



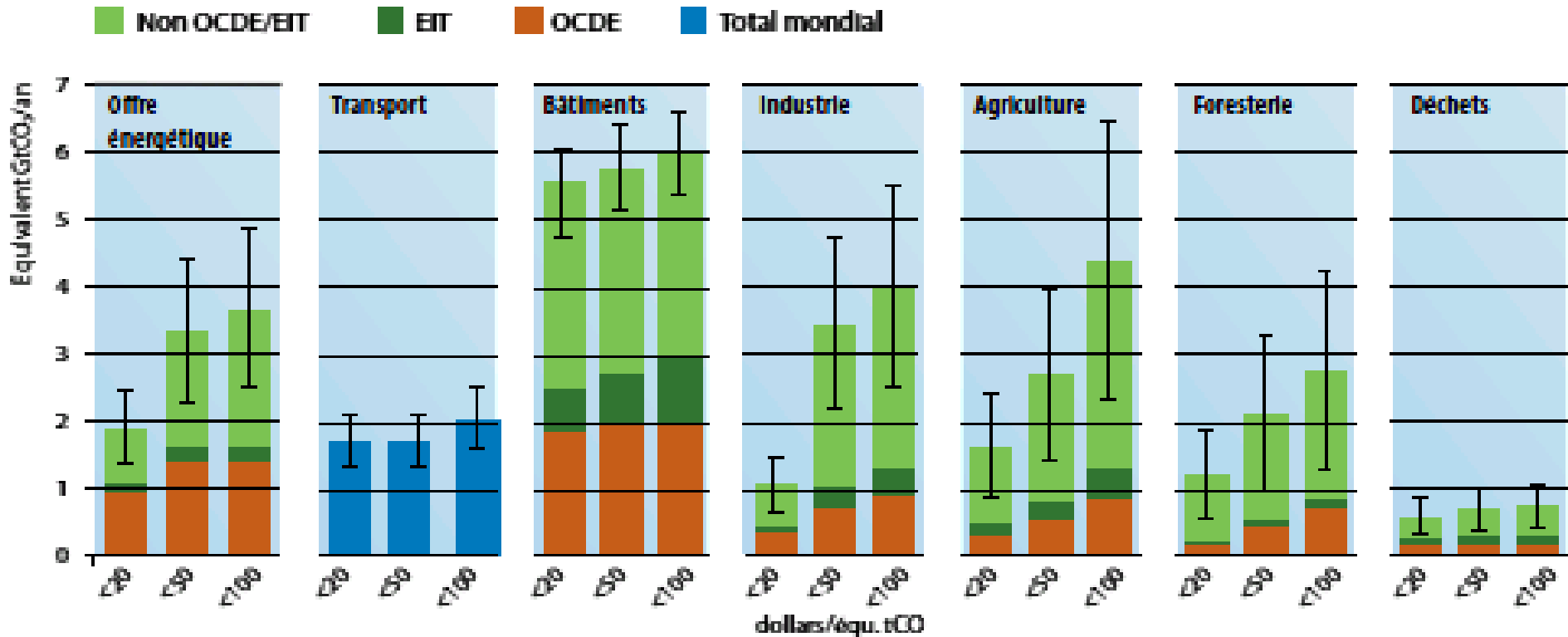
# Challenges for Responsible Property Investment

November, 7th 2014

---

# The strong call for action

Buildings: Tremenduous impact, low mitigation costs!



Potentiel sectoriel total à 100 dollars/équ. tCO<sub>2</sub> en équ. GtCO<sub>2</sub>/an :

2,4-4,7

1,6-2,5

5,3-6,7

2,5-5,5

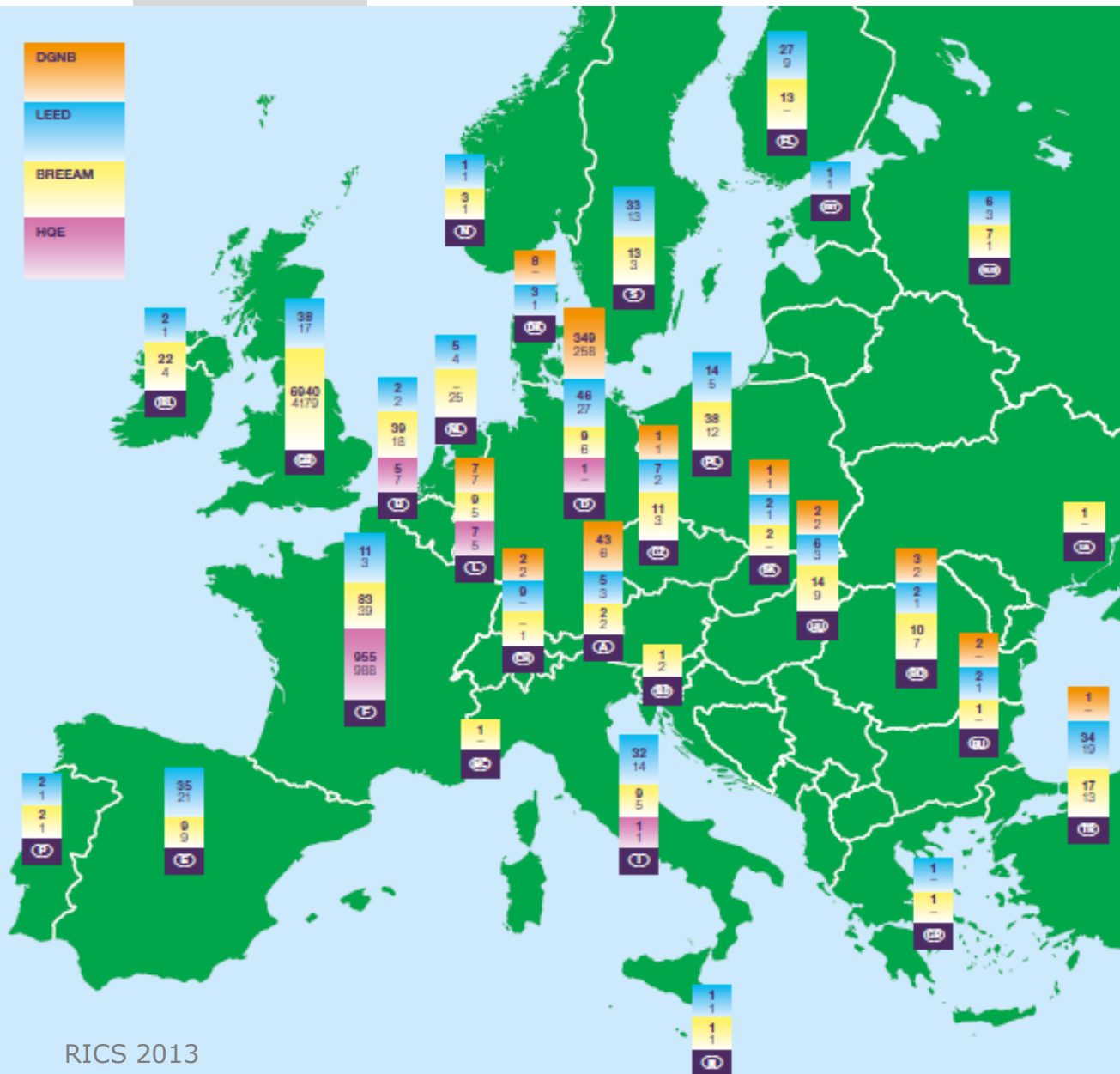
2,3-6,4

1,3-4,2

0,4-1,0

Green Economy report, UNEP, 2011

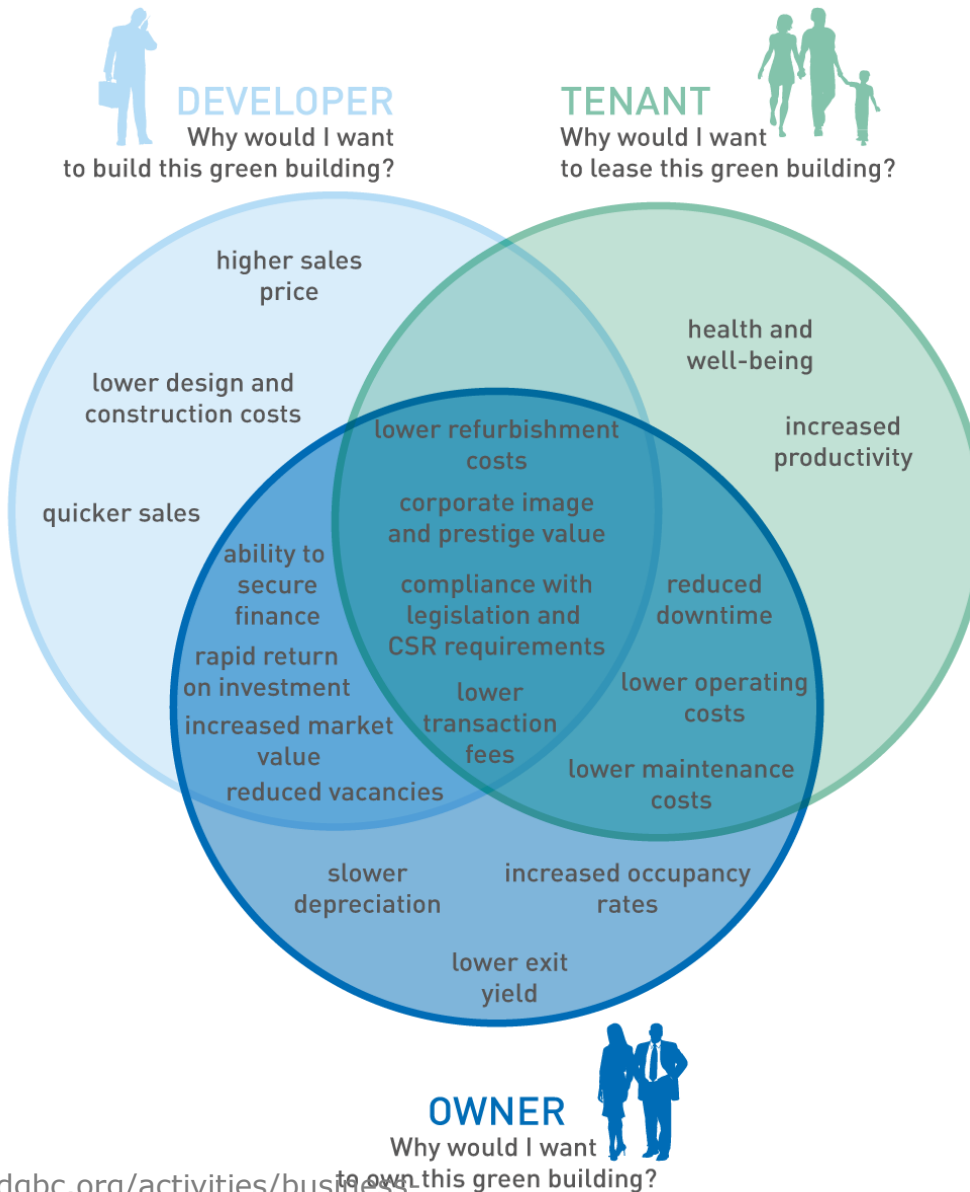
# Sustainable buildings trend



Green buildings are fastly becoming a standard for new and refurbshied buildings in the investment market

France: 95% of first hand transactions in the greater Paris region concerns certified buildings!

# A compelling business case



Responsible real estate is:

⇒ a risk management practice to protect the long term value of buildings

⇒ an opportunity to create value

Changing finance, financing change



UNEP **Finance Initiative**

## UNEP FI Property Working Group

**UNEP FI is a global partnership between UNEP and the financial sector.** Over 200 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance.

The Property Working Group (PWG) analyses the role of financial institutions in promoting sustainable development in the real estate and property finance sectors.



# ENERGY EFFICIENCY

**Significant long-term results: Energy efficiency measures can pay back quickly, depreciate slowly and deliver returns for decades:**

**30%**

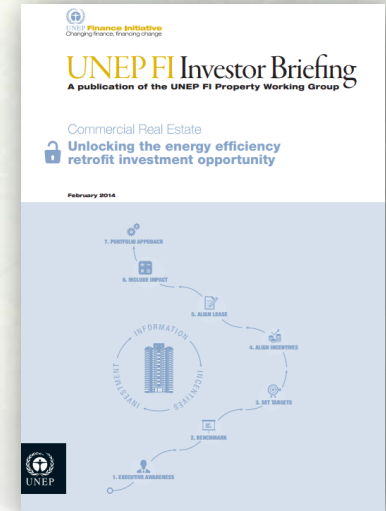
improvement in building efficiency has 28.6% 10-year IRR - US

**30%**

energy savings opportunity from buildings 1930s-1990s - France<sup>1</sup>

**17%**

energy savings from a sample of post-retrofit buildings – Singapore<sup>2</sup>



# UNLOCKING ENERGY EFFICIENCY INVESTMENT OPPORTUNITIES



**A seven-step approach can effectively increase the supply of financeable energy retrofit projects.**



Ensure executive awareness of the business case



Measure and benchmark building energy performance



Set portfolio energy efficiency targets



Link asset manager compensation to energy performance



Align lease clauses to enable retrofits (green leases)



Include impact on asset value in investment analysis



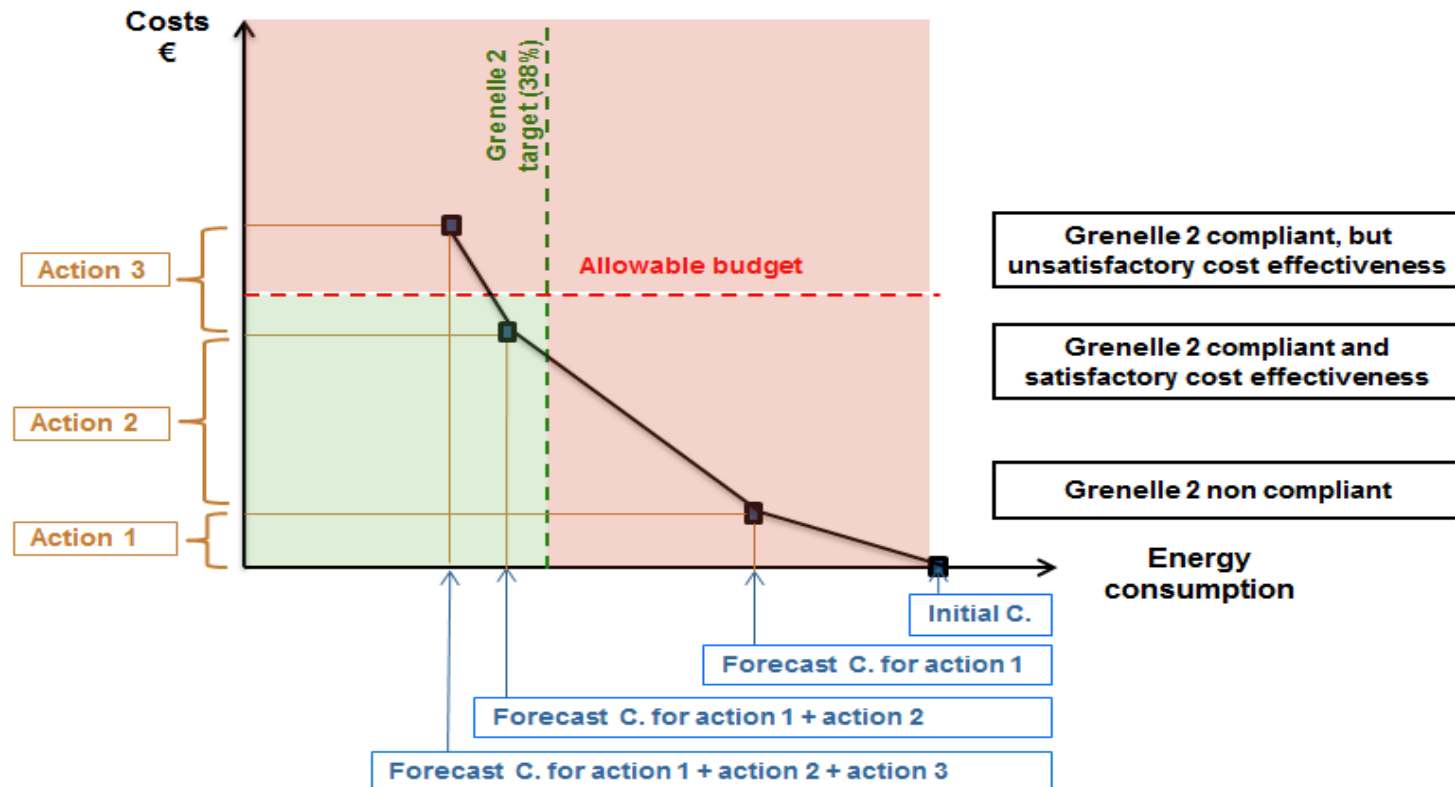
Take a portfolio approach to determine next steps



# A case study: CDC

## Planning an energy efficiency strategy at portfolio scale

1. Analysing energy performance by consumption unit
2. Planning energy retrofits accounting for tenants occupancy and refurbishment cycles.
3. Monitor the implementation of the actions plan





# A case study: CDC

## Main conclusions:

- The total refurbishment cost appeared as mostly covered by the traditional budgets for major repairs and maintenance.
- Financial needs are not set by efficiency goals but by the speed of refurbishment according to the remaining lifespan and occupancy.

Portfolio	Time frame	Refurbishment costs (€/m <sup>2</sup> )	Cost efficiency (€/kWh <sub>f</sub> )	Refurbishment cost to asset value (%)	Primary energy reduction target (%)
Commercial	2020	173	1.34	4.0%	39%
Residential 1	2020	100	1.07	2.1%	36%
Residential 2	2030	288	3.06	4.1%	32%

# THE INDUSTRY ENGAGING WITH POLICY MAKERS: EEFIG



In late 2013, the Energy Efficiency Financial Institutions Group (“EEFIG”) was jointly convened by the European Commission and the United Nations Environment Programme Finance Initiative (“UNEP FI”) to bring together their experience to address the need to increase the scale of energy efficiency investments across the EU.

- Allianz Real Estate
- ASN Bank
- Bank Nederlandse Gemeenten (BNG)
- BNP Paribas Investment Partners
- Buildings Performance Institute Europe (BPIE)
- Caisse des Dépôts
- Cassa Depositi e Prestiti S.p.A.
- CDC Climat
- Cecodhas – Housing Europe
- Climate Strategy and Partners
- Deutsche Bank Group
- E3G
- European Commission
- EBRD
- EIB
- Energy Managers Association
- EuroACE
- EUROBANK ERGASIAS SA
- European Association of Public Banks (EAPB)
- Hermes Real Estate
- Institutional Investors Group on Climate Change (IIGCC)
- ING Commercial Banking
- KfW Bankengruppe
- Netherlands Enterprise Agency (RVO.nl)
- Royal Institution of Chartered Surveyors (RICS)
- Société Générale
- Triodos Bank
- UniCredit Group



# EEFIG RECOMMENDATIONS TO POLICY MAKERS

- 1** The full benefits of energy efficient refurbishments of buildings must be captured and well-articulated, with evidence, and as a priority, to key financial decision makers (public authorities, buildings owners and managers and for householders).
- 2** Processes and Standards for Energy Performance Certificates, Energy Codes and their Enforcement need to be strengthened and improved.
- 3** Making it easy to get the right data to the right decision makers.
- 4** Standards should be developed for each element in the energy efficiency investment process.
- 5** Priority and appropriate use of EU Structural and Investment Funds (“ESIF”) and ETS revenues through public-private financial instruments from 2014-2020 will boost investment volumes and help accelerate the engagement of private sector finance through scaled risk-sharing.

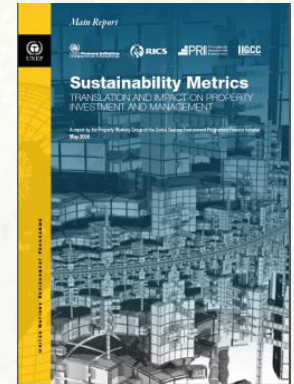




# YOU CAN'T MANAGE WHAT YOU DON'T MEASURE

A survey of property investors and managers revealed that

**A relatively sound understanding of sustainability exists** in relation to single buildings and investment vehicles. The information/data on many performance aspects are already being gathered by leading organizations **but the respective data are not yet systematically captured and processed:**



**81%**

have some form of “sustainability check” in place

**16%**

is able to use the information for sustainability reporting functions

**58%**

do not have any form of internal management system in place



## CORPORATE REAL ESTATE SUSTAINABILITY MANAGEMENT (CRESM)

The implementation of CRESM requires a holistic approach across the whole organization. The successful management and integration of sustainability risks and opportunities into business routines and decision-making processes depends upon an approach to information/data at all corporate levels.

“ *Collect, organize, aggregate and interpret valuable (but often underrated) data/information so that it can be integrated into core business and decision-making processes. This will significantly support more responsible property investment and management practices and help organisations protect the value of their assets and comply with their fiduciary duties.* ”

---

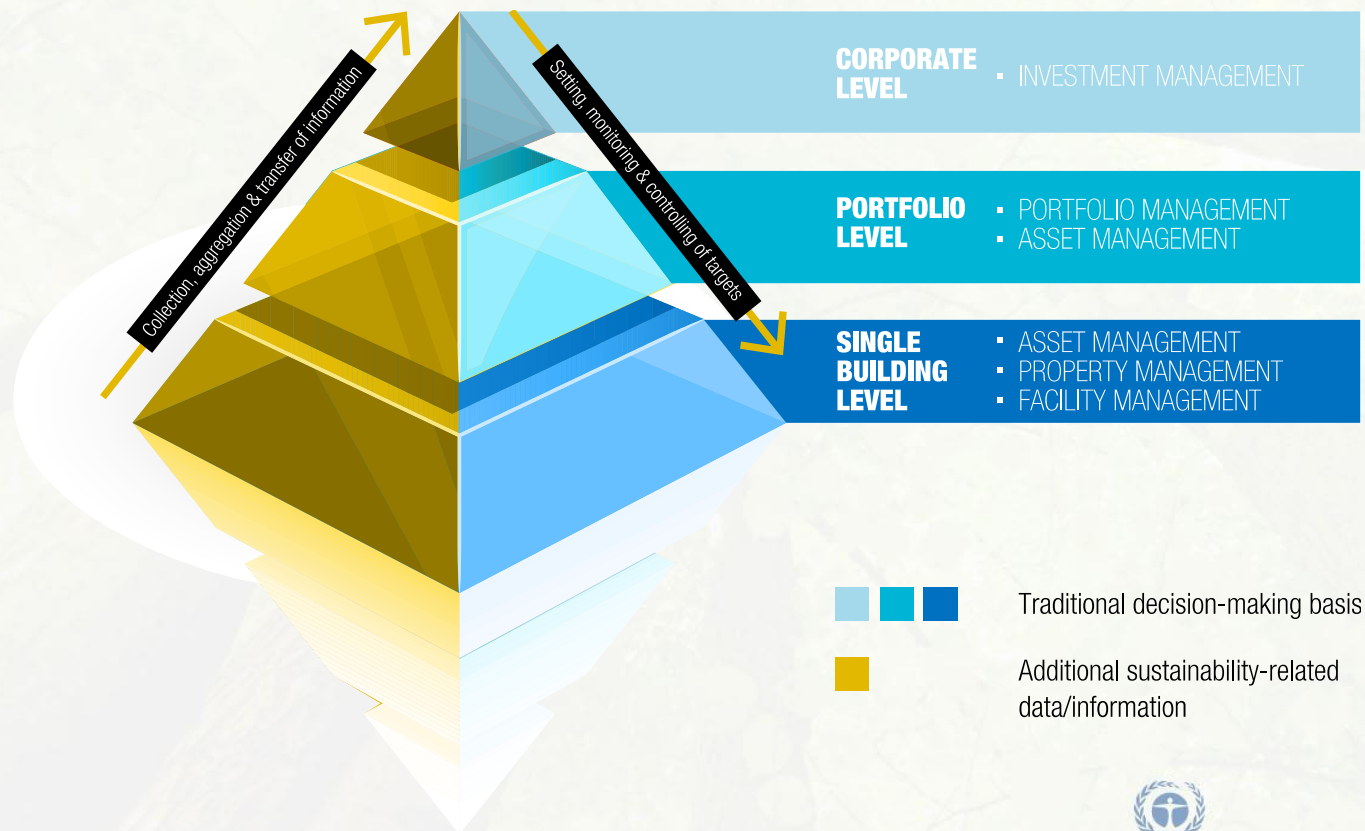
**Tatiana Bosteels**

Head, Responsible Property Investment  
Hermes Real Estate  
Co-Chair  
UNEP FI Property Working Group

**Frank Hovorka**

Responsible Property Director  
Caisse des Dépôts et Consignations  
Co-Chair  
UNEP FI Property Working Group

# SUSTAINABILITY METRICS: FROM THE BOILER ROOM TO THE BOARD ROOM



# Translation into financial ratios

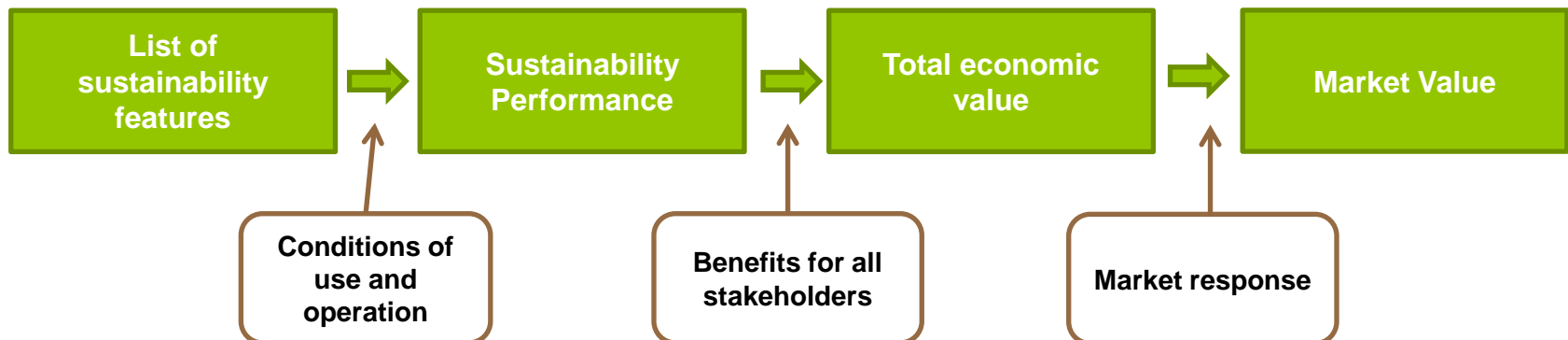
SBA research project on “Sustainability Thresholds generating value”

It is all about:

data collection

uncertainty management

translation mechanisms through the market response !



# Case study: Sustainable refurbishment in Paris CBD

Three scenarios were compared:

(BAU) No refurbishment; (RT) Conventional refurbishment ; (HQE) Green refurbishment (actual feedbacks)

The main benefit from green refurbishment lies in its **impact on long term value**.

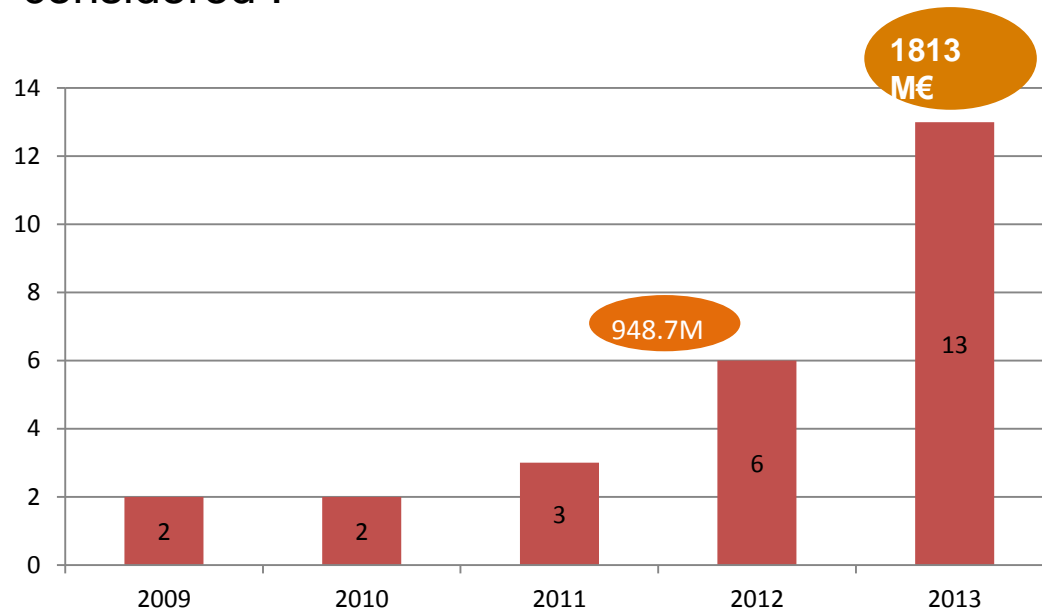
Whether on a pessimistic (depreciation of poor performing building) or on an optimistic scenario (premiums for the environmental-friendly building), green retrofit should not be only analysed through conventional paybacks period but considerations on **their impact on the possible evolutions of assets value**.

	BAU	RT	HQE
Investment (€)	0	13 000 000	18 300 000
Annual rental revenue (full occupancy) (€)	4 288 611	5 685 730	6 054 200
Annual Rental growth rate (%)	1.50%	1.60%	1.70%
Discount rate (%)	7.75%	6.80%	6.70%
Vacancy period between leases (months)	12	10	9
Maintenance and operation costs (including vacancy) (€)	124 257	91 855	76 310
DCF t=0 calculation (accounting for investment costs) (€)	52 748 917	82 191 774	88 243 576
Asset value t=1(€)	52 748 917	89 926 650	100 377 224



# Beyond environmental issues...

7% of French real estate assets under management are managed according to a SRI approach, with environmental, social and governance simultaneously and systematically considered :



(Novethic 2014)

What tools ?

ESG matrices to select AND monitor buildings

ESG clauses with contractors (ex: Responsible Services Code)

Measurement of integration into neighborhood



# Thank You!

**Contact :** [yona.kamelgarn@novethic.fr](mailto:yona.kamelgarn@novethic.fr)

**Link to download the UNEP FI PWG publications**

[www.unepfi.org/publications/property](http://www.unepfi.org/publications/property)

**UNEP FI Property Working Group** [Elodie.feller@unep.org](mailto:Elodie.feller@unep.org)

**Link to download Novethic publications:**

<http://www.novethic.com>