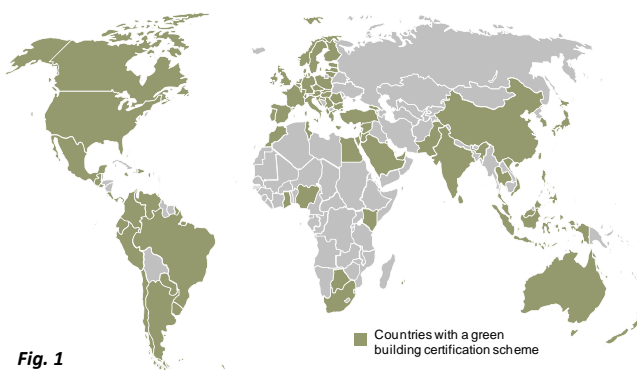


Green Property Growth: Asia-Pacific and European REITs Setting the Trend

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Summary of Key Findings

The latest 'MSCI ESG IVA Industry Report: Real Estate' benchmarks 70 of the largest Real Estate Investment Trusts (REITs) globally, covering almost 200 million sqm in space (2.1 billion sqft). Our research finds that the green building market shows more growth potential in Asia-Pacific (AP) and Europe (EU) than in North America (NA).



AP and EU REITs, lead by the Office and Diversified sub-industries, include higher levels of green building certification in their property portfolios than their NA peers (on average AP 24.2% and EU 17.5%, vs. NA 5.6%). In addition, energy efficiency practices in NA Residential and Retail REITs are particularly underdeveloped. Top performers by region include **GPT** (AP), **Hammerson** (EU), and **Liberty** (NA). Market opportunities and regulatory incentives for implementing green building practices have spread throughout both developed and emerging markets in the form of voluntary standards and regulations linked to climate change policies (fig. 1).

Additionally, we find that electricity prices have more than doubled in AP and EU from 2001 to 2011¹ driving innovation and performance improvements in those markets. In contrast, in NA prices have remained contained and operational efficiency, in terms of lower energy and water consumption, stayed relatively stagnant. Finally, market data from IPD's² Australian Green Property Index shows that properties that have higher levels of operational efficiency enjoy higher total returns than less efficient buildings.

Market Reward

Companies with higher proportions of properties with green building characteristics may experience an increase in their market share or in their returns, as government and market incentives continue to drive demand for greener spaces. Market data from IPD shows that this is the case for properties that demonstrate higher operational efficiency in terms of reducing their energy and water consumption.³ According to IPD's Australian Green Property Index (fig. 2), buildings with high NABERS⁴ energy and

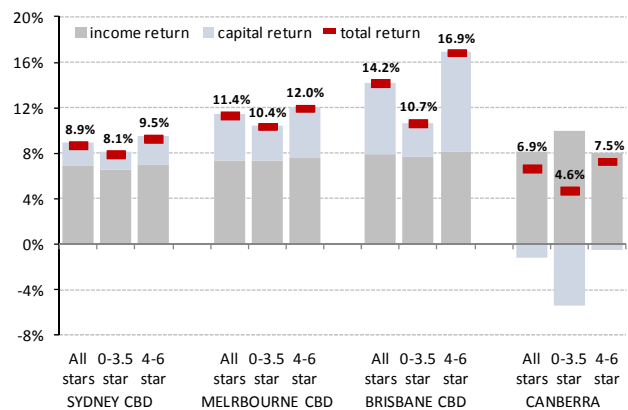


Fig. 2 Source Index Snapshot, Australian Green Property Index, IPD, June 2012.

¹ Source: Eurostat, International Energy Agency, and US Energy Information Agency.

² Investment Property Databank (IPD), is a financial service provider of performance and risk analysis for real estate globally.

³ Index Snapshot, Australian Green Property Index, IPD, June 2012.

⁴ National Australian Built Environment Rating System, measures the energy efficiency, water usage, waste management and indoor environment quality of a building or tenancy.

water ratings have delivered stronger investment returns than buildings with low ratings on an annualized basis to June 2012. Hence, companies that lack action in this area could be missing potential business opportunities and may be giving up ground to competitors. For the US market, sustainable features in properties offer significant pricing differentiation over conventional properties. According to Eichholtz, Kok, and Quigley, in "The Economics of Green Building", green buildings have higher effective rents (6% to 8%) and higher selling prices (11% to 13%), while costs are just 2% higher when completing a green building project versus a conventional one.⁵

Opportunity Trends by Country

In addition to financial benefits, various forms of market and policy incentives allow for reduced cost of implementing green features in new and existing properties. Market incentives to implement green building practices take place in form of lower interest rates, reduced insurance fees, utility rebates, and preferential pricing structures for electricity consumption. Policy incentives, driven by regional energy reduction mandates and climate change regulations, include grants, tax credits, property tax exemptions, fee reductions, waivers, and expedite permitting.

Our evaluation of policy incentives reflects the regulatory circumstances in different countries and regions where a company has real estate assets. Our research and analysis model for climate change-related legislation includes two policy scenarios - a current and a future one – and assesses changing commitments to mitigate climate change between the two scenarios. While economy-wide regulations for carbon markets might have not been enacted in some countries (US and Canada for example), provincial or state level regulatory frameworks related to climate change have already been put in place in these countries. In other jurisdictions, such as the European Union and Australia, regulations have been promulgated for the post-2012 period.

Opportunity Trends by Property Type

The environmental footprint of a building differs depending on the property type. More resource-intensive buildings offer more opportunities to both tenants and property owners to mitigate risks arising from energy price volatility and resource availability, which could affect their risk/reward profile. To measure the resource intensity of properties, we use data provided by US Energy Information Administration, where buildings in the warehouse/storage segment consume the least amount of energy per square foot of floor area, and buildings in the office and retail segments are the most energy intensive.

Benchmarking Company-specific Opportunities

The combination of the regional and building segment components reflect the overall opportunity level of each company to adopt green building practices. Looking at fig. 3, we can see that REITs in the Retail and Office segments have better opportunities to implement green building practices - given the high resource intensity of these property types. In the case of Diversified REITs, there is also a high level of opportunity – given the significant proportion of Office and Retail properties, 31%

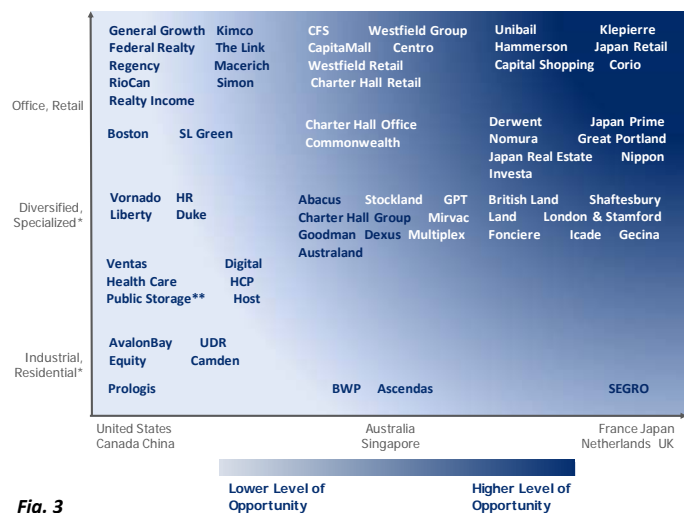


Fig. 3

* Only North American REITs.

** While classified as a Specialized REIT, Public Storage opportunity level compares to that of an Industrial REIT.

Source: MSCI ESG Research.

⁵ Eichholtz, P., Kok, N. and J.M. Quigley. "The Economics of Green Building", Working Paper, UC Berkeley-U. Maastricht, 2011.

and 18% respectively, by floor area. Specialized REITs, which are only present in North America, also have relatively strong levels of growth opportunity. Companies in this segment manage, among others, data centers and lodging buildings, both of which have high resource intensity by floor area in comparison with other building segments. It is clear, however, that in terms of policy incentives for all building segments, REITs operating in Australia, Europe, and Japan have more opportunities to enhance their green building profile than those operating in North America, due to strengthening carbon and energy reduction mandates in these regions.

Companies' Performance

Despite the limited level of opportunities to gain long-term profitability from green property development for Industrial REITs, **Prologis** (NA) and **Segro** (EU) are leaders on this key issue. Hand in hand with an extensive deployment of renewable energy in the properties of these two companies, they have a certified green building standard for 9% and 17.6% of their respective portfolios, a level that is above the overall North American and European average - of 6.5% and 17.4% (fig. 4).

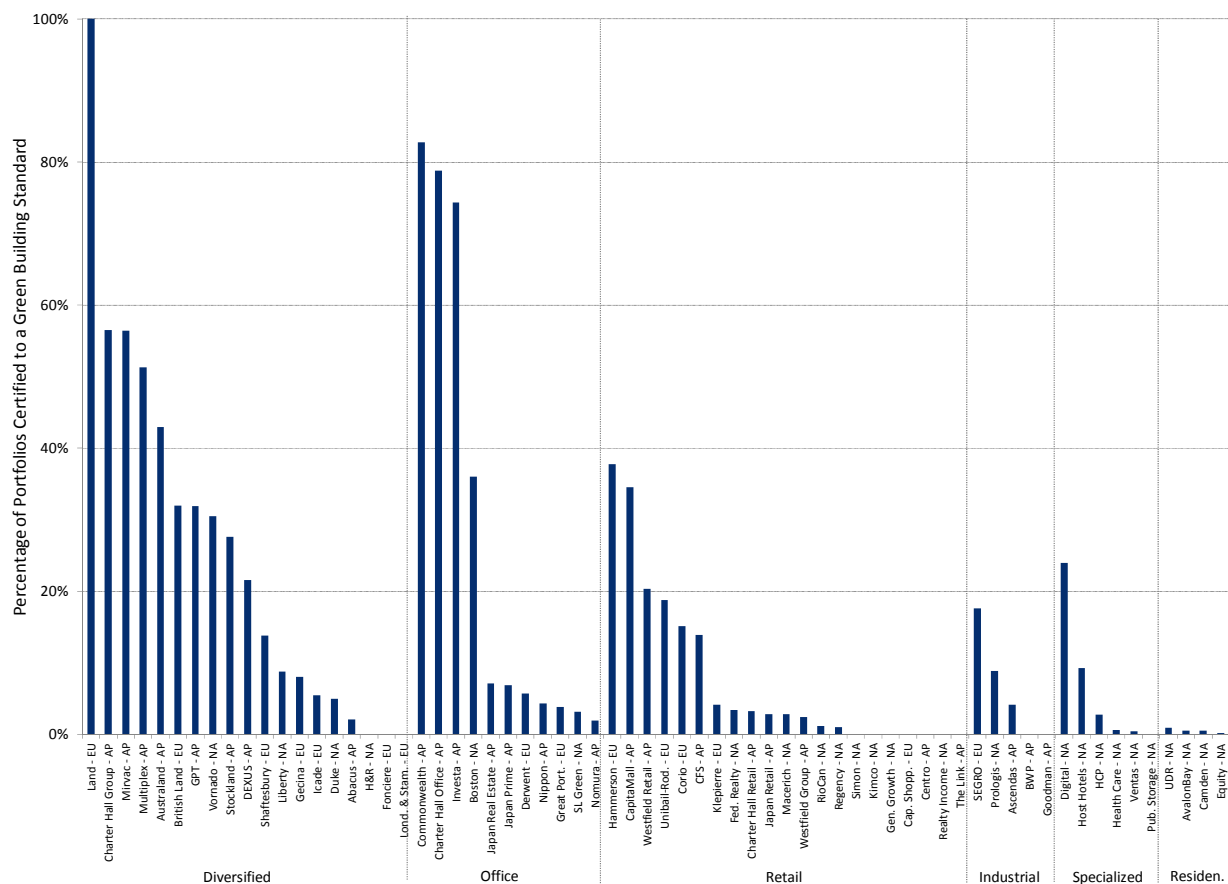


Fig. 4 Source: MSCI ESG Research.

With respect to Retail properties, and despite the high level of opportunities given their elevated energy consumption per square foot, only EU Retail REITs have significant proportions of certified properties in their portfolios (15.2%) in comparison to AP (9.7%) and NA (1.1%). The same pattern replicates in the rest of the REITs segments where AP and European EU REITs contain higher levels of certified properties than their NA peers.

Leaders in the industry include GPT (AP-Diversified), **Hammerson** (EU-Retail), and **Vornado** (NA-Diversified). Companies with the lowest proportion of certified properties include **Abacus** (AP-Diversified), **London & Stamford**

(EU-Diversified), and, **RioCan** (NA-Retail). With the exception of **RioCan**, none of these companies report on their level of green building certification and their overall commitment to green building practices is low or non-existent.

It is important to highlight that 58% and 75% of the companies that constitute the Asia-Pacific and European competitive sets are publicly tracking either their carbon emissions or energy consumption, while only 20% of the constituents in the North American set are following this approach. This industry trend is a reflection not only of weak climate change and energy efficiency-related regulations in North America over the last decade; it is also a consequence of low electricity prices in the region.

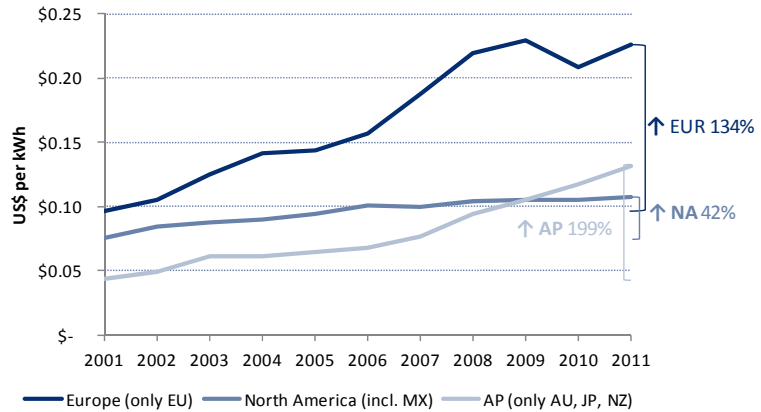


Fig. 5 Source: Eurostat, International Energy Agency, and US Energy Information Agency.

Electricity prices in Asia-Pacific have experienced a 199% increase between 2001 and 2011, in Europe, there has been a 134% increase, while in North America prices have only risen by 42%. By the end of that period, this volatility resulted in electricity’s price differential of US\$ 0.02 and US\$ 0.12 per kWh for AP and EU, respectively, relative to NA (fig. 5).

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*As of March 31, 2012, as published by eVestment, Lipper and Bloomberg in September 2012.

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