



Building EE into Due Diligence and Market Value

Better Buildings Summit

May 11, 2016

Agenda

- 11:15** Welcome & Introductions
- 11:20** Speaker Presentations
- 12:00** Discussion
- 12:30** Adjourn

Today's Presenters

Cindy Zhu



**Fellow,
U.S. Department of Energy**

Becca Rushin, LEED AP, CEM



**VP of Sustainability & CSR
Jamestown**

Bruce Hall, SMA



**Director of Engineering,
Parkway Properties**

Jim Landau, LEED AP, MAI



**Director of Asset Management,
MetLife**

Background

- What is due diligence in real estate?
- Why does energy matter?

Becca Rushin,
Jamestown

- Property, portfolio, and corporate program formalized in 2012
- Involved from the pre-acquisitions to disposition stage
- Program Drivers
 - Cost savings
 - Desire to lessen environmental impact
 - Investor expectations and reporting standards
 - Regulatory compliance
 - Tenant demands and expectations

ADVANCE GREEN

Pre-Acquisitions Analysis

GREEN GAUGE

Monitoring & Tracking

PLAN GREEN

Property Level Initiatives

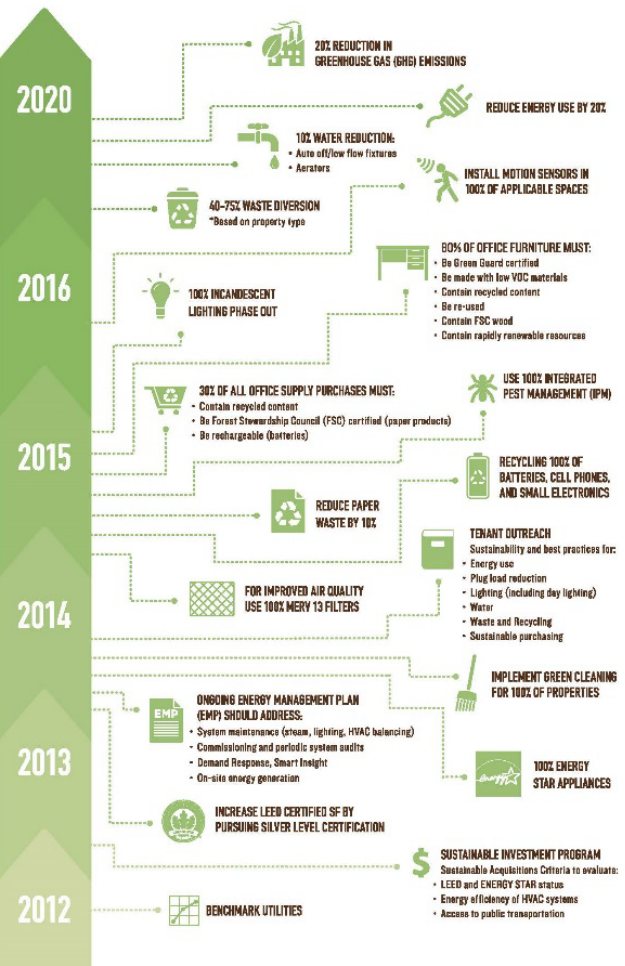
GREEN WORKS

General & Corporate Program

Jamestown Green



ENVIRONMENTAL GOALS



- 37 assets currently overseen
 - Roughly 18.4 million sf
- 13.6 million sf benchmarked
 - 11 ENERGY STAR Certified Buildings
 - 10 LEED Certified Buildings
 - 4 LEED Certifications Underway
 - 1 Recertifications Underway
- Recognized by GRESB as a Green Star
 - Ranked 3rd in peer group
 - Top 25% across all GRESB ranked portfolios



Process

1. Pipeline List
2. Formal Due Diligence Period
 - Team Kickoff and Checklist
3. Document Requests
 - ENERGY STAR, Audit Reports
4. Review and Refine PCA Scope
5. PCA Review
 - Property Management, Engineering, Construction Coordination
6. Transaction Kickoff Meeting and Regular Updates
7. Post-closing transition meeting

Task	Complete	Updated
<p>Sustainability</p> <p>Identify Sustainability Certifications, Dates and Renewal Dates. GRN to prepare LEED scorecard and modified LEED Feasibility (if appropriate)</p> <p>Energy Star</p> <p>Score</p> <p>Date submitted to EPA</p> <p>Login information for Energy Star Portfolio Manager</p> <p>BIN and BBL numbers for compliance tracking (NYC only)</p> <p>LEED</p> <p>Level and Score. Request LEED Project ID.</p> <p>Copy of submittal package and renewal</p> <p>Website login information for review sent to becca.rushin@jamestownlp.com</p> <p>Any Additional Certifications – e.g. NAHB Green Building, Earthcraft</p> <p>Level and score</p> <p>Date submitted and renewal date</p> <p>Website login information for review</p> <p>Analyze Energy Consumption and Billings (including for ESG risks)</p> <p>Obtain and review (from Seller or through Energy Star) minimum of one year of utility bills – electric, natural gas, district steam and water</p> <p>Obtain and review list of house meters and tenant meters</p> <p>Identify any on-site renewable energy sources</p> <p>Obtain and review any supply contracts</p>		

Challenges



2012

- Difficult to identify best stakeholders and timing for sustainability engagement (short due diligence period)

2013

- Consistent report and sustainability plan format, but time consuming and too much detail

2014

- Evolving local laws, certification programs, and other drivers of sustainability projects

2015

- Refinements to onboarding checklist to serve as reference for team
- Ongoing review of transition templates and revision of sustainability and due diligence for new acquisitions policy

Strategies



How can the due diligence process result in a roadmap for sustainability improvements over an asset's hold period?

- Deal Checklist
- PCA Firm Engagement
 - Review of scope and presentation of information
- Standard Requests and Templates
 - Becomes a go-to resource for team
- Dialogue
 - What deal specific opportunities might the team be interested in pursuing?



Progress



- Consistency
 - Supports reporting and serves as a useful reference
- Focus
 - Ideal time to gather information to establish a sustainability roadmap
- Empowerment
 - Asset managers appreciate a thorough assessment and package of information
- Market Evolution
 - Less common to buy a building without an ENERGY STAR account, more information available via GBIG, etc.

Evolution



What are we focused on moving forward?

- Increased focused on resiliency (floods, water quality, storm risk)
- Increased availability of sustainability data
- Increased dialogue with deal team around sustainability goals
- Continued emergence of commercial disclosure and efficiency regulations at the local level
- Balance between softer “roadmap” and hard cost budget





Bruce Hall, Parkway Properties



Planning Energy & Sustainability Projects into Asset Acquisitions

Parkway Properties, LP
Bruce H. Hall, SMA
(Corporate) Director of Engineering



Who's on First?





Navigating a New Acquisition:

- The Market
- The Search
- **The Owner/Broker Tour**
- The Initial Bid
- The Short List
- The Final Bid
- “Going Hard”
- The Due Diligence and Schedule of Capital Expense Process
- The Re-Trade
- The Close



What is the Best Time to Develop Energy/Sustainability Projects?

What are the Investment and Asset Management Goals & Objectives for the building?

- **Maintenance Only**
 - Presumes it is a building that is not a long term hold
 - The Goal is to make the property more aesthetically appealing, improve curb appeal
 - Tenant retention focus, marginal opportunities for rent increase, profit on the disposition
 - Perform maintenance improvements only, no NRE or Capital intensive projects
 - “No Cost” projects only
 - What are the energy and sustainability options for this asset?
- **“Good Running Chevy”**
 - Presumes a reasonable hold period, in a fair market
 - The same goals for aesthetics and curb appeal, with a further goal of slightly improving rental rates
 - Perform maintenance improvements
 - No cost and low cost projects with immediate payback (1 to 3 years)
 - What are the energy and sustainability projects for this asset?

What are the Investment and Asset Management Goals & Objectives for the building?

- **Reposition**
 - Presumes a hold period commensurate with the market opportunities
 - The goal is to take this +/- 25 year old asset and make it compete with the brand new building next door
 - Major cosmetic, site, and infrastructure improvements
 - Major leasing strategy, high retention with improved rates, displacing low performing leases, leasing to high profile tenants
 - No cost, low cost, and NRE capital projects
 - What are the energy and sustainability projects for this asset?

Energy & Sustainability Projects...

- **NRE Upgrade / NRE Capital Project Management**
 - Chillers
 - Cooling Towers
 - Pumping Systems
 - Energy Management Systems & Controls
 - Elevator Modernization & Building Related Work
 - Roof Repair/Replacement
 - Exterior Façade
 - Davits and Anchor Points
 - Parking Structures
 - Lighting
- **Leasing NRE Upgrade / NRE Capital Project Management**
 - Lobby Renovation
 - Common Area Corridors
 - Restaurants
 - ADA Accessibility
 - Elevator Lobbies / Foyers / Cabs

Five, Seven, Ten or Twenty Year Capital Planning ...

- **Building Operations & Tests**
 - OSHA
 - Arc Flash
 - Fall Protection – Davits & Anchor Points
 - Lock out – Tag Out
 - Hazardous Communications – “Right to Know”
 - **Vertical Transportation**
 - **Elevators**
 - Annual Inspection
 - 5 Year Load Test
 - **Escalators**
 - Step Skirt Friction Test
 - Stall Test
 - **Good Practice**
 - Infrared scan
 - Elevator Service & Maintenance Audit
 - Roof Moisture Survey

Repurposing an Old Chiller...



Repurposing an Old Chiller...





...Into An Artificial Reef



...Into An Artificial Reef





One Orlando Centre (Orlando, FL)

PROJECT RESULTS 2013 BASE YEAR TO 2015

% SAVINGS: 2013 - 2015/16

Electricity	Water & Sewer
16.99% Gross Elec.	15.65% HVAC Only
1,206,097.00 kWh	1,453,000 Gallons
13.56% Elec. Cost	13.74% Water Cost
\$ 87,053.19 Dollars/Year	2,758 Dollars/Year
	12.62% Sewer Cost
Energy (Normalized)	3,080 Dollars/Year
34.46%	\$ 5,837.91 Dollars/Year



Engineering Services

Operations, Projects, Energy & Sustainability

When the elements described all come together, when the projects are complete, and the dust is settled ...



Discussion

Thank you!

Cindy Zhu
U.S. Department of Energy
Cindy.Zhu@EE.Doe.gov

Bruce Hall
Parkway Properties
BCHall@PKY.com

Becca Rushin
Jamestown
Becca.Rushin@JamestownLP.com

Jim Landau
MetLife
JLandau@Metlife.com