



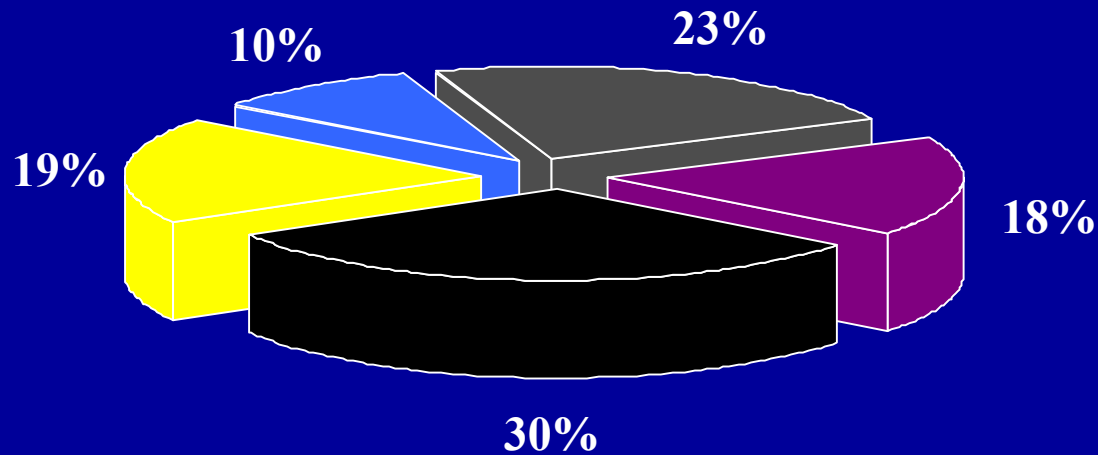
ENERGY STAR[®]

Commercial Real Estate Market

Portfolio Manager Performance Assessment

- › Produces a score on the ENERGY STAR rating scale, documented by Statement of Energy Performance
- › Takes into account:
 - › Energy consumption
 - › Climate
 - › Size & type of building
 - › Occupancy & operating hours
 - › Plug loads

Utilities are 30% of Total Office Operating Expenses



- Cleaning 19%
- Repairs/Maintenance 23%
- Utilities 30%
- Roads/Grounds/Security 10%
- Administrative 18%

Data based on 1999 BOMA Experience Exchange Report
(Average of Urban & Suburban Non-Government Buildings)



REIT Stock Performance*

- Management Quality is a leading determinant of stock performance
- Environmental Management is a predictor of superior management
- Energy Management is a key element of environmental performance

* **Innovest Strategic Value Advisors**



REIT Stock Performance*

- REITS with above average energy performance outperform companies with below average energy performance by 3,400 basis points in the stock market.

* Innovest Strategic Value Advisors

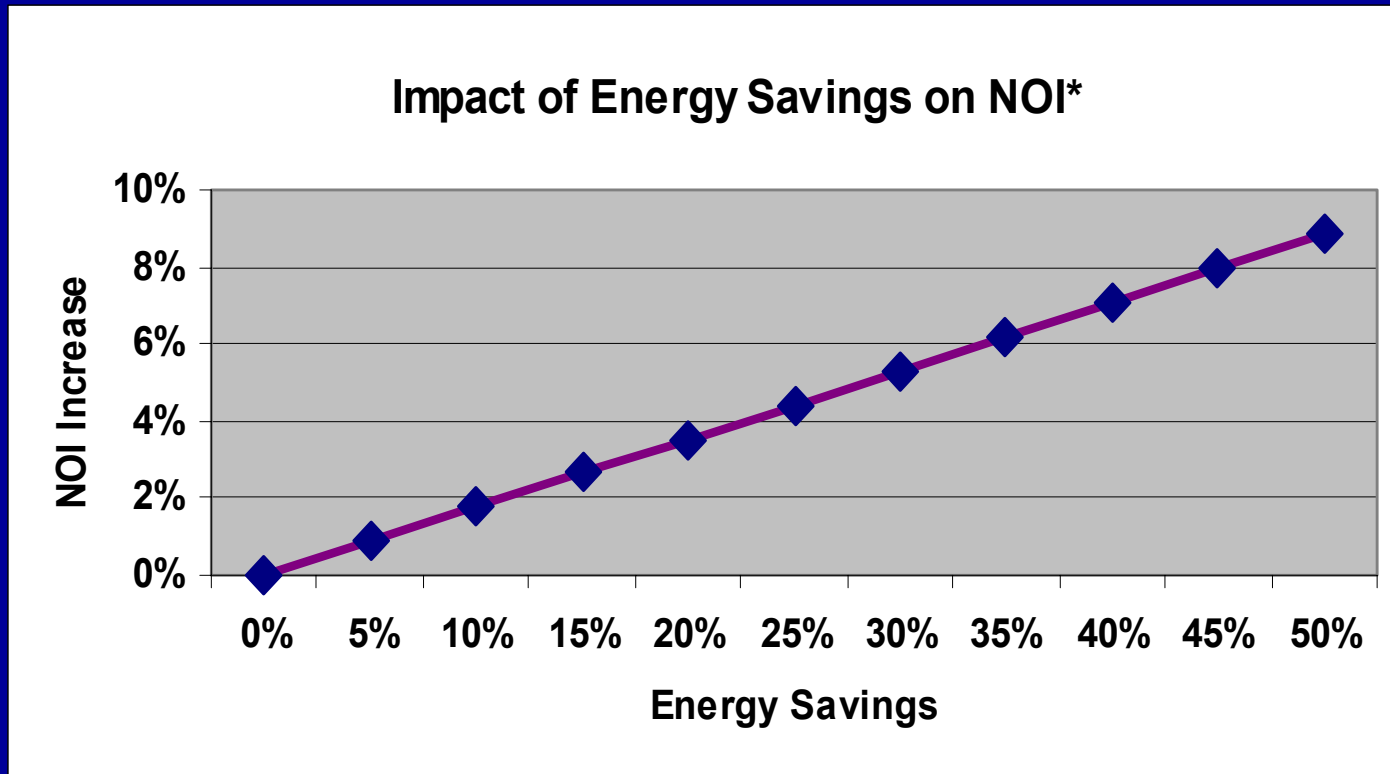


The Business Case

- The building is a business
- The business is valued by its profitability
- Profitability is measured by NOI
- Lower operating costs increase NOI
- $\text{Asset Value} = \text{NOI} / \text{Capitalization Rate}$

\$1.00 invested in an energy project at 20% to 30% ROR, equals \$2 to \$3 in asset value at 10% capitalization rate

More Profitable



30% energy savings = 5% NOI increase

*Data based on 1999 BOMA Experience Exchange Report
\$10.07 NOI/SF & \$1.78 Energy Cost/SF



Energy Performance is Profitable

- Improving energy performance makes an organization:
 - More competitive
 - Lower occupancy costs
 - Better tenant retention & attraction
 - Lower vacancy rates
 - Lower operating costs
 - More profitable
 - Higher rents
 - Higher NOI
 - More valuable



Barriers to Optimizing Energy Performance

- Leases – split incentives
- Lack of definitive analysis
 - Who pays vs. who benefits
- Portfolio turnover
- Marking-up energy to tenants

- Financial opportunity
 - Gold in basement



QuikScope Software

- Determines the financial viability of energy performance projects in investor-owned commercial real estate from the owner's perspective



QuikScope Functions

- Identify opportunities
- Estimate upgrade costs and benefits
- Allocate the financial costs and benefits of energy upgrades between owners and tenants based on leases
- Models the NOI and asset value impacts of energy efficiency driven opportunities:
 - Tenant cost recovery
 - Future rent increases
 - Higher occupancy





QuikScope

QuikScope considers the impact of:

- Lease pass throughs
- Timing
- Financing
- Energy deregulation
- Loss of energy resale profits
- Planned asset disposition



Industry Users

- BOMA
 - Educational seminars at national & local conferences
- NAREIT
- SIOR
 - Certification programs
- Real Estate Roundtable