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**RESPONSIBLE
PROPERTY
INVESTING CENTER**

Responsible Property Investing: an Overview

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Counselors of Real Estate

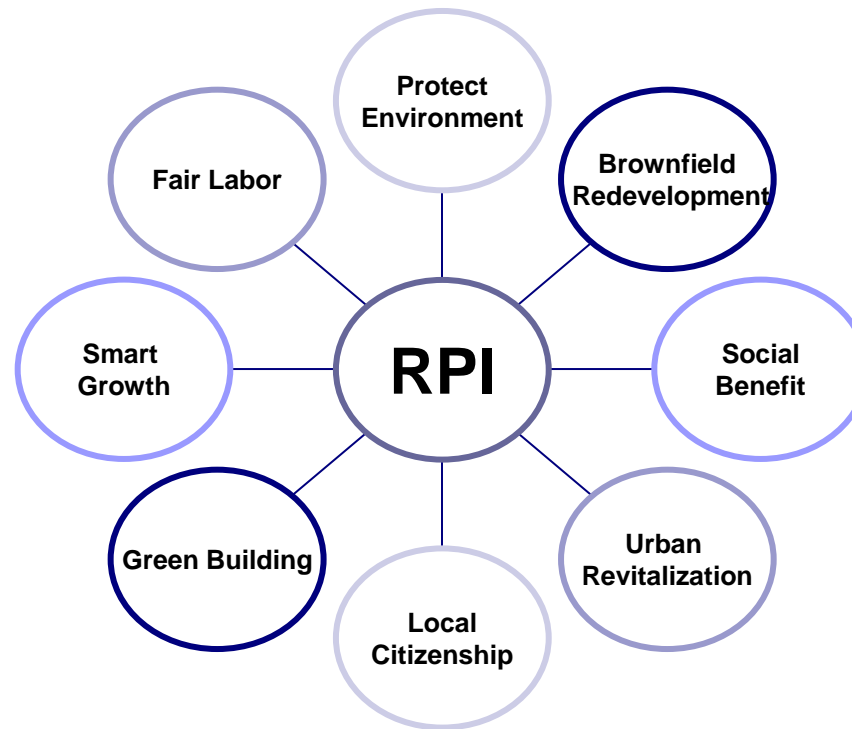
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What is RPI?

Finding and Creating value through the economic, social, and environmental profile of real estate investments



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Why is RPI useful? The Business Case

- Take advantage of opportunities and mitigate against risks associated with:
 - New demographic patterns
 - Changing consumer demand
 - **Dynamic energy prices**
 - Entitlement
 - **New regulations**



RPI and Returns: Risk and Opportunity

Reduced Operating Costs

- Identification of underutilized assets
- Density bonuses
- Streamlined entitlement
- Investor relationships
- Partnerships, grants, and subsidies
- Long-term value proposition



Investment Market Drivers

- UN Principles for Responsible Investment (\$15 Trillion in Assets)
- SRI in US (\$2.7 Trillion in Assets)
- Carbon Disclosure Project, Investor Network on Climate Risk
- Mission-Related Investing/Emerging Domestic Markets
- Mainstreaming of Sustainability
- Public Policy

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What do Real Estate Professionals Think?

- Delphi Survey
- Rated Characteristics for Materiality and Social Benefit

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RPI Metrics: 4.0-5.0, 3.0-4.0, 2.0-3.0

- **More Walkable, Less Auto Dependent Places**
 - **Transit, Central, Dense Mixed Use and Walkable**, Carpooling, Bike Trails and Facilities
- **Energy Conservation**
 - **Energy Efficiency, Daylight and Ventilation**, Renewables, Local Sources
- **Worker Well Being**
 - Parks & Open Space, Sense of Community & Place, Childcare, Handicapped Accessible, Amenities for Parents
- **Urban Revitalization and Reuse**
 - **Urban Revitalization, Flexibility**, Suburban Redevelopment, Brownfield, Not farmland



Delphi Results

- Highest Rated for Value:
 - Walkable
 - Mixed-Use
 - Transit-Oriented
 - Energy Efficient

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What RE Executives Think

	Not Invested	Planned or Under Consideration	Invested
	%	%	%
Brownfields	52.4%	17.0%	30.6%
Green Bldgs	35.1%	32.4%	32.4%
TOD	31.8%	16.9%	51.4%
Infill or Revitalization	22.3%	15.5%	62.2%

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Private Equity Funds

- Multiple bottom lines for private equity:
 - Risk adjusted market rate financial returns
 - Economic and social returns for communities
 - Environmental performance
 - Over \$14 billion in assets



RPI Metrics: Economic Revitalization

Social goal: Support economic development for underserved areas and communities

Metrics for Performance:

- Geographic targeting
- Jobs
- Diversity
- Affordable and Workforce Housing Created
- Provision of needed goods and services
- Stakeholder Engagement

Business Case for Market-Rate Investments:

- opportunity for growth
- underutilized resources
- local knowledge
- upzoning potential
- public incentives
- investor relationships



RPI Metrics: Green Building

Environmental Goal: Energy efficiency, reduced emissions, improved building environment, reduced VMT

Environmental Metrics:

- Energy Efficiency
- Resource Use
- Transit-Orientation
- Brownfield Redevelopment
- Third Party Standards

Business Case:

- reduced operating cost
- reduced regulatory risk
- upzoning
- public incentives
- investor relationships



RPI Metrics – Conservation

Environmental Goal: Conserve Ecologically Valuable Land

Environmental Metrics:

- Land/Environmental Features Preserved
- Wetlands Restored
- Limited Development
- Third Party Identification of Value

Business Case – Multiple Revenue Streams:

- restoration and preservation banking,
- sustainable timber and agriculture
- limited development
- public incentives
- investor relationships



Measurement and the Triple Bottom Line

Outcomes Frequently Crosscut:

- Brownfield preserves greenfield, often LMI infill
- TOD can support workforce housing through upzoning, provide needed services through mixed-use
- Green benefits to underserved communities
- Infill/ historical preservation as environmental strategy

But!:

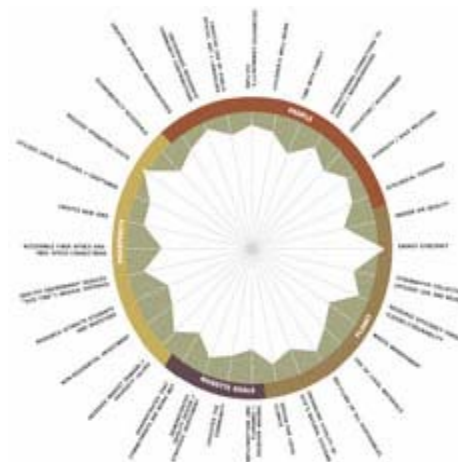
No guarantee that collateral benefits necessarily correspond.

Without measurement, no proof that collateral benefits are real.

Are metrics the answer? Yes, but...

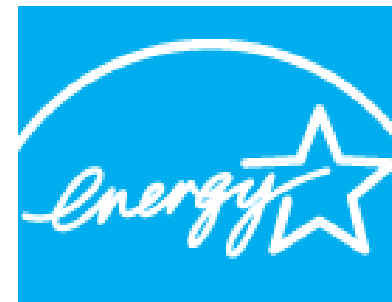
- Measurement is necessary but not sufficient
- No magic number to rate a building or portfolio
- Narrative will always be fundamental in real estate (it already is!)
- Internal metrics will differ from business case metrics will differ from mission-related metrics
- Can we make standard at least the categories?

■ The Noisette Wheel



Investment Returns from Responsible Property Investments: Energy Efficient, Transit Oriented and Urban Regeneration Office Properties in the US from 1998-2007

- Gary Pivo, University of Arizona and Boston College Responsible Property Investment Center
- Jeffrey D. Fisher, Indiana University Benecki Center for Real Estate Studies



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Questions

- Does the Energy Star Label pay?
- Does proximity to transit lines matter?
- Can an investor invest “responsibly” and also earn competitive returns?
- Do urban regeneration zones create value?



Hypothesis and Methods

■ Hypothesis

- Energy efficient properties, properties near transit, and properties in urban regeneration areas have performed as well or better than other properties without such characteristics

■ Methods

□ Portfolio Analysis

- Create portfolio of just RPI properties
- Calculate since inception return and standard deviation
- Compare to portfolio of non-RPI properties



Hypothesis and Methods

- Regression Analysis
 - Dependent variables (each as separate regression)
 - Total Return
 - Income Return
 - Capital Return
 - Market Value
 - NOI
 - Total Expenses
 - Utility Expenses
 - Occupancy



Regression Analysis

- Independent Variables (non-RPI)
 - Size (square feet)
 - Age
 - Region, Division or CBSA
 - Office starts (REIS) by CBSA
 - NCREIF Office Market Index
 - Employment Growth (Economy.com) by CBSA
 - CBD or Suburban (e.g. 1 if CBD)



■ Regression Analysis

□ Independent Variables (RPI)

- Energy star label (0 or 1)
- Near transit in the CBD (0 or 1)
- Near transit in the Suburb (0 or 1)
- Urban Regeneration Zone in CBD (0 or 1)
- Urban Regeneration Zone in the Suburb (0 or 1)

□ Data

- Energy Star Labels – US EPA
- Proximity to Transit – US BTS Natl. Transp. Atlas
- Regeneration – HUD RC/EZ/EC Zones



Conclusions: Energy Star, Urban Regeneration, TOD

- ❑ Investor returns for RPI properties in line with the market
- ❑ Special RPI portfolios may be possible
- ❑ There is no financial reason to expect a major shift toward RPI
- ❑ Since RPI can produce social and environmental benefits without diluting returns, it would be economically irrational and ethically unjustifiable to not engage in Responsible Property Investing



Future work from this study

- Add other properties – retail, residential
- Add other RPI variables – e.g., walkable mixed use locations, energy star rating
- Search for most cost-effective asset management practices – e.g., water conservation strategies
- Add CBSA congestion measure
- NCREIF RPI data task force



What do we know, really?

■ Research is in early stages:

- “Apples to Apples” comparisons are very difficult
- Sorting out sustainability from market trends remains difficult
- Changes in political, environmental, and social worlds complicate research
- New products (PE Funds) haven’t generated the information we need



Future Research Needs

- What do we need?
 - Definition of Terms
 - Metrics for Measurement
 - Case Studies of RPI in Practice
 - Research into RPI and RPI Returns
 - Academic studies thin on the ground
 - Demand from investors for analysis
 - Demand from all parties to know what's actually happening



Where is RPI going?

- Who has the time and resources?
- Is sustainability a passing fad?
- Does back to basics cover RPI?
- UNEP and others: Global Green New Deal
- Infrastructure investment and stimulus
- RPI as the mediator between public and private
- Long-term risk and opportunity analysis in a short term meltdown