

The SRI label for real estate funds

Moving towards sustainable real estate finance

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ASPIM ASSOCIATION FRANÇAISE
DES SOCIÉTÉS
DE PLACEMENT IMMOBILIER



What is the SRI label?

The SRI label ¹, established by the French public authorities at the end of 2015, **makes it easy for investors to identify** savings and investment products that **seek to reconcile financial performance with non-financial performance** by incorporating **ESG** ² **considerations** in their investment and management processes.



A government-backed label

The SRI label is a **public label**, created and supported by the **French Ministry of the Economy, Finance and Recovery**. The public authorities own the label (trademark, regulations for its use, framework) and approve proposals for the label's evolution put forward by the **Label Committee, an independent collegial body comprising representatives of all SRI stakeholders**.



External certification

The SRI label is awarded for a **renewable 3-years period** following an **audit** based on the labelling criteria by a **specialty accredited independent third-party body**. Certified funds are audited on an **annual basis** and, if they persistently fail to meet the necessary requirements, are **likely to lose their label**.



A leader in Europe

The SRI label **ranks first in Europe** in terms of the number of funds certified and second based on assets under management, out of a **dozen labels** created over the past fifteen years to make it easier for investors to **identify sustainable, responsible financial products**.
Source: Novethic, figures as of 31/03/20



Key figures ³

- **466 funds** certified
- **€170 billion** of assets managed in SRI-labelled funds
- **75 management companies** with at least one certified fund

³ Source: SRI label, figures as at 30/06/2020

¹ SRI: Socially Responsible Investment
² ESG criteria: environmental, social and governance criteria

The SRI label's added value:

- A guarantee of credibility and visibility for SRI-labelled funds
- A guarantee of transparency and high-quality SRI management for investors

What is a real estate fund?

Real estate investment funds (officially real estate alternative investment funds or AIFs) are **unlisted collective savings and investment vehicles** managed by asset management companies approved by the AMF (French financial markets authority). As long-term partners of companies and regions, promoting growth, employment and economic attractiveness, real estate AIFs represent **gross assets under management of €230 billion**¹.

A financing tool

Real estate investment funds raise capital from investors (institutional or retail) which they invest in **real estate assets** (purchased or financed directly or indirectly, including off-plan acquisitions). They therefore provide an **essential financing solution** to meet the real estate needs of companies and regions. They also **contribute to the financing of maintenance and renovation work**. In 2018, this represented 43,000 non-relocatable local jobs created or sustained by the unlisted real estate sector.

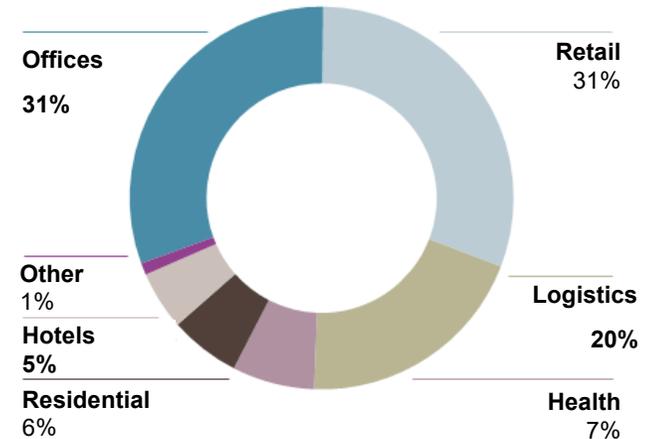
Serving the economy

With 81% of their assets concentrated in commercial real estate, real estate funds foster **economic development** and the **attractiveness of local communities**. They are central to the issues associated with **well-being at work, employee productivity and the adoption of new ways of working** (flex offices, co-working, digital innovations, etc.). They enable **companies of any size** to focus on their business while delegating the management of their property to professionals. In France, **1.5 million employees** work in assets held by real estate AIFs.

And societal needs

Real estate funds' portfolios contain **17,000 buildings** located in France and Europe, for a total of **59 million m2 across all asset classes**: from offices to housing by way of serviced residences and health facilities. In accordance with their chosen strategies, the funds specialise or diversify **to meet the major structural challenges facing our society**: the ecological transition, evolving lifestyles and ways of working and consuming, ageing populations, etc. The stock of real estate used for healthcare purposes increased fivefold between 2013 and 2018.

Breakdown of real estate assets under management at 31/12/18² (m²)



¹ Source: ASPIM, AMF database, figures as at 31/12/19
² Source: ASPIM study - EY, 2019

Retail real estate funds (intended for individual investors), such as SCPIs and OPCIs, together with real estate funds reserved for professional investors, known as OPPCIs, and other unlisted real estate funds are all eligible for the Real Estate SRI label

What is the background to the real estate SRI label?

A booming SRI market

Year after year, the **assets managed in SRI-labelled funds continue to grow**, driven by **rising demand not only from institutional investors, but also retail investors** seeking meaningful savings solutions. In response to this demand, asset management companies are intensifying their **innovation** in order to provide **sustainable financial products**.

An evolving EU regulatory framework

With the implementation of its sustainable finance strategy, the European Commission is gradually laying down a **framework** (disclosure rules, taxonomy, etc.) aiming **to redirect financial flows towards sustainable investments**. This movement is set to gather pace thanks to the **Green Deal, and the Renewed Sustainable Finance Strategy** expected for Q4 2020.

Opportunities for labelled funds

Under France's PACTE law, from 2020 **insurers** must already include at least **one SRI-labelled unit-linked fund** in all their life insurance policies. From 2022, they must also include at **least one "green"** (Greenfin label) unit-linked product and **one certified solidarity-based product** (e.g. Finansol label).

- Increasingly high expectations from **investors** and public authorities in terms of promoting **sustainable products**
- The need for a **standardised framework** to guarantee the **quality of SRI approaches** and prevent greenwashing



Bâtiment Helis, PERIAL AM, SCPI PF Grand Paris

Why an SRI label tailored to real estate?

Until now, the SRI label had been accessible only to securities (listed shares, bonds, etc.). However, in response to **growing investor demand** and given the **specific nature of real estate asset management**, in 2017, ASPIM, AFG and PwC set up a working group with **sector professionals**, cooperating closely with **public authorities**, to **define SRI management for real estate** and establish common criteria to frame its practices. The real estate SRI label is therefore derived from the SRI label and tailored to the specific features of real estate funds.

A top priority: improving existing real estate

- The **current renovation rate** for existing real estate is around 1% per year.
- Therefore, **the key challenge for the sector**, in terms of achieving climate and ecological objectives in the medium/long term, lies in **improving existing buildings**
- For this reason, the real estate SRI label is accessible not only to **funds investing in the newest, best-performing buildings**, but also to those investing to **improve the ESG performance of existing buildings** in their portfolios

Significant leverage during the holding phase

- Real estate asset managers manage not only the **fund** (like a “traditional” asset manager) but also the **assets** of that fund (i.e. the buildings)
- They therefore have significant leverage when it comes to **improving this real estate**, optimising its **use** and **influencing key stakeholders in the buildings** (tenants, managers, building services companies, etc.)
- This is why the real estate SRI label focuses on the management **process during the holding phase** and the **engagement of the key stakeholders** of buildings in the portfolio

ESG issues specific to the real estate sector

- The real estate sector operates within a **strict environmental framework** with robust environmental benchmarks
- When it comes to **social and governance issues**, however, **the framework is less standardised**, as these factors can vary depending on the type of real estate asset concerned (office, retail, health, logistics, etc.)
- To address this issue, the label identifies key **ESG themes for the sector** and requires funds to incorporate a well-balanced set of criteria, covering all 3 types - E, S and G - and implementing 8 reporting indicators

What are the requirements of the real estate SRI label?

The Real Estate SRI label is used to: **recognise funds** that invest in **top-performing assets** in terms of environmental, social and governance (ESG) factors, and funds that **implement virtuous management practices** to **improve the ESG performance** of assets over time.

Management companies managing labelled funds must: **set objectives**, put in place an adequate **methodology and assessment system** and factor the results of their assessments into the construction and management of their portfolio. Lastly, they must report to investors on the achievement of the objectives set, namely by calculating **measurable indicators**.





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