THE CHURCH OF ENGLAND
Ethical Investment Advisory Group

Church of England Ethical Investment Advisory Group

Property investments policy

May 2010

Agreed ethical investment policies, including on the environment and climate change, apply to all asset classes including property investments.

The EIAG recommends that the national investing bodies should implement agreed ethical investment exclusion policies in the following way for property investments:

Before making a property investment

- Agreed ethical investment screens should be applied to individual property assets as they are to individual stocks. Thus if the turnover threshold for an economic activity subject to an ethical investment restriction is exceeded in terms of the proportion of the overall rent from that economic activity on a property investment, then that property will be ineligible as a new investment. To give examples, a property deriving more than 10% of its income from a casino, or a warehouse deriving more than 10% of its income from a tobacco company, would be ineligible as a new investment.

- Where a new property investment involves exposure to economic activities subject to ethical investment restrictions, the national investing bodies should endeavour to reduce this exposure at the time of entering into a property investment where this possibility exists. This might be achieved by disposal of part of a development or a carve-out that ensures that revenue from economic activities subject to ethical investment restrictions does not accrue to the investing body.

- The national investing bodies should not invest in a new property asset where a company on the restricted stocks list is a tenant unless the rental revenue associated with that tenant is judged to be immaterial in relation to the asset as a whole (for example in a large retail complex). This clause also applies to large private companies that would be on the restricted list if they were publicly listed.

- When an investing body gives a mandate for property investments to an external asset manager it should ensure that the external manager is briefed on the agreed ethical investment policies and avoids where possible exposure to economic activities subject to ethical investment restrictions.

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Once a property investment has been made

- Property investments differ from securities investments in that leases can be assigned by existing tenants to new tenants after the investment has been made, and the landlord will have little control over future assignments. The investing bodies are not expected to maintain restrictive lease terms on assignment that would diminish the economic value of their property assets.

- If, as a result of an assignment, a turnover threshold for an economic activity subject to an ethical investment restriction is breached on an individual property asset, or a company on the restricted stocks list becomes a tenant contributing materially to the revenue from the asset, then the investing body should consider with its trustees the appropriate way forward on a case by case basis. Advice may be sought from the EIAG. There is no blanket requirement for a forced disposal but there may be occasions where the assignment is so contrary to the agreed ethical investment policies that it is appropriate to seek a complete or partial sale of the asset or that it is appropriate to seek to negotiate a surrender of the new tenant's lease.

- If, as a result of a change in an agreed ethical investment policy or restricted stocks list, a turnover threshold for an economic activity subject to an ethical investment restriction is breached on an individual property asset, or a tenant contributing materially to the revenue from the asset newly appears on the restricted stocks list, then the investing body should also consider with its trustees the appropriate way forward on a case by case basis and, if desired, seek advice from the EIAG.

- The investing bodies should not remain invested in any property asset or property investment vehicle that is deriving all of its revenue from economic activities subject to ethical investment restrictions.

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