

Commercial and Financial Implications of the Green Agenda - Why Green Matters

27 September 2011, London

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Environmental Performance Analysis for Property

K&L Gates
27th September
2011
London

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Understanding the implications of sustainability is a fiduciary duty

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Setting aside the risk of unanticipated Government regulation.....

Factor	Investment Implications	Underlying effects
Tenants prefer green buildings	<ul style="list-style-type: none">Rental differentials emerge between green and non-green buildingsGreen assets quicker to re-let	<ul style="list-style-type: none">Rental growth higher, depreciation lowerShorter interruptions to cash-flow, lower risk premium
Green buildings are cheaper to run	More money available for rent	Rental growth higher
Other investors prefer 'green' buildings	Green properties quicker to transact	Greater liquidity, lower opportunity cost and risk premium

- Green assets likely to have lower yields, higher values over time
- As differences in value emerge, green assets should outperform

“OK...So, what do we (and our clients) need to know?”

- “How is my property/portfolio performing environmentally?” / “Are we doing well?”;
- “How is my property/portfolio performing environmentally compared to those of others?” / “Are we doing as well as others?”;
- “How much improvement is there in the environmental performance of my property/portfolio?” / “Are we getting better”; and
- “How much improvement is there in the environmental performance of my property/portfolio compared to that in others?”/ “are we getting better faster or slower than others?”.

OK, what data do I need and where can I get them from?

- Need data on those environmental characteristics likely to impact asset value and performance
- Need data on all the assets in my whole portfolio but....
-there is no existing source for such data.
- Most metrics relate to (largely green) sub-sets of individual assets; mostly newly constructed or refurbished.
- Even if I could collect all the data on my fund, what benchmark can I use?



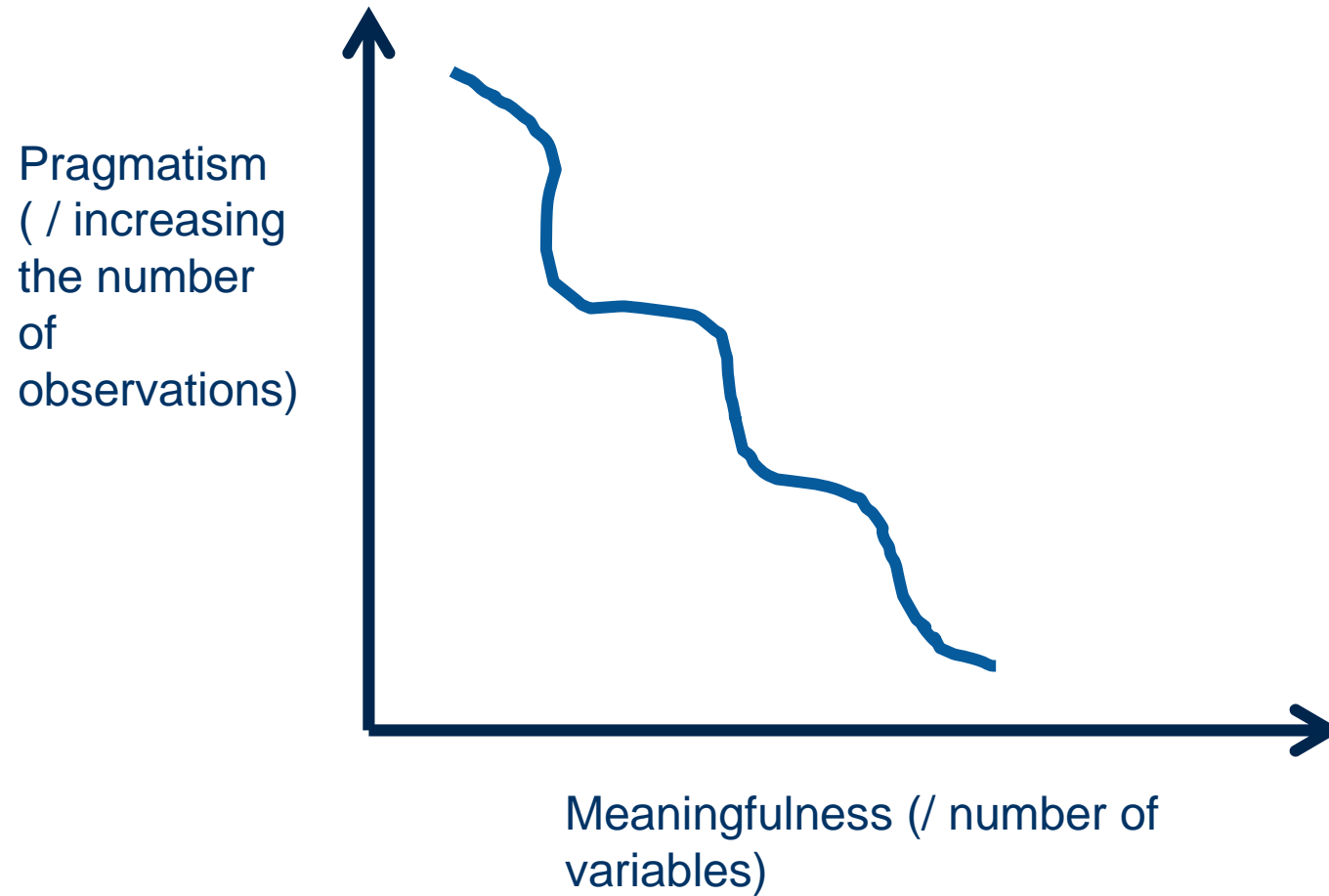
Whole portfolio measurement

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- Until recently, investors and fund managers had no means to assess the absolute or relative environmental performance of whole funds
- The data needs for labelling new developments are too onerous to use for all properties in a fund
- **Global Real Estate Sustainability Benchmark (GRESB)** has asked for data at aggregate fund level – to identify ‘walkers and talkers’
 - operates at fund aggregate level not at property asset level
 - Unlikely to be available for all funds
- Is there any scope to build such portfolio measures from a property level?
 - Could we repeat IPD’s success with property investment performance measurement - in property environmental performance measurement?

The navigation dilemma for short form metrics

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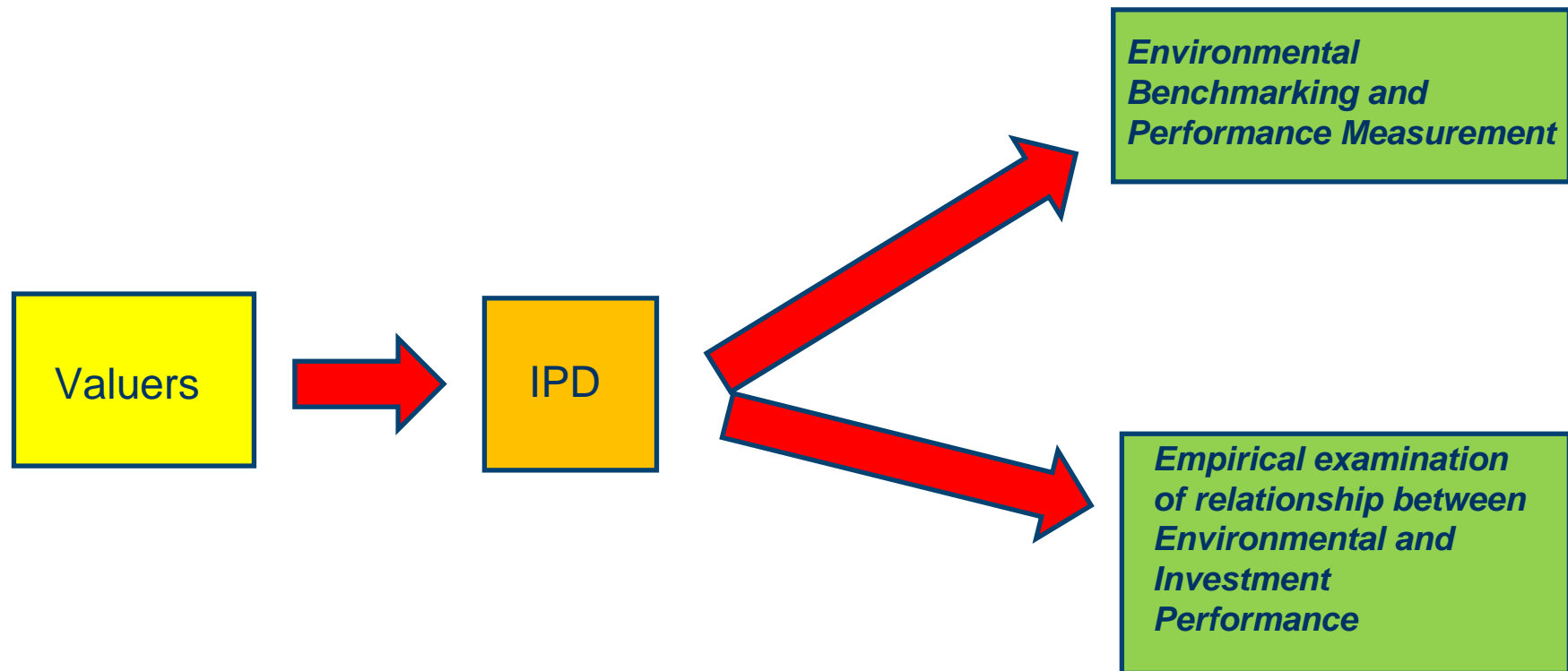


Interestingly, valuers have much the same problem brewing.....

- Increasing pressure to record the sustainability credentials of a subject asset and say something about their likely implications for value
 - But, valuers are not 'sustainability professionals'
 - Not easy for them to assemble environmental data on top of all the other data they collect
- They too will need to look for key, proxy, short form variables that are quick and easy to collect and report

An idea with potential?

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Automatic collection of short form data for whole portfolios – through the IPD process?

Conclusion: Towards environmental performance benchmarking

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- There is a need for investors and fund managers to know how they stand (in absolute and relative terms) against competitors with respect to current environmental performance and how that is changing over time
 - (..because this could provide information on a burgeoning dimension of investment performance)
- There is (therefore) a need for short-form metrics that optimise pragmatism and meaningfulness
 - These metrics should be focussed on those variables most likely to have a financial implication
- There is a need for an industry-wide response to this
 - The interest is 'relative' as much as 'absolute'

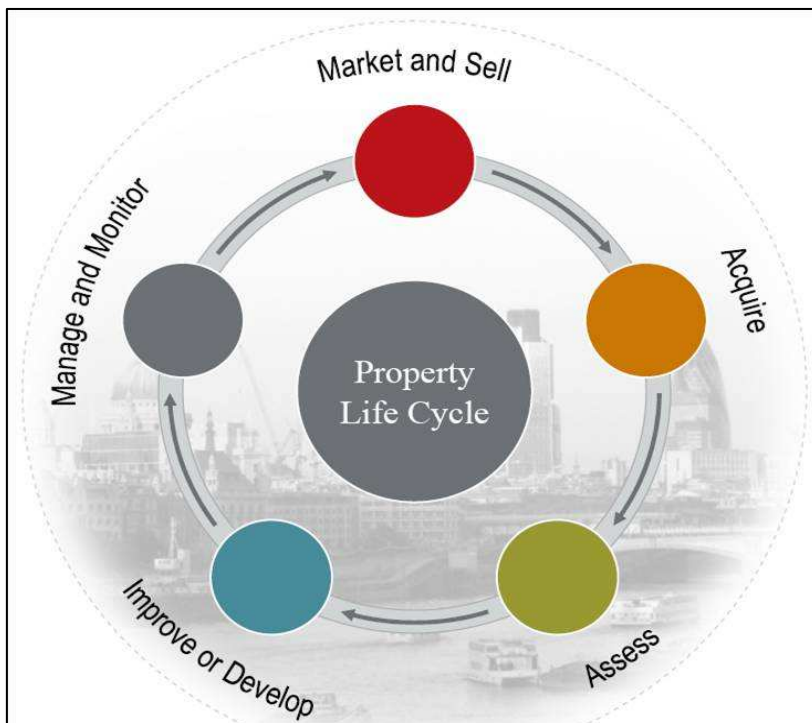
Responsible Property Investment at Henderson

Jenny Pidgeon – Director, Responsible
Property Investment

Henderson Global Investors



Responsible Property Investment at Henderson



Property Investment and Asset Management

- Obsolescence and depreciation
- Occupier demand
- Rental growth
- Operating costs
- Voids
- Sustainability and valuation
- Acquisition assessments

Development and Refurbishment

- Responsible procurement
- Community consultation
- Fit-out guidance
- Future-proofed design
- Technology – IT and renewables
- Access and transport
- Retrofitting
- Passive design

Property Management

- Utilities consumption
- Waste management
- Occupier engagement
- Performance monitoring
- Supplier management
- Green cleaning
- Community engagement

Energy

Water

Waste

Climate change

Resource use

Investors – ESG

Occupier demand

Legislation & tax

Biodiversity

Social

- Wellbeing

- Productivity

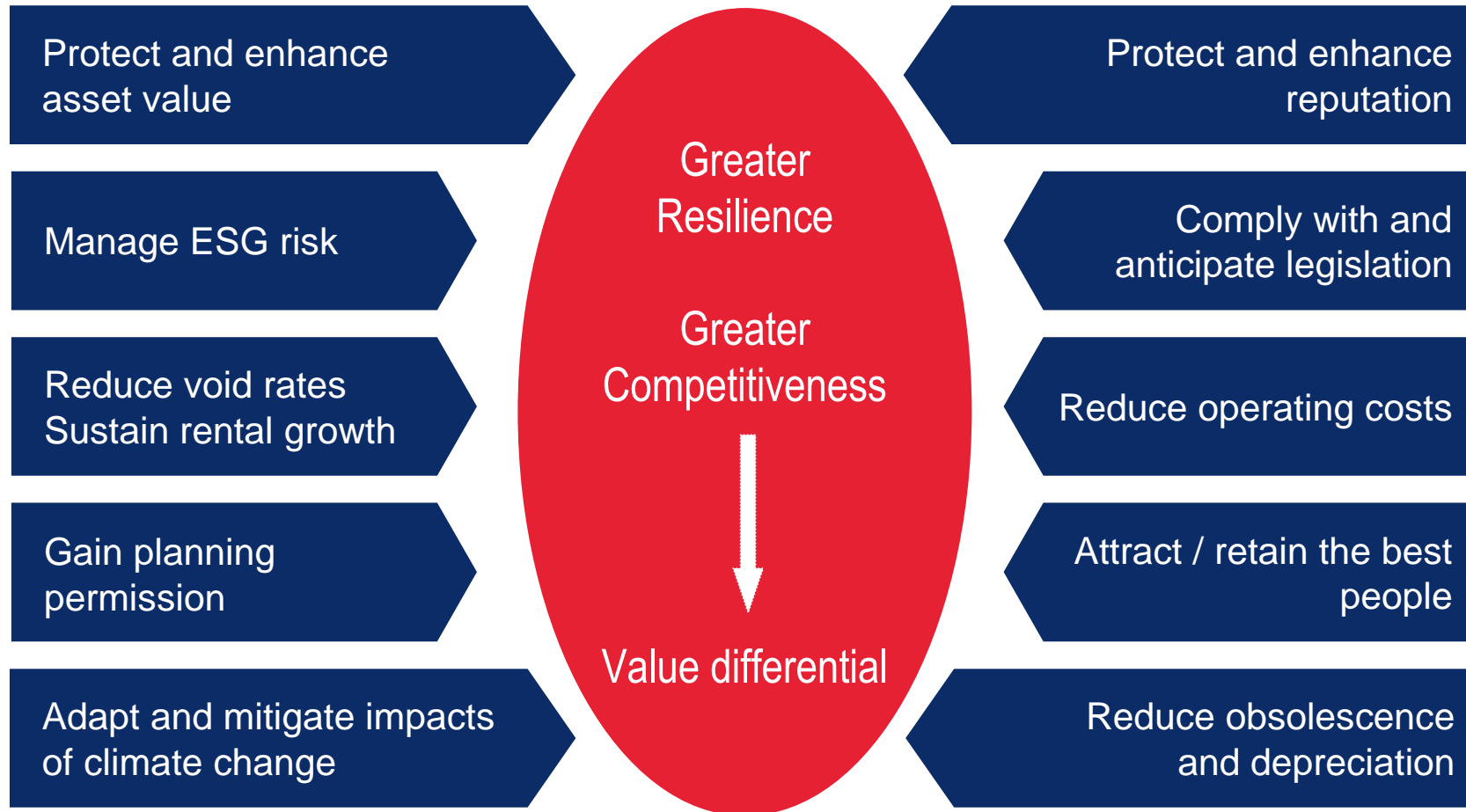
- Community

Risk Management

Opportunity Identification



Why RPI is Important



Responsible Property Management

- RPM Requirements for our Managing Agents
 - Energy
 - Water
 - Waste
 - Occupiers
 - Reporting
- Quarterly progress review
- Annual benchmarking
JLL, BBP, GRESB, Greenprint
- Case studies
- Managing Agents Forum



Responsible Property Management
Requirements for Managing Agents



Henderson's Responsible Property Investment strategy

Henderson established a Responsible Property Investment (RPI) strategy in 2008, seeking to manage our environmental and social impacts, risks and opportunities throughout the property cycle of acquisition, management and development. We believe that it is our responsibility as a real estate business to use natural resources as efficiently as possible, reduce our carbon footprint and respect and engage with the communities in which we operate.

Our managing agents are required to comply with our RPI policy and take part in our Responsible Property Management programme – improving energy, water, waste and responsible management practices across our portfolio. We set annual targets and require our managing agents to regularly monitor and update us on performance to enable us to benchmark and report progress against our targets and objectives.

Our managing agents' cooperation and collaboration is essential if we are to fulfil our commitments as a responsible property investor. RPI is integral to Henderson's property investment approach and we expect all our property managers to meet the requirements set out in this document. The requirements will be reviewed and updated annually (or more frequently where necessary, for instance regarding compliance with the CRC Energy Efficiency Scheme).

Requirements for Managing Agents

Governance

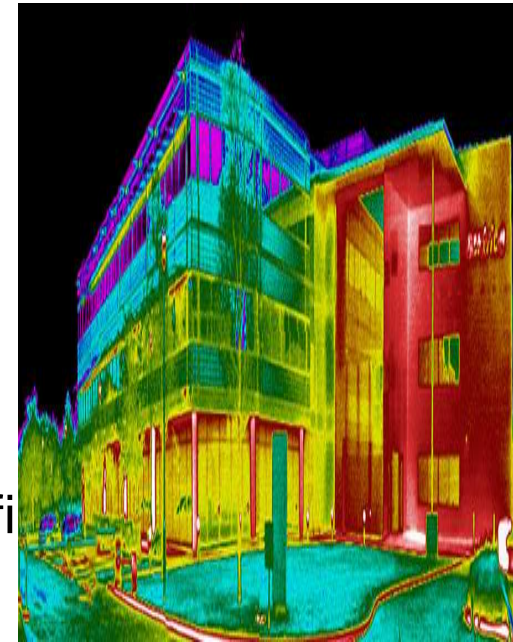
1. Nominate an individual at each managing agent organisation to be responsible for coordinating the delivery of Henderson's Responsible Property Management strategy and ensuring compliance with the requirements set out in this document. This responsibility should be incorporated into the individuals' job description.
2. Ensure that all staff working on the Henderson account, including regional teams and on-site property managers, are fully briefed on our policy, targets and requirements. Representatives from regional teams and key assets should attend at least one quarterly RPM meeting with our sustainability consultants each year.
3. Implement strategies and procedures to fulfil Henderson's requirements and strive to achieve continuous improvements in your environmental and social performance. Adhere to our policy and aim to achieve our targets by including sustainability measures in your asset business plans and strategies. Please note that our RPM programme goes beyond energy, water and waste to encompass transport, community engagement, occupier engagement, biodiversity, supply chain and procurement.

Energy¹ and Water Management

4. Take and record accurate meter readings on a regular basis for all landlord utility supplies at all Henderson properties where landlord supplies are in place. These should be monthly at closely managed properties and quarterly or half-yearly where there is no on-site management presence, and no estimations should be submitted. Data monitoring should cover the following:
 - Electricity
 - Gas
 - Other energy sources such as fuel (please record consumption in volume)
 - Water
5. Where energy supplies are non half hourly and are not yet equipped with Automatic Meter Reading (AMR) technology, arrange for AMR installation (where a provider is already retained) or undertake a tender exercise for installation as soon as possible, and no later than the end of 2010.
6. Ensure in respect of all properties where the landlord procures utilities on behalf of the tenants and recovers the cost, that the tenants' consumption is sub-metered. Where such tenant consumption is currently not accurately measurable, meters should be installed as soon as is reasonably practicable.
7. Ensure all new or amended contracts with energy management companies/consultants specify the requirement for supplying regular metered consumption records in kilowatt hours.
8. In addition to pursuing energy efficiency and on-site renewable opportunities at all properties, maximise the proportion of energy classified as 'Climate Change Levy Exempt' in all new and amended energy procurement contracts as far as possible.
9. Where compliance under the CRC Energy Efficiency Scheme is required, collect and provide all requested information to Henderson, our Joint Venture partners, Trustees and sustainability consultants.
10. We recognise that water presents more challenges than energy when it comes to accurately monitoring consumption. Please strive to improve the quality and robustness of your performance monitoring in this area, reducing the number of estimated readings and requesting that water companies install new meters at high-consuming assets where current equipment is inaccessible.

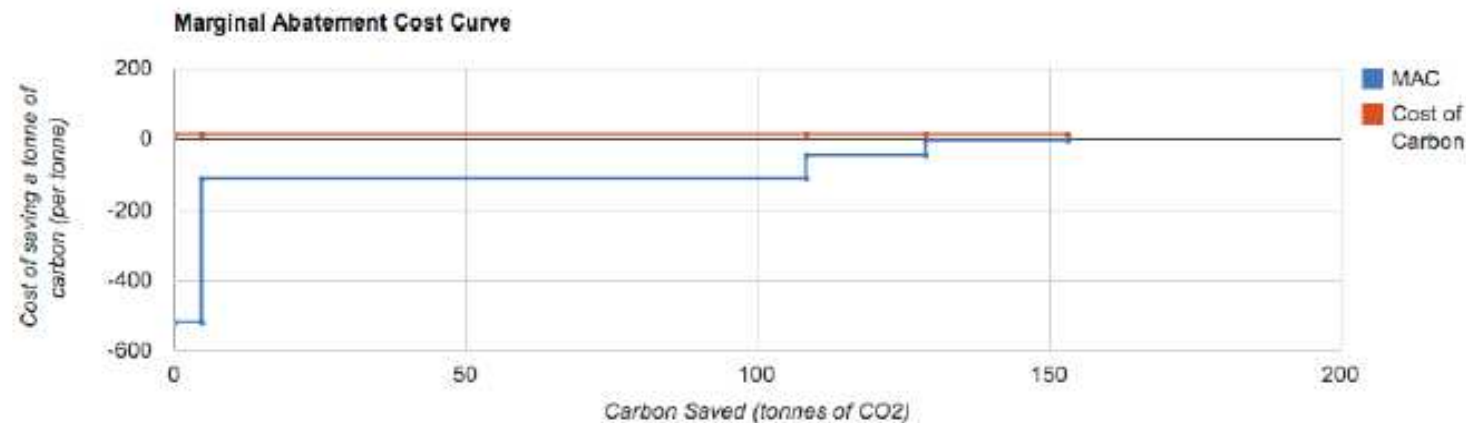
Achievements to date

- CO₂e emissions reduced > 13% since 2008
- £497,000 saved on energy costs
- Water consumption reduced > 7% since 2008
- 25% reduction in waste sent directly to landfill
- £218,000 saved in avoided landfill tax
- 570 hours of staff time spent on community engagement
- 12,300 m² rent free space for charity, community, fund raising events



The challenges of going further...

- Landlord / Tenant – split incentives
- Return on investment
- Fund liquidity



Reduction Program	Cost of saving a tonne of carbon (£ per tonne)	Carbon Saved (tonne CO2)
Install energy efficient hand dryers	-520.96	4.69
Review BMS systems	-112.62	108.29
More efficient lighting + lighting control	-46.51	128.66
Install Voltage Optimisation	-4.72	153.16

... and going beyond good building management

- How to articulate, quantify and assess mid to long term sustainability risks
- Pre-acquisition property appraisals – what and when?
- Flood risk – the 2013 watershed?
- Green leases and working together with occupiers
- FRI properties – the elephant in the room?
- Government policy and commitment – where will it go next?
- Oil and commodity prices – resource scarcity

GMO

QUARTERLY LETTER

April 2011

Time to Wake Up: Days of Abundant Resources and Falling Prices Are Over Forever

Jeremy Grantham



Legislation, Regulation and Legal Practice driving the Green Agenda

Sebastian Charles
K&L Gates LLP

www.klgates.com

Legislation/Regulation

1. KYOTO
2. CRC
3. FiT/RHI
4. Building regulations/code for sustainable homes
5. Planning : National/Regional/Local

Legal Practice

1. Green Leases
2. Due diligence/disputes
3. LEED/BREEAM

KYOTO – Climate Change Act 2008

22% reduction* by **2013**

28% reduction by **2018**

34% reduction by **2023**

50% reduction by **2027**

80% reduction by **2050**

* from August 1990 base line



CRC

You've all registered?

Problems with implementation for off shore and/or trust structures used by real estate funds

“Carrot” removed – no recycling payments

Changes – Re-register using fund as an entity

Will league tables now mean something?

Escalating carbon tax a simpler and quicker solution than CCL/CRC?



FiT/RHI

Feed-in tariffs:

Now: PV/Wind/Hydro/AD
Large scale solar missed the boat (it left early)
Review in 2013

Renewable Heat Incentive:

Now for non domestic
From 2012 for domestic
Biomass/gas, EfW, geothermal,
heat pumps, solar thermal
Review 2014



Building Regulations/Code for Sustainable Homes

Part L	28% energy efficiency	2010
	44% energy efficiency	2013
	Pathway to zero carbon	2016
	Schools zero carbon	2016
	Public buildings zero carbon	2018
	All buildings zero carbon	2019

"Affordable Solutions" - ie zero carbon defined in 2016



National Planning

Draft National Planning Policy Framework:

“Presumption in favour of sustainable development”

No definition but consider:

- Sustainable locations
- “Bolt on” sustainability measures
- Economic development and sustainable communities

CIL - Green infrastructure



Regional Planning

Intention to abolish regional strategies is a material consideration

London Plan: saved, latest version July 2011

60% reduction in carbon emissions by 2025

Residential : CSH level 4, 2016 zero carbon

Commercial : 2013 40% reduction, 2019 zero carbon

Sustainable design standards including retrofit

Flood risk and SUDS

Infrastructure, water use, waste



Local Planning

State of flux due to localism and NPPF uncertainty

Range of responses to green issues (some predictable front runners)

Tools:

travel plans	energy and resources
CHP/district heating	BREEAM/LEED/CSH
SUDS	low/zero carbon
green/local supply chain	

Variable requirements for greenfield/brownfield sites

Viability testing

Legal Practice

1. Green leases: light/medium green
2. Due diligence/disputes
 - CRC compliance/strategies
 - Recent works/disputes relating to green tech
 - Planning compliance
 - Real Estate and M&A transactions

3. LEED/BREEAM



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