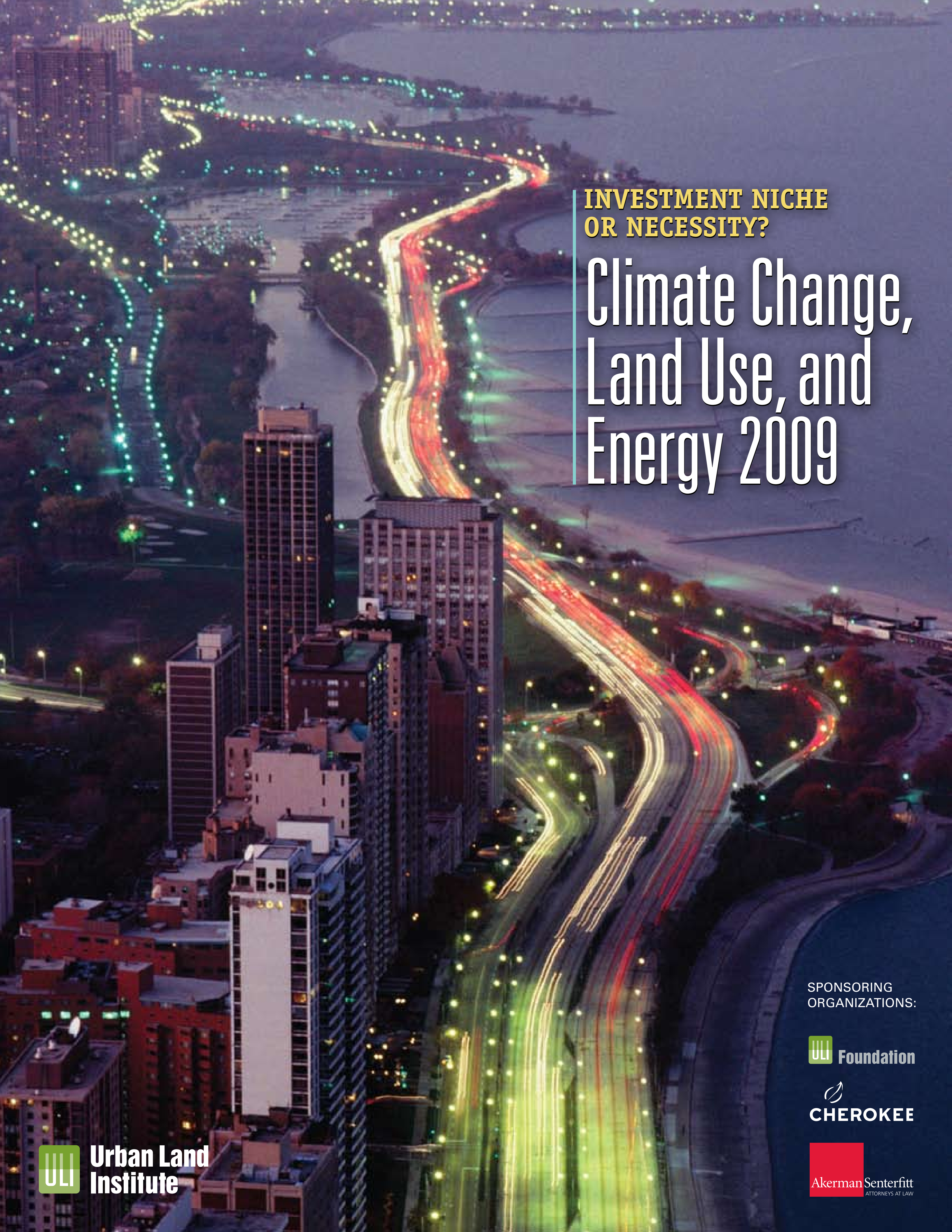

**INVESTMENT NICHE OR NECESSITY?**

# Climate Change, Land Use, and Energy 2009

SPONSORING ORGANIZATIONS:

ULI Foundation

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## About the Urban Land Institute

**THE URBAN LAND INSTITUTE** is a 501(c) (3) nonprofit research and education organization supported by its members. Founded in 1936, the Institute now has more than 40,000 members worldwide representing the entire spectrum of land use and real estate development disciplines, working in private enterprise and public service. As the preeminent, multidisciplinary real estate forum, ULI facilitates the open exchange of ideas, information, and experience among local, national, and international industry leaders and policy makers dedicated to creating better places.

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. ULI is committed to bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs by:

- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem-solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both built and natural environments;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

## ULI Statement on Climate Change, Land Use, and Energy

**THE URBAN LAND INSTITUTE WILL BRING ITS ORGANIZATIONAL RESOURCES** to the complex issues surrounding energy and climate change, acknowledging that the successful global reduction of greenhouse gas (GHG) emissions requires substantial investments in local communities. We believe ULI has the ability to foster new policies and solutions to address global climate change that are both feasible and effective at the nexus of land use, real estate, energy, and infrastructure. As an organization, we seek to move forward with new urgency by fostering leadership among ULI members and identifying the tools, techniques, and best practices needed to address difficult choices and tradeoffs, for which there are no precedents to measure decisions. We seek to empower individuals and organizations to solve one of the most important and complex long-term challenges ever faced by communities around the world, in a manner that meets the needs of the present, without compromising the ability of future generations to meet their own needs.

ULI recognizes that effective strategies to combat global climate change will require cooperative effort by all segments of the economy and all segments of society around the globe. Given the multifaceted challenge and the many exemplary efforts by organizations around the world to meet this challenge, ULI does not seek to duplicate the effective efforts of others, such as those focused on transportation technologies or building technologies. By focusing on issues at the core of the ULI mission—the responsible use of land—ULI seeks to make an important contribution within the emerging chorus of collaboration and partnership.

## Authors

**Uwe S. Brandes**
Vice President, Initiatives
Urban Land Institute

**Sabina Shaikh**
University of Chicago
RCF Economic and Financial Consulting


## ULI Principal Advisers

**Richard M. Rosan**
President, ULI Foundation

**Maureen McAvey**
Executive Vice President, Initiatives

**Matthew F. Johnston**
Research Manager, Initiatives
Principal Report Researcher

**Stephen Blank**
Senior Resident Fellow, Finance

**Ed McMahon**
Senior Resident Fellow
Charles E. Fraser Chair for Sustainable Development and Environmental Policy

**John K. McIlwain**
Senior Resident Fellow
J. Ronald Terwilliger Chair for Housing

**Tom Murphy**
Senior Resident Fellow
Klingbeil Family Chair for Urban Development

## Report Advisers

**Kate Q. Knight**
AIG Global Real Estate Investment Corp.

**Stephen Garfinkel**
Garfinkel + Associates

## ULI Project Staff

**James A. Mulligan**
Managing Editor

**Elizabeth Horowitz**
Publications Professionals LLC
Manuscript Editor

**Betsy VanBuskirk**
Creative Director

**Craig Chapman**
Director, Publishing Operations

**Colleen DiPietro**
Production Coordinator

## Book Design and Production

**John Hall Design Group**
Beverly, Massachusetts
www.johnhalldesign.com

**Cover:** Evening view over North Lake Shore Drive, Chicago, Illinois. © Glowimages/Getty Images.

## Dear Reader:

**ON BEHALF OF OUR INDIVIDUAL ORGANIZATIONS,** we are delighted to have supported ULI's first-of-its-kind report on the combined issues of climate change, land use, and energy. Together we recognize the crucial role land use and real estate must play in addressing this challenge, both in the United States and worldwide.

It is especially appropriate that the first report focuses on the state of investment practices, both with respect to the effects of the economic downturn on sustainable development, and with respect to the assessment of long-term risks and rewards within the real estate investment community.

We hope this report provokes discussion and offers insight into how land use professionals incorporate these complex issues into their business practices.

**Patrick Phillips**
President
ULI Worldwide

**Tom Darden**
Chief Executive Officer
Cherokee

**Andrew M. Smulian**
Chairman and Chief Executive Officer
Akerman Senterfitt

# PREFACE

**Business is the main delivery mechanism; we are the ones that own the majority of the technology. We are the ones that implement it in the marketplace. So whatever we agree as a plan forward on climate change, it has to make business sense.**

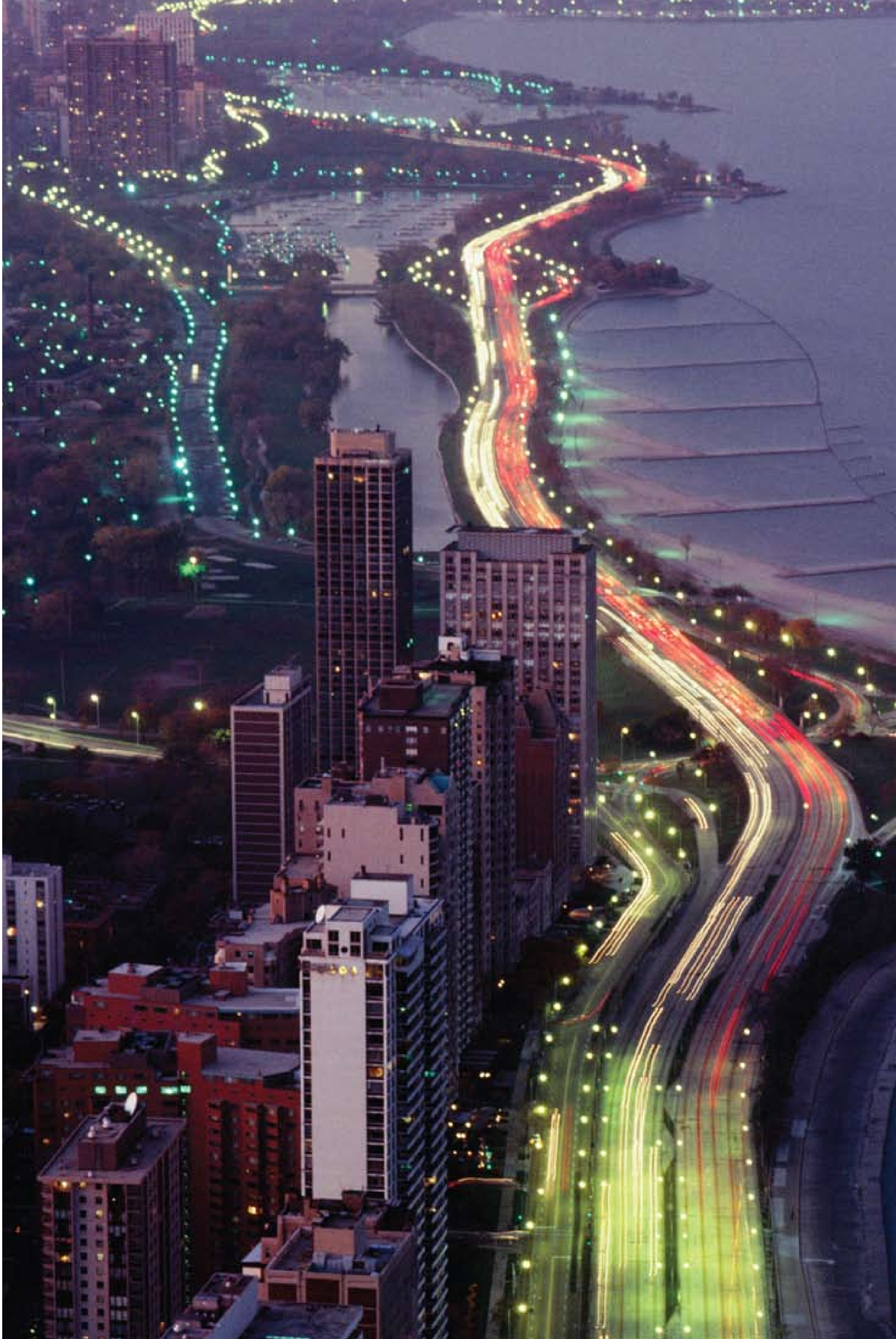
*— Björn Stigson, President, World Business Council for Sustainable Development*

**THE ASCENDANCY OF THE ISSUE OF GLOBAL CLIMATE CHANGE** is likely to have numerous and far-reaching effects on real estate business practices. But when does the conversation become numbers in a pro forma? ULI's Advisory Group on Climate Change, Land Use, and Energy (CLUE) recognized this critical question, putting "Making the Business Case" as ULI's top policy and practice priority in the area of climate change and energy. Combining the results of a ULI member survey of senior-level real estate investment leaders, an overview of recent academic research, and highlights of ULI's June *Investing Green* conference, this report provides a status update of how real estate investment and business practices are responding to or incorporating issues related to climate change and energy in the United States. The report explores how the real estate investment community—including individual investors, investment funds, and real estate lenders—generally views or is engaged in specific business practices associated with energy or climate change.

## First in a Series of Critical Insight Reports on Climate Change

As a point of departure for ULI, this report is the first in a series that explicitly engages the issue of global climate change. Future reports will review recent or pending changes in public regulatory frameworks and will examine real estate development practices and specific real estate product types.

Given the fast-paced evolution of green real estate practices, each report in this new ULI series is intended to be a tool to access more detailed sources, by including an annotated list of additional resources, specially compiled for readers who seek guidance on primary sources of research. ULI is positioning this series of reports as a hands-on information resource that compiles practical knowledge and critical insight derived from broad sources, including professional opinions and expert knowledge gleaned from land use professionals at a variety of ULI program events.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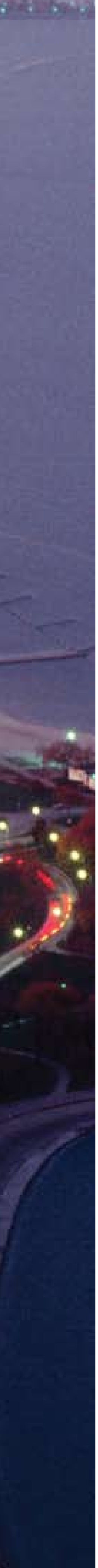

# EXECUTIVE SUMMARY

## For Investors, "Green" Still Means Dollars and Cents

**IN AN ENVIRONMENT WHERE THE NOISE** about environment-friendly green development can be distracting, if not deafening, caution reigns in the real estate investment community. In fact, investment leaders show moderate interest in exploring or capitalizing on new opportunities that may be presented by energy and climate change issues. Meanwhile, the longer-term prospects of integrating renewable energy into real estate investments or using investments to mitigate possible climate change risk hold limited appeal as investment necessities.Why not? It's the economy. In ULI's first report on the effect of climate change, land use, and energy issues (CLUE) on real estate investment and business practices, we heard that loud and clear. The global downturn soundly trumped emerging attempts to elevate benefits from green development as a driver of investment. For investors, "thinking green" today refers to bottom line dollars. Environmental issues play a factor only when they produce an immediate return or mitigate a quantifiable investment risk.

About 200 executive-level U.S. finance, lending, and investment leaders weighed in with frank opinions for ULI's survey on energy and climate change. The report finds that while finance leaders recognize the emerging importance of climate change and the new thinking about energy in the life-cycle of their investments, they are not yet aggressively incorporating these issues into their daily business equations or long-range investment strategy.

Even Washington's economic stimulus package, with its promised incentives for energy and climate change investment, has not prompted many to leap on the bandwagon. Instead, many investors say it is too early to tell if it will make much difference, and they are waiting to see how they will be hit by regulations yet to come, on the federal, state, and local levels. Concurrently, the growing importance of the climate change issue in policy-making circles makes the establishment of strong regulatory mechanisms more likely.

Traditional bottom-line factors like interest rates and job growth still lead investment analysis and resulting decisions. And what is the bottom line for energy and climate change issues? Energy is an easier sell and the "energy equals cash" equation resonates with all investors. Consideration of risk presented by climate change is only just emerging, both because the effects are not well understood and because of the indeterminate nature of quantifying long-term risk. Nevertheless, the leaders surveyed recognize that the industry cannot maintain this precarious balance on these issues over the long term, and only a small minority attempts to dismiss CLUE issues as irrelevant. Market innovators are doing what they can on a few fronts, such as adopting energy-efficiency analysis, management, developing internal professional expertise, and developing metrics to define outcomes.

However, as the economy and real estate markets rebound, the future may hold another growing pain for investors—riding out the costs of adapting to a low-carbon economy.

## Capturing the Big Picture on Climate Change and Energy Issues

This emerging reality is not without opportunity. For this report, the exclusive survey material has been combined with data and thought leadership gathered at ULI events and through research. In this way, we have built an information toolbox to give the basics on CLUE; new trends in business practices; emerging thinking on valuation, external markets, and quantifying value and risk; and core references.

Selected highlights from the report include:

- **Energy efficiency becomes part of due diligence.** Eighty percent of firms are incorporating energy-related questions into their data gathering before completing a transaction. A minority are beginning to consider secondary location-based energy consumption related to transportation and transit availability.
- **Policy making can cause paralysis.** Many investors are waiting to see what new regulations will require of them before making investments or changing business practices.
- **Certifications are not universal.** From EPA Energy Star to Leadership in Energy and Environmental Design (LEED) certification to other European benchmarks, the widely accepted rating systems do not carry equal weight for all businesses. Instead, many are developing internal metrics to benchmark their progress and define success.
- **Investment in training is on the rise.** More companies are paying for professional development and cultivating internal expertise in sustainability-related issues.
- **Energy analysis is ensconced in property management.** Investors see the value here and have found some best practices to realize additional benefits. The business of capturing energy efficiency represents one of the most creative and entrepreneurial activities in real estate today.
- **Defining and pinpointing risk matters.** Professional liability, regulatory creep, and changes in underlying site assumptions are seen as prevalent factors that introduce CLUE-related risk into investment decisions. The emerging concern is the process of obtaining development entitlements.

In summary, although climate change is not identified as a dominant factor for investors, there is sentiment that it is a growing concern, particularly in the areas of mitigating investment and enterprise risk. In the meantime, real estate investors are looking to reduce operating costs in building assets through modest investments in energy efficiency.