

# GOVERNMENT PROPERTIES GOING GREEN

## RESEARCH ARTICLE

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Environmental sustainability will be a critical issue for all federal agencies going forward. On March 19, 2015, the President of the United States signed Executive Order 13693, which outlined the government's long-term goals of improving upon energy savings, energy efficiency, and renewable energy usage within its multi-asset portfolio. The executive order calls for a broad-based overhaul of energy policies and aggressive goals such as a 40% reduction in greenhouse-gas emission by 2025, a 30% increase in renewable electricity usage by 2025, and new performance contracts for federal buildings that will improve energy efficiency. All government owned assets are subject to this directive, but the federal real estate portfolio will likely receive the most scrutiny.

The government owns or leases more than 360,000 buildings, the largest real estate portfolio in the U.S. Therefore, it is reasonable to expect federal agencies to consider properties as the primary opportunity to reduce energy consumption. Furthermore, new buildings that are larger than 5,000 square feet must meet "net zero" consumption requirements, essentially these properties have to generate as much energy as they consume by 2020. Furthermore, federal property investors must now consider additional development and administrative costs to implement and adhere to these guidelines.

While this executive order could prove challenging for investors in older/inefficient buildings, federal property developers could benefit from this new mandate, particularly since many government buildings do not currently meet these new standards. Solar panels and other energy-efficiency programs could gain traction; however, the cost to retrofit older properties could outweigh the potential savings. This could lead to increased demand for new construction, which ultimately benefits investors. Furthermore, the stakes are high for property owners because buildings that fall short of these revised standards will not be eligible for federal leases.

Going forward, federal property investors with mature sustainability programs will have an edge over the competition, as many of these new requirements are consistent with current LEED (Leadership in Energy & Environmental Design) certification criteria. RealCo has been an industry leader in this field, earning thirteen Energy Star Partner of the Year Awards, and the Global Real Estate Sustainability Benchmark ("GRESB") recently ranked our US Government Building Fund fifth place out of 32 for its U.S. office peer group and top 10% for the North America Region. Even though this recent executive order applies to government building properties, sustainability will likely be a critical issue for real estate investors going forward, particularly as the industry continues to place an emphasis on ESG (Environmental, Social, and Corporate Governance) practices and investment decisions.

## CREDITS & DISCLOSURES



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