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Purpose of the Report

- To provide an overview of Green Buildings and roles for financial institutions
- Aimed at a broad audience of financial institutions to promote wider engagement
- Establish a common starting point for identifying further FI work in green buildings: action by individual institutions, collaborations, analysis, policy work, etc.
What Are “Green Buildings”? 

“the practice of creating structures and using processes that are environmentally responsible and resource–efficient throughout a building's life–cycle from siting to design, construction, operation, maintenance, renovation and deconstruction.” U.S. Environmental Protection Agency

- Many definitions exist in the marketplace today
- Consolidation and convergence are narrowing the field
- Clear market leaders are emerging in North America: LEED in the US; BomaBest and LEED in Canada
Why Do We Care about Buildings, from an Environmental Perspective?

- Buildings have huge environmental impacts
- Estimates for the U.S.:
  - 39% of carbon dioxide emissions
  - 72% of electricity consumption
  - 13% of water consumption
  - 66% of non-industrial solid waste generation.
- Estimates for Canada:
  - 35% of greenhouse gas emissions
  - 33% of energy consumption
  - 50% of natural resource consumption
  - 12% of non-industrial water use
  - 25% of waste going to landfill.
Which types of buildings might be of greatest interest to Financial Institutions?

- **Office Buildings**
  - Account for more energy use than any other category of commercial buildings
  - FIs engaged in these buildings as owners, tenants, investors, lenders, and insurers

- **Affordable Housing**
  - Shows FI commitment to communities
  - Green upgrades offer opportunity to improve quality of life for residents
  - Challenging sector technically and financially
What is the recent history and outlook for Green Buildings?

- “green building area has been growing at about a 50 per cent compounded growth rate since 2000 [in the U.S.] – about 25 times the growth rate for commercial real estate . . . which averages a bit under 2 per cent annually.”
  Deutsche Bank

- More than 80 per cent of commercial building owners in the U.S. allocated funds to green measures and programmes in 2008, and nearly 45 per cent planned to increase that funding in 2009. - BOMA

- In Canada:
  - LEED-certified projects grew from 8 prior to 2005 to more than 200 in early 2010.
  - BOMA BESt certifications grew from 86 buildings in 2005, to 1,100 in mid-2009.
What factors are driving Green Building growth?

- **Elevated concern about environmental issues in general and climate change in particular.**
- **Governments’ lead in setting green building requirements for their own facilities.**
- **Governments providing incentives and requirements for the private sector to promote green buildings.**
- **Increasing awareness of the business case for green buildings.**
Principal roles played by financial institutions in green buildings

- Owner and/or user
- Investor in or private developer
- Lender
- Insurer
Financial Institutions as Owners and/or Users of Green Buildings

- FIs are rapidly expanding and executing commitments to making their owned and leased facilities green.
- Owner/tenant role is not unique to FIs, and arguably not the role with the greatest potential impact on Green Buildings

Examples:
- **Citi** became the first company to certify 100 ranches as LEED Gold
- RBC Centre in Toronto became the first 1 million sf building in Canada to achieve LEED Gold NC. **Royal Bank of Canada** leveraged its role as anchor tenant to ensure the green rating.
Financial Institutions as Investors and/or Private Developers

- Public pension funds have driven rapidly growing investor activity in green buildings
- Green real estate funds are also growing rapidly, approaching US$ 2 billion

Examples:
- **California Public Employees’ Retirement System (CalPERS)** Green Development Fund grew from US$ 120 million in 2006 to US$ 277 million, develops LEED-CS office buildings.
- **Capital Markets Partnership (CMP)** unveiled a Green Building Security (GBS) in 2009, a bond backed by mortgages of green buildings. CMP and its FI partners are developing two US$ 500 million Green Building Securities (multifamily and commercial)
Financial Institutions as Lenders

- FIs are increasingly seeking to incorporate green building considerations into their mainstream lending practices.
- Challenges remain for underwriters and appraisers in understanding risk and value in green buildings.

Examples:

- **Bank of America’s** 2007 10-year, US$ 20 billion initiative to address climate change, includes customized solutions for commercial real estate clients working on green buildings.
- **e3bank** loan officers are accredited by USGBC as LEED experts and customize loans and credit for borrowers planning green building retrofits and projects. The bank will provide the first loans in North America with lower capital costs for green buildings.
Increasing numbers of insurers “are offering ‘green-buildings’ products and services.

Many insurance markets still in a “wait and see” mode.

Products and services are diversifying, property and design professional liability markets are especially strong.

Examples:

- **Fireman’s Fund** offers “Green Upgrade Coverage” that covers the cost of replacing standard systems and materials with green ones in the event of a loss and “Green Certified Building Coverage” that covers already-certified properties including the cost of hiring a LEED-accredited professional to oversee repairs.

- **La Capitale General Insurance** in Quebec offers a 15 per cent discount on property insurance premiums for LEED-certified buildings.
Barriers to & Risks of Financial Sector Involvement in Green Buildings

- Split Incentives & Lease Terms
- Range of Ratings Systems and Processes
- Lack of Data Availability and Quality
- Lack of Knowledge about Use of Data and Green Building Benefits
- First Costs
- Liability and Litigation Risks
Benefits of Financial Sector Involvement in Green Buildings

- Reduced Operating Expenses, Default Risk, and Liability
- Reduced Risks for Insurers
- Price Premiums and Capital Benefits
- Alignment with Market and Regulatory Trends
The Future: Green Building Guidance for Financial Institutions

- Broaden the green building commitment across the organization
- Invest in green building expertise
- Analyze data resources and identify data needs
- Evaluate exposure to non-green assets and markets
The Green Building wave is still gaining momentum

- Despite impressive growth in recent years, green buildings still comprise a small fraction of the total market
- Aggressive policy proposals are likely to drive much greater action
- Building Star aims to Retrofit 40% of U.S. commercial and residential buildings – 50 million buildings – by 2020
- Are green buildings the new standard?
Thank you