

The logo for DRAPAC, featuring the letters 'DRA' stacked above 'PAC' in a bold, white, sans-serif font. The letters are slightly offset, with 'DRA' shifted to the right relative to 'PAC'. The background is a dark gray with faint, light gray lines that create a grid or architectural pattern.

**DRAPAC**

**SUSTAINABLE PROPERTY INVESTMENT:  
DOES THE CASE FOR GREEN BUILDINGS STACK UP?**

A solid red horizontal bar at the bottom of the slide.

# What is Sustainability?

- The heavy focus on “green” is somewhat misplaced.
- Sustainability encompasses the following factors:
  - Environmental (resource minimisation, carbon)
  - Architectural legacy (good, timeless design)
  - Economic (not going broke/making money appropriately)
  - Governance (doing the right thing the right way)
  - Social (Human capital, staff retention)
  - Spiritual (how does it make you feel)
  - Historical (what sort of legacy will this leave)



## The Issues.....

- The sustainability crisis is due to the “cost of cheap”.
- Many organisations still have a short term view and require sustainability to commercially out perform today (does that mean we continue to maintain riskier positions if they are cheaper short term?)
- A focus on cost instead of benefit has resulted in a major dislocation between risk and reward.
- Knowledge and education – you don’t know what you don’t know!



# What is occurring?

- Markets are beginning to consider the cost/benefit proposition of sustainable investment.
- Institutional investors are seeking greater engagement from their real estate managers and are starting to comprehend the long term out performance opportunities.
- More research, measurement and engagement on key sustainability issues:
  - Technology and knowledge;
  - Government policy direction;
  - ESG ratings and assessments (both of property and managers).



## Some observations.....

- Many investors are reluctant to transition to a sustainable investment platform for fear of short term underperformance.
- Sustainability does not necessarily cost more. A US study has shown there is **minimal to no cost impact** in delivering sustainable buildings.
- Risk only appears paramount when markets are turbulent.
- A recent UK study indicates 70% of institutional investors don't see their property managers taking appropriate action on sustainability.



# The Opportunities

- UK study indicates 80% of institutional investors view sustainability as important, however only 10% of them believe they are fully informed.
- Shift by large corporations towards occupying sustainable premises due to talent attraction, triple bottom line reporting (social responsibility) and occupation costs.
- Current market disconnect where there is no price differentiation for sustainable premises.



# How do you make it stack up?

- The economics of sustainability:  
**\$1 (cost) = 1y (output)**
- Cost difference between sustainable building and an ordinary building is 1% ↑ in operating cost. Productivity gains in a sustainable building ↑ output conservatively 5%. Thus:  
**\$100 = 100y** – Conventional building output  
**+ \$1 = 105y** – Sustainable building cost/output increase  
**\$101 = 105y** – Sustainable building leverage (5x cost!)
- Focus on output improvement as opposed to rental cost as a way of differentiating sustainable property.



## How do you make it stack up?

- Once occupancy benefits are understood, there will be a significant demand shift.
- There are supply side constraints as existing buildings won't be able to be redeveloped quickly enough.
- Reduced risk through mitigation of carbon tax, preserved demand/supply drivers, lower depreciation and less (downside) valuation exposure.
- Improved business profile and engagement. The investment industry is actively seeking out sustainable investments/organisations.



# Drapac Sustainability Fund

- Mandate is to own 5 and 6 Star rated Green Star buildings with a focus on retrofitting buildings instead of greenfield developments.
- Seed asset – 200 Victoria St, Carlton – has been completed and is undergoing fit out. The building has been 67% pre-committed by the Environmental Protection Authority of Victoria.
- Contains tri-gen, central atrium, double glazing, underfloor HVAC, T5 lighting, recycled materials. High quality café to be included for social aspect. Building is located adjacent to Victoria Market and is well serviced by public transport.



# Drapac Sustainability Fund

- During the financial crisis, the yield has been preserved (i.e. no fall in value).
- Funded predominantly by high net worth investors, but increasing institutional interest.
- Why did we establish the Fund?
  - Long term value preservation (and out performance);
  - Stronger demand, higher rents and less tenant churn;
  - Emerging differentiation in market (two tiered market);
  - Reduction in risk (carbon tax, leasing);
  - Lower obsolescence and capital expenditure due to better design as well as lower operating costs;
  - Government incentives.



# Why is this important to you?

- Long term, property sustainability will strongly correlate with value and risk. Importantly, you can reduce this risk today at no cost.
- Capital is increasingly looking for a “home” in sustainable investments and in time sustainable investments may have a lower cost of capital.
- Debt funding, particularly in the current environment, may become easier and cheaper due to less perceived credit risk (higher rents and better tenants).
- Government incentivisation of sustainable property will aid superior investment outcomes.



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