

Union Investment



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Thinking Local, Acting Global with Sustainability

BY DAVID HEATON

As numerous companies struggle to stay afloat during this protracted time of global economic uncertainty, the opposite has been true for Union Investment Real Estate GmbH. In fact, the Hamburg, Germany-based international investment company for private and institutional investors had one of its best years in 2009. In that year alone, the company outperformed the rest of its real estate brethren and acquired more than 18 properties and projects totaling €1.6 billion for its six open-ended retail and special funds.

Union Investment was the largest cross-border investor in Europe in 2009 and has strengthened its position as the second-largest company in Germany for open-ended funds with approximately €18 billion under management.

With cash inflows of roughly €2.63 billion, Union Investment's open-ended real estate funds, which are marketed via the Volksbanken Raiffeisenbanken banking network, achieved its best sales since 2003.

"We've been quite pleased with our investment results, given that our focus on core properties in prime locations means that investment potential is limited in many markets," says Reinhard Kutscher, Chairman of the Management Board of Union Investment Real Estate GmbH. "We continue leveraging the opportunities that arise from different cycles around the world and have positioned ourselves to thrive even in the midst of what is undoubtedly one of the most challenging commercial real estate markets in decades."

Tracing its roots back to 1965, Union Investment has consistently grown and

prospered over the course of the last 45 years. The company currently manages some 300 properties and projects and operates in 26 countries across the globe in leading markets in Europe, North and South America and Asia Pacific.

And since 2002, the company has expanded into 22 new markets, including Chile, Mexico, Singapore and Malaysia. Today, two-thirds of its assets are located in countries outside of Germany – a virtual turnaround compared to 2002, when almost 70 percent of the firm's assets were in Germany.

In an effort to spread risk and enhance performance, the company has a strict policy of investing in a mix of uses, regions and property sizes. "Investments in city-center office space are the mainstay of our firm's investment strategy," adds Kutscher. "We also invest in logistics



Bell Trinity Square, Toronto



properties, shopping centers and business hotels in select locations that offer the prospect of attractive returns over the medium and long term.”

Union Investment’s office portfolio consists of 220 properties with a current market value of €10 billion; its hotel portfolio consists of 21 properties with a current market value of €1.6 billion. And approximately €3.8 billion is invested in 22 shopping centers.

A Pioneer in the Industry

In an effort to maintain long-term value, the company is increasingly taking sustainability criteria into account in its investment policy, and this practice is now an integral part of Union Investment’s business strategy when

managing its holdings. “Sustainability is not new for us,” says Kutscher. “We’ve been interested for many years now in the impact of our property investment on the urban fabric and the interaction between a property and its surroundings.”

As long-term investors, before the company invests in a property, it looks at the quality and life span of that asset as it relates to sustainability.

“As a result, we began thinking alternatively about sustainable practices in 2007, and since that time we have developed a strategy and program to phase in what was once a trend, but now almost a requirement, especially for new developments,” adds Kutscher.

After spending some time researching, designing and developing a comprehen-

sive program, in 2009 Union Investment introduced its own Sustainable Investment Check to access the sustainability of not only potential assets but also its existing properties.

“Our Sustainable Investment Check is a proprietary, analytical instrument that looks at energy efficiency and water consumption, space efficiency and soft factors such as health and well-being,” says Kutscher. “Our objective was to create an internal, holistic tool to quickly make an assessment of any potential investment because the alternative of waiting on the certification process of LEED (Leadership in Energy and Environmental Design) or DGNB (German Sustainable Building Council) for several weeks can, at times, be cost

intensive and counterproductive," adds Karl-Joseph Hermanns-Engel, responsible for International Asset Management on the board of Union Investment Real Estate GmbH.

The Sustainable Investment Check is based on popular certification schemes like LEED, BREEAM (BRE Environmental Assessment Method), and DGNB. In fact, Union Investment is a founding member of DGNB, which has allowed the firm to play an active role in the process of developing the "German Sustainable Building Certificate." As such, Union Investment was the first open-ended real estate fund provider whose holdings include properties certified in accordance with the DGNB system.

Hermanns-Engel explains that the Sustainable Investment Check plays a huge role in the firm's standard practice for vetting acquisitions.

Accordingly, Union Investment devoted significant resources that year to analyze the properties in its portfolio. "Energy passports" have already been produced for more than 200 of its properties over the past year, allowing tenants or buyers to identify the overall energy efficiency of a building. Energy passports became mandatory for all commercial buildings in Germany on July 1, 2009.

Kutscher notes that Union Investment's properties meet high standards regarding energy consumption, which is borne out by the energy passports prepared for all the firm's buildings. In addition, the Sustainable Investment Check enabled the firm to examine more than 150 office, hotel and retail properties within its holdings specifically in terms of sustainability.

And in 2009, the company made significant progress toward its goal of creating a property portfolio that is sustainable on as many levels as possible and invested more than €465 million in certified green buildings, including the BREEAM-certified office property at 10 Gresham Street in London ("excellent") and the ATMOS office building in Munich, which has a DGNB "silver" certificate. To date, Union Investment's holdings incorporate 15 properties and projects with national or international

certificates for sustainable building with a current market value of €1.7 billion. *Please see "Certified Properties Sidebar."*

The total value of certified properties represents only a small portion of Union Investment's funds' total property assets (over €16.0 billion), but Hermanns-Engel explains that the company intends to continue down this path and invest more in this area.

"We are a German company with a European origin, acting globally."

—Karl-Joseph Hermanns-Engel

"Awareness of the energy performance and environmental credentials of buildings is crucial for any notable portfolio manager who wishes to establish a strategic program of action that enables all stakeholders and defines binding targets to reduce environmental impact," adds Kutscher. "As a founding member of the DGNB and partner of the ULI (Urban Land Institute) Energy Efficiency Exchange, we are helping raise awareness among investors and developers of the opportunities presented by sustainable real estate investment, while progressively creating a European market for green buildings."

Getting Our Tenants On Board

The company is quick to point out that it would not be able to successfully implement sustainable policies and practices were it not for the support of its tenants.

"The backing of tenants is essential because landlords and tenants have similar interests and are often times in the same boat," says Kutscher. "Solutions that enhance a building's energy perfor-

mance ultimately require the owners and users to work closely for mutual benefit."

For Union Investment, cooperating with tenants creates a central focus of initiatives by the company aimed at fostering cutting-edge innovation and encouraging tenants to get involved as proactive partners. Hermanns-Engel explains that "For this to succeed, we promote a dialogue with all stakeholders, including our own employees in Hamburg."

When refurbishment and retrofitting takes place, energy-efficient building technology is being deployed in many cases. He points out that this has a positive impact on the environmental credentials and on service charges.

"For example, we have introduced measures to improve waste management in 60 to 70 percent of our properties," explains Hermanns-Engel.

Where cost-saving measures can be implemented quickly and easily, Union Investment has found that, for the most part, it no longer has to persuade tenants beforehand. "However, we do need support wherever savings entail changes to behavior," says Hermanns-Engel.

While there's more to sustainability than reducing service charges, today tenants are aware of the bigger issues, especially the large, global companies as they have both the knowledge and means to determine their own energy balance. Kutscher points to the smaller firms as those often lagging behind, needing the most advice and support.

"From a landlord's perspective, we see it as our duty to give advice whenever it is needed. Our experience shows that we're doing the right thing because the number of tenants asking us how they can reduce their service charge is rising – and this is a topic that's set to become even more important in the coming years," says Kutscher. "We're also being asked about green construction and finishing materials."

As to where the future is headed in the tenant relationship, Union Investment knows it can't create CO₂-neutral, sustainable buildings by itself. To succeed in this ambitious goal, action is needed at numerous levels, and all parties must do their part to save resources. This some-

times means tenants hold the key as to whether or not a building is sustainable.

“Ultimately, our goal is to promote innovation and win over the users of our properties to our own fundamental way of thinking,” notes Kutscher.

Prime Property Award

To raise awareness among investors and developers of the opportunities presented by sustainable real estate investments, Union Investment again took the lead among its industry peers and created its own award entitled the “Prime Property Award.” This bi-annual award started in 2008 and recognizes investors whose exemplary projects incorporate sustainability factors in the development and refurbishment of commercial and residential buildings in Europe.

The first year, the award drew some 90 entries from more than 19 European countries. Today the award has grown, and as of press time, almost 150 entries have been submitted for this year’s competition.

“We see this level of interest as proof that European property investors are increasingly looking to take sustainability into account when planning and

operating buildings, while at the same time focusing on economic viability,” says Kutscher. “The Prime Property Award creates awareness among the key players in the marketplace, namely investors, of both the need to embrace sustainability and the opportunities associated with advancing this viable practice. We want to sensitize property investors on the European level for the chances of ‘investing green.’”

Poised for Growth

Over the past few years, Union Investment has continually adapted to meet both the changing needs of clients and an ever-evolving economic climate. The company is viewed as one of the true sustainable leaders in the European marketplace. Union Investment plans to take this established momentum and continue on toward its plan of expanding its global reach.

“We will go for growth, we have to go for growth,” says Hermanns-Engel. Even though the company has grown exponentially across the globe the past few years, he believes that internationally, Union Investment is in the beginning stages but is a quick learner and has laid the ground-

work for a holistic program that includes all stakeholders and tenants.

“Geographically, in terms of diversification, China and India have become economic engines of the world and have integrated themselves into the global economy by investing in U.S. markets, as well as European countries. Those are two markets where we certainly plan on establishing a presence in the long-run. We will also continue to grow our portfolio in North and South America, as well as Europe,” he explains.

If you look at Union Investment’s history, being one of the leading European real estate companies to explore new opportunities in emerging markets is nothing too surprising as that’s part of its mantra. The company was one of the first European businesses to enter into Mexico, Chile and Malaysia.

Let’s Talk Strategy

From a strategic management approach, Union Investment desires to be stable and well-balanced across the board with the end goal of fostering an equilibrium in the way it does business.

One can’t argue with the firm’s track record as it relates to its overall man-

Union Investment’s Certified Properties (as of June 2010)

BUILDING NAME/LOCATION	CERTIFICATION TYPE	SQUARE FEET (SQ. M ²)	NUMBER OF FLOORS	YEAR BUILT/RENOVATION
Changi Business Park, Singapore	BCA Green Mark Award “Gold”	159,736 (14,840 M ²)	6 + 2 basement storeys	2003
One Coleman Street, London	BREEAM “Very Good”	179,208 (16,649 M ²)	9 + 1 basement storey	2006
One Kingdom Street, London	BREEAM “Excellent”	261,929 (24,334 M ²)	10 + 1 basement storey	2008
10 Gresham Street, London	BREEAM “Excellent”	258,517 (24,017 M ²)	8	2003
Laim290, Munich	DGNB “Silver”	111,740 (10,381 M ²)	7	2008
ATMOS, Munich	DGNB “Silver”	304,586 (28,297 M ²)	7 + 2 basement storeys	2008
Riem Büro West, Munich	DGNB “Silver” (pre-certificate)	274,480 (25,500 M ²)	6 + 3 basement storeys	planning stage
EMPORIO, Hamburg	DGNB “Silver” (pre-certificate)	401,494 (37,300 M ²)	23 + 2 basement storeys	under construction
RHEIN-GALERIE, Ludwigshafen	DGNB “Gold” (pre-certificate)	322,917 (30,000 M ²)	3	under construction
Europa-Allee 12-22 (“Nord 1”) Frankfurt/Main	DGNB “Silver” (pre-certificate)	247,570 (23,000 M ²)	7	under construction
Rund Vier, Vienna	DGNB “Silver”	261,843 (24,326 M ²)	1-7 (4 buildings)	2009
A4C, Paris	HQE (pre-certificate)	272,897 (25,353 M ²)	12 + 2 basement storeys	2006
Bell Trinity Square, Toronto	LEED-EB “Gold”	962,993 (89,465 M ²)	10, 15 + 1 basement storey	1982/83/1999-2005
111 South Wacker, Chicago	LEED “Gold”	1,033,152 (95,983 M ²)	51	2005
Whirlpool Distribution Center, Denver	LEED “Gold”	409,029 (38,000 M ²)	1	2008



RHEIN-GALERIE, Ludwigshafen

agement quality. In fact, one of Union Investment’s most recent accolades came from the rating agency Scope, which assesses the management quality of German capital investment companies for open-ended real estate funds. Scope awarded Union Investment Real Estate GmbH a rating of AAA, the second-highest rating possible.

This unrivaled success stems from the firm’s proven market knowledge and broad-based asset management expertise that goes back almost half a decade. “Union Investment’s focus on partnership, a characteristic of the cooperative bank system Volksbanken Raiffeisenbanken, allows for an opening of new opportunities for growth and a mutual success for customers and business partners,” says Kutscher. “We provide our clients with a structured process that offers them a high level of visibility through our qualitative approach.”

Hermanns-Engel puts it like this: “We are a German company with a European origin, acting globally. At the end of the day though, it’s the German dimensions and habits we adhere to – being strong-willed and straightforward as we embrace the role of being thought leaders in technology and sustainability as it relates to the cultural, social and commercial environment.”

Kutscher adds that “As a company,

we remain at the forefront of sustainable practices, and our plan is to do whatever it takes, wherever it takes us as we strive to provide an innovative portfolio of products and services that produce exceptional results for clients.”

It’s this carefully planned strategy that gives Union Investment a balance of revenue streams during strong and weak economic cycles and has the company primed for continued growth and achievement.

Union Investment Real Estate At A Glance

- Global HQ: Hamburg, Germany
- Sister Company: Union Investment Institutional Property GmbH
- Founded: 1965
- 300 employees
- Total Square Footage: 50.0+ million sq. ft. (4.65+ million sq. m.) with 3.2 million sq. ft. (300,000 sq. m.) currently under construction
- Portfolio: 18 billion in assets under management in six real estate funds
- Operating in 300 properties across Europe (Germany, Great Britain, France, Portugal, Spain, Belgium, Austria, Italy, the Netherlands, Switzerland, Luxembourg, Sweden, Czech Republic, Norway, Hungary, Turkey, Finland, Poland), the Americas (U.S., Mexico, Canada, Chile), and Asia-Pacific (Japan, South Korea, Singapore, Malaysia).



Reinhard Kutscher, Chairman of the Management Board of Union Investment Real Estate GmbH



Karl-Joseph Hermanns-Engel, International Asset Management in the Board of Union Investment Real Estate GmbH

For more information on Union Investment Real Estate and the company’s capabilities and services, please visit:

<http://www.union-investment.com/realestate>

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