

Investing in Sustainable Real Estate

IMPACT DRIVERS	IMPACT THEMES	THE MACRO, SOCIAL & ENVIRONMENTAL CASE
Macro	Increasing Demand	Population growth, rapid urbanization and growing economies heighten the need to expand the supply of environmentally sustainable and socially equitable opportunities within the built environment. In addition to increasing housing supply, the built environment has the most potential for delivering significant and cost-effective greenhouse gas (GHG) emissions reductions. ¹
Social and Macro	Access and Economic Development	In pursuit of affordability, low-to-moderate income (LMI) populations have migrated away from city centers, resulting in further isolation and lack of access to basic amenities, employment opportunities and transportation. Neighborhoods of concentrated poverty deprive the larger community of needed human and financial capital while also isolating residents from the resources and networks they need to reach their potential. ²
Social	Affordability	The demand for affordable housing greatly exceeds current supply, especially for conveniently located, affordable housing that provides access to basic necessities including jobs, education, healthcare and economic opportunity. Through 2014, more than 21.3 million renters spent more than 30% of their household income on rent, and a record 11.4 million households were "severely cost burdened" i.e. spending more than 50% of income on rent. ³
Social	Social Equity	Minorities will account for virtually all of the future growth in renting households through 2025 ⁴ , and it is estimated that nearly half of all renter households will have incomes below \$30,000. ⁵ High rent burdens and housing insecurity worsen social outcomes in economically distressed communities, including educational achievement, economic prospects and health. ⁶
Environment	Climate Change	Globally, commercial and residential buildings account for 33% of all GHG emissions and 40% of all energy use, more than any other single sector. ⁷ Through 2030, buildings' CO ₂ emissions will grow faster than any other sector, including heating, cooling, lighting and power. ⁸
Environment	Resource Use and Efficiency	Buildings are resource intensive; construction of new buildings accounts for approximately 40% of raw materials and 14% of all potable water globally given minimal practices in water conservation. ⁹
Environment	Waste	In the US, construction waste totals 170M tons ¹⁰ , equivalent to 30% of total waste production. Although most construction waste and debris is recyclable, only 25% of global municipal solid waste is recycled. ¹¹

Impact Goal

Enhance sustainability performance within the built environment

Impact Objectives

1. Reduce the built environment's direct contribution to climate change
2. Reduce material use
3. Reduce waste in design, construction and use



Impact Objectives	Decrease Buildings' Direct Carbon Footprint	Decrease Materials Use	Decrease Buildings' Waste
Investment Strategies	<ul style="list-style-type: none"> » Invest in technologies that make incremental and systemic contributions to reducing energy use in the built environment » Identify opportunities to expand use of renewable energy-based solutions for buildings' energy needs » Generally enhance the built environment's sustainability profile 	<ul style="list-style-type: none"> » Pursue investments that retrofit buildings or re-use existing infrastructure rather than new builds. New buildings should include maximum amount possible of re-used or re-purposed materials » Invest in technologies that make incremental and systemic contributions to reducing water/resource use in the built environment 	<ul style="list-style-type: none"> » Pursue investments that retrofit buildings or re-use existing infrastructure. New buildings should include maximum amount possible of re-used or re-purposed materials » Decrease total municipal waste through supporting waste re-use and recycling infrastructure and systems among investments
Public Markets	<ul style="list-style-type: none"> » Municipal bonds for energy efficiency retrofits » Public finance that expands renewable energy infrastructure » Development and distribution of technologies that enable energy savings 	<ul style="list-style-type: none"> » Municipal bonds finance building retrofits or upgrades that enhance sustainability performance (vs. new builds) » Development and distribution of technologies that reduce resource use (water, raw materials) 	<ul style="list-style-type: none"> » Municipal waste management and recycling » Technologies or managers that prioritize the re-use and re-purpose of materials that reduce the overall waste stream originating from new builds » Companies or technologies that encourage the re-use of municipal solid waste, including power generation
Private Markets	<ul style="list-style-type: none"> » Retrofitting or re-purposing existing buildings for contemporary commercial, residential or industrial use » Expansion of renewable-based energy production and distribution to the urban environment » Development and distribution of technologies that enable energy savings 	<ul style="list-style-type: none"> » Retrofitting or re-purposing existing buildings for contemporary commercial, residential or industrial use (vs. new builds) » Development and distribution of technologies that reduce resource use (water, raw materials) 	<ul style="list-style-type: none"> » Building acquisition or retrofits that avoid new builds » New builds and retrofits with maximum use of re-used or re-purposed materials » Waste re-use and recycling infrastructure/technologies, including power generation from municipal solid waste

Impact Goal

Increased social equity within the built environment.

Impact Objectives

1. Increase the supply of well located housing for LMI communities
2. Reduce the deficit of affordable housing options for the LMI community



Impact Objectives	Increase supply of well located housing for LMI communities	Reduce the deficit of affordable housing options for LMI communities
Investment Strategies	<ul style="list-style-type: none"> » Focus investments on safe, high quality housing that provides access to basic services, amenities and transportation » Focus on investments that do not require large commutes or distance from city-centers 	<ul style="list-style-type: none"> » Expand the supply of affordable units in the most constrained markets, particularly where housing cost burden is disproportionately high » Expand opportunity on the demand side by providing end-user financing mechanisms that broaden homeownership among LMI communities
Public Markets	<ul style="list-style-type: none"> » REITs or funds that target specific urban geographies or serve specific communities by design » Properties, funds and investment strategies that explicitly address sustainability through transit-oriented development or principles of smart growth and social equity 	<ul style="list-style-type: none"> » Financing for LMI homeownership and affordable rental units » Financing for new builds or retrofits that will be made available explicitly for lower-income or otherwise disadvantaged populations
Private Markets	<ul style="list-style-type: none"> » Favor properties or assets that provide additional community amenities and services on site 	<ul style="list-style-type: none"> » Where underlying assets provide housing or include tenants, ensure management practices regularly incorporate stakeholder satisfaction » Favor managers that can include peripheral social benefits for local populations, including employment and sustained local economic development

Below are Sonen's impact investing guidelines with regard to sustainable real estate:

Issue	Exclusion	Support Best Practices	Sonen's Position
Supply Chain		✓	<ul style="list-style-type: none"> » Sonen selects investments where labor practices (in new builds and existing property management) exemplify the highest standards of treatment for the workforce, including benefits, fair wages, responsible contractor policies and health/safety of the workforce. Sonen will avoid managers who cannot ensure the existence and enforcement of such standards. » Where new development exists, Sonen prefers that various social benefits accrue to local populations, including employment, economic development.
Sustainable Governance		✓	<ul style="list-style-type: none"> » Sonen only works with managers that have explicit sustainability planning or functions integrated into development strategies and staff, or are actively integrating such functions into ongoing management practices. » Sonen's managers systematically account for stakeholder satisfaction, particularly tenants' well being. » Sonen prefers managers whose value proposition is predicated on creating both social and environmental impacts simultaneously. » Sonen invests in managers dedicated to collecting, tracking, monitoring and improving upon key sustainability and efficiency indicators and reporting that information to investors on a regular basis.
Access and Affordability		✓	<ul style="list-style-type: none"> » Increasing broad access to affordable, transit-oriented housing that supports employment and economic opportunity is a key aspect to creating positive, holistic impact in real estate investing and will be pursued to the maximum extent possible. » Investing in areas with large socio-economic disparities can create greater economic mobility and integration. Sonen will pursue opportunities in which social and environmental benefits relating to access and affordability accrue to disadvantaged and/or LMI populations.
Social Equity	✓	✓	<ul style="list-style-type: none"> » In the built environment, Sonen maintains a preference for underlying assets (commercial, residential, industrial) that benefit LMI communities. Sonen will limit any investments whose primary benefit accrues exclusively to high-income populations. » Ideally, underlying assets will exhibit elements of transit oriented development, providing access to transportation and basic services and amenities for the workforce. » Sonen will pursue investment opportunities that expand home ownership among LMI communities or that expands supply of housing options for this community.
Climate Change	✓	✓	<ul style="list-style-type: none"> » Underlying assets can be expected to help reduce the built environment's relative contribution to climate change, particularly by reducing GHG emissions and energy consumption. » Sonen favors buildings and technologies that exemplify sustainability best practices (LEED, BREEAM, Energy Star, etc.). » Sonen will favor buildings that are powered by renewable energy sources.
Resource Use		✓	<ul style="list-style-type: none"> » Underlying assets will generally reduce resource use, with particular emphasis on water and materials used for new builds. Existing and new real estate should exemplify best practices on topics such as high-energy efficiency lighting, renewable power sources, low-flow water fixtures and high performance HVAC systems. » Where new builds occur, Sonen prefers the use of re-purposed and recycled materials and waste minimization efforts throughout the construction process.
Waste		✓	<ul style="list-style-type: none"> » Underlying assets must provide active waste management practices, such as recycling or composting. » Sonen has a preference to refurbish and renew existing buildings to reduce overall energy use and increase economic development in city centers. » Where new builds occur, Sonen prefers the use of re-purposed and recycled materials and waste minimization efforts throughout the construction process.

SOURCES

1. United Nations Environmental Programme. Buildings and Climate Change: Summary for Decision-Makers. 2009.
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4. America's Rental Housing Evolving Markets and Needs. Joint Center for Housing Studies of Harvard University. 2013. p3.
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6. Affordable Housing as a Platform for Improving Family Well-Being; Center for Study of Social Policy. June 2011. p3.
7. United Nations Environmental Programme. Buildings and Climate Change: Summary for Decision-Makers. 2009.
8. US Green Building Council. Buildings and Climate Change.
9. US Green Building Council. Green Building Facts.
10. US Green Building Council. Green Building Facts.
11. Worldwatch Institute. Global Municipal Solid Waste Continues to Grow. 07/24/2012.

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