

Third-party investment in building renovation works: the emergence of a promising new model of public-private partnership

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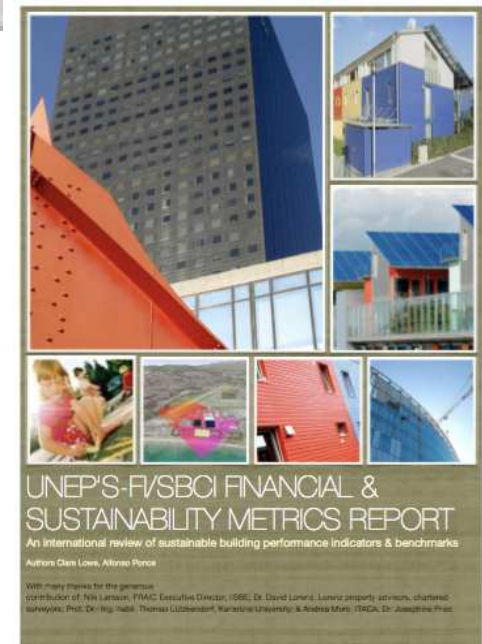
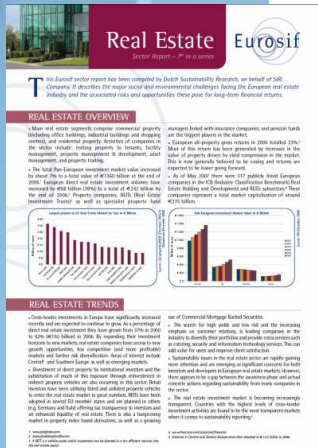
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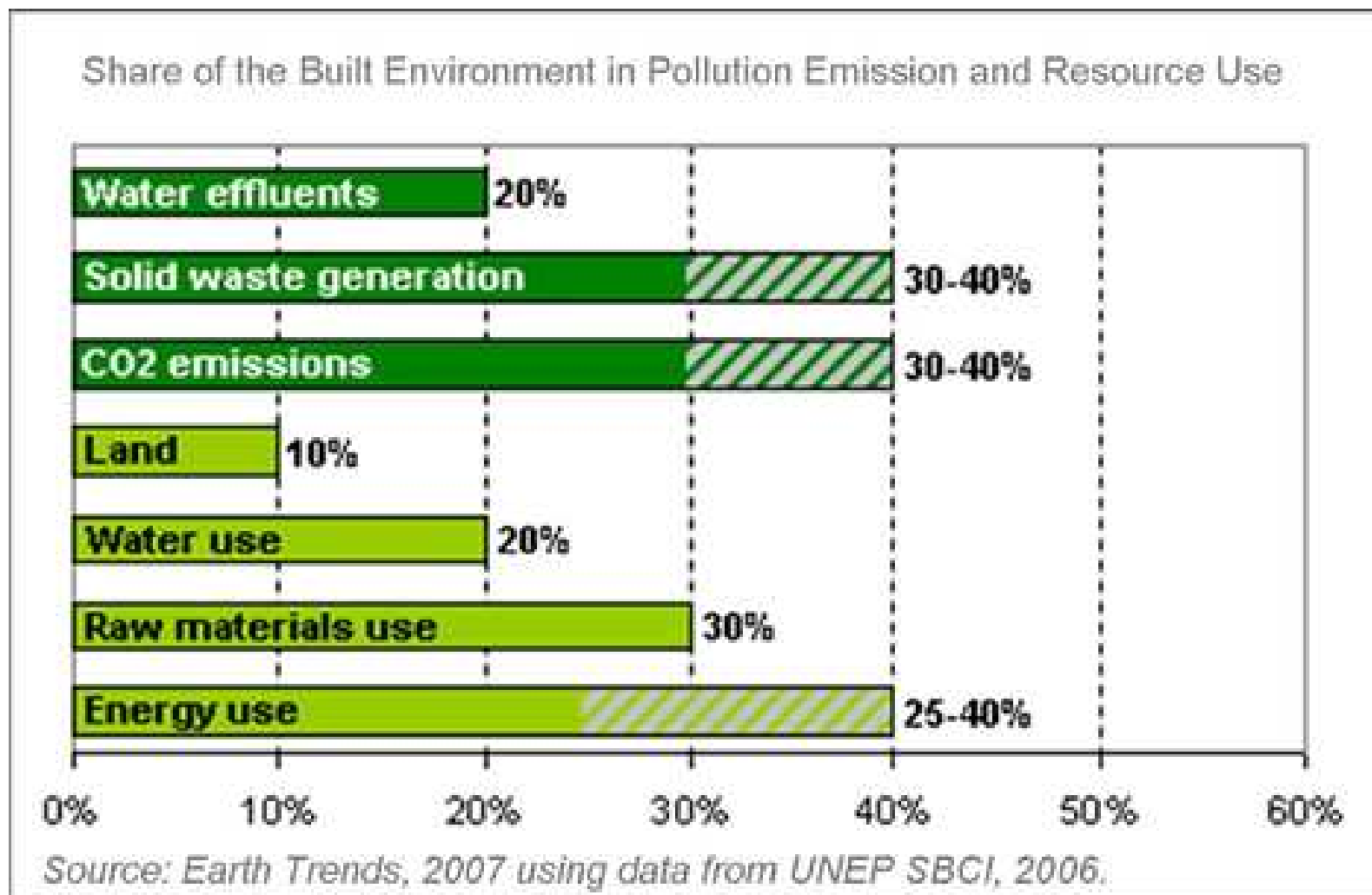
Publications and common works





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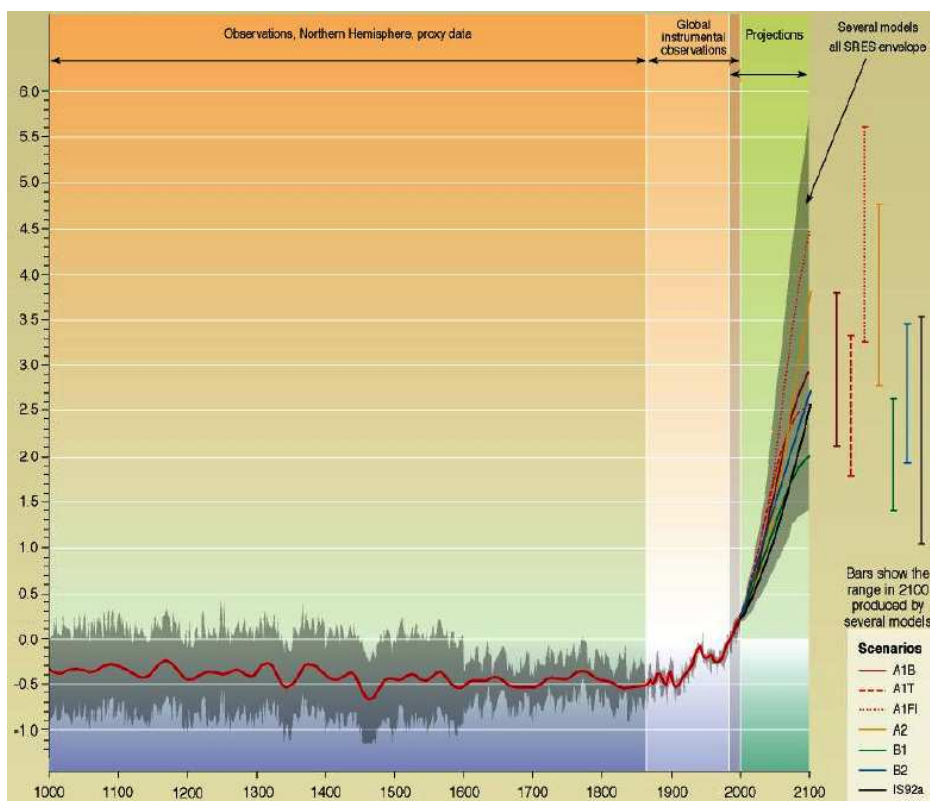
Buildings : a major issue for sustainability, especially Climate Change





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Very (too ?) ambitious targets for energy efficiency in buildings in the Climate Change Agenda



- The most shared targets set by international standards and agreements :
 - limiting global warming to 2°C requires reducing global CO2 emissions by half in 2050
 - developed countries must reduce their emissions by 75% - « Factor 4 »
 - Buildings : sector in which the bigger savings are expected : factor 6 ? 8 ?



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To achieve it, the dream : very low carbon cities....



Projected Dongtan, China

Projected Masdar, Abou Dhabi





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...the reality : millions of buildings to be refurbished and made energy efficient





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How to finance that ?

- Considering :
 - The building has already been financed : difficult to reinvest 100% of the value
 - The less energy efficient are occupied by the poorest tenants
 - The cost is for landlords, the savings benefit for tenants
 - Public subsidies likely to be reduced (public budgets situation in the post crisis context)
- **The Property Community probably has to innovate, to invent new financial mechanisms, mixed with public incentives**
- **One of them is : THIRD PARTY INVESTOR**



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=> An example to illustrate the issue :

Inventing a the third-party investor
in high performance building
renovation

An ongoing experiment in France led
by Caisse des Depots with partners
(Energy Agency, City of Paris..)



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French renovation targets for building sector (*Grenelle deal*)



- The funding needs to implement the first renovation program planned through the Grenelle Deal is estimated at € 130 billion
 - This investment is for the renovation of public buildings to reduce energy consumption.
 - Governmental authorities intend to finance 50% of the renovation through savings in energy bills guaranteed in the form of energy performance contracts.
 - This represents €60-70 billion including housing, which breaks down into:
 - Government (national, regional and local) buildings: €30-35 billion
 - Housing (private and public): €30-35 billion



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Some financial tools have been developed to meet the demand for investment in the building sector

WHAT ALREADY EXIST

- Loans to tenants
- Loans to owners/landlords
- Investment tools for facility managers to improve energy efficiency
- Energy contracting...
 - ⇒ But these financial mechanisms operate separately, without global approach of what could be achieved



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Why is a Third Party Investment mechanism needed ?



- Existing Third Party Investors (TPI) generally do not address the building structure (systems only)
- Existing market-oriented financial tools look for shorter paybacks
- Strong need to a global operator,
 - Able to consider the global potential energy savings
 - Able to guarantee the energy performance
 - Able to legally secure the global deal in a long term perspective

=> Despite all the tools currently in place, there is a need to create complementary schemes to facilitate investments in energy efficiency and meet the « Factor 4 » targets



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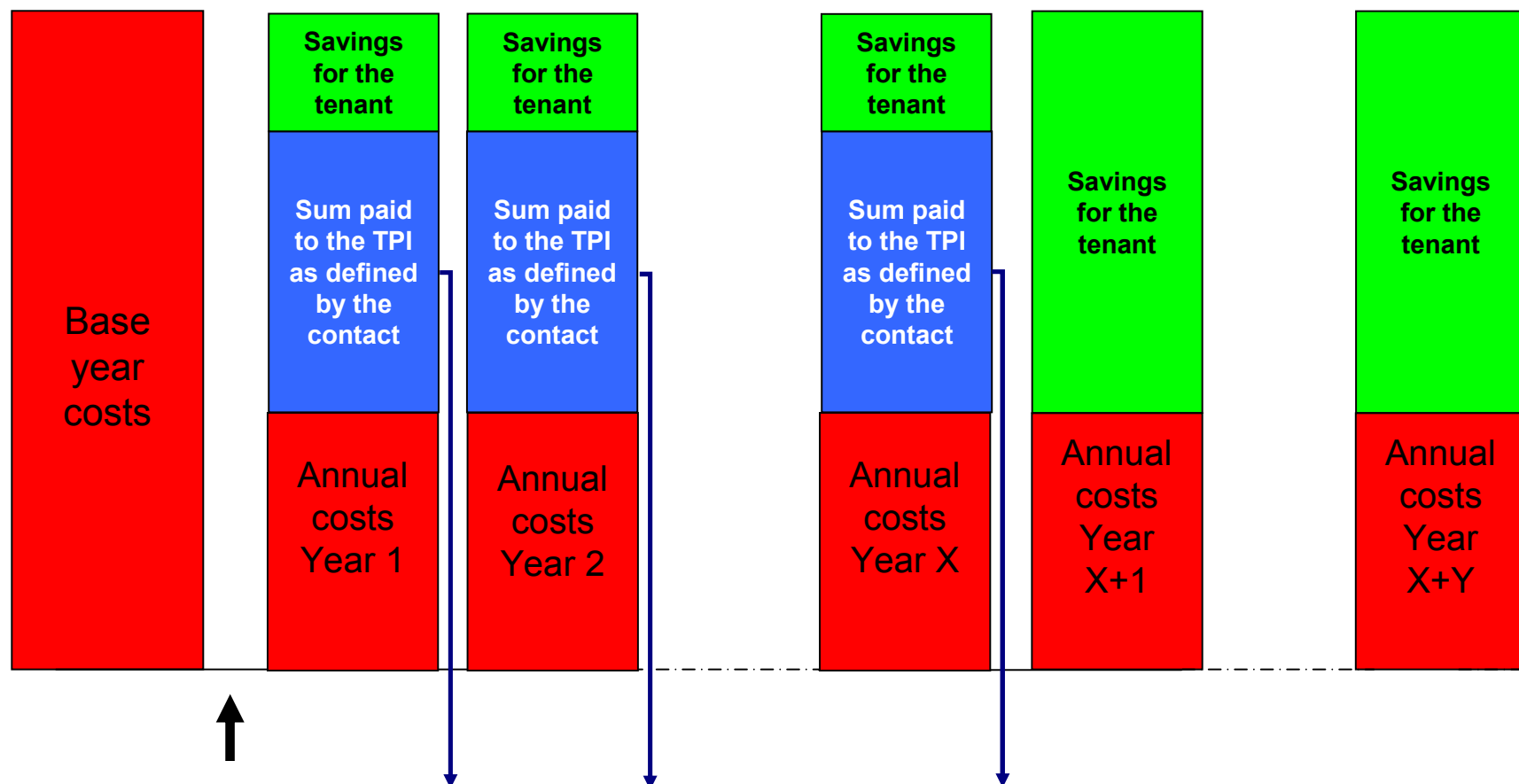
Concept of a Third-Party Investor (TPI) in the building sector

- 1. Investment in building equipment and structure (wall's insulation, windows, roofs...) to ensure energy savings
- 2. Sharing energy savings between the tenant and the TPI until the TPI is reimbursed for its investment (including earnings)
- 3. Securing the global deal and gathering different actors who won't necessarily work together



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Schema of a TPI mechanism

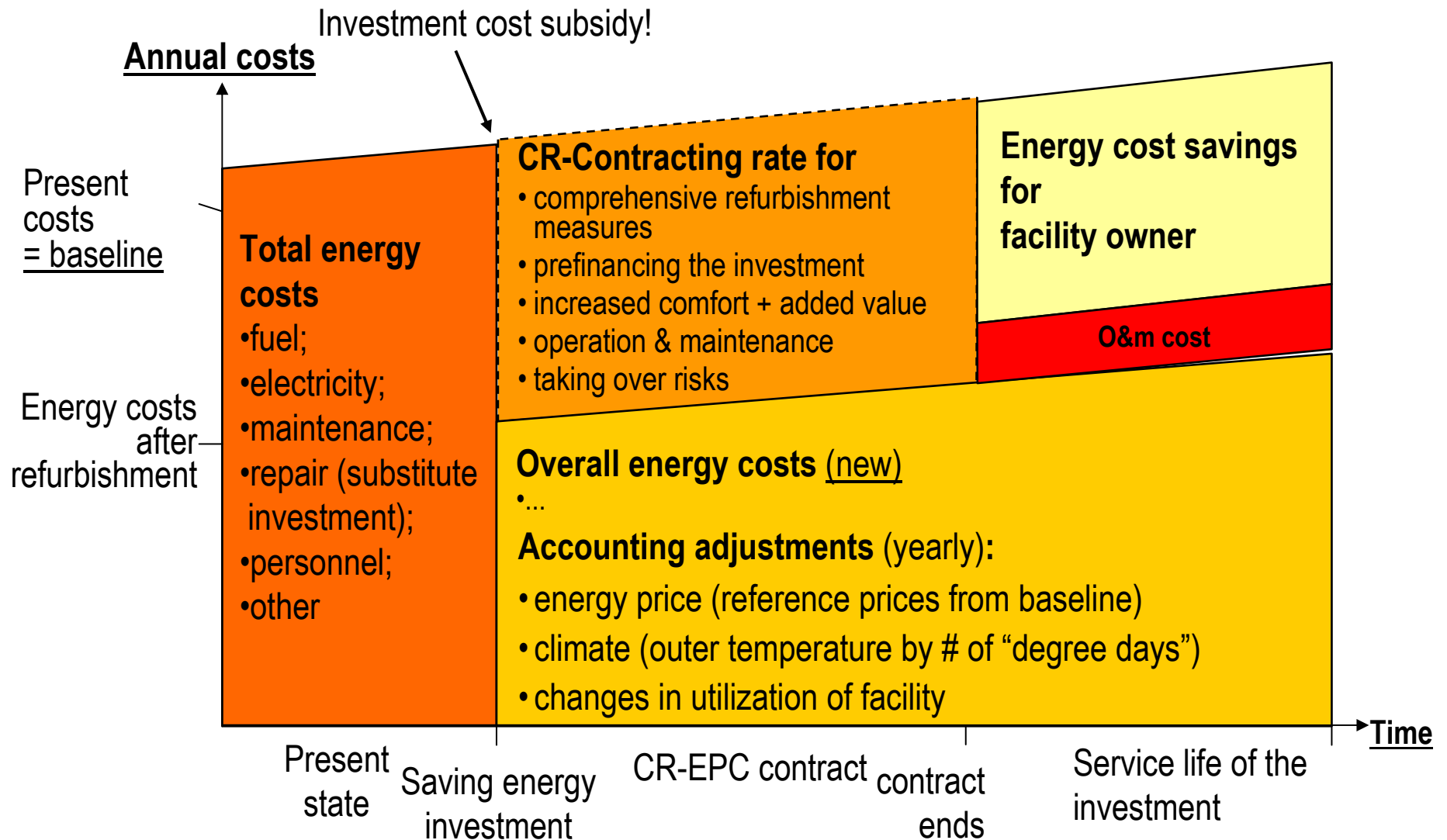


Investments engaged in by the TPI in Year 0. Income in X years through the savings in energy costs compared to the standard defined in the base year (before investment).



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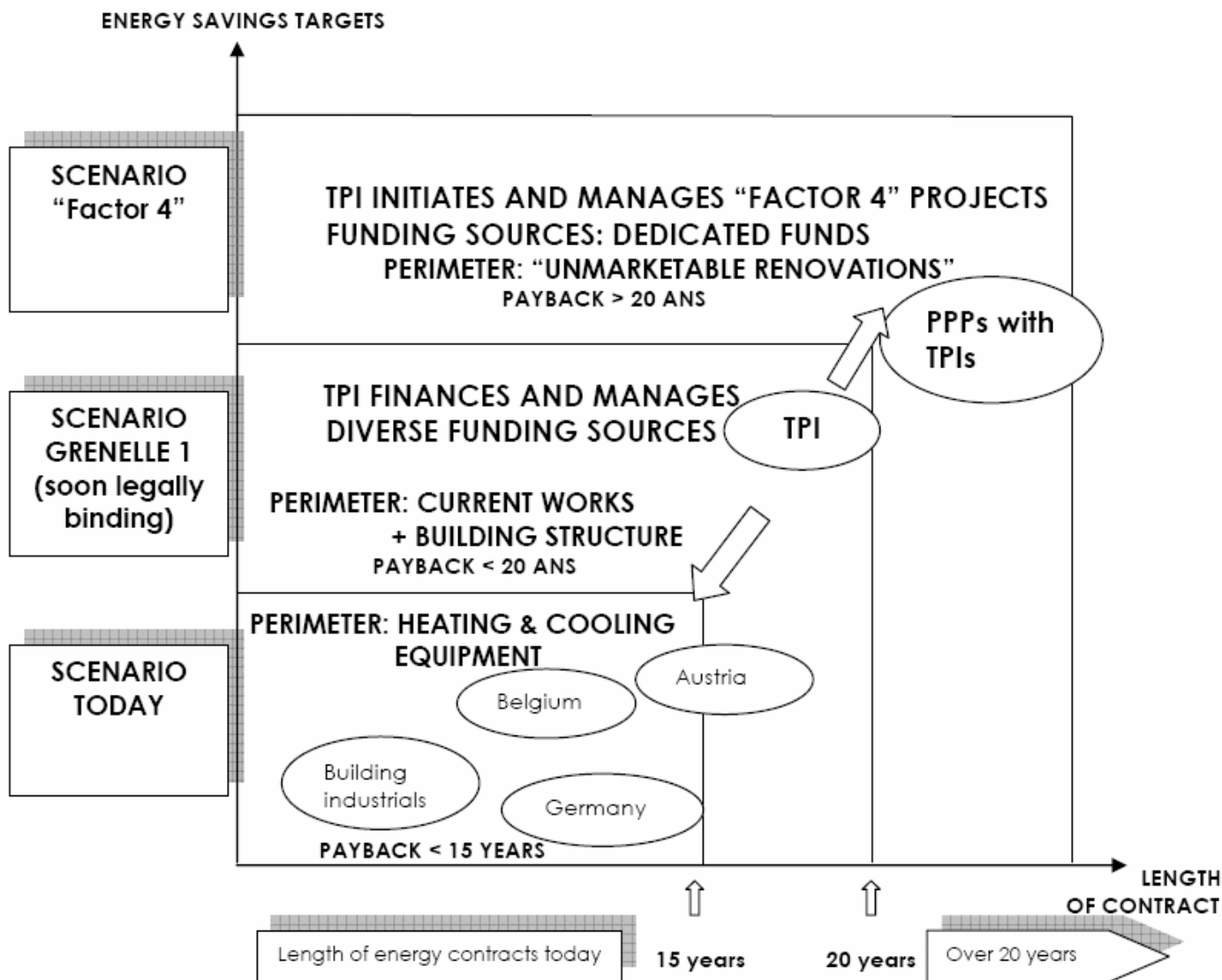
Business model for performance contracting involving a TPI





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Position of TPIs in the marketplace : how to be relevant ?





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3 Existing TPI initiatives and organisations in Europe

Country	Germany	Belgium	Austria
Actor	Berlin Energy Agency	FEDESCO (subsidiary of a public investment company)	Graz Energy Agency
Role	Assistance in managing calls for tenders. Pooling buildings and projects to reduce costs and share risks.	TPI with a monopoly over investment in public buildings. No call for tenders necessary.	Assistance in managing calls for tenders. General planning in cooperation with other actors.
Positives	Assistance in managing calls for tenders. System of pooling buildings and projects.	Legal mechanism which bypasses the tender process for public buildings;	Assistance in managing calls for tenders. Role of coordinator / ensemblier.
Negatives	<u>Investment in</u> : Energy systems : yes Building insulation : NO	<u>Investment in</u> Energy systems : yes Building insulation : NO	



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Implementing TPI investments: remaining legal challenges

- For co-owned properties:
 - Strengthen and streamline the collective decision-making process (funding, management of communal areas, hiring contractors, etc.)
- For social housing:
 - Allow for more flexibility in agreements between housing agencies and tenants to share the costs of renovation
- For public buildings:
 - Adapt the legal framework to facilitate the participation of TPIs in renovation works
- For all : legally guarantee standards on energy performance



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Conclusions

- There is a field for TPI to provide solutions to owners who want to reach to reach a very high energy performance target in their refurbished buildings (= publics actors for instance)
- There remain some legal risks, depending on local legislations
- There is a need of experimentations (2009-2010 in France)
- Private operator should accept to be part of a 'global approach' that includes :
 - private money
 - governmental grants
 - any other fundings



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Thank you for your attention !

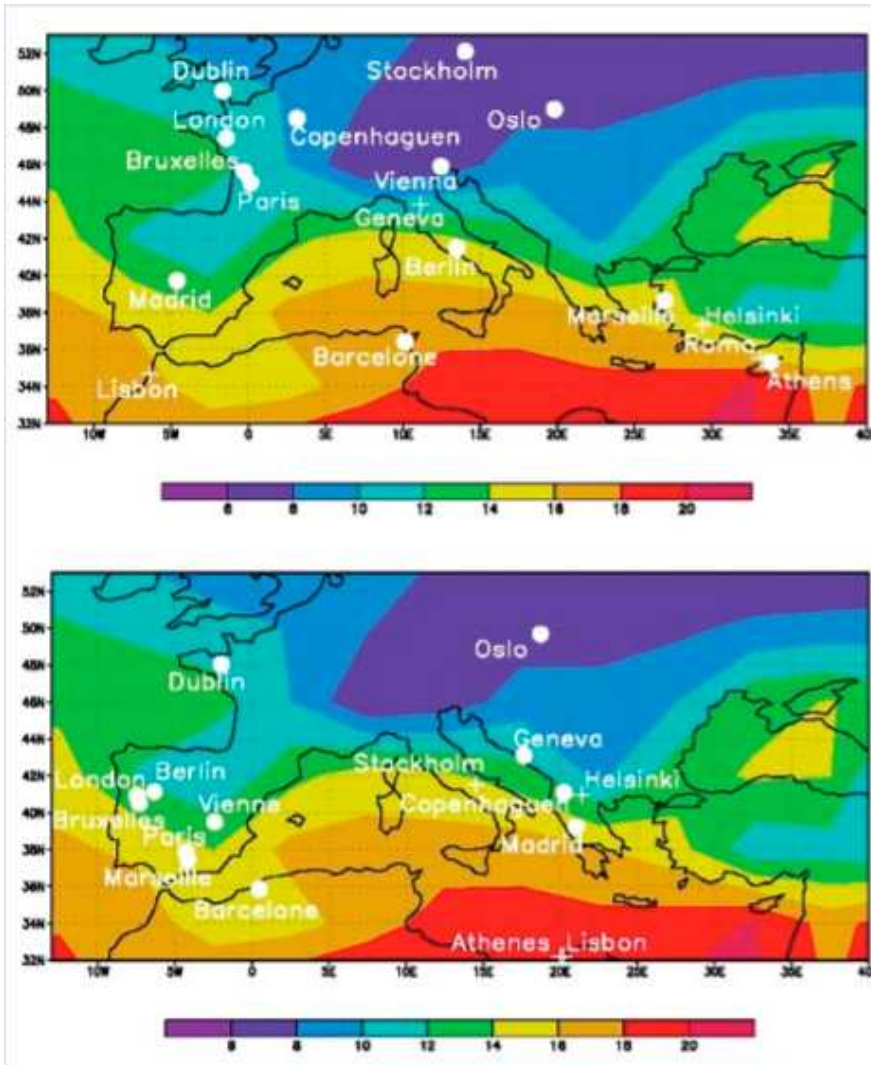


Figure 1 : Carte de l'Europe et du bassin Méditerranéen. Les villes sont représentées par des cercles à la position de leur analogue climatique, i.e. à l'endroit qui a aujourd'hui un climat proche de celui qu'elles auront à la fin du siècle, d'après les modèles climatiques. Quand aucun analogue acceptable n'a été trouvé, une croix représente la position du meilleur analogue en termes de température seulement, en négligeant les précipitations. La carte du haut est pour le modèle ARPEGE-Climat, celle du bas pour le modèle du Hadley Centre.

Climate models showing Paris and Vienna with the climate of Sevilla-Spain in 2100