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# Creating Value in a Challenged Marketplace

## NAVIGATING THE MULTIFAMILY LANDSCAPE FOR INVESTMENT SUCCESS

Evolving market dynamics in the current real estate investment environment are creating challenges for every investor. At Green Cities, we continue to identify attractive investment opportunities in the multifamily subsector and believe our specialized team is well-positioned to optimize returns and mitigate risk. It is our view that a data-driven approach – powered by deep market intelligence and a long-historied presence in our core markets – will identify investable opportunities, while our commitment to design and responsible investment will add value through the tenant experience. To discuss the power of this holistic approach, we challenged several of our vertically integrated department heads to address how each of their contributions underscores value creation for our investors.



**Q: HOW SHOULD MULTIFAMILY INVESTORS CONFRONT TODAY'S EVOLVING INTEREST RATE AND MARKET LANDSCAPE?**

**BW:** Commercial real estate and multifamily is still acclimating to the monumental change in interest rates actuated by the Federal Reserve's extraordinary +525bps of aggregate rate increases over the past 18 months with a revived emphasis on risk assessment.

Moreover, today's interest rate environment and market landscape (i) signals a fundamental shift from past decades characterized by the decline of interest rates and cap rates, which fueled value creation and rewarded excessive risk-taking; and, (ii) underscores the importance of a prudent real estate investment approach grounded in risk assessment.

Comprehensive in-house research marrying sound insights on macroeconomic conditions, market trends and growth prospects (among other factors) with traditional property-level considerations



is (re)validating itself as a crucial component to shrewd investment decision-making. Critical to that equation is the proprietary nature of in-house research insights, which afford an ability to form differentiated views earlier or in contrast to market narratives and third-party or "publicly available" research – which, otherwise promote "herd behavior" and, by definition, are difficult to classify as alpha-generating.

At Green Cities, our proprietary 'Heat Map Index' utilizes a quant-driven approach to gauge relative value via market fundamentals (i.e. growth prospects), prevailing market pricing and assessment of risk, including climate considerations, across the top-50 US markets. These metrics are aggregated and weighed over the short-and long-term to differentiate between immediate and future conditions, growth prospects, and risk. This dynamic data-driven approach provides our firm with superior insights that provide us with a host of advantages, including informed investment underwriting, deal pricing and investment decision-making.

In the end, investing is the willing assumption of risk in exchange for the expectation of a commensurate – or, ideally, outsized – return. Therefore, data-driven, risk assessment tools have become more critical for any future investment decision and makes research fundamental to that pursuit.



**Q: HOW HAS VALUE CREATION IN YOUR ACQUISITION STRATEGIES EVOLVED IN THE LAST 6-12 MONTHS?**

**AB:** Widening bid-ask spreads and increasingly intricate financing criteria have created a noticeable shift in the number of marketed properties that have not materialized into transactions. For Green Cities, our relationship-driven approach and extensive

target market presence are gaining us valuable insights into potential opportunities. After years of relationship-building, we continue to maintain close dialogues with brokers in each market we target – a level of exposure not easily replicated – to more thoroughly understand and predict shifts in seller expectations. This process elongates the transaction window and takes significant time, but also enables us to delve deeper into business plans and market fundamentals.

With this extended timeline, the Green Cities team is able to assess value-centric strategies meticulously, leveraging insights into property and submarket performance for more informed investment choices. This process utilizes the insight and expertise of our in-house team, bringing together value-additive perspectives on market-level trends, tenant demands, and opportunities for value through sustainability and social impact.

Overall, teams that have remained true to their investment discipline, adding in time for analysis and intelligence from "boots on the ground" sources, are yielding the most direct results in today's environment. Longer timelines support more robust gathering of market knowledge and investment-specific assessment opportunities. We view these expanded acquisition lifecycles as opportunities to build towards the next transaction for our investors and paths to embrace current market challenges and shifts.



**Q: ARE DESIGN AND MATERIALS BECOMING EVEN MORE RELEVANT AND APPRECIATED BY THE MARKETPLACE?**

**JK:** A staggering 90% of our time is spent indoors, heightening the importance of spaces and materials that optimize human health and well-being, in addition to lowering their impact



on the planet.<sup>1</sup> Green Cities has had a long-standing commitment to tenant health, well-being, inclusivity, resilience, and sustainability – and we believe growing awareness about the impact of design and materials is yielding investment results.

New information is released daily about the built environment’s ability to both interfere with and promote a healthier, more enjoyable human existence. Tenant expectations have surged, fueled by health and safety concerns post-COVID along with a desire to feel greater levels of security and longevity in our home communities. Green Cities is leveraging our robust history of owning and operating buildings recognized with certifications from LEED, Fitwel, Energy Star, and Fitwel Viral Response to exceed tenant expectations and create loyalty within our tenant base.

However, we are taking this responsibility and this opportunity even further with a rigorous focus on material ingredients, materials’ lifecycles, and building sciences to assess and adjust our decisions and procurement. We established The Green Cities Company Brand Standards (outlined below) to define our commitments to implementing practices around retrofits, design, operations, and engagement that support our tenants’ experience, while promoting greater retention and market value.

#### THE GREEN CITIES BRAND STANDARDS

- **TRANSPARENCY.** Prioritizing materials where we have information access (EPDs, HPDs, have known certifications, and are third-party verified)
- **STEWARDSHIP.** We partner with vendors, manufacturers, GCs, architects, ownership groups, and other companies to better advance material transparency within the industry. It is not an issue we can solve on our own, and by working with others, we can advance our efforts more holistically and effectively
- **LIFECYCLE.** We consider all aspects of the material lifecycle including raw materials, manufacturing, transportation, resiliency, end-of-life waste, equity, and social justice
- **DETOXIFICATION.** We prioritize products that

do not contain these six chemical classes: PFAS, antimicrobials, flame retardants, bisphenols and phthalates, some solvents, and certain metals

- **WATER.** Water is a high-priority. We prioritize conservation and optimization in all aspects of the built environment including material manufacturing, plumbing fixtures, landscaping and irrigation, potable water health, and stormwater management
- **EFFICIENCY.** We optimize energy use and use systems and materials (HVAC, appliances, lighting) that use less energy
- **DESIGN.** All design decisions and selections are based on the premise that good design is sustainable and healthy for all people and the planet and all materials meet the standards outlined in our Green Cities Index including but not limited to our design standards around health, equity, inclusivity, and universal design



#### Q: HOW DOES IMPLEMENTATION OF ESG INITIATIVES ADD TO DRIVING VALUE AT THE PROPERTY LEVEL?

**LW:** Tenant demand for healthy, sustainable living spaces continues to grow – while utility (electricity, gas, water) and operational costs continue to mount. In this dynamic, the value-add of strategic, cost-effective ESG initiatives for multifamily properties becomes even more explicit. For Green Cities, this value generally comes in at least one of three buckets: 1) actions that have a direct positive ROI, 2) owner efforts that result in stronger tenant retention and brand loyalty, and 3) longer-term asset value realized at disposition.

In 2022, we unveiled a Net Zero playbook for asset-specific decarbonization, building upon our existing, portfolio-wide ESG Playbook. Together, these playbooks have resulted in cost and emissions savings from more efficient interior and exterior lighting, plumbing efficiencies, and HVAC retrofits. Lowered utility bills strengthen NOI and cash flow, amplified by our suite of site policies for waste management, water use and landscaping, integrated pest management, and materials selection.

ESG initiatives also bolster tenant satisfaction, fostering a sense of community. We think critically about what it means to live in a building with regularly tested indoor air quality, with lifetime green cleaning kits, with inclusive signage and structure, with biophilic design. We are actively pursuing ground-breaking initiatives that could bring unmatched water quality, thoughtfully chosen FF&E without harmful off-gassing, onsite urban agriculture for food security, and drought-tolerant landscaping to our tenants. We pair these actions with tenant programming that connects our properties with local-, minority-, and women-owned businesses, creating a sense of community inside and out.

In totality, these efforts are fast gaining industry recognition as property-specific achievements that lend longer-term value to properties. We anticipate that regulatory developments and market demands will continue to drive value in buildings that are operating with greater sustainability and social impact.

■ We continue to be bullish on the opportunity for investment in multifamily, driven by the specialized perspectives of our team. In our view, the sector is backed by solid macro fundamentals including high occupancy, future supply constraints, and consistent demand accelerated by the growing unaffordability of homeownership. We believe our team is well-positioned to capitalize on the changing marketplace fundamentals to create opportunities and manage new risks with our vertically integrated expertise and our differentiated approach to acquiring assets and driving alpha into each investment.

Our diverse senior leadership team is leveraging their broad expertise to take advantage of these dynamic market changes with deep knowledge of the forward-looking alpha drivers that will position multifamily investments to succeed.

<sup>1</sup> "Healthy Buildings: How Indoor Spaces Can Make You Sick-or Keep you Well" by Joseph G. Allen (Author), John D. Macomber (Author)



In 2022, Green Cities was proud to become a Founding Member of the Owners Group for Mindful Materials, an organization dedicated to creating a Common Materials Framework through a publicly available portal. The Portal seeks to connect and align sustainability and social health information to drive consistency across the real estate ecosystem.



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