

REITS: KEY CONTRIBUTOR TO A SUSTAINABLE ENVIRONMENT

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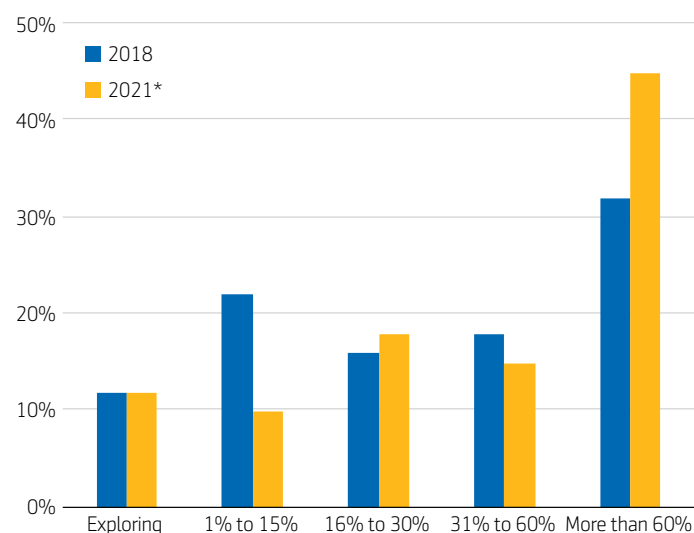
Sustainable building practices are gaining momentum within the US market. However, these green buildings can be costly. Well-capitalized real estate investment trusts, or REITs, have access to several sources of funding, and can help meet the material upfront capital requirements for sustainable building. To this end, certain REITs may provide investors a means to incorporate responsible investing and encourage growth in sustainable building practices. Those select REITs investing in companies on the forefront of green building practices are counteracting the 45 percent increase in building-related emissions over the last 20 years.¹ As more viable environmentally conscious solutions are introduced within the industry, sustainable construction continues to gain momentum and market demand grows.

Green building opportunities

Within the US, the amount of properties that are LEED (Leadership in Energy and Environmental Design) or Energy Star® certified have grown significantly and green building activity is increasing. According to a study of construction professionals conducted by Dodge Data & Analytics, over 40% of participants anticipated that green building projects may account for more than 60% of their total projects in 2021, which is roughly a 10 percentage point increase from 2018 (Exhibit 1).

Green buildings offer environmental benefits with the use of less energy through renewable energy systems, building controls, passive HVAC; the conservation of natural resources with recycling programs, use of recycled content, locally sources materials, certified wood, construction waste management; and water reclamation and reduction practices. Sustainable building practices also take into account proximity to public transportation, indoor air quality, and the amount of natural light.

Exhibit 1: Level of green building projects in the US (2018 and 2021*)



*Data for 2021 is expected. Source: Dodge Data & Analytics, 2018.

Driving urbanization

Managing urbanization is key to creating a sustainable environment. REITs are able to support increases in adequate housing inventory through the development and management of residential rental properties. More importantly, REITs focus on owning infill located

properties. Current trends in urban expansion has encouraged growth in opportunities to invest in the redevelopment of existing or infill properties—commonly known as the rededication of land. Demand for these properties tend to be resilient given the higher density areas and community connectivity. They are also a more efficient use of land. Both of these aspects help mitigate the environmental impact of urban sprawl as it results in less private transportation, which leads to less pollution.

Health and wellbeing

Studies suggest that there is a higher premium placed on the market value of real estate that is certified in sustainability. This is driven largely by consumer demand for safe, health-conscious, and environmentally-friendly living and work spaces. REITs are on the forefront of fulfilling this demand by encouraging a more sustainable environment through positive social impacts on health and wellbeing. Accordingly to the World Green Building Council², well-ventilated offices contributed to an increase in cognitive scores and better indoor air quality can lead to improved performance. REITs investing in properties within urban areas encourage increased walking through a more centralized location, and are usually more convenient to public transportation, allowing residents and office workers to be less dependent on vehicles. Lastly, REITs contribute to improving health and wellbeing through their green building material standards and by being key developers of specialized real estate tailored to healthcare delivery.

Responsible investment opportunities

While green buildings are designed to provide intermediate-term economic benefits to both the landlord and tenant—such as higher asset values, lower operating costs, and improved productivity—the elevated upfront capital requirements are generally more costly and complex than standard construction. REITs provide the capital needed to shoulder the material upfront cost of incorporating sustainable practices. As a result, REITs continue to actively grow the number of green building certified properties, primarily through new development and, to a lesser extent, redevelopment of existing properties. REITs afford investors the opportunity to introduce sustainability into their portfolio by supporting companies on the forefront of green building practices, and have a direct impact on building a more sustainable world.

¹Source: UN Environmental Global Status Report 2017

²Source: Laski, Jonathan. "Doing Right by Planet and People, The Business Case for Health and Wellbeing in Green Building," The World Green Building Council, April 2018.

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