

DEVELOPMENTS

A LOOK AT PROJECTS AND TRENDS

Green Funds Acclimate to Chilly Climate

Investors flee sustainable development for less risky energy-efficient retrofits.

As the cost of new development becomes prohibitive, green opportunity funds are looking for different ways to invest. Rather than take on the risk of ground-up projects and direct ownership, many of the funds are investing capital with owners of existing buildings or offering debt financing.

"Investors are willing to help provide financing for an attractive return, but they want somebody else in front to take the first risk," says Ed Elanjan, executive vice president and chief financial officer at EnviroFinance Group. The Sacramento, Calif.-based direct lender specializes in loans to companies that clean up environmentally contaminated land, also known as brownfields.

Investment funds with an equity stake in green projects have taken a hit in the last several months, Elanjan says, as green funds suffered along with the larger financial markets. "They're less interested in doubling or tripling their money by taking risky or untested ventures."

To minimize risk exposure, investors instead are playing the role of lender and buying existing debt. In December, Shangri-La Industries, a Los Angeles-based builder, and partner Thompson National Properties unveiled plans for a \$100 million fund that will invest in commercial projects in need of repositioning or renovation, and which offer upside potential. Thompson National is an Irvine, Calif. investment and asset manager started last year by Tony Thompson, the founder of Triple Net Properties.

Dubbed the TNP/SLI Green Building Fund, the venture will target assets that can be retrofitted, repositioned or redeveloped for greater energy efficiency and environmental sustainability. Specifically, the fund is intended to help companies that will use Shangri-La's design-build

and consulting services to meet the U.S. Green Building Council's LEED certification criteria.

Shangri-La's talents in energy efficiency are on display at Hangar 25, a LEED platinum-certified aircraft hangar at Bob Hope Airport in Burbank, Calif. The structure's rooftop photovoltaic generator can supply 110% of its energy needs.

The hangar also sports a fogging water-based fire suppression system, evaporative coolers and fans to manage temperature control, low-flow plumbing fixtures and landscaping with native desert plants that require little water.

"All of the green features in Hangar 25 that can help businesses become more environmentally sustainable are directly transferable to commercial and institutional facilities such as offices, universities, warehousing and manufacturing," says Andy Meyers, Shangri-La's president. While Hangar 25 isn't directly associated with the new green investment fund, executives at both companies say materials, techniques and building systems at the project demonstrate improvements the new fund will support.

"In property development and management, green facilities are very attractive to owners and tenants for multiple reasons, foremost being energy efficiency," says Thompson, who is chairman and chief executive at Thompson National Properties. The new fund's capital will increase the use of sustainable development practices, he says, and Shangri-La's sustainable approach and expertise will



SUN SPOT: Hangar 25 at Bob Hope Airport in Burbank, Calif., uses solar energy to power aircraft undergoing maintenance.

add value to projects the fund pursues.

New twist, old theme

Green investment funds first appeared in the realm of commercial real estate about three years ago, although funds targeting green companies rather than properties for acquisition have been around since the 1990s at least. Real estate examples dating from 2006 include the Hines CalPERS Green Development Fund, which has an equity commitment of \$277 million; and the \$100 million Rose Smart Growth Investment Equity Fund.

Manhattan-based Jonathan Rose Cos. used the Rose Smart Growth Investment Equity Fund to acquire Seattle's iconic Joseph Vance Building and an adjacent property in its first year for just over \$23 million, followed by a \$3.5 million renovation using Energy Star and LEED standards as guidelines.

More recently, Los Angeles-based Thomas Properties Group announced in the spring of 2008 that it had closed its first round of fundraising for the Thomas High Performance Green Fund with commitments of \$180 million. The fund is earmarked for investments in high-performance, sustainable commercial buildings. Thomas began its green fund in the summer of 2006 with a