Green Buildings and the Finance Sector

The Case for Green Buildings Finance

Some observers suggest the greater risk with green buildings is not getting involved. Key benefits for financial institutions are listed below. The briefing also identifies crucial barriers for involvement in green buildings and a roadmap for addressing them.

Reduced Operating Expenses, Default Risk, and Liability
Some of the basic attributes and processes involved in green building can result in reduced operating expenses (both unbudgeted and budgeted), default risk, and liability, benefitting financial institutions that own, use, invest in, and/or lend to the building.

Reduced Risks for Insurers
Financial institutions that insure green buildings benefit from the reduced risk profiles of the buildings’ owners and tenants, as well as of the building itself.

Price Premiums and Capital Benefits
Financial institutions also benefit from green buildings’ price and capital advantages; in other words, green buildings are worth more.

Alignment with Market and Regulatory Trends
The evolution of the policy environment at all levels of government is moving strongly in the direction of requiring green buildings and energy efficiency, and financial institutions can benefit by providing products and financing that get ahead of and capitalize on this trend.

This CEO Briefing is the executive summary of the Green Buildings and the Finance Sector – An Overview of Financial Institution Involvement in Green Buildings in North America report. The full report can be found at http://www.unepfi.org/publications
A Message from the NATF Co-Chairs

As the world increasingly turns its attention to environmental sustainability, there has been a realization that the buildings we live and work in can have a major impact on greenhouse gas emissions, water consumption and other environmental impacts. Financial institutions can play a positive role in encouraging the types of changes necessary to help reduce these impacts.

Financial institutions play an important role in supporting the development of real property. Whether by providing financing to developers, mortgages to homeowners, or providing insurance solutions, banks, investors and insurers can play a leadership role in assisting in the transition to a greener building stock. Green buildings and green building finance is a key factor in addressing climate change given that buildings consume approximately 40% of the world’s materials and energy.

Through its Property Working Group, UNEP FI has been exploring the terrain of responsible property investment and management since 2007, producing a wealth of information on current best practice and offering a variety of tool kits for practitioners in the property investment field. The Initiative’s North American Task Force has sought to contribute to the Group’s effort by providing the mainstream financial services audience in the United States and Canada with a clear starting point based on local regulations, frameworks and realities.

Launched in March 2010 in Toronto, Canada, the report, “Green Buildings and the Finance Sector – An Overview of Financial Institution Involvement in Green Buildings in North America” was written for those North American FIs that are interested in learning more about the green building movement. It is meant to provide an overview of the relevant facts and issues related to green buildings, the roles that the financial sector can play, and the potential barriers and benefits to financial sector involvement. It also offers some guidance and strategies for financial institutions preparing for greater involvement with green buildings.

In the following pages, we offer you a summary of the key points outlined in the web-based report.

Kim Brand
Director, Environmental Affairs
Scotiabank
Co-Chair, UNEP FI North American Taskforce

Richard Pearl
Vice President, CSR Officer
State Street Corporation
Co-Chair, UNEP FI North American Taskforce
Broadly speaking, a “green building” is one that incorporates environmental and health concerns and resource efficiency throughout its life cycle – from siting and design to operation and maintenance, all the way through to deconstruction. For many people, however, a “green building” is one that has received some sort of third-party certification that validates its green features. While there are several certification systems available, the dominant system in the U.S. is the Leadership in Energy and Environmental Design (LEED) system from the U.S. Green Building Council (and adopted by the Canadian Green Building Council), while the dominant system in Canada is the Building Environmental Standards from the Building Owners and Managers Association (BOMA BEST).

These systems have become increasingly common due to rising concerns about buildings’ environmental impact – i.e., their significant water use, waste generation, energy use, and greenhouse gas emissions. Office buildings, the type of building with which financial institutions are most often involved, consume more energy than any other type of commercial building. Similarly, low-income housing, which tends to be very energy-inefficient, is responsible for a sizable portion of greenhouse gas emissions. Greening these and other types of buildings can therefore have a profound impact on environmental quality.

This is something that our customers care about, and it’s also a source of pride for our employees.

President and CEO, CitiFinancial North America

Elevated concerns about the environment – and climate change in particular – have been one of the key elements driving the recent surge in green buildings, generating billions of dollars in gross domestic product and millions of jobs over the past few years, and the market for green buildings in the U.S. and Canada is expected to continue to grow despite the current economic recession.

Past & Projected U.S. Green Building Impact

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<tr>
<th>Type of Impact Supported by Green Construction Spending</th>
<th>Cumulative Net Impact</th>
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<tr>
<td></td>
<td>2000-2008</td>
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<tr>
<td>GDP (millions US$ 2009)</td>
<td>$172,864</td>
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<tr>
<td>Employment (jobs)</td>
<td>2,459,891</td>
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<tr>
<td>Labour Earnings (Millions US$ 2008)</td>
<td>$123,248</td>
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Source: Booz Allen Hamilton, USGBC Green Jobs Study 2009
Governments have also been an important driver of the burgeoning green building market, setting green requirements for their own buildings and providing incentives and requirements for the private sector. Another critical element, and perhaps the one of greatest importance to the financial sector, has been the increasing awareness that green buildings have significant economic benefits in addition to their environmental benefits.

### Green Building Premiums

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<tr>
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<th>LEED</th>
<th>Energy Star</th>
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<tr>
<td><strong>Rent premium (per sq. ft)</strong></td>
<td>US$11.33</td>
<td>US$2.40</td>
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<td></td>
<td>(US$122 per sq. m)</td>
<td>(US$25 per sq. m)</td>
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<tr>
<td><strong>Occupancy increase</strong></td>
<td>4.1 per cent</td>
<td>3.6 per cent</td>
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<td><strong>Sale premium (per sq. ft)</strong></td>
<td>US$171</td>
<td>US$61</td>
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<td>(US$1,846 per sq. m)</td>
<td>(US$650 per sq. m)</td>
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Source: CoStar Group, 2008

These and other drivers have led to gradually increasing involvement by the financial sector in green buildings. There are four principal roles that financial institutions play in the green building process: owner or user, investor or private developer, lender, and insurer. The owner/user role, which is the least unique to financial institutions, is often their most direct involvement in green buildings, with many institutions seeking third-party certification for the office buildings and branches that they own or lease. Investor participation in green buildings began slowly but has been accelerating rapidly, with increasing project development, investment in green real estate funds, and attention to Responsible Property Investing strategies. Financial institutions are also increasingly moving in the direction of incorporating green buildings into their mainstream lending practices, and growing numbers of insurers are offering green buildings products and services.

While financial institutions are involved in green buildings in a variety of ways, several barriers and risks remain that hinder broader and deeper involvement. For instance, the incentives for building owners and building tenants to improve energy efficiency, make green improvements, and seek or maintain third-party certification are often misaligned, suggesting a need for new types of “green leases” that align incentives, clearly allocate responsibility, and set rules for various sustainable practices. Lack of data is another important obstacle to greater financial sector involvement, as there is little solid information available that clearly defines the value proposition for high-performance certified green buildings, which can lead to missed opportunities and inconsistent valuations. Other barriers include the range of ratings systems and processes that exist, the general lack of knowledge.

**Further Reading**


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*LEED Energy Star*

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Source: CoStar Group, 2008
among financial and appraisal professionals about the opportunities presented by green buildings, the common impression that green buildings involve significantly greater upfront costs, and potential liability and litigation issues.

We are stuck in a chicken-and-egg situation, where investors are interested in RPI but need data to support investments, while the lack of investments, of course, restricts data.

These barriers and risks require attention, but they should not obscure the numerous benefits that accrue to financial institutions from involvement in green buildings. In fact, some observers suggest the greater risk with green buildings is not getting involved, particularly given a policy environment that is moving strongly in the direction of requiring green buildings and energy efficiency and given market trends indicating that green buildings may become the standard for quality real estate in the near future. Additional benefits for financial institutions include reduced operating expenses (such as energy and water), lower default risk and liability from issues such as mould and indoor air quality, improved risk profiles for insured buildings (and owners and tenants), and higher value buildings that have premium occupancy rates, sale prices, and rental rates.

Ignoring this impending market transformation would be risky and imprudent.

As green buildings increasingly become the standard, and as non-green buildings risk becoming devalued in the marketplace, financial institutions should prepare for the green building transformation by considering four basic strategies: (1) broaden the green building commitment across the organization; (2) invest in green building expertise; (3) analyze data resources and identify data needs; and (4) evaluate exposure to non-green assets and markets. Implementing these strategies can help the financial sector seize the opportunities presented by the rapidly expanding North American market for green buildings.
About UNEP FI’s Property Working Group

UNEP FI’s work on property is carried out by the Property Working Group (PWG). Its purpose is to encourage property investment and management practices that achieve the best possible environmental, social and financial results. Some of the research publications developed by the PWG, as a part of its effort to encourage sustainability in property finance, address issues that are outlined in *Green Buildings and the Finance Sector – An Overview of Financial Institution Involvement in Green Buildings in North America*.

Publications

**Owner-Tenant Engagement in Responsible Property Investing**

Successful Responsible Property Investment strategies often depend on owner-tenant cooperation. This report presents several stories from leading property organizations that are committed to sustainability and responsible investing on innovative ways to promote better cooperation between owners and tenants.

**Sustainable Investment in Real Estate – Your Fiduciary Duty**

There is a growing body of evidence which supports the case for investment in sustainable real estate. This evidence suggests that real estate with sustainable characteristics can generate superior returns or at the very least “future proof” your investment. This article concludes that it is the fiduciary duty of trustees and investors to understand and consider Sustainable Investment issues when looking at investing in real estate.

**Responsible Property Investment: Similar Aims, Different Manifestations**

This article, presents the essential differences between Socially Responsible Investment (SRI) in asset classes and in direct property. As a practical note it should help investors apprehend why and how Socially Responsible Property Investment (SRPI) is uniquely different to other “regular” assets.
## Comparison of Major Green Building Certification Systems in North America

<table>
<thead>
<tr>
<th>Programme</th>
<th>Country of Origin &amp; Sponsoring Organization</th>
<th>Building Types Rated</th>
<th>Description</th>
<th>Market Size</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leadership in Energy and Environmental Design (LEED)</strong></td>
<td>United States Developed and maintained by the U.S. Green Building Council</td>
<td>Broad coverage: existing buildings, new construction, commercial interiors, core &amp; shell, homes, schools, healthcare, retail</td>
<td>Certification levels: LEED, LEED Silver, LEED Gold, LEED Platinum&lt;br&gt;Covers: water efficiency, sustainable sites, energy &amp; atmosphere, materials &amp; resources, indoor environmental quality</td>
<td>35,000+ projects in 91 countries</td>
</tr>
<tr>
<td><strong>Green Globes / BOMA BESt (Building Environmental Standards)</strong></td>
<td>Canada Developed by Building Owners &amp; Managers Association (BOMA) Canada&lt;br&gt;U.S. distribution authorized by the Green Buildings Institute</td>
<td>Commercial Office&lt;br&gt;Additional building types planned</td>
<td>Certification levels: 1, 2, 3, 4&lt;br&gt;Covers: energy, indoor environment, site, water, resources, emissions, project/ environmental management&lt;br&gt;1,000 point scale; eligibility begins at 35 per cent of points (for Globes)&lt;br&gt;Awaiting American National Standards Institute (ANSI) approval</td>
<td>1100+ buildings certified in Canada&lt;br&gt;100+ buildings certified in the U.S.</td>
</tr>
<tr>
<td><strong>ENERGY STAR</strong></td>
<td>United States Government programme run by the US Environmental Protection Agency</td>
<td>Wide variety of commercial building types, both new and existing&lt;br&gt;Separate certifications for homes and industry</td>
<td>Measures energy performance as percentile rank (1-100) compared to similar buildings&lt;br&gt;Buildings scoring 75+ eligible for Energy Star Label&lt;br&gt;Used for Green Globes and LEED-EB points</td>
<td>120,000+ commercial buildings rated&lt;br&gt;9000+ earned Energy Star Label</td>
</tr>
<tr>
<td><strong>National Green Building Standard</strong></td>
<td>United States Developed and maintained by the National Association of Homebuilders (NAHB)</td>
<td>Residential only: single &amp; multi-family homes, remodelling projects, and site developments</td>
<td>Certification levels: Bronze, Silver, Gold, Emerald&lt;br&gt;Covers: lot design; preparation; development; resource, energy &amp; water efficiency; indoor environmental quality; operation; maintenance; building owner education&lt;br&gt;First green residential system to undergo full consensus process and receive ANSI approval</td>
<td>500+ homes, multi-family units, and remodelling projects</td>
</tr>
</tbody>
</table>
About the UNEP Finance Initiative

The United Nations Environment Programme Finance Initiative (UNEP FI) is a strategic public-private partnership between UNEP and the global financial sector. UNEP FI works with over 180 financial institutions that are signatories to the UNEP FI Statements, and a range of partner organisations, to develop and promote linkages between the environment, sustainability and financial performance. Through a comprehensive work programme, regional activities, training and research, UNEP FI carries out its mission to identify, promote and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

North American Task Force

AIG Investment (USA)
Global Currents Investment (USA)
Acuity Investment Management Inc. (Canada)
HSBC Bank (USA)
Bank of America Merrill Lynch (USA)
JPMorgan Chase (USA)
Bank of Montreal (Canada)
Kennedy Associates, Real Estate Counsel, LP (USA)
Bank of Tokyo-Mitsubishi UFJ, Ltd. (USA)
Manulife Financial Corporation (Canada)
British Columbia Investment Management Corporation (bcIMC) (Canada)
Pax World Management Corp. (USA)
Caledonia Wealth Management (USA)
Royal Bank of Canada
CalPERS (USA)
Scotiabank (Canada)
Calvert Group, Ltd. (USA)
State Street Corporation (USA)
Canadian Imperial Bank of Commerce (Canada)
TD Bank Financial Group (Canada)
Chartis International (USA)
The Cooperators (Canada)
Citigroup (USA)
UBS (USA)
ClearBridge Advisors, Legg Mason (USA)
Union Credit Bank (USA)
Desjardins (Canada)
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