

G-square, Tokyo, Japan

[IMPORTANT] Please note this asset has been sold and this paper is a case study of the past deal

BACKGROUND

In 2010, Deutsche Asset Management's (Deutsche AM) real estate business acquired G-Square, a 6,800 square meter office building in Tokyo.

Upon acquisition, G-Square underwent improvements to upgrade the building in order to qualify and apply for the CASBEE (Comprehensive Assessment System for Built Environment Efficiency).

Similar to BREEAM in the U.K. or LEED in the U.S., CASBEE is a tool for assessing and rating the environmental performance of buildings and built environment in Japan. BEE (Building Environment Efficiency), using Q and L as the two assessment categories, is the core concept of CASBEE. The assessment results for buildings can be ranked on a diagram as class C (poor), class B-, class B+, class A, and class S (excellent), in order of increasing BEE value.

Earning a CASBEE (Comprehensive Assessment System for Built Environment Efficiency) "A" rank is an important differentiator among a tenant base in the Shibuya submarket. This will attract younger, creative technology companies that focus more on modern, healthy workplaces and resource efficiency.

LOCATION

2-11-1 Dogenzaka, Shibuya-ku, Tokyo, JAPAN

TYPE AND SCALE

Property Type: Office
 Land Area: 918 sqm
 GFA: 6,809 sqm
 Floors: 10 floors (excl. one basement floor)
 Parking: 23 slots

TIMEFRAME

Building Completion Date: Oct 2009
 Acquisition Date: Nov 2010
 CASBEE Application Date: Sept 2011
 CASBEE Certification Date: Jul 2013
 Disposition Date: Feb 2015

COSTS

Total construction cost: JPY 5 million

INFORMATION

For details, please visit
<http://realstate.deutscheam.com/sustainability/studies.jsp>



SUMMARY

The Property is located in the busy district of Shibuya, 4 minutes walk from the subway station. It faces Dogenzaka, one of the busiest streets in the Shibuya area and has a crossing with another major avenue called Route 246 (also known as Tamagawa-dori).

G-Square received CASBEE A rank in 2013 while the building was acquired in 2010 and completed in 2009. It is one of the limited numbers of existing tenant buildings in Japan which are certified by CASBEE.

Project budget was approximately 5 million Japanese yen and the whole appraisal process took around six months to complete. The project team was led by Deutsche Asset Management and Sun Frontier, and the environment assessment was performed by Earth-Appraisal Co., Ltd.

MAIN STAKEHOLDERS (NOV 2010 - FEB 2015)

Fund Manager: Deutsche Asset Management who held the asset from Nov 2010 to Feb 2015
 Environment consultant: Earth-Appraisal Co., Ltd.
 Property manager: Sun Frontier Fudousan Co., Ltd

Source: Deutsche Asset Management, as of March 2016

CONTEXT AND DRIVERS

Accelerating environmentally and socially responsible investments in a manner that preserves and enhances risk-adjusted investment returns is a challenge that Deutsche AM and Deutsche Bank are committed to meeting head-on, through a variety of investment types and strategies around the world.

Deutsche AM's real estate ESG strategy is to preserve and enhance risk-adjusted returns and strengthen our investment process by reducing risk, improving efficiency, and satisfying tenants.

"An increasing number of investors and tenants take energy efficiency and environmental quality of the buildings and the way they are managed into account, so the importance of sustainability and obtaining CASBEE, the green building management system in Japan, will continue to grow going forward."

Koichiro Obu, Head of Research & Strategy, Asia Pacific, for the Alternatives and Real Assets business of Deutsche AM

STRATEGY

Vision

Following the Great East Japan Earthquake and shutdown of nuclear power plants in Japan in 2011, the nation has increased its focus on energy efficiency. G-Square is one of the only 294 buildings in Japan with third party CASBEE certification. Most of those certified buildings are either owner-occupied buildings, public buildings (schools and hospitals) or residential condominiums.

Goals and Targets

There were three targets to acquire CASBEE certification by Deutsche AM in 2013.

1. To further increase investors' trust in the quality of the properties which they own via our fund.
2. Assumption that potential tenants will choose a sustainability certified building over any other building, so the certification will enhance the change for the building to be fully leased rapidly.
3. To increase the attention of international investors who have increased concern for environmental certifications.

This has led to a successful disposal of The G-square building by Deutsche Bank AM in 2015. The investment recorded a higher return than expected which was attributed in part to the CASBEE.

IMPLEMENTATION PROCESS AND CHALLENGE

In Japan, only a few existing buildings apply for CASBEE because there are limited guidelines from an environmental perspective in the buildings. However, to apply for certification, certain manuals were needed in order to acquire CASBEE certification such as guidelines on CO2 emission management, environmental protection, energy saving and consumptions.

G-square is a very rare case for existing buildings to apply for CASBEE in Japan. Deutsche AM hired an environmental consultant to help in the documentation and submission of CASBEE certification. As G-square was a completed building at acquisition, there were no major renovation but the challenge was to set up new guidelines for building's environmental capacity from scratch.

The CASBEE assessment is ranked in five grades: Superior (S), Very Good (A), Good (B+), Slightly Poor (B-), and Poor (C). It also assessed by some regional governments in Japan. The regional governments tailor it to local conditions, such as climate and prioritized policies. As of March 2015, 24 Japanese regional governments have introduced CASBEE system as their environmental measures to encourage green buildings.

G-Square received its "A" rank—second best out of five levels—based on its ratings covering. The total project cost was around JPY 5 million and the rating was achieved due to the contribution to the deduction of more than two million kWh usage of electricity and 830,000kg of CO2 emission.

OUTCOME

Throughout the period September 2011 to July 2013, G-square provided documents to support the CASBEE certification. The asset managers followed manuals and guidelines on environmental protection. Below were the grades which G-square achieved on certificate.

CASBEE Rating for Environmental Quality:

- Overall: 3.5/5.0
- Indoor environment: 3.4/5.0
- Quality of Service: 3.5/5.0
- Outdoor Environment on Site: 3.7/5.0

CASBEE Rating for Environmental Load Reduction:

- Overall: 3.5/5.0
- LR1 Energy: 3.8/5.0
- LR2 Resources and Materials: 3.5/5.0
- LR3 Off-site Environment: 3.1/5.0

Source: Deutsche Asset Management, as of March 2016

