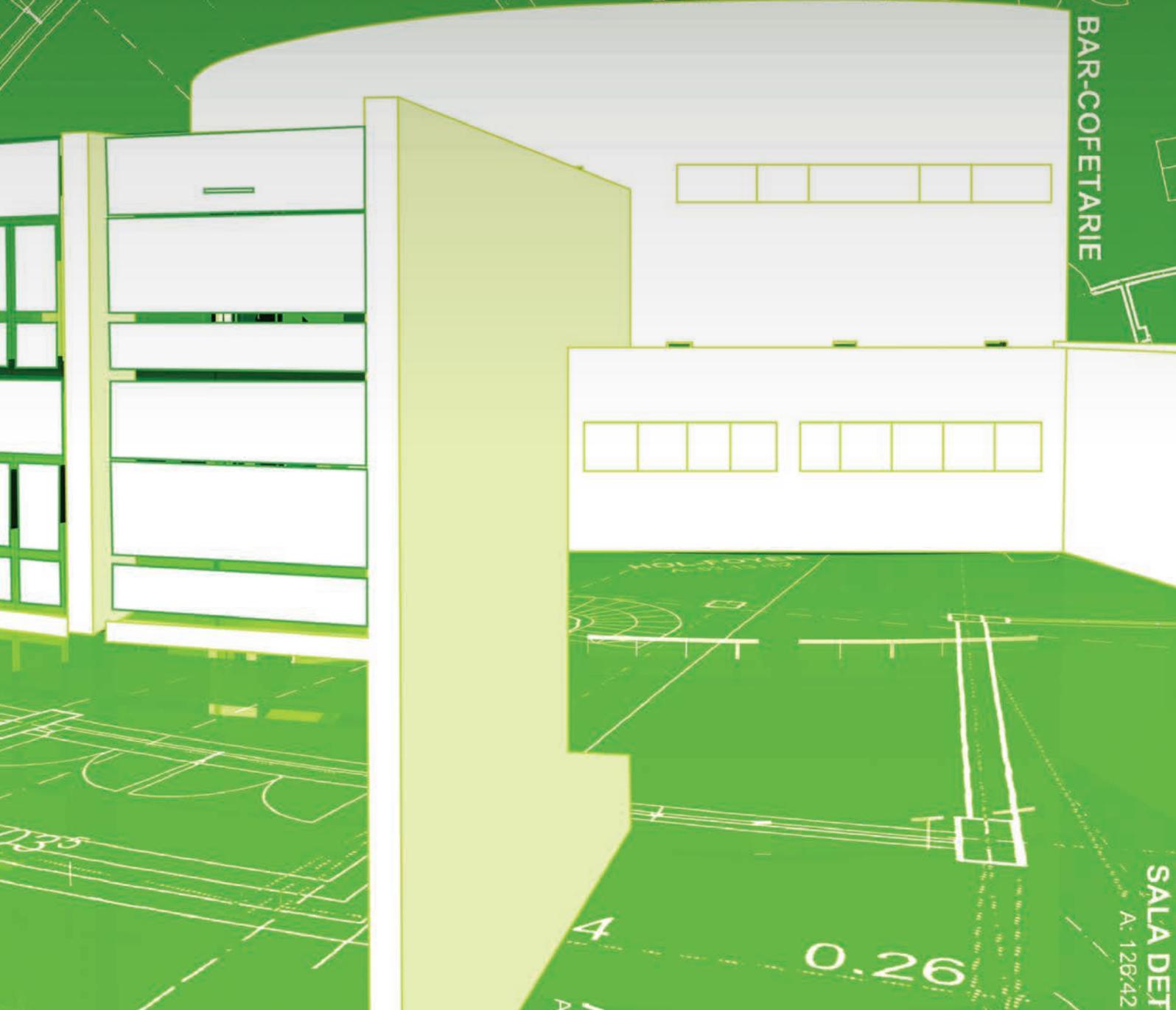




TOWARDS A GREENER FUTURE

DLA Piper's market report on sustainable real estate





“

Sustainability has become increasingly important in our organisation over the past few years. As a leading developer and manager of shopping centers in Europe we are aware that our projects form an integral part of urban planning and we are committed to helping cities realise their aims of reducing carbon emissions.

”

**Dr. Stephanie Dutzke-Wittneben,
LL.M., Chief Sustainability Officer**

**ECE Projektmanagement G.m.b.H.
& Co. KG**

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INTRODUCTION

We asked people across the European real estate industry a series of questions about trends in sustainability, green certification and documentation and the reasons for the increasing importance of sustainable real estate. Our findings are based on a survey of more than 100 real estate investors across Europe including Belgium, Germany, Italy, Spain, Portugal, Hungary, Poland, the Netherlands, Russia, Norway, Switzerland and the UK.

Whilst the nuts and bolts of real estate investment and development have remained the same, increasing awareness of sustainability – by government, business and consumers – poses a new set of challenges for the property industry. Two principle issues make this complex: local and regional differences in law and practice around green real estate and the lack of common language – what sustainability actually means differs for investors and developers across Europe. The DLA Piper sustainable real estate market report delves into these areas to highlight key trends and themes in sustainable real estate and provides an outlook for the sustainable real estate market in Europe.

Many have considered that the costs of sustainable development are too high, however our report suggests that higher investment costs are acceptable to achieve the right result. Principally, the reason for this is market demand for the end product, rather than legislative coercion or an articulated mission statement.

Green certification or badging has its critics, with many considering LEED, BREEAM, DGNB and others as being rigid, points based award systems. Others point out that the schemes are less concerned with outcomes than with the theory of sustainable building design and expressing good intentions. However a huge majority consider green certification as important for development of, or investment in, new buildings. There is a clear sense of frustration at the number of green badges which have developed on national lines but which have been exported. A harmonization of certification standards would provide an efficient and popular benchmark for the industry and would facilitate a truly pan-European or global indicator for international developers, investors and occupiers.

Despite the turmoil in the real estate industry over the past decade, and focus on ‘the bottom line’ and tighter lines of credit, sustainability appears to have avoided being side lined and despite cost cutting and trimming of budgets, seems to have survived, and indeed flourished.

More than 100 stakeholders in the real estate investment market participated in our survey, looking at issues relating to sustainability in real estate. As liquidity improves and both the investment and the occupier markets see more activity there is a question as to whether sustainability will become of lesser importance. Yield compression and a desire to secure long term income in a market with little stock dominates the prime investment market. In terms of development, the picture is mixed as banks and other financial institutions start to dip their toe back in to the water of development finance. Are green issues still relevant?

The occupier market is seeing a trend towards sustainable behaviour, with many corporate and consumer-facing businesses not only seeking cost-reduction but increasingly seeing their buildings as playing key roles in brand communication and reflecting their business ethos. As it becomes a key issue for occupiers it will ultimately drive investor behaviour; prime investments may become weighted in favour of sustainable buildings that meet occupiers’ needs and the definition of “prime” may change, with market demand driving sustainable real estate to become what is perceived as the best investment.

EXECUTIVE SUMMARY

Real estate is responsible for the majority of Europe's carbon emissions. The real estate industry will be at the forefront of any reduction in carbon and other sustainability improvements.

The crises which beset the property market over the past decade caused a dislocation of property values and trends. Despite this, the relevance of sustainability has only increased during this period.

Unlike many other measures and changes involving the fabric of buildings, sustainability is not a reaction to demands of legislation/statute. It has many drivers. This report highlights the fragmented reasons why the industry has embraced green real estate.

Unlike consumer goods, buildings are co-located and non-standard. A simple rating system for a building's sustainability is not suitable. However investors desire a certification standard which allows peer comparison and benchmarking. The range of certification systems is seems as confusing and a barrier to further sustainable take up.

Green leases and property management agreements go some way to driving sustainable real estate forward, however, they are not a panacea for the industry. The variety of reasons for sustainability (a green premium/brown discount, lower energy costs, corporate governance, etc.) and the rapid change in the market means these long term contracts can't always be malleable enough.

“

Market demand for sustainable properties is generally increasing. One of the key elements of Allianz Real Estate's sustainability program is to work together with our tenants and implement asset-specific sustainable strategies based on Green Rating property assessments. With this strategy we optimize our buildings' performance in a sustainable way.

**Christoph Wildgruber, MRICS,
Head of Sustainability**

Allianz Real Estate GmbH

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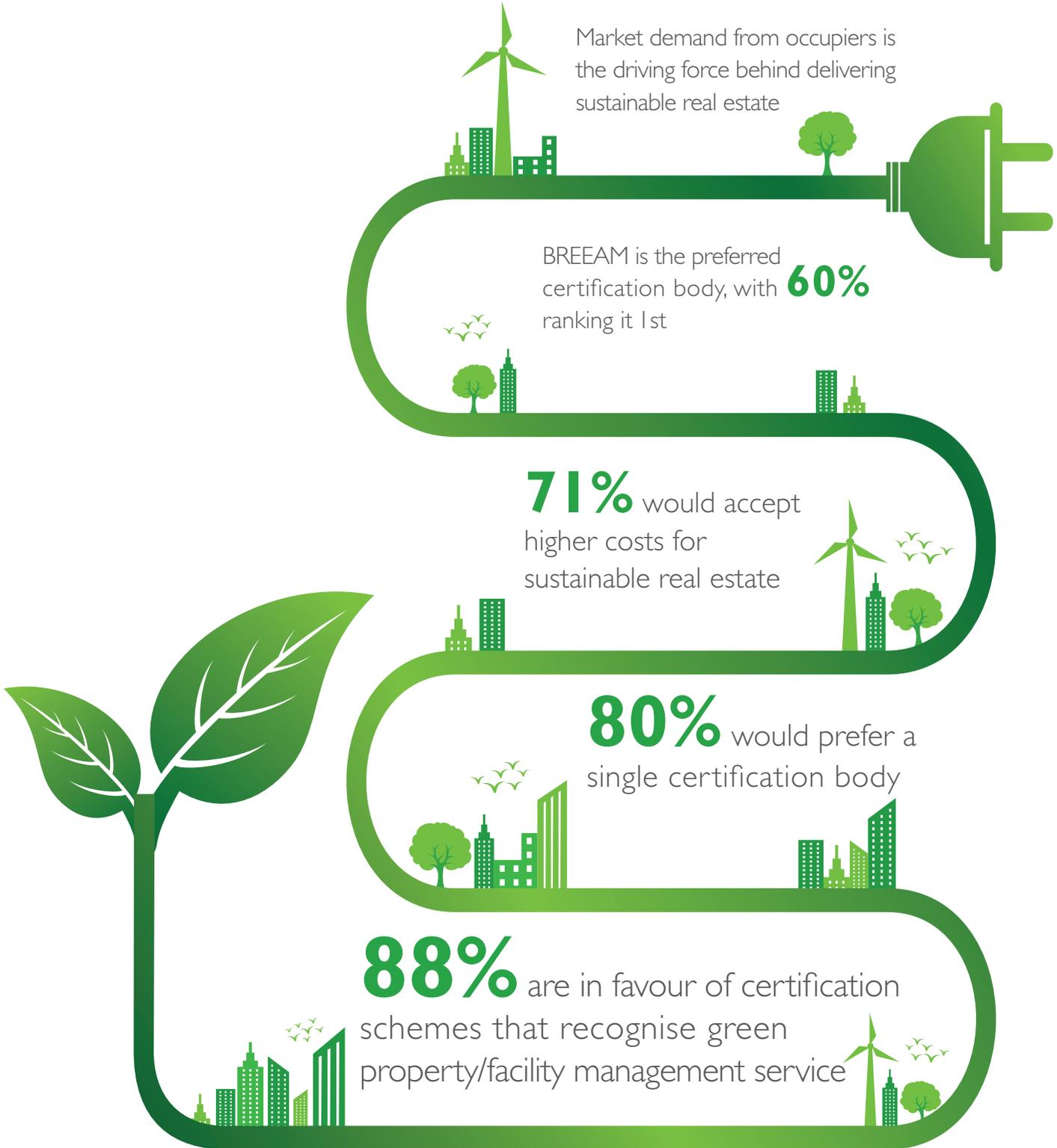
At Unibail-Rodamco sustainability is seen as a competitive advantage: accelerating differentiation, creating new business opportunities and sustaining the Group's economic performance on the long term.

**Christophe Garot, Synergy
& Expertise Director, Group Head
Of Environmental Sustainability**

Unibail-Rodamco

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KEY FINDINGS



Market demand from occupiers is the driving force behind delivering sustainable real estate

BREEAM is the preferred certification body, with **60%** ranking it 1st

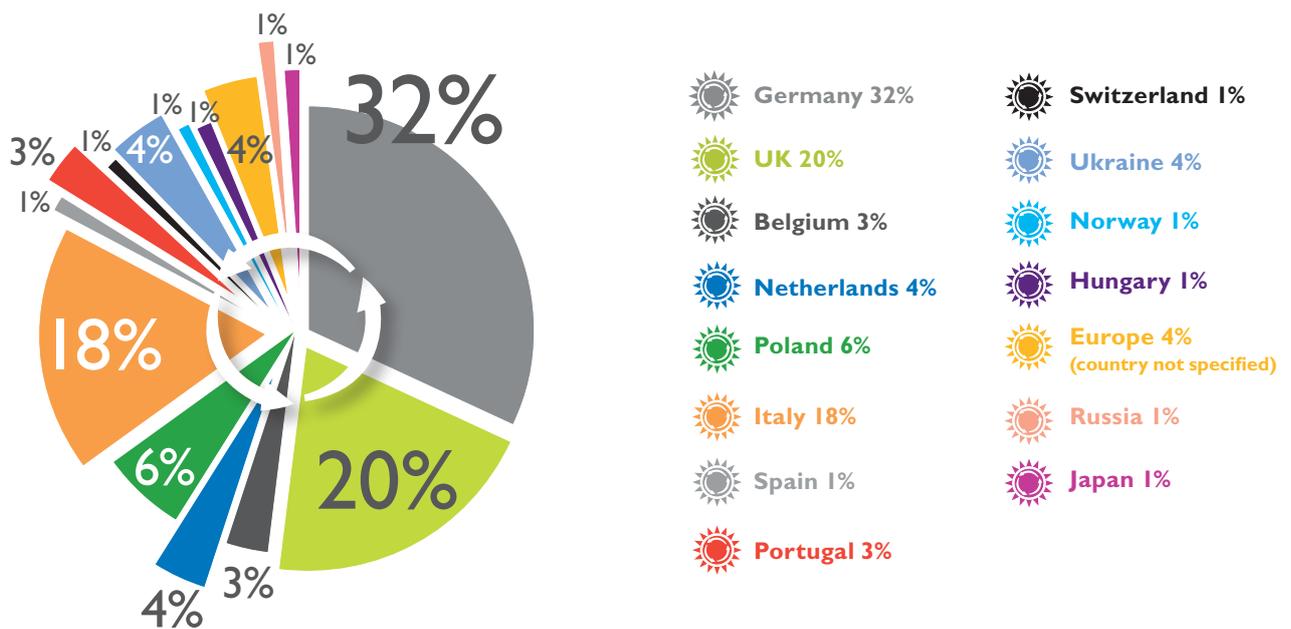
71% would accept higher costs for sustainable real estate

80% would prefer a single certification body

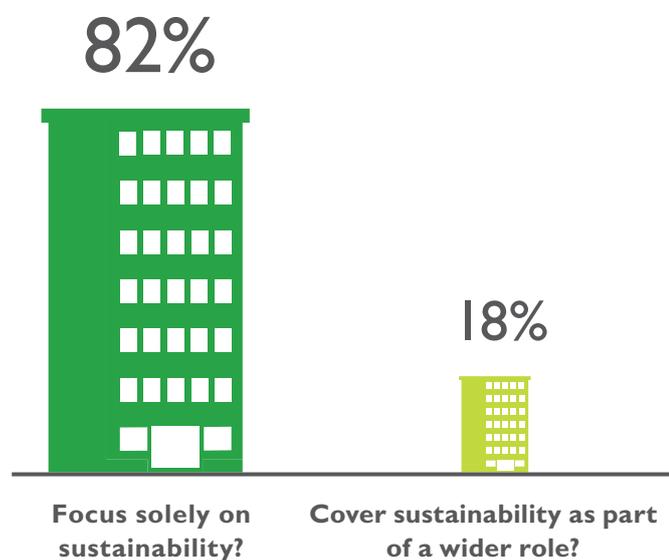
88% are in favour of certification schemes that recognise green property/facility management service

HOW DO REAL ESTATE STAKEHOLDERS APPROACH SUSTAINABILITY?

I. IN WHICH COUNTRY ARE YOU BASED?



2. DOES YOUR POSITION AT YOUR COMPANY:



Responses have come from leading real estate companies across Europe, the majority of which invest in or develop real estate on a pan-European or global level. The majority of these consider sustainability within the context of their wider investment remit, although 17% have a role within their organization which exclusively covers green and environmental issues.

“ We expect sustainable RE to yield better returns in the long run. ”

Given this geographical spread, we were keen to establish whether there is a common understanding of sustainability, given that there is no single legal definition of the term agreed across the continent. As examined later in the report there is also no single certifying body, so criteria for certification varies considerably. 94% of all respondents agreed that they consider sustainability to be “(i) environmental friendliness, (ii) economic efficiency and (iii) respect for socio-cultural issues”, but only 77% of those whose role focuses solely on

“ Acceptance [of higher investment costs] is based only on achievable certification. ”

3. DO YOU AGREE WITH THE DEFINITION OF SUSTAINABILITY AS BEING (I) ENVIRONMENTAL FRIENDLINESS, (II) ECONOMIC EFFICIENCY AND (III) RESPECT FOR SOCIO-CULTURAL ASPECTS?



RESPONSE PERCENT

YES

93%

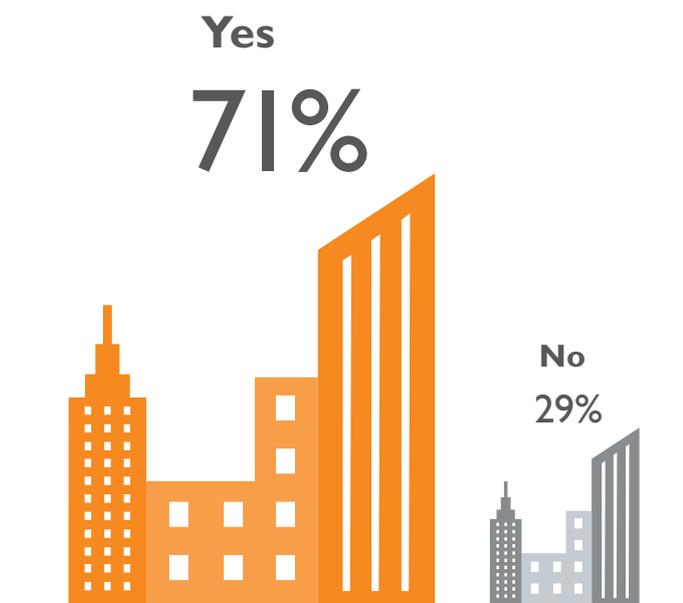
NO

7%

sustainability accepted this definition. Many stated that they preferred the term of ESG (Environmental, Social and Governance) which describes a broad range of non-financial factors taken into account when assessing corporate prospects. Unsurprisingly, many in this group are more inclined to interrogate broad definitions of sustainability, considering that any definition should be in the context of protecting and enhancing fund and asset performance.

When considering the willingness to incur higher investment costs for acquiring or developing more sustainable real estate, 73% of respondents agreed that their organizations would accept this. When viewing the data for the three countries with the largest representation in this survey, German, Italy and the UK, responses remained positive but were more varied: 56% of German respondents would accept higher costs, rising to 66% in the UK and 83% in Italy. When commenting on this question there was a reverse correlation: numerous Italian respondents capped additional costs at 3-5%, whereas the upper limit cited by some German respondents was as high as 10%.

4. WOULD YOUR ORGANIZATION ACCEPT HIGHER INVESTMENT COSTS FOR SUSTAINABLE REAL ESTATE?



“ We would potentially pay a higher price for a lower risk (more sustainable) asset. ”

Several respondents pointed to the real or expected higher future income/capital gains from green buildings and that higher investment costs would be accepted if there was still some arbitrage between the cost and the expected return. These respondents were cognizant of the subtle blend of not only capital and income gains, but also of the lower operational costs and higher rents.

“

Sustainability is a core value for Art-Invest. We continuously try to optimize the sustainability of our assets in general – the building and the management. With the main focus being a long term strategy, Art-Invest Real Estate endeavors to create added value for all parties involved.

Stephen von der Brüggen, Senior Investment Manager

Art-Invest Real Estate Management GmbH & CO. KG

”

“

Skanska is determined to be the leading Green project developer and contractor. We have to live Green to build Green – Our environmental performance is critical for the foundation of our Green business aspirations.

**Stian Levi Andresen, Business
Development / Acquisition & Transaction**

**Skanska Commercial Development
Norway AS**

”

“

High standards in terms of ecology are one of the essential conditions for the proper functioning of our centres in Poland and abroad. Currently, 100% of outlet centres managed by NEINVER Group in Europe are operating in accordance with the requirements of the BREEAM “green certificates”.

Cezary Kopij, Project Manager

NEINVER Polska

”

CERTIFICATION



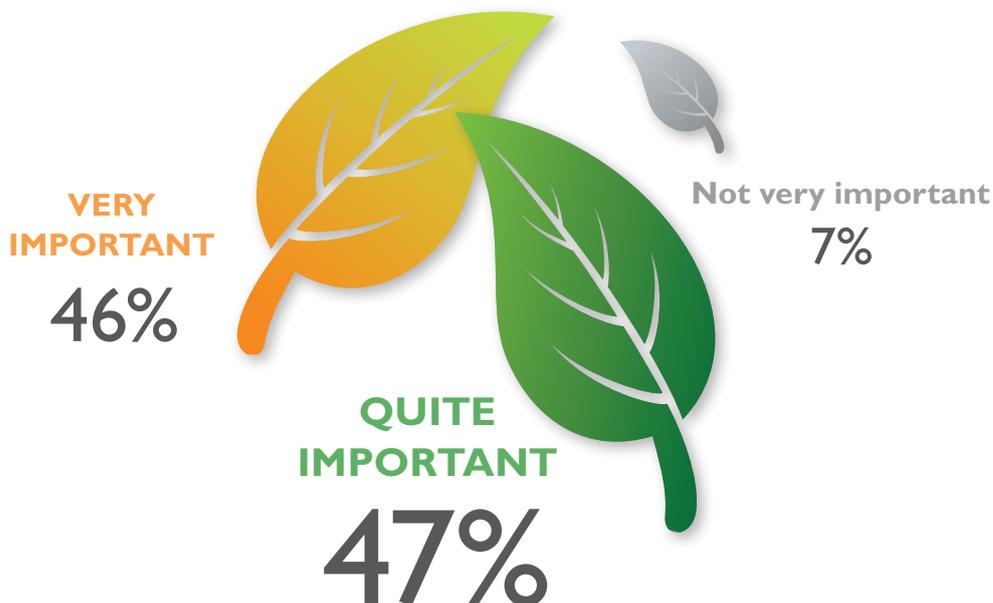
Green certification bodies have been an important driver of sustainable approaches and investor interest. Without a single measurable matrix or benchmark for green approaches being mandated by central government or emerging in the market, certification is seen as a useful independent badging of buildings to evidence to stakeholders, purchasers and tenants the environmental credibility of an asset. Perhaps of equal importance, with such a diverse level of sophistication in green issues, certification provides a useful snapshot of a building's sustainable performance or capability.

When considering the importance of green certification for new buildings, 45% of respondents considered obtaining such a badge very important and 48% considered it quite important. When viewing the responses to this question at a country level there was a difference of opinion between the UK and continental Europe: 27% of UK respondents considered certification very important and 73% considered it quite important, compared to 54% of German respondents and 71% of Italian respondents considering certification very important and 34% and 21% respectively considering it quite important.

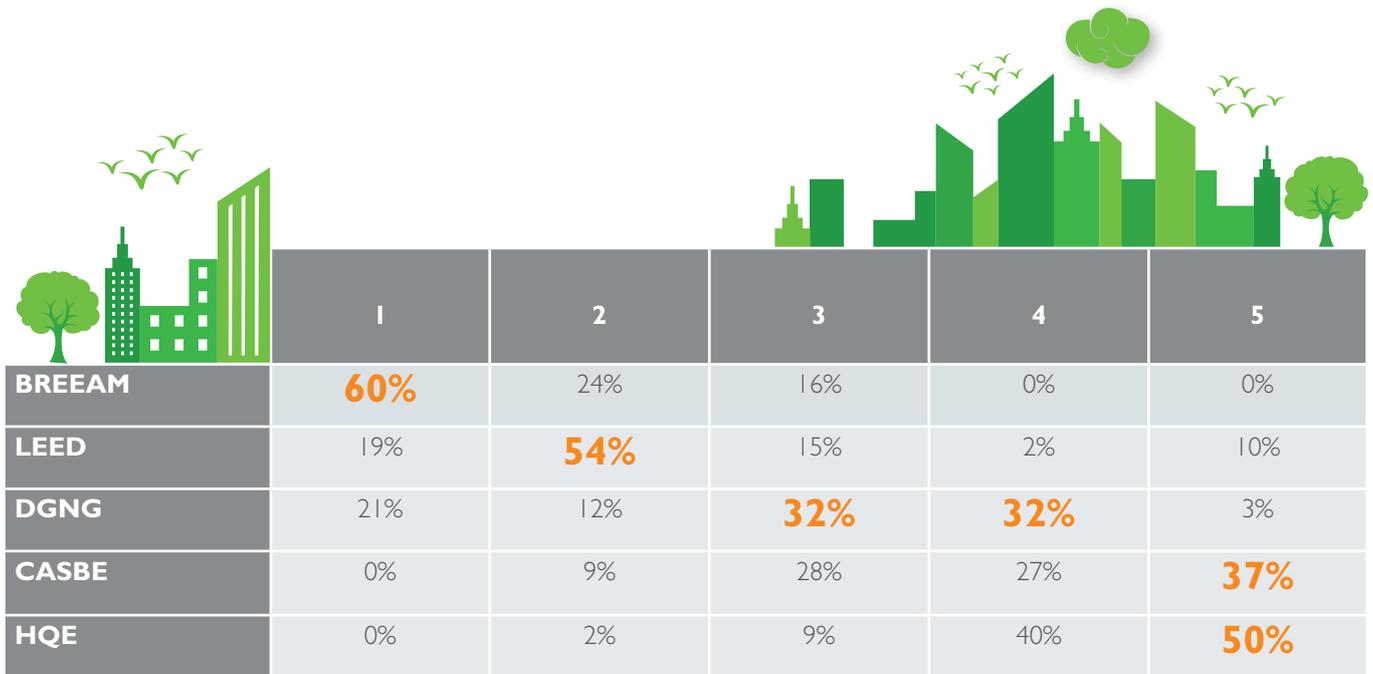
There are currently five principal national or international green standards - the U.S. based LEED (Leadership in Energy and Environmental Design), the British BREEAM (Building Research Establishment Environmental Assessment Methodology), CASBE (Council Alliance for a Sustainable Built Environment) from Australia, the French HQE (High Quality Environmental standard) and the German DGNB (Deutsche Gesellschaft für Nachhaltiges Bauen, or the German Society for Sustainable Construction). We asked participants to rate each of the bodies from 1 to 5, 1 being the most preferred and 5 being the least preferred.

BREEAM was clearly the preferred body, with 59% placing it first, and LEED was a stand-out second, taking 52%. There was little difference in the popularity of BREEAM certification in its domestic UK market and elsewhere, perhaps indicating that it has succeeded in breaking out of being considered a domestic agency and its strategy of working with local representatives to ensure that it offers local focus and flexibility is one that has worked.

5. WHEN DEVELOPING OR INVESTING IN NEW BUILDINGS HOW IMPORTANT IS GREEN CERTIFICATION?



6. PLEASE RANK THE FOLLOWING CERTIFICATION BODIES FROM 1-5 IN TERMS OF YOUR PREFERENCE FOR EUROPEAN REAL ESTATE DEVELOPMENT OR INVESTMENT:



Despite being a US agency, LEED was still considered a solid second preference across Europe. There was no clear data as to whether its high ranking was due to the rigour of its certifying system or whether it scores highly as it is a readily recognizable international brand that is understood, respected and sought out by North American investors and occupiers.

When looking at the responses from those whose roles focus soles on sustainability preferences were more pronounced, with 83% placing BREEAM first and 75% placing LEED second.

79% of respondents would prefer a single certifying body. Those with a sole sustainability focus had a slightly lower result at 69%, perhaps an indicator of their requirement for certification that is fully compatible with their own ESG criteria.

“ binding legal obligations influence behaviour. ”

7. ARE YOU IN FAVOUR OF A SINGLE GREEN CERTIFICATION BODY, RATHER THAN NUMEROUS OPTIONS?



“

Sustainability has become increasingly important in our investment strategy over the past few years. As a leading residential investment trust in Belgium we are aware that our buildings and new developments form an integral part of urban planning and we are committed to contribute helping cities reducing carbon emissions.

Alexander Hodac, Chief Commercial Officer

Home Invest Belgium S.A./N.V.

”

“

Sustainability is embedded within Henderson's responsible property investment strategy. Whilst challenges remain around the quantifying and labelling of sustainability performance across different asset classes and countries, we believe such measures assist in future-proofing buildings thus providing a tangible value.

**Jenny Pidgeon, Head of Sustainability,
TIAA Henderson Real Estate**

Henderson Global Investors

”

DRIVING A SUSTAINABLE APPROACH

We asked whether green lease provisions were necessary to drive sustainable approaches. The results showed a diversity of response. Nearly 90% considered green lease provisions to be “quite necessary” or “completely necessary”, however when asked for further details the comments indicated a frustration as to take up of green lease provisions and a feeling that these provisions would drive landlord/tenant dialogue and influenced tenant engagement. Some recognized that the internationalization of property led to these provisions being of importance even where there was little current domestic interest. One Italian investor said “In Italy, green

lease provisions often aren’t used...to obtain and maintain a LEED Certificate for Existing Buildings, the green lease provisions must be respected”. One of the UK respondents summed up the position by saying that “Tenant engagement is most important, combined with sharing of data – this is often referred to in a green lease. I am not convinced that green lease clauses are very often referred back to once signed, but they provide a useful backstop and can begin a conversation”. Many other comments echoed similar views of the aspirational place of green lease provisions, albeit recognizing that the reality often fell far short of this.

8. HOW NECESSARY ARE GREEN LEASE PROVISIONS TO DRIVE SUSTAINABLE BEHAVIOUR?



“

Parsitalia develops real estate with a focus on sustainability, all our buildings comply with the highest standards in the Italian market practice.

Luca Parnasi, CEO
Parsitalia S.p.A.

”

92% were in favour of green certification schemes recognizing how users occupy a building. This would primarily require green lease provisions being embedded and considered by the certifying agency.

When we asked about the importance of the role and green credentials of managing agents and asset managers we found that it was generally considered important, with nearly 85% of respondents considering it “very important” or “quite important”. Amongst those with a more nuanced understanding, 62% considered it “very important”, reflecting their requirement for agents to have a much more detailed understanding of their needs - for this segment, this greater understanding is a “need to have”, not a “nice to have”.

The formality of a legally binding agreement between property owners and property managers was seen as key.

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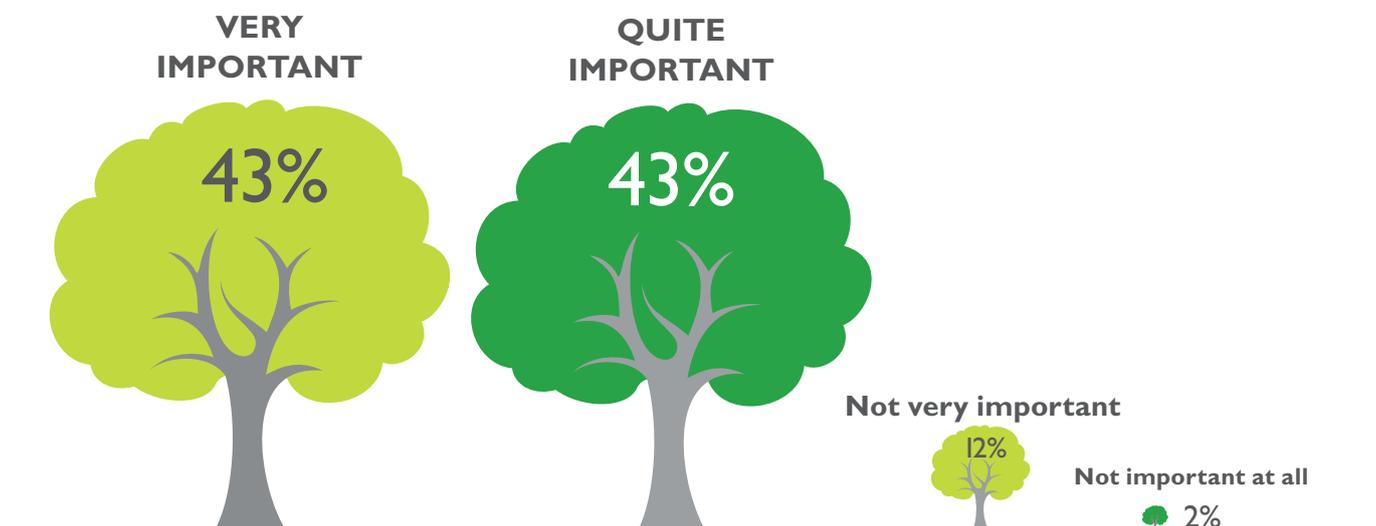
[green lease provisions] are probably the only real way to make sure that tenants really connect with sustainability

”

9. ARE YOU IN FAVOUR OF GREEN CERTIFICATION SCHEMES THAT RECOGNIZE USER BEHAVIOUR (E.G. GREEN LEASE AGREEMENTS)?

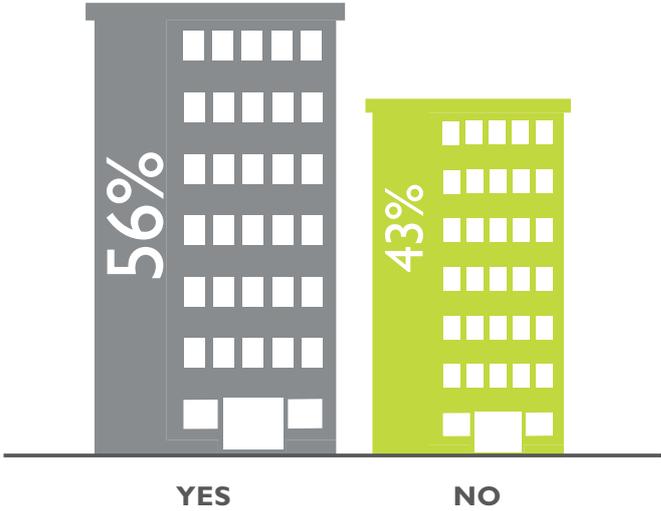


10. HOW IMPORTANT ARE THE ROLE AND GREEN CREDENTIALS OF MANAGING AGENTS/ASSET MANAGERS FOR DELIVERING A SUSTAINABLE REAL ESTATE PRODUCT?



Green property management agreements have, to date, had less widespread use than green lease provisions, with the UK using them more than either Italy or Germany (64% as opposed to 55% and 38% respectively). Despite this, there was a widespread desire (over 85% of respondents) to see green certification have regard to green property or facility management agreements). Comparing our three largest countries in terms of response rates, favourability was particularly strong, with 80% in Germany, 91% in the UK and 100% in Italy favouring a new approach to certification that recognises green property or facility management agreements.

II. HAVE YOU USED GREEN PROVISIONS IN THE PROPERTY MANAGEMENT AGREEMENTS?



12. ARE YOU IN FAVOUR OF GREEN CERTIFICATION SCHEMES THAT RECOGNIZE GREEN PROPERTY AND/OR FACILITY MANAGEMENT SERVICES?



“

It encourages dialogue. The biggest challenge is stopping [green lease provisions] being removed before either side has considered them.

”

“

Green building standards will play a crucial role in the future. Faced with increasing sustainability regulations and the increasing importance of green building issues, investment managers need assets that are environmentally-friendly and resource-efficient. However, the industry yet lacks a common definition of what establishes a green building.

Dr. Tim Schomberg, Portfolio Manager

Catella Real Estate AG

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At Santander Real Estate we are increasingly concerned about sustainability. Developing green real estate is one of the best manners to differentiate from competitors and to ensure long term investments. We have perceived a clear and rising demand on the markets.

José Miguel Royo, Secretary of the Board

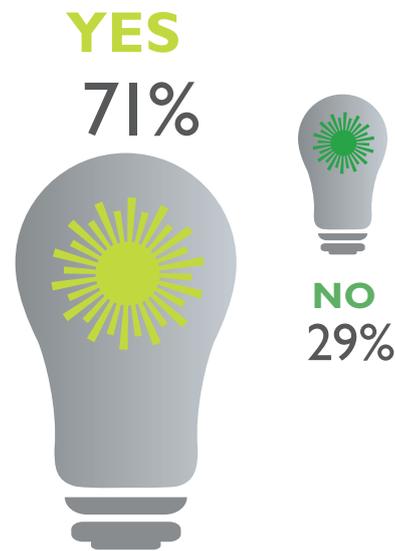
Santander Real Estate

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THE BENEFITS OF SUSTAINABLE REAL ESTATE

We asked respondents what they considered the prime benefit of sustainable real estate to be. Overall, the key benefit was considered to be financial, with a correlation between those respondents who considered the prime benefit of sustainable real estate as financial (whether through value preservation or by way of energy cost efficiency) with those who saw the issue as being “quite important” or “very important” to their organization. In contrast, those who attributed no or little importance to sustainability considered that the benefits of green real estate were reputational. The key driver for companies to deliver sustainable real estate was market demand, with other options all lagging behind. When considering various segments of respondents, all tended to reflect the results of the overall survey, Italy proved the exception to this, with bottom line profit/revenues seen as the key driver (36%) and market demand and brand profile both lagging behind at 18% each.

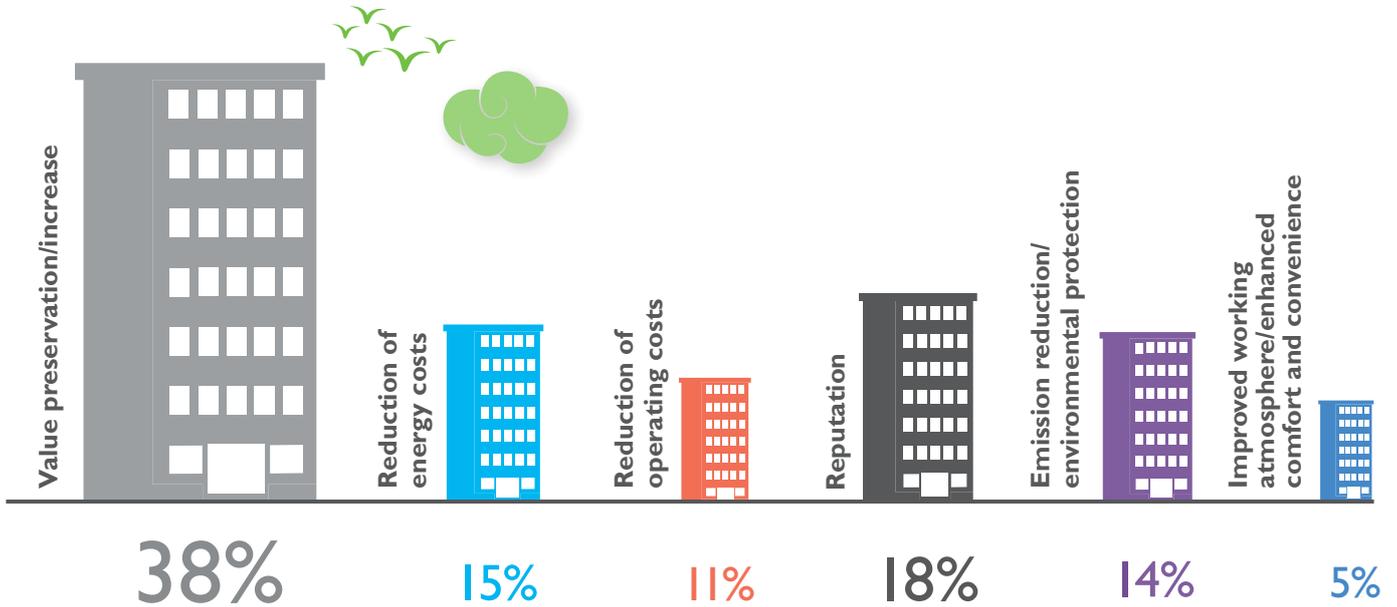
13. DO YOU THINK THAT BINDING PROVISIONS IN LEASE AGREEMENTS AND PROPERTY MANAGEMENT AGREEMENTS ARE ESSENTIAL FOR A SUSTAINABLE USE AND MANAGEMENT?



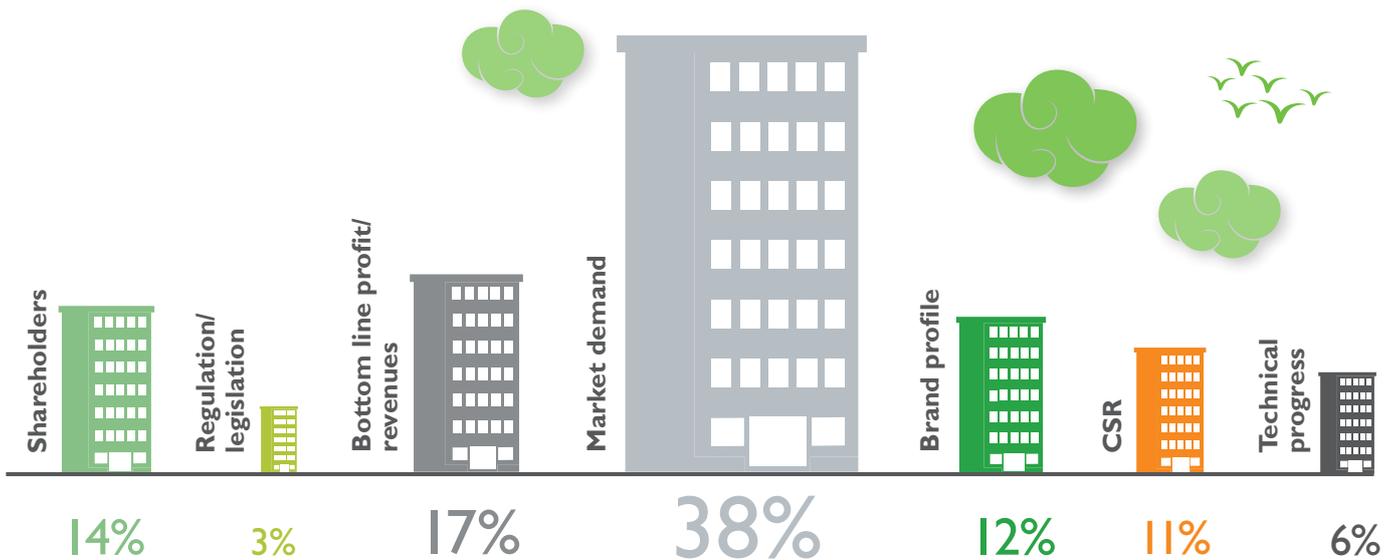
14. DO YOU THINK THAT THE RANGE OF SUSTAINABLE PROPERTY AND/OR FACILITY MANAGEMENT SERVICES CURRENTLY AVAILABLE IN THE MARKET ARE TOO LIMITED?



15. WHAT DO YOU CONSIDER TO BE THE PRIME BENEFIT OF SUSTAINABLE REAL ESTATE?



16. WHAT IS THE SINGLE MOST IMPORTANT REASON FOR YOUR ORGANISATION TO DELIVER SUSTAINABLE REAL ESTATE PRODUCTS/ STRATEGY?



Finally, we asked whether there was a “green premium” in terms of market rents or yields/cap rates. Opinion was widely spread, with the majority of participants considering that at present the premium is low. However, whilst it may not yet be fully recognized, occupier demand is altering and the change in market demand is likely to drive a green premium indirectly.

Our survey has borne out what our clients have been telling us – sustainable real estate is here to stay. Whether for long term value preservation or a more short term eye to energy cost reductions, investors are moving this from a fringe issue to a key consideration.

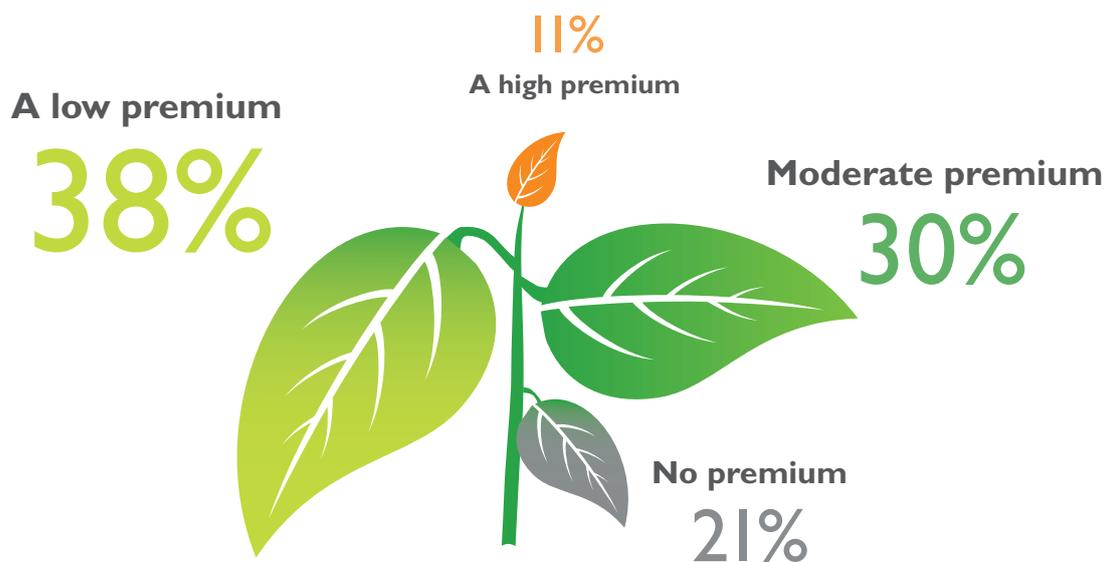
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Sustainability is a key consideration for our development projects across Europe. Our aim is not only to meet today’s environmental standards and reduce carbon emissions, but also to demonstrate a clear and measurable competitive advantage to our customers.

Trish Barrigan, Senior Partner
Benson Elliot

”

17. TO WHAT EXTENT DO YOU SEE A ‘GREEN PREMIUM’ IN TERMS OF MARKET RENTS OR YIELDS/CAP?



This report is based on an online survey of more than 100 professionals whose role is partially or wholly focussed on sustainability at leading real estate companies.

DLA Piper thanks ECE Projektmanagement G.m.b.H. & Co. KG, Unibail-Rodamco, Allianz Real Estate, Art-Invest Real Estate Management GmbH & CO. KG, Skanska Commercial Development Norway AS, NEINVER Polska, Home Invest Belgium S.A./N.V, Henderson Global Investors, Parsitalia S.p.A., Catella Real Estate AG, Santander Real Estate, Benson Elliot, and PingProperties Investment Management for their additional contributions.

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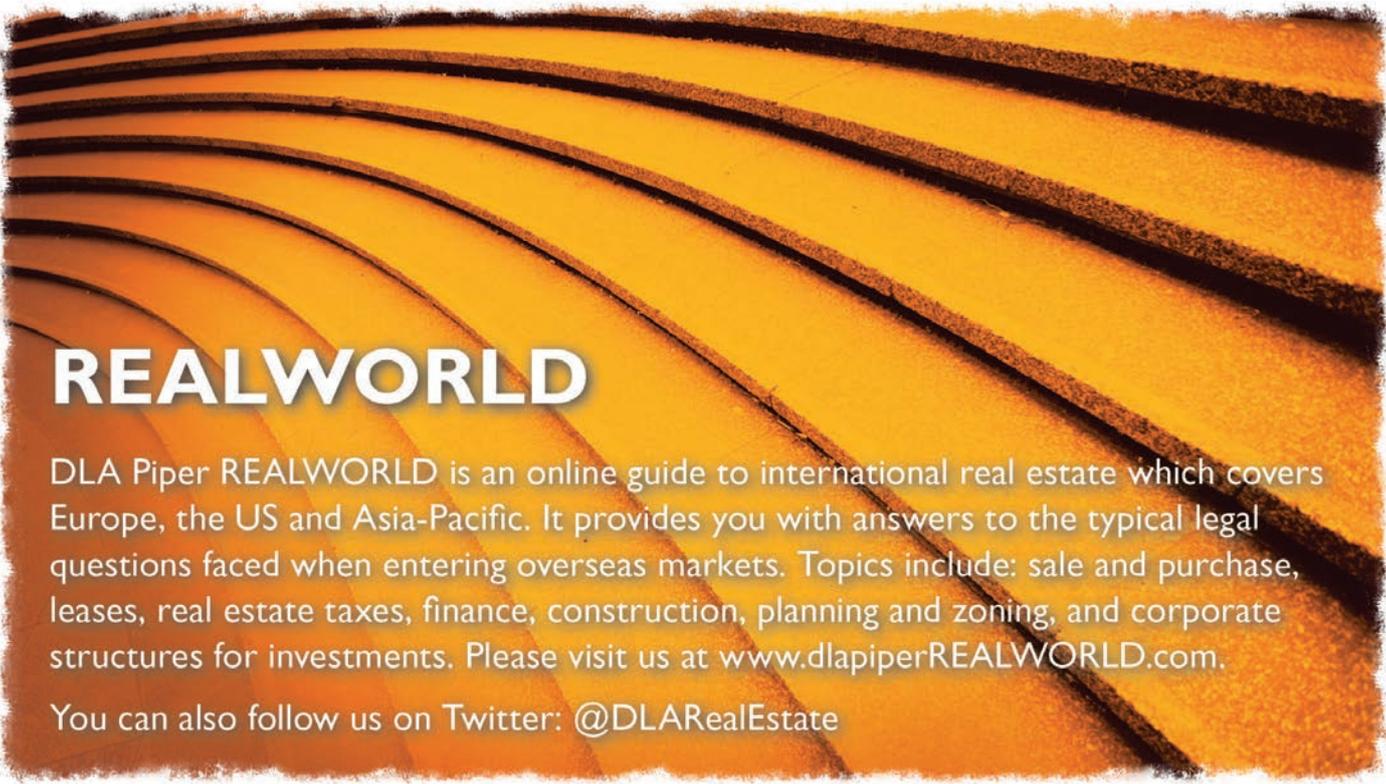
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REALWORLD

DLA Piper REALWORLD is an online guide to international real estate which covers Europe, the US and Asia-Pacific. It provides you with answers to the typical legal questions faced when entering overseas markets. Topics include: sale and purchase, leases, real estate taxes, finance, construction, planning and zoning, and corporate structures for investments. Please visit us at www.dlapiperREALWORLD.com.

You can also follow us on Twitter: [@DLAREalEstate](https://twitter.com/DLAREalEstate)



“

Green buildings pay off! It saves money, improves our competitiveness, contributes to a good reputation and makes the world a better place!

B.G.J. (Bart) Scholten, Chief Investment Officer

PingProperties Investment Management

”

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