

The Meaningful Investor



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Photograph by
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FAULTLESS TOWERS

Real-estate moguls know there's good money in green buildings. But the little guy can play too.

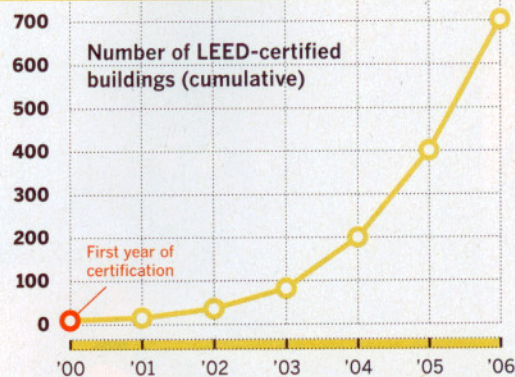
If the workplace is any indication, you could almost believe corporate America really cares about the environment. Goldman Sachs, Hearst, IBM, JP Morgan Chase, and Toyota all have made the move into green buildings. Bank of America plans to build a 52-story eco-skyscraper near New York's Times Square, and Deloitte and Accenture have leased green office space throughout the country.

Sustainable construction is one of the fastest-growing segments of the already red-hot commercial-building industry. An estimated 5% of all new U.S. commercial construction received the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) certification last year. And by 2010, 10% of all new commercial construction will be sustainable, according to the McGraw-Hill 2006 Smart Market report. (The green trend in new home construction is still in its infancy, although that's bound to change.)

Existing construction is getting an eco-lift too. Developers such as Hines and the Durst Organization, and some Real Estate Investment Trusts (REITs), are snapping up half-empty office buildings and renovating them according to green standards. That can often bring 3% higher rents and a 7.5% increase in a building's value, according to the McGraw-Hill report.

On average, green buildings save 10% of utility costs each year—and sometimes much more. Genzyme's corporate headquarters in Cambridge, Massachusetts, spends 42% less on energy and uses 34% less water than a similar traditional building would. Even more important, as sustainable materials and technology improve, green construction will become more cost effective, says Charles Lockwood, an environmental and real-estate consultant in southern California and New York.

So how do individual investors get in on



this latest real-estate boom? The easiest opportunities may lie in REITs that have made a substantial commitment to new or renovated green buildings. In a sign of just how hot this phenomenon is, however, two of the biggest, greenest REITs, Arden Realty and Equity Office Properties Trust, have been swallowed up by GE Real Estate and Blackstone Group, respectively. But there are still promising names out there. Liberty Property Trust (LRY) has 21 green buildings in its portfolio of about 700 properties and says that number will rise quickly as the trust renovates more of its existing properties and takes on more new green projects. Liberty has enjoyed the nice run-up that all REITs had in the past year thanks to the strong commercial-building market. But Fauzia Rashid, comanager of Fred Alger Management's Spectra Green Fund, expects Liberty's green investment will help it continue to perform well even if commercial building starts to slow down.

For investors who get a bit woozy at the thought of betting solely on the vagaries of the commercial-real-estate market, a mutual fund with green-building holdings might be the safer way to go. The Spectra Green Fund, unlike many of its socially conscious counterparts, has consistently outperformed the Russell 3000 for the past three years. The fund, which among other things invests in clean-energy stocks, is putting a small percentage of its assets in green REITs. Rashid also likes to invest in the building segment through the back door, focusing on the supply and equipment manufacturers that green builders rely on, such as Johnson Controls (JCI), the maker of devices that measure and monitor energy output. At about \$96 a share, Johnson Controls has jumped in the neighborhood of 40% in the past year. And that's a nice neighborhood to be in.