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ADDITIONAL READING

Green Certification and Building Performance: *Implications for Tangibles and Intangibles*

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The Journal of Portfolio Management
https://jpm.pm-research.com/content/41/6/151

ABSTRACT: *Commercial buildings represent a significant share of global energy consumption. In the general absence of regulation, voluntary labeling and green building certification schemes have been introduced to reflect this externality to building owners and tenants. The implications of such schemes have previously been documented to affect building financial performance. However, existing studies have focused mostly on the US market and, more importantly, generally include only a limited set of performance metrics. Using a rich, proprietary dataset from one of the largest building owners/managers in North America, the authors investigate the effects of green building certification on non-financial metrics, such as tenant satisfaction, incentives, and lease renewal. Their empirical results show that buildings certified through voluntary labeling schemes generally have a higher probability of lease renewal, offer lower incentives, and have more satisfied tenants. They then study the effects of green building certification on financial metrics, such as rents and occupancy levels. The findings for the US sample unambiguously confirm previously documented results—LEED and ENERGY STAR certified buildings command a small rent premium and have a lower vacancy risk. For Canada, the effects for LEED certified buildings are consistent with US results. The results show that the national green building scheme is not priced in, but that these buildings still offer greater overall stability versus non-certified buildings through increased releasing rates, lower incentives, and substantially higher tenant satisfaction levels. The findings reported in this article provide an important contribution to the understanding of underlying value drivers in more efficient, sustainable buildings and offer some first evidence for the international validity of otherwise mostly US-based studies on the financial performance of more efficient, "green" commercial buildings.*

Integrating ESG in Portfolio Construction

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The Journal of Portfolio Management
https://jpm.pm-research.com/content/45/4/67

ABSTRACT: *In this article, the authors recommend an approach to integrate environmental, social, and governance (ESG) issues into portfolios that is based on two premises. The first is that classification of firms as good or bad ESG companies should be performed using ESG items that are material in that industry. The second premise is that it is possible to overcome the sparse voluntary ESG data reported by firms by constructing an ESG good minus bad (GMB) factor and then finding those firms whose returns load significantly on this factor. The authors provide evidence that shows the superiority of using material, industry-specific ESG items and the merits of expanding the ESG classification using the ESG GMB loadings. Their approach is particularly suitable for quantitative investment approaches that invest in portfolios with large number of positions and many small active exposures, wherein vendor ESG data can be used in portfolio construction efficiently without the need to employ detailed ESG analyses of many individual firms. With such portfolios, it is less about the ESG classification of an individual company than about the aggregate portfolio tilt toward good ESG and away from bad ESG at the portfolio level.*