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## **Henderson Undertakes Sustainability Assessment of Eight Property Funds within its circa £6billion UK Portfolio**

### **Groundbreaking analysis of a real estate portfolio to understand and improve the risk profile of assets**

Henderson Global Investors, the independent asset manager with €71.5 billion under management of which £11.8 billion is invested in European real estate, announces that it has just completed a six month review of the sustainability risks and opportunities within its UK property portfolio. This is the most comprehensive property-by-property sustainability, environmental and risk survey undertaken by a UK fund manager or property owner to date.

Henderson assessed 171 properties across eight funds in its circa £6 billion UK portfolio, each of which was subject to questions across 78 environmental, social and economic risk areas, enabling collection of up to 180 pieces of data in total per asset. The survey was the first part of a process, which will identify and thereby enable Henderson to better understand the environmental and social impacts of its real estate portfolio. Henderson will now execute a management programme in order to improve the investment performance and returns of individual assets and manage identified risks, including those brought about by climate change. The process has been carried out by Upstream, a strategic sustainability consultancy focussed on the property sector, who will now work with Henderson in analysing the data acquired.

Whilst the process has been planned and executed over the past 12 months, Henderson believes that the recent disruption to the global economy and the ensuing financial crisis has made the need to mitigate sustainability risk all the more important.

The results of the survey will allow Henderson to assess each property and identify areas which will have an impact on fund performance. Individual fund strategies designed to focus on the enhancement and protection of income streams will then be devised and implemented. The project is not just designed to promote 'greener' buildings, it will also assess the potential effect on a property's value from issues such as increased flood risk and the effect on individual behaviour following the recent sharp increase in oil prices; including how this will affect both the use of cars and the movement patterns of commercial and transport vehicles.

Specifically there are four key investment criteria which Henderson are considering, and which they believe may lead to the creation of a two-tier market with properties in the top tier producing superior returns:

- **Rental growth:** Environmental and social factors are now playing an important role in occupier decision-making, as external factors (e.g. taxation and legislation) begin to impact on company profitability, and as they become more attentive to corporate responsibility issues (for example Marks & Spencer's Plan A to carry out a continuing refurbishment of its store portfolio with a view to becoming carbon neutral by 2012). A shift in demand towards properties with higher social and environmental performance could have adverse effects on the rental growth of those that do not meet such standards.
- **Capital growth:** The capital value (and potential growth) of a property asset is heavily influenced by the extent to which the physical fabric of the building can comply with legislative and regulatory regimes. Environmental and social factors are becoming an increasingly demanding aspect of such legislation (e.g.

Energy Performance of Buildings Directive) so investors need to assess the risks of their current portfolio and the potential costs to bring them up to acceptable standards.

- **Management costs:** To the extent that social and environmental factors can impact on management costs, they may present a risk to investment returns. Examples of such costs include increased maintenance (e.g. from the predicted effects of climate change on property); increased insurance premiums (e.g. properties located in flood risk areas); increased running costs (e.g. from the climate change levy and predicted increases in landfill tax); and potential risks from occupiers' own activities (e.g. physical risks to property due to campaigns against ethically unacceptable corporate activities).
- **Development risk:** Environmental and social risks can occur at each stage of the development process including site selection (e.g. health risks posed by pylons); planning (e.g. unforeseen costs and delays in obtaining planning consent); and construction (e.g. pollution incidents).

**James Darkins**, managing director of property at Henderson commented: *"At Henderson we have always believed in the importance of environmental risk and sustainability on future property valuations and returns. We now believe that this is an imperative for ensuring long term returns for our shareholders and have undertaken this survey, the first of its kind, to create a modern day environmental 'Domesday Book' of our properties so we know precisely where we are with each property and what action we need to take to improve performance. Given that this issue is a global one and is not localised to the UK we expect to extend this process to our European portfolios in the near future."*

**Andy Schofield**, head of responsible property investment at Henderson, commented: *"We believe that the property industry has a good chance of becoming a two-tiered market with a clear definition between those that conform to the sustainability and environmental demands of modern day occupiers and those that do not. The greener and less risk averse buildings will be the ones which attract the better tenants and produce the better returns and clearly that is the category we want to be in."*

*"Having identified areas where we are strong and those where improvements need to be made, we will now begin implementing a programme of initiatives to increase the sustainability profile of all our assets. This is an inclusive process and we will be working with Upstream, our managing agents and tenants to discuss potential changes and how best to implement them to benefit our eight UK funds."*

**Sarah Ratcliffe**, lead director of upstream added, *"Today, for many investors the mitigation of sustainability risks to asset value is as important as covenant strength. This is not just about Henderson transforming its assets into 'green buildings' and achieving high BREEAM ratings; our Sustainable Portfolio Analysis programme allows us to highlight areas requiring attention or investment within a portfolio and to measure subsequent improvements made over time. Hence we can establish the 'value add' of all initiatives undertaken, whilst also minimising the environmental impact of the portfolio."*

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## Notes to editors

### About Henderson Property

Henderson is one of Europe's leading property asset managers with over €11.8 billion (as at 30 April 2008) of property funds managed across Europe and Asia. The property team comprises of over 180 staff based across Europe. The company has offices in London, Frankfurt, Milan, Paris, Amsterdam, Vienna, Luxembourg, Madrid and Singapore. It also has additional asset management capabilities through a joint venture partner in Hamburg.

The property business manages pooled and segregated accounts which invest in properties offering core and value-added returns. In addition to investing across all commercial sectors, the property business also manages funds with sector specialist and/or regional themes. Henderson's property business includes a market-leading research capability. Twice yearly the in-house research team carries out analysis and forecasts returns for over 800 local markets across Europe.

### About Henderson Global Investors

Established in 1934, Henderson Global Investors is a leading independent global asset management firm. The company provides its institutional, retail and high net-worth clients with access to skilled investment professionals representing a broad range of asset classes, including equities, fixed income, property and private capital. Headquartered in London, Henderson is one of Europe's largest investment managers, with €71.5 billion (as at 30 April 2008) assets under management and employs around 900 people world-wide.

### About Upstream

Upstream is the UK's leading real estate sustainability services practice, which assists clients in developing strategies for economic, environmental and social responsibility, and to integrate and align them with their business goals. Clients include a significant and growing portion of the UK's leading commercial and residential developers and investors. The benchmarking that Upstream undertakes is becoming an industry standard and it is a key influencer for institutional investors, developers and other stakeholders.

Upstream was acquired by Jones Lang LaSalle in November 2007.

[www.upstreamstrategies.co.uk](http://www.upstreamstrategies.co.uk)

### The Upstream Sustainable Portfolio Analysis (SPA)

As part of this process eight of Henderson's eight UK Managed Funds have taken part in the Upstream Sustainable Portfolio Analysis process.

This process involves providing a detailed sustainability risk analysis of each property within the Funds and includes;

- Detailed meetings with the Fund Managers and their managing agents to enable full disclosure of the current sustainable performance and features of each Fund
- The production and completion of an extensive questionnaire
  - questions covering 78 risk areas, split between environmental (52), social (16), and economic (10) issues,
  - comprising 180 pieces of data in total per property,
  - leading to the production of a property specific 'sustainability score'
- Extensive site visits and meetings with site or building managers
- Presentations on the position of each asset within a benchmark not just within the eight Funds, but across the wider Upstream 'Third Dimension' benchmark service
  - enabling under-performing properties to be identified across a portfolio of 1,500 properties, equating 25% of the IPD Index by value
- Reports on the risks specific to each property and advice on specific ways in which to manage/mitigate these risks and to improve the performance and hence position of the Fund