

Sustainable Property Investment for an Energy Efficient Built Environment

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- (1) Selection / Screening:** Purchase and/or disposal of property assets that meet / don't meet predefined environmental and social performance requirements
- (2) Build and operate / Build and sell:** Investments into new building projects that are designed, constructed and subsequently managed according to the requirements of sustainable buildings
- (3) Optimisation:** Investments into the existing building stock in order to systematically improve sustainability performance
- (4) Cause-based investment:** Investments into community projects such as affordable housing and urban revitalisation in order to foster a more sustainable society

“Sustainable property investing can be described as investing in pursuit of sustainability, or, to be more precise, as investing in pursuit of greater durability, adaptability, usability and efficiency of buildings and the building stock, leading to enhanced productivity, well-being, and economic benefit measured in terms of financial, natural, manufactured, human and social capital.”

Sustainable Property Investment Strategies II

Sustainable property investment strategies

Selection / Screening

Build and operate

Build and sell

Optimization

Cause-based investment

Indirect property investment vehicles

Open-end Property Funds	✓			✓	✓
Closed-end Property Funds	✓	✓		✓	✓
Real Estate Investment Trusts	✓			✓	✓
Restricted Property Funds (only for institutional investors)	✓		✓	✓	✓
Real Estate Partnerships / Opportunity Funds	✓		✓	✓	✓
Stock listed Property Companies	✓	✓	✓	✓	✓

Preconditions

Experts

Rating Agencies

Assessment Methods and Tools

Labels

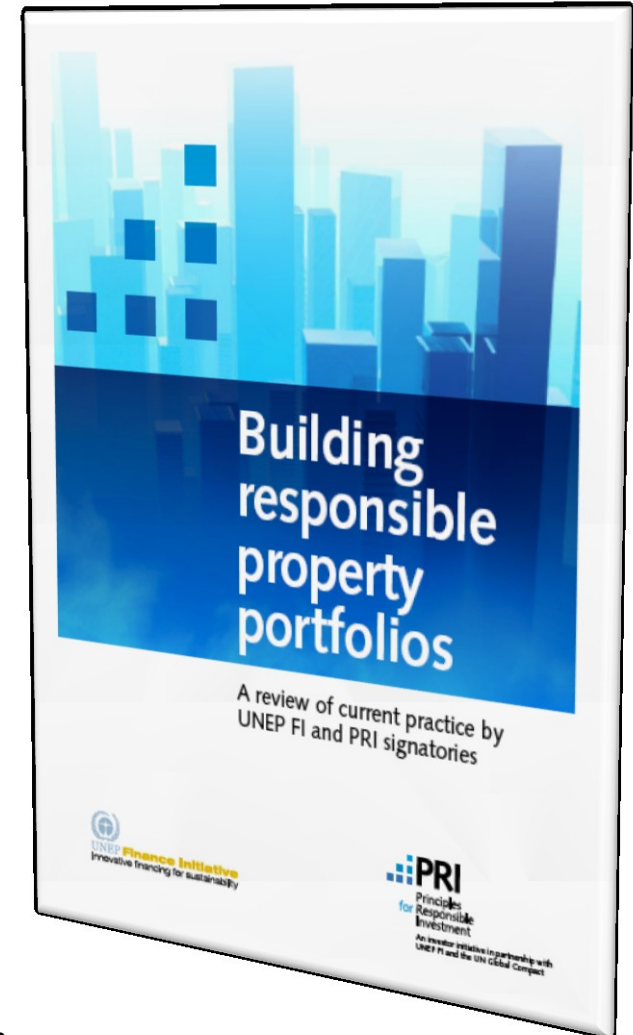
Performance Data

What the Leaders are Doing

The Principles for Responsible Investment state:

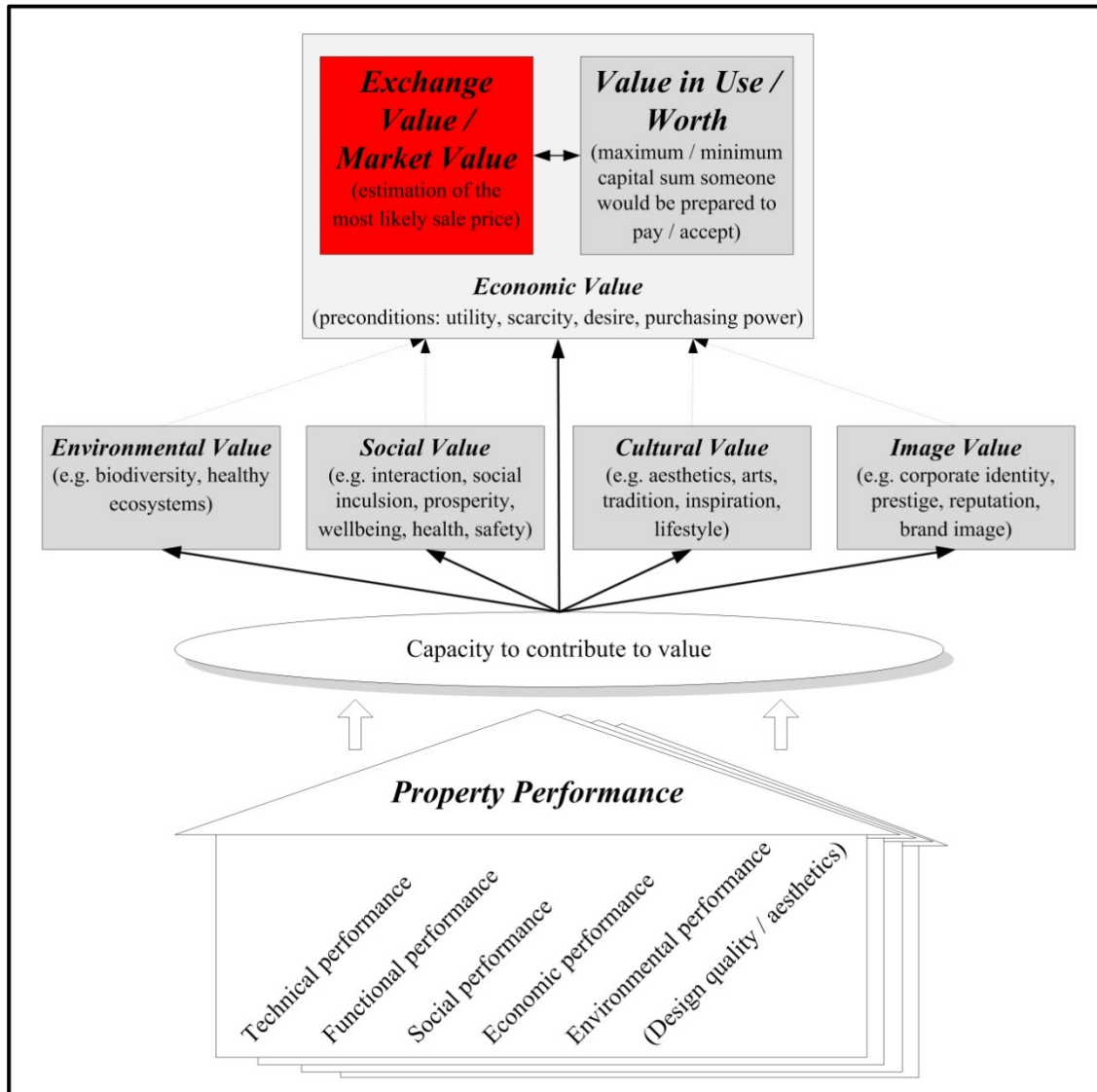
We believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

“This statement affirms the view of the drafting signatories that the types of actions suggested in the Principles are underpinned by a **strong business case** and this consultation has found that many leading investors recognize its **applicability to the property sector.**”



Source: UNEP FI / PRI, 2008, *Building responsible property portfolios – A review of current p signatories*, Published by: United Nations Environment Programme Finance Initiative Property Working Group / PRI Secretariat

Different aspects of property value – Superior building performance adds value in many ways



It's all about Value:

"The value of goods is always the necessary consequence of human knowledge that the maintenance of life, of well-being, or of some ever so insignificant part of them, depends upon control of a good or a quantity of goods. [...]"

The value of goods arises from their relationship to our needs, and is not inherent in the goods themselves. With changes in this relationship, value arises and disappears."

Carl Menger, 1871, Principles of Economics

Increased Building Worth & Market Value

***“Green is good
for asset value.”***



Source: RICS, 2005, *Green Value – Green buildings, growing assets*, Published by: The Royal Institution of Chartered Surveyors

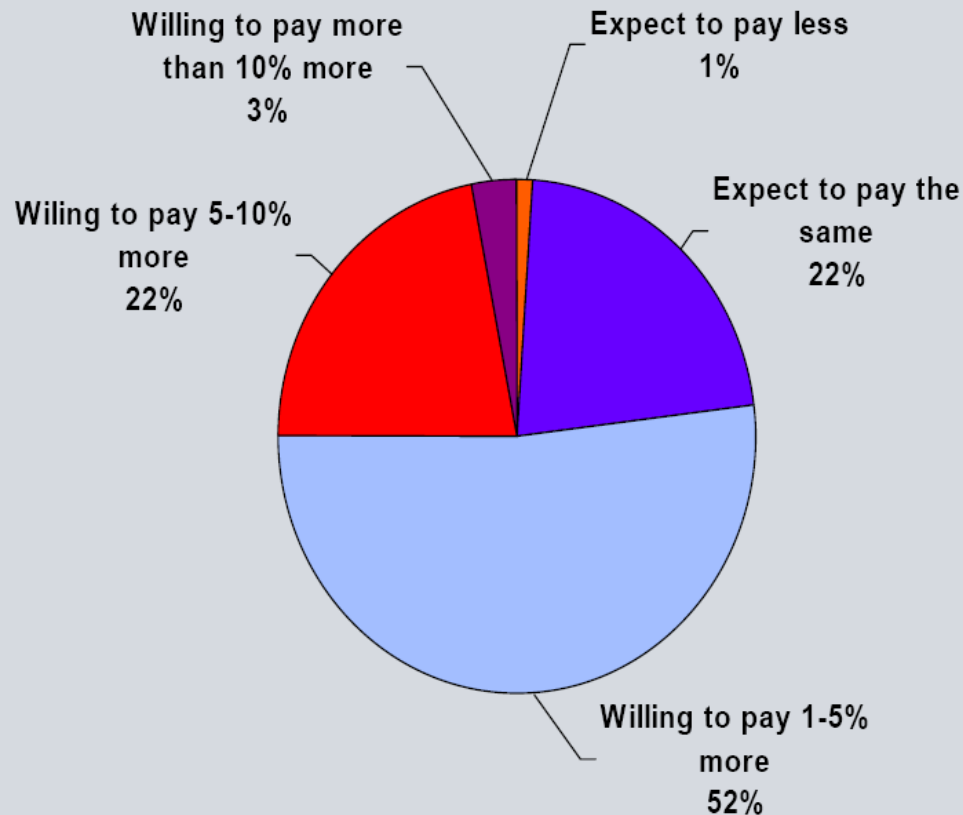
"....there is no significant difference in average cost for green buildings as compared to non-green buildings."



Source: Matthiessen, L. F. and Morris, P., 2007, Cost of Green Revisited, Published by: Davis Langdon

Property industry executives are even willing to pay more for sustainable solutions!

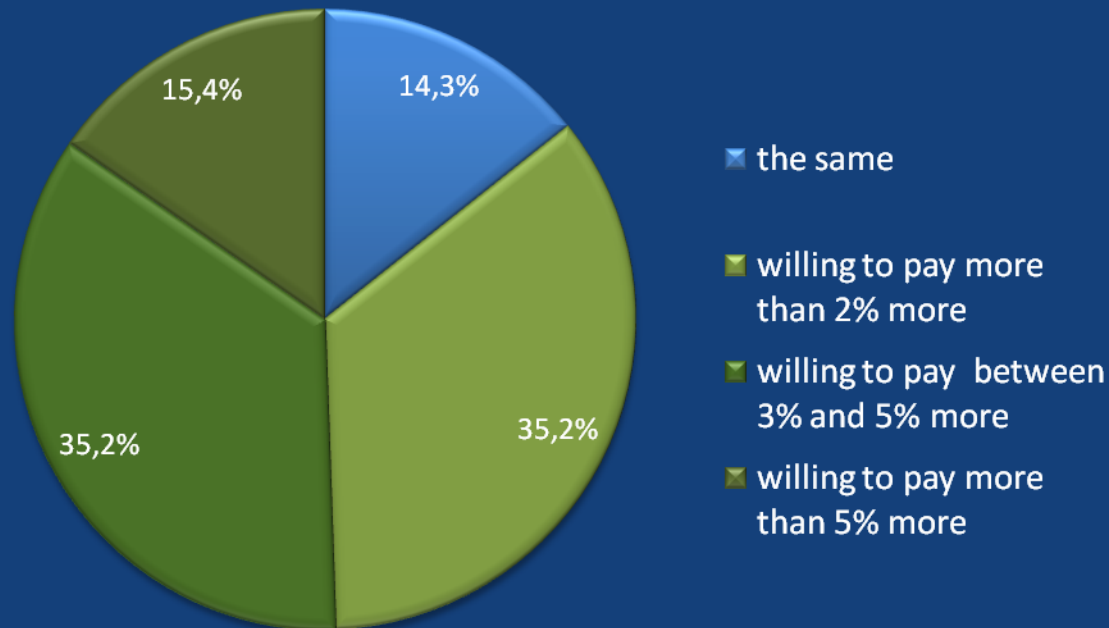
How much more are you willing to pay for sustainable real estate solutions?



Source: CoreNet Global / Jones Lang LaSalle, 2008, Sustainability Perceptions and Trends - Survey among more than 400 industry executives

Property industry executives are even willing to pay more for sustainable solutions! (cont.)

What is your estimate of property market participants' willingness to pay for a sustainable property solution?

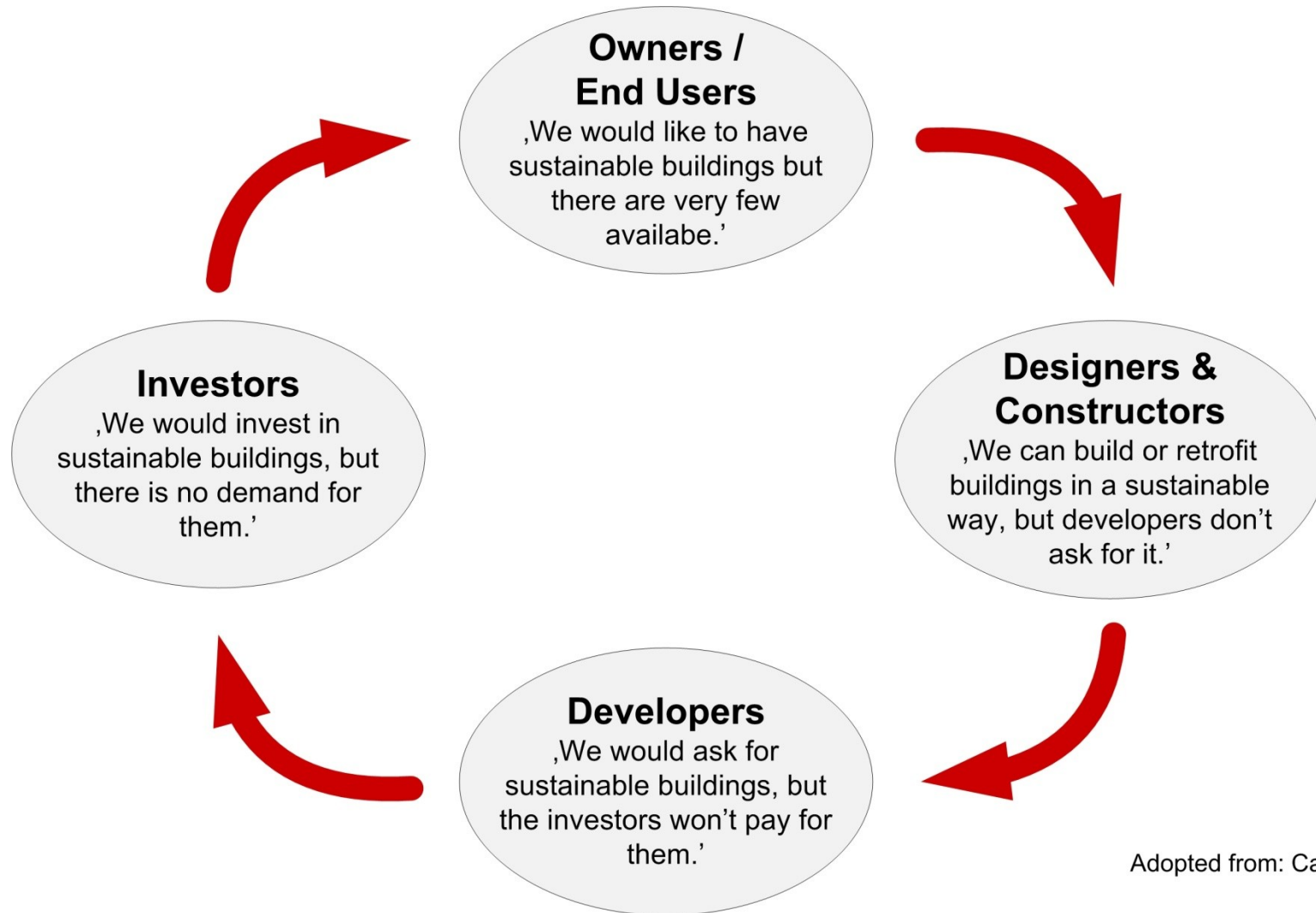


Results of a survey among the audience (about 260 executives and representatives of the German property industry) of this years' annual real estate conference organised by Handelsblatt:

15. Handelsblatt Jahrestagung Immobilienwirtschaft, 6-7 Mai 2008, Berlin

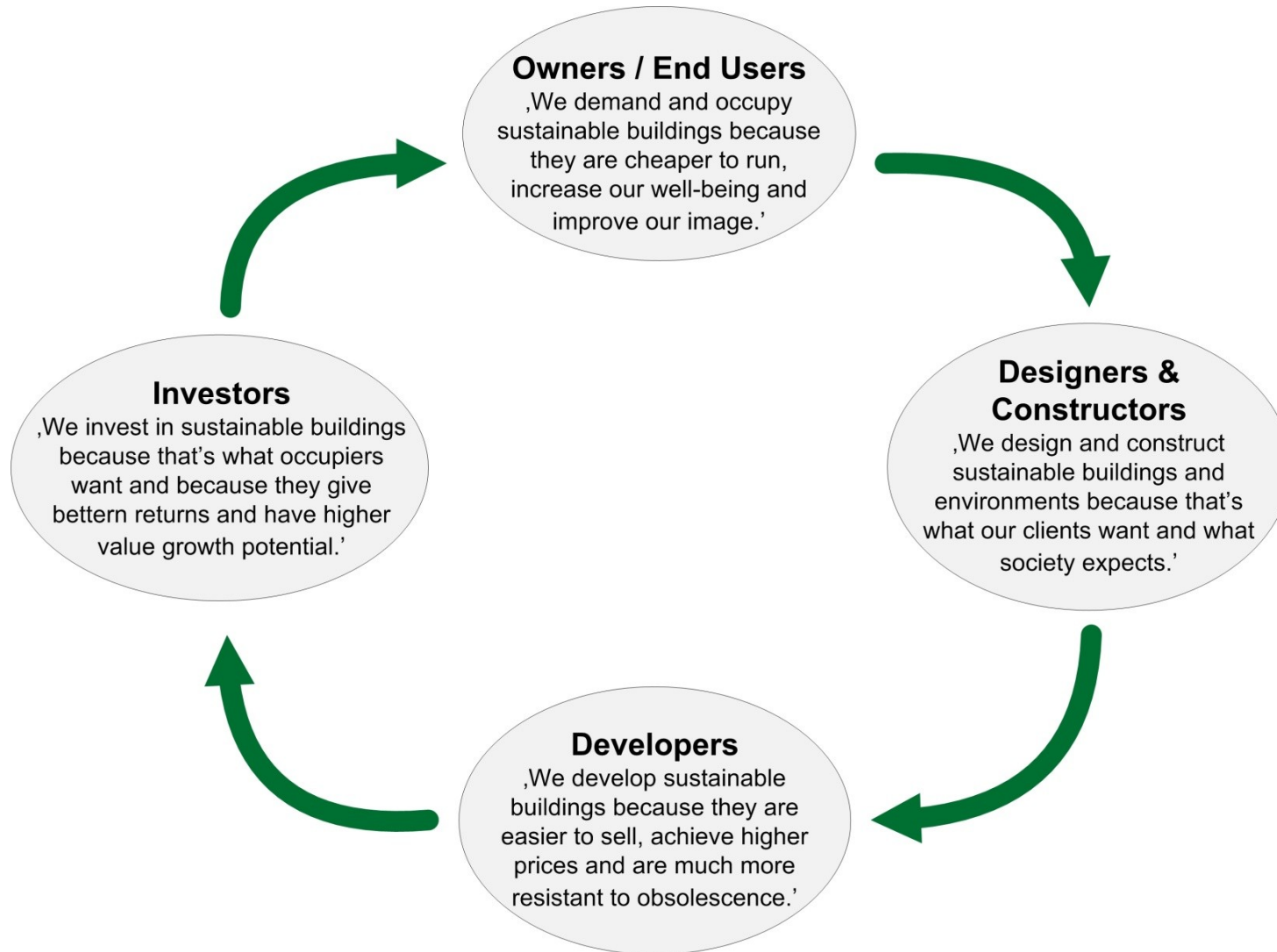
For more information on this conference and its participants see: <http://www.immobilien-forum.com>

Why then are more Sustainable Property Investment and Management not yet Mainstream?

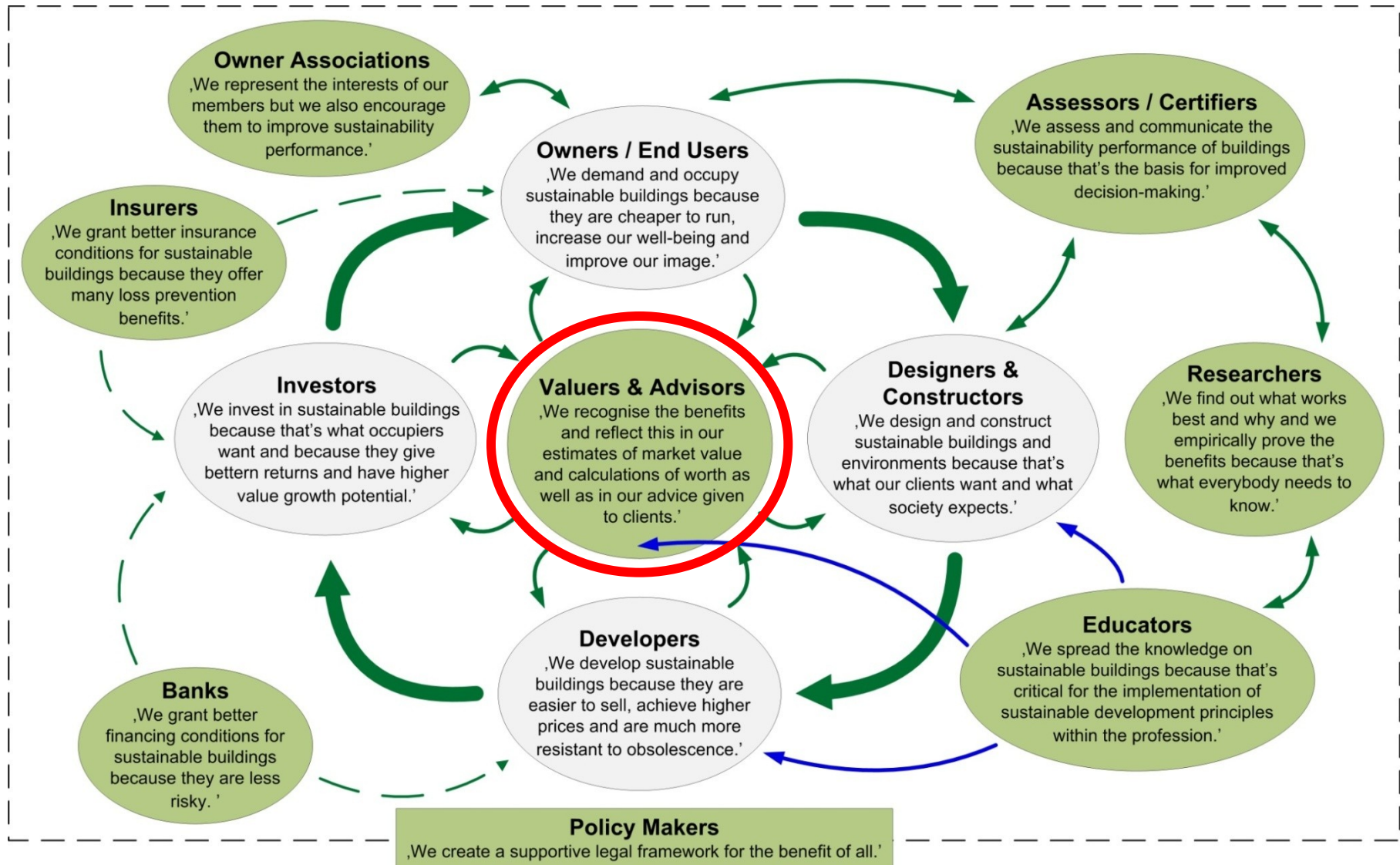


Adopted from: Cadman, D., 2000

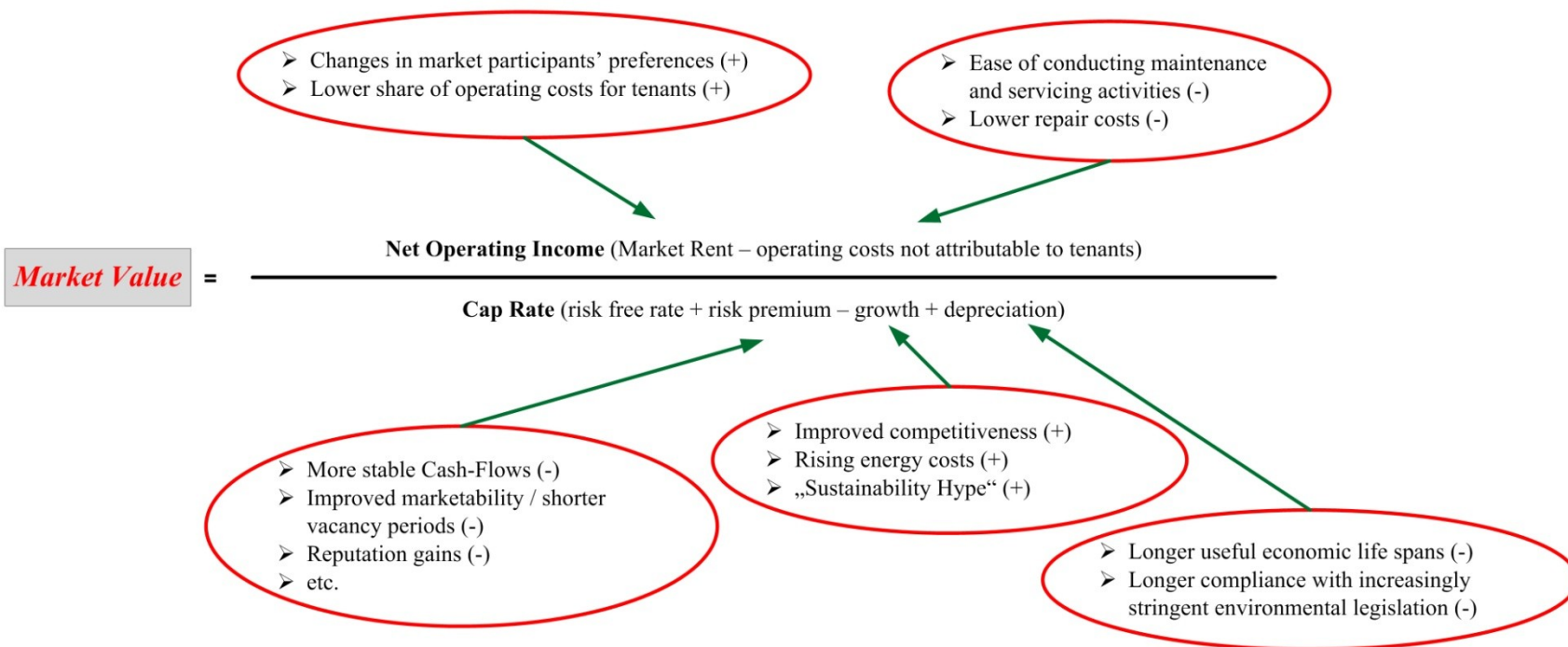
In theory, each of these statements can be turned into a positive, turning the vicious circle in to a virtuous circle



The full picture: Turning the Vicious Circle of Blame into Loops of Feedback and Adaptation



Consequences for property valuation practice



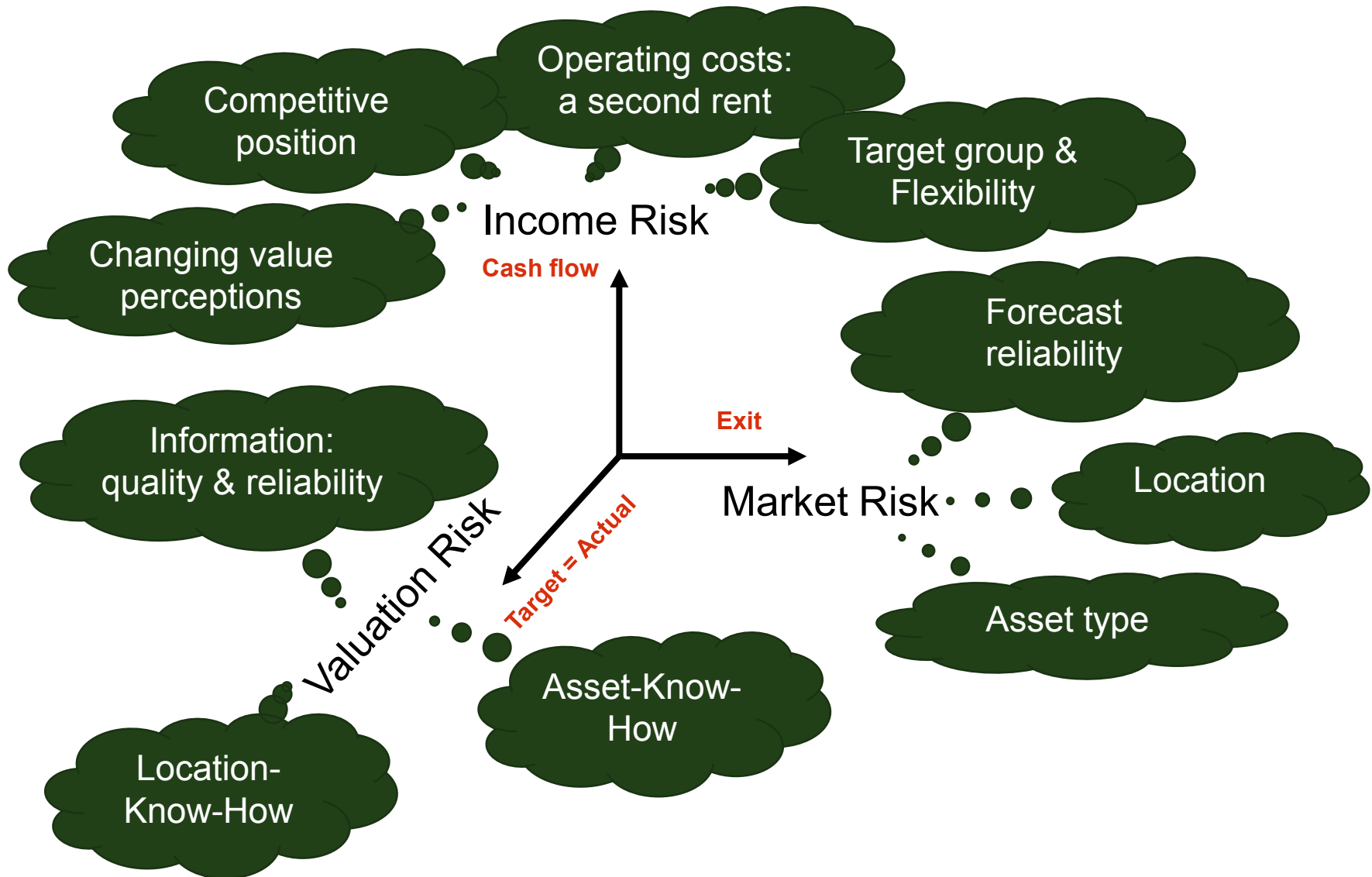
Summary:*

Market Rent ↑
Operating Costs ↓
Risk Premium ↓
Growth ↑
Depreciation ↓

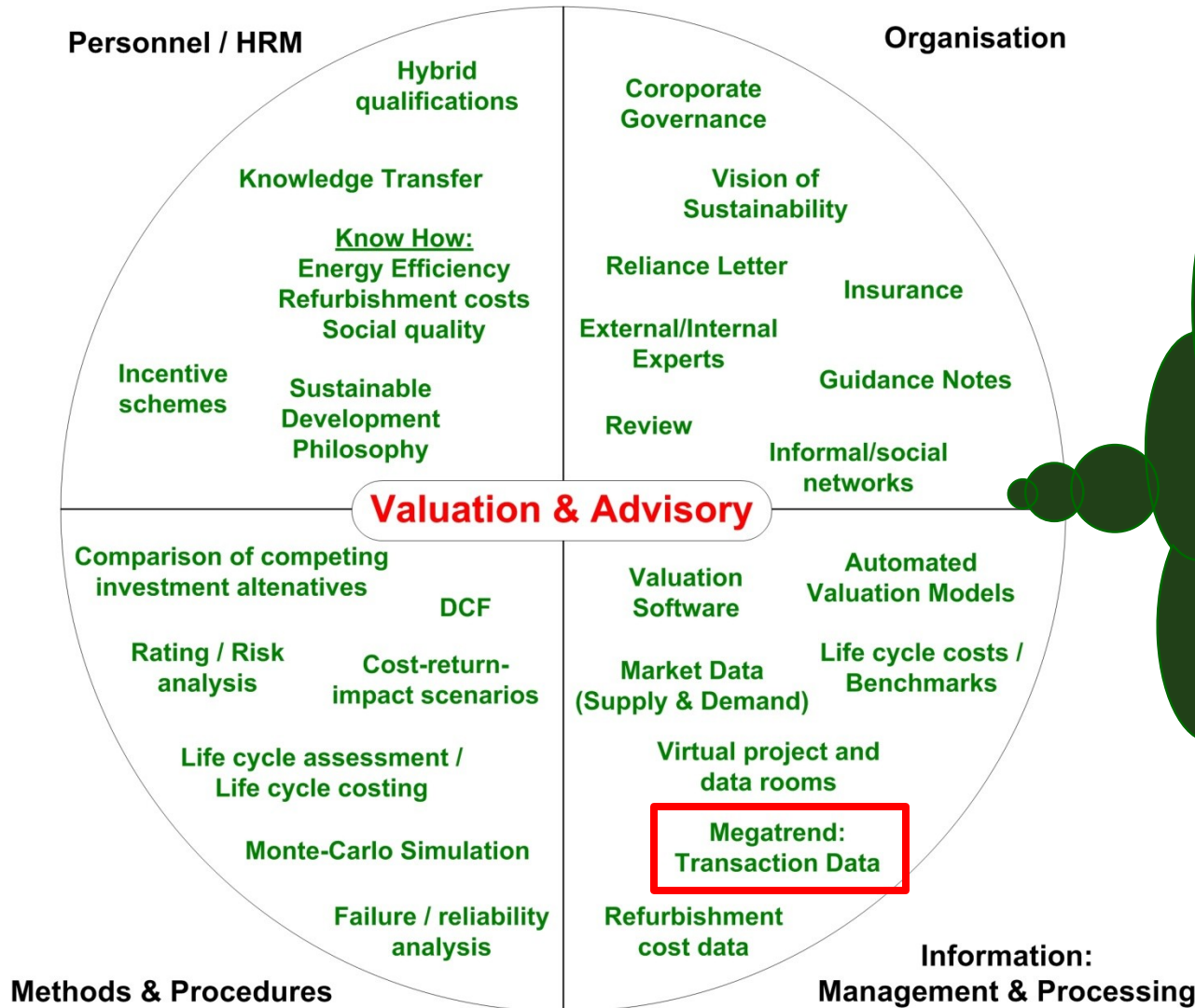
Market Value ↑

*: Reversed direction of arrows for conventional / unsustainable buildings

But: Sustainable development discourse & changing user requirements have dramatically increased valuation complexity!

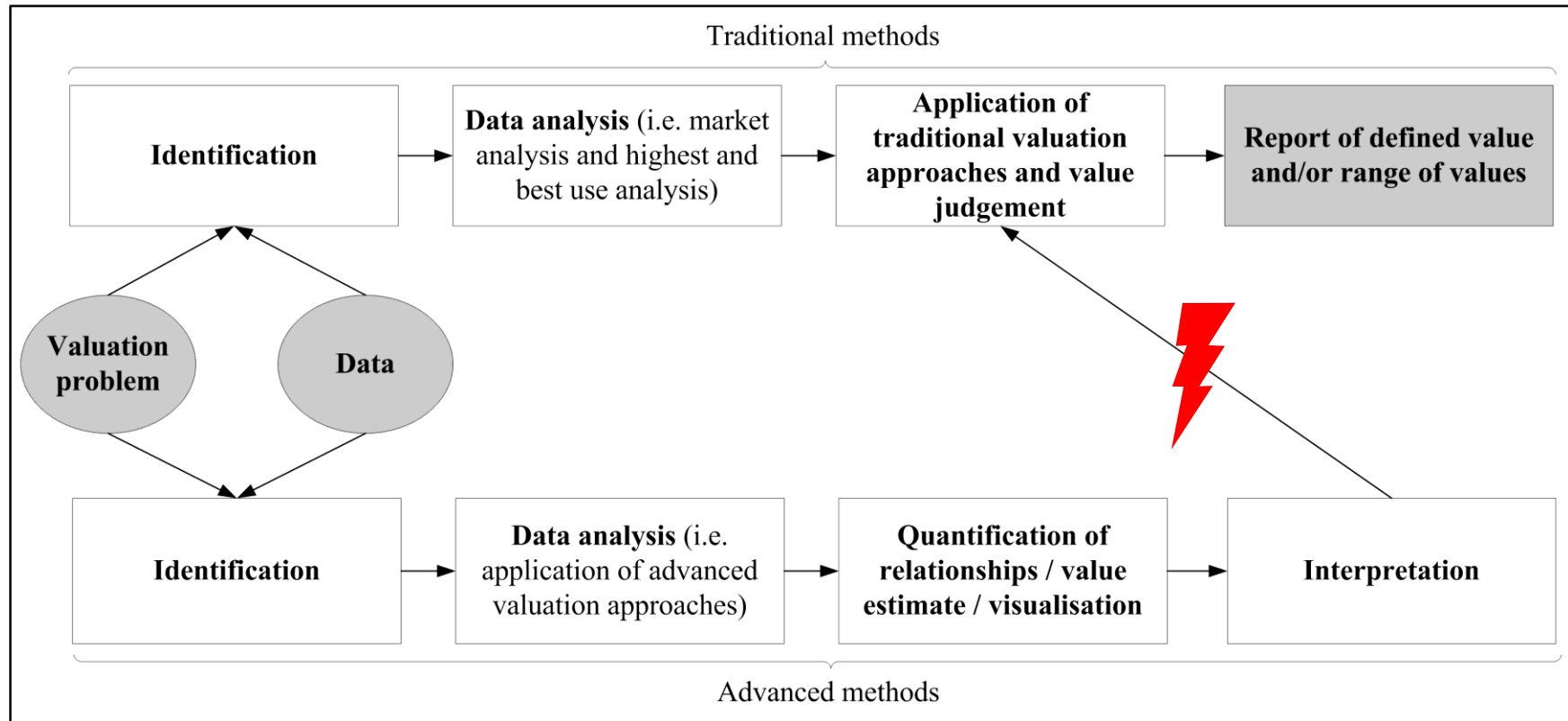


Integration of sustainability issues into valuation and investment counselling is a major challenge!



In almost all of these areas we do not yet have the necessary experience, resources and structures to appropriately reflect sustainability issue in everyday practice.

The Property Valuation Process



Lack of empirical validation requires property professionals explicitly explaining their **expert opinion** on both the benefits of sustainable design and on why and how these benefits impact on property values!

Biggest problem: Quality of building descriptions in transaction databases

	Type	Brief Explanation	Examples	
1	Characteristics based description	Statement on the availability, number, age or size of particular building features or components	Floor area, central heating, green roof, number of rooms, flexible walls, suspended ceiling, etc.	✓
2	Experience based description	Subjective and mainly qualitative judgement mainly based on implicit assumptions	Building quality is considered 'good' because of sound structural condition, favourable layout, equipment, etc.	✓
3	Attribute based description	Judgement or classification based on quantifiable technical and/or physical building characteristics	Heat and sound insulation class, degree of efficiency of heating system, share of renewable materials, etc.	⚡
4	Performance based description	Measurement of direct impacts that result from the building's technical and physical characteristics	Primary energy demand, CO ₂ -emissions, life-cycle-costs, annual maintenance costs, etc.	⚡

➡ It will take years to accumulate the informational data basis necessary to empirically underpin a valuer's decision to provide a 'valuation bonus' for a sustainable building or a 'valuation reduction' for a conventional/unsustainable one.

EU strategy as a driver for significantly improving building descriptions

EU Thematic Strategy on the Urban Environment (COM(2004)60)

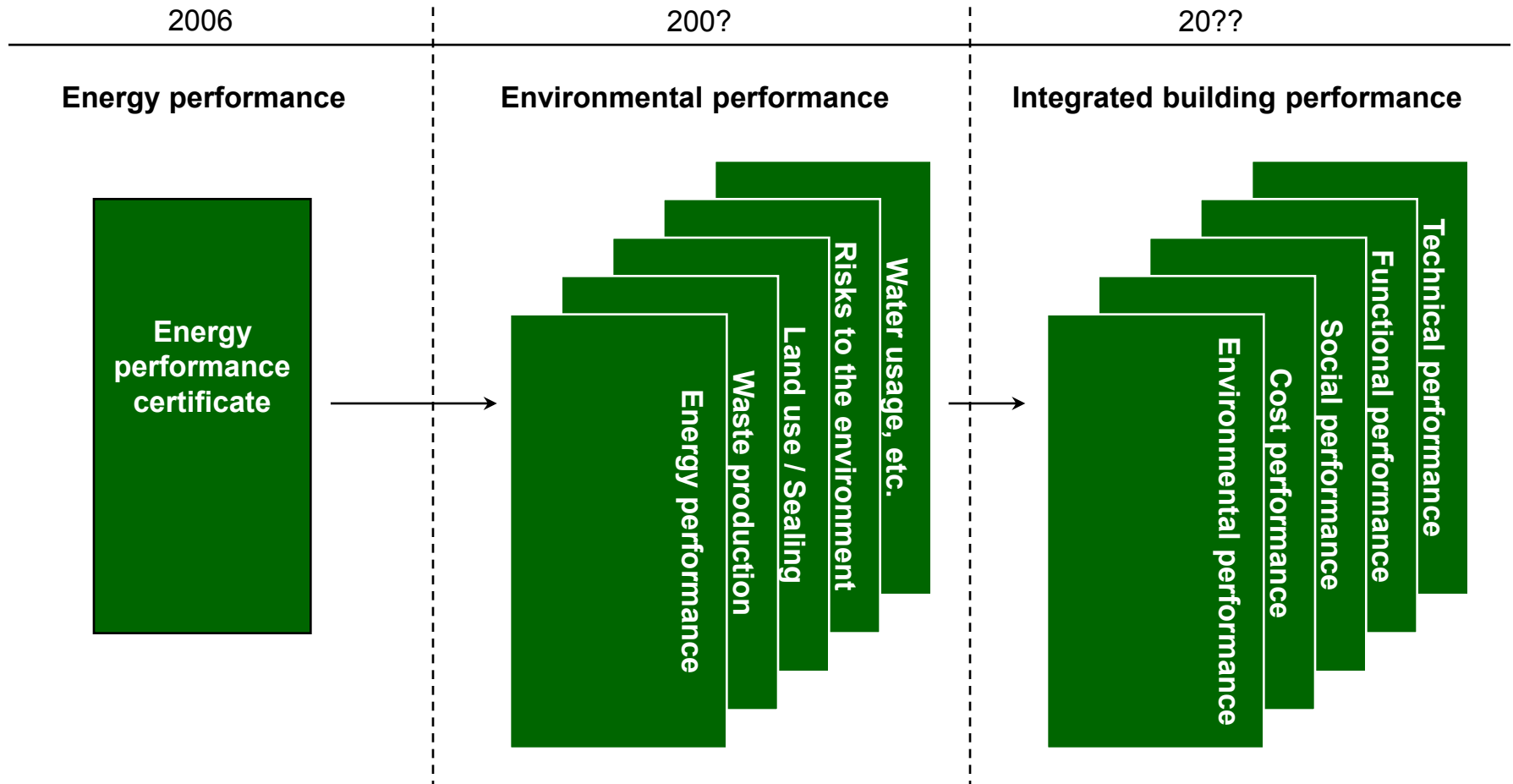
“[The EU directive on the energy performance of buildings] should be **extended to include other key environmental and sustainability elements**, such as indoor air quality, accessibility, noise levels, comfort, environmental quality of the materials and the life-cycle cost of the building. It should also include the ability of the building to resist environmental risks, such as flooding, storms or earthquakes, depending on their location.” (page 22)

“The common [assessment] methodology [...] and the resulting evaluations and life-cycle costing should then be used to promote best practice linked to a range of incentives. For example, a **high level of sustainability** might lead to **lower tax rates**; insurance companies and lending institutions might offer **more favourable conditions**. Once the appropriate methodology is well established, the Commission will then propose **further non-energy-related environmental performance requirements** to complement Directive 2002/91.” (page 23)



Possible scope of building performance certification

Widening the scope of energy performance certification into integrated building performance certification



The Energy Performance of Buildings Directive (EPBD) was a good start; it

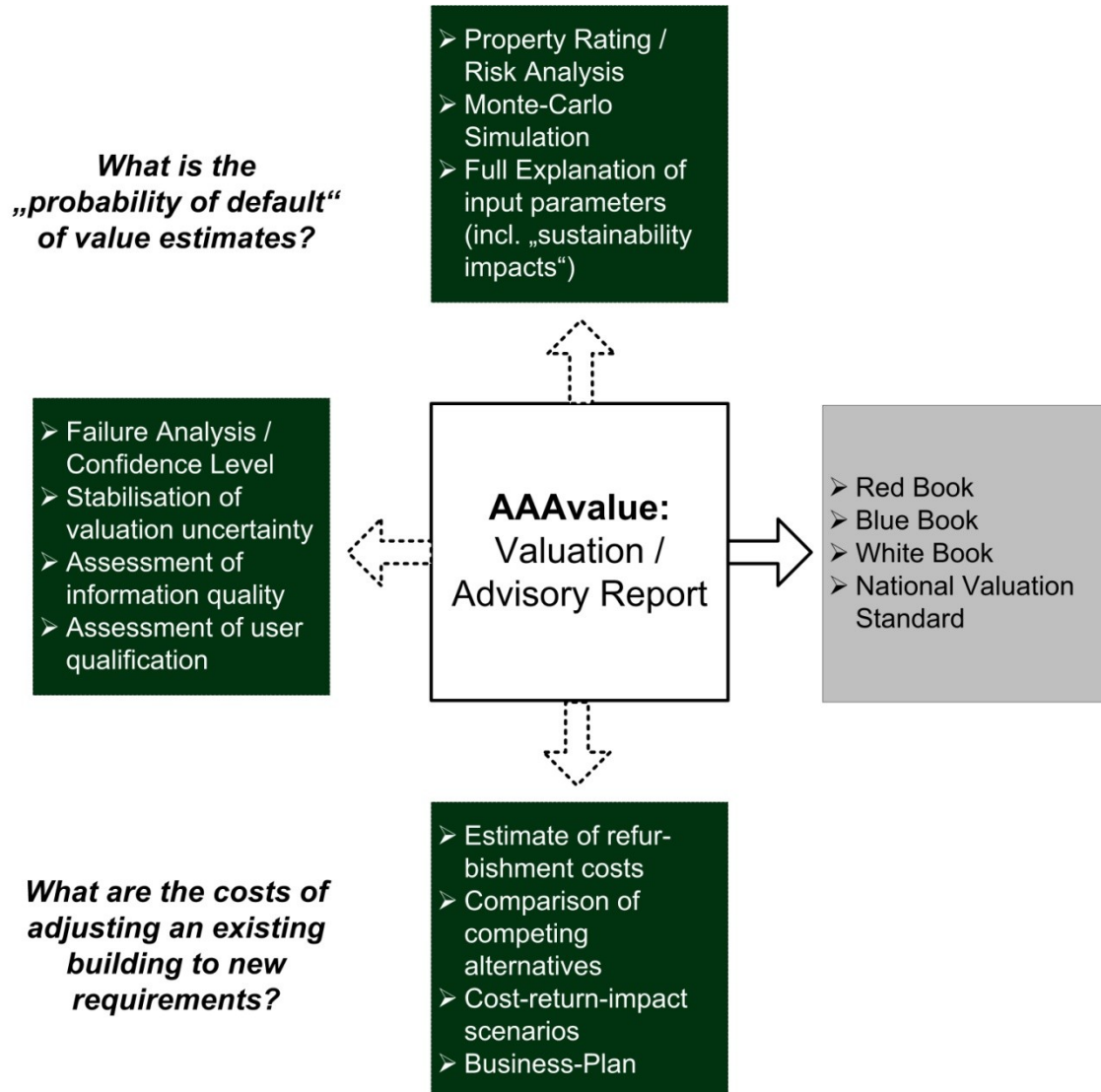
- (1) raised awareness among building owners that energy performance of buildings is an area of major concern; and
- (2) is one more reason that increases the pressure for investors to pursue more sustainable property investment and management strategies.

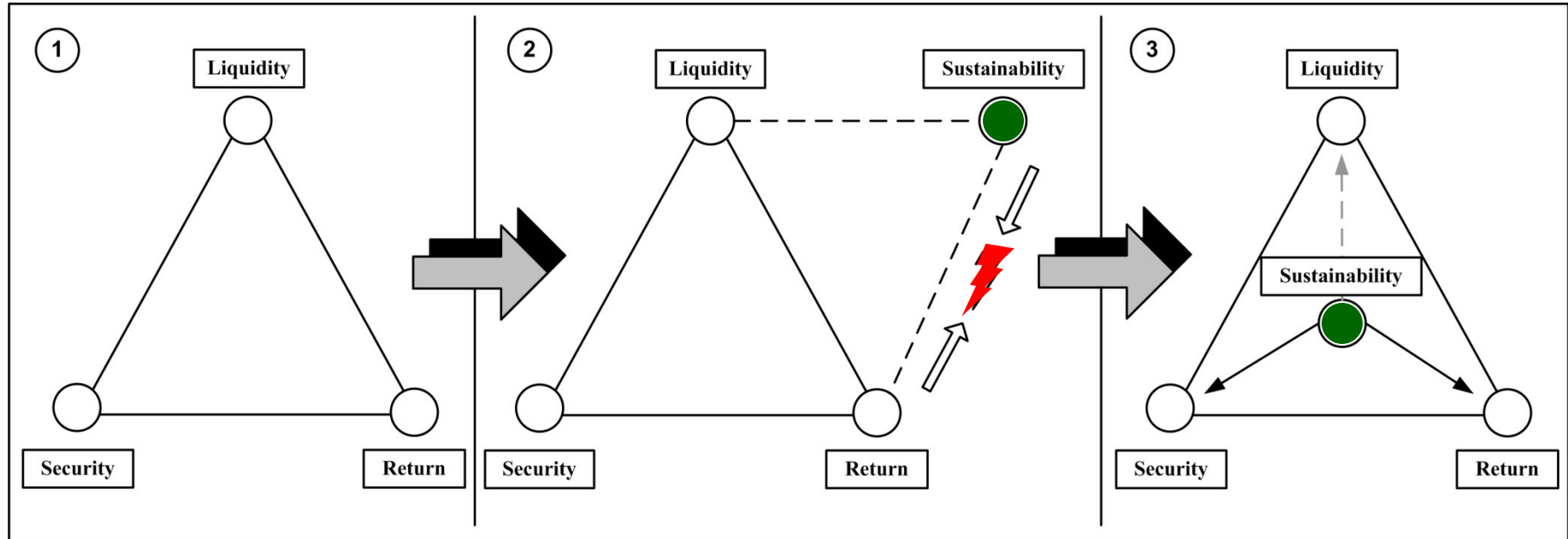
However, when extending or revising EPBD the following key issues should be taken into account:

- Regardless of the scope of building performance certification, there should be only **one certificate** and not separate certificates covering different areas of building performance.
- Certification categories must be **consistent across Europe**; without harmonised certification categories and schemes end-users become confused and benchmarking becomes impossible.
- Certification results should link through to **real fiscal incentives**; otherwise certification may be considered as another bureaucratic burden.

1. More sustainable property investment & management practices are already applied in practice. However, they are far from being mainstream.
2. One major barrier is seen in the difficulty of integrating sustainability considerations into property valuation and investment counselling practices.
3. Property valuation & investment advisory reports should be extended to include statements on why and how sustainability issues impact on estimates of worth, value and financial performance.
4. The description of property assets in transaction databases & indexes must be improved by using clear criteria and performance indicators as well as reliable assessment methods and tools → Only this will allow empirical validation.
5. A revised EPBD including harmonized performance metrics would be an important step in the right direction as it would enable proper comparison between environmental and financial performance data of buildings across Europe.
6. The mainstreaming of sustainable property investment practices will require new decision support instruments; i.e. instruments that will allow linking and balancing environmental, social and financial aspects of property investment & ownership.

New decision support instruments: A precondition for mainstreaming sustainable property investment





Not Return or Sustainability but
Return and Security through Sustainability!

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