

Green is the New Black: The Path Towards Profitable Sustainability

As we move towards 2020, a key focal point of the real estate industry has become sustainability, which has been driven predominantly by a large number of stakeholders, including institutional and retail investors, governments and tenants. Appropriately, there is a rapidly growing realization among real estate owners and operators that **sustainability can be a win-win proposition, with a significant number of benefits delivered to all stakeholders.**

Commercial buildings achieve a 98 – 220 basis points IRR increase post implementation of sustainability initiatives - Deloitte

In addition to improving the environmental performance of buildings, measures such as reducing waste and more efficiently managing utility consumption have resulted in real estate owners and operators achieving significant performance benefits including operational cost reductions, increased occupancy and improved net operating income, each contributing to a more sustainable and profitable industry.

New technology and increased awareness have enabled real estate owners and operators to strategically position themselves to improve property and portfolio performance through green practices. Playing its part as a leader in North American real estate, Starlight Investments has implemented a formal Environmental, Sustainability and Social Policy with the goal of promoting responsible practices for the benefit of all stakeholders in the communities in which we operate.

Growing Push from Investors, Governments and Tenants

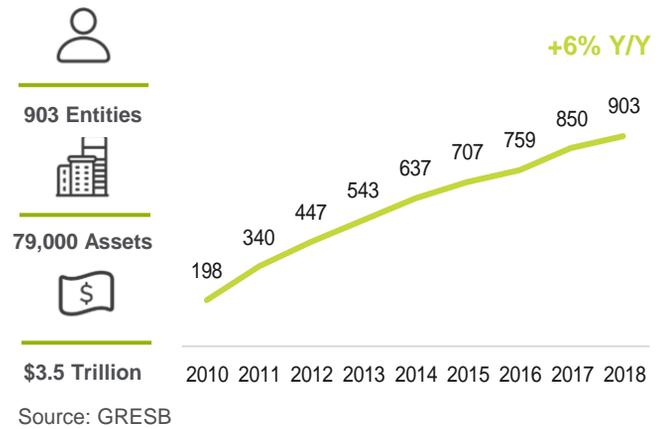
Sustainable practice adoption in real estate has steadily been growing, with total participation in GRESB, the globally recognized Environmental, Social and Governance (ESG) benchmark for real assets, increasing every year. Participating firms have reported improved operational performance.

This rising adoption of sustainability initiatives has principally been driven by the increased interest and growing involvement of institutional investors and their asset managers. According to a survey by consulting firm Bfinance, **41% of institutional investors said ESG will play a major role in manager selection.**

In 2018 Starlight Owned 340 Laurier, Ottawa, Ontario Office Building Achieved Gold LEED Certification
Canadian Federal Government is a Primary Tenant



Continuous Increase in GRESB Participation



At the same time that institutional investors and asset managers are pushing the sustainability agenda, governmental regulators and tenants are also supporting the march towards increased sustainability. In Canada, a large number of local utilities and governments are providing sustainability incentives and many office tenants require that their work spaces be in environmentally certified buildings. **Canadian Federal Government, for example, has mandated that all new leases be in sustainably certified buildings.**



The Link Between Sustainability Initiatives and Investment Outcomes

While increasing adoption of sustainability initiatives has been enhanced by the rising demand from investors, governments and tenants, real estate operators have realized that investment in ESG initiatives can be beneficial to their investment performance from a both risk and return perspective. This is supported by a 2018 survey by Morgan Stanley Investment Management, which showed that **84% of institutional real estate owners are either pursuing or are actively considering integrating ESG into their investment process.**

North Texas' First LEED Certified Multi-Family Garden Community *Starlight Owned from 2013 to 2018*



When used properly, environmental sustainability tools are helpful to reduce operating costs. Businesses are experiencing lower operating expenses through the reduction of utility costs, receiving property tax rebates and discounts on insurance premiums, and also by creating the potential for lower-cost financing in ESG focused lending programs.

In addition to near-term incentives, ESG initiatives also have the potential to result in even broader payback: properties that undertake initiatives are likely to remain occupied and competitive due to their greater market appeal with sustainability conscious tenants. The result is that they are often leased faster and achieve higher rental income and occupancy which leads to improved valuations.

A report by Deloitte has addressed the common misconception that sustainable practices cost more than standard improvements. Recent research has demonstrated that there is not a significant incremental cost of 'greening' an existing building compared to the cost of upgrading a building exterior.

LEED certified properties charge on average 3.7% higher rents and achieve 4.0% higher occupancy rates according to a 10-year study completed by Bentall Kennedy

Is There a Silver Bullet in the Sustainable Investing Equation?

While having an overarching sustainability approach is important as a guiding principle, there are many initiative options to achieve desired results. Below are **several factors that the Starlight sustainability team has identified as important considerations and measures when determining which sustainability initiatives should be prioritized:**

- Operational sustainability initiatives should be measurable and action-oriented;
- Each initiative should be tailored according to building specific factors such as geography and property type;
- Initiatives should be implemented at every point in the investment process from acquisition, through implementation of the asset management plan and continue until disposition;
- Team members across all business functions must be included to provide insight, perspective and practical solutions to enable efficient and effective sustainability; and
- Government support and incentive programs should be monitored for opportunities to augment traditional sources of revenue.



BOMA BEST is Canada’s Largest Real Estate Environmental Assessment and Certification Program, Recognizing Excellence in Energy and Environmental Management

15 Maple Avenue
Barrie, ON

250 Lena Crescent
Cambridge, ON



“Starlight is committed to improving the environmental performance of its multi-family and commercial portfolios as evidenced by its BOMA BEST certifications achieved by our team, including Automation and Energy Management Specialist, Trevor McLeod.”

- Perry Rose, Executive Director of Procurement and Technical Services

The Real Estate Sector is Focused on Increasing its Sustainability Efforts

Unquestionably, sustainability is becoming more commonplace in real estate, with its overarching benefits recognized by all stakeholders including investors, governments and tenants. Promoting environmentally responsible practices also positively affects both short-term profitability and long-term value creation for investors and operators.

Starlight has embraced sustainability as a critical business strategy allowing us to promote responsible practices through new initiatives across all business lines. This attention has enabled Starlight to maintain its competitiveness and improve its market position as a leading North American real estate asset manager.

Starlight is One of the First Canadian Commercial Building Owners to Install Energy Storage Systems to Target Peak Demand Electricity Charges Potential to Generate Electricity Savings of 25%



About Starlight Investments

Starlight Investments is a privately held Toronto-based, full service, multi-family and commercial real estate investment and asset management company driven by an experienced team comprised of over 150 professionals. The company currently manages over \$9.0 billion of direct real estate as well as real estate investment securities. Investment vehicles include institutional joint ventures, True North Commercial REIT, Starlight U.S. Multi-Family Funds and Starlight Capital Funds. Starlight Investment’s portfolio consists of approximately 36,000 multi-family units across Canada and the U.S. and over 5.9 million square feet of commercial properties. Please visit us at www.starlightinvest.com and connect with us on LinkedIn at www.linkedin.com/company/starlight-investments-ltd-.

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