



Alternative
Insight

PERE

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FOR THE WORLD'S PRIVATE REAL ESTATE MARKETS



SUSTAINABLE INVESTING
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Seeing the forest and the trees

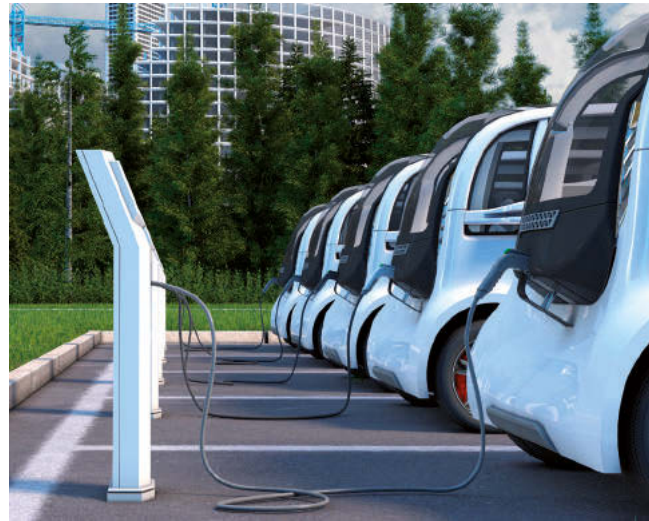
Amy Price, president and CIO at Bentall Kennedy's US business, sees four eco-trends of the future that are influencing sustainable investment today



Price: bent on analyzing future trends

In a world that often seeks instant results, the pathway to sustainable investing requires a longer-term outlook with careful analysis and a keen, well-trained eye to future demographic, social, technological and environmental trends. As the context in which all buildings exist inevitably evolves with time, a thorough analysis of future trends must inform our understanding and the decisions we take to invest sustainably. In other words, we must see the forest and the trees.

The following key factors constitute some of the critical analyses that go into assessing the value proposition for investing in real estate, soundly and sustainably.



Future analysis: critical for assessing value propositions

1 Identify 'next' cities

Leverage the transformative power of human capital

Major markets such as New York, San Francisco, Chicago and Los Angeles have proven enduring value. But they are also mature markets that come at a high cost – both for residents and employers. In addition to investing in these gateway markets, we believe that opportunities lie in more affordable secondary markets as well. Key characteristics of these 'next' cities are being driven by the youngest cohort in the workplace – those aged 20-34, generally with high levels of education. This group is attracted to a live-work-play lifestyle, and the growth in these areas is a generational phenomenon. These urban centers are amenity rich, with access to transit, good restaurants and nightlife, and residential options that emphasize green credentials and health-oriented facilities.

The relentless millennial push to live in these centers is proving to be a transformative economic force, as employers that need this educated talent are relocating to these areas. A generation ago, employers called the shots, and employees came to them. Today, the power resides with the human capital and where they choose to live. This is especially true for innovative growth companies that rely on and compete for this cohort of talent.



Oakland: next in line

2 Detailed analysis required

Find neighborhoods where sustainability initiatives will be magnified

When we drill down into the sub-regions and neighborhoods within these urban centers, as an investor, we want to be ahead of the largest part of the growth curve. That means screening for dynamic environments and identifying where growth has clear momentum. It is important to analyze a number of factors. These include:

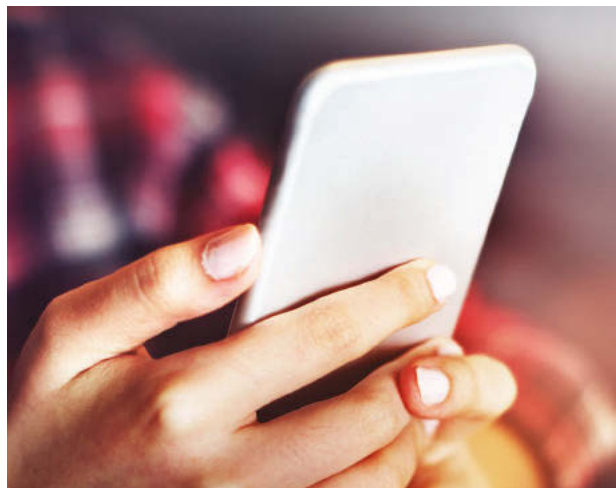
Age, income and education: Examine demographic data and target areas that have a high percentage of residents under the age of 35, with higher than average income levels and higher than average education levels. This is the demographic that will be driving the knowledge economy for years to come.

Affordability: Look at lower-cost markets, with residential options at different price points that can attract younger price-conscious residents, but also provide move-up options as their careers advance. Companies will also be attracted to the lower costs of these areas. As these areas grow and mature, market values will rise.

Innovation: In addition to identifying and analyzing the type of companies that have located in the area, we look at indicators such as patents per capita to provide insight into the innovation potential of the region.

Property type mix: Seek neighborhoods that support a live/work/play lifestyle – with a mix of residential, office and retail.

Commercial activity: Examine the vibrancy and diversity of commercial activity by measuring the sales of amenities, such as food and drink. A growth in sales is a key indicator of demand in the area.



Millennials: target generation

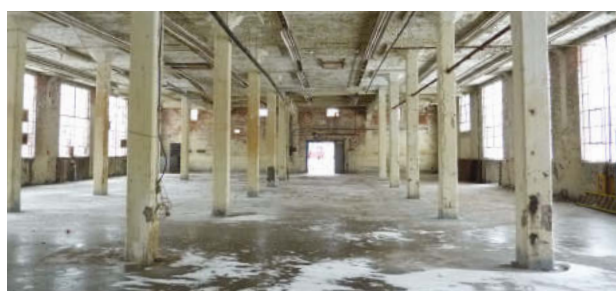
The old brick-warehouse district of Fort Point in Boston's south end is a great example of an emerging and dynamic region – one in which Bentall Kennedy has recently invested. The area has continued to evolve from its 19th-century industrial roots to become a vibrant residential location, with strong occupancy levels, healthy rental rates and excellent access to public transportation, restaurants and entertainment. Following suit, this neighborhood has attracted a gamut of employers from small and mid-size start-ups to others, such as Amazon and General Electric.

3 'Good bones' are critical

Choose properties that lend themselves to sustainability

Of course, not all properties are created equal, and there are a number of factors that go in to investment decisions within the sub-regions. It is critical to look carefully at supply and demand, and focus investments on under-supplied asset classes within a location. So, if office space is being developed aggressively, and demand for residential is growing but is under-supplied, target that under-supplied use to increase the locational sustainability dynamic.

Target buildings with 'good bones,' features like high ceilings, good light and air, efficiency in design and flexibility in the infrastructure. For example, the brick-and-beam style of the early Boston buildings in the Fort Point area meets all of these criteria, with timber beams, duct-work and exposed brick walls providing a loft-like work space which appeals to our target tenant group.



High ceiling: a 'good bone' to find

It's also important that the building structure allows for the creation of in-building amenities and to execute sustainability operation initiatives and implement sustainability plans and certifications.

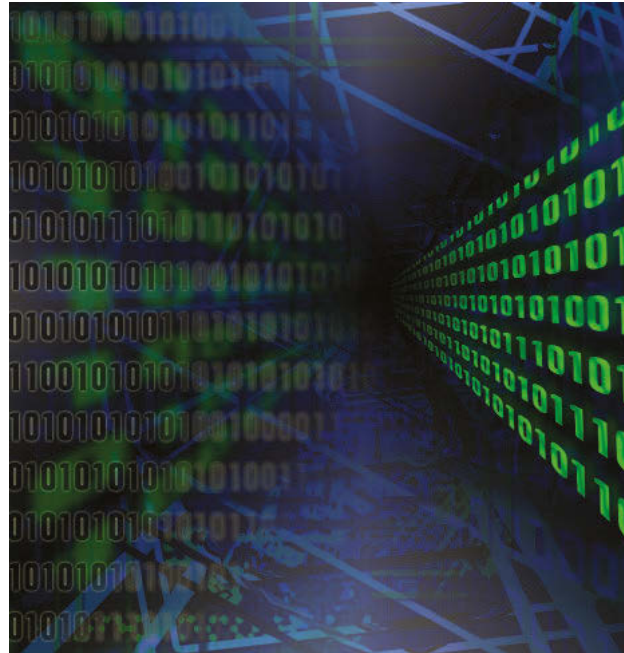
4 Analyze the data, target the goal, set the strategy

Go beyond certifications to move the needle on consumption

Once a property is purchased, the move to improve environmental sustainability from an operations standpoint begins. We have created a proprietary, comprehensive data analytics system to report on energy, water, waste and emissions management. It presents real-time consumption and cost data in simplified views and verifies greenhouse gas emissions in a single management tool. This allows for benchmarking performance and helps to work toward target consumption goals across the portfolio.

We have a formalized energy management approach through our target setting program, which drives sustained improvement by systematically identifying energy efficiency opportunities and tracking performance at the building-level. Properties that participated in the three-year cycle that started in 2013 reduced energy usage by 14.2 percent on average. Rigorous data on energy, water and waste helps make informed decisions about where efficiencies can be made.

Tenant engagement is a critical part of this process, as reaching target consumption goals often requires behavioral changes. We have also developed our ForeverGreen program specifically to address and impact tenant and occupant behaviors. For that, we work closely with property managers, train them in sustainability initiatives and help them build campaigns with social or theme events, newsletters and



Data: capture is essential

posters. Building management may also partner with local businesses to promote green initiatives. □

Case in point: Latham Square, Oakland, CA

In 2016, Bentall Kennedy purchased the Latham Square office building in Oakland as part of its focus on buying to facilitate a live-work-play-style tenant demand

A proximate submarket of San Francisco and its booming tech sector, Oakland is a relatively small and established 18-hour city in its own right, with a dynamic population and live-work-play features in place.

Bentall Kennedy sought out Oakland as an emerging, affordable location, with an established residential base and ongoing residential development. This influx of new residents has created a demand for office space, given that rents in Oakland run significantly less than those in San Francisco and office occupancy challenge in San Francisco remains tight.

The building features an architecturally vintage structure, with a U-shaped floor plan



Oakland raiders: Bentall Kennedy has ventured to this Californian location

that allows for natural light to enter on all sides. Bentall Kennedy is presently working to create unique amenities throughout the street level and in the lobby areas. The building also has operable windows to maximize the natural air flow in the building. A plan is now in place to achieve LEED EB Platinum through Bentall Kennedy's sustainability program.

An update of the building, combined with the building's sustainability features, has allowed Bentall Kennedy to maintain positive leasing and repositioning momentum.

Invest Soundly + Sustainably

Our commitment goes beyond the building

Bentall Kennedy is investing in the future with an emboldened commitment to leading the way in sustainability.

What started as a focus on energy efficiency and green building certifications is now the foundation of the next stage of our journey, taking our commitment to sustainability beyond the walls of our buildings and embracing our role as co-creators of communities.

Read our 2017 Sustainability Report, Invest Soundly + Sustainably, at cr.bentallkennedy.com. It's a reflection of how we see the world, and how we put these words into action.



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