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Why Sustainable & Socially Responsible Real Estate Investing Pays

Michael Kalenberg, member of the board of directors, explains why taking an extremely sustainable approach to real estate has a range of benefits for the Berne-based GEPABU Pension Fund, which manages

GEPABU is a co-investor in Siedlung Burgunder in Berne, a car-free housing scheme built in 2010 and 2KW-certified.

“The GEPABU Pension Fund was founded in 1982 and has always had socially responsible values, as it was founded by people with an alternative vision of society, among them some architects. Even at that time, they were concerned that society was using too much oil and the first concerns about climate change were emerging. They wanted to invest their retirement savings in sustainable and socially responsible investments, without giving up any upside.

“From the very beginning the fund has invested in real estate in a sustainable way, for example by renovating properties with alternative energy and solar panels. In residential property, the fund is aware of having the right mix of people as tenants, so there is a good mix socially, by age and income. We have found that one effect of this is that less maintenance work is required. The turnover of people in the properties is lower, and whereas we budget to renovate a property after 22 years, we

have reached more than 26 years in the renovating cycle, which saves money and contributes to performance."

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Using the 2 Kilowatt Rule

Kalenberg explained that the fund aims to follow a principle for energy-efficient property, developed at the University of Zurich, which states, in simplified terms, that it should be possible for an individual in a residential property to consume, on average, a maximum of 2 kilowatts of energy a day. To do this, houses and apartments have to be made energy efficient, with recycling of rainwater and waste water, as well as better insulation to reduce heat loss. "The city of Zurich has a goal of complying with 2 kilowatt rule by 2030. This will require help from government and also from investors. In our developments we aim to comply with the rule, particularly when renovating new buildings".

As an example, Kalenberg explained that the fund is investing in a new residential project in the small town of Burgdorf, near Berne, which will be a co-operatively owned property with participative rents. "We are investing and the residents will invest. The first residents will move in by the end of the year and the project will comply with the 2 kilowatt rule – in the same way as another residential co-operative some years ago".

Kalenberg said that the rule has become a common measure for low energy housing, but added that it is possible to go even further in reducing energy use. "We own one residential property of apartments that produces all its own energy from features such as solar panels and a geothermal bore. It is completely independent in terms of energy and has zero consumption. So this can be a wider concept, but in the end all these initiatives have the same goal of saving energy."

Gross and Net Returns: "Very Good"

The fund invests directly in Swiss real estate, partly because GEPABU has in-house architects who can monitor the sustainability of its investments. It has made very good returns with a satisfactory gross yield on real estate, before renovation costs, provisions and taxes. As Kalenberg explained, taking a socially responsible approach has meant that fewer provisions for maintenance are needed. To put this in context, the fund has to generate minimum-returns of 1.6% annually to maintain its funding and pension payments, so real estate has contributed well to an overall return of 8.2% for the last financial year and an increase in the coverage ratio from 108.6% to 111.5%.

And being socially responsible has also paid off in other ways. For instance, the fund owns a mixed use property in Berne, which has residential space and a renowned bar-restaurant which acts as an important community centre. "The seller was very keen for the bar to be maintained, as it was one of

the centres for the quarter. We promised to do this and succeeded in buying the property. Because we are seen as a socially responsible investor, and we would not cause disruption to the existing usage in the quarter by raising overall rents and changing the use of the bar, we acquired the property.

“As this shows, being a socially responsible investor helps often people sell to you in good conscience, because they know that a building will be in the hands of people who think in the same fair way that they do, and that’s far more important than getting a few more dollars for it. In this case, the owner liked our approach and he wanted to see it maintained as the centre of the quarter”.

Difficulties in Investing Outside Switzerland in Sustainable Real Estate

“We can’t identify opportunities outside Switzerland to invest in. There are some investment vehicles in Switzerland that invest in this kind of real estate but we prefer to invest directly. But when looking at real estate abroad, we don’t want to invest directly in small towns, as we do in Switzerland. We would like to rely on a portfolio manager, who would have oversight to invest very sustainable and socially responsible real estates. It’s challenging to identify funds with this type of real estate but not impossible; recently we did our first investment after searching for long time.”

Editor’s note: *Anyone who knows of a real estate manager that can meet GEPABU’s requirement for highly sustainable real estate investments in Europe should either leave a comment below, or contact Michael directly. Preferably both.*