

Green Real Estate Summit

Sponsored by BOMA Atlanta

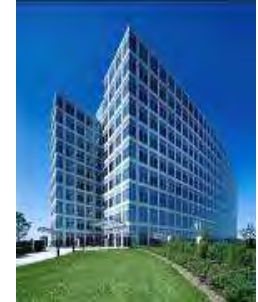
Atlanta, Georgia

February 16, 2011

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FBI Chicago
Field Office
Chicago, Illinois



Columbus Center
Coral Gables, Florida



Agenda

- Industry dynamics – does green make sense now?
- Why Sustainability?
- Business Case
- Case studies
- Trends for the next 10 years



USAA Real Estate Company: Who Are We?

- **8-time Energy Star Partner of the Year- due to our leadership in energy efficiency management and environmental stewardship**



2003



2004



2005



2006



2007



2008



2009



2010

- **Chosen to develop the USGBC Leadership in Energy & Environmental Design (LEED) Portfolio Program**
- **We have a strong commitment to customer service, operational excellence and environmental stewardship**



Industry Dynamics

- Major Capital Market Failures – Illiquidity
- Jobs still have not returned
- New Congress
- Taxes

*“The mediocre leader tells.
The good leader explains.
The superior leader demonstrates.
The great leader inspires.”*
- Buchholz and Roth



Does Green Make Sense in this Economy?

- **Job loss and business consolidation over past two years has reduced occupancy and rents in most markets**
- **Capital budgets for anything but tenant improvements and leasing commissions have all but evaporated**
- **Increased focus on operating efficiency – without full buildings, expense recovery is reduced**
- **These combine to increase risk, reduce both NOI and value - real estate assets are not performing as underwritten**



Does Green Make Sense in this Economy?

- The question is often “how much does green cost”
- Answer is often “don’t think we can afford to spend the money right now”
- Need to change our thinking about improved sustainability
- Green is not a cost, is not a fad....
- Green is fundamentally a strategy for competing, improving performance



Why Sustainability?

- The market is clearly moving towards improved sustainability
- Evidence is clear
- There is increased risk to not move towards sustainability
- Competitive advantage for those that can connecting energy efficiency, sustainability and the Business Case...



Evidence of Shift

- **Top corporations increasingly require green** – including the GSA, largest tenant in the US, requiring Energy Star and LEED for all new facilities
- **Increased product choices for sustainability** – not just for buildings but for everything from hybrid cars to solar power
- **4 Green Building Codes** – new construction will increasingly be green
- **Federal, State and Local legislation** – increasingly requiring or incentivizing green



Evidence of Shift

- **Industry Associations – providing leadership in shifting economy**
 - BOMA Atlanta – Green Summit
 - BOMA International –
 - Green education – BEEP, SOS, Conference Education
 - Advocacy efforts – pushing for incentives vs. mandates, 7 Point Challenge
 - Key partnerships – with USGBC, Real Estate Roundtable, Clinton Climate Initiative
 - Awards & recognition – BOMA 360, TOBY, EPA Partner of the Year, Climate Change Awards



**Increased
Productivity.**

SCHOOLS

**20%
BETTER TEST
PERFORMANCE**

HOSPITALS

**2 ½ DAY
EARLIER
DISCHARGE**

RETAIL

**INCREASE
IN SALES PER
SQUARE FOOT**

FACTORIES

**INCREASED
PRODUCTION**

OFFICES

**2-16%
PRODUCTIVITY
INCREASE**

Environmental Real Estate Index

Global environmental performance leaders (unlisted)

<i>Rank</i>	<i>Company/manager</i>	<i>Fund name</i>	<i>Management and policy</i>	<i>Implementation and measurement</i>	<i>Total</i>
UK					
1.	Capital & Regional	CRM Fund	57	51	53
2.	PRUPIM	M&G Property Portfolio	57	49	52
3.	Grosvenor	Grosvenor Shopping Centre Fund	43	43	43
Continental Europe					
1.	ING REIM	Dutch Office Fund	52	43	47
2.	ING REIM	ING RPF1	70	29	45
3.	Pramerica Real Estate	TMW Immobilien Weltfonds	52	37	43
USA					
1.	Principal	[anonymous]	57	51	53
2.	USAA Real Estate Company	USAA Real Estate Funds (overall)	52	44	47
3.	Normandy Real Estate Partners	Normandy Real Estate Funds (overall)	61	31	43
Australia					
1.	GPT Funds Management	GPT Wholesale Office Fund	87	86	86
2.	Investa	Investa Commercial	91	80	84
3.	GPT Funds Management	GPT Wholesale Shopping Centre Fund	87	54	67
Asia					
1.	CapitaLand	CapRet China Incubator	61	51	55
2.	Lend Lease Property Investment Services	APIC II	74	33	49
3.	ING REIM Korea	ING Korea Fund	65	34	47

Business Case for Sustainability?



- **By Business Case we mean...**
 - Dramatically improve energy efficiency
 - Reduce water consumption
 - Increase recycling and reduce waste
 - Improve Indoor Air Quality
 - Eliminate toxic chemicals for cleaning & use green cleaning methods
 - Improve overall operational efficiency
- **All of these combine to lower costs by more than it costs to implement “sustainable strategies”**

Intuitively it makes sense that being more efficient, eliminating waste will cost less to operate

The Biggest Trend is the Business Case for Sustainability

- **Business case also means**
 - **Addressing risk** for not being green – SEC requirements, code & legislative requirements
 - **Improving image, brand or relationship** with customers & employees
- **All of these combine to drive higher rents, higher tenant retention rates and higher asset values for real estate with “sustainable strategies”**



Business Case

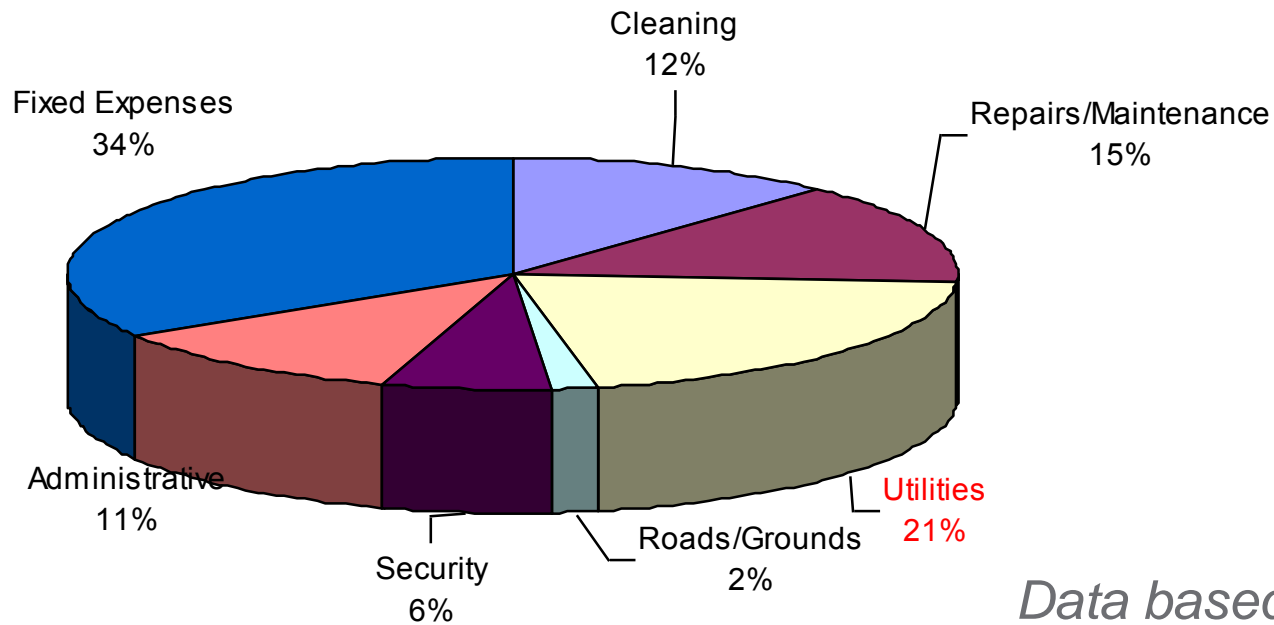


- **Take a more strategic view**
- **Consider not just costs**
- **Consider the full value proposition**
 - Lower operating costs
 - Improve tenant comfort – increase retention
 - Support tenant employee recruitment and retention efforts
 - Be ahead of regulation and mandates
 - Marketing advantage
 - Branding as a leader
- **Sustainability will increasingly be a measure of quality**



Why is Energy So Important?

Total Expense Ratios (Utilities = 21%)

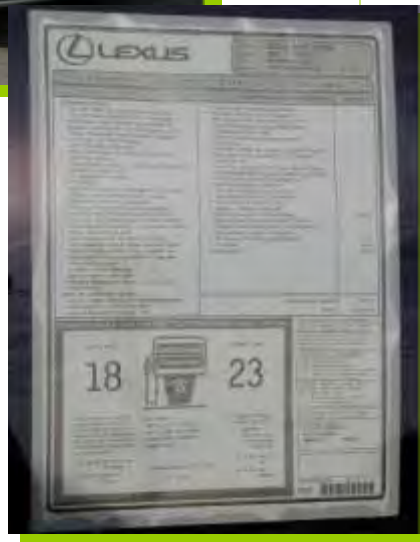


*Data based on 2010
BOMA EER*

Is Your Building Performing Well?



Fuel Efficiency
MPG



Is 5 MPG high or low for an automobile?

Is 80 kBtu/SF/YR high or low for a building?

Energy
Performance
**EPA
Benchmarking**

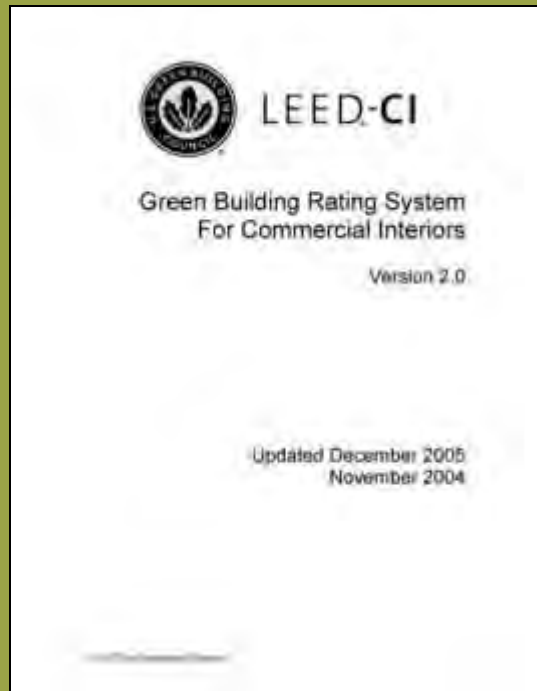


Area	Number of Hours	Energy (kBtu)	Cost (\$)
Electricity	8760	11,111	1,111
Gas	8760	11,111	1,111
Water	8760	11,111	1,111
Other	8760	11,111	1,111



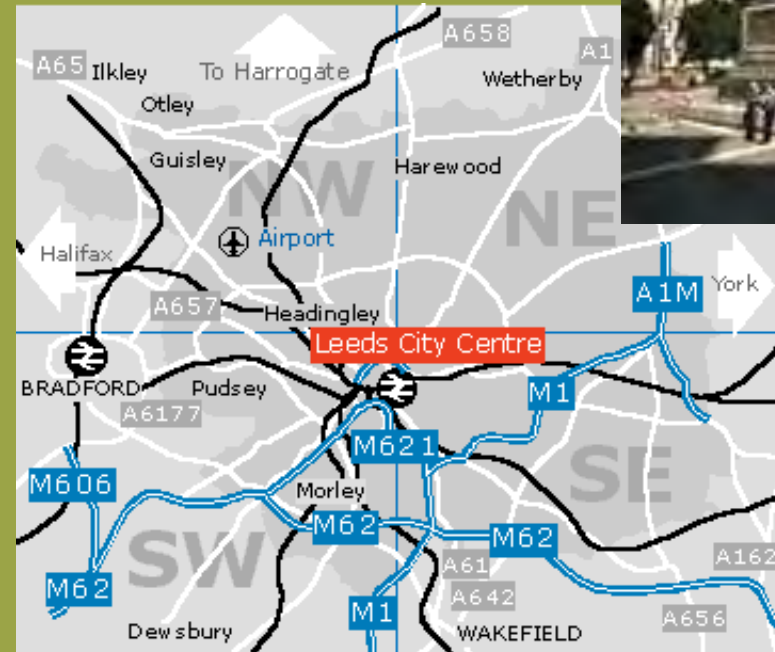
LEED or Leeds?

LEED



Green Building Rating System

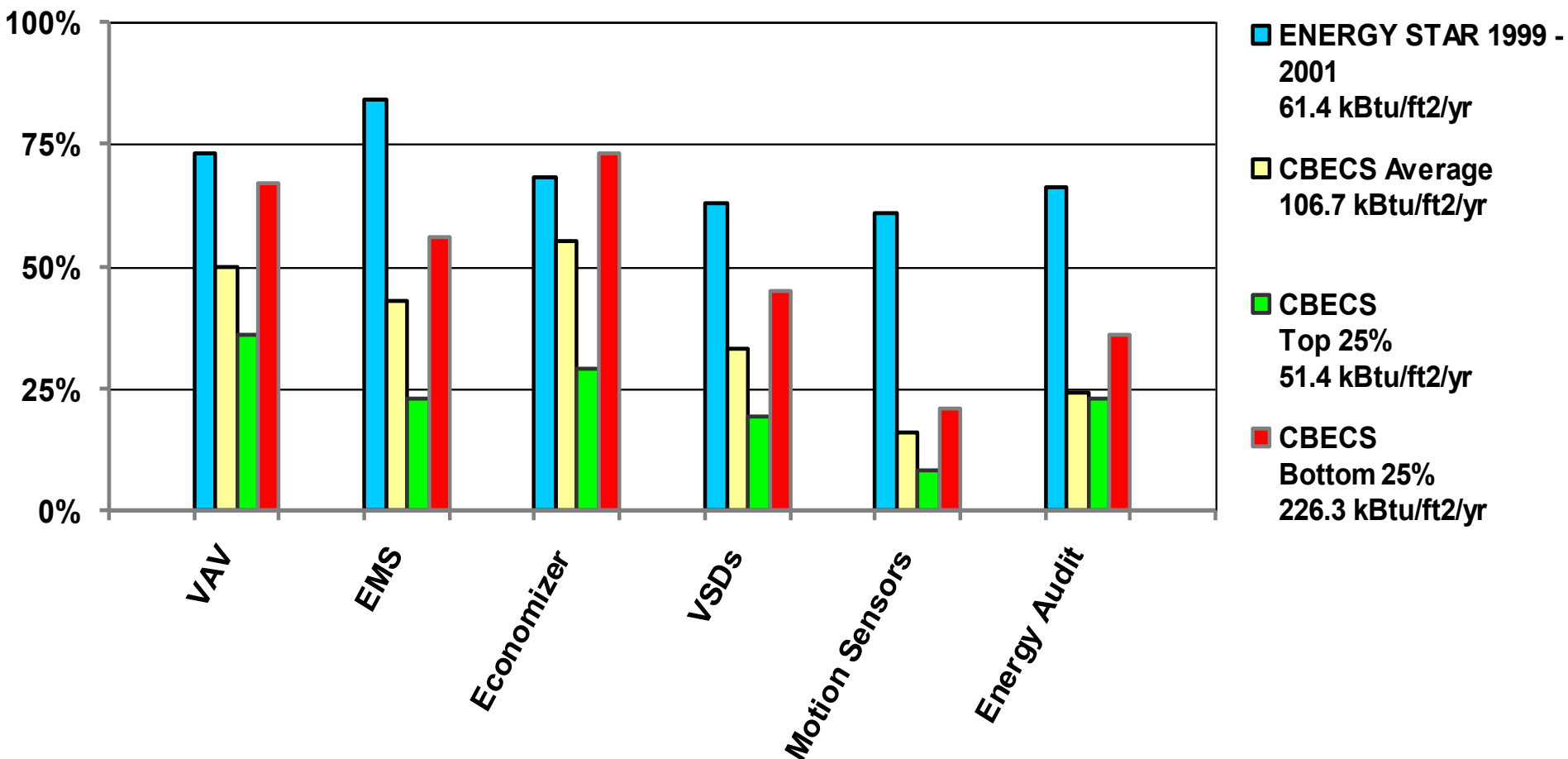
Leeds



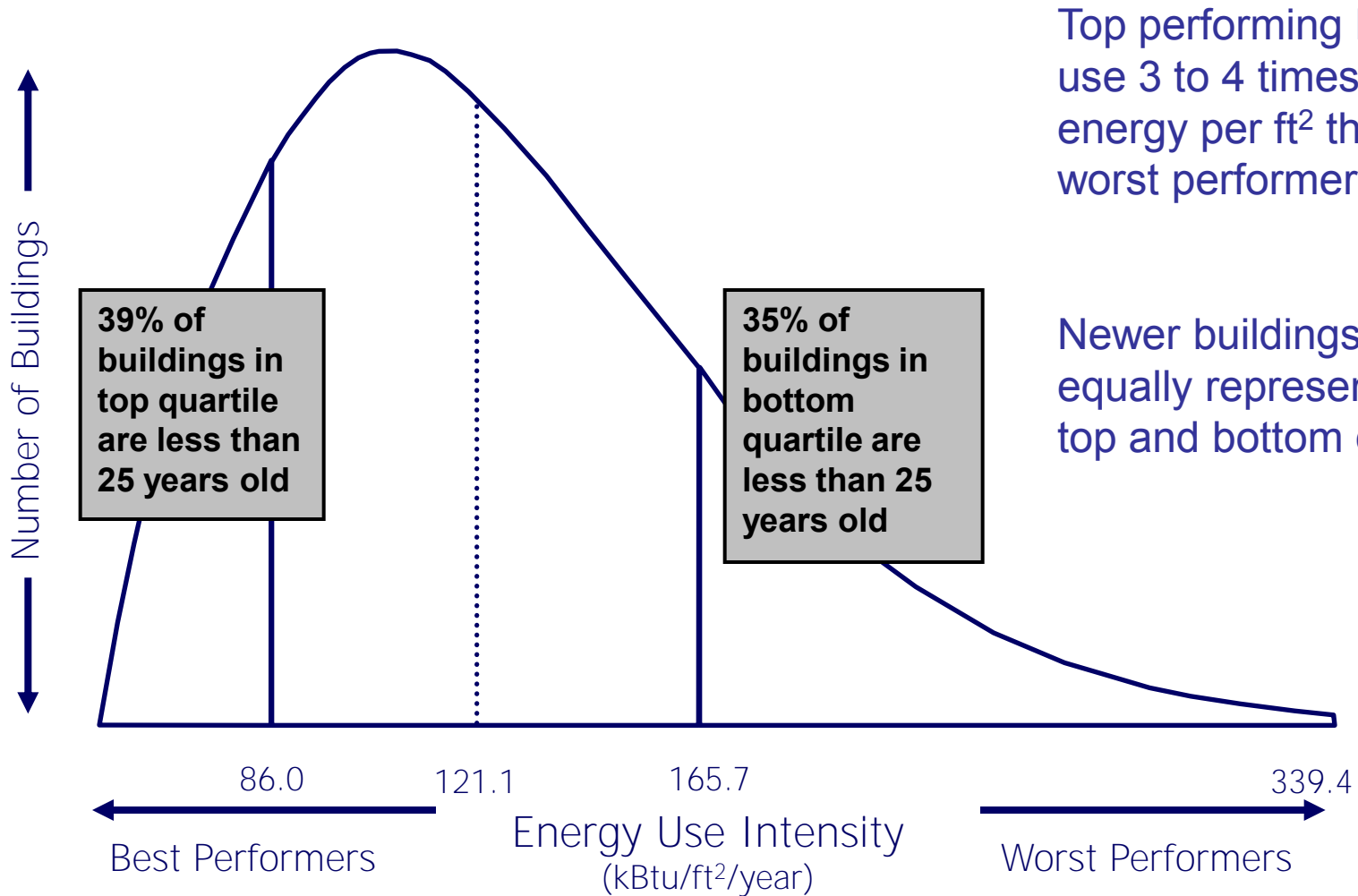
City in the UK



Technology Doesn't Always Equal Performance...



Old Doesn't Always Equal Inefficient



Top performing buildings use 3 to 4 times less energy per ft² than the worst performers.

Newer buildings are equally represented in top and bottom quartiles.



Case Studies Proving the Value



Portfolio Approach to Green....

- Take a portfolio wide approach to sustainable strategies
- Save more than spend to execute sustainability initiatives
- Create consistency in approach while allowing for regional and property specific differences
- Energy efficiency and sustainability are core to customer service delivery and an indication of quality
- Imbed “continuous process improvement” into every aspect of the business

LEED Program – Portfolio Approach

We take a portfolio approach to our execution – for example:

1. Green Cleaning
2. Waste Management
3. Integrated Pest Management
4. Environmentally Preferable Purchasing
5. Energy Efficiency & Energy Star
6. Water Efficiency
7. Indoor Air Quality
8. Environmental Tobacco Smoke Policy
9. Sustainable Landscaping Strategies

**LOWER
COSTS**

We are also in the process of building many of the “high performance operations” aspects of LEED into our Yardi Preventative Maintenance Program – so that every building will get a consistent application of those areas we know to improve performance for indoor air quality, water and energy efficiency and so forth.

What is the Business Case? = Quantify Value

LEED EBOM Platinum



FBI Chicago
Field Office
Chicago, Illinois

Building is less than four years old
Was not developed green
Metrics thus far on our execution...

- **Energy Star Labeled** - Improved energy performance & Energy Star rating from **78 to 95 (22% improvement)**
- **Reduced water consumption by 43%** saving over \$12k annually
- Achieved LEED for Existing Buildings Operations & Maintenance – Platinum – highest level, **first EBOM Platinum in world**
- Overall efforts have this building **under year one budget** by 18.7% or over \$460,000

All of these combine to lower expenses by more than it costs to implement “sustainable strategies”

What is the Business Case? = Quantify Value

Energy Star - Metrics thus far on our execution...



Columbus Center
Coral Gables, Florida
LEED EBOM GOLD

- Exceeded our 2010 savings goal of 5%, saving 5.22% kBtu consumption portfolio wide (2010 v 2009)
- Brings cumulative energy consumption savings to 35% over past 10 years
- Improved efficiency by over 81% as measured by average Energy Star rating for portfolio
- Saved in excess of over \$16,000,000 in past 10 years
- Achieved 8th consecutive Energy Star Partner of the Year award for Sustained Excellence – first real estate company to be so honored

We are not new to energy efficiency and sustainability; thus we have the capability to execute in the most cost effective means



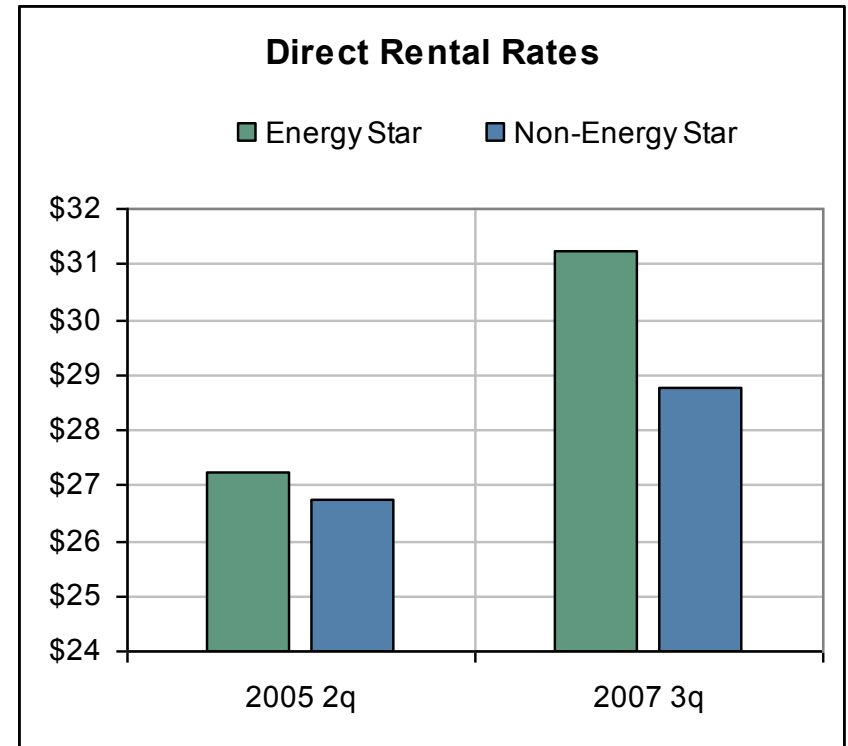
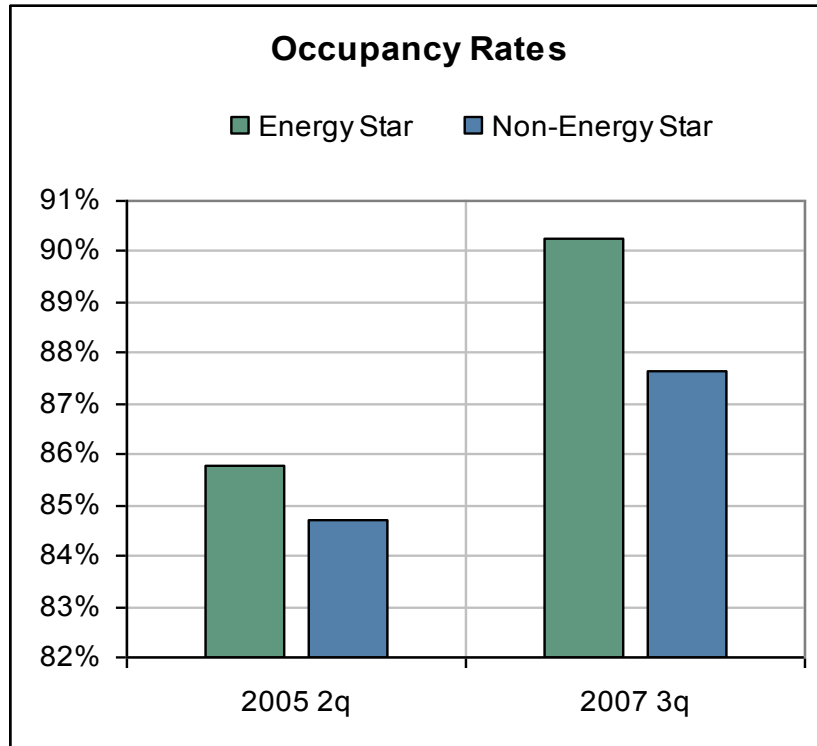
Envision Realty Services

Economics of LEED EB

- **59 Existing Buildings = 25.5 million SF**
- **13 Different States**
- **All Energy Star Benchmarked – Minimum Score 73**
- **Average Square Feet = 327,358**
- **Average Cost for Certification – Includes Registration, Certification, Consultation & any Retrofits needed = \$71,348**
- **Average Cost Per Square Foot = \$0.22**
- **Average Savings per Building – Includes operational and energy savings - \$72,837**
- **Average Payback = just under 1 year**
- **Average Return on Investment = 102%**



Energy Efficiency is a Potential Leading Indicator of Overall Superior Operations Quality and Financial Performance



Analysis conducted by the CoStar Group of ENERGY STAR buildings compared to peer set of non ENERGY STAR buildings.



What's Ahead Over next 10 Years



What's Ahead

- **New Buildings all built green – because code requires**
- **Core urban markets will increasingly be green**
- **Water – next crisis**
- **Mandatory energy benchmarking – CA, DC, Austin, Washington state, NYC**
- **SEC and other mechanisms for increased transparency of sustainability**



Bionic
Tower



Mata de Sesimbra, Portugal



BedZED Development

What's Ahead

Make an Impact
Go Zero



- **Vertical Cities**
- **Zero-Energy Buildings**
- **Carbon Neutral Cities**



Bionic
Tower



Mata de Sesimbra, Portugal



BedZED Development

Future of Green?



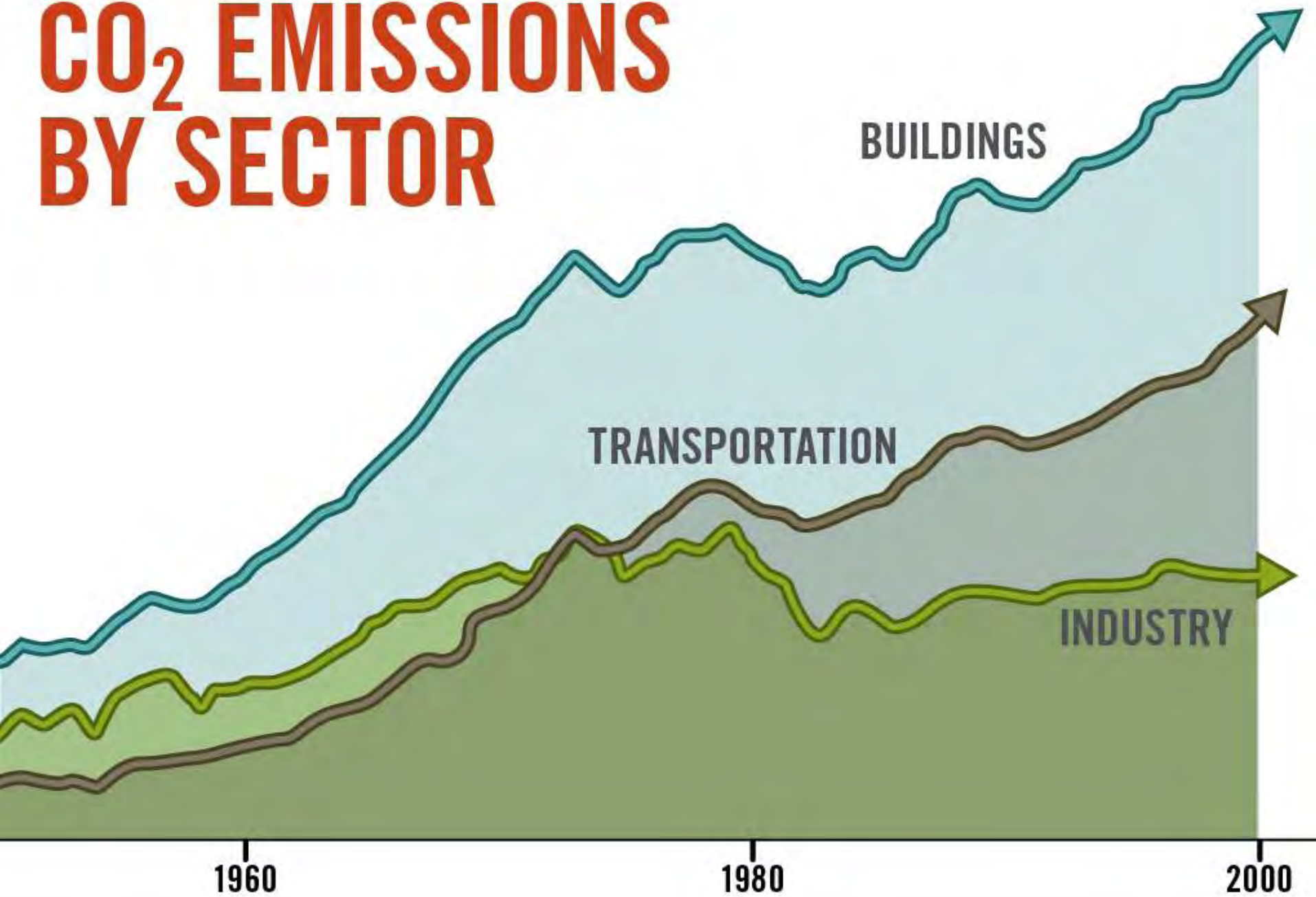
- Increasing demand by tenants for or requiring LEED & Energy Star
- Increasing use of green in valuation of real estate and business generally
- US (Regionally) and Global Carbon Emissions Cap & Trade Platforms on the rise

What does that mean for us?

Green buildings and sustainable operations are not a “value-added service” but increasingly a requirement for how to operate and how to compete



CO₂ EMISSIONS BY SECTOR



Carbon Emissions Trading

- Emission reduction strategies are coming
- Trading provides economic incentives for achieving reductions in emissions
- Program must be:
 - Quantifiable
 - Permanent
 - Verifiable and Certifiable
 - Not ‚business as usual‘



Existing Buildings are the Key!

- Existing Buildings, not utilities, need to accrue the credits or offsets for improvements buildings make
- CO2 market trading plan/legislation must allow the fair market to work by rewarding investors with the financial value of reducing emissions
- Monetization of energy efficiency improvements can create a mechanism for faster market transformation

What is Energy Performance Contracting?

What is it?

A contract mechanism for doing energy retrofits

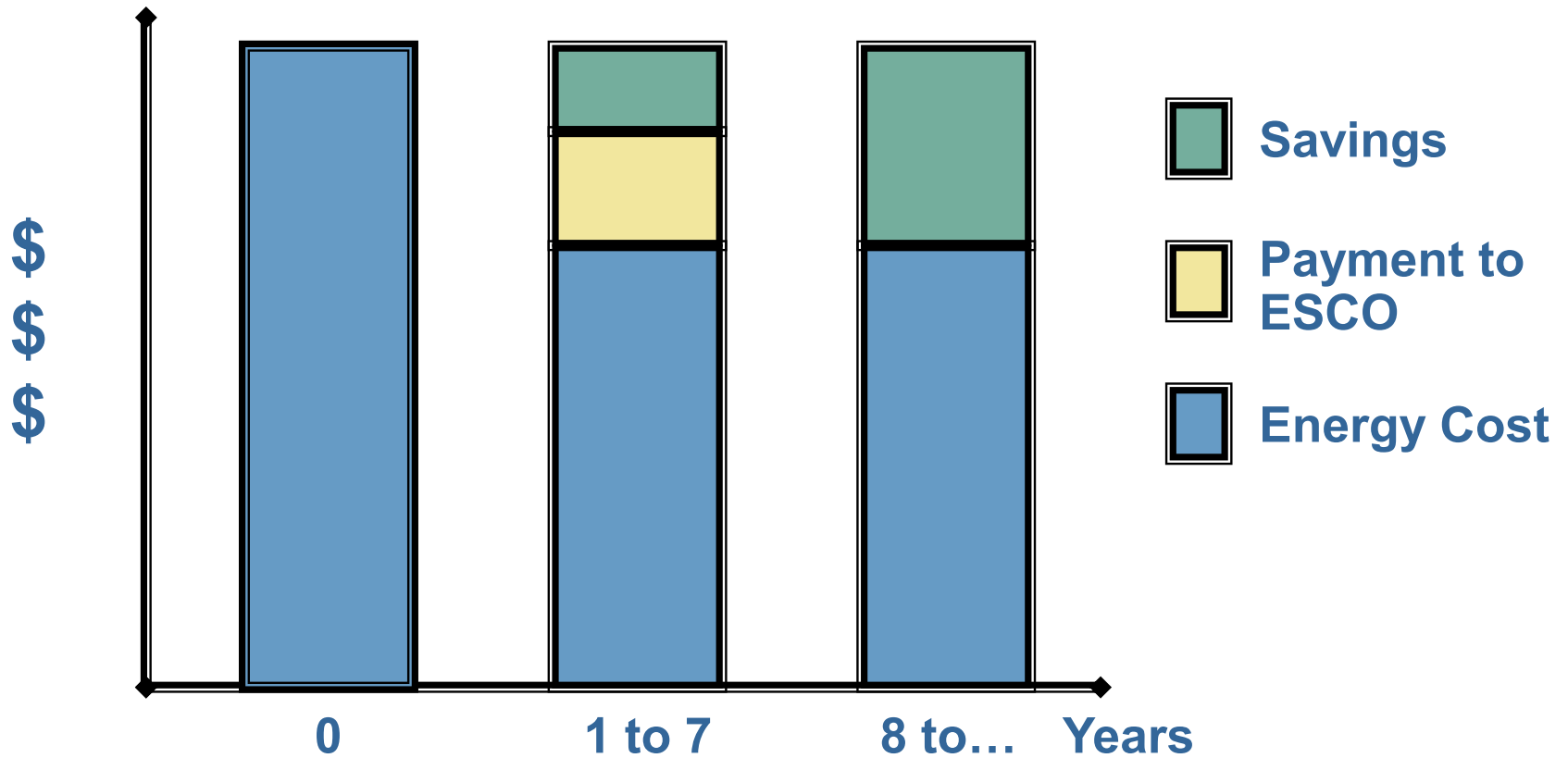
How it works:

Energy cost savings act as payment to energy service company (ESCO) until energy efficient upgrades have paid for themselves

Benefits:

- *No upfront cost*
- *Leverage financing and technical expertise of ESCO*
- *Retain ownership of equipment and ongoing savings*
- *Can use to incorporate greening, certifications*

Performance Contract Model



Assumes energy consumption and rates are level for demonstration purposes.

Clinton Climate Initiative (CCI) & BOMA Energy Performance Contract Model (BEPC)

- Developed an industry vetted standardized model for executing sophisticated energy retrofits
- CCI brings technical expertise and “best pricing” models
- Removing barriers for private sector – by standardizing key performance guarantee provisions, project development etc.
- Goal is to allow “non-energy experts” to execute on retrofits beyond the traditional “one-year payback” types historically done in the private sector



Solar as a Service

What is it?

A three party contract mechanism where the solar energy generator provides solar to your tenant

How it works:

Solar energy provider (SEP) contracts to sell solar energy to your tenant. SEP rents space on your roof for equipment – and pays for installation and maintenance of solar equipment

Benefits:

- *No upfront cost for owner or tenant*
- *Tenant gets green solar energy at rates competitive with tariff*
- *Building owner gets additional revenue (roof rent) with no capital outlay*

How Can You Execute?

Resources

- **BOMA International** www.boma.org – have educational offerings that can help
- **Energy Star** – www.energystar.gov
- **US Green Building Council** – www.usgbc.org
- **Service Provider Partners** – they want to assist, but you need to ask and in some cases “require” better sustainability and efficiency
- **Local Utilities** – have programs and professionals who can help
- **DSIRE** – has all incentives for efficiency and renewables nationally www.dsireusa.org



*Government
companies &
the public
increasingly will
be asking what
our industry is
doing...*

