



BENJAMIN S.
CROCKER
SYMPOSIUM 2010



Turning “Green” Into Greenbacks

Elizabeth Watson, Greenberg Glusker (Moderator)

David Pogue, CB Richard Ellis

James Finlay, Wells Fargo Bank - RETECHS

Dave Hodgins, Clinton Climate Initiative



Dave Pogue, LEED AP

CB Richard Ellis

National Director, Sustainability

408.453.7444 | dave.pogue@cbre.com









Discussion Topics

- ① What is a Sustainable Building?
- ② Trends Influencing Sustainability
 - Regulatory Pressure
 - Evolving Corporate and Tenant Attitudes
 - Market Survey
- ③ What does it mean for the legal profession?





Rating Systems

 ENERGY STAR®	 LEED®	 GREEN GLOBES	 BOMA 360
<ul style="list-style-type: none">▪ Nationally administered benchmarking tool by EPA▪ Buildings rated on a scale of 1-100▪ Scores of 75 or higher demonstrate superior energy performance and qualify for an ENERGY STAR plaque	<ul style="list-style-type: none">▪ Certified by USGBC's Green Building Rating System▪ Buildings earn points to achieve Certified, Silver, Gold or Platinum level certification	<ul style="list-style-type: none">▪ Certification for new and existing buildings▪ Managed through the Green Building Initiative▪ Widely used in Canada▪ Awarded in areas of Waste, Energy Efficiency, etc.	<ul style="list-style-type: none">▪ Introduced in 2009 by BOMA International▪ Evaluates factors of a building's sustainability programs and practices in five distinct categories



Regulatory Pressure

California

Must release ENERGY STAR data and ratings for the previous 12 months to parties in a commercial real estate transaction (AB 1103)

Seattle

Must benchmark utility usage and disclose results to any potential tenants, buyers and/or lenders (Seattle Ordinance 116731)

Washington, DC

Must measure and make public energy use in buildings over 200,000 SF effective 1/1/10; compliance will increase to smaller buildings in future years (Clean and Affordable Energy Act)

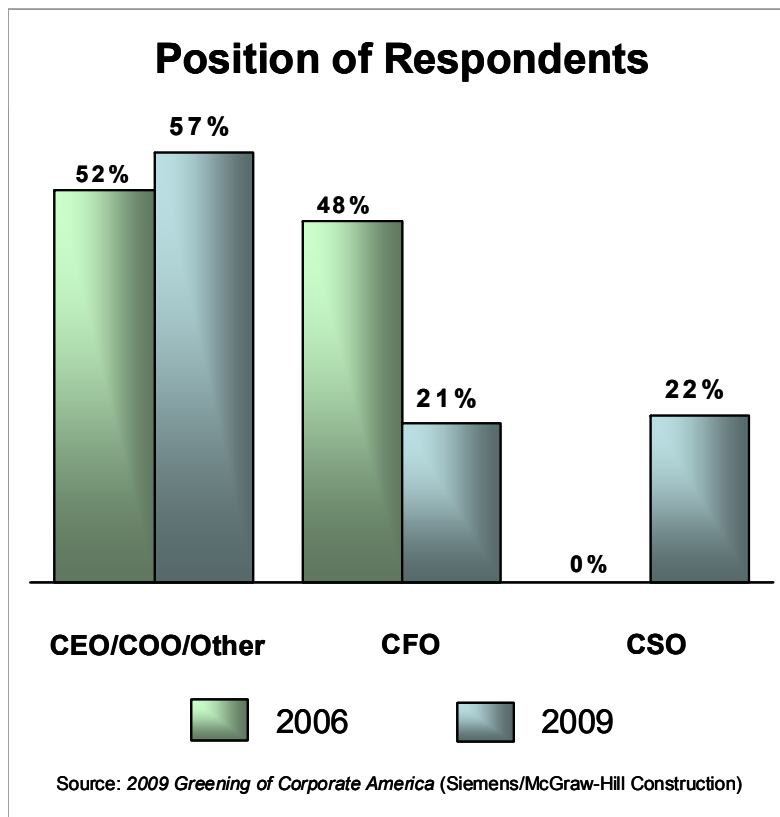
New York, NY

Recent bills mandating:

- 1 A New York City Energy Code for building renovations (Int. No. 564-A)
- 2 Annual benchmarking of energy consumption (Int. No. 476-A)
- 3 Lighting upgrades and sub-metered tenant spaces (Int. No. 973-A)
- 4 Energy audits once every decade and implementation of energy-efficient maintenance practices (Int. No. 967-A)



Attitudes | McGraw-Hill Study



Survey Characteristics

203 Respondents representing **75%** of the \$36 trillion U.S. equities market

No firm below **\$250 million** in revenues

Geographic **diversity**

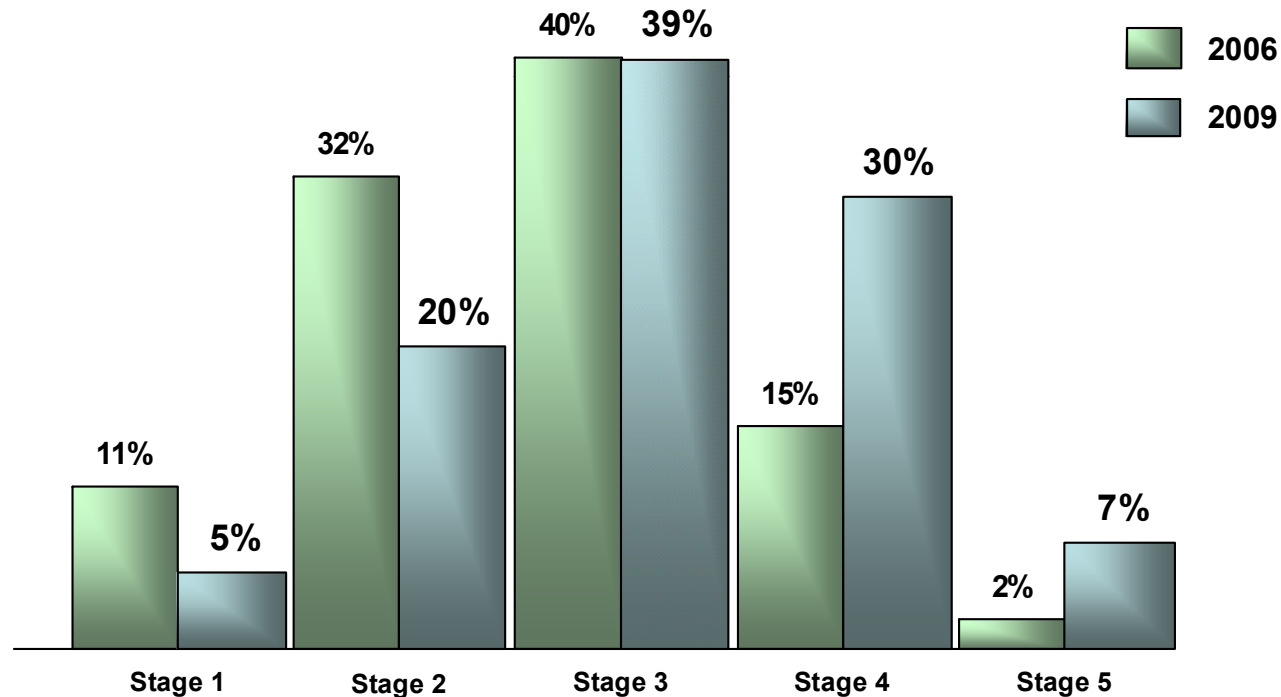
Accuracy: **95%** Confidence Interval +/- 7%

Survey Period: February 3 to March 20, 2009



Attitudes | McGraw-Hill Study

Corp. Involvement in Sustainability



Source: 2009 Greening of Corporate America (Siemens/McGraw-Hill Construction)



Attitudes | McGraw-Hill Key Findings

- Sustainability is becoming “business as usual” – 75% see green as **consistent with their profit mission**
- Firms expect sustainability to retain and attract customers
- Majority of CEOs (61%) recognize that **sustainability leads to market differentiation**
- Energy savings remains the **most important driver** for sustainability
- Firms report **increasing benefits** as their dedication to sustainability grows
- **Corporations are driving market demand for green** by requiring vendors to report on sustainability
- Half of firms are **committed to renewable energy**, reflecting growing government support



Attitudes | CB Richard Ellis Study

Data Points

154 Buildings
Nationwide

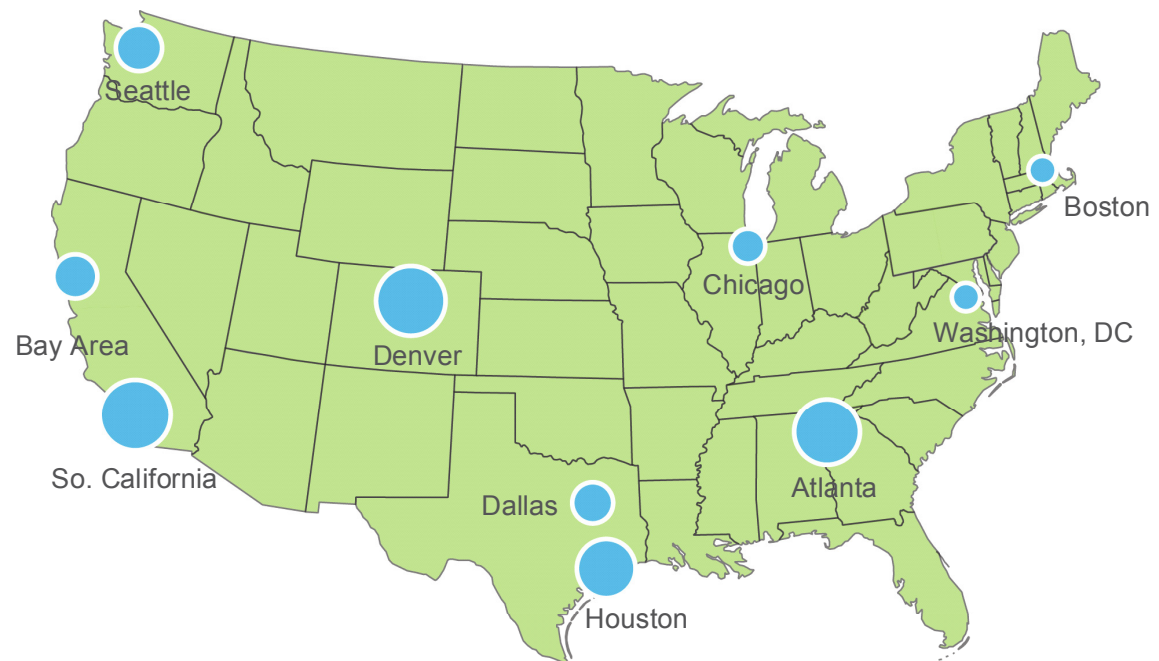
Approx. 3,000
Tenants

51,614,501 SF
Rentable Space

ENERGY STAR
(83 Avg. Score)

\$10.21 PSF
Avg. Operating
Expense

Survey Locations





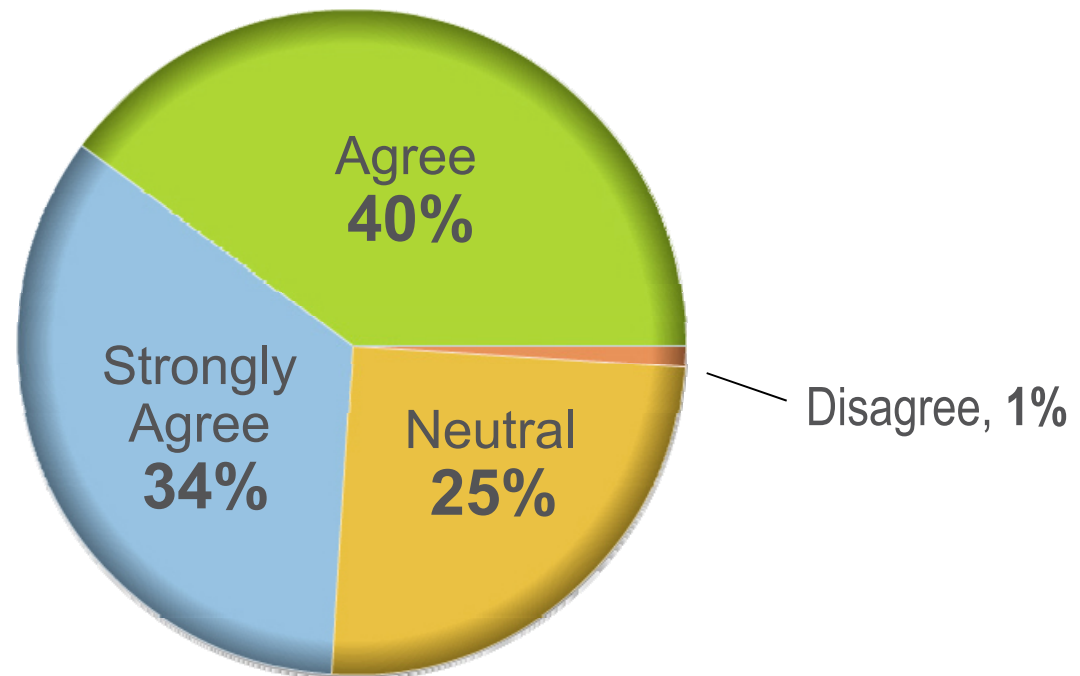
Attitudes | CB Richard Ellis Study

Perceptions

Nearly all the public companies had sustainable mission policy statements, and many strongly agreed with it



Public and Client Image





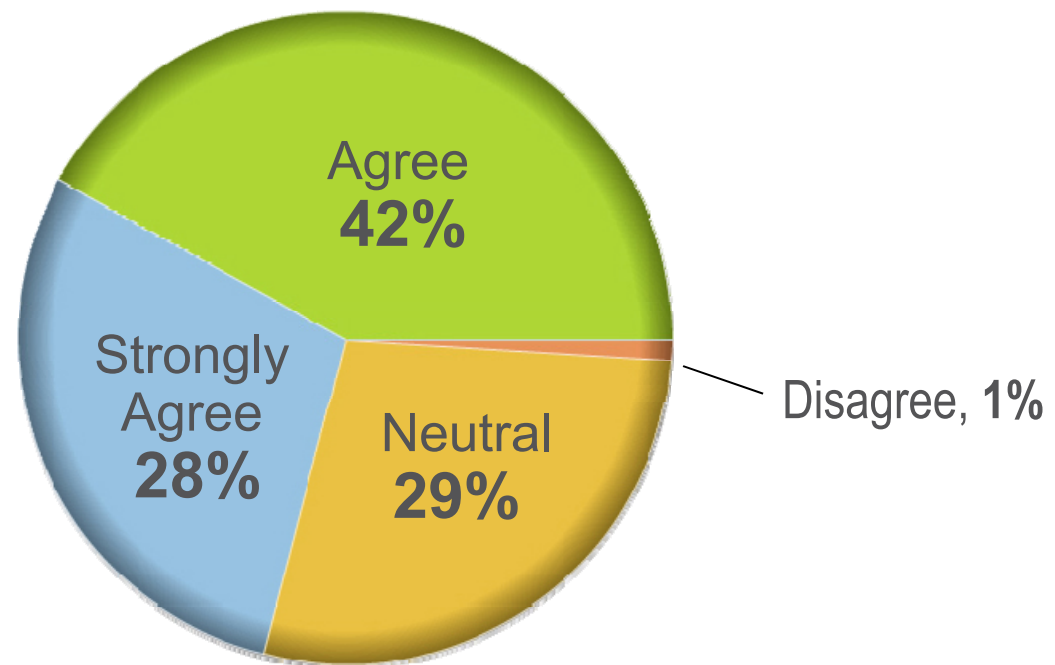
Attitudes | CB Richard Ellis Study

Perceptions

70% agree that occupying green space is important for image

This percentage is even higher for public companies

Owner and Shareholder Image





Attitudes | CB Richard Ellis Study

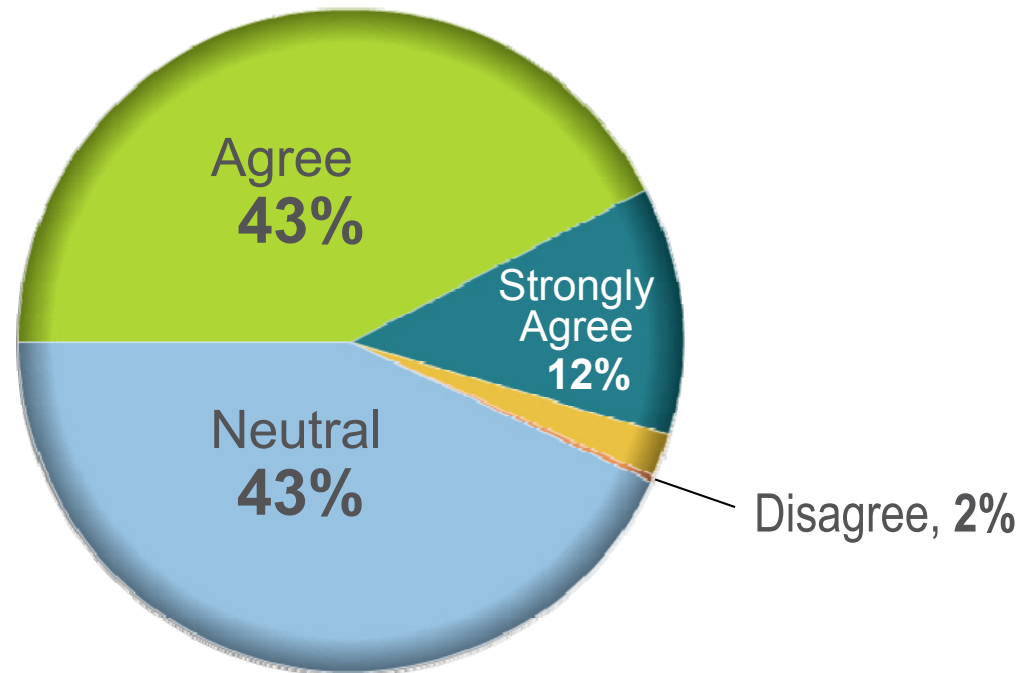
Productivity

55% agreed that productivity increased after moving

This 4.88% average boost translates to about **\$20 PSF/year** for those who agreed



Employee Productivity



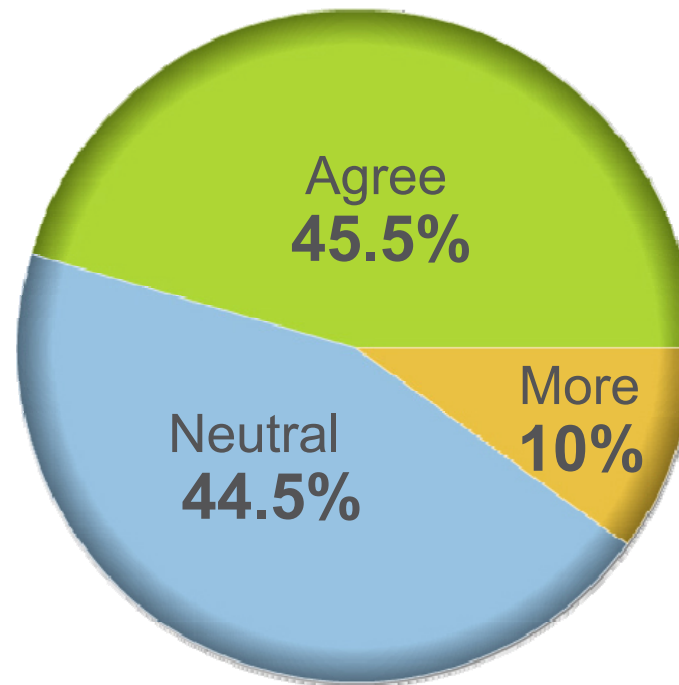


Attitudes | CB Richard Ellis Study

Productivity

Average 2.88
decrease in sick
days, or about
\$5.00 PSF/year

Fewer Sick Days vs. Previous Location





Attitudes | CB Richard Ellis Key Findings

Operations

- Green buildings tend to be **more intensively managed**, have stronger occupancies & lower utility costs (including lower experience of much higher expenses)
- Separate metering has more impact on energy savings (**21% savings**) than almost any other factor
- Each point higher in ENERGY STAR **saves .8-1%** in electricity

Productivity

- Green buildings observe **higher claims of productivity** in comfort, air, lighting and sick days
- Higher reported productivity + gains from fewer sick days = nearly **\$25/PSF improvement** for those responding yes (nearly the amount of average rent)



Attitudes | CB Richard Ellis Key Findings

Commitment

- Most tenants won't admit to paying more for green features, yet evidence shows that they do (and will) **pay more for green**
- Green lease provisions are increasingly important (70%)
- Healthier indoor environments matter to tenants for staff retention (61%) and client image (74%)



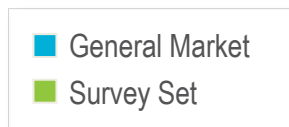


Attitudes | CB Richard Ellis Study



2009 Q1-3

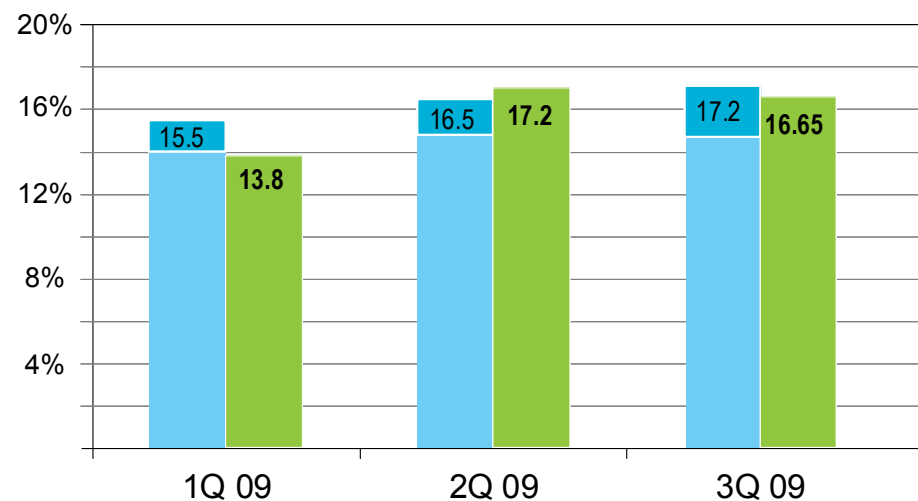
Survey set vacancy
3.5% better than
market in Q3



CBRE Econometric Advisors,
CB Richard Ellis
Fall 2009

General Market vs. Surveyed Vacancy Rates

Vacancy Rate





Attitudes | CB Richard Ellis Study

Commitment

While encouraging compared to earlier surveys, most tenants **pay more rent** for green buildings independent of their survey response

Higher Rent for Green Space

CBRE Econometrics

Rent Per Square Foot





Recent Developments

① SEC Regulations

Published interpretive guidance advising public companies and foreign private issuers that may result in an increase in the amount and scope of climate change disclosure contained in SEC filings

② Bank of America Shareholder Resolution

Trillium Asset Management requests a report describing the implementation of its policy barring funding of companies engaged in mountain top removal

③ Fifth Third Bancorp Shareholder Resolution

Unitarian Universalist Association of Congregations requests a sustainability report describing strategies to address the environmental and social impacts of Fifth Third Bancorp's business, including strategies to address climate change



Value of High Performance "Green" Real Estate

James Finlay

VP, Appraisal Manager

(213) 614-4850

James.F.Finlay@WellsFargo.com

I'm LinkedIn

**WELLS
FARGO**

Together we'll go far





Environmental Commitment

- **July 2005: announces 10-point environmental commitment**
- **Environmental Initiative Team**
 - My role: appraisal management, risk trending
- **More than \$3.25 billion for LEED designed projects**



Market Value of High Performance Commercial Real Estate

- **Is it worth more?**
 - Consider same things as other property
 - Income, vacancy, expenses, risk
- **How much more?**
 - Discounted cash flow, a perfect model
 - *The Green 14*



Is there a special discount loan program for high performance?

- **Not really, but...**
 - Best rates and fees are to:
 - High quality borrowers
 - With strong credit
 - RE is well located, designed, cashflow



Managing the appraisal process, reviewing the report

- **Appraiser – local, competent, open**
- **I interview the “champion” and assist**
- **Review + value of atypical items, incentives, on-site power (solar PV)**



Risk and Market Changes

- **Must measure to manage (and value)**
- ***Resource Appraisal Report* is needed**
Energy, Water, Waste
- **Due diligence, disclosure**
- **Carbon price risk**
- **Major new financing option –**
PACE property tax lien AB 811



Links, more info...

1. **Environmental.Affairs@WellsFargo.com**
<http://Blog.WellsFargo/Environment> (live March 15)
2. **GreenBuildingFC.com**
Underwriting Sustainable Property, by Scott Muldavin.
Exhaustive resource, bibliography, free
3. **PACENow.com** – on-bill financing, green jobs, growing very rapidly
4. **US Green Building Council National** – *Commercial RE Newsletter*
5. **US Green Building Council, LA Chapter**, *Commercial RE & Finance subcommittee*



David Hodgins (MBA / MRED / LEED AP)

**Project Development Manager
Commercial Section
Clinton Climate Initiative**

**(857) 277 - 4291
dhodgins@clintonfoundation.org**



CLINTON
CLIMATE
INITIATIVE



Strategic Considerations

How are we positioned?

- **Near-term...**
 - Cost Control
 - Differentiation
- **Mid-term...**
 - Value Preservation
 - Competitive Advantage
- **Long-term...**
 - Asset Repositioning
 - Value Creation





Organizational Considerations

What matters to us?

- **Industry Leadership**
- **Tenant Satisfaction, Comfort, and Engagement**
- **Corporate Social Responsibility / “Impact Investment”**
- **Improved Operational Efficiencies and Staff Training**
- **Branding / Recruitment**



Articulate a Vision

Set Aspirational Goals

- **What does the Company want to accomplish?**
- ***"How much, by when?"***
 - % GHG emissions reduction in 1, 3, 5, 10, 25 years?
 - % Energy & Water Savings?
 - % Energy from Renewable Sources?
 - 3rd Party Certification?

Example: "Continuing in Company's role as an industry leader, our goal to drive implementation of retrofit projects that are holistic, scalable, strategic, and financially prudent throughout the portfolio, with a goal of attaining Energy Star Certification for the entire portfolio by 2020."



Define Clear (and Realistic) Investment Criteria

- Set aggressive but attainable initial criteria for financial and energy performance
- Work with the Project Team to scope the “best” possible project that meets these criteria

Example:

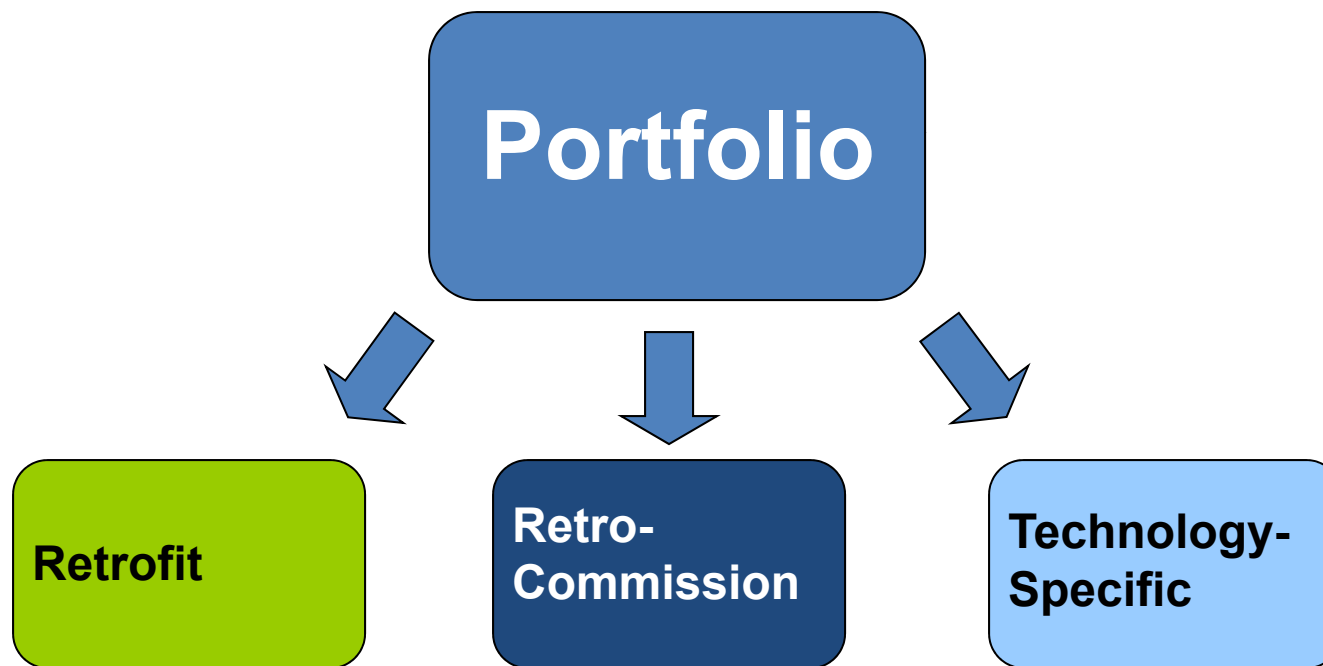
“Unless there are mitigating reasons to consider implementation of a certain measure, all measures must be projected and/or guaranteed to:

- Achieve minimum X% IRR (when considered together or separately)
- Be cash-flow positive in year X, factoring in all rebates, energy and operational savings
- Produce cost avoidance (“savings”) sufficient to cover or exceed debt service payments
- The entire project must have a blended simple payback of X years or less”



Triage the Portfolio

Select Pilot Sites, Move Strategically





Selecting a Project Team

That Can Deliver

- **What role can existing building staff play?**
- **What additional capacity does the Company want or need?**
- **Does it make sense to form strategic partnerships with energy services contractors?**
- **The Project Team should complement in-house resources and round out the required skill sets**



Best Practices

In Energy Efficiency Project Development

- **Take a holistic approach**
- **Time is Money**
- **Start with clear goals**
- **Consider lifecycle costs, O&M savings, value creation**
- **Thorough commissioning / retro-commissioning**
- **Invest in Measurement & Verification**