



Stockland

The business case for sustainability

BCA-WBCSD Forum 2011

Matthew Quinn – Managing Director, Stockland



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Slide 1 – What is sustainability?

The word sustainability used to be synonymous with environment. And being green, or being seen to be green, was the goal. The big step forward in thinking is understanding that sustainability is really about community... in its broadest sense.

It is about ensuring we leave the communities where we operate, and the environment they enjoy, in great shape for future generations – creating **shared** value for all stakeholders.

Of course this means it's becoming increasingly difficult to identify the boundaries within business between sustainability and just doing business – and that's as it should be. Sustainability sits at the very heart of who we are and what we do.

In many ways sustainability isn't a new way of thinking for Stockland. Sixty years ago, our founder Ervin Graf had a vision "to not merely achieve growth and profits but to make a worthwhile contribution to the development of our cities and great country".

While the language has moved on I think Ervin captured the sentiment – and the logic. To work for our business it's got to work for our stakeholders... and not just now but for the long term.

Unless you're out to make a quick buck this just has to be your approach. It's the only way to ensure the long-term success of your business.

Slide 2 – Or to put it in Stockland's words ...

Perhaps this might best be illustrated by our purpose.

At Stockland we believe there is a better way to live. This is both of reflection of how we operate day to day and an aspiration. It inspires us to always be better and do better for our customers, the communities where we operate, our business partners, our investors, in fact all the stakeholders in our business.

Importantly, we arrived at this purpose by talking with our stakeholders and understanding what's important to them. What do we do that they value?

And we also listened to our employees – the people who are the entire difference between this being a nice tagline or being the fundamental way we operate.

The other important element to note about our purpose is that it reflects our commitment to balance and openness. To truly find a better way to live we need to acknowledge and address when things don't go well so we can learn from this and improve the way we do things.

I often share the story of our mixed-use development at Balgowlah in Sydney's north where we paid a price for poor community engagement as we experienced costly delays.

We ended up with a great outcome in the end but perhaps more importantly, we ended up with new stakeholder engagement processes that have improved the way we operate both from the perspective of the communities where we develop and our bottom line.

Slide 3 – New approach – better outcomes

As a property company we have a special opportunity to make this real. We're in a business you can touch and feel. A business that affects the way people live every day. That means we can make a real difference to people's lives.

You can see from the numbers overall what we're doing is having a big impact, both environmentally and socially.

We're engaging more with the authorities and communities where we develop.

We're reducing our impact on the environment – and our energy costs.

And we have highly engaged employees to drive our business success.

But the real story is what sits behind these numbers. It isn't theory, it's action. It's what we do every day to develop and manage our Residential, Retirement Living and Commercial Property assets and projects.

As we look now at some real examples, and consider how things have changed in recent years, I think you'll see that at Stockland, sustainable business means doing things differently, challenging conventional thinking and bringing real passion to what we do.

Let's look at what this means in practice.

Slide 4 – Creating shared value with the community doesn't happen by accident

It used to be that residential development was a transaction. Buy a big bit of land, split it up, pitch your sign in the ground and sell off the smaller pieces. Now it's all about creating a place where community can grow and flourish.

The housing estate on the left was created in the late 1990s. It's a classic example of what you get without the motivation to create a better way to live, a community.

Its houses are poor quality with low environmental standards. The only open space is the land beneath the power lines. The shopping centre backs onto the housing rather than opening on to the community.

The very entry to the estate is lined by the back fences of houses rather than the fronts. At the edge of the subdivision there is a paling fence marking the end of the estate.

You can imagine what it would be like to live in a place like this. If you visit there today you will find abandoned cars on the street. Social problems are rife.

This is not shared value.

The contrast with our approach couldn't be greater.

On the right is Highlands, a masterplanned Stockland community in Victoria.

Slide 5 – It's about place and community

Highlands is an integrated community at Craigieburn, 27 kilometres from the Melbourne CBD.

Ultimately it will have more than 6,000 homes, but what makes it special is that this is a carefully planned community – a place where people can find a better way to live, not just a subdivided piece of land.

The homes have been carefully planned to enjoy the 150 hectares of planned open spaces – with each home in walking distance to a park. There will be convenient shopping, local schools, childcare and health facilities.

Highlands was the first community where we trialled an innovative affordable product in 2010 – a house and land package for under \$300,000. With our builder partners we developed a range of affordable fixed price housing options on 212 square metre land lots.

The initiative was so successful that we have rolled out similar smaller lots with innovative house designs at more of our communities.

In fact the 'smaller is better' message is really getting through. In the last few years the size of new houses in our communities has dropped by 20% for four bedroom houses and 26% for three bedroom houses.

In addition to being able to save costs by purchasing a smaller lot, reducing house sizes also delivers our customers potential savings of \$40,000 - \$60,000 in building cost, and further cost savings through lower energy use.

Housing affordability is one of the biggest challenges facing this country; Stockland will be at the heart of providing the solutions.

Another important element in our integrated community at Highlands is the retirement village. While popular in its own right, it is also providing a great option for families who want to stay nearby, even in their different stages of life.

Four of our retirement village residents have families in the estate. And testament to the quality of life in the village, more than half of our residents have recommended Highlands to their friends.

The environmental features at Highlands are another classic win-win with ideas such as recycled water from the site being fed to all new homes for washing cars and watering gardens, and established bushland and wetlands retained and protected for walking trails and picnicking spots for all residents.

Obviously these initiatives at Highlands are not altruistic– and that’s really the point. Creating shared value really means that our business benefits from creating value for our other stakeholders. And the fact that Highlands is the number one selling project in Australia is a clear endorsement of this approach.

Slide 6 – It’s an approach that is reaping rewards for us and our stakeholders

In fact, at our North Shore development in Townsville, taking a more holistic approach has delivered measurable business benefits for us.

This masterplanned community is in a key growth corridor 12 kilometres north west of Townsville. When finished it will house more than 15,000 people across 1,000 hectares of land.

Typically, when a residential community is developed, the retail centre is only established once the population reaches a critical mass. This can be frustrating for early residents who have been sold a lifestyle that includes accessible shopping, and then have to wait, sometimes years, for that to become a reality.

At North Shore we decided to bring forward the creation of the retail centre and community facilities. This is a great outcome for residents, clearly creating a better way to live.

But it’s also proved great for our business with our weekly residential sales leads tripling after the first stage of the retail centre opened. North Shore now has a 30% share of the Townsville market and achieves a 10% price premium over our competitors.

Effective partnerships have been key to our success here seeing us deliver not only early shopping but also a community aquatic centre, new school and six parks. We also partnered with council to open the main road 10 years ahead of schedule, bringing more people through the town centre which helps the shops and importantly creates more buzz and community feel.

Slide 7 – Our purpose is also reflected in our approach to shopping centres

This change in thinking doesn't only apply to residential communities and retirement living. Creating shared value, or a better way to live, is just as important in our commercial property business.

Property developers used to view shopping centres as nothing more than a collection of shops in a building. Now we know the local shopping centre is much more than that. It's the hub of the community. A place where people meet and connect.

It's also, of course, the home of many businesses – our tenants. Businesses that need us to create an appealing shopping environment and to manage their costs through centre features such as energy efficiency.

When we take all of these environmental, business and social factors into account we deliver shopping centres that truly create shared value. They perform better financially and they create something special for the community.

Slide 8 – Better shopping environment – better for the environment

We redesigned our shopping centre at Forster, on the mid-north coast of NSW, two years ago with just these aims in mind. The result is a retail space with a reduced impact on the environment, appeal for shoppers, and facilities that are really valued by the community.

This is our first naturally ventilated shopping centre, with no central air conditioning system serving the internal mall. The centre relies on prevailing breezes for cooling, with high level louvres drawing the hot air up and out. This design also reduces the need for artificial lighting. Photosensors sense the light levels in the centre and adjust artificial light if it's needed.

Stockland Forster achieved Australia's first 6 Star Retail NABERS Energy rating showing that relatively simple measures can make a dramatic difference. And of course this also translates into financial savings and reduced carbon emissions.

The centre also boasts an awarding winning parents room and popular outdoor play area which help make it a popular community meeting spot.

In fact, our community-focused approach to retail is proving to be a big advantage for our business. We always knew our retail centres had an important role to play in their communities and that being a social hub would improve their performance.

Now we're also seeing that this approach will help insulate us from the impacts of online shopping as customers choose to come to our centres for social reasons, and of course shop while they're there.

Slide 9 – It's not a one size fits all approach

Of course you can argue that the Forster example is an exception because it is a new development. What about our existing centres?

Across our whole portfolio we've been improving our emissions and other environmental outcomes like water use, and waste reduction. But the way we do this is not a one size fits all approach. New developments like Forster are only part of the picture.

For example, we've been using marginal carbon abatement cost analysis to determine the most effective ways to use lighting technologies to improve efficiency at our existing centres. Often simple measures can make a significant difference.

We've found lighting controls are cost effective and can deliver really significant savings. But other technologies have more variable results and sometimes we're surprised to discover that an initiative that will work in one centre just doesn't stack up at another.

Take this example where looks are deceiving – the centres here look very similar but after we modelled different lighting technologies for both centres, rather than just assuming what would work, we found making the same change at each centre would yield very different results.

As a result we upgraded the lighting at Nowra to LED and achieved great energy and cost savings, but discovered the same change at Green Hills just wouldn't pay off. Lighting controls however, did deliver good results.

Slide 10 – We need to acknowledge issues and address them positively

Now as I said at the outset, to really create a better way to live we need to be balanced and open and that means acknowledging that sometimes problems arise. It's not uncommon to hear of unruly behaviour from young people in shopping centres, a problem that we had been experiencing in Rockhampton. If ignored this can have a huge impact.

The old approach to this issue, would be to try to keep young people away. Just a few years ago I read in the paper about one centre that tried a "no hoodies" approach to the problem.

We're taking a different approach with the aim of engaging young people in a way that benefits them, the community, and our shopping centres.

Working with police and community groups such as Police Community Youth Club, we have put in place a range of initiatives. It started with a program called Stockmotion.

At Rockhampton we ran a stop motion animation training program for young people culminating in a community screening of films. Following its success we rolled it out at our Wetherill Park centre.

Now we're working on a partnership with youth charity Inspire to really address the underlying structural issues.

Slide 11 – We practice what we preach

The last case study I want to share serves two purposes. One is to demonstrate how everything I've been talking about is just as true in the office sector. The second, and most important, is to demonstrate the importance of passionate and committed employees.

When we undertook a major refurbishment of an existing 1980s building to create our own Sydney office our employees were central to the process. It was an opportunity to create a work environment that resonated with them, but also a chance to help them understand, and experience first hand, sustainability in practice.

The result is a building that not only set a new standard in environmental refurbishment, but a new level of employee engagement. The design features nine levels of open plan space connected by an internal atrium and feature staircase that creates a sense of unity between the floors.

And the environmental standards we set in this building also reinforced our employees' passion for environmental design and behaviour. From simple things like reducing the number of printers from 110 to 30 – a change initiated by our employees that required new behaviours, not just good intentions.

To using leading technology like the installation of Sydney's first office tri-generation plant - a gas-fired generator that produces electricity on-site, with waste heat used to provide heating and cooling.

The result was the first Australian design to be awarded a 6 star Green Star rating for office interiors and the award of a 5 star NABERS energy rating. And, more importantly, a thriving team with a personal passion for sustainability.

Slide 12 – Being a better employer is key to better outcomes

And why does this team matter so much? Because our people are at the centre of our ability to make this approach to sustainability a reality. They are the ones who deliver a better way to live.

So we have to ensure we apply the same better way principles as an employer that we do as a developer.

And this isn't just about attracting and retaining talent. It's about creating a culture that supports our commitment to creating a better way to live. We need to live that purpose inside our organisation if we are to deliver on it for our customers, investors, communities – all our stakeholders.

One way we do this is through a focus on diversity. We want a workforce that reflects the communities we operate in. We want more diverse thinking, more informed decision making and ultimately better business outcomes.

We've introduced programs that have seen us significantly improve our parental leave return rate, now sitting at 94% (up from 56% in 2008). We've created programs to drive an increase in the number of women in management. And we've rolled out training about unconscious bias.

In our 2011 employee survey, 91 per cent of our people said they felt that their manager is considerate of their life outside of work – that's 12 per cent above the Towers Watson Global High Performing Norm.

Another important element in our workforce is our Giving and Volunteering program which supports our employees in making a positive contribution to the communities where we operate.

Our employees embrace this program – during the last year 70 per cent volunteered their time and 29 teams participated in a team volunteering day. It's a powerful demonstration of our people's passion for creating a better way.

Slide 13 – How do we measure our success?

When we evolve the way we do business, we also need to evolve the way we measure success. It used to be that only one thing mattered – short-term shareholder returns. Now we know that businesses with a short-term view can turn out to be short lived.

If we want to ensure our long-term success and are really committed to leaving society and the environment in great shape for future generations we need to find new ways to measure success.

We've always had good financial measures for our success. And over the past five years we've also developed robust environmental metrics. Measuring the social performance of our assets, projects and communities has been more challenging.

We know that when people buy into a residential community they are purchasing more than land and a house - they are buying into a lifestyle shaped by the people, activities and environment around them.

These attributes contribute to the “liveability” of a community – and increasingly this is valued by our residents (and shoppers and tenants) and is fundamental to the long-term success of our business.

Earlier this year, we engaged KPMG’s sustainability advisory team headed by Jennifer Westacott, to work with us to develop liveability metrics to enable us to better understand, benchmark and measure liveability.

The metrics have been drafted around six key themes:

- Affordable living and working
- Economic prosperity
- Access and connectivity
- Sense of belonging and identity
- Wellbeing and healthy living
- Governance and engagement

We hope that applying these metrics will help build our knowledge and approach to community development – and increase the comparable liveability of our communities.

In this way it’s clear that for us sustainability is not a fluffy idea – it’s a measurable business driver.

Slide 14 – Show me the money!

Of course a discussion about the business case for sustainability wouldn’t be complete without addressing the question of financial return. I know I’ve touched on this throughout with references to consumer appeal and efficiency driven cost savings, but let me be quite explicit.

We know this approach improves our long-term financial outcomes.

We know that creating a better way to live in our residential communities, retirement villages, retail centres and even office buildings translates into:

- Higher sales
- Higher retention
- Higher occupancy
- Faster speed to market

It is shared value. It is a win-win. It is a better way

What is sustainability?

Caring for the environment



Then

Creating long-term shared value



Now

Or to put it in Stockland's words...

Our purpose

“We believe there is a better way to live”

New approach – better outcomes

Our metrics tell us this approach is working.

Projects with a stakeholder engagement plan

100%

Office GHG emissions intensity FY06-11

38%



Retail water intensity FY06-11

21%



Employee engagement

84%

Employees who volunteer

70%

Creating shared value with the community doesn't happen by accident

Land subdivision



Then

Planned community



Now