

Abridged Report

For the project

ImmoInvest

- Fundamentals of Socially Responsible Property Investments -

A joint project of the:

University of Stuttgart

University of Karlsruhe (TH)

WestLB AG

rfu – MAG. Reinhard Friesenbichler Unternehmensberatung

Institut der deutschen Wirtschaft Consult GmbH

Project management:

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1. Project Incentives

The topic „sustainable development“ is a strategic challenge for the construction industry. At the moment, the industry’s responses to this challenge concentrate mainly on planning, architectural and civil engineering solutions, such as in the area of urban planning, energy efficiency or facility management.

The general framework of the industry regarding legal (reporting obligations), structural (growth in significance of Public Private Partnerships) as well as financial (Investment & Finance) issues however remain unaddressed.

Concentrating on the financial perspective of sustainable properties, which means the supply of capital and the management therefrom, the construction industry has a remarkable deficit compared to other segments of Socially Responsible Investment (SRI). In the US-market, for example, 11% of all so-called “Assets under Management” (professionally managed stocks and bond portfolios) are currently invested according to the principles of SRI. This SRI-

market segment is also experiencing significant growth in Germany; however the asset class Socially Responsible Property Investments (SRPI) remains unconsidered at present. Neither adequate criteria and methods for financial estimation of the added value of sustainable construction services and real estate exist, nor capital market products or risk valuation and financing models for a sustainable creation of Public Private Partnerships (which become more and more significant for the construction industry), are available.

2. Project Objectives

Considering these points, the central objectives of this Project are to fulfill the requirements of the construction research initiative of the Federal Government and to build a link between research and future markets. The objectives of the Project are:

1. Analyses of existing secondary statistic data to identify the connection between sustainability and the opportunities and risks linked to real estates;
2. Integration of already existing valuation criteria to identify sustainable real estate investments;
3. Analysis and conceptualizations of potential target groups of institutional investors, in order to develop a real estate capital investment type that is close to market and tailored to preferences; and
4. The preparation for issuing qualified financial products in order to create demand for sustainable investments in real estates.

3. Project Realization

The Project is developed by a multidisciplinary cooperation between industry and research.

The industry representatives are the WestLB AG, the Institut der deutschen Wirtschaft Consult GmbH and the rfu – MAG. Reinhard Friesenbichler Unternehmensberatung.

The research institutes are represented by the University of Stuttgart, which is also responsible for the project management, and the University of Karlsruhe, Chair of Sustainable Management of Housing and Real Estate.

The Project consists of five parts; each project partner is responsible for a single subproject:

- **Subproject 1: Summary of the current situation (Project partner WestLB AG)**

The current practice of integrating SRPI criteria in the banking business is analyzed. At present, this is in Germany only partly performed in the area of bank lending.

- **Subproject 2: Capital market theoretical valuation of Socially Responsible Property Investments (Project partner University of Stuttgart)**

This subproject contains an analysis of the German real estate market and related areas. The area of „existing forms of investments in property“ as well as the potential institutional and private property investors are analyzed specifically with regard to the future placement of financial assets for financing sustainable property. Based on a structural

connection in the currently existing financial market for SRI in Germany, the formulations of the market potential for sustainable properties, the role of real estates in capital investment dispositions of investors which are considering the sustainability criteria, as well as the conceptualization of a sustainable investment funds, can be identified as particular objectives.

- **Subproject 3: Empirical survey on the market potential of sustainable real estate investments (Project partner Institut der deutschen Wirtschaft Consult GmbH)**

A plurality of general real estate market studies exists for the estimation of the market potential of real estate investments. However, at the present, no data specifically related to SRPI exists. Therefore, as a first step, the characteristics, evaluations as well as the willingness for integration of sustainability in the construction industry should be collected in an empirical study.

- **Subproject 4: Sustainability in building and construction industry (Project partner University of Karlsruhe)**

There already exist criteria, indicators and tools for the description, valuation and presentation of the contribution of construction and real estate industries to the sustainable development of buildings, services or enterprises. Based on an analysis and systematization of already existing approaches, whether and to what extent they can be integrated into existing or into developing methods and instruments of financial intermediary is examined. The object rating is said to be the key process and the rating institutions are said to be the key actors when it comes to development and dissemination of sustainable real estates and the creation of demand for such real estate investments. Rating institutions are interviewed regarding their state of knowledge and their role. Additionally, the requirements on the documentation of real estates and

transactions and the future links between sustainability and returns are examined.

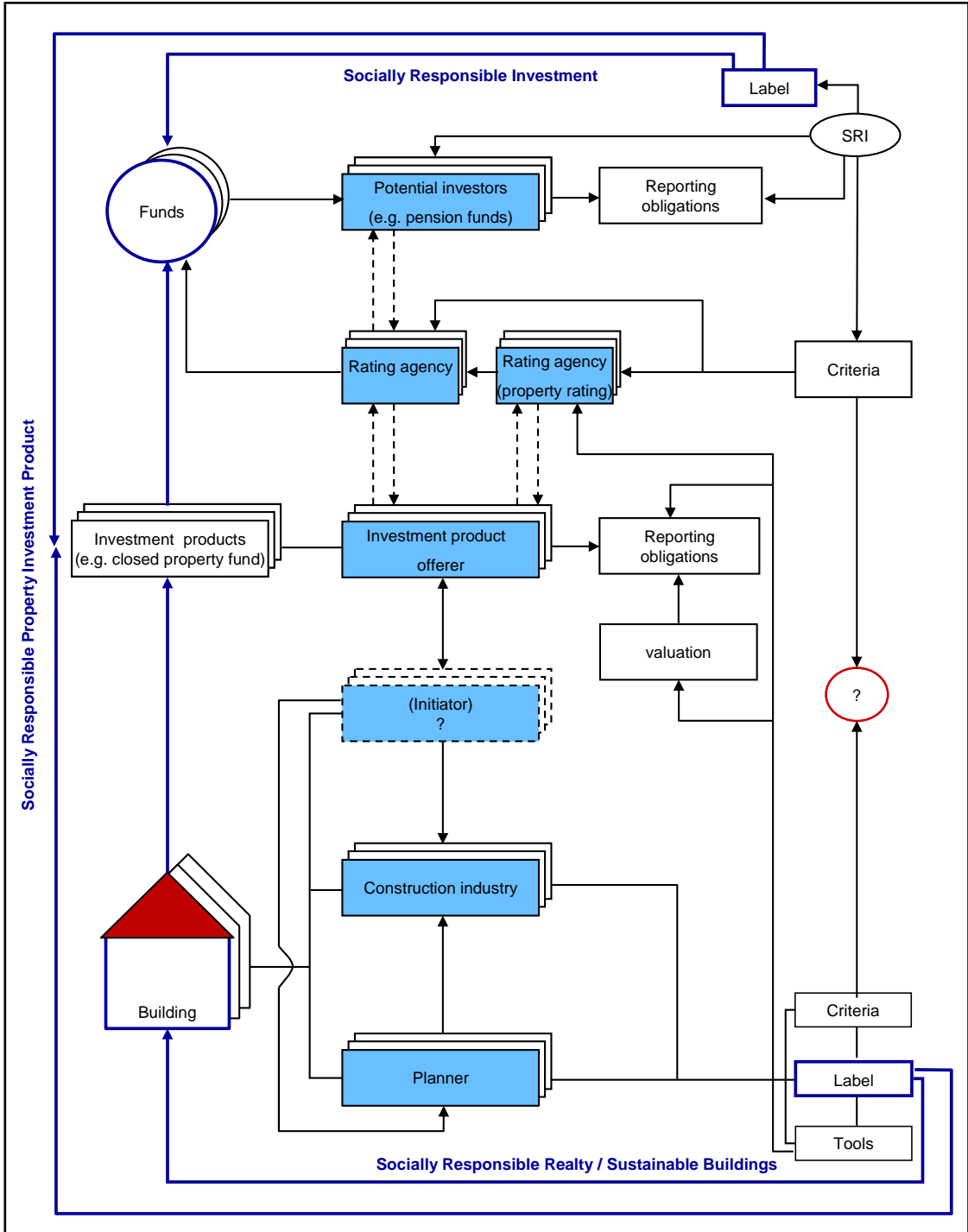
- **Subproject 5: Certification of a sustainable real estate funds (Project partner rfu – MAG. Reinhard Friesenbichler Management Consulting)**

Certification procedures of SRI exist internationally, but not in Germany. The objective of this subproject is to analyze the already existing certification procedures utilizing the valuation methods for sustainable real estate investments.

4. Project Results

This research project „ImmoInvest“ is at present the only project that shows systematically under which conditions, potentials and means and by which issues the concept of sustainable development can be integrated in the conceptualization and commercialization of real estate investment products. The focus is set on the financial markets and less on construction considerations (of course, they are integrated when needed).

The central project idea is to generate economic incentives from the German financial market and to stimulate investors to provide capital for investing in sustainable buildings. This should support the generation of demand for sustainable buildings and should have a positive influence on the demand of related consulting, planning and construction services. The following figure shows the constellation of the stakeholders in this Project.



Possible constellations of actors at the development of socially responsible property investment products
 Source: own statement

The starting point of the basic concept of this Project is the so-called “pull-strategies” of capital investors which are already exercised in other segments of sustainable money investments. Pull-strategies imply the demand of a capital investor towards stocks and bonds of issuers who put a special interest in ecological, social and ethical development of society or single stakeholders. This concept can be transferred to the asset class property investments. When potential investment groups shift their financial funds from less sustainable assets to assets with high sustainable impacts, additional financial funds for the recipient should be available and additional investment stimuli should be created. This is the basic idea of the strategy for sustainable buildings from financial market incentives. If such buildings can be identified in their sustainability attributes on the object level, it should be possible for financial service providers like capital investment companies or credit institutions to conceive special investment products for potential investors with preferences for ecological, social and/or ethical impacts in their investments realized with their money.

The Project’s recommendation for the promotion of sustainable buildings and therefore the initiation for innovations in the construction industry, and in corporate finance, is based on the concept “open end real estate funds” for institutional investors. The flexibility of the portfolio can be seen as an advantage, e.g. the portfolio can be rearranged (revolved) at any time and the share in funds can be easily given back. Based on this advantage the liquidity and the high diversification potential for asset portfolios, “open end real estate funds” can be often found in portfolios of institutional investors.

The expected investment potential for such a fund is estimated on the invested capital in buildings by all institutional investors in 2006. The volume calculated is 394,8 billion Euros. Assuming that, the investors have similar preferences for SRPI as with SRI, it would mean that the market share of approximately one percent of SRI in Germany can be transferred to the real estate market. This one percent would correspond to a potential volume of approximately 4 billion Euros based on the market potential calculation. This should be understood as a

conservative, and therefore, cautious estimation. Moreover, this is based on the assumption that there is no cannibalization between currently invested funds in SRI and future SRPI.

This Project presents for the first time a structured study for Germany (which does not exist for the most other countries). The analyses give reason to the assumption that sustainable properties can obtain clear incentives for investors and support the construction industry in its innovation power. Still, significant “white marks” remain in the research landscape and practical execution, especially in the following areas as determined by the Project:

- **Specialties in financial valuation of sustainability in properties**, as well as
- **Sustainability as an additional parameter in default risk models of credit service sector.**

For this Project, the topic „sustainable properties“ is of high future interest for the construction industry and the credit service industry, as well as the financial markets. A follow-up project is indispensable for the successful realization and existing opportunities.