

Greener Buildings Mean More Green For Start-Ups

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Reducing energy costs at buildings they manage is a growing strategy for real estate private equity firms and investment trusts - a development that's opening up opportunities for energy-efficiency technology start-ups.

"A key part of our real estate investment strategy is incorporating green improvements whenever possible," said Andrew Ditton, managing director at Citi Community Capital, which invests in real estate private equity managers. "Energy costs are the largest variable in real estate. By being able to stabilize energy consumption, you've created a much more stable investment and one that over the long term will operate more profitably."

Citi recently backed a real estate fund called Rose Green Cities Fund LLC, whose explicit strategy is to renovate dilapidated buildings, incorporating aggressive greening strategies, and then selling them at a profit, Ditton said. Citi was evaluating two other real estate private equity funds with similar strategies, he added.

In 2010, 88% of property managers surveyed by Global Real Estate Sustainability Benchmark, who managed 1.8 billion square feet of space in North America, said they incorporated sustainability measures in renovations. The benchmark ranked 64 real estate property funds in North America on their sustainability performance, finding that Bentall Kennedy Group, Ontario Municipal Employees' Retirement System, Principal **Real Estate Investors** and **USAA Real Estate Company** ranked as the top private fund managers in implementing such measures.

"Returns for PE funds and VC funds have been poor," said Greg Kats, president of Capital E, a national clean energy advisory firm and a former venture partner at clean energy investment firm Good Energies. "One of the areas where they create value is by pushing their portfolios to become more efficient. For a PE fund that owns real estate, having that company reduce energy costs goes to the bottom line."

The interest from the real estate industry is fueling business for start-ups and even leading to the creation of start-ups specifically targeting real estate managers. **Honest Buildings Inc.**, a start-up that just received seed funding from **LinkedIn Corp.** backer Spring Ventures, launched a website that connects building managers, investors and providers of energy-efficiency and other improvements. The site details buildings' energy-efficiency profiles and which technologies were deployed there.

The company was co-founded by Riggs Kubiak, former global head of sustainability for real-estate developer Tishman Speyer. "It was very hard to get Tishman to implement some of the sustainable technologies that would really increase the bottom line," said Josh Boltuch,

spokesman for the company. "[Kubiak] wasn't finding the lever...until he pulled out a map of where their competitors were doing different sustainability projects. When they realized their competition was doing something, the light bulb went off in their heads and they whipped out their checkbooks."

Mike Zimmerman, chief executive of start-up energy-efficiency company BuildingIQ Pty Ltd., said that his firm has real estate private equity firms and other managers among its customers. The company, which is raising its first venture capital round, finds that such managers look for technologies that offer a fast payback, as they tend to flip properties quickly.

That's why Zimmerman said that he finds a good response from private equity real estate managers for his company's software, which doesn't require an upfront payment but rather is paid via a monthly fee. The software manages buildings' energy consumption, incorporating real-time energy grid and weather information to adapt settings to more efficient levels and save on utility bills right off the bat.

Bradford H. Dockser, who spent most of his career at real estate private equity firms, recently launched his own company, Green Generation Solutions, to help building managers sort through technology providers. The company is backed by several private equity real estate firms, he said.

"We've had people call us before they buy a building, asking how much to set aside [for energy efficiency upgrades.]"



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