established metrics or mandated requirements, compared with areas that lacked these forms of guidance. Examples of well reported areas included carbon emission, energy consumption and gender equality.

The patchy uptake of voluntary sustainability benchmarking and reporting tools, particularly concerning real estate sector specific initiatives, was notable. Only around half of the sample applied these tools, and only a few did so comprehensively. In the main, companies participated in the Global Real Estate Sustainability Benchmark (GRESB) survey and used the National Australian Built Environment Rating System (NABERS) tools for at least some of their properties, and ten participated in the Carbon Disclosure Project. Even among companies participating in these initiatives, there is great variation in the scores they achieved and the extent to which they have applied them to their portfolios. These schemes do not necessarily differentiate between those property companies that have engaged in benchmarking exercises in a meaningful way, and those that selected a few flagship properties for 'greening' while continuing business as usual across the portfolio. There certainly is scope for the industry to drive greater consistency in the application of these well-regarded tools.

## **Gender diversity should be on the radar of property companies**

The issue of gender equality is particularly topical in Australia at the moment, having received attention from corporate leaders and the Business Council of Australia (BCA). The findings of this review suggest greater attention is warranted in the property sector. Women were under-represented in key management personnel positions, and few companies reported in detail about gender diversity policies and equal remuneration. More encouragingly, there was a higher representation of women on the boards of the sample companies compared with the ASX 200 average.

## Energy efficiency can be lifted

With the exception of a few companies, property companies were found to underperform in relation to carbon emissions and energy efficiency. This is disconcerting as the Australian Climate Change Authority recommends that the 2020 greenhouse gas reduction target of 5% should be increased to at least 15%. At the same time the total energy consumption in commercial buildings in Australia is expected to rise by 24% from 2009 to 2020, while related greenhouse gas emissions are expected to increase by 27%.

There is substantial variation in energy performance between leaders and the others, a finding which accords with existing studies showing that some sub-sectors of the property industry make a disproportionate contribution to emissions. This impacts the performance of the sector overall and dampens the significant energy efficiency improvements that have taken off in some areas of the industry.

Waste management was widely overlooked compared to other environment indicators. This is likely due to waste disclosures being non-mandatory as well as not being deemed material by some companies.

## Reporting about workforce rights and exposure to risk was largely overlooked

Labour standards are an important issue for the property sector, as both construction and property servicing industries involve a large number of workers, either directly or through contracting relationships. However the research found that workforce information, labour rights and exposure to risks are largely left unreported by property companies for all groups of workers. While the lack of direct employees may be a factor in explaining these gaps, reporting should also reference labour standards of contractors and suppliers, especially in relation to occupational health and safety (OH&S), where building owners have an expanded duty of care under national legislation introduced progressively from 2011. To be clear, occupational health and safety was only minimally addressed or not reported by more than two-thirds of companies in the sample. There are significant risks posed through this under reporting, especially if this is due to management and reporting systems not being in place. Peak and industry organisations, along with investors, would do well to focus attention on this issue through benchmarking and awareness-raising.

## Supply chains are not transparent

Almost all property companies underperform across all elements of the supply chain topic, whether it concerns labour standards and environmental policies, implementing management systems or transparency. The poor performance is due to an absence of disclosures. Given the reliance on outsourcing of core functions and servicing, as well as external procurement of materials supplied for property development, greater transparency is urgently needed in this area.

## Stakeholder engagement is unsophisticated

Stakeholder engagement was found to be unsophisticated. This could reflect the nature of businesses assessed, as many investment trusts operate at arms' length from communities and stakeholders. At the same time the footprint of the property sector extends to it owning and managing physical assets where people live, work and shop. This should result in a commitment to consult with tenants, consumers, residents, workers, their unions and others in the community about issues which are important to these groups. However approaches to stakeholder engagement were hard to locate in the majority of cases.

Catalyst also looked for evidence of engagement with sustainability tools, benchmarks and systems. Companies performed better on this indicator, but strong performance was far from widespread.

## Community Investment is still to evolve

Two aspects of community investment were rated by Catalyst. These are the amount of community investment and the strategy underpinning community investment, each of which has a number of sub-indicators. While there are some good performers in some aspects of community investment, the results overall were very patchy, and few companies disclosed much relevant information about their community investment practices. This is unusual in light of the wealth of the sector and its continued growth.

# RECOMMENDATIONS

1. A standardised environmental reporting framework should be applied across the sector. This should include disclosures about absolute as well per square metre averages for carbon emission, energy consumption, water usage and waste production
2. Sector specific materiality assessments and performance matrices should be introduced to assist property companies in providing a detailed portfolio analysis and help create comparable sustainability datasets.
3. Investors should consider mandating minimum reporting guidelines to aid in the comparability of information. In the interim, benchmarking against mature reporters within the sector and in other sectors should occur. This would assist in raising awareness of sustainability performance with investors and the wider community, which is justified in light of the sector's operational impact and economic value.
4. Greater transparency on labour and supply chain issues across all stages of property construction, maintenance and servicing is essential in light of the heavy reliance on external suppliers. Companies should monitor and gather data, and require suppliers to report on ESG issues.
5. The importance of property and the broad impact of the sector on communities warrants much greater attention to reporting about community initiatives and measures to consult and engage stakeholders.
6. Parent companies and their subsidiaries should explicitly clarify their reporting boundaries and clearly indicate which elements of sustainability disclosures specifically relate to the owned subsidiary and which do not.

# 2. CONTEXT AND METHODOLOGY

## 2.1 THE SECTOR

This report provides an overview of the sustainability reporting and performance of commercial real estate and property companies listed on the Australian Securities Exchange (ASX) 200 index, which is rebalanced every quarter.<sup>6</sup> After the September 2013 rebalance, the ASX 200 contained 19 companies belonging to the real estate industry group, as identified by the Global Industry Classification Standard (GICS). Although not all 19 real estate companies fall into one of the real estate investment trust (REIT) sub-industry categories, they are nevertheless commonly classified as REITs. Eighteen of the sample companies are listed on the S&P/ASX 200 A-REIT sub-index (Lend Lease Group was the only company not listed).

At the time of writing the 19 commercial real estate and property companies listed on the ASX 200 had a total market capitalisation of AU\$ 97.5 billion, contributing 7.1% of the total market capitalisation of the ASX 200.<sup>7</sup> This is indicative of the wealth of the commercial property sector in Australia. The sector continues to grow, with REITs raising more equity in the first half of 2013 than in either 2011 or 2012.<sup>8</sup>

For the purposes of simplicity, the sample group of commercial real estate and property companies is referred to as 'property companies' throughout the report.

Company	ASX	Cap (\$M)	Mkt %	GICs Sub-Industry Classification
Westfield Group	WDC	24,263	24.8%	Diversified Real Estate Activities
Westfield Retail Trust	WRT	9,047	9.28%	Retail Real Estate Investment Trusts
Stockland	SGP	8,946	9.18%	Diversified Real Estate Activities
Goodman Group	GMG	8,524	8.74%	Diversified Real Estate Investment Trusts
Mirvac Group	MGR	6,413	6.58%	Diversified Real Estate Activities
Lend Lease Group	LLC	6,118	6.28%	Diversified Real Estate Activities
GPT Group	GPT	6,050	6.21%	Diversified Real Estate Activities
CFS Retail Trust	CFX	5,716	5.86%	Diversified Real Estate Investment Trusts
Dexus Property Group	DXS	4,813	4.94%	Diversified Real Estate Investment Trusts
Federation Centres	FDC	3,312	3.40%	Retail Real Estate Investment Trusts
Commonwealth Property Fund	CPA	2,710	2.78%	Office Real Estate Investment Trusts
Australand Property Group	ALZ	2,134	2.19%	Diversified Real Estate Activities
Investa Office Fund	IOF	1,842	1.89%	Diversified Real Estate Investment Trusts
Cromwell Property Group	CMW	1,676	1.72%	Diversified Real Estate Activities
BWP Trust	BWP	1,442	1.48%	Diversified Real Estate Investment Trusts
Charter Hall Retail REIT	CQR	1,336	1.37%	Diversified Real Estate Investment Trusts
Charter Hall Group	CHC	1,100	1.13%	Diversified Real Estate Investment Trusts
Abacus Property Group	ABP	1,052	1.08%	Diversified Real Estate Activities
SCP Property Group	SCP	1,002	1.03%	Retail Real Estate Investment Trusts
	<b>Total</b>	<b>97,504</b>	<b>100.00%</b>	
	<b>ASX 200</b>	<b>1,369,833</b>	<b>7.12%</b>	

The Australian property sector is dominated by Westfield through two listed entities: Westfield Group and Westfield Retail Trust. Westfield has a combined market capitalisation of AU\$ 33.3 billion, making up 34.2% of the market capitalisation of the sector. Westfield is followed at some distance by Stockland, which is capitalised at AU\$ 8.9 billion (9.2%) and Goodman Group at AU\$ 8.5 billion (8.7%).

The sector largely consists of stapled securities, meaning one or several trusts are combined to trade as a single entity. Some of these entities are owned by companies that are themselves listed on the ASX 200, such as CFS Retail Property Trust and Commonwealth Property Fund, both owned by Commonwealth Bank, BWP Trust which is property of Wesfarmers, and SCP Property Group which is owned by Woolworths and was listed in the ASX December 2012. Other property companies have multiple listings, such as Westfield and Charter Hall.

Companies have various business activities which include property development and investment, as well fund management including industrial and residential properties, shopping centres and offices. This diversity is also illustrated by the GICS sub-industry group classification, which identifies eight companies as undertaking diversified real estate activities and seven companies as diversified real estate investment trusts, while only three companies are specifically classified as retail real estate investment trusts, and one company as an office real estate investment trust.

<b>S&amp;P/ASX 200 A-REIT – Portfolios</b>	
Retail	52%
Office	5%
Diversified	33%
Industrial	10%

Source: SSgA, as of 31 January 2013<sup>9</sup>

Westfield Group, Westfield Retail Trust and CFS Retail Trust are the top three companies in terms of value of retail assets. Goodman Group, Dexu Property Group and Australand Property Group have the highest valued industrial assets, whereas Dexu Property Group, Charter Hall Group and GPT Group lead in value of office assets.<sup>10</sup>

## 2.2 GROWING INTEREST IN ESG BY INVESTORS

Investors are increasingly integrating ESG issues into their decision-making in order to identify and manage their exposure to long-term risk. Investors rely on companies to provide accurate, timely and comparable information on their ESG performance in order to make these assessments.

There is growing awareness of the significant social and environmental impacts of the built environment and increasingly sophisticated ways of measuring these impacts. This has brought greater scrutiny by investors, but also recognition that the property industry can play an important role in moving towards a more sustainable future. As a result, ESG reporting is more important than ever. It provides investors with information about the ways in which property companies are managing risk, future-proofing their assets, and contributing to long-term sustainable development.

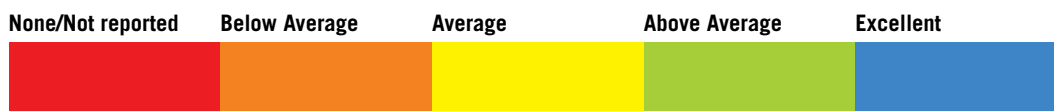
Institutional investors have a particularly broad definition of risk and recognise that there are limitations to reporting that only addresses risks and opportunities deemed relevant by the company itself. The Investor Network on Climate Risk (INCR), a coalition of 100 institutional investors with more than \$10 trillion in assets refer to the 'systemic risk' to which they are exposed by being invested across the economy and having long-term investment horizons, which makes thorough ESG reporting so important. INCR has noted "current practice in financial reporting generally fails to capture many ESG-related risks and externalities that would help investors gauge risks to individual companies, as well as understand each company's contribution to or impact from systemic risks".<sup>11</sup> In other words, ESG reporting provides material information to investors about risks, impacts and opportunities that are not available in traditional forms of reporting.

With the tide of foreign investors entering the Australian property market, it will be the companies that are able to demonstrate genuine leadership on ESG issues through high standards in reporting and disclosure that will benefit most changing investor expectations. The investor community has an important role to play in driving improvement in reporting and performance.



## 2.3 METHODOLOGY

Companies were rated in six different areas: gender equality, environmental impact, labour standards, supply chains, community investment and sustainability engagement, each consisting of multiple indicators and sub-indicators. The company ratings displayed in the tables throughout the report pertain to one of the six topic indicators. Sub-indicator scores are displayed on the CSR Dashboard website by accessing the Property Sector Sustainability Report. The following ratings are applied:



The rating scales and indicators were developed in 2012–13 based on authoritative information and academic research. They capture benchmarks and policies set by governments, intergovernmental organisations, non-government organisations, regulatory agencies and industry groups. The approach taken by Catalyst is to review public disclosures to raise awareness about the importance of transparency by companies about their social and environmental activities. There may be instances where companies have policies in place, but if they are not disclosed, they would not be captured.

A full visual representation of the Property Sector results, and further information about the methodology, is available on the Catalyst Australia CSR Dashboard website (<http://csr.catalyst.org.au>)

While most indicator and sub-indicator ratings are discussed in this paper, sub-indicator ratings are not displayed graphically, nor are all company results discussed individually.

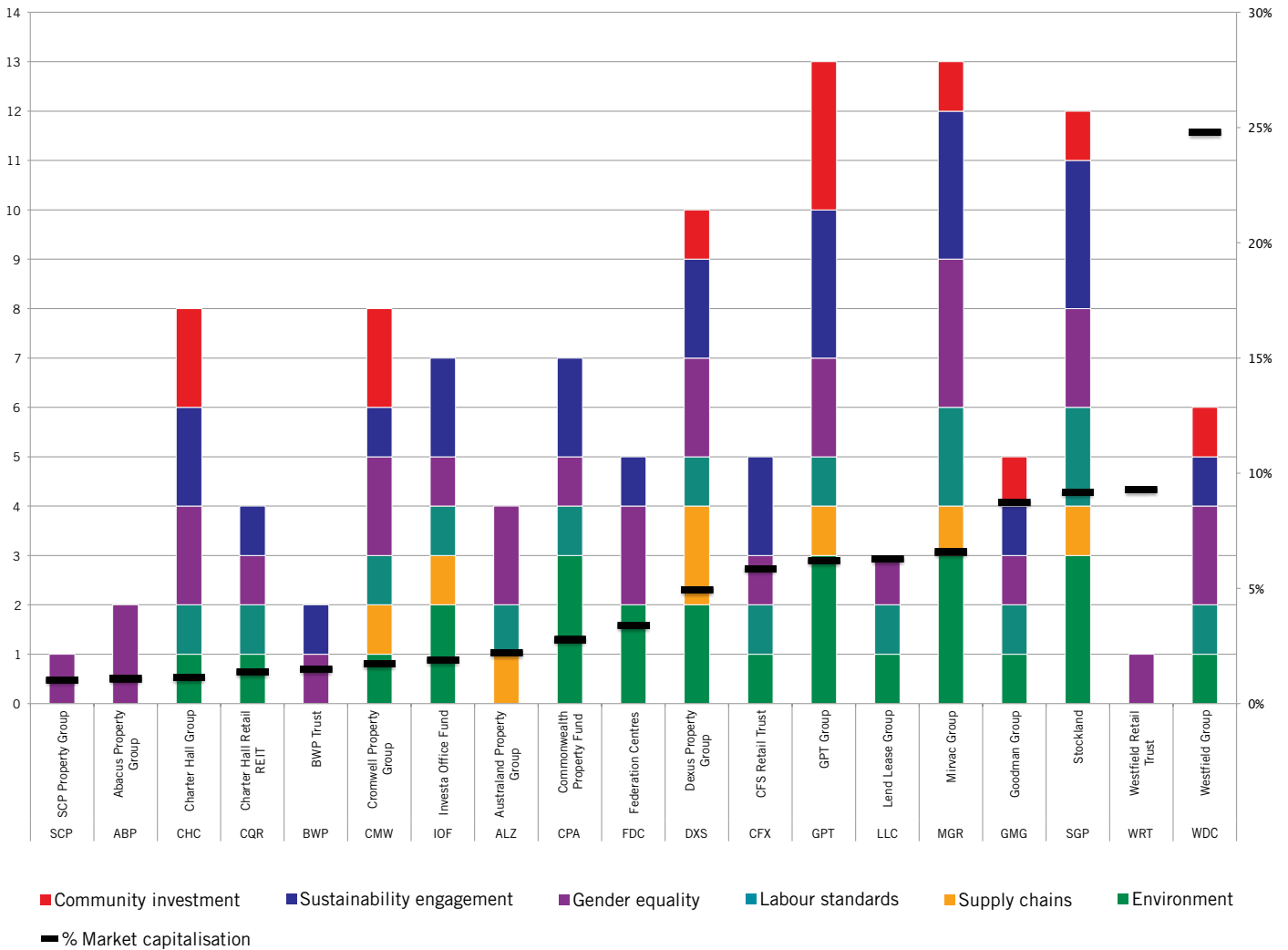
## 2.4 INFORMATION REVIEWED

Publicly available documents and company websites were analysed as at 30 November 2013. Because four property companies listed on the ASX 200 (Australand Property Group, GPT Group, Westfield Group and Westfield Retail Trust) have a December year-end, as opposed to the other fifteen companies with a June year-end, four annual reports belonging to the 2012 financial year were used. Due to the diverse nature of property portfolios and business activities, drawing comparisons between the sustainability reporting and performance of these property companies can pose difficulties. In particular varying business activities result in different levels of materiality. This has been referenced wherever appropriate.

While every effort has been made to thoroughly review public information, it is possible some details may have been overlooked, particularly where information is located across several reports and/or company or subsidiary websites. In addition the project did not make assessments about the accuracy of disclosures. Companies are invited to provide additional public information so appropriate amendments can be made.



# 3. RESULTS



## This chart presents the combined results for each company

The right y-axis (%) shows how companies performed relative to their market capitalisation. The left y-axis (scale of 0–14) shows each company’s accumulated topic ratings. It is notable that a company could have achieved up to 24 points on this scale, but most were well below this rating, scoring 13 at best.

Further results can be viewed on the Property Sector Sustainability Dashboard. Each topic has several indicators, and sub-indicators, and users can see how these different components contributed to the overall topic score.

<http://csr.catalyst.org.au/>

## 3.1 ENVIRONMENT

The United Nations Environment Program (UNEP) Sustainable Buildings and Climate Initiative estimates that the built environment is globally responsible for 30% of natural material use and 20% of water consumption, in addition to being responsible for over 40% of global energy usage and 33% of global greenhouse gas emissions.<sup>12</sup>

Four environmental indicators were applied, covering carbon emissions, energy, water and waste efficiency (outlined below). Overall, the review found a clear discrepancy between the reporting and performance concerning carbon emissions, energy consumption and water usage on the one hand, and waste management on the other. This can partially be explained by mandatory elements of environmental reporting frameworks, which display a bias towards reporting on energy usage and carbon emissions.

For example, the National Greenhouse and Energy Reporting (NGER) scheme requires companies exceeding certain levels of energy usage and carbon emissions to disclose these figures, and it is mandatory for companies selling or letting commercial buildings with a floor space above a certain threshold to undertake a NABERS Rating System energy assessment.

Although NABERS addresses water consumption and waste management, its mandatory elements solely relate to energy and carbon efficiency. Other voluntary sector specific initiatives do address all four environment topics, including the Green Building Council of Australia (GBCA) Green Star rating system and the GRESB survey, as does the Global Reporting Initiative (GRI) framework, meaning disclosure guidance does exist in these areas.

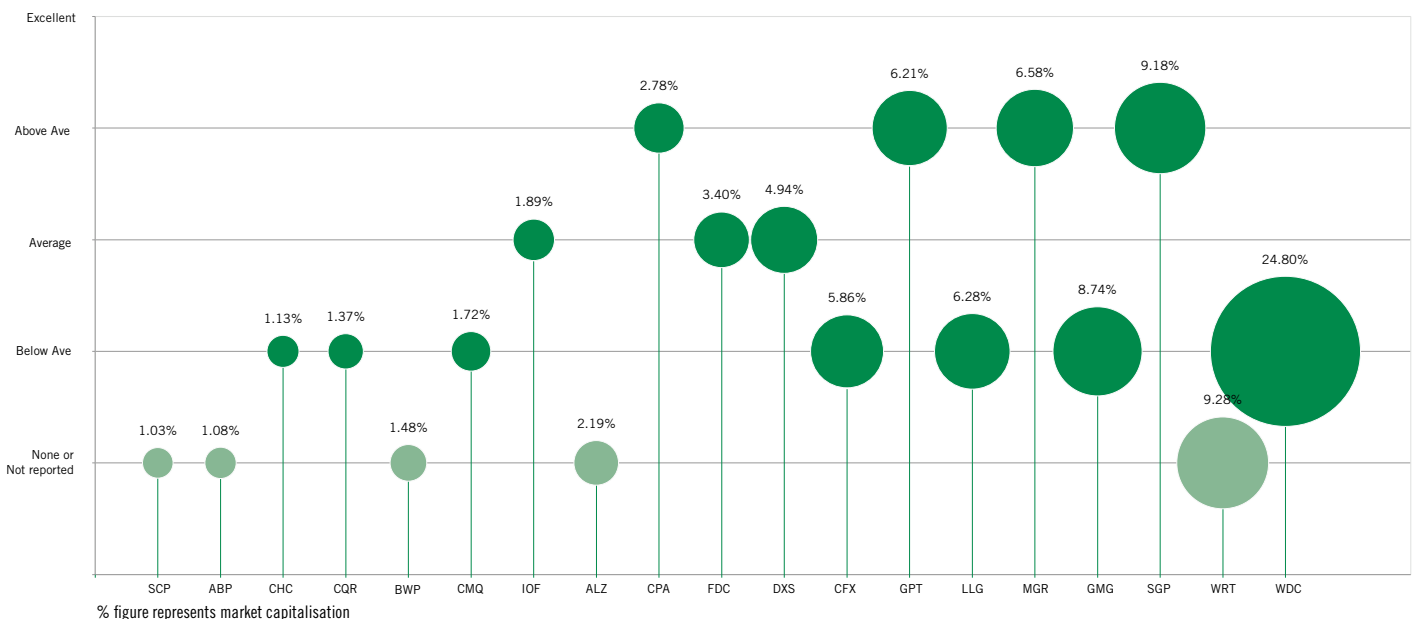
In summary the compulsory elements of NGERs and NABERS, as opposed to voluntary tools such as those provided by the GBCA, GRESB and GRI, explain why energy usage and carbon emissions are reasonably well reported on, but do not provide insight into the discrepancy between reporting on water usage and waste production, which are both voluntary. Arguably, changing levels of materiality associated with the diversity of portfolios across the sector might be a determining factor in reporting on waste management.

### Environment Indicators

To review the individual environmental performance of the Australian companies in the sample, Catalyst utilised four indicators covering carbon emissions, energy usage, water usage and waste production.

Each indicator consists of three sub-indicators that gauge efficiency, benchmarking and totals. For example, the carbon emission indicator consists of the following sub-indicators:

- Ratio of company revenue to carbon emission relative to last year (efficiency).
- Carbon emission compared to sector peers (benchmark).
- Carbon emission in the latest reporting year relative to the year prior (total).



## Carbon Emissions

In 2010 the Australian governments formally committed to reduce national carbon emissions by 5% by 2020, potentially increasing this to between 15% and 25%. The 5% target is unconditional while the 15% and 25% targets depend on the extent of international action.<sup>13</sup> Recently the Australian Climate Change Authority advised the federal government the 2020 reduction target of 5% should be increased to at least 15%.<sup>14</sup> Despite these targets, the greenhouse gas emissions from commercial buildings in Australia are expected to have increased by 27% by 2020.<sup>15</sup>

This research found twelve ASX 200 property companies reported a reduction in total scope 1 and 2 carbon emissions compared to the previous financial year. Nine property companies produced more carbon emissions than the global property sector average, which is unsurprising given the size of ASX 200 property entities. It does indicate these companies are large contributors to carbon emissions, which makes it all the more disappointing that five companies did not publish emission figures, or in case of subsidiary companies only reported on a group level. Although twelve companies reported a reduction in emissions, the largest two companies, Westfield Group and Westfield Retail Trust, recorded an increase or did not disclose information.

### Largest Market Cap

WDC	Increase (FY 2011)
WRT	No information
SGP	Decrease

It should be noted total carbon emission figures are not necessarily an ideal proxy for performance due to the changing size and nature of real estate portfolios. As well, a number of property companies report their carbon emissions based on a per square metre (sqm) average. Mainstreaming carbon emission reporting in the property sector to include both absolute as well as per sqm averages would greatly benefit users of information to make comparisons.

## Energy Consumption

In 2011 the total energy consumption in Australia showed a modest five year average increase of 1.4%.<sup>16</sup> However it is anticipated that by 2020 the energy consumption in commercial buildings in Australia will have risen by a staggering 24%. In 2009 retail buildings accounted for 35% of energy usage in commercial buildings, while office buildings represented 25% of energy usage.<sup>17</sup> This percentage is anticipated to fall in office buildings by 2020, but to continue to grow in the retail sector.<sup>18</sup>

As a whole, the property industry is a significant consumer of energy – in construction and development of buildings, as well as ongoing operations and maintenance. Catalyst's findings of significant variation in ESG performance across the industry fits with recent reports indicating some sub-sectors of the industry contribute disproportionately to energy use and emissions for the sector as a whole. The 2013 Beyond Zero Emissions (BZE) Buildings Plan report revealed that retail is the highest consumer of energy among all non-residential buildings, and within this sub-sector shopping centres accounted for 53% of energy use, despite representing only 23% of retail floor space (the other sub-sectors being high street retail, neighbourhood centres and big box retail).<sup>19</sup> Given that the retail sub-sector already accounts for 4–5% of total national emissions and is projected to continue to grow, more rigorous uptake of 'green' and energy saving initiatives, as has taken place in the office sector, would make a significant difference to energy use in this sector overall.<sup>20</sup>

The research indicates seven property companies reported a reduction in energy usage as opposed to the previous financial year, while three reported an increase, two reported energy usage figures that were neither absolute or relative, and are therefore unsuitable for comparison, leaving six companies that did not publish energy consumption figures, or only reported energy usage on a group level.

Given the projected rise of energy consumption in commercial properties, and the substantial contribution of office and retail buildings to total energy usage, it is interesting to take a look at the performance of the companies with the highest valued portfolios.

### Retail

WDC	No increase*
WRT	No information
CFX	Decrease

\*FY 2011

### Office

DXS	Increase
GHC	Decrease*
GPT	Decrease*

\*FY 2012

Although the energy reduction of seven property companies is to be commended, the two companies with the highest valued retail and office portfolio, Westfield Group and Dexu, increased their energy usage. The performance of these two, along with other underperforming companies, is worrying considering the projected increase of energy use in commercial buildings, which is likely to be accompanied by increasing carbon emissions. As with emission reporting the quality of disclosures can be improved by providing total energy usage figures, as well as per sqm averages.

## Water Usage

As the world's driest inhabited continent, Australia is familiar with the consequences of droughts, which damage the environment as well as the economy.<sup>21</sup> The common understanding of the importance of water preservation is illustrated by the fact that between 2004–05 and 2010–11, water consumption in Australia decreased by 29%. Industries and households consumed 13,336 GL of water in 2010–11, compared to 18,800 GL in 2004–05, which is an average yearly decrease of 6%.<sup>22</sup>

Considering the impressive nationwide decrease of water usage, it was surprising to find four property companies reported an increase in water consumption, while only five companies reported a decrease. Of the remaining companies, three disclosed incomparable figures and seven did not report on water consumption, which is remarkable given the shared understanding of the need for water efficiency in Australia.

The 2013 Global Water Report, which surveyed over 1,000 companies, found even though water-related risks are becoming more immediate to businesses, corporate water stewardship activities are notably lacking. The report concludes investors should encourage companies to address water-related risks and associated impacts to financial and environmental performance.<sup>23</sup>

Against this backdrop, Australian property companies should disclose total water usage figures and per sqm averages and take steps to decrease water consumption.

## Waste Production

In 2006–07 Australia produced 43 777 000 tons of waste. If waste continues to grow at 4.5% per annum as is projected, 81 072 593 tons of waste will be generated in 2020–21.<sup>24</sup> The increasing volume of waste will result in demands for new recycling and landfill infrastructure, and will increase energy consumption and related greenhouse gas emissions. The property sector is responsible for producing large quantities of waste. UNEP estimates the built environment, including residential dwellings, contributes 30% of total solid waste generation.<sup>25</sup>

According to the 2013 GRESB report, 71% of participants surveyed have a waste management policy, while 84% have an environmental management system dealing with waste. More ambitiously, 28% of participants with retail property assets have set waste reduction figures, whereas 23% of participants with office assets have done so.<sup>26</sup>

The research found property companies often report on the amount of waste diverted from landfill, which is not surprising given in 2012 this applied to about half of the waste produced by these companies.<sup>27</sup> However, only one company reported a decrease in waste production, while two companies experienced an increase. A total of seven companies, among those who reported on waste diverted from landfill, produced incomparable waste production statistics, while the remaining nine companies did not report on waste production at all.

Given the projected growth of waste production, and the widespread global use of waste management policies and systems identified by GRESB, it is disappointing only three Australian property companies disclose comparable figures concerning this issue. Again reporting can be improved by disclosing total figures as well as per sqm averages.

## 3.2 SUPPLY CHAINS

The sector is heavily reliant on outsourcing but surprisingly there was very little attention given to reporting about the important area of managing supply chains. In addition to inadequate attention paid to supply chains, there was an absence of information about approaches to the ESG performance of suppliers. This is a concern as such information is vital to provide an accurate picture of the environmental and social impacts of the sector through the supply chains it manages.

In a 2012 survey among its clients, Cushman and Wakefield, one of the world's biggest commercial real estate agents, discovered that property owners are increasingly outsourcing their asset management

functions to external suppliers, predominantly because of pressures to produce higher investor returns.<sup>28</sup> They assessed the following percentages of owners that outsourced:

Services	% owners that outsource
Property Management	89%
Agency / Landlord Leasing	67%
Facilities Management	50%
Construction / Development Management	67%
Sustainability Consulting	44%
Property Accounting	50%

Source: Cushman & Wakefield – Global Trends in Real Estate Outsourcing

The research noted that as outsourcing increases, the need arises for property companies to ensure service providers are compliant with the company’s sustainability policies and initiatives. The 2013 GRESB report found 58% of real estate benchmark participants have sustainability requirements in place for external asset managers, while 50% receive formal updates and 38% have staff members who monitor compliance.<sup>29</sup>

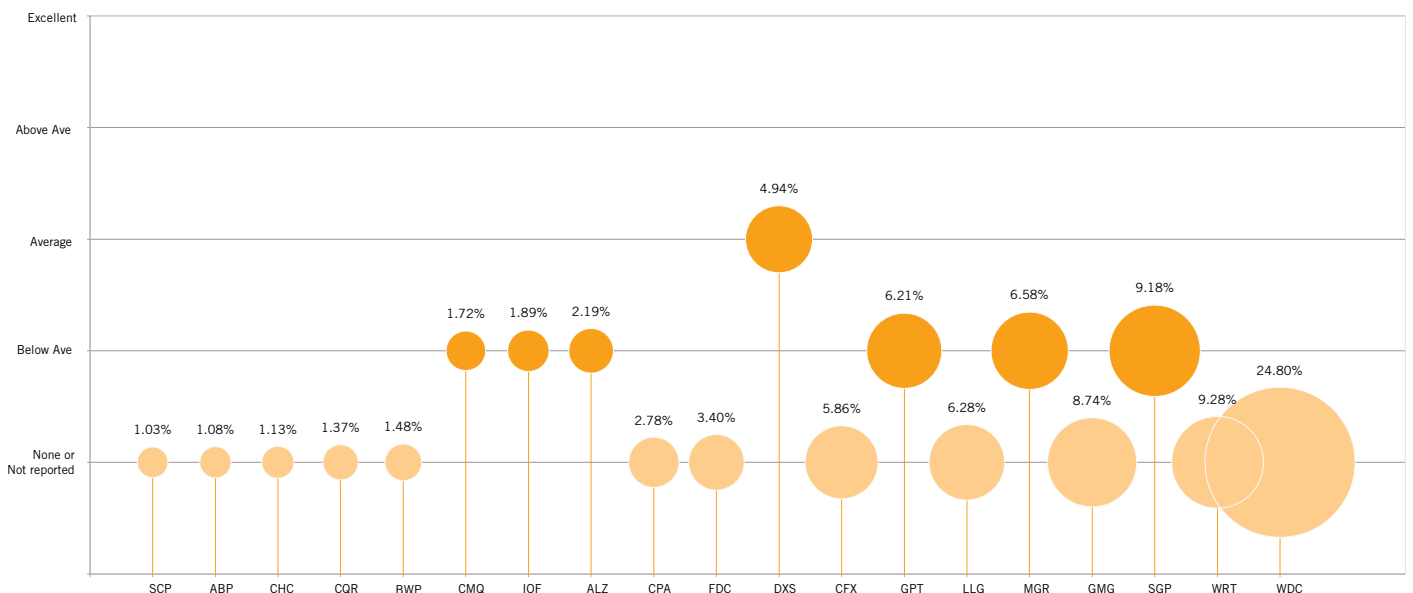
The 2013 GRESB report also found 55% of participants integrate sustainability requirements into contracts with external suppliers, doing so in nearly 70% of their contracts. Seventeen percent of GRESB participants indicate they use certification requirements to direct compliance with sustainability standards.

Beyond meeting industry or company sustainability benchmarks, there is an obligation on companies to ensure compliance by contractors with legal entitlements for employees. Recently the Fair Work Ombudsman commenced an audit of up to 1000 cleaning contractors to check they are paying employees their minimum lawful entitlements. A similar investigation in 2010 found 149 (or 40%) of 376 cleaning businesses audited were non-compliant with workplace laws, and almost \$500,000 was recovered for 934 underpaid workers. In announcing the recent inquiry, the Fair Work Ombudsman noted the industry employs large numbers of migrants and young people who can be vulnerable to exploitation. The cleaners union, United Voice, has long advocated clients should take an interest in ensuring ethical employment practices through their supply chain for vulnerable workers like cleaners.<sup>30</sup>

## Supply Chain Indicators

The CSR Dashboard supply chain indicators are somewhat biased towards the application of global supply chain measurement. However to the extent that the indicators collect information about policies and approaches to supply chain management, they also capture information relating to local supply chains. Thus local approaches can rate within this framework.

The indicators assess four supply chain areas: labour standards policies, environmental policies, management systems and general reporting and transparency.



% figure represents market capitalisation

By some distance the reporting and performance of property companies is poorest in this topic area, with the vast bulk of companies failing to provide any information at all about their management, approach and policies to supply chains. A staggering twelve companies – 63% of the sample – did not provide any public information. These companies do not appear to see supply chain management as a ‘material’ issue for their business. There are significant risk factors posed by this lack of transparency.

Only one Australian property company is rated as average (Dexus) while six companies rate below average (Australand, Cromwell, GPT, Investa, Mirvac and Stockland). A below average score generally applies when the company has made a public statement or commitment to a supply chain area, but has not provided enough detail to evaluate their approach. An example is where a company has a ‘policy’ related to supply chains, but does not provide evidence of steps being taken to apply and monitor the policy thereby ensuring compliance.

In some of these cases companies consider sufficient assurance is provided by a statement of compliance to national laws and regulations. However, adhering to legislation should be considered as complying with the bare minimum, while a commitment to apply relevant international codes provides an important public statement of intention, and can be a significant value-add for companies if embedded in operational practices.

Dexus, GPT, Lend Lease, Mirvac and Stockland were distinguishable from the broader group in addressing many of the indicators, but disclosed selectively or in a limited way.

## Labour Standards policy

This indicator related to having a policy that referenced the nine Ethical Trading Initiative (ETI) Base Codes or equivalent measures. These emphasise the application of policies to bind suppliers behaviour and performance rather than a commitment to act in a certain way, and include: employment being freely chosen, support for freedom of association and collective bargaining, safe and hygienic work conditions, not engaging in child labour, ensuring working hours are not excessive, paying living wages, providing regular employment free from harassment and discrimination, and prohibiting harsh and inhumane treatment. While the ETI Base Codes have global application, there are local proxies that can be applied and these are picked up in the ratings that apply.

Only one company (Dexus) achieved an average score under this indicator. However GPT and Mirvac referenced some supplier labour standards policies, while Stockland and Cromwell provided a statement of commitment which indicated an understanding of obligations in this area.

## Management systems

To achieve an average rating (or above) for this indicator, companies present evidence of a management system in place AND suppliers are independently audited beyond first tier. To achieve an excellent score, companies need to have robust systems in place which includes independent auditing, policies for remediation, evidence of continuous improvement and involving commercial teams in the supply management program. While there is some degree of aspiration in this rating, nearly all companies were clustered at the lower end of the rating spectrum. This was a surprising result in such a contracting reliant sector.

Stockland gave details of a comprehensive approach to safety through a pre-qualification, induction of suppliers and a focus on risk management and compliance. However Stockland noted as they moved down the supply chain, their ability to control performance “dissipates” and assurance relied upon sub-contractors being covered by “stringent” federal government requirements.

Other companies (such as GPT and Dexus) mentioned they audited or measured performance of suppliers but provided few details. Lend Lease stated they had an “uncompromising” approach to injury management of suppliers, while Mirvac focussed on developing metrics and centralised data management of suppliers to “enable aggregation, analysis and action on sustainability survey data and heightened visibility of supplier practices”.

While these companies did not provide the required level of detail to achieve a rating of average or above, they are distinguished from the vast majority of 13 companies who did not disclose details of their supply chain management system or do not appear to have one.

## Environmental policy

The minimum requirement to rate under this indicator is to reference a policy outlining expected performance and/or behaviours of suppliers in relation to environmental standards. To rate higher several other elements need to be met, such as regular reporting of environmental data and



performance by suppliers, through to contracts specifying that suppliers have and maintain an Environmental Management System including ISO 14001 certification.

Five companies satisfied the minimum requirement, albeit with varying degrees of detail. These were CFS Retail Trust, Commonwealth Property Fund, Cromwell, GPT and Stockland. These companies focused on public statements of commitment, or provided detail of one area, but gave no indication about how commitments were managed and enforced. Dexus rated more highly in requiring suppliers to have an Environmental Management System (EMS) in place, with an emphasis on accreditation such as ISO 14001.

## Reporting and Transparency

As noted above, the poor rating of property companies against the supply chain indicators is predominantly caused by the lack of publicly available information. There are significant risk factors posed by this lack of transparency.

Of the handful of companies who provided information that could be rated under this indicator, most reported superficially about how they select suppliers through tendering processes. One company addressed the total 'spend' on contractors, others focused on selected sites where contractors and sub-contractors were employed, or on 'strategic supplier' alliances including (in one case) a commitment to supporting local businesses and residents by buying and hiring locally. Superficial statements to encourage tenants and supply chains to "manage and minimise their carbon footprint" also featured.

Few companies reported extensively on their understanding of their supply chain and its materiality to the business. Such details should include approaches taken to auditing suppliers and any programs in place to remediate supplier issues. No company published a list of suppliers in its sustainability report. Given the heavy reliance on supply chains throughout construction, maintenance and management of property assets, greater transparency should be a priority for companies. Industry associations can assist through the development of clear guidelines and minimum reporting standards for the sector.

## 3.3 LABOUR STANDARDS

Many Australian property companies have a limited amount of direct employees, or in the case of several property trusts and subsidiaries have no employees at all. As a result it is tempting to assume labour standards are less material to some property companies compared with others and the need to report on this topic can thus be overlooked.

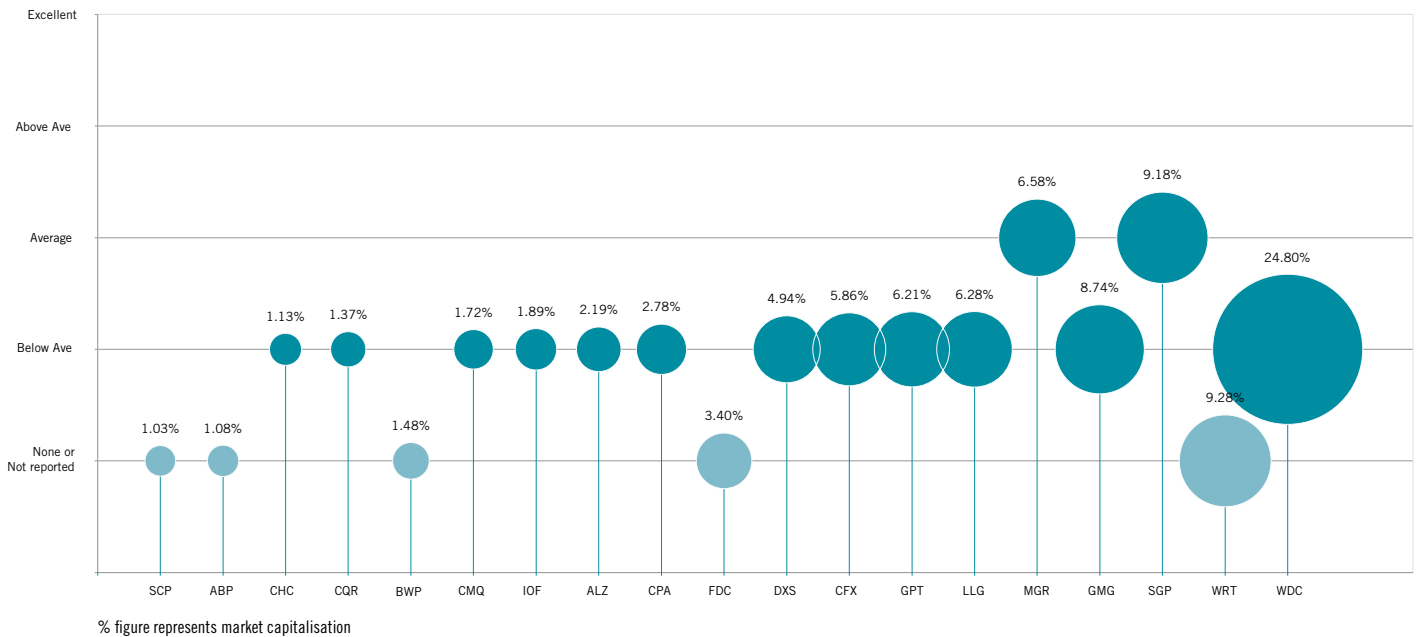
While the limited amount of direct employees might offer an explanation in some instances, it does not justify an entire lack of reporting. Labour standards are an important material issue for property companies, as many rely on a workforce consisting of contractors and suppliers that are subject to various risks. Hence the ways in which these labour issues are reported, addressed and managed should form a core part of corporate reporting. Even when a company has little to no direct employees, it should disclose the materiality (or lack thereof) of labour standards and provide comprehensive supply chains disclosures as an alternative.

The low level of reporting on labour standards in Australia is not unique to the property sector, and is recognised as an issue in reporting across the Australian economy. A 2012 study done by the Labour and Worklife program at Harvard Law School, on behalf of Australian Council of Superannuation Investors (ACSI), found that only 17% of ASX 200 companies described a human rights policy applying to their supply-chain, compared to 35% of a global sample of 2,508 companies.<sup>31</sup> Along with supply chains, the labour standards topic is one of the weakest areas of reporting for the property sector and consequently should be given greater attention. The lack of reporting will be of particular concern to investors who have a different understanding of risk.

### Labour standards Indicators

The labour standards topic is broken down into four indicators: commitment to fundamental rights at work, freedom of association, commitment to secure work and worker health and safety. Each indicator consists of several sub-indicators such as workforce information, injury rates, collective bargaining agreements and trends in casualisation.

It is telling that the top performers in this area, Stockland and Mirvac, are only rated average, while eleven companies are rated below average and six companies do not achieve a score. As with other



topic areas, a rating of below average generally applies when companies provide the bare minimum, such as a statement of commitment.

## Fundamental rights at work

Reporting and performance surrounding fundamental rights at work and freedom of association was especially poor, with no company exceeding a below average rating. It should be noted few Australian companies are outstanding against this indicator. This reflects a lack of understanding and application of global conventions and guidelines referenced by the indicator, specifically the eight International Labor Organisations (ILO) Core Conventions on Fundamental rights at work and the Organisation for Economic Development (OECD) Multinational Guidelines. While such codes have wider legitimacy amongst global companies, Australian companies often deem it sufficient to state that they operate within the boundaries of the law. However, as stated earlier, adhering to legislation should be considered as complying with the bare minimum, while the codes provide an important public statement of commitments to global principles for worker rights. It is stated the ILO Core Conventions “provide the most detailed protection for labour rights globally”.<sup>32</sup> Catalyst has previously recommended these codes need to be better explained and contextualized to Australia to improve their uptake by companies.<sup>33</sup>

## Freedom of Association

Only three of the 19 companies made any statement in support of freedom of association, most minimally, scoring below average. It is interesting to review these results alongside those for stakeholder engagement. In reporting on the latter indicator, no company included trade unions on their list of relevant stakeholders. Taken together with the other labour standards results these findings suggest a lack of understanding of, and attention to, basic principles for trade union rights.

GPT was distinguishable in making a clear statement outlining support for freedom of association and collective bargaining and, while noting staff were employed under individual contracts, the company affirmed support for trade union representation for these employees.

## Commitment to secure work

Performance improved under the indicator measuring ‘commitment to secure work’. The rating looked for details of workforce by contract type and scores increased based on additional information, such as age, gender, regional employment, turnover, tenure, mix of permanent and non-permanent staff and reasons for the mix. A further aspect looked for trends to reduce reliance on casual and contract labour. This is particularly topical at the moment following the Australian Council of Trade Unions (ACTU) Independent Inquiry into Insecure Work, which found 40% of Australian workers were in insecure work. This has consequent impacts on worker and community well-being.<sup>34</sup>

Top performers Stockland and Mirvac provided a comprehensive breakdown of workforce information, disclosed information such as the number of fixed term and contract positions in their workforce, and presented trends in casualisation. However the majority of companies rated below average or did not achieve a rating.

## Worker Health and Safety

Worker health and safety ratings were a cause of concern. Again the top performers are Stockland (Excellent) and Mirvac (above average), who disclosed information on injury rates and statistics such as Lost Time Frequency Injury Rates (LTIFR), while outlining trends and providing information about worker health and safety management systems.

A striking 42% of the sample rated below average, providing only minimal information. An additional 26% provided no information and did not achieve a rating. Taken together, this means more than two-thirds of the sample provided minimal or no information on worker health and safety. This is in stark contrast to findings in the 2013 CSR Dashboard's review of 32 leading companies in the ASX 200. In this larger sample only 15% of companies scored below average and only 9% did not report, resulting in three quarters of companies scoring average or above. Leading companies in other sectors appear to be applying a great deal more attention to worker health and safety than leaders in the property sector.

Peak and industry organisations, along with investors, would do well to focus attention on property sector performance through benchmarking and awareness-raising. While the lack of direct employees may be a factor in under reporting, the contracting nature of work in the sector underlines the need for clearer guidance and a much more pro-active and transparent approach. This is made more urgent by national legislative changes to occupational health and safety introduced progressively from 2011, which bring an expanded duty of care to building owners and tenants relating to contractors.<sup>35</sup>

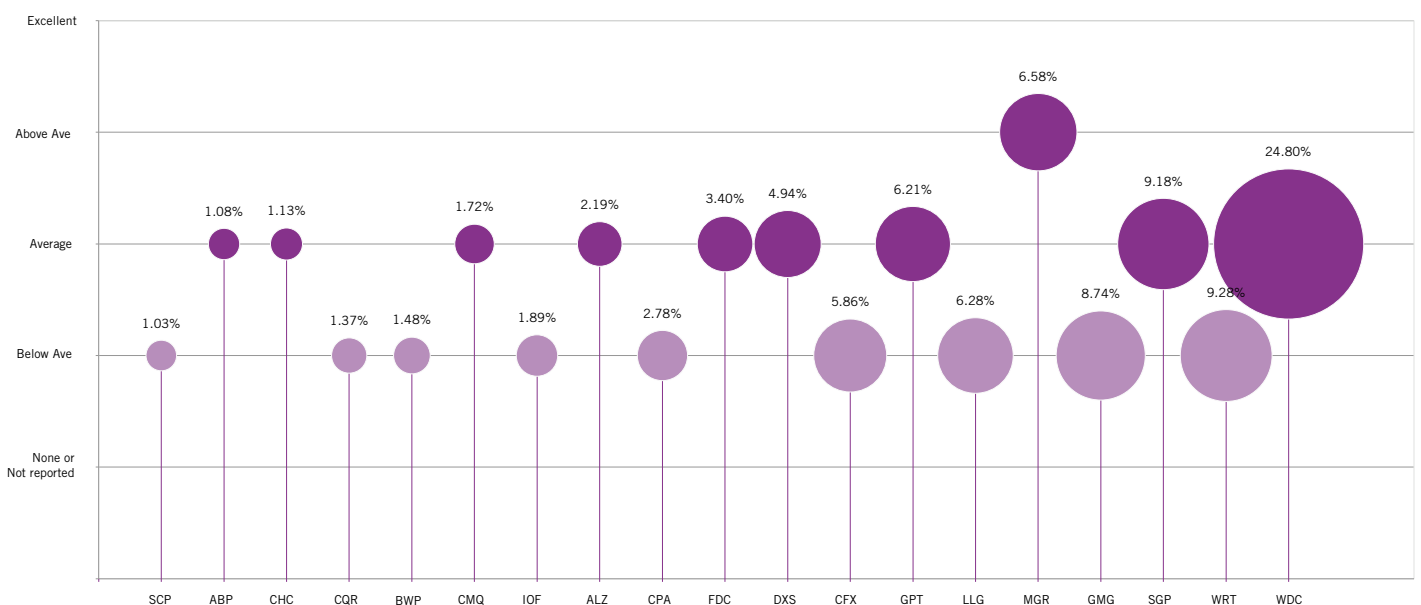
## 3.4 GENDER EQUALITY

Gender equality is the only topic where all property companies managed to achieve a rating. Stronger performance on this topic is undoubtedly related to the increased guidance provided by the gender diversity recommendations of the ASX Corporate Governance Principles, as well as the policy and advocacy of the federal Workplace Gender Equality Agency (WGEA). It demonstrates that clear guidance will result in improved reporting, and over time in better performance.<sup>36</sup>

Due to organisational structures some companies employ a limited number of executive key management personnel. The limited size of the workforce lead to some cases where not all gender equality indicators were material.

### The gender diversity indicators

The indicators in this topic area look at four aspects of gender diversity. The first two review the percentage of women directors on corporate boards and executive key management personnel (KMP), while also looking at the absolute number of women in these positions. The third indicator reviews diversity policies, which provide an important yardstick to assess a company's approach to its workforce, especially when programs extend beyond senior management.



% figure represents market capitalisation

A final indicator looks at equal remuneration. This is becoming an important priority for many companies interested in a comprehensive gender equality approach, largely driven by a persistent national gender pay gap at 17.5%. This means women had to work 64 days extra in 2013 to achieve the same wages that men earned during the prior financial year.<sup>37</sup> Measuring the company pay gap, as well as reporting reasons for the differences between the pay of men and women and setting targets to close this gap, are important public policy considerations.

The results show companies performed relatively well against some indicators, and much less so against others.

Only one company (Mirvac) scored above average for gender diversity.

## Leadership

The 19 property companies in the sample performed well with 18.6% of women on the boards of property companies. Only two out of 19 companies did not have any female board members: both were Trusts (Charter Hall REIT and BWP). The proportion of women on company boards in this sample compares well against the property sector average of 14.8% found in the 2012 Australian Census of Women in Leadership, and 12.3% for the total ASX 200.

However strong performance at board level does not translate to women in KMP positions, where female representation was 11.3%. This was marginally better than the ASX 200 average of 9.7%, although 11 of the 19 property companies did not have female KMP.

The low representation of female KMP in the ASX 200 has been highlighted as a major concern by business leaders. Guidance for property companies wishing to improve gender equality can be found in a recent report by the Business Council of Australia, which outlines a number of measures to achieve greater gender diversity both on boards and in the executive ranks of companies. These include setting of diversity targets, talent identification, succession planning, gender diversity key performance indicators, recruitment practices and training, amongst others.<sup>38</sup>

**I'm often the only woman in the room. Property worldwide is just male-dominated. That's just how it is. I don't think about it very often from that perspective.**<sup>39</sup>

SUSAN LLOYD-HURWITZ, WHO HAS BEEN LEADING MIRVAC SINCE 2013, AND IS THE ONLY FEMALE CEO HEADING ONE OF THE SAMPLE COMPANIES DIVERSITY POLICIES

The analysis of publicly available information shows that most property companies have established diversity policies and formulated measurable objectives, which commonly include reviewing of recruitment practices, succession planning, mentoring programs, flexible working arrangements, talent management, staff training and sponsoring events.

Eleven companies formulated numerical targets to increase female participation, whereas four companies stated they simply intend to increase the amount of female employees. Good performers are Australand, GPT, Goodman, Mirvac, Stockland and Westfield Group.

## Equal Remuneration

Only a handful of companies reported on the pay gap between men and women and equal pay policy initiatives to close it. However even the stand-out performers only managed an average score. This was achieved where companies had a policy setting out commitments to equal remuneration or pay equity, and provided information for either KMP or the entire workforce about the pay gap, including ratios.

Along with board and management representation, this is a very topical issue and one that is being taken up in the parts of the financial sector and business community, albeit very slowly. More work is required by all companies in this area, including in this sector.

## 3.5 COMMUNITY INVESTMENT

There is often great interest in community investment practices of companies, not least by the growing number of non-government organisations and stakeholders that increasingly look to corporate donations to help them deliver worthy programs and services to communities. Thus, reporting about community investment signals the interest and commitment of companies (their Boards and CEOs) to providing a certain level of social and community support.

In a 2012 report on the community investment initiatives of Australian corporations, Catalyst looked at how leading companies were contributing to communities. The report found a mere ten companies were responsible for investing approximately half a billion dollars towards a range of initiatives. This was equal to 0.66% of pre-tax profit for the majority of companies assessed. The research highlighted most companies undertake community investment initiatives without a robust framework or strategy to guide their approach and few take steps to measure the impact (or effectiveness) of their investment.<sup>40</sup>

In 2013 Catalyst further assessed community investment practices across a larger sample of 32 companies. The broader analysis found strong performance in community investment was concentrated amongst a very small number of companies.<sup>41</sup> This also appeared to be the case in this property sector review.

As with other sustainability indicators, the voluntary nature of community investment reporting can result in disclosures of companies differing substantially, both in the types of information given and where the information is located. This makes it difficult for those with an interest in this area to draw conclusions from information. The methodology used by Catalyst overcomes some of these limitations by analysing financial and other information based on commonly applied criteria of what constitutes investment. It is recommended however, that companies give greater attention to consistency in reporting community investment practices by making use of available benchmarking tools.

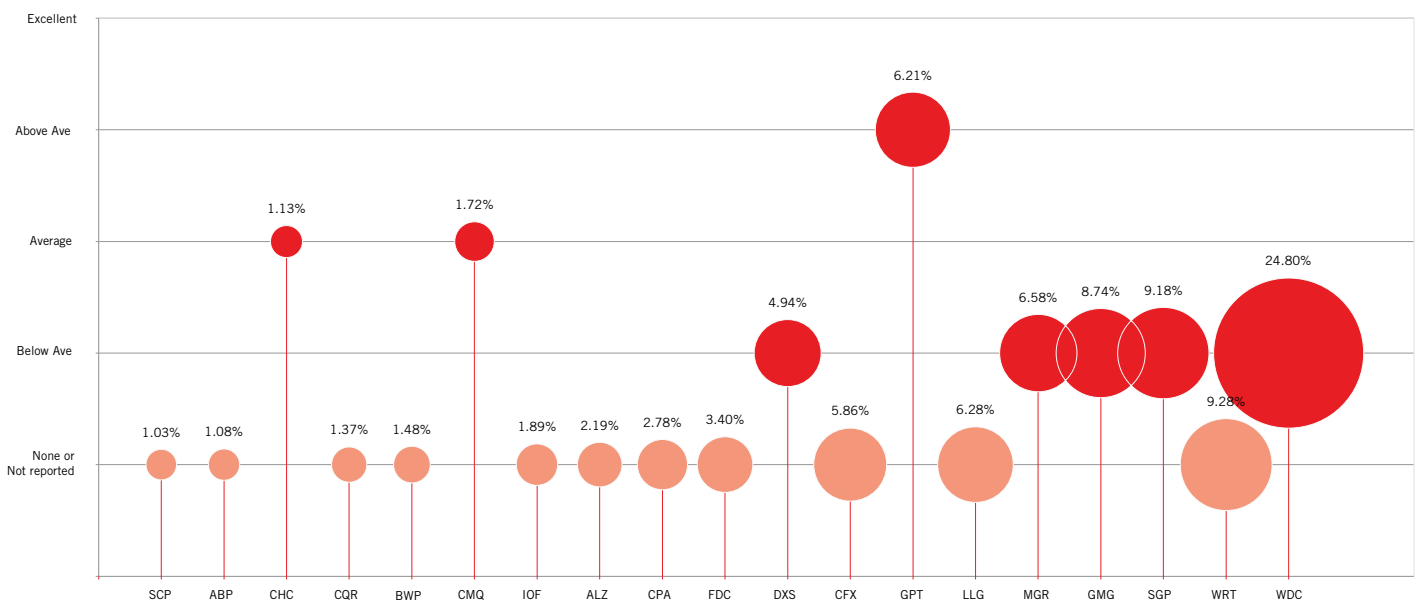
### The community investment indicators

As noted, the 19 property companies listed on the ASX 200 had a total market capitalisation of AU\$ 97.5 billion, contributing 7.1% of the total market capitalisation of the ASX 200.<sup>42</sup> These figures clearly indicate the wealth of the commercial property sector in Australia.

Despite this wealth and the continued strong growth of the property sector, few companies disclosed much relevant information about their community investment practices. However, there are some good performers in the sector, as shown below.

Two aspects of community investment were rated by Catalyst. These are the amount of community investment, and the strategy underpinning community investment. Each indicator has a number of components as outlined below.

Only three companies received an overall rating of average or above average (GPT Group, Charter Hall, Cromwell) while five companies received a below average rating (Dexus Property Group, Goodman Group, Mirvac Group, Stockland and Westfield Group). This below average score for these five companies does mask some strong performance in one of the indicators, coupled with poorer



% figure represents market capitalisation

performance in the other. For example, as shown below, Westfield Group rated above average for the amount of their investment but didn't report on strategy, while Stockland rated above average for strategy but didn't report an amount.

## Amount of community investment

Six companies supplied details of the dollar value of their community investment, and collectively these companies contributed just over \$14 million in 2012. It is notable Westfield Group contributed 60% of the total dollar value. This was followed by GPT, which contributed 25% of the total dollar amount.

Catalyst does not rate companies for the dollar amount of contributions, as it is difficult to objectively account for differences in company size and other variables. Instead it looks at three factors:

- The total amount of investment relative to company profit for the same year
- The change in the amount of investment relative to profit from the previous year
- The change in the absolute amount of investment from the previous year.

Only two companies scored above average under this indicator: Westfield Group and Charter Hall Group. These two companies contributed between 0.6 and 0.9% of their pre-tax profit, and this constituted an increase relative to profit and in absolute terms on the previous year. Cromwell and GPT scored average. A further two companies were notable in providing information to rate their performance – Mirvac and Dexus. However, each rated below average due to their investment comprising less than 0.3% of pre-tax profit, or because it was a decrease in absolute or relative terms on the previous year. Two companies signalled they made donations, but did not provide enough information to be rated. These were Federation Centres and Charter Hall REIT. No other company provided information about the amount of their community investment.

Interestingly, the patchy approach to reporting the amount of community investment contrasts with the findings of the larger CSR Dashboard company sample. In the latter case companies more often reported the value of investment without providing enough context and detail on the strategic underpinnings of the programs. While few property companies reported the amount, several did address policies and strategies.

## Community investment strategy

Strategies guiding community investment are important in enhancing the effectiveness of a company's approach, particularly as the dollar amounts may not give any indication of outcomes under a funded program.

This indicator reviewed four aspects of strategy:

- policies and guidelines that apply,
- the level of disclosure of focus areas and recipients (outlining where the funds go),
- policy and reporting about staff volunteering programs and
- whether steps were being taken to measure the impact of investment.

The findings on investment strategies are similar to those made about the amount of community investment: the majority of companies do not disclose relevant information for these areas. There was however some evidence of good practice across the sample.

Two companies rated above average: GPT Group and Stockland. Both these companies were noteworthy in having clear policy guidance and externally validated methodology to measure and evaluate the impact of their investment, while also receiving a high rating for staff volunteering. Following behind these two companies were Charter Hall Group, Dexus Property Group and Goodman Group, who rated average, and Australand Property Group, Cromwell Property Group, Lend Lease Group, Mirvac Group who rated below average,

Goodman Group and Charter Hall Group both also had clear evidence of an overarching policy guiding their community investment, similar to GPT Group and Stockland. Of these four companies however, only GPT Group actually made their policy public.

Besides GPT Group and Stockland, no other companies indicated attempts to measure the impact of their contributions, though a further two companies do have a standard process for measuring the inputs into their program: Mirvac through the application of the London Benchmarking Group approach, and Dexus through an internal system.

A number of companies had a formal approach for volunteering, offering staff at least one day paid volunteering leave, including Charter Hall Group, Cromwell Property Group, Goodman Group, GPT Group, Mirvac and Stockland. Only GPT Group and Stockland had clear targets for increasing employee engagement in volunteering and reported extensively on hours volunteered.

No company in the sample reported clearly on the focus areas and recipients of their community investment program. While a number of companies clearly defined their focus areas, only Dexus provided a rationale for the selection of the areas and only GPT Group had clear criteria for selecting the recipients of their contributions, while Cromwell Property Group gives some indication of how some recipients are selected.

Of the ten companies who did not achieve a rating, four companies did provide some information on their community investment program, but not consistently enough to meet the criteria for this indicator. While these four companies underperform, they do better than the six companies who did not provide any information at all. The four companies were: CFS Retail Property Trust, Chart Hall Retail REIT, Federation Centres and Westfield Group.

Given the large amount of funds Westfield Group donates, it was surprising to find no details of an over-arching strategy or policy to guide their approach. Apart from a general statement supporting volunteering, Westfield did not address how recipients and focus areas are selected, who received funds, and nor did they outline any steps taken to evaluate the effectiveness of their community contributions.

## 3.6 SUSTAINABILITY ENGAGEMENT

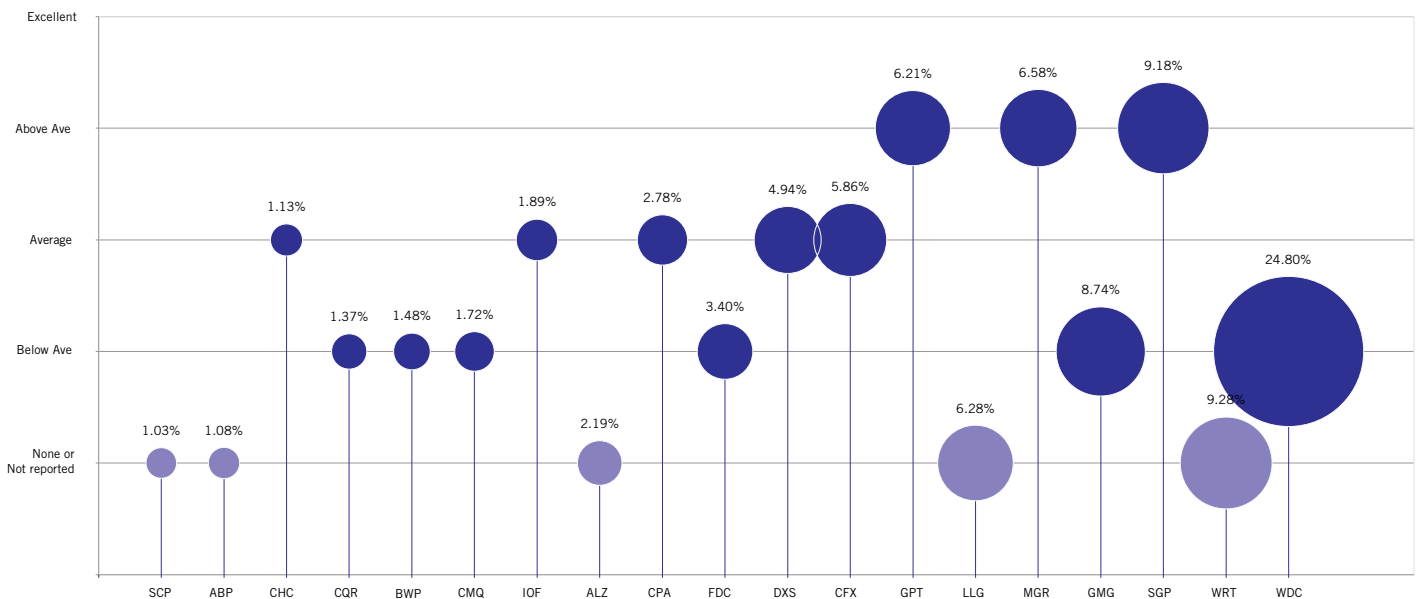
The footprint of the property sector extends to it owning and managing physical assets where people live, work and shop. This should suggest a relatively sophisticated approach to stakeholder engagement, and a commitment to consult with tenants, consumers, residents and others in the community about issues that are important to these groups. However in the majority of cases this was hard to locate.

Catalyst also looked for evidence of engagement with sustainability tools, such as voluntary benchmarks and reporting systems to inform best practice approaches to social and environmental performance. Here the results were improved, but strong performance was far from widespread.

### The sustainability engagement indicators

There are two indicators in the sustainability engagement topic. These cover:

1. Stakeholder engagement, looking for evidence of listed stakeholders, the engagement process and the approach taken by companies to responding to stakeholder concerns.
2. Sustainability Reporting, looking at the extent of company sign on to external voluntary benchmarking and reporting codes, including industry specific initiatives such as the GRESB and NABERS.



% figure represents market capitalisation

## Stakeholder engagement

Fifteen of the 19 companies reviewed provided basic to no information about their stakeholders or the processes they undertook to engage with community and other groups. One exception to this was Stockland, which scored above average. While only listing four groups as stakeholders, Stockland detailed how they engage, identify topics and respond to concerns. Three other companies scored average (Mirvac, GPT and CFS Retail Trust). These companies distinguish themselves by undertaking independently conducted surveys to engage with selected stakeholders, most commonly employees.

Notably no company listed trade unions as a relevant stakeholder, but several referenced employees, with a few providing details of employee engagement strategy, including through the measures outlined above.

## Sustainability reporting

Few companies made widespread use of voluntary benchmarking and reporting tools, despite the availability of frameworks and associated reporting guidance, including real estate sector specific initiatives, although there were exceptions to this. Tools such as GRESB and NABERS were utilised by around half the sample, and ten companies reported to the Carbon Disclosure Project.

Twelve companies used, or claimed to have used, the GRI reporting framework. It needs to be noted that all but three of these companies did so in a very limited way, in most cases gaining 'C' level assurance, with part to no evidence of independent assurance. The exceptions to this were GPT, Mirvac and Stockland: the former two achieved A+ assurance, which in the case of Mirvac was independently assessed. Stockland remains industry leader in applying the new GRI4 framework, and having their report independently assessed by NetBalance.

Given the significance of the property sector to investors, the lack of a robust approach to applying key reporting tools such as the GRI is concerning. This is a clear area where investors should drive improvements in performance.

More encouraging was the signing on to voluntary benchmarking codes, such as the UN Principles for Responsible Investment (UN PRI), Dow Jones Sustainability Index (DJSI). While these codes have been criticised for their lack of binding content, company sign on can indicate a degree of commitment to applying leading global sustainability benchmarks. Five companies achieved an excellent score against this sub-indicator, having signed up to several voluntary codes. Most popular were the UN PRI, DJSI, FTSE4 Good and Investor Group on Climate Change (IGCC). Companies did not however provide details of how these tools and codes were operationalised throughout the business.



# 4. OTHER FINDINGS

## 4.1 MARKET CAPITALISATION AND REPORTING

At first glance the data suggests that bigger companies are doing better than smaller companies when it comes to sustainability disclosures and performance. This assumption is backed by findings in a report by GRI Focal Point Australia and CPA Australia, which describes the strong and significant positive correlation between market capitalisation and the number of GRI disclosures.<sup>43</sup>

However a closer look by means of a Spearman's Rho correlation analysis, used to analyse the relation between market capitalisation and sustainability performance, only finds low positive correlation. The relation is shown not to be significant for any topic, even after WDC is excluded as an outlier due to the size of its market capitalisation. This indicates that size, in terms of market capitalisation, is not a satisfying explanatory factor regarding the performance of property companies against the sustainability indicators.

	Including WDC	Excluding WDC	Subsidiary
Gender Equality	0.230	0.127	-0.775*
Environment	0.404	0.459	-0.114
Labour Standards	0.253	0.316	-0.398
Supply Chain	0.163	0.389	-0.097
Stakeholder Engagement	0.268	0.287	-0.062
Community Investment	0.323	0.274	-0.630*

\* correlation is significant at the 0.01 level

Magnitudes between 0.9 and 1.0 can be considered very highly correlated, between 0.7 and 0.9 are highly correlated, between 0.5 and 0.7 moderately correlated, between 0.3 and 0.5 have a low correlation and magnitudes less than 0.3 implies little if any correlation.

## 4.2 RELATIONSHIP BETWEEN PARENT AND SUBSIDIARIES

The complex relationship of parent companies and their subsidiaries, as well as the relation between property companies with multiple ASX listings, resulted in unclear reporting boundaries on sustainability issues. While some parent companies report on ESG topics reasonably well at the group level, this information does not get broken down for the owned subsidiaries and associated smaller entities.

An analysis of the relation between sustainability performance and being a subsidiary company, or associated smaller entity, demonstrated that significant moderate to high correlation exists between being a subsidiary company and performance relating to gender equality and community investment. That is, being a subsidiary company is an important factor in explaining negative ratings in these topic areas. The relationship between being a subsidiary and performance concerning supply chains, labour standards, stakeholder engagement and the environment demonstrated little negative correlation.

Although in some cases group-level information can unambiguously be applicable to associated entities, for example in case of a diversity policy, solely referencing group-level information comes at the cost of detail. This is problematic when particular topics require more scrutiny, for instance when group-level information about carbon emissions is not broken down to the level of associated entities.

In other cases subsidiary companies do not explicitly refer to group level information, nor do they report on ESG issues themselves. In these instances, the relationship between group-level information and associated entities becomes especially opaque, as it is entirely up to the beholder to determine to what extent group-level information is applicable to subsidiaries. These unclear boundaries of corporate sustainability disclosures represent a remarkable lack of transparency, considering subsidiary and associated companies are ASX listed entities, just like their parent companies, which results in having rights as well as obligations.

- 1 <http://www.asx200list.com/> Retrieved on 4 October 2013
- 2 The size of the core property investment market (office, retail and industrial) is AU\$280 billion of which approximately AU\$195 billion (70%) is owned by Australian Institutions. <http://www.australiancentre.com.au/sites/default/files/NewsDocs/David%20Higgins%20-%20ACFS%20Report%201909132%20%28Final%29%20%281%29.pdf>
- 3 This figure relates to Real Estate Investment Trusts, discussed in the sector overview. See Ernst & Young (2013) — Global Perspectives 2013 REIT report [http://www.ey.com/Publication/vwLUAssets/Global\\_perspectives\\_2013\\_REIT\\_report/\\$FILE/Global-perspectives-2013-REIT-report.pdf](http://www.ey.com/Publication/vwLUAssets/Global_perspectives_2013_REIT_report/$FILE/Global-perspectives-2013-REIT-report.pdf)
- 4 The GRESB 2013 survey report is based on contributions from 543 property companies and funds from 46 countries world representing USD 1.6 trillion in gross asset value (GAV) and covering almost 49,000 assets. The report shows that of all participants in green building certification schemes globally, 55 per cent of have certified office assets in their portfolio, whereas 34 per cent have certified retail shopping centres. Certification is even less common within the industrial and residential sectors with only 25 per cent of benchmark participants with certified assets in these sectors. Global Real Estate Sustainability Benchmark (2013) GRESB Report <http://gresb.com/content/2013-GRESB-Report.pdf> Retrieved on November 11 2013
- 5 Catalyst has previously found companies tend to report well when requirements are mandated or well-understood, even when reporting does not reflect well on performance. See Catalyst (2013) CSR Dashboard: Sustainability Performance Overview [www.catalyst.org.au](http://www.catalyst.org.au)
- 6 S&P/ASX (2011) Australian Indices Methodology <http://www.spindices.com/documents/methodologies/methodology-sp-australian-indices.pdf>
- 7 <http://www.asx200list.com/> Retrieved on 4 October 2013
- 8 Ernst & Young (2013) — Global Perspectives 2013 REIT report [http://www.ey.com/Publication/vwLUAssets/Global\\_perspectives\\_2013\\_REIT\\_report/\\$FILE/Global-perspectives-2013-REIT-report.pdf](http://www.ey.com/Publication/vwLUAssets/Global_perspectives_2013_REIT_report/$FILE/Global-perspectives-2013-REIT-report.pdf)
- 10 Stockland Group (2013) Stockland Investor Update and Strategy Review <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTg1NDY4FENoaWxkSUQ9LTF8VHlwZT0z&t=1>
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