

National Conference on Building Commissioning

The Financial Story Behind Building Green

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Real Estate Perspectives

- **Public Sector**
 - Indefinite hold
 - Investment risk: Gov't solvency
- **Corporate (Owner/Occupant)**
 - Long-term hold (10 – 20 years)
 - Investment risk: Enterprise (earnings, profits)
- **Investment Real Estate (IRE)**
 - Short-term hold (3 – 7 years)
 - Investment risk: Building operations

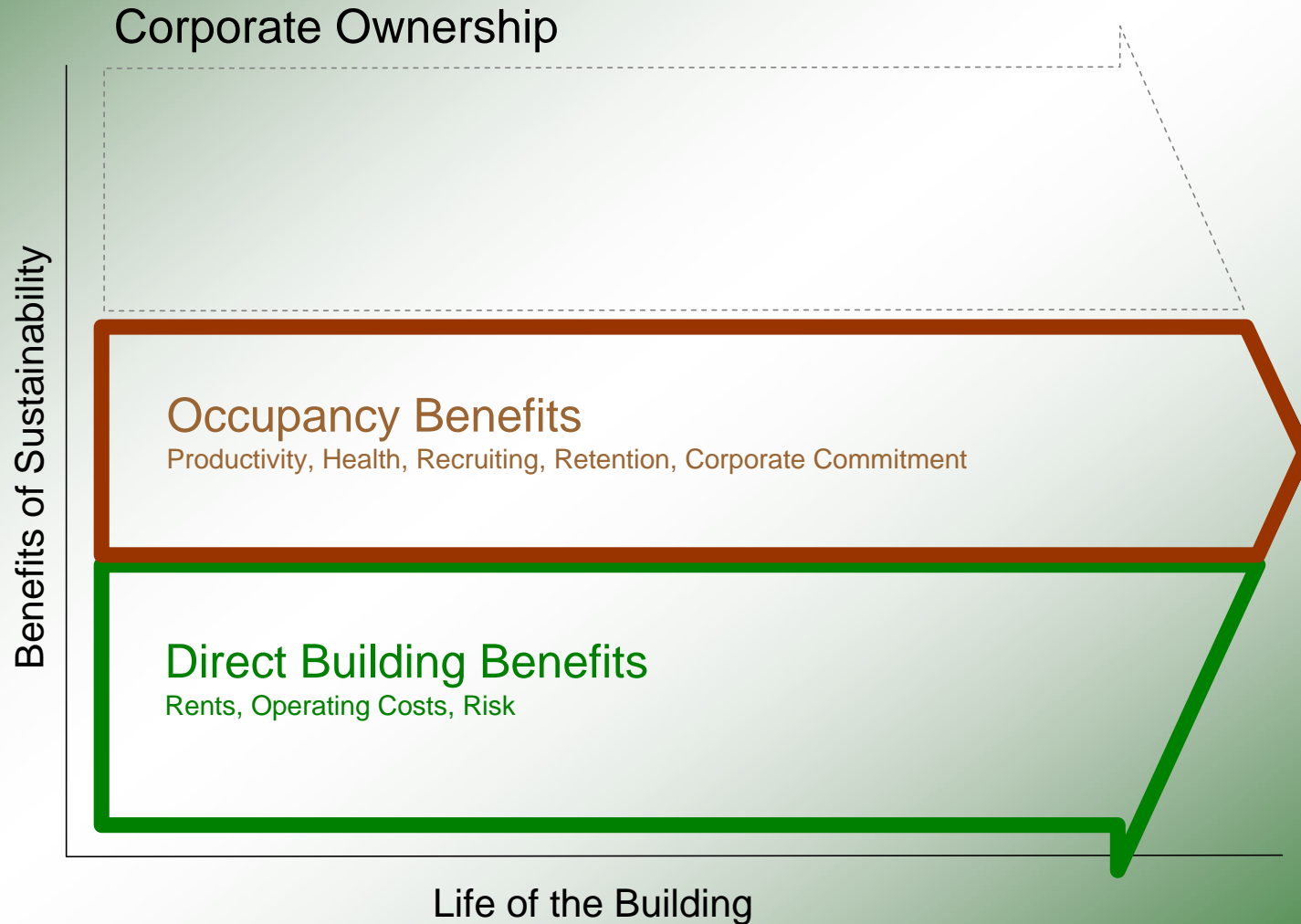
Green Building Finance Consortium

- **Enable Private Sector Finance & Investment**
 - Appropriate recognition of the “**value**” of Green Building investment
 - Focus on **cash flow, underwriting** and **value measurement**
 - Focus on **risk assessment** – downside and upside
 - Equal emphasis on **new** and **existing buildings**
 - Green Building investment from a **fiduciary** perspective

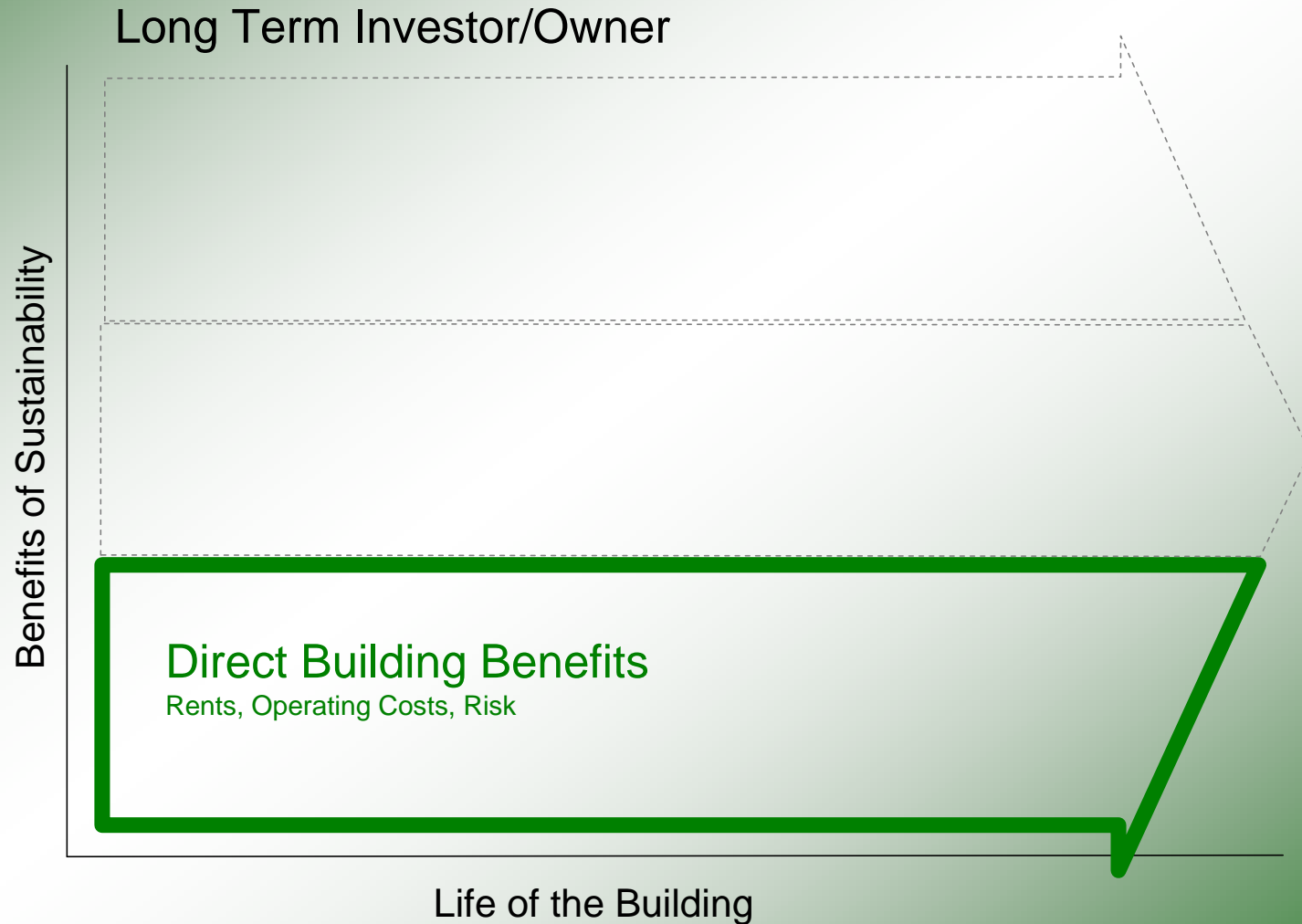
Green Buildings and Investment Real Estate



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The Investment Process

- **Making the Business Case** - the **business decision-making process** that precedes seeking debt or equity: What are the benefits? Will they be worth the cost? Will it be profitable?
- **Investment Decision** - making a **long-term** commitment of funds to any form of **equity**, **debt** or **securitized interest** in a sustainable building or project.
- **Underwriting** - the process used by a 3rd party for **evaluating** the **risk**, **return** and **suitability** of a debt or equity investment in a sustainable building or project.
- **Valuation** - the process used by a 3rd party for estimating the **market value**, **in exchange**, among **private parties** of a sustainable building or project.

Green Building Investment Hypothesis...

- **Rents** will be higher...
- **Operating expenses** will be lower...
- **Absorption** will be faster...
- Tenant **turnover** will be lower...
- **Risks** will be lower...
- **Value** will be higher!
- Any **added costs** can be recovered!!

✓ **For Investment Real Estate, the hypothesis remains only that today.....**

Green Building Benefits

– **Reduced Risk**

- Energy price volatility
- Regulatory change
- Tenant retention

– **Monetization of Public Benefits**

- Accelerated permitting of project
- Density bonuses
- Financial incentives

– **Reduced Cap Ex and Tenant Improvement Costs**

- Favorable tax treatment
- Reduced tenant turnover/better retention

– **Value Impact**

- Lower cap rate/discount rate

Green Building Costs

- **First Costs (in the project itself)**
 - General Construction
 - Tenant Improvements
 - Commissioning & Start Up
- **Initial Program Costs**
 - Staff Training
 - Goal Setting/Business Plan
 - Identifying Qualified Service Providers
 - Strategy Formation
- **Other Costs**

Green Buildings Markets and Opportunities

- **Basic Green Building Investment Strategies**
 - **New Development**
 - **Build-to-suit:** client will most likely be gov't agency or multi-national.
 - **Speculative:** Typically build to “Class A” standard and market to tenants seeking highest quality space (regional HQ, professional services). Rule of thumb: LEED NC for BTS, LEED CS for speculative.
 - **Rehab or Reposition (Value-Add or Core +)**
 - Target older (20+ years) buildings with obsolete MEP systems and low occupancy in primary or secondary markets.
 - Branding with LEED, corporate naming and strong PR links are important project attributes.
 - Strategies may emerge that are developed and driven by climate zone, industry or building design style and age.

Current Funds

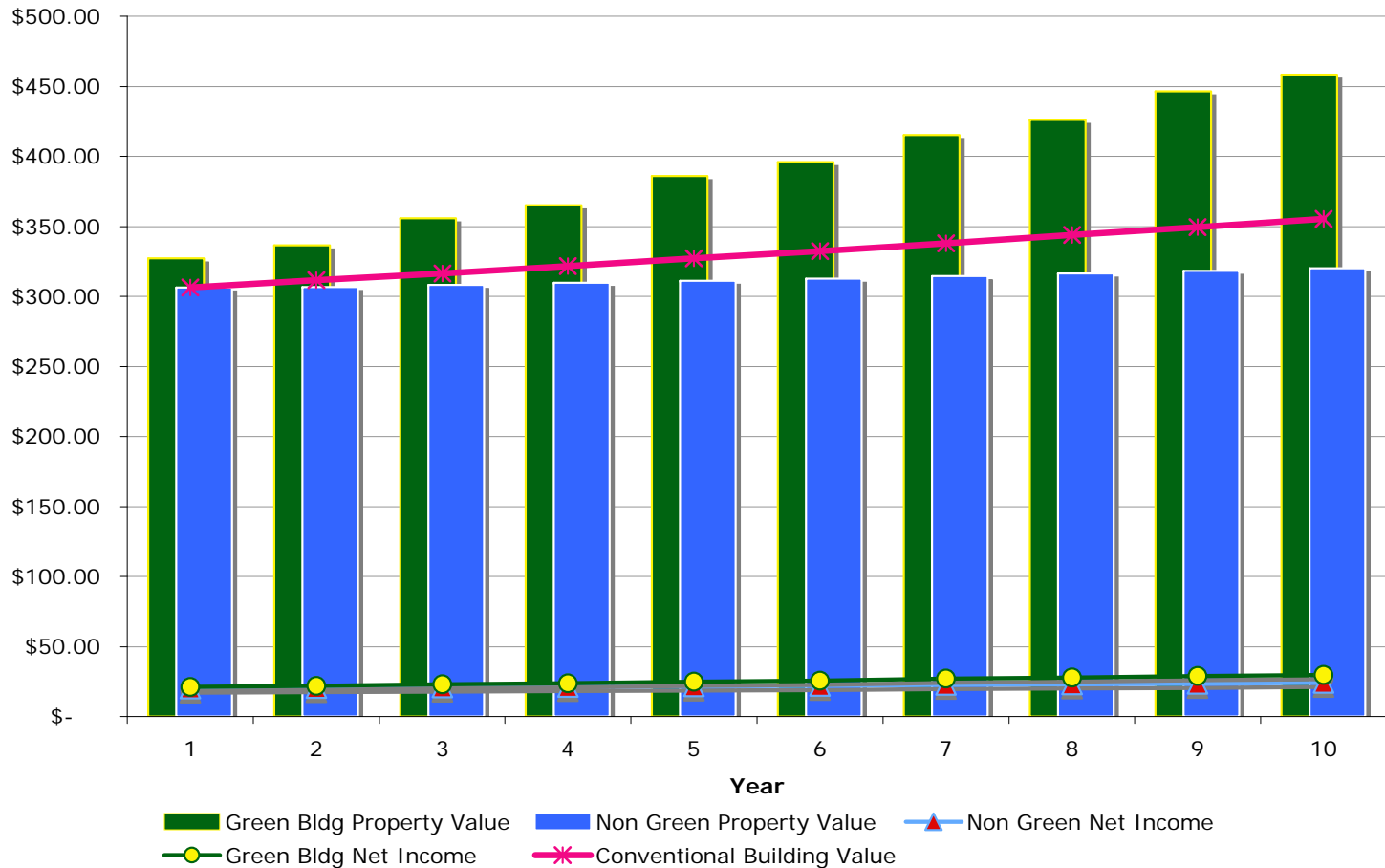
- **Institutional Fund Formation**
 - Hines/CalPERS - \$150 mm
 - Hines/Metropolitan Life - \$600mm
 - Thomas Properties Fund
 - Revival Funds - \$150 mm
 - Various “Smart Growth” Funds

Green Buildings and Capital Markets

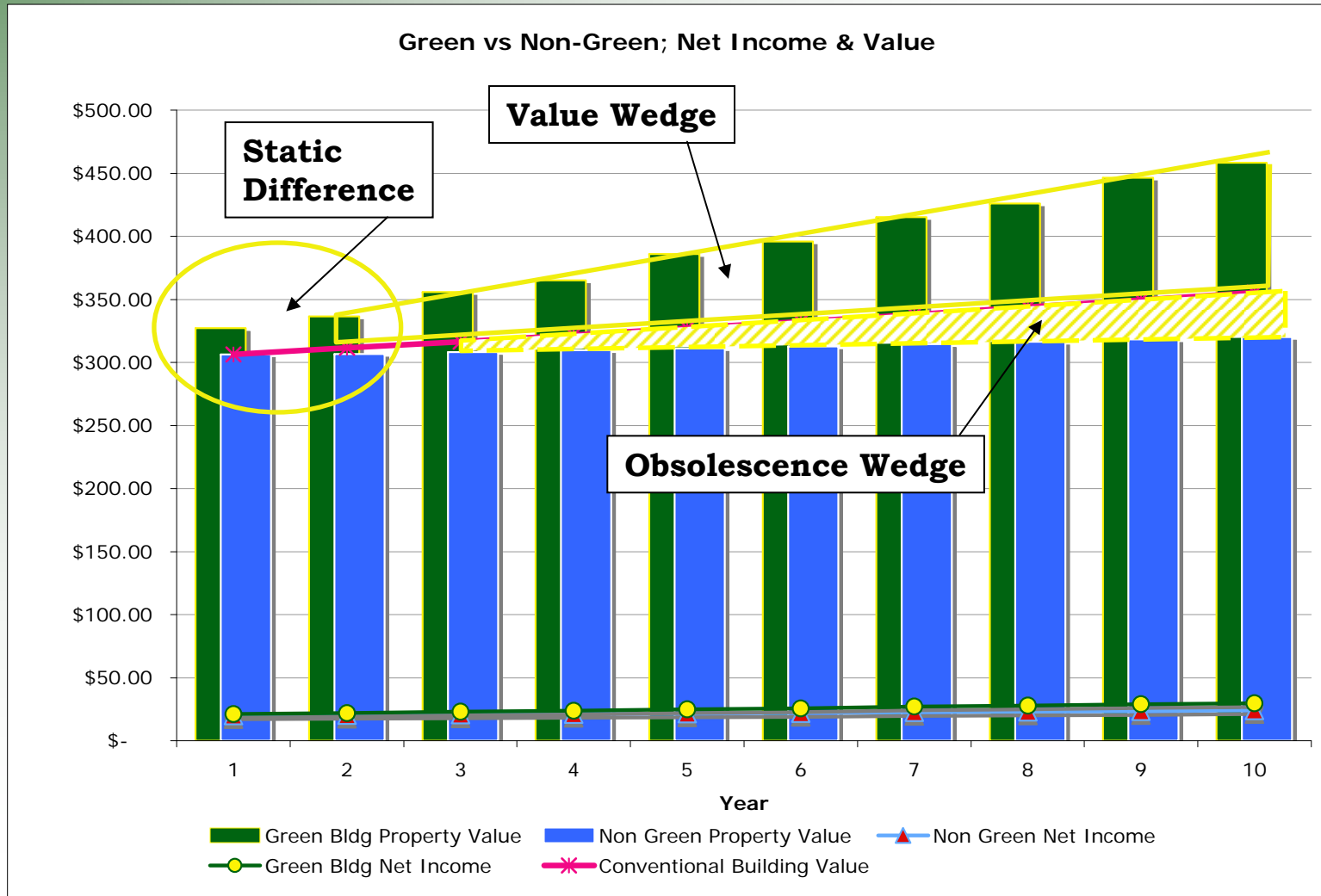
- **Opportunity for Differentiation:**
 - **A strong opportunity for growth** in demand.
 - Important **tenant (corporate) objectives for sustainability**.
 - Potential for **socially-responsible investments** in an area heretofore unaddressed.
 - This sub-class represents **generational change in the performance and productivity of buildings**.

Green vs Non-Green – The Future?

Green vs Non-Green; Net Income & Value



Green vs Non-Green – The Future?



Real Estate Investment Trends

On the Horizon

- Real Estate Portfolio Evaluation
- Transactional
 - Due Dilligence
 - Validating buildings “built to LEED Standards”
 - Repositioned LEED buildings

Real Estate Investment Trends

- **Activity in Green IRE Buildings Increasing:**
 - May see “EB Platforms” that focus on renovating existing buildings.
 - Key will be translating performance characteristics into analytical metrics.

Summary

- Our shared goal is to think comprehensively about Green Buildings - **making the business case, testing it through underwriting, and valuing sustainable buildings.**
- For the foreseeable future, the investment, underwriting and valuation process will be defined by its need for **thoroughness, transparency and credibility.**
- In time, investment, underwriting and valuation of green buildings will become much more common, and the development community will have a body of knowledge, relevant data and shared experience to rely upon.

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