

Sustainability and Property Value

Niall Enright

Director

Sustainability and Climate
Change

ERM

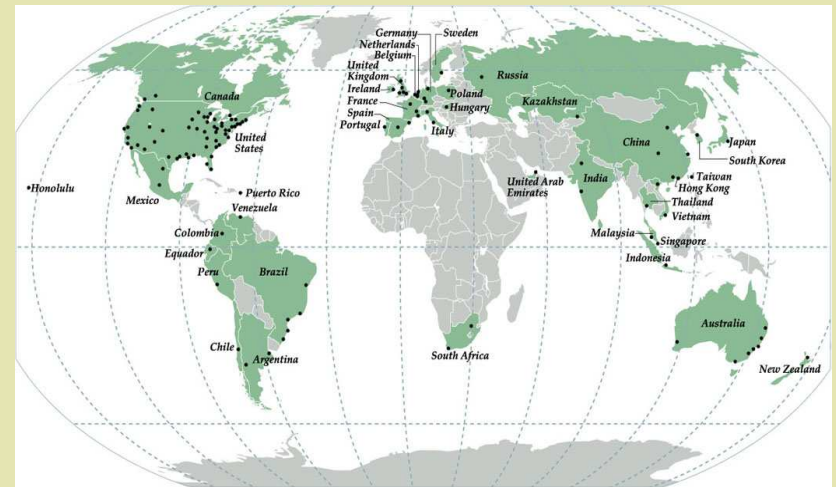


Delivering sustainable solutions in a more competitive world



Niall Enright

- **Director Sustainability & Climate Change**
 - 20 year's experience
 - Working for large corporations
 - Energy Efficiency focus
- **ERM**
 - 3400 Consultants Worldwide
 - Offices in Johannesburg, Pretoria, Durban & Cape Town
 - Huge expertise in buildings
- **Director of Sustainability Peel Holdings**
 - Privately-owned
 - \$10bn Assets
 - Office, Retail, Airports, Ports



Delivering sustainable solutions in a more competitive world



Rapid Change

- **“Credit Crunch”**
 - Financial constraints
 - “Flight to quality”
 - Brutal focus on fundamentals
- **Big changes coming**
 - Buildings 40% of all GHG’s
 - Ambitious Targets being set
 - Energy expensive, supply risky
 - Tenants aspirations changing
- **Huge practical implications**
 - Portfolio Strategies
 - Asset Management
 - Valuation



Delivering sustainable solutions in a more competitive world





There is a **“Sustainability Dividend”**
though the use of Environmental
Science and Solutions to create and
enhance **Real Estate Asset Value.**

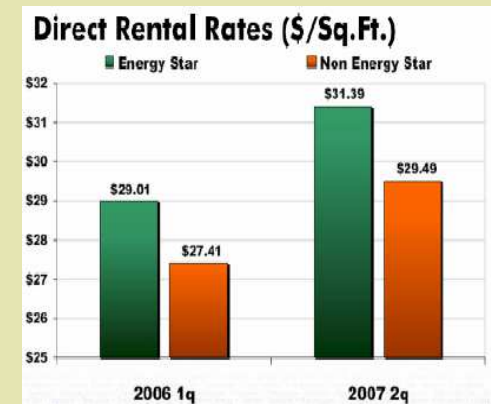


Delivering sustainable solutions in a more competitive world



Irrefutable evidence

- **CoStar studies**
 - Energy Star certification adds 6% to the rental value and 16% to the capital value of office buildings
 - LEED certification increases sale price by an *additional* 9%
 - Absorption rates higher i.e. vacancy rates lower
- **Green Property Funds are growing**
 - Billions to invest
 - Green certification key
- **Green Building Council (Australia 2008)**
 - Increased market valuation – 10%
 - Increased rental – 5-10%
 - Higher relative investment return – 14% ROI
 - Improved occupant productivity – 1-25%



Delivering sustainable solutions in a more competitive world



Irrefutable evidence... (cont).

- **USA Building Owners and Managers Association (2008)**
 - Over 60% of owners got a positive return on investment from green initiatives
- **Jones Lang LaSalle research (2007)**
 - 50% respondents willing to pay 5% premium for sustainable buildings and 25% willing to pay 5%-10% more.
- **GVA Grimley (2007)**
 - 79% of respondents in finance and business services willing to pay more for green building
- **Innovest - USA Real Estate Investment Trusts (2006)**
 - Portfolios demonstrating greater efficiency deliver 15% better share performance and attract a 10.4% market premium



Delivering sustainable solutions in a more competitive world



RICS - Valuation Information Paper 13

“Where sustainability characteristics are recognised as having an impact, these are to be built into the calculation**particularly where the instruction is to prepare an investment worth valuation**

Sustainability issues could impact future performance and if this is anticipated, they may be incorporated into any discounted cash flow appraisal, with due consideration given for aspects of uncertainty.”



Delivering sustainable solutions in a more competitive world



Multiple effects

- Sustainability affect value in many ways
- RICS spells out some of the considerations
- Formal incorporation into next edition of the Red Book (Jan 2010)

RICS VIP 13:

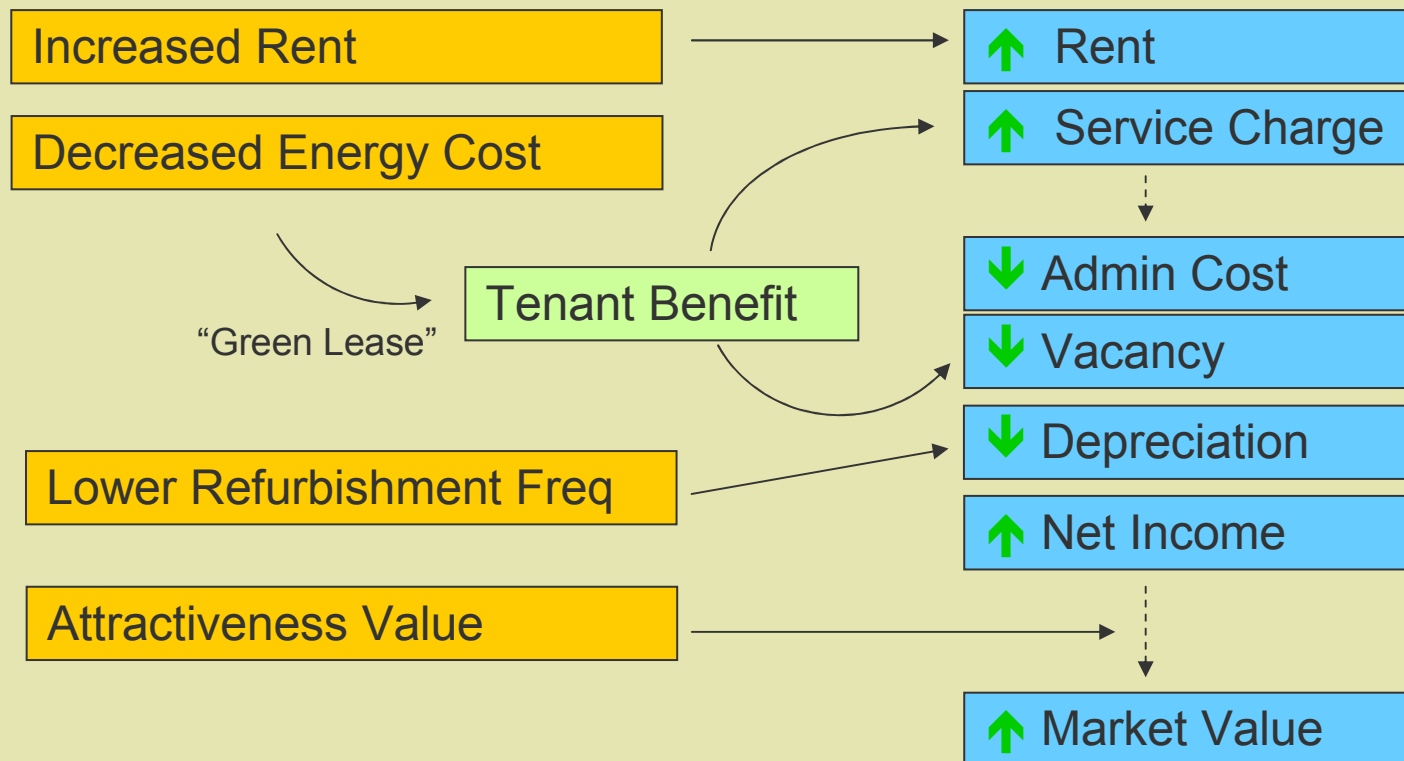
- **Comparables**
- **Yield**
 - operating cost = net income
 - attraction of tenants = voids
 - legislation = decreasing refurb cycles
 - external benefits (some investors)
- **Rental Growth**
 - Increase energy/water \$ = lower rent
- **Obsolescence & depreciation**
 - some things cant be fixed in refurb!
- **Risk**
- **Exit yields and residual values**
- **Duration to sale / let**



Delivering sustainable solutions in a more competitive world



Simplified Valuation Effects



Other benefits: decreased insurance costs, reduced admin costs etc



Delivering sustainable solutions in a more competitive world



Worked Example

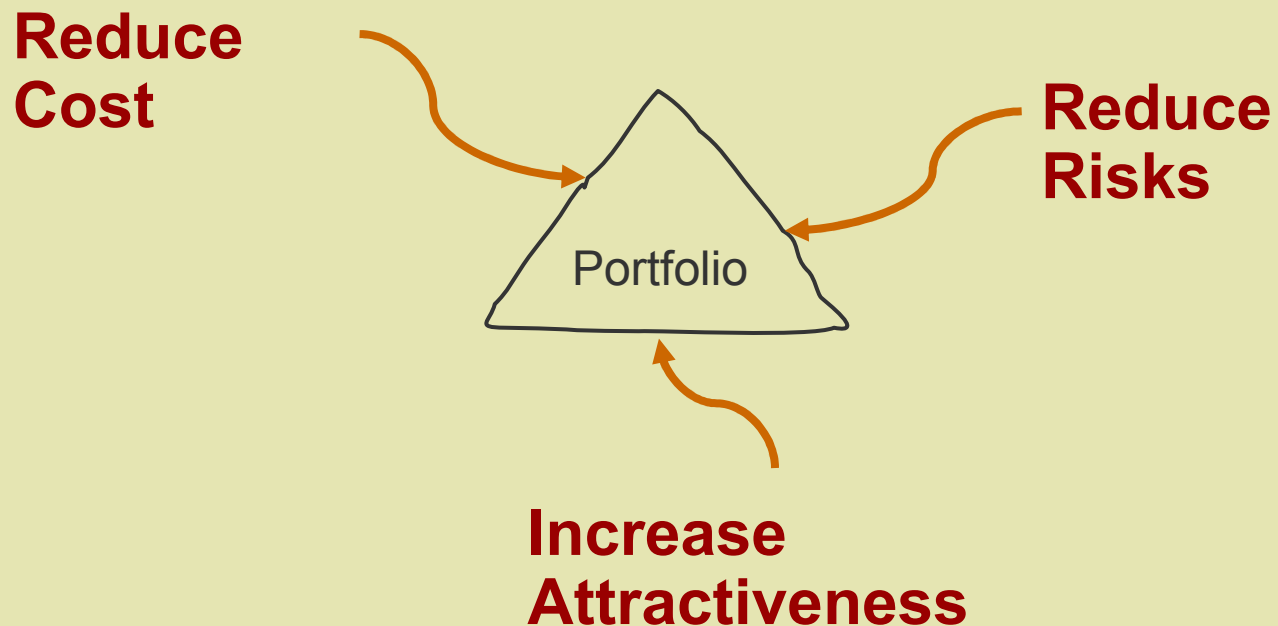
Valuation	Normal Building	Sustainable Building	Impacts
Usable Floor Area	2,000	2,000	
Rental per m2 month (3)	20	21.2	6% increase via Energy Star
Energy savings (Serv Charge)		0.8	10% saving (£1.5m2) shared with tenant
Total Rental Value	480,000	508,991	
Less Admin Costs	31,506	28,355	Assume 10% reduction in admin cost
Less vacancy costs @ 5%	24,000	21,600	Assume vacancy reduces 10%
Net Rent (income)	424,494	459,035	
Less Interest on Site Value	34,500	34,500	
Net building Rent	389,994	424,535	
PV 80 years at 5.75%	17.19	17.19	
Value of Building	6,703,997	7,297,764	9%
Value of Site	600,000	600,000	
Sustainability Increment (5%)		394,888	
Total Market Value	7,303,997	8,292,652	14%



Delivering sustainable solutions in a more competitive world



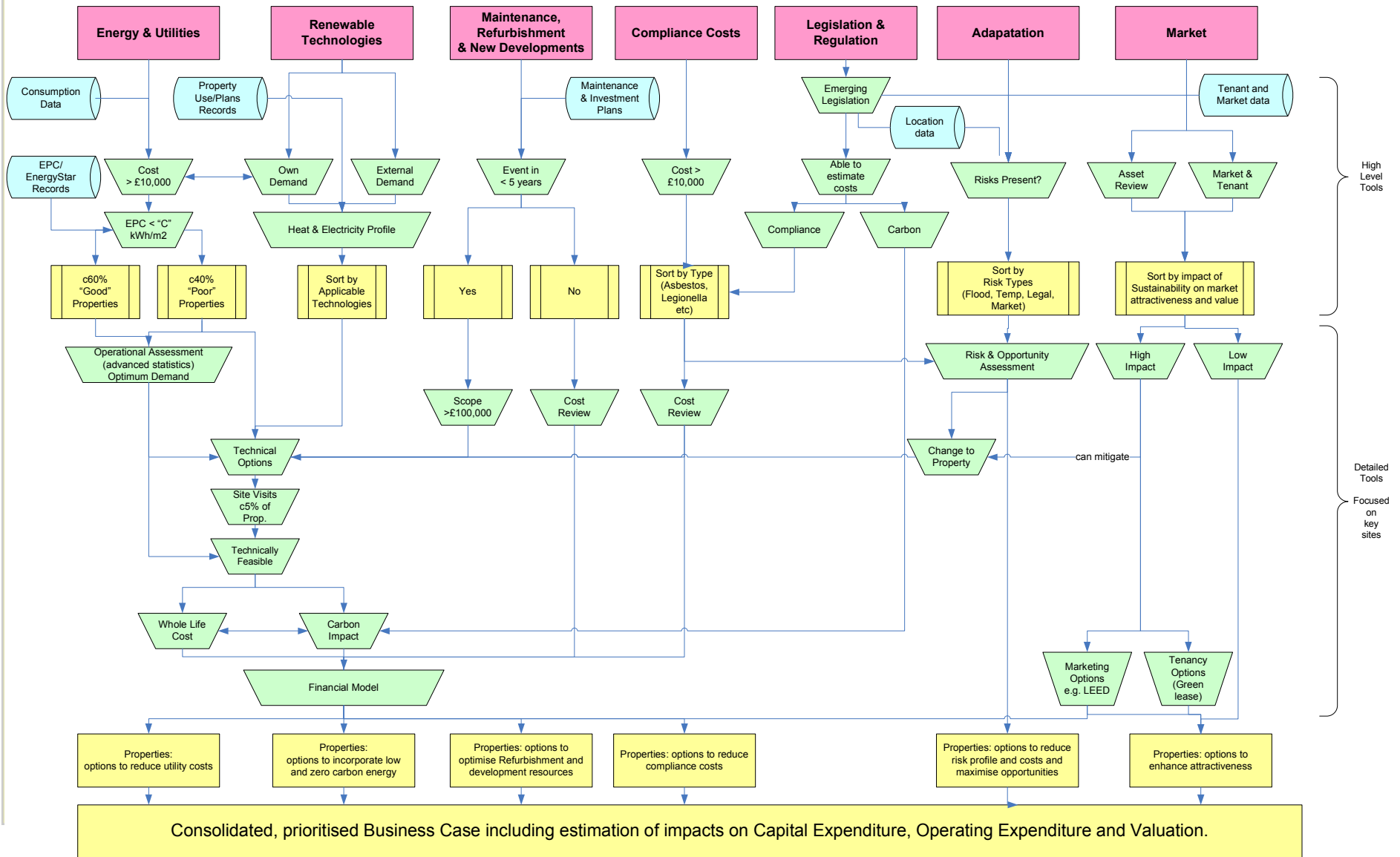
Portfolio Optimisation: sources of value



Delivering sustainable solutions in a more competitive world



Property / Business Portfolio



Delivering sustainable solutions in a more competitive world



The assessment results

- Consolidated view of a portfolio
 - Flexible Excel model
 - Colour-coded cells
 - Drill-down to more detail on each Topic
 - Property summaries for each property

Portfolio Valuation

					Total Value				Assessment						
					IRR > 50% on 12% discount rate, 5 years				IRR > 50% on 12% discount rate, 5 years; or mandatory						
					Opportunity		Investment		Topics Evaluated						
Name	Number	Location	Type	Status	Cost Red	Valuation	Capital	IRR %	Total Risk	Utilities	Renewables	Compliance	Adaptation	Market	
Apdlo	12321	London	Office	Occupied	150	5,000	90	72	-85	200	50	-15	-85	5,000	detail
Mars	2392	London	Mixed	Occupied	105	2,500	50	139	0	120	0	-15	0	2,500	detail
Mercury	2135	London	Office	Occupied	207	2,387	12	80	-32	225	0	-18	0	2,387	detail
Baker St	3125	London	Mixed	Vacant	-45	1,800	0	0	-200	0	0	-25	-20	1,800	detail
Jupiter	3421	London	Office	Occupied	82	1,398	40	197	0	0	110	-28	0	1,398	detail
Via Vesuvio	12421	Milan	Office	Occupied	250	1,296	127	223	-123	250	0	0	0	1,296	detail
Gan Corts	23412	Barcelona	Retail	Occupied	109	1,250	12	28		325	0	-16	-200	1,250	detail



Delivering sustainable solutions in a more competitive world





KEY QUESTIONS FOR INVESTORS

Have I properly accounted for these new valuation impacts?

Have I reviewed my Portfolio with a view to enhancing value?

Am I delivering the “Sustainability Dividend” for my shareholders?



Delivering sustainable solutions in a more competitive world



Thank-you

- For more information / questions

Niall Enright
Director
Energy and Climate Change

Direct Lines
T: +44 7710 369 920
E: niall.enright@erm.com

www.erm.com

Environmental
Resources
Management

11th Floor
5 Exchange Quay
Manchester M5 3EF



Jon Duncan
Partner

Direct Lines
T: +27 (21) 702 9100
E: jon.duncan@erm.com

www.erm.com

Environmental
Resources
Management

Block A, Silverwood
House, Silverwood Close
Steenberg Office Park
Cape Town 7945



Niall.enright@erm.com



Delivering sustainable solutions in a more competitive world

