

Sustainable real estate generates opportunities

Sustainability is an important criterion when determining the value of real estate. Jorrit Arissen, along with five colleagues on Kempen's real estate team, leaves no room for doubt. 'We believe that there is a direct correlation between sustainability and financial return..

Can you tell us more about Kempen's real estate funds?

'We manage the Kempen European Property Fund N.V. and Kempen (Lux) Global Property Fund. The former invests mainly in companies that own real estate in European countries, such as Germany, the UK, Sweden and Spain. In the Global Fund we invest primarily in real estate in the US, but also in Japan, Hong Kong, Australia, Singapore and Europe. We mostly invest in companies that own properties that are leased out.'

What is the relationship between real estate and sustainability?

'Real estate is responsible for about 40 percent of the world's CO2 emissions. The lion's share of these emissions occurs during construction, but also during maintenance and use. Furthermore, real estate accounts for about 33 percent of global energy consumption. An active sustainability policy in the real estate sector can therefore play a major part in the energy transition and in combating climate change.'

What role does sustainability play in the real estate funds?

'We believe that there is a direct correlation between sustainability and financial return. A company that scores well on sustainability is aware of all the financial and non-financial risks. The financial risks might include a decline in the future occupancy levels of non-sustainable buildings. The non-financial risks are what are known as ESG factors: environmental, social and governance. We expect companies to take future risks into account, such as the introduction of the carbon tax, which is a tax on CO2 emissions, or rising sea levels.'



How do you incorporate sustainability into the investment process?

‘Before we invest in a real estate company, we determine the value of the company as we see it. We make a quantitative assessment of the underlying properties, in which among other things we look at the real estate’s location and condition. In addition, we assess the company’s balance sheet, the quality of its management and its ESG score. In doing so, we also examine the potential for improvement. If we decide to invest in a company then we take a joint look at what can be done to make the real estate even more sustainable. The reason for this is simple: a real estate company with more sustainable buildings has lower maintenance costs, a lower energy bill and therefore a higher cashflow and value.’

Which trends do we need to monitor?

‘There are a couple of things that could have a major impact in the future. For instance, tenants are prepared to pay for a more sustainable building, which enables forms of rent differentiation. Moreover, there is the introduction of the abovementioned carbon tax, which has already been implemented in Canada, Chile and Scandinavia. This tax could cause a sharp drop in net earnings. This is an important reason for us to ask companies with high CO₂ emissions to act.’

Do companies want to become more sustainable?

‘Yes, they do. Sustainability also generates opportunities.. Take, for example, greater energy efficiency through the use of LED lights or a focus on the air quality in buildings. Companies naturally prefer to rent buildings that employees will enjoy working in, because this means lower sick leave rates and higher labour productivity.’

What is the conclusion?

‘Taking steps towards greater sustainability can genuinely increase the value of the company. This is why we include sustainability in our valuation of companies. It is not just a way of controlling risk, it also opens up all kinds of new opportunities and enables us to contribute to positive change on a wider scale.’

Disclaimer

Kempen (Lux) Global Property Fund (the “Sub-Fund”) is a sub-fund of Kempen International Funds SICAV (the “Fund”), domiciled in Luxembourg. This Fund is authorised in Luxembourg and is regulated by the Commission de Surveillance du Secteur Financier. Kempen Capital Management N.V. (Kempen) is the management company of the Fund. Kempen is authorised as management company and regulated by The Netherlands Authority for the Financial Markets.

The information in this document provides insufficient information for an investment decision. Please read the Key Investor Document and the prospectus. These documents of the Fund are available at the registered office of the Fund located at 6C, route de Trèves, L-2633 Senningerberg, Luxembourg and on the website of Kempen (<https://www.kempen.com/en/asset-management/real-estate>).

The Sub-Fund is registered for offering in a limited number of countries. The countries where the Sub-Fund is registered can be found on the website. The value of your investment may fluctuate. Past performance provides no guarantee for the future.

Amsterdam, 24 juli 2017