OAK INVESTMENT MANAGEMENT GROUP

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Sustainability is an issue that affects everything that we do. But there are few things that are as obvious as the physical environment we create for ourselves through our real estate. There are, therefore, some obvious things we can do to help our environment in real estate and there are some less so.

There are some initiatives that we can take that actually pay for themselves on net present value basis for the landlord or for the tenant, some that might pay for themselves and other that will certainly not. The challenge for an investor in real estate is identifying what can be done that is worthwhile on an intrinsic basis, and what tenant's might be willing to pay for. After all, sustainable development has to be sustainable from a financial point of view.

Starting with the truth observed by Peter Drucker, 'what is measured is managed' sustainability starts with a commitment to gather, measure and compare data that would ordinarily be lost. Only once this is done will it become apparent the straight forward initiatives or the simple design tweaks that can have a disproportionate effect on the environment, and might well have an advantageous effect on the bottom line. There are, after all, lots of inefficiencies (not only relating to the environment) in any line of business. Heightened concern about our impact on the environment should serve to push the environmental issues to the top of that managerial agenda.

A real estate investment can start with a construction of a greenfield site or with the purchase of a pre-existing site (or anything in between the two). In the case of construction *de novo* the building in question could be serving it's laid down function for as long as thirty years or more. There are few investment decisions that have as long lived consequences either for the original investor or for subsequent owners than for a specifically designed building. It is important, therefore, to have a clear idea of what is being impacted by construction (or re-development) on the one hand and by maintenance on the other hand.

Construction metrics include everything from types of materials used, how they are transported and how they are installed. Maintenance metrics include long term requirements for the facility to operate in the way it is designed, such as obvious natural resources uses such as water or power and less obvious potential liabilities such as environmental hazards or contamination risks. There also needs to be an appreciation that buildings do not last forever, and therefore should it be required the actual financial and full environmental cost of decommissioning a building.

Only once these metrics are clear will it be possible to make sense of what can be achieved consistent with a corporate strategy. It is easy to state that these sit in complete contradiction to one another but this is not necessarily the case. After all, counting the cost (environmental or otherwise) is part of a disciplined investment process. Therefore, it is key to set goals of sustainability and understand what cost can be borne by the landlord, what cost can be borne by the tenant and what savings there are for both. Minimal carbon footprint, intelligent design, offsetting or minimising running costs can be good business. Sustainability should be part of core strategy.

Nicholas Frankopan is Managing Director of Oak Investment Management Group pan-European real estate investment manager. To contact the author please email nfrankopan@oakadvisors.co.uk or learn more about the group at www.oakimg.com.